



nations in transit 2002

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

Edited by Adrian Karatnycky, Alexander Motyl, and Amanda Schnetzer

**Nations in Transit
2002**

Freedom House

BOARD OF TRUSTEES

Bill Richardson, *Chairman*

Ned W. Bandler, *Vice Chairman*

Max M. Kampelman, *Chairman Emeritus*

Bette Bao Lord, *Chairman Emeritus*

Mark Palmer, *Vice Chairman*

Walter J. Schloss, *Treasurer*

Kenneth L. Adelman, *Secretary*

Peter Ackerman, J. Brian Atwood, Barbara Barrett, Zbigniew Brzezinski,
Peter Collier, Alan Dye, Stuart Eizenstat, Sandra Feldman, Thomas S. Foley,
Malcolm S. Forbes, Jr., Theodore J. Forstmann, Norman Hill, Samuel P. Huntington,
John T. Joyce, Kathryn Dickey Karol, Jeane J. Kirkpatrick,
Anthony Lake, Mara Liasson, Jay Mazur, John Norton Moore,
Diana Villiers Negroponte, P.J. O'Rourke, Orlando Patterson,
Susan Kaufman Purcell, J. Danforth Quayle, Wendell L. Willkie II,
R. James Woolsey, Andrew Young, Richard Sauber, *Of Counsel*

Adrian Karatnycky, *President*

Jennifer L. Windsor, *Executive Director*

Nations in Transit 2002

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

Edited by Adrian Karatnycky, Alexander Motyl, and Amanda Schnetzer



Copyright © 2002 by Freedom House, Inc. Published by Transaction Publishers.

This publication was made possible through support provided by the U.S. Agency for International Development, under the terms of Grant No. DHR-0001-G-00-6030-00. The opinions expressed herein are those of Freedom House and do not necessarily reflect the views of the U.S. Agency for International Development.

All rights reserved under International and Pan-American Copyright Conventions. No part of this book may be reproduced or transmitted in any form or by any means, electronic or mechanical, including photocopy, recording, or any information storage and retrieval system, without prior permission in writing from the publisher. All inquiries should be addressed to Transaction Publishers, Rutgers—The State University, New Brunswick, New Jersey 08903.

This book is printed on acid-free paper that meets the American National Standard for Permanence of Paper for Printed Library Materials.

ISBN: 0-7658-0976-1

ISSN: 1538-6309

Printed in the United States of America

TABLE OF CONTENTS

Acknowledgments, 7

Explanatory Notes, 9

List of Abbreviations, 13

Nations in Transit 2002: A Mixed Picture of Change, 15

Adrian Karatnycky

Tables and Charts, 21

Troubles to Come:

The Emerging Security Challenges in the Balkans and the Former Soviet Union, 31

Sherman W. Garnett

Advancing Into Europe?

The Contrasting Goals of Post-Communist Countries, 39

Richard Rose

Country Reports

Albania, <i>Scott Carlson and Wendy Betts</i>	50
Armenia, <i>Emil Danielyan</i>	64
Azerbaijan, <i>Svante Cornell and Fariz Ismailzade</i>	80
Belarus, <i>Taras Kuzio</i>	94
Bosnia and Herzegovina, <i>Florian Bieber</i>	108
Bulgaria, <i>Ivan Krastev</i>	126
Croatia, <i>Charles Graybow</i>	140
Czech Republic, <i>Petr Vancura</i>	154
Estonia, <i>Aili Piano</i>	164
Georgia, <i>Ghia Nodia</i>	182
Hungary, <i>Zoltan Miklosi</i>	196
Kazakhstan, <i>Bhavna Dave</i>	210
Kyrgyz Republic, <i>Rafis Abazov</i>	224
Latvia, <i>Ivars Indans</i>	240
Lithuania, <i>Aneta Piasecka</i>	254
Macedonia, <i>Eran Fraenkel</i>	270
Moldova, <i>Vlad Spanu</i>	284
Poland, <i>Janusz Durlik</i>	298
Romania, <i>Sandra Pralong</i>	312
Russia, <i>Troy McGrath</i>	328
Slovakia, <i>Grigorij Meseznikov and Miroslav Kollar</i>	346
Slovenia, <i>Brian Pozun</i>	360
Tajikistan, <i>Payam Foroughi</i>	374
Turkmenistan, <i>Bruce Pannier</i>	388
Ukraine, <i>Olexiy Haran' and Rostyslav Pavlenko</i>	400
Uzbekistan, <i>Gregory Gleason</i>	416
Yugoslavia, <i>Gordon Bardos</i>	428

Acknowledgments

N*ations in Transit 2002* could not have been completed without the contribution of numerous Freedom House staff and consultants. This study was made possible by the generous support of the U.S. Agency for International Development and the Open Society Institute.

Freedom House thanks the principal authors of the country reports: Rafis Abazov, visiting scholar, Harriman Institute, Columbia University; Wendy Betts, country director, American Bar Association Central and East European Law Initiative; Gordon Bardos, assistant director, Harriman Institute, Columbia University; Florian Bieber, senior non-resident research fellow, European Centre for Minority Issues; Scott Carlson, director of CEE programs, American Bar Association Central and East European Law Initiative; Svante Cornell, editor, *Central Asia-Caucasus Analyst*, and executive director, Cornell Caspian Consulting; Emil Danielyan, journalist and political analyst; Bhavna Dave, lecturer, Department of Politics, School of Oriental and African Studies, University of London; Janusz Durlík, deputy director, Public Opinion Research Center; Payam Foroughi, doctoral candidate, University of Utah; Eran Fraenkel, executive director, Search for Common Ground in Macedonia; Gregory Gleason, professor of political science and public administration, University of New Mexico; Charles Graybow, consultant, Freedom House; Olexiy Haran, director, School for Policy Analysis, University of Kyiv-Mohyla Academy; Ivars Indans, researcher, Latvian Institute of International Affairs; Fariz Ismailzade, senior associate, Cornell Caspian Consulting; Miroslav Kollar, research fellow, Institute for Public Affairs; Ivan Krastev, chairman of the board, Centre for Liberal Strategies; Taras Kuzio, research associate, Center for Russian and East European Studies, University of Toronto; Troy McGrath, assistant professor, Hartwick College; Grigorij Meseznikov, president, Institute for Public Affairs; Zoltan Miklosi, doctoral candidate, New School University; Ghia Nodia, chairman, Caucasian Institute for Peace, Democracy and Development; Rostyslav Pavlenko, executive director, School for

Policy Analysis, University of Kyiv-Mohyla Academy; Bruce Pannier, correspondent, Radio Free Europe/Radio Liberty; Aili Piano, senior researcher, Freedom House; Aneta Piasecka, policy analyst, Lithuanian Free Market Institute; Brian Pozun, contributor, *Central Europe Review*; Sandra Pralong, president, Synergy Group; Vlad Spanu, founder, Moldovan Institute for Development and Social Initiatives; and Petr Vancura, director, Prague Institute for National Security.

Freedom House also thanks the authors of this year's thematic essays: Sherman Garnett, dean, James Madison College, Michigan State University; and Richard Rose, director, Centre for the Study of Public Policy, University of Strathclyde.

We are grateful for the contribution of those who served on this year's review team and academic oversight board. These individuals were primarily responsible for helping determine the country ratings and/or reviewing selected country reports: Angela Conway, country director, American Bar Association Central and East European Law Initiative; Lubomir Cucic, president, Europe House Zagreb; Richard Ericson, professor of economics, Columbia University; Charles Gati, senior adjunct professor of European studies and fellow, Foreign Policy Institute, Johns Hopkins University; Artan Hoxha, research director, Institute of Contemporary Studies; Olga Kryshtanovskaya, general director, Institute for Applied Politics; Alexandru Lazescu, president, "INSIDE" Association; Robert Leventhal, senior project coordinator, American Bar Association Central and East European Law Initiative; Rajan Menon, professor of international relations, Lehigh University; Alexander Motyl, associate professor of political science, Rutgers University-Newark; Nasib Nassibli, dean, School of Law and Science, Khazar University; Hryhoriy Nemyria, director, Center for European and International Studies, Institute of International Relations; Gevorg Poghosyan, president, Armenian Sociological Association; Ognjen Pribicevic, president, Center for Southeast European Studies; Boris Shor, doctoral candidate, Columbia University; Nick Sitter, associate professor of public governance, Norwegian School of Management; and Susan Woodward, professor of political science, Graduate Center, City University of New York.

Several Freedom House field staff provided valuable feedback on the country reports: Alexander Baturo, program officer, Belarus Program; Patrick Egan, director, Budapest Office; Cristina Guseth, director, Romania Democratization Programs; Roland Kovats, information officer, Budapest Office; John Kubiniac, director, Polish-American-Ukrainian Cooperative Initiative; Alexander Kourylev, program officer, Regional Exchange Program; Syatoslav Pavlyuk, program officer, Kiev Office; Sanja Pesek, deputy director, Belgrade Office; Joanna Rohozinska-Michalska, director, Belarus Program; Laryssa Tatarynova, director, Partnership for Reform in Ukraine; and Viktoria Villanyi, finance officer, Budapest Office.

Adrian Karatnycky, the president of Freedom House, developed the Nations in Transit project and, along with Alexander Motyl and Amanda Schnetzer, the director of studies at Freedom House, edited the 2002 study. Arch Puddington, the vice president of research at Freedom House, provided overall guidance for the project. Anne Green, Greenways Graphic Design, was responsible for the design and layout of the book. Sona Vogel served as the principal copy editor. Peter Doran and Olivia Silver, members of the Freedom House staff, provided research and editorial assistance, as did Eliana Chamizo, a research intern.

Explanatory Notes

N*ations in Transit 2002* 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 November 1, 2000, through December 31, 2001, is an updated edition of surveys published in 2001, 2000, 1998, 1997, and 1995.

The country reports in *Nations in Transit 2002* follow an essay format that allowed the authors to provide a broad analysis of the progress of democratic change in their country of expertise. Freedom House provided report authors a detailed methodology and a checklist of questions covering three principal topics: democratization, the rule of law, and economic liberalization. Each report follows this 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 and the 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

For this section, Freedom House asked report authors to consider the broad categories of privatization, macroeconomic policy, and microeconomic policy and then to focus their remarks on specific issues such as tax reform, property rights, trade liberalization, and unemployment that have a substantive or direct bearing on the overall progress of democratization and internal stabilization in the country they are covering.

RATINGS METHODOLOGY

For all 27 countries in the survey, Freedom House, in consultation with the report authors and a panel of academic advisers, has provided numerical ratings for the subcategories listed above. The ratings are based on a scale of 1 to 7, with 1 representing the highest and 7 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 by less than .25 points since the previous survey period are indicated by a single upward or downward arrow. Changes of .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 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 2002* involved four main steps. First, the authors of the individual country reports suggested preliminary ratings in all nine categories. Second, the academic advisers in the United States and in the CEE-NIS region reviewed the ratings and established a consensus. Third, Freedom House allowed report authors to contest individual ratings if the advisers agreed on a change that exceeded the original proposal by more than .50 points. Fourth, Freedom House staff reviewed and approved the final ratings and used these results to draw broad conclusions about the level of democratization, the 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. Freedom House staff members and consultants researched and wrote the country reports. Consultants are 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 2002 edition were taken from the following sources:

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

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

FOREIGN DIRECT INVESTMENT: *Transition Report 2001* (London: European Bank for Reconstruction and Development, 2001). Data for 2000 are estimates. Data for 2001 are projections. Cumulative and per capita data are from the *Transition Report Update* (May 2002).

REAL GDP GROWTH: *Transition Report 2001* (London: European Bank for Reconstruction and Development, 2001). Data for 2000 are preliminary actuals. Data for 2001 are projections.

GDP PER CAPITA: *Transition Report Update* (London: European Bank for Reconstruction and Development, May 2002). Data for 2001 are estimates.

GNI PER CAPITA AT PPP: *World Development Indicators 2002* (Washington: World Bank, 2002). According to the World Bank, “[Gross national income] (formerly referred to as gross national product, or GNP) measures the total domestic and foreign value added claimed by residents. GNI comprises GDP plus net receipts of primary income (compensation of employees and property income) from nonresident sources.”

INFLATION RATE (annual average): *Transition Report 2001* (London: European Bank for Reconstruction and Development, 2001). Data for 2000 are preliminary actuals. Data for 2001 are projections.

LIFE EXPECTANCY: *World Development Indicators 2002* (Washington: World Bank, 2002) and *2001 World Population Data Sheet* (Washington: Population Reference Bureau, 2001).

POPULATION: *2001 World Population Data Sheet* (Washington: Population Reference Bureau, 2001).

PRIVATE SECTOR SHARE OF GDP: *Transition Report 2001* (London: European Bank for Reconstruction and Development, 2001). This is a mid-2001 estimate.

UNEMPLOYMENT: *Transition Report Update* (London: European Bank for Reconstruction and Development, May 2002). Data for 2001 are estimates.

List of Abbreviations

CEE	Central and Eastern Europe
CEFTA	Central European Free Trade Agreement
CSCE	Commission on Security and Cooperation in Europe
CIS	Commonwealth of Independent States
COE	Council of Europe
EBRD	European Bank for Reconstruction and Development
ECHR	European Court of Human Rights
EFTA	European Free Trade Association
EU	European Union
FDI	Foreign direct investment
GDP	Gross domestic product
ILO	International Labor Organization
IMF	International Monetary Fund
INGO	International Nongovernmental Organization
NGO	Nongovernmental Organization
OECD	Organization for Economic Cooperation and Development
OSCE	Organization for Security and Cooperation in Europe
USAID	U.S. Agency for International Development
UNPROFOR	United Nations Protection Force
UNDP	United Nations Development Program
UN	United Nations
USSR	Union of Soviet Socialist Republics
VAT	Value-added tax

Nations in Transit 2002: A Mixed Picture of Change

Adrian Karatnycky

This is the sixth edition of *Nations in Transit*, the only comprehensive, comparative study of post-Communist political and economic transitions in Central and Eastern Europe and Eurasia. Covering 27 countries, *Nations in Transit 2002* provides an overview and analysis of a 14-month-long period of change beginning November 1, 2000, and ending December 31, 2001. This study is part of a public-private initiative that is primarily funded by the U.S. Agency for International Development, with additional support coming from the Open Society Institute and other private foundations.

Each country report in *Nations in Transit 2002* analyzes broad trends and answers a standard set of questions related to democratization, the rule of law, and economic liberalization. As expert guides to progress and setbacks in transition, these reports are a valuable resource for policy makers, donors, nongovernmental organizations, public policy researchers, academics, and anyone interested in gaining a better understanding of the remarkable transformations occurring in the former Communist world.

The accompanying numerical ratings are an attempt to embody in concise and comparative form the trends and analysis contained in the country reports. The Democratization score encompasses the average of ratings for four dimensions of civic and political life: political process, civil society, independent media, and governance and public administration. The Rule of Law score is an average derived from ratings of each country's constitutional, legislative, and judicial framework, as well as the prevalence of corruption. The Economic Liberalization score represents the average of ratings for privatization, macroeconomic policy, and microeconomic policy.

The *Nations in Transit 2002* ratings are based on a scale of 1 to 7, with 1 representing the optimal level of political and economic practice and 7 representing the most repressive level. On the basis of the ratings, Freedom House divides the countries into the following kinds of polities: Consolidated Democracies, Transitional Governments, and Consolidated Autocra-

Adrian Karatnycky is the president of Freedom House and a coeditor of Nations in Transit.

cies. A similar typology is provided for economic policy, with countries classified as Consolidated Market Economies, Transitional Economies, or Consolidated Statist Economies.

2002 SURVEY RESULTS

Nations in Transit 2002 found that in the period under review only three countries registered significant improvements in the democratic processes tracked by the survey, as represented by a change of .25 or more in their average Democratization score: Bosnia, Slovakia, and Yugoslavia. An additional six countries registered some positive upward movement, as represented by a positive change in score of less than .25: Albania, Azerbaijan, Bulgaria, Estonia, Lithuania, and Slovenia. More than a quarter of the countries in the survey registered significant slippage in their democracy ratings: the Czech Republic, Georgia, Kazakhstan, the Kyrgyz Republic, Macedonia, Moldova, and Ukraine. However, it is important to note that the Czech Republic's downward trend was not of sufficient degree to remove it from the upper echelon of Consolidated Democracies.

For the period under review, four countries experienced notable improvements in their Rule of Law score: Bosnia, Estonia, Slovakia, and Yugoslavia. Albania and Bulgaria also registered positive momentum. Only two countries, Georgia and Macedonia, experienced declines of .25 or more. The steepest decline was registered in Macedonia, which experienced an insurgency in 2001 in areas populated by the country's Albanian minority.

In terms of Economic Liberalization, nine countries received an improvement in their score of more than .25 points. These were: Albania, Azerbaijan, Bulgaria, Kazakhstan, the Kyrgyz Republic, Lithuania, Russia, Slovakia, and Yugoslavia. Only two countries, Moldova and Poland, experienced a decline of .25 points or more.

According to the results of *Nations in Transit 2002*, 10 of the 27 countries qualify as Consolidated Democracies: Bulgaria, Croatia, the Czech Republic, Estonia, Hungary, Latvia, Lithuania, Poland, Slovakia, and Slovenia. Fourteen countries fall into the category of Transitional Governments: Albania, Armenia, Azerbaijan, Bosnia, Georgia, Kazakhstan, the Kyrgyz Republic, Macedonia, Moldova, Romania, Russia, Tajikistan, Ukraine, and Yugoslavia. Of these countries, Albania, Romania, and Yugoslavia represent the upper tier and are best positioned to enter the ranks of the Consolidated Democracies. Belarus, Turkmenistan, and Uzbekistan remain Consolidated Autocracies and show no momentum toward meaningful political liberalization.

Nine countries qualified as Consolidated Market Economies: Bulgaria, the Czech Republic, Estonia, Hungary, Latvia, Lithuania, Poland, Slovakia, and Slovenia. A further fifteen states fell into the category of Transitional Economies: Albania, Armenia, Azerbaijan, Bosnia, Croatia, Georgia, Kazakhstan, the Kyrgyz Republic, Macedonia, Moldova, Romania, Russia, Tajikistan, Ukraine, and Yugoslavia. Three states have Consolidated Statist Economies: Belarus, Turkmenistan, and Uzbekistan.

Taken as a whole, the findings of *Nations in Transit 2002* present a mixed picture of change. However, when one looks at trends registered in the survey over a five-year period, another picture emerges—one of significant progress in the countries of Central and Eastern Europe. The Democratization scores for these countries (including the Baltic states)

improved from an average of 3.12 in 1998 to 2.73 by 2002. The median Democratization score for the region progressed even more significantly from 3.55 to 2.13.

Unfortunately, such progress contrasts markedly with trends in the states of the former Soviet Union. The average Democratization score for the twelve new countries that emerged from the disintegration of the USSR declined from 5.23 in 1998 to 5.41 in the 2002 report. Likewise, the median Democratization score fell from 5.08 in 1998 to 5.41 in the 2002 report. As noted in the previous edition of *Nations in Transit*, scores like these point to a widening and worrisome democracy gap between the Central and Eastern European states that were under totalitarian rule from the Second World War until 1989 and those countries that were part of the Soviet Union largely from the outset of the Bolshevik Revolution.

By contrast, both of these regional-political cohorts have shown progress in matters of economic reform since 1998. The average Economic Liberalization score for Central and Eastern Europe improved from 3.37 in 1998 to 3.11 in the 2002 study; the median score for the region improved significantly from 3.58 to 2.42. Among the former Soviet republics (excluding the Baltics), progress in the direction of economic reform has been more limited. The average Economic Liberalization score rose from 4.94 in 1998 to 4.71 in the 2002 report, while the median score progressed from 4.63 to 4.34.

REFORM PESSIMISM

The glaring lack of democratic progress in many of the former Soviet states—and in countries throughout the developing world—has generated a new literature of pessimism concerning reform and reform potential. Two examples of this genre are Larry Diamond's "Thinking about Hybrid Regimes" and Tom Carothers' "The End of the Transition Paradigm," both of which take a skeptical look at the quality of democratic reform in the region. (These important essays appeared in the April 2002 and January 2002 editions, respectively, of the *Journal of Democracy*.)

Diamond labels Armenia, Georgia, Macedonia, and Ukraine as "ambiguous regimes" and suggests that they not only stand outside the cohort of liberal democracies but also fail to meet the far less stringent standards that would qualify them as "electoral democracies." Moreover, he classifies Belarus, Bosnia, and Russia together as "competitive authoritarian" states that at least meet the criteria of having significant parliamentary oppositions.

Carothers argues that efforts to promote change in much of the former Soviet Union have largely failed. Or, more specifically, he writes that "much of the democracy aid based on [the transition] paradigm is exhausted. Where the paradigm fits well—in the small number of clearly successful transitions—the aid is not much needed. Where democracy aid is needed most ... the paradigm fits poorly."

However, it is possible that both Diamond and Carothers have underestimated the level of political dynamism and reform potential in many countries whose transitions have seemingly reversed or stalled. That is, it is right to say that states like Georgia, Macedonia, Russia, Ukraine, and the de facto international protectorate of Bosnia and Herzegovina have far to go in achieving broad-based democratic reform. But it is wrong to underplay the significant changes that have occurred in each of them: the emergence of civil society sec-

tors, the growth of economic pluralism, and the introduction of independent media and the free flow of information. Moreover, such changes suggest that the formal mechanisms of electoral democracy retain a high degree of reform potential, including the opportunity in certain cases and in certain circumstances for reformist and opposition movements to capture power or to influence policy.

The importance of positive trends in civic life are underscored by recent events that suggest that even “competitive authoritarian” regimes, in which only the rudimentary mechanisms of electoral politics and political pluralism remain, have the capacity for rapid progress toward more fulsome democratic practices. This is particularly the case in countries that have vigorous civil societies and independent media, albeit under intense state pressure. Examples of such dramatic positive democratic change include Serbia, where the authoritarian regime of Slobodan Milosevic collapsed in 2000 largely as a result of mass civic mobilization generated by an electoral process; Croatia, where the death of an authoritarian leader in 1999 led to an electoral victory by reformist opposition forces and to the deepening of political change in an environment in which the resources of the state and a dominant proportion of the media were at the service of the ruling party; and Slovakia, where a strong civic sector worked actively to displace a government with authoritarian proclivities in 1998.

The March 2002 parliamentary elections in Ukraine, which fall outside the scope of this report, underscore that the conventional views of authoritarian regimes need some modification. In those elections, despite a massive effort by the ruling authorities to influence public opinion through media that either they or closely allied oligarchs control, the public overwhelmingly supported opposition and reform parties. Only approximately 20 percent of voters backed parties that support President Leonid Kuchma. Post-election polls suggest that the majority of voters would cast their votes for opposition and reform candidates in presidential elections, which are scheduled in two years. And of the 80 percent of voters who expressed a preference, nearly 40 percent would support former Prime Minister Viktor Yushchenko, who was removed from office by President Kuchma and represents an alternative, reformist current. All this suggests that given the emergence of civic life, rigorous civic monitoring of the vote count, open discourse, freedom of association and mass political rallies, an educated electorate, and significant access to reliable information (often through alternative small-scale media), the public can make intelligent and informed decisions about its political options and register its preferences at the polls, even in settings where wide-ranging democratic freedoms and a free press are still largely absent.

Another form of skepticism has emerged within the analytic and policy community with regard to the Central European states. Some commentators, for example, have focused on illiberal and nationalist positions in the message of some major political leaders in the region. They have voiced particular concern about the appeal of far-right and populist parties in such countries as Hungary, Slovakia, and Romania.

The findings of *Nations in Transit 2002* suggest that while extremist political appeals may command some public support, the dynamic growth of independent media, civic awareness, and organized civic life makes it unlikely that demagogues can capture power and reverse democratic gains. The level of civic, media, and governmental development suggests

that even leaders who occasionally or systematically engage in objectionable populist rhetoric—and in some cases propound authoritarian solutions—would be unlikely to achieve their political agendas were they to come to power.

Moreover, the findings of this survey suggest a strong correlation between the level of civil society activism and the success of transition. In many cases, the countries that have taken positive reform paths are those in which political openings occurred in the context of substantial mass-based civic activism and helped establish the basis for an engaged nongovernmental sector. And today the evidence suggests that the countries of Central and Eastern Europe are likely to withstand any assaults on their hard-won freedoms with sustained pressure from the international democratic community, indigenous civil society groups, and independent media outlets.

In addition, in countries like Hungary, Slovakia, and Romania, active, liberal sectors are buttressed by private economic sectors that seek to promote stability, continuity, and the rule of law as well. Thus, despite occasional worries about the appeal of one or another political demagogue, it is important to recognize the deep roots of the political and economic changes that have occurred in states that this survey regards as having consolidated (or nearly consolidated) their democratic and market systems. In this sense, the emergence of extremist appeals in Central and Eastern Europe should not be judged by a different standard than the persistence of protofascists, ultranationalists, or populist demagogues who routinely capture the support of five, ten, or even twenty percent of the electorate in established European democracies.

Civil society should be understood not only as a *sui generis* component of democratic life. Although it indeed promotes pluralism and the dispersal of power as an independent force, it also presses for improved performance by a broad range of political, legal, social, and economic institutions. Civil society makes political parties and the media more accountable; it monitors electoral processes; it focuses the attention of leaders on emerging problems; and it monitors the effectiveness of government in its efforts to address concrete problems. In addition, civic organizations help promote freedom of information by creating active lobbies that advocate transparency. In other words, an active civil society encourages better performance in most of the other categories that the *Nations in Transit* series surveys and rates. All of this suggests that there is reason to remain cautiously hopeful about the reform potential of many transitional countries that have veered from the reform path.

The findings of this survey come at an important juncture in the political and economic evolution of the post-Communist space. A number of Central and Eastern European countries are under serious consideration for membership in NATO: Bulgaria, Estonia, Latvia, Lithuania, Romania, Slovakia, and Slovenia. Each of these countries, according to the *Nations in Transit* survey, is in the upper tier of political and economic reform in the region. In addition, ten Central and Eastern European countries are involved in the European Union enlargement process: Bulgaria, the Czech Republic, Estonia, Hungary, Latvia, Lithuania, Romania, Poland, Slovakia, and Slovenia. Again, the most likely candidates for accession are all in the upper tier of reform indicators for Democratization, the Rule of Law, and Economic Liberalization. Indeed, as both NATO and the European

Union ponder eastward expansion, the *Nations in Transit* survey suggests that they can have confidence in the values and institutions of the candidate countries they might absorb in the coming years.

THE LEGACY OF WESTERN POLICY

The legacy of American and Western engagement in the former Communist world is hardly one of failure. While some regimes have moved along authoritarian trajectories and may no longer even be described as transitional, many other states in which reforms have stalled have at least seen the emergence of strong independent civic actors and alternative investigative media. For this reason, the poor performance and stalled reforms of post-Communist countries need not necessarily trigger a decline in the levels of aid and technical assistance provided them by governmental and private donors. In fact, one could argue that some of the deficiencies in democratic development, the rule of law, and economic reform might require an enhancement or targeted redirection of foreign assistance resources to help jump-start reforms. The latent potential of even limited democratic electoral practices can provide opportune moments to promote new political openings and should not be underestimated.

In the end, the data and analysis contained in *Nations in Transit 2002* are optimistic in many of their conclusions. Although the reform path of many of the states under review is far from complete, as the country reports and ratings make clear, there is significant potential in a large portion of the post-Soviet countries that are less than truly free and democratic to overcome resistance to change and to reignite reform processes that have either stalled or reversed course. Like many Central and Eastern European states, they too have the potential to join the democratic community of nations.

Table A: Nations in Transit 2002 Rating and Score Summary

COUNTRY	PP	CS	IM	GPA	DEM	CLJF	CO	ROL	PR	MA	MI	ECON
Albania	3.75	3.75	4.00	4.25	3.94	4.50	5.25	4.88	3.25	4.00	4.00	3.75
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	5.50	6.00	5.44	5.25	6.25	5.75	4.25	4.50	4.50	4.42
Belarus	6.75	6.25	6.75	6.50	6.56	6.75	5.25	6.00	6.00	6.25	6.50	6.25
Bosnia	4.25	4.25	4.25	5.50	4.56	5.25	5.50	5.38	5.00	5.50	5.50	5.33
Bulgaria	2.00	3.25	3.25	3.50	3.00	3.50	4.50	4.00	3.00	3.00	3.75	3.25
Croatia	3.25	2.75	3.50	3.50	3.25	3.75	4.50	4.13	3.25	3.50	3.75	3.50
Czech Rep.	2.00	1.75	2.50	2.25	2.13	2.50	3.75	3.13	1.75	2.25	2.25	2.08
Estonia	1.75	2.00	1.75	2.25	1.94	1.75	2.50	2.13	1.75	2.00	2.00	1.92
Georgia	5.00	4.00	3.75	5.00	4.44	4.25	5.50	4.88	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	2.50	2.00	2.00
Kazakhstan	6.25	5.50	6.00	5.75	5.88	6.00	6.25	6.13	4.00	4.25	4.50	4.25
Kyrgyz Rep.	5.75	4.50	5.75	5.50	5.38	5.25	6.00	5.63	4.25	3.50	3.50	3.75
Latvia	1.75	2.00	1.75	2.25	1.94	2.00	3.75	2.88	2.50	2.25	2.25	2.33
Lithuania	1.75	1.50	1.75	2.50	1.88	2.00	3.75	2.88	2.25	2.75	2.25	2.42
Macedonia	4.50	4.00	3.75	4.25	4.13	4.75	5.50	5.13	4.25	4.75	5.00	4.67
Moldova	3.50	4.00	4.50	4.75	4.19	4.00	6.25	5.13	4.00	4.50	4.25	4.25
Poland	1.25	1.25	1.50	2.00	1.50	1.50	2.25	1.88	2.25	2.00	1.50	1.92
Romania	3.00	3.00	3.50	3.75	3.31	4.25	4.75	4.50	3.75	3.75	4.25	3.92
Russia	4.50	4.00	5.50	5.25	4.81	4.75	6.00	5.38	3.50	3.75	4.50	3.92
Slovakia	1.75	1.75	2.00	2.25	1.94	2.00	3.25	2.63	2.00	2.50	2.50	2.33
Slovenia	1.75	1.50	1.75	2.25	1.81	1.75	2.00	1.88	2.50	2.00	2.00	2.17
Tajikistan	5.25	5.00	5.75	6.00	5.50	5.75	6.00	5.88	5.50	5.50	5.25	5.42
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	4.50	3.75	5.50	5.00	4.69	4.75	6.00	5.38	4.25	4.50	4.50	4.42
Uzbekistan	6.75	6.75	6.75	6.00	6.56	6.50	6.00	6.25	6.00	6.00	6.00	6.00
Yugoslavia	3.75	3.00	3.50	4.25	3.63	4.25	5.25	4.75	4.75	5.25	5.00	5.00
Median	3.75	3.75	3.75	4.25	4.13	4.25	5.25	4.88	3.50	3.75	4.00	3.75
Average	3.86	3.55	4.02	4.25	3.92	4.11	4.85	4.48	3.66	3.87	3.93	3.82

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 2002 ratings and scores reflect the period November 1, 2000, through December 31, 2001.

Table B: Nations in Transit 2002 Political and Economic Classifications**DEMOCRACY RANKINGS**

	DEM SCORE	ECON SCORE
CONSOLIDATED DEMOCRACIES		
Poland	1.50	1.92
Slovenia	1.81	2.17
Lithuania	1.88	2.42
Estonia	1.94	1.92
Hungary	1.94	2.00
Latvia	1.94	2.33
Slovakia	1.94	2.33
Czech Rep.	2.13	2.08
Bulgaria	3.00	3.25
Croatia	3.25	3.50

TRANSITIONAL GOVERNMENTS

Romania	3.31	3.92
Yugoslavia	3.63	5.00
Albania	3.94	3.75
Macedonia	4.13	4.67
Moldova	4.19	4.25
Georgia	4.44	3.75
Armenia	4.56	3.58
Bosnia	4.56	5.33
Ukraine	4.69	4.42
Russia	4.81	3.92
Kyrgyz Rep.	5.38	3.75
Azerbaijan	5.44	4.42
Tajikistan	5.50	5.42
Kazakhstan	5.88	4.25

CONSOLIDATED AUTOCRACIES

Uzbekistan	6.56	6.00
Belarus	6.56	6.25
Turkmenistan	6.94	6.50

ECONOMY RANKINGS

	ECON SCORE	DEM SCORE
CONSOLIDATED MARKET ECONOMIES		
Poland	1.92	1.50
Estonia	1.92	1.94
Hungary	2.00	1.94
Czech Rep.	2.08	2.13
Slovenia	2.17	1.81
Latvia	2.33	1.94
Slovakia	2.33	1.94
Lithuania	2.42	1.88
Bulgaria	3.25	3.00

TRANSITIONAL ECONOMIES

Croatia	3.50	3.25
Armenia	3.58	4.56
Albania	3.75	3.94
Georgia	3.75	4.44
Kyrgyz Rep.	3.75	5.38
Romania	3.92	3.31
Russia	3.92	4.81
Moldova	4.25	4.19
Kazakhstan	4.25	5.88
Ukraine	4.42	4.69
Azerbaijan	4.42	5.44
Macedonia	4.67	4.13
Yugoslavia	5.00	3.63
Bosnia	5.33	4.56
Tajikistan	5.42	5.50

CONSOLIDATED STATIST ECONOMIES

Uzbekistan	6.00	6.56
Belarus	6.25	6.56
Turkmenistan	6.50	6.94

Table C: Trends in Reform, Nations in Transit Scores from 1998 to 2002

	1999-					1999- 2001 2002				1999-				
	1998	2000	2001	2002		2000				1998	2000	2001	2002	
	DEM score					ROL score				ECON score				
Albania	4.75	4.38	4.13	3.94		5.50	5.00	4.88		4.50	4.50	4.17	3.75	↑↑
Armenia	4.80	4.50	4.56	4.56		5.38	5.38	5.38		4.08	3.58	3.58	3.58	
Azerbaijan	5.55	5.50	5.56	5.44		5.75	5.75	5.75		5.00	5.00	4.92	4.42	↑↑
Belarus	6.20	6.44	6.56	6.56		5.88	6.00	6.00		6.25	6.25	6.25	6.25	
Bosnia	5.35	5.13	4.94	4.56	↑↑	6.00	5.63	5.38	↑↑	5.67	5.58	5.50	5.33	
Bulgaria	3.55	3.31	3.06	3.00		4.13	4.13	4.00		4.08	3.75	3.50	3.25	↑↑
Croatia	4.25	4.19	3.25	3.25		5.00	4.13	4.13		3.83	3.67	3.58	3.50	
Czech Rep.	1.50	1.75	1.81	2.13	↓↓	2.75	3.13	3.13		2.00	1.92	2.00	2.08	
Estonia	2.05	2.06	2.00	1.94		2.63	2.38	2.13	↑↑	2.00	1.92	1.92	1.92	
Georgia	4.55	4.00	4.19	4.44	↓↓	4.50	4.63	4.88	↓↓	4.00	3.67	3.75	3.75	
Hungary	1.50	1.75	1.94	1.94		2.13	2.50	2.50		1.67	1.75	1.92	2.00	
Kazakhstan	5.35	5.38	5.56	5.88	↓↓	5.75	6.00	6.13		4.50	4.50	4.50	4.25	↑↑
Kyrgyz Rep.	4.70	4.88	5.13	5.38	↓↓	5.50	5.63	5.63		3.75	3.83	4.00	3.75	↑↑
Latvia	2.15	2.06	1.94	1.94		2.75	2.75	2.88		2.50	2.50	2.50	2.33	
Lithuania	1.95	2.00	1.94	1.88		2.88	2.75	2.88		2.58	2.83	2.75	2.42	↑↑
Macedonia	3.95	3.44	3.75	4.13	↓↓	4.63	4.63	5.13	↓↓	4.67	4.58	4.58	4.67	
Moldova	4.00	3.88	3.94	4.19	↓↓	5.00	5.00	5.13		4.17	4.00	4.00	4.25	↓↓
Poland	1.45	1.44	1.44	1.50		1.88	1.88	1.88		1.92	1.67	1.67	1.92	↓↓
Romania	3.85	3.19	3.31	3.31		4.25	4.38	4.50		4.50	4.17	4.00	3.92	
Russia	4.10	4.25	4.63	4.81		5.25	5.38	5.38		3.92	4.33	4.17	3.92	↑↑
Slovakia	3.65	2.50	2.25	1.94	↑↑	3.13	3.00	2.63	↑↑	3.58	3.25	3.25	2.33	↑↑
Slovenia	1.95	1.94	1.94	1.81		1.75	1.75	1.88		2.17	2.08	2.08	2.17	
Tajikistan	5.95	5.69	5.44	5.50		5.88	5.88	5.88		6.13	6.00	5.50	5.42	
Turkmenistan	6.90	6.94	6.94	6.94		6.38	6.63	6.63		6.42	6.42	6.50	6.50	
Ukraine	4.25	4.31	4.44	4.69	↓↓	5.25	5.25	5.38		4.75	4.58	4.33	4.42	
Uzbekistan	6.45	6.44	6.50	6.56		6.25	6.25	6.25		6.25	6.25	6.17	6.00	
Yugoslavia	4.90	5.50	4.63	3.63	↑↑	6.00	5.88	4.75	↑↑	4.83	5.33	5.33	5.00	↑↑

↓↓ AND ↑↑ INDICATE CHANGES IN SCORES OF .25 OR MORE FROM 2001 TO 2002.

Table D: Regional Trends in Reform

	1998	1999- 2000	2001	2002	1998	1999- 2000	2001	2002	2000	1999- 2001	2002	
	DEM score				ECON score				CORRUPTION			
CENTRAL AND EASTERN EUROPE												
Albania	4.75	4.38	4.13	3.94	4.50	4.50	4.17	3.75	6.00	5.50	5.25	
Bosnia	5.35	5.13	4.94	4.56	5.67	5.58	5.50	5.33	6.00	5.75	5.50	
Bulgaria	3.55	3.31	3.06	3.00	4.08	3.75	3.50	3.25	4.75	4.75	4.50	
Croatia	4.25	4.19	3.25	3.25	3.83	3.67	3.58	3.50	5.25	4.50	4.50	
Czech Rep.	1.50	1.75	1.81	2.13	2.00	1.92	2.00	2.08	3.25	3.75	3.75	
Estonia	2.05	2.06	2.00	1.94	2.00	1.92	1.92	1.92	3.25	2.75	2.50	
Hungary	1.50	1.75	1.94	1.94	1.67	1.75	1.92	2.00	2.50	3.00	3.00	
Latvia	2.15	2.06	1.94	1.94	2.50	2.50	2.50	2.33	3.50	3.50	3.75	
Lithuania	1.95	2.00	1.94	1.88	2.58	2.83	2.75	2.42	3.75	3.75	3.75	
Macedonia	3.95	3.44	3.75	4.13	4.67	4.58	4.58	4.67	5.00	5.00	5.50	
Poland	1.45	1.44	1.44	1.50	1.92	1.67	1.67	1.92	2.25	2.25	2.25	
Romania	3.85	3.19	3.31	3.31	4.50	4.17	4.00	3.92	4.25	4.50	4.75	
Slovakia	3.65	2.50	2.25	1.94	3.58	3.25	3.25	2.33	3.75	3.75	3.25	
Slovenia	1.95	1.94	1.94	1.81	2.17	2.08	2.08	2.17	2.00	2.00	2.00	
Yugoslavia	4.90	5.50	4.63	3.63	4.83	5.33	5.33	5.00	6.25	6.25	5.25	
Median	3.55	2.50	2.25	2.13	3.58	3.25	3.25	2.42	3.75	3.75	3.75	
Average	3.12	2.98	2.82	2.73	3.37	3.30	3.25	3.11	4.12	4.07	3.97	
FORMER SOVIET UNION (EXCLUDING BALTICS)												
Armenia	4.80	4.50	4.56	4.56	4.08	3.58	3.58	3.58	5.75	5.75	5.75	
Azerbaijan	5.55	5.50	5.56	5.44	5.00	5.00	4.92	4.42	6.00	6.25	6.25	
Belarus	6.20	6.44	6.56	6.56	6.25	6.25	6.25	6.25	5.25	5.25	5.25	
Georgia	4.55	4.00	4.19	4.44	4.00	3.67	3.75	3.75	5.00	5.25	5.50	
Kazakhstan	5.35	5.38	5.56	5.88	4.50	4.50	4.50	4.25	6.00	6.25	6.25	
Kyrgyz Rep.	4.70	4.88	5.13	5.38	3.75	3.83	4.00	3.75	6.00	6.00	6.00	
Moldova	4.00	3.88	3.94	4.19	4.17	4.00	4.00	4.25	6.00	6.00	6.25	
Russia	4.10	4.25	4.63	4.81	3.92	4.33	4.17	3.92	6.25	6.25	6.00	
Tajikistan	5.95	5.69	5.44	5.50	6.13	6.00	5.50	5.42	6.00	6.00	6.00	
Turkmenistan	6.90	6.94	6.94	6.94	6.42	6.42	6.50	6.50	6.00	6.25	6.25	
Ukraine	4.25	4.31	4.44	4.69	4.75	4.58	4.33	4.42	6.00	6.00	6.00	
Uzbekistan	6.45	6.44	6.50	6.56	6.25	6.25	6.17	6.00	6.00	6.00	6.00	
Median	5.08	5.13	5.29	5.41	4.63	4.54	4.42	4.34	6.00	6.00	6.00	
Average	5.23	5.18	5.29	5.41	4.94	4.87	4.81	4.71	5.85	5.94	5.96	

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

	DEM score 2002	GDP GROWTH (%)				GDP PER CAP 2001 (\$)	FDI 1989- 2001 (\$ MILL)	FDI PER CAP 1989- 2001 (\$)	FDI PER CAP 2001 (\$)
		1999	2000	2001	AVERAGE 1999-2001				
CONSOLIDATED DEMOCRACIES									
Poland	1.50	4.1	4.0	2.0	3.4	4,654	34,426	890	168
Slovenia	1.81	5.2	4.6	2.2	4.0	9,416	1,847	925	169
Lithuania	1.88	-3.9	3.9	4.0	1.3	3,249	2,837	771	122
Estonia	1.94	-0.7	6.9	4.5	3.6	3,786	2,358	1,637	243
Hungary	1.94	4.2	5.2	4.5	4.6	5,121	21,869	2,177	219
Latvia	1.94	1.1	6.6	6.5	4.7	3,249	2,798	1,200	129
Slovakia	1.94	1.9	2.2	3.0	2.4	3,668	5,669	1,050	278
Czech Rep.	2.13	-0.8	3.1	3.5	1.9	5,473	26,493	2,570	468
Bulgaria	3.00	2.4	5.8	4.0	4.1	1,619	3,961	491	79
Croatia	3.25	-0.4	3.7	3.8	2.4	4,548	4,744	1,065	105
					3.2	4,478		1,278	198
TRANSITIONAL GOVERNMENTS									
Romania	3.31	-3.2	1.6	4.0	0.8	1,743	7,928	356	52
Yugoslavia	3.63	-15.7	5.0	5.0	-1.9	1,230	1,110	130	14
Albania	3.94	7.3	7.8	7.0	7.4	1,228	815	241	65
Macedonia	4.13	2.7	5.1	-4.0	1.3	1,738	888	444	223
Moldova	4.19	-4.4	1.9	5.0	0.8	374	498	116	14
Georgia	4.44	3.0	1.9	3.0	2.6	581	838	157	19
Armenia	4.56	3.3	6.0	6.0	5.1	702	642	213	30
Bosnia	4.56	10.0	5.0	5.0	6.7	1,070	504	117	38
Ukraine	4.69	-0.2	5.8	7.0	4.2	781	3,866	79	11
Russia	4.81	5.4	8.3	5.5	6.4	2,137	9,702	67	14
Kyrgyz Rep.	5.38	3.7	5.1	5.0	4.6	308	479	101	8
Azerbaijan	5.44	7.4	11.1	8.0	8.8	697	4,062	501	39
Tajikistan	5.50	3.7	8.3	6.0	6.0	161	153	24	1
Kazakhstan	5.88	2.7	9.6	10.0	7.4	1,505	11,001	741	162
					4.3	1,018		235	49
CONSOLIDATED AUTOCRACIES									
Uzbekistan	6.56	4.1	4.0	3.0	3.7	237	768	30	3
Belarus	6.56	3.4	5.8	2.5	3.9	1,096	1,315	132	8
Turkmenistan	6.94	16.0	17.6	10.0	14.5	642	1,043	189	24
Average					7.4	658		117	12

NOTE: DATA SORTED BY 2002 DEMOCRATIZATION SCORE

Table F: Corruption and Gross Domestic Product (GDP)

	CORRUPTION RATING 2002	GDP GROWTH (%)				GDP PER CAP 2001 (\$)	FDI 1989- 2001 (\$ MILL)	FDI PER CAP 1989- 2001 (\$)	FDI PER CAP 2001 (\$)
		1999	2000	2001	AVERAGE 1999-2001				
LOW LEVELS									
Slovenia	2.00	5.2	4.6	2.2	4.0	9,416	1,847	925	169
Poland	2.25	4.1	4.0	2.0	3.4	4,654	34,426	890	168
Estonia	2.50	-0.7	6.9	4.5	3.6	3,786	2,358	1,637	243
Hungary	3.00	4.2	5.2	4.5	4.6	5,121	21,869	2,177	219
Average					3.9	5,744		1,407	200
MIDDLE LEVELS									
Slovakia	3.25	1.9	2.2	3.0	2.4	3,668	5,669	1,050	278
Czech Rep.	3.75	-0.8	3.1	3.5	1.9	5,473	26,493	2,570	468
Latvia	3.75	1.1	6.6	6.5	4.7	3,249	2,798	1,200	129
Lithuania	3.75	-3.9	3.9	4.0	1.3	3,249	2,837	771	122
Bulgaria	4.50	2.4	5.8	4.0	4.1	1,619	3,961	491	79
Croatia	4.50	-0.4	3.7	3.8	2.4	4,548	4,744	1,065	105
Romania	4.75	-3.2	1.6	4.0	0.8	1,743	7,928	356	52
Albania	5.25	7.3	7.8	7.0	7.4	1,228	815	241	65
Belarus	5.25	3.4	5.8	2.5	3.9	1,096	1,315	132	8
Yugoslavia	5.25	-15.7	5.0	5.0	-1.9	1,230	1,110	130	14
Average					2.7	2,710		801	132
HIGH LEVELS									
Bosnia	5.50	10.0	5.0	5.0	6.7	1,070	504	117	38
Georgia	5.50	3.0	1.9	3.0	2.6	581	838	157	19
Macedonia	5.50	2.7	5.1	-4.0	1.3	1,738	888	444	223
Armenia	5.75	3.3	6.0	6.0	5.1	702	642	213	30
Kyrgyz Rep.	6.00	3.7	5.1	5.0	4.6	308	479	101	8
Russia	6.00	5.4	8.3	5.5	6.4	2,137	9,702	67	14
Tajikistan	6.00	3.7	8.3	6.0	6.0	161	153	24	1
Ukraine	6.00	-0.2	5.8	7.0	4.2	781	3,866	79	11
Uzbekistan	6.00	4.1	4.0	3.0	3.7	237	768	30	3
Azerbaijan	6.25	7.4	11.1	8.0	8.8	697	4,062	501	39
Kazakhstan	6.25	2.7	9.6	10.0	7.4	1,505	11,001	741	162
Moldova	6.25	-4.4	1.9	5.0	0.8	374	498	116	14
Turkmenistan	6.25	16.0	17.6	10.0	14.5	642	1,043	189	24
Average					5.6	841		214	45

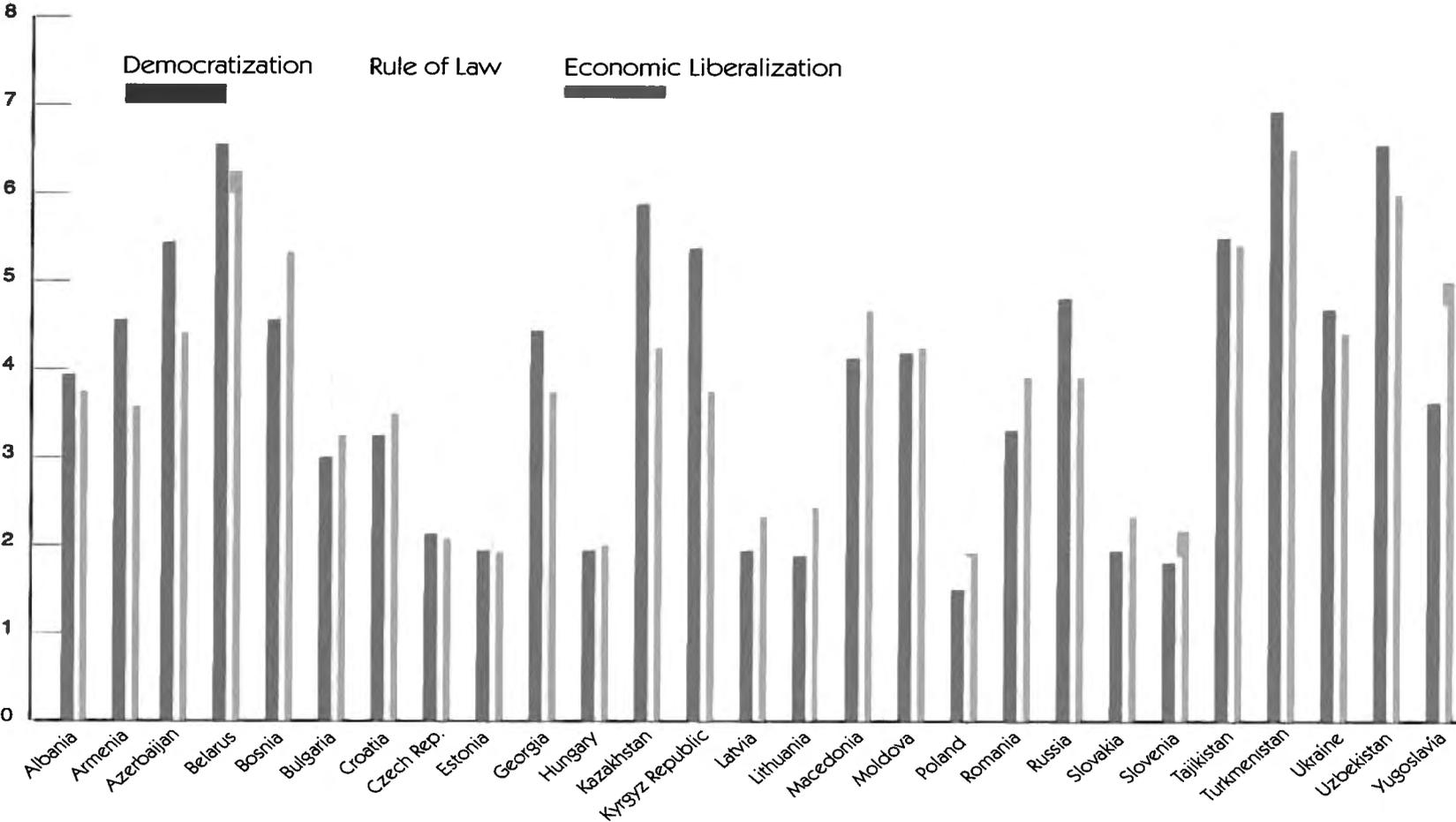
NOTE: DATA SORTED BY 2002 CORRUPTION RATING

Table G: Economic Liberalization, GDP, and Inflation

	ECON SCORE 2002	REAL GDP GROWTH (%)				GDP PER CAP 2001 (\$)	INFLATION RATE (%)			AVERAGE 1999-2001
		1999	2000	2001	AVERAGE 1999-2001	1999	2000	2001		
CONSOLIDATED MARKET										
Estonia	1.92	-0.7	6.9	4.5	3.6	3,786	3.3	4.0	6.1	4.5
Poland	1.92	4.1	4.0	2.0	3.4	4,654	7.3	10.1	5.6	7.7
Hungary	2.00	4.2	5.2	4.5	4.6	5,121	10.0	9.8	9.1	9.6
Czech Rep.	2.08	-0.8	3.1	3.5	1.9	5,473	2.1	3.9	4.9	3.6
Slovenia	2.17	5.2	4.6	2.2	4.0	9,416	6.1	8.9	8.6	7.9
Latvia	2.33	1.1	6.6	6.5	4.7	3,249	2.4	2.8	2.4	2.5
Slovakia	2.33	1.9	2.2	3.0	2.4	3,668	10.6	12.0	7.4	10.0
Lithuania	2.42	-3.9	3.9	4.0	1.3	3,249	0.8	1.0	1.5	1.1
Bulgaria	3.25	2.4	5.8	4.0	4.1	1,619	0.7	9.9	8.0	6.2
Average				3.8	3.3	4,470			6.0	5.9
TRANSITIONAL ECONOMIES										
Croatia	3.50	-0.4	3.7	3.8	2.4	4,548	4.2	6.2	5.7	5.4
Armenia	3.58	3.3	6.0	6.0	5.1	702	0.7	-0.8	3.1	1.0
Albania	3.75	7.3	7.8	7.0	7.4	1,228	0.4	0.1	3.5	1.3
Georgia	3.75	3.0	1.9	3.0	2.6	581	19.2	4.1	5.6	9.6
Kyrgyz Rep.	3.75	3.7	5.1	5.0	4.6	308	35.8	18.7	7.6	20.7
Romania	3.92	-3.2	1.6	4.0	0.8	1,743	45.8	45.7	34.2	41.9
Russia	3.92	5.4	8.3	5.5	6.4	2,137	86.1	20.8	21.4	42.8
Kazakhstan	4.25	2.7	9.6	10.0	7.4	1,505	8.3	13.2	8.6	10.0
Moldova	4.25	-4.4	1.9	5.0	0.8	374	39.3	31.3	11.1	27.2
Azerbaijan	4.42	7.4	11.1	8.0	8.8	697	-8.5	1.8	2.0	-1.6
Ukraine	4.42	-0.2	5.8	7.0	4.2	781	22.7	28.2	12.5	21.1
Macedonia	4.67	2.7	5.1	-4.0	1.3	1,738	-1.3	9.2	6.2	4.7
Yugoslavia	5.00	-15.7	5.0	5.0	-1.9	1,230	37.1	60.4	93.6	63.7
Bosnia	5.33	10.0	5.0	5.0	6.7	1,070	-0.3	1.9	3.3	1.6
Tajikistan	5.42	3.7	8.3	6.0	6.0	161	27.6	32.9	39.4	33.3
Average				5.1	4.2	1,254			17.2	18.9
CONSOLIDATED STATIST										
Uzbekistan	6.00	4.1	4.0	3.0	3.7	237	29.1	24.2	25.9	26.4
Belarus	6.25	3.4	5.8	2.5	3.9	1,096	293.8	168.9	59.8	174.2
Turkmenistan	6.50	16.0	17.6	10.0	14.5	642	24.2	8.3	11.2	14.6
Average				5.2	7.4	658			32.3	71.7

NOTE: DATA SORTED BY 2002 ECONOMIC LIBERALIZATION SCORE

Chart 1: Nations in Transit 2002 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 2002 scores reflect the period November 1, 2000, through December 31, 2001.

Chart 2: Democratization and Economic Liberalization, NIT 2002

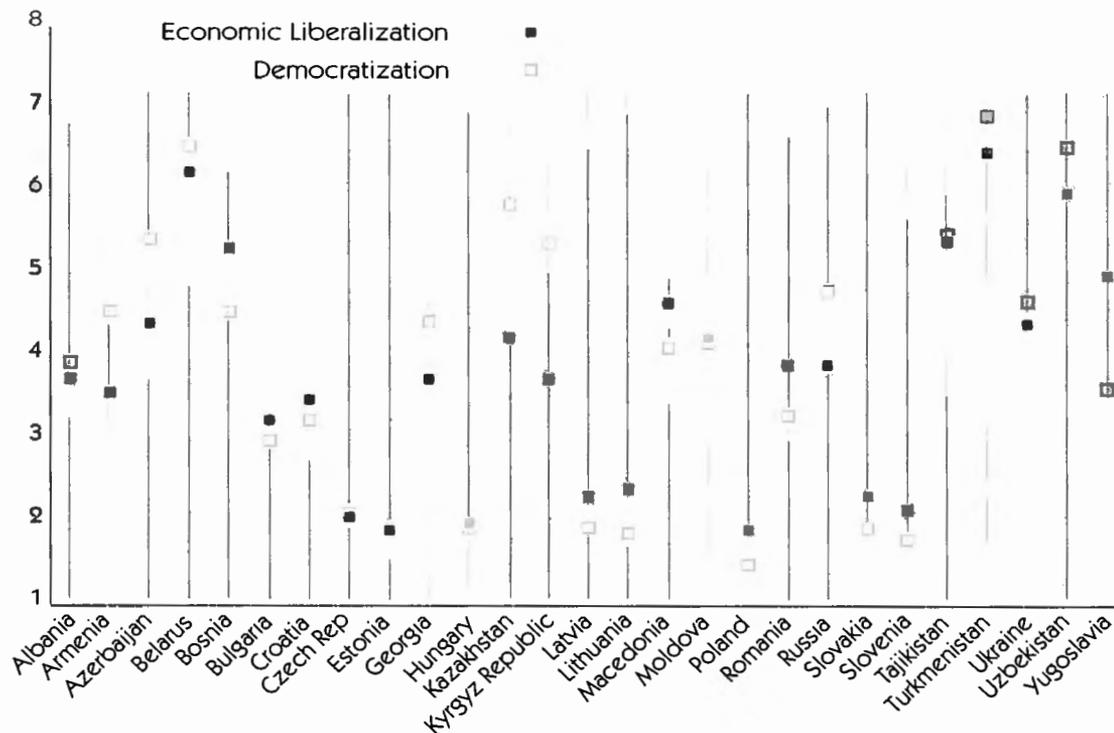
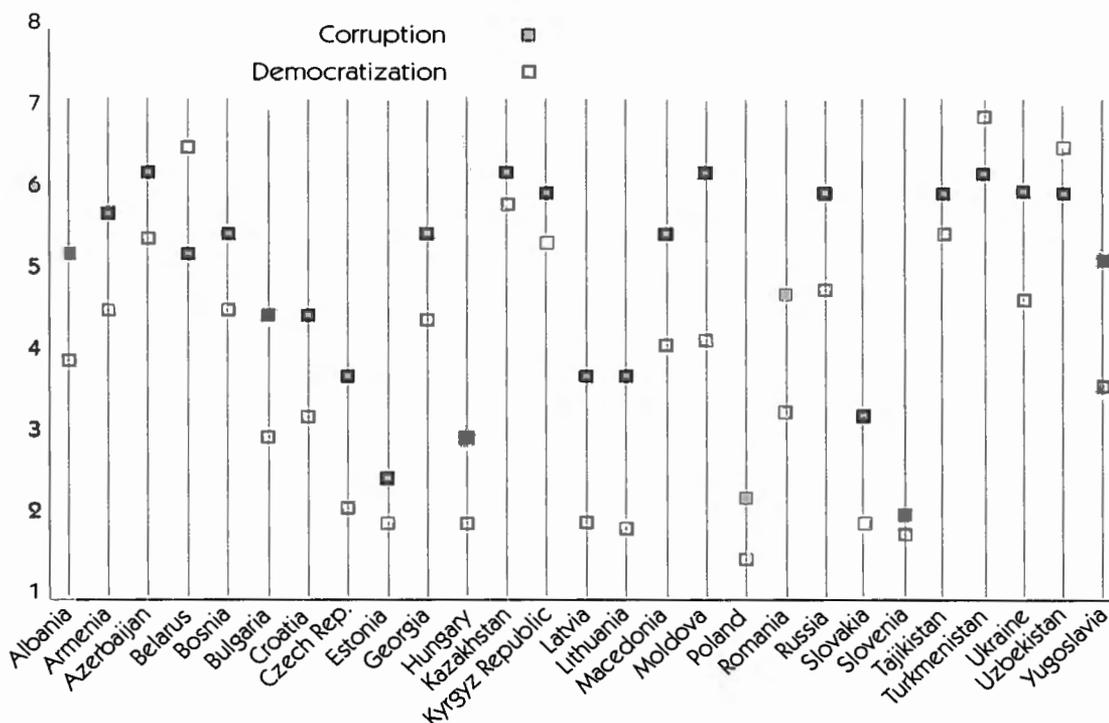


Chart 3: Democratization and Corruption, NIT 2002



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 2002 ratings and scores reflect the period November 1, 2000, through December 31, 2001.

Troubles to Come: The Emerging Security Challenges in the Balkans and the Former Soviet Union

Sherman W. Garnett

More than a decade has passed since the fall of the Berlin Wall and the start of a transformation in European and Eurasian security. The collapse of the Soviet Union barely two years later made this great conversion irreversible. The dominant Cold War threats of large-scale conventional and thermonuclear war receded. And the map of Europe and central Eurasia changed dramatically with the unification of Germany, the expansion of NATO, the restoration of fully sovereign states in Central Europe, and the creation of new states from the ruins of old in the former Yugoslavia and the Soviet Union.

The new security environment this map represents is still in flux, but the last decade has provided a glimpse of its future. The new and often weak states that have emerged from the old empires dominate this environment. Violence is more prevalent in and around Europe than at any time during the Cold War. Civil strife, ethnic cleansing, and regional conflicts have prompted both outside interventions and indifference. Russia is a much-diminished state in comparison with its Soviet predecessor, and it is in the midst of a complex transformation. The outside world—from China to the European Union—has fashioned new trade, political, and security ties with countries of this formerly closed space. The result is a more complex and fragmented region, with multiple trouble spots and sources of conflict.

WEAK STATES

Weak states are the most dangerous element of instability and the most likely source of new trouble spots in the decades to come. In particular, the new states of the Balkans and the former Soviet Union, especially along the southern tier, are vulnerable. They have inherited

Sherman W. Garnett is the dean of James Madison College at Michigan State University (East Lansing, Michigan). The author would like to thank Ann Kroll and Agnieszka Ostrowska for their research assistance on this essay.

the ills that come from large-scale social and economic disruption and past socialist economic practices: poverty, the spread of AIDs and other infectious diseases, pollution, state inefficiency, and corruption. They face simultaneously the challenges of establishing and maintaining sovereignty, reforming political and economic systems rooted in a Soviet or socialist past, creating a stable security environment, and responding to complex geopolitical and global trends.

Several factors are key to their enduring weakness:

- CIVIL STRIFE AND WIDESPREAD VIOLENCE. Bosnia, Moldova, Tajikistan, Azerbaijan, and Georgia have confronted ongoing or imminent violence since the moment of independence. These states still face deep divisions or even separatist entities on their territories. Violence is a political habit that is difficult to extinguish.
- LONG-TERM SOCIAL DISLOCATION AND INSTABILITY. *The 2000-2001 World Development Report* shows Albania, Azerbaijan, Georgia, Moldova, Tajikistan, Turkmenistan, and Uzbekistan at per capita income levels that are characteristic of low-income nations. Even Russia still reports that 30 percent of its population lives below the poverty line. Many of these same nations suffer from declining health and social standards. Uzbekistan and Turkmenistan also face swift population growth, thus tipping the balance in society in the next several decades toward the young.
- ETHNIC DIVISIONS. Large minority populations are characteristic of many of the states covered in this report and do not by themselves create weak states. However, ethnic divisions that are unable to play out in an open political system do so by sapping the state of legitimacy and strength. Weak states are, in turn, unable to mediate and contain them. Debilitating ethnic divides of this kind are a continuing factor in Bosnia, Macedonia, Moldova, the Caucasus, and the Fergana Valley in Central Asia.
- CHARACTER OF THE POLITICS OF THE WEAK STATES. The collapse of the old order opened up an unprecedented opportunity for influence and gain. In every state covered by this report, highly competitive political and economic factions emerged to exploit these opportunities. These factions seek to dominate the political office and the complicated processes of resource allocation and privatization. The most successful states have managed to regulate these processes and control the behavior of competing factions. The weakest have not. The politics of weak states are often an extension of this factional battle, with the victor controlling the spoils.

The regimes that result appear in many different guises, from relatively pluralist (Ukraine) to authoritarian (Turkmenistan). Most have restored economic growth, but they have not been able to create effective state institutions capable of making headway on the political and social problems they face. They are best at muddling through.

The authoritarian or paternalistic states—such as Uzbekistan, Kazakhstan, Turkmenistan and Azerbaijan—hide their weakness behind centralized and personalized power. A single strongman exercises control, but control is not the same as strength. They have chased

underground all opposition, risking the radicalization of forces like Islam or workers' movements that should be openly contributing to the strengthening of society. Such a policy invites opposition, when it emerges after long dormancy or suppression, to do so in the streets and with violence. The authoritarian handiwork of these men faces a near-term test, as aging leaders pass from the scene and expose the gaps and weaknesses in their personalized regimes.

This concentration of weak states creates long-term security challenges. The outbreak of factional strife, ethnic violence, or succession struggles could turn a weak state into a failing one. Afghanistan has been a textbook example for two decades, and the impact of its failure has been all too clear since September 11, 2001. Ukraine, Belarus, Georgia, Kazakhstan, and Azerbaijan could exert a powerful negative influence on their neighborhoods by their own internal failings. Unless conditions improve in Ukraine and Belarus, for example, the European Union's planned expansion over the next decade could draw a new dividing line between haves and have-nots, an unappealing prospect but also a potential source of instability in Europe. Needless to say, a sustained period of weakness in Russia will magnify these problems. And relations between Russia and China will be shaped by the internal success and strength of Kazakhstan and its neighbors, either removing or creating a potential bone of contention for Moscow and Beijing.

The weak state is a building block of future trouble. It spawns within itself civil, ethnic, and regional conflicts. It becomes a haven for drug traffickers or terrorists. It lacks the resources to shape its own security environment, inviting by its weakness outside powers and potential rivals to intervene and recreate new regional competitions.

ACTIVE AND DORMANT CONFLICTS

For now, the list of active or imminent conflicts in the region is short. It includes factional strife in Macedonia, continued Chechen resistance to Russia, and the ongoing war against terrorism and its aftermath in Afghanistan. But this list was once much longer and could be again. Over the last decade it would have included conflicts in Abkhazia, Bosnia, Kosovo, Nagorno-Karabakh, South Ossetia, Transnistria, and Tajikistan. These conflicts have been frozen, not resolved, by differing combinations of internal exhaustion, political agreement, and outside interventions.

But the conditions that spawned them remain. The most active program to keep them frozen is in the Balkans, and it came only after years of failure in Bosnia. What has been achieved there is due in no small measure to the West's enormous commitment of military, political, and economic resources. U.S. pressure produced the Dayton accords, and Western aid and engagement keeps that peace. NATO fought its first shooting war with Serbia over Kosovo. NATO forces and Western diplomacy are now attempting to keep ethnic conflict at bay in Macedonia. Few observers believe that the current status quo could survive a Western withdrawal.

Military and political standoffs have happily brought respites in Transnistria, Abkhazia, and Nagorno-Karabakh. The brutal application of Russian military power brought an end to the current phase of the Chechen War, though fierce resistance continues. Russian forces

are a crucial factor in maintaining the ceasefire agreement in Tajikistan. Nowhere in these zones of conflict are there large-scale political and economic progress, ethnic reconciliation, and other basic building blocks of a peace without these outside peacekeepers.

These active and dormant conflicts have enormous strategic significance, for they are a crucial factor in defining the military environment. They are a testing ground for the tactics, strategies, and forces of resistance movements, separatists, and terrorists. In turn, they also shape the forces and doctrines of leading military powers, which must adjust to the demands of these conflicts if they are to intervene. Indeed, these regional conflicts are key factors in both American and Russian military thinking and force planning.

AN UNFINISHED AND DIMINISHED RUSSIA

Russian power, in one form or another, has been the organizing principle in central Eurasia for half a millennium. Now a diminished Russia in an unfinished transition stands in the place of a strong, highly centralized imperial state. The eventual shape of this transition will be decisive both for resolving the security challenges Russia's current weakness creates and determining the role Moscow will want and be able to play in the future.

It is easiest to begin with the facts of Russia's diminished capacity. Economically, Russia's recovery is now gaining momentum after the 1998 financial crisis, but this recovery must still compensate for the almost 40-percent drop in GDP from 1992 to 1998. Per capita GDP indicates Russia's place in the world is still somewhere alongside Thailand and not among the major powers. Moreover, the state's monopoly over the mobilization of economic resources has been lost, and the range of domestic and social demands for government resources (pensions, education, and health care) has drastically expanded.

Politically, the powerful state has given way to a more fragmented but pluralistic political and social life. However, like other states in the region, Russian politics is marred by the wide division between rulers and ruled, corruption, and a fragmentation of state power when it comes to central economic, social, and security tasks. Russian president Vladimir Putin has strained to overcome the worst excesses of the Yeltsin era, raising concerns in the process about his commitment to democratic reform. Yet both he and his closest advisors still believe that such reform will only flourish through a strong and effective state and that what is needed now is more authority, not more checks and balances. It is likely to be some time yet before the outlines of a fixed and stable Russian politics will become clear.

The Russian military is also a diminished asset. Officially reported budget increases—totaling nearly 80 billion rubles from 2000 to 2001—will help. So will deep personnel reductions and leadership changes designed to spur military reform. But Russia simply cannot afford to maintain the lion's share of the Soviet military legacy that it inherited. Nearly a decade-long delay of genuine reform has made the problems of maintaining a stable nuclear deterrent, addressing the looming obsolescence of key conventional systems, and meeting the housing and social needs of its personnel and their families even more acute. The war in Chechnya has diverted scarce military resources, while pressures from regional instability near Russia's borders to so-called "small wars" are likely to continue. Beyond these nearby sources of instability loom countries with long suppressed regional ambitions and growing

modern military capabilities, such as cruise and ballistic missiles and weapons of mass destruction. Indeed, the military dynamism of the rim states of Eurasia is likely to prove a challenge for both Russia and the United States.

Russia's emergence as a weakened state attempting a large-scale transformation has several security implications. The first and most obvious is the weakness itself. The danger of fragmentation of Russia has passed, if it was ever very likely beyond the North Caucasus. Today, the most obvious and persistent security threat from a weakened Russia is the potential leakage of nuclear material, technology, and know-how to states and terrorist groups seeking a shortcut to acquiring nuclear capacity. Moscow, with U.S. assistance, succeeded during the last decade in retaining sole control of the Soviet nuclear arsenal by withdrawing enormous strategic assets from Belarus, Kazakhstan, and Ukraine and tactical forces from forward-based former Soviet units. However, it has not yet consolidated and secured the vast array of technical and military nuclear assets under its control. Weaknesses in the existing command and control system, in military and civilian storage and controls of nuclear materials, and especially in the flow of scientific know-how and personnel place the problem of loose nuclear weapons at the top of the security agenda.

Second, however enfeebled Russia might be as a global actor, it retains significant influence and capabilities near to home. The failure of Russia's attempt to create an integrated community on the territory of the former USSR—the Commonwealth of Independent States—has led to a shift in tactics but not to Moscow's abandonment of its fundamental interests and active engagement around its borders. For the past several years, Russia has placed greater emphasis on strengthening bilateral ties. It has used growing concerns among Central Asian states over the threat of instability and Islamic extremism from Afghanistan to rebuild frayed security ties there. It has fashioned what is nearly an out-and-out alliance with Armenia. And it has retained stationed troops in Tajikistan, Armenia, Moldova, Georgia, and Ukraine. Here Russia's relations to its nearest neighbors and its internal political and economic course are inextricably intertwined.

A more authoritarian Moscow is likely to take an interventionist course and to seek in its control over what is near at hand some compensation for the influence it has lost globally. There are always voices in Moscow who urge integration and even resubordination of some of the new states, as the Duma showed in December in its law on admitting new candidates to the Russian Federation. Moreover, such an interventionist course will doubtless place heavy burdens on both reform efforts at home and genuine and sustained cooperation with the West.

Finally, Russia is not able to be either a strategic partner or a strategic adversary. Even though Presidents Bush and Putin have substantially altered the tone and direction of U.S.-Russian relations since mid-summer 2001, and especially in the aftermath of the September 11 terrorist attacks, Russia's place in the world is still likely to be a modest one. Moscow can no longer afford a global perspective on many issues of importance to the United States, frustrating those who hoped to see U.S.-Soviet global rivalry somehow become U.S.-Russian global cooperation. It is also likely that the Russia to emerge from the current transformation will simply not see eye-to-eye with America on many basic issues. Moscow is suspicious of how the United States will use its status as the sole superpower. It is selling a wide

range of advanced arms and technology to Iran and China. It is skeptical of continued sanctions on Iraq. It continues to share basic nuclear nonproliferation concerns with the United States, but its own vulnerability to a much wider range of more immediate threats makes these concerns far less pressing for it than for Washington. There remain deep differences on strategic issues, especially missile defense. While the two sides strive to do better, prudence dictates that both plan on a much narrower sphere of cooperation than summit statements suggest.

NEW REGIONS, NEW RIVALS

Ironically, the “multipolar world” so admired by former Russian foreign minister Yevgeny Primakov and other Russian statesmen already exists. It is on the territory of the former USSR.⁷ This region has all the characteristics of multipolarity. It lacks a single great power or two bipolar rivals. There are multiple centers of power, with Russia by far the largest state but unable to dominate its neighbors. Uzbekistan and Kazakhstan are vying to become regional centers in their own right. Armenia and Azerbaijan are locked in a long-term stalemate. These regional rivals have solid links to different outside powers: Armenia to Russia and, to a lesser extent, Iran; Azerbaijan to Turkey.

Outside actors, from the European Union to China, exert increasing political, economic, and security influence over portions of this region. But this multipolar world lacks the basic conditions for stability: it is one made up almost entirely of weak states, new regions, new interlocutors, and few established rules of the road. Although the role of military force has diminished in many regions of the world, military power continues to play the role of final arbiter in both internal and external security matters here.

Against this backdrop, efforts to normalize relations among potential rivals make good sense—such as efforts by Russia and China to seek greater involvement from global institutions and to create regional groupings to foster cooperation. To date, Sino-Russian and Russian-Iranian relations have been cordial, with both China and Iran respecting and encouraging Russia’s central security role in the new states that have arisen in the southern tier of the former Soviet Union. Turkey’s initial push for a large role in this vast region has largely faltered. Relations between these former Soviet states and countries like India, Pakistan, and Saudi Arabia have developed and expanded, but with little near-term sense of creating a geopolitical challenge to the status quo.

The United States and NATO have been the most visible outside security actors in the region. Local powers often welcome U.S. and NATO security cooperation, both for its impact on indigenous militaries and for the signal it appears to send of outside support. Such security cooperation regularly draws the suspicion and even the ire of Moscow and Beijing. However, until September 11 brought American troops to Uzbekistan, there was little in the U.S. and NATO programs to suggest a serious effort to take on sponsorship of

⁷ Similar processes are also at work in the former Yugoslavia, but the potential for major power rivalry is much less there as long as the West, through NATO and the European Union, takes on primary responsibility for managing regional conflicts.

local regimes or management of local conflicts. It still is unlikely that the United States intends these deployments to suggest such a long-term role.

Despite the success to date in dampening the prospects of new regional rivalries, the internal trends that erode stability within the region and the multiple external actors now engaged in the region make it difficult to dismiss out of hand concerns that such rivalries will reappear. The conflicts of interest among sovereign actors and the tendency for imbalance of power over time to cause war are some of the oldest problems in international relations. Their relevance to this region should not be overlooked.

OTHER SECURITY THREATS

Terrorism, narcotics trafficking and organized crime pose a new set of dangers in contemporary international relations. These dangers go far beyond the age-old romance of brigands or smugglers, as drug traffickers or terrorists acquire modern conventional weapons or perhaps even chemical and biological agents. U.S. military deployments to Uzbekistan and Afghanistan demonstrate both American interests in and commitment to addressing the problem of terrorism, though the conditions that support it in Central Asia and the Caucasus will endure long after the Taliban are forgotten.

Much has been written about the Balkans and the post-Soviet space as centers of organized crime and drug smuggling. Weak states make fine hideouts or headquarters. Corrupt regimes partake in illegal trafficking or take a cut from it. The end of the war in Afghanistan will doubtless bring the poppy growers back to the fields. The weakness of local law enforcement and the limited reach of central institutions create weak links in international cooperation. The flow of drugs, prostitutes, illegal immigrants, and stolen property continues from Central Asia, Russia, Ukraine, and the Balkans. Legitimate European concerns about border security are likely to create great pressure for a stringent control regime, one that could potentially disrupt existing and beneficial links between what should eventually be the eastern edge of an expanded European Union and the states of the former USSR. These threats of crime, terrorism, and uncontrolled flow of refugees will create the greatest challenges to the free flow of ideas, people, and goods—not ideological differences or the balance of military forces.

A range of environmental challenges exists throughout the former Soviet Union and East Central Europe. The drying up of the Aral Sea and the ground water pollution from the run-off of decades of cotton production in Uzbekistan are obvious examples from Central Asia. The contamination from Soviet nuclear and other military sites is a common legacy throughout much of the former Soviet Union and East Central Europe. Some may well reach a level beyond human health risk to pose genuine security challenges to states in and outside the region. Candidates for such issues include the competition for water in Central Asia; the degradation of chemical, biological, or nuclear weapons storage sites; and the unchecked spread of infectious diseases.

NOT TOO REMOTE FOR CONCERN

In contrast to the bipolar world, the security environment now forming in the Balkans and the former USSR seems to be the work of a number of lesser but no less malevolent spirits.

These spirits have far less power to wreak wholesale destruction than their bipolar predecessors, but they work tirelessly and scatter conflict and misery far and wide. This environment is also more fluid than its predecessor. The trends now at work are deep but not fixed. There is still time for internal reform, regional statesmanship, and wise intervention to fashion a better future.

For the West to play a constructive role in that future, it has to see the security threats there with different eyes. The Western analytical framework still borrows consciously and unconsciously from the old world of bipolar confrontation, a world defined by robust U.S. and Soviet power. By contrast, the greatest dangers in the region look small and arise from weakness. Our rivals are poorly armed, and many are not really armies at all. Yet especially after September 11, they can no longer be dismissed as too remote for concern. A careful and sympathetic analysis of these dangers is the best intellectual defense against false confidence in the preponderance of Western and especially American power. For the forces now shaping the security environment of the Balkans and Eurasia as a whole regard this preponderance with indifference or disdain.

Advancing Into Europe? The Contrasting Goals of Post-Communist Countries

Richard Rose

A half generation after the fall of the Berlin Wall, it is facing backward to describe countries as in transition from Communism. Instead, we should ask: Where have they got to? And where are they heading? The answers depend on where you look. To lump all post-Communist states together is no more sensible than putting the United States, Canada, Brazil and Chile together because they are all in the Western Hemisphere. In terms of freedom and democracy, there is a division between Central and Eastern European countries and the successor states of the Soviet Union. There are also big differences between post-Soviet states.

Ten countries of Central and Eastern Europe—Bulgaria, the Czech Republic, Estonia, Hungary, Latvia, Lithuania, Poland, Romania, Slovakia, and Slovenia—are negotiating entry to the European Union. This is palpable evidence of their democratic credentials, for the Brussels-based organization is much more than a single market and currency. Its 15 Western European member states will only consider an application for membership from a country if most citizens there enjoy basic freedoms and elect their government democratically. In its annual *Freedom in the World* study, Freedom House classifies eight Central and Eastern European countries as at the same level of freedom as Britain (the Czech Republic, Estonia, Hungary, Latvia, Lithuania, Poland, Slovakia, and Slovenia); Romania as on a par with Greece; and Bulgaria as just as free as India or Mexico.

Among the twelve successor states of the Soviet Union, there is a big divergence between countries where the goal is *not* to become a European-style democracy and countries

Richard Rose is the director of the Centre for the Study of Public Policy at the University of Strathclyde, Glasgow, and the initiator of Barometer surveys in new democracies. His latest book is Elections Without Order: Russia's Challenge to Vladimir Putin (Cambridge University Press), coauthored with Neil Munro.

where achievements are ambiguous. Saparmurat Niyazov, the president of Turkmenistan, is not failing to democratize but is succeeding in establishing a dictatorship without the rule of law. In Belarus, Alyaksandr Lukashenka retained power in September 2001 in an unfree and unfair election. Freedom House classifies both countries, plus Uzbekistan, Tajikistan, Kazakhstan, and Kyrgyzstan, as “Not Free.” The other six post-Soviet states are classified as “Partly Free.”

The Russian Federation illustrates both the good and bad side of post-Soviet status. It is now an electoral democracy, for it has held a series of competitive elections and changed presidents. However, it does not guarantee the rule of law, for the legacy of the Yeltsin years is a state at least as corrupt as its Communist predecessor. While most Russians enjoy much greater freedom than before, both Russian and Chechen residents of the Chechen region of the country have been subject to insurgent actions and military bombardments inconsistent with domestic order. Media outlets that are critical of President Vladimir Putin have been taken over by supporters of the Kremlin. From the point of view of President Putin, Russia is not lagging behind its Central and Eastern European neighbors; it is seeking to follow its own traditions, which he interprets as giving primacy to a strong state. In Western societies, a strong state can also be a rule-of-law state, but in Russia the opposite has been the case.

Before the Iron Curtain fell, there were two ways to determine the direction Communist countries were moving: you could take official statements at face value or read between the lines and rely on dissidents and refugees. Today, governments in the region depend less on Marx and more on campaign rhetoric when pronouncing goals. And there is an alternative to believing everything that politicians say: it is to ask people what they think of the transformation of their political system, using the normal social science method of a nationwide random sample of public opinion.

The New Europe Barometer (NEB) does just that. Since 1991 the University of Strathclyde Centre for the Study of Public Policy has been undertaking nationwide representative sample surveys of post-Communist countries of Central and Eastern Europe and the former Soviet Union. The survey data reported here come from assessments conducted in autumn 2001 of the ten Central and Eastern European countries negotiating entry to the European Union and the tenth New Russia Barometer (NRB) survey conducted in June and July 2001. Together, the eleven surveys interviewed a total of 13,010 persons (for details, visit www.cspp.strath.ac.uk).

DEMOCRACY SUPPORTED, UNDEMOCRATIC ALTERNATIVES REJECTED

The collapse of Communist regimes gave hundreds of millions of people freedom from the state. Barometer surveys ask people how their current conditions compare with what they were under the old regime in terms of being free to say what one thinks, to decide for oneself about religion, to join any organization one wants, and to decide whether or not to participate in politics. In Communist times, individuals did not enjoy these negative freedoms from the state because the regimes forced them to join organizations and take part in compulsory and unfree elections; they also told people what to say. Sizable majorities in all eleven countries surveyed say that they feel freer now than before. For example, 87 percent

of Russians feel freer to decide for themselves about religious matters; 81 percent feel freer to decide whether or not to participate in politics; 79 percent say they feel freer than before to choose what organizations they belong to, if any; and 78 percent say they feel freer than before to say what they think. Equally large numbers of Central and Eastern Europeans feel the same.

Although individuals are free to ignore politicians, a need for government remains. By definition, every adult in a post-Communist country has now lived under two very different political regimes. Therefore, Barometer surveys ask respondents to evaluate both the former Communist regime and the current system that boasts elections and many parties. They can rate each regime on a “heaven/hell” scale that runs from absolute satisfaction to absolute dissatisfaction.

Within every country there is a substantial division of opinion about how good or bad the old regime was. For Russians, the Communist state was part of the natural order of things—something that they had known all their lives—and their country was the undoubted military leader in the region. Therefore, 72 percent speak positively about the regime as it was before (see Table 1). In Central and Eastern Europe, there are big differences of opinion, ranging from the most liberal of the old regimes, like Hungary, where more than two-thirds are positive, to the Czech Republic, where less than a third are positive.

TABLE 1. ATTITUDES TOWARD OLD AND NEW REGIMES AND THE FUTURE

(% positive)	Old Regime	Current System	Future
Czech Republic	31	76	83
Slovenia	64	75	73
Hungary	68	76	87
Estonia	61	69	81
Poland	61	66	77
Bulgaria	57	59	58
Latvia	63	53	74
Romania	55	50	62
Lithuania	54	46	54
Slovakia	61	39	49
(New Europe mean)	(57)	(61)	(68)
Russia	72	47	62

Source: Centre for the Study of Public Policy New Europe Barometer 2001 and New Russia Barometer 2001. “Future” refers to the evaluation of the system of government as it will be in five years.

When asked about the current regime, the proportion of Central and Eastern Europeans who view it in positive terms tends to rise. Two-thirds or more are positive about the new regimes in the Czech Republic, Estonia, Hungary, Poland, and Slovenia. In Slovakia and Lithuania, less than half are positive. Some Slovaks remain dissatisfied with the break-up of Czechoslovakia, and others are unhappy with the way the country has been governed since independence. In Lithuania, which lacks the divisions between Baltic citizens and

Russian noncitizens found in Latvia and Estonia, most respondents are unhappy with a system that has been badly run by their fellow Lithuanians. In the second year of government under Vladimir Putin, a greater number of Russians are now positive about their new regime, but they are still in a minority.

In almost every country, a majority faces the political future with optimism. When asked what they expect their regime to be like in five years' time, an average of 68 percent of CEE respondents give a positive answer, and 62 percent of Russians. Optimism is highest in the Czech Republic, Estonia, Hungary, and Poland, where four-fifths or more are positive. In the two countries where the future is viewed least optimistically, clear majorities remain positive, and the small downward movement in opinion is not statistically significant.

In seeking popular support, new democracies compete with undemocratic alternatives. By definition, every post-Communist adult has lived under at least one undemocratic regime, and older citizens have lived under two or even three types of undemocratic rule. Everywhere, freedom has been accompanied by economic costs, consistent with the textbook economic dictum that there is no such thing as a free lunch.

The costs came first, for the transformation of a nonmarket command economy into a market economy was a big shock. In the first few years, official economies contracted and prices soared. In CEE countries, the adaptation to a market economy began quickly and benefits began to flow, though not to all households. But the shock of economic transformation leaves psychological scars, and particularly in Russia the economy has yet to recover.

Barometer surveys ask people if they think their country would be better governed if the current system were replaced by any of three all-too-familiar alternatives: a return to the Communist regime, military rule, or a dictatorship (see Table 2). In Central and Eastern Europe more than four-fifths on average reject a return to Communist rule. Where state boundaries as well as political systems have changed, the minority wanting to go back to a regime that was multinational as well as Communist is larger; that is, in Slovakia and Slovenia.

TABLE 2. ENDORSEMENT OF UNDEMOCRATIC ALTERNATIVES

	(% regarding as better) Communist	Military	Dictator
Slovakia	30	3	25
Bulgaria	27	132	28
Slovenia	23	6	27
Poland	23	6	33
Czech Republic	18	1	13
Romania	19	14	32
Hungary	17	2	17
Lithuania	14	5	40
Estonia	8	2	40
Latvia	7	4	38
(New Europe mean)	(18)	(6)	(29)
Russia	47	15	31

Source: Centre for the Study of Public Policy New Europe Barometer 2001 and New Russia Barometer 2001.

In evaluating the Communist past, less than one-third of Central and Eastern Europeans who make a positive judgment of that period would actually want to go back to a one-party state. For example, while two-thirds of Hungarians are positive about their old, relatively unrepressive regime, only one-sixth would want to back to it. In Russia less than half would want to do so. Although many politicians who were active in the old Communist Party remain active in politics today, they have shown that they are opportunists, not Marxists, abandoning Communist loyalties and offering voters what they want, namely, an alternative to more market-oriented policies. Those Communists who remain more closely identified with the old system, as in Russia, do not win elections.

In Central and Eastern Europe, anti-Communist and anti-Russian sentiments are often expressions of national values and traditions. Between the two world wars these traditions often led to rule by a strong man or a military dictator. Communists had a simple method for establishing civilian control of the military: generals suspected of disloyalty were stripped of their rank, sent to the gulag, or shot. In Warsaw Pact countries, the leaders of national armies were not expected to be loyal to their national government; their commands came from Moscow. Given this, it is not surprising that 95 percent reject the idea of the army taking over government, and in Russia five-sixths are against the military becoming involved in politics.

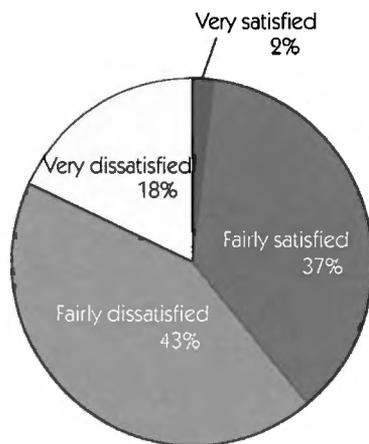
While majorities everywhere reject getting rid of an elected parliament and letting a strong leader decide everything, in many countries the minority favoring a dictatorship is substantial, rising above one-third in each of the three Baltic states. Rejection of dictatorship is highest in the Czech Republic and Hungary, where less than one-sixth favor rule by a strong man. In Romania, where Nicolae Ceausescu combined the worst traditions of Balkan despotism and Stalinism, more than two-thirds reject dictatorship. Even though (or because) Russians have been subject to one-man or one-party rule for a lifetime, more than two-thirds are also likely to reject dictatorship.

A decade of living with a system of government that is democratic in form but often ineffective has made four-fifths careful to avoid extremes in judging the appeal of democracy. When the New Europe Barometer asks people whether they are satisfied or dissatisfied with the way democracy is working in their country, only 2 percent say they are very satisfied, and 18 percent are very dissatisfied (see Figure 1). In the Czech Republic and in Slovenia an absolute majority express themselves as fairly satisfied, while less than one-third in Bulgaria and Romania gives a positive answer. In the eight countries where a majority is dissatisfied, the largest group consists of those who are fairly dissatisfied rather than extremely negative.

Post-Communist citizens often have good reason to be critical, for the reforms needed to deal with the turbulence of transformation are great. European Union officials make this point as well when discussing with CEE governments hundreds of detailed administrative and legal standards that must be met before they are admitted to the EU. In showing dissatisfaction with their government, citizens are exercising a democratic right to say what they think even when it is critical of government. It is also a right that is often exercised in the established democracies of Europe and the United States, when voters are disappointed by the actions of what their elected government.

FIGURE 1. MOST PEOPLE GIVE ONE OR TWO CHEERS FOR DEMOCRACY
(Average of responses in 10 CEE countries)

Overall satisfaction with the way democracy works in this country



Source: Centre for the Study of Public Policy New Europe Barometer 2001.

In Russia a prior question arises: Is the country a democracy? By the simplest of electoral standards, Russia appears to be so, for it conducts substantially free and competitive ballots. But Freedom House's *Freedom in the World* survey classifies the country as only "Partly Free" because of substantial derogations of political rights and civil liberties. The New Russia Barometer asks the country's citizens where they would place the present system of rule on a ten-point scale ranging from complete dictatorship to complete democracy. The median group, 34 percent, place it half-way between these two end points, a rating consistent with Freedom House's "Partly Free" description. A total of 42 percent rate the new regime as more democratic than a dictatorship, while 24 percent see the Russian Federation as closer to a dictatorship.

RULE OF LAW IS THE PROBLEM

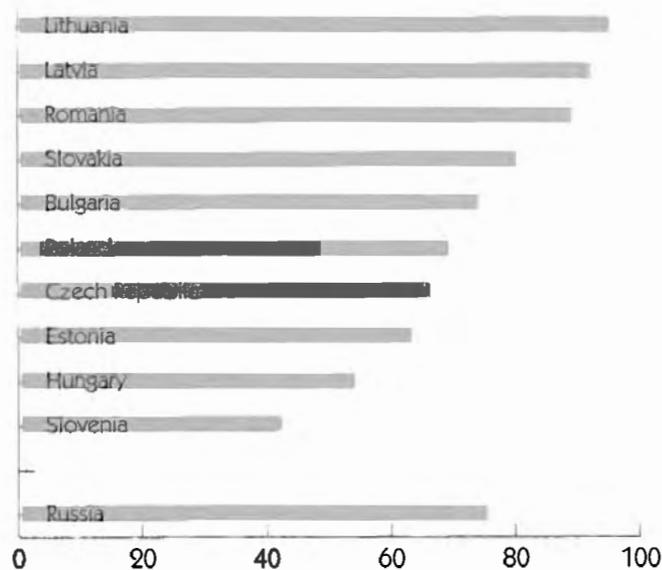
The peoples of Central and Eastern Europe have learned the hard way to value the rule of law, for their history is that of repression and corruption, as illustrated by Janine Wedel's studies of Poland under martial law in the 1980s. And Russians have a saying: The law is like a door in the middle of the field. You can go through it if you want, but you don't have to.

The repudiation of Communist rule and the introduction of competitive elections show that political repression is no longer a cause for anxiety among the majority. However, the carryover of ways of conducting government business under Communism and the new opportunities for wealth created by privatization and the market have made corruption a major threat to the rule of law in CEE countries. Although there is a correlation between a government being popularly elected and being honest, the relationship is not consistently

strong. For example, among the ten CEE countries currently negotiating membership in the European Union, the integrity of Estonia is ranked at the same level as Italy. And Hungary, Slovenia, and Lithuania have better ratings on Transparency International's Corruption Perceptions Index than Greece, the EU member with the lowest rating. The opposite is also true: integrity can be found without democracy. Transparency International ranks Singapore among the five countries with the least corruption in the world, while Russia is reckoned as just as corrupt as Pakistan. However, Freedom House classifies both Singapore and Russia as "Partly Free," because of their restrictions on political and civil liberties.

When asked how widespread is corruption among public officials, an average of 73 percent regard most or almost all public officials as taking bribes and dispensing favors (see Figure 2). The perception of corruption is highest in Lithuania and Latvia, and it cannot be blamed on the presence of large numbers of Russians. Indeed, the percentages perceiving corruption are larger in these countries than in the Russian Federation and in Estonia, which has a large Russian minority. In Slovenia, a majority rejects the idea that most officials are corrupt, and in Hungary almost half do so. In New Europe Barometer countries, only 28 percent trust the police; 25 percent trust the courts. These figures reflect popular suspicions that in some cases the police may be in league with crime rather than fighting it.

FIGURE 2 . CORRUPTION AND BRIBE-TAKING SEEN AS WIDESPREAD
(% thinking most or almost all public officials take bribes, are corrupt)



Source: Centre for the Study of Public Policy New Europe Barometer 2001 and New Russia Barometer 2001.

Violations of the rule of law shift from being media headlines to immediate problems when they influence the actions ordinary people have to take to get things done by government. To

see how people expect to cope with public officials, the New Europe Barometer asks what people would do if they needed a government permit and instead of being given it were told to be patient and wait. Only 23 percent think that officials would respond promptly without prodding and 18 percent that prodding would result in action. Two-fifths are ready to break the law themselves to get action: 35 percent recommend bribery or using connections and 6 percent suggest just doing what you want anyway. The remainder believe that nothing can be done to get public officials to do their job in response to requests from citizens.

Russia is an extreme example of the absence of the rule of law. Since the country is rich in oil, gas, diamonds, gold, and other metals, the rewards of *nomenklatura* privatization and bribing officials to secure tax exemptions are very great. Ordinary Russians see the law as selectively enforced. When the New Russia Barometer asks whether the courts will punish those who commit street robberies, just over half think this is the case. However, only 28 percent think the courts will punish businessmen and women who evade taxes, and only 20 percent think the courts will punish public officials who take bribes.

Russians are aware of the problem, and they do not like it. Public opinion surveys consistently show a sizable popular demand for Russia to become a normal society in which the government is honest and in which dishonest people go to jail rather than to their second home in Switzerland, London, or New York. Confronted with this situation, President Vladimir Putin has made an ambiguous pledge to establish the “dictatorship of law.”

TABLE 3. TRUST IN POLITICAL INSTITUTIONS

(% trusting)	Parliament	Parties	Courts	Police
Bulgaria	26	25	24	31
Czech Republic	20	22	34	40
Poland	20	8	25	36
Hungary	16	14	36	29
Romania	13	9	19	24
Slovenia	10	8	26	30
Estonia	10	8	26	19
Lithuania	9	8	16	26
Latvia	8	7	24	27
Slovakia	9	9	15	21
(New Europe mean)	(14)	(12)	(25)	(28)
Russia	7	7	23	13

Source: Centre for the Study of Public Policy New Europe Barometer 2001 and New Russia Barometer 2001. Trust is indicated by persons who give institutions a rating of 4 to 7 on a seven-point scale.

Corruption in government breeds popular distrust of public institutions. Although a larger percentage of people vote in national elections in Central and Eastern Europe than in the United States, most voters do not trust the politicians and parties for whom they

cast their ballots (see Table 3). Trust in political parties is lower than in any other public institution. Across the CEE region, only one in eight trust parties, and in Bulgaria, where the trusting minority is least low, parties have their roots in a patronage-dominated Communist system. The only difference between countries lies in the extent of distrust. Only one in seven positively express trust in their Members of Parliament. Here again trust is least low in Bulgaria. Although CEE standards of trust in institutions are generally lower, those of Russians are lower still: only 7 percent trust Parliament, and only 7 percent trust parties. Boris Yeltsin and Vladimir Putin have behaved consistently with this view, for both ran as independents and won presidential election.

IMPLICATIONS: LOCKING IN AND LOCKING OUT

Whether or not the post-Communist regimes can be considered democracies, they can hardly be described as new. Contrary to forecasters of doom, the Central and Eastern European regimes did not revert to undemocratic forms of rule that were normal there before World War II. In the past decade they have persisted, and there is now widespread acceptance among political elites that the new system is “the only game in town” and that the way to power is to win elections rather than abolish them. The public’s acceptance of this fact and its rejection of undemocratic alternatives add to the locking in of the status quo.

In the democratic regimes of Central and Eastern Europe, a majority of citizens are fairly dissatisfied with the way democracy is working, but they also accept the view that Winston Churchill expressed in 1947, two years after the devastation of World War II. He told the British House of Commons, “No one pretends that democracy is perfect or all wise. Indeed, it has been said that democracy is the worst form of government, except all those other forms that have been tried from time to time.”

There remain places in Central and Eastern Europe where the stability of the regime is uncertain, including Albania, Bosnia-Herzegovina, Kosovo, and Macedonia. The surprising fact is that more destabilization has not occurred, given the existence of large ethnic minorities in Bulgaria, Estonia, Latvia, Romania, and Slovakia. The great majority of CEE citizens support their form of government through the ballot box—no small achievement when one looks at their twentieth century history.

The locking in of regimes established a decade ago has contrasting implications in the former Soviet Union. These successor states are locked out of Europe. To join the European Union, countries must be democratic, and not just partly free. Geography and culture can explain why post-Soviet Central Asian states are non-European as well as non-democratic. But Belarus, which borders Poland, is equally undemocratic, and Ukraine, Moldova, and Russia also border applicant countries of the EU. To be considered for membership, these countries must apply the rule of law to economic affairs as well as to political rights. But there are strong domestic pressures to maintain a status quo that favors existing beneficiaries of the post-Communist redistribution of power and wealth and to avoid external scrutiny. The spectre haunting citizens in the partly free and often corrupt successor states of the Soviet Union is persistence along a path that leads nowhere.

Exclusion from Europe, however, does not mean exclusion from world affairs. Democratic governance is not a condition for becoming a member of the United Nations or receiving money from the World Bank and the International Monetary Fund. American concern with homeland security since the terrorist attacks of September 11 gives Washington a heightened interest in relations with the nondemocratic, post-Soviet countries that flank Afghanistan. Likewise, President Putin has shown a readiness to link America's antiterrorist war with Russia's own internal war in Chechnya.

As the Central and Eastern European countries move from negotiations to full membership in the European Union, democratic practices should gain strength. The first group of new entrants will participate in the governing councils of the EU and receive the economic benefits of membership. Countries that remain on the waiting list for admission will stay in negotiations in which Brussels will offer technical assistance and financial grants to improve the quality of governance and fight corruption. Inevitably, nationalists will attack externally imposed conditions as threats to their sovereignty and national traditions. Such criticisms are also heard in member states such as Britain and France. But as long as free and fair elections are held, citizens will be able to decide whether their long-term goals are better served by advancing toward standards that the fifteen member-states of the EU promote or moving in the direction of the successor states of the Soviet Union.

ALBANIA



Polity: Presidential-parliamentary democracy

Economy: Capitalist-statist (transitional)

Population: 3,400,000

GNI per capita at PPP \$ (2000): 3,600

Capital: Tirana

Ethnic Groups: Albanian (95 percent), Greek (3 percent), other, including Roma, Serb, and Bulgarian (2 percent)

Size of private sector as % of GDP (mid-2001): 75

The scores and ratings for this country reflect the consensus of Freedom House, its academic advisors, and the author of this report. The opinions expressed in this report are those of the author.

↓↓ and ↑↑ indicate score changes of .25 or more. ↓ and ↑ indicate changes of less than .25.

NATIONS IN TRANSIT SCORES

	1997	1998	1999-2000	2001	2002
Democratization	4.55	↓ 4.75	↑↑ 4.38	↑↑ 4.13	↑ 3.94
Rule of Law	na	na	5.50	↑↑ 5.00	↑ 4.88
Economic Liberalization	4.00	↓↓ 4.50	4.50	↑↑ 4.17	↑↑ 3.75

KEY ANNUAL INDICATORS

	1995	1996	1997	1998	1999	2000	2001
GDP per capita (\$)	760.5	816.7	681.0	903.1	1,077.6	1,094.4	1,227.7
Real GDP growth (% change)	13.3	9.1	-7.0	8.0	7.3	7.8	7.0
Inflation rate	7.8	12.7	33.2	20.6	0.4	0.1	3.5
Exports (\$ millions)	205.0	229.0	167.0	205.0	275.0	256.0	276.0
Imports (\$ millions)	680.0	921.0	685.0	826.0	1,121.0	1,070.0	1,188.0
Foreign Direct Investment (\$ millions)	89.0	97.0	42.0	45.0	51.0	141.0	207.0
Unemployment rate	13.9	9.3	14.9	17.8	18.4	16.8	14.8
Life Expectancy (years)	71.3	71.7	71.7	na	74.0	74.0	72.0

INTRODUCTION

The Republic of Albania continues to work under difficult conditions toward the consolidation of democratic institutions. The 2001 parliamentary elections were characterized by calm during the campaign and initial round of balloting, but subsequent rounds decayed substantially as numerous election protests were filed and appealed all the way to the Constitutional Court. The atmosphere of the election was charged in part by the upcoming presidential election in 2002. Although Parliament is responsible for electing the president, its own election results failed to give any single party the majority that is constitutionally required to select the new executive outright. Improved registration procedures and administrative capacity continued to expand the base of eligible registered voters. Nevertheless, voter turnout was modest and perhaps reflected increased apathy.

During the period covered by this report, civil society benefited from long-awaited legislative reform, including a series of changes that established a framework for registering nongovernmental organizations. Although NGOs did participate in this legislative initiative, their influence on the policy-making process remains relatively limited in general. Civil society groups depend to a large extent on foreign assistance, and the media consult NGO experts sparingly.

The Albanian public continues to shift toward electronic media as their primary source of news and information because newspapers remain largely partisan political mouthpieces. In May 2000, Albania Radio and Television (RTSH) became an independent public entity; all other electronic media outlets are now private. The legal infrastructure for electronic media continues to improve, and some opposition-oriented stations have been licensed officially. Attacks on the media, while decreasing, persist nonetheless, and the ability of the media to represent itself is limited.

Governance and public administration continue to benefit from a solid Constitution and an increasingly sophisticated legal framework, and under this framework the decentralization of authority to local governing institutions has progressed significantly. In particular, the framework clarifies the right of local governments to own and administer property. Several legal decisions on the protection of state secrets were issued during the reporting period, including procedures for declassifying information. The impact of these initiatives on transparency remains unclear at this juncture. The fledgling office of the ombudsman is now fully operational, and the number of claims it receives has been increasing steadily. Overall administrative capacity remains modest, and civil service reform continues to be slow.

The government generally respects the panoply of modern human rights that the Constitution sets forth, including private property ownership, and the country's multitiered judicial system and the Constitutional Court are taking an increasingly active role in their enforcement. Dur-

ing the reporting period, the judicial and legal organs clashed and received substantial scrutiny for their respective performances. The judicial system itself, while tested, demonstrated its capacity to address larger institutional conflict in the appropriate venues. The system as a whole continues to labor without adequate resources, but several needed legislative initiatives emerged to address lingering problems. Nevertheless, public confidence in the judicial system remains low.

The Albanian public continues to view corruption as a problem that is endemic at all levels of government. It also views doctors, judges, tax officers, and customs officials as generally corrupt. In addition, a public opinion poll taken in 2001 indicated that the public considers corruption to be a central factor affecting the socioeconomic well-being of the country. In 2000, a World Bank study determined that Albania's level of administrative corruption was the highest in Central and Eastern Europe. Under the auspices of the Stability Pact, the Albanian government continues to elaborate plans for addressing corruption, but its efforts thus far have been criticized for lacking specificity and strategic priorities. Although the government also introduced new laws to combat trafficking and money laundering, it has not enforced them effectively.

Despite these challenges, Albania's economy continues to improve, and the International Monetary Fund has commended the country for its overall economic performance. Privatization proceeded in 2001 with notable developments in the telecommunications sector, and tax collection exceeded projections. The government limited the budget deficit to 9.2 percent while increasing social spending, and it made visible progress on several long-standing infrastructure projects. Still, Albania remains one of the poorest countries in Europe and continues to struggle with the flight of its nationals to countries that offer more favorable economic conditions.

DEMOCRATIZATION

Political Process

1997	1998	1999-2000	2001	2002
4.25	4.50	4.25	4.00	3.75

Since the civil instability of 1997, Albania has held presidential, parliamentary, and local elections. Each transition was marked by decreasing incidents of violence and efforts to improve the electoral process, thus indicating an overall increase in political stability. However, continued irregularities in the election process, hostility between the government and the opposition, and a high level of voter apathy show that there is still room for improvement.

The most recent parliamentary elections took place in June and July 2001. Owing to irregularities, voting extended to five rounds and resulted in the longest election in Albania's post-Communist history. Although the international community deemed the elections acceptable, the experience

highlighted a number of structural weaknesses and led to calls for further review of the country's electoral framework. For example, in its preliminary findings the OSCE noted that the elections "mark[ed] progress over past elections in the areas of campaign conduct, media and election administration." However, it also observed that "[t]he election process has been protracted, litigious and uncertain."

Albania's 1998 Constitution calls for a 140-seat unicameral Parliament, down from the 155-member Parliament that was elected in 1997. In the 2001 elections, directly elected candidates filled 100 seats. The remaining 40 seats were divided proportionally among party lists, based on the percentage of votes each party received in the first round of balloting. For a party's list to qualify, the party had to receive no less than 2.5 percent of the votes in the first round. Party coalitions had to receive no less than 4 percent. The Socialist Party (SP), which has led the government since 1997, ran without a coalition, won 73 seats, and thereby retained power. Under the leadership of former President Sali Berisha, the Democratic Party (DP) formed the Union for Victory coalition, which included the Legality Movement Party, the National Front Party, the Republican Party, and the Liberal Union. The coalition received 46 seats. The newly formed New Democrat Party (NDP) won 6 seats. Four smaller parties—the Social Democratic Party, the Human Rights Union, the Agrarian Party, and the Democratic Alliance, all former members of the SP-led coalition—also met the 2.5 percent threshold and earned 13 seats among them. The remaining two seats went to directly elected, independent candidates.

Albania's mixed proportional system, which is outlined in the 1998 Constitution, proved to be somewhat problematic in practice. As the election approached, it became apparent that some so-called independent candidates actually had links to political parties. Put simply, the main parties had realized that they could maximize their representation in Parliament by running candidates as independents. On June 12, 2001, 10 parties filed complaints with the Central Election Committee (CEC), alleging that many independent candidates were actually allied with the SP and the DP. In response, the CEC issued regulations on the qualifications for an independent candidacy and announced that it would recognize 109 of the 114 independent candidates as affiliated with a party.

Prior to the 2001 elections, there were three party groupings in power. The governing coalition, led by the SP, also included the Human Rights Union, the Democratic Alliance Party, the Social Democratic Party, the Agrarian Party, and the National Unity Party. The primary opposition coalition consisted of the DP, led by Sali Berisha, along with the Legality Party, the Christian Democrats, the Democratic Union Party, and the Social Democratic Union Party. The third grouping, a nonaligned center-right coalition known as the United Right, consisted of the Republican Party, the National Front Party, the Right Democratic Party, and the Movement for Democracy Party.

After the 2001 elections, the SP named Ilir Meta as prime minister. Meta had first become prime minister in the fall of 1999, when he replaced Pandeli Majko. The decision to keep Meta as prime minister was made despite continuing tensions between him and SP leader Fatos Nano, who supported the candidacy of former Finance Minister Arben Malaj.

These elections were particularly significant given that Parliament elects the president of the republic and that the next presidential elections are scheduled for 2002. According to the 1998 Constitution, the president is elected with a three-fifths majority vote of Parliament to serve a five-year term and is eligible for reelection only once. A party must control 84 seats in order to elect the president outright. Since the SP fell short of this goal in 2001, it will have to forge an alliance in order to name the new president in 2002. If Parliament fails to reach a majority vote after five attempts, the body is dissolved and new elections are held within 60 days. On July 24, 1997, the date of the last presidential election, the SP-controlled Parliament elected Rexhep Meidani, an independent-minded SP member.

Since the advent of democracy in 1990, the government has permitted the formation of independent parties, and a variety have been formed since then. For the 2001 election, the CEC registered 38 parties. Article 46 of the 1998 Constitution guarantees the rights of Albanian citizens to organize for "any lawful purpose." However, 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. In February 2000, the government promulgated Law No. 8580, For Political Parties, which detailed new procedures for the organization and registration of political parties. Although there are no legal impediments to the participation of women and minorities in government, women continue to face difficulties in being selected as candidates and achieving leadership positions in political parties. The new Parliament includes only eight women.

Despite the existence of a variety of political parties, the two largest parties, the SP and the DP, have dominated Albania's political arena. However, popular disillusionment with the SP and the DP has led to the growing popularity of a new party, the NDP. The Reform Movement faction of the DP, along with two other parties created by former Democrats, formed the NDP in early 2001. Genc Pollo, former DP deputy chairman, is the party's leader. The NDP portrays itself as a progressive, center-right alternative to the DP, and in the recent parliamentary elections it won 5.2 percent of the vote. The NDP has established itself as a third political force in the country.

The relationship between the SP and the DP is characterized by polarization, a situation exacerbated by the most recent elections. DP participation in the political process frequently consists of protests and threats of boycotts. In the lead-up to the October 2000 local elections, the DP

heavily criticized the election process. It then attempted to boycott the second round of balloting. Nevertheless, most of the DP candidates for municipal posts ignored the party order and remained in the race. Likewise, DP charges of ballot stuffing and other irregularities in the June 2001 elections caused the party chairman, Sali Berisha, to once again threaten to boycott the election results.

Since the 1997 crisis, Albanian authorities have been working to reform the electoral framework, and in May 2000 a new electoral code was promulgated. The code governed the 2000 local elections and the 2001 parliamentary elections. It implemented Article 153 of the Constitution, which established the Central Election Committee as a “permanent organ that prepares, supervises, directs, and verifies all aspects that have to do with elections and referenda and declares their results.” Although the electoral laws governing both national and local elections guarantee multiparty representation on voting commissions, the composition of the CEC has been a very controversial topic. Reviews of the CEC’s performance in the 2000 local elections were mixed, and its actions in the 2001 parliamentary elections have called its efficacy into question.

The institution of the first national computerized voter register allowed nearly all voters to cast their ballots in the 2000 local elections. In May 2001, Parliament amended the 2000 electoral code in an attempt to address lingering issues, including last minute voter registration. The amendment to the electoral code outlined procedures that allow voters to register up to 24 hours prior to the election through local courts. As a result, the number of eligible voters increased from 2,329,639 in October 2000 to 2,449,404.

Despite this increase in eligible voters, the turnout for the 2001 elections remained fairly low. Some observers of Albanian politics believe these figures reflect voter apathy. Fifty-four percent of eligible voters participated in the first round, and 48 percent voted in the second round. These figures mark a downward trend from reported turnout in past elections. Bearing in mind that the maintenance of accurate voter lists has been historically problematic in Albania, 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.

The June 2001 elections highlighted a number of remaining weaknesses in the electoral process, which resulted in a long delay in determining the final composition of Parliament. Complaints to the CEC and the appeals process presented the main problem, and irregularities in a number of districts necessitated multiple rounds of voting. However, the CEC, unclear on its competency in some cases, did not investigate all reported irregularities. In a number of cases that it did investigate, the CEC could not achieve consensus among its members and at times appeared to be

coming under political pressure. As a result of these factors, the parties turned to the courts to resolve electoral questions. By the conclusion of the election, nearly 40 election-related cases had been filed with the Constitutional Court. Nonetheless, the fact that the parties sought redress in the courts rather than through violence or boycotts was a promising development in the Albanian political process.

Civil Society

1997	1998	1999-2000	2001	2002
4.25	4.25	4.00	4.00	3.75

Prior to 2001, civil society in Albania had long struggled with formal recognition under the legal system. The abuse of registration provisions by pyramid scheme operators had effectively halted any normal registration of nongovernmental organizations in the post-1997 period. Following an extended dialogue with the government, Parliament passed several pieces of legislation in 2001, including Law No. 8788, On Nonprofit Organizations; Law No. 8789, On the Registration of Nonprofit Organizations; and amendments to the civil code. The new legislative framework recognizes the validity of nonprofit organizations, provides a basis for organizing and operating nonprofits, and explicitly authorizes the ongoing registration of nonprofit entities. The final adoption of this legislation marked significant progress in the creation of an environment that is conducive to the development of an active civil society.

According to a survey by the International Center for Not-for-Profit Law, the new laws “significantly changed the rules relating to [the] permissibility of economic activities.” NGOs may claim exemptions from profit taxes, and the value-added tax generally does not apply to humanitarian aid. Other taxes, such as those on buildings and agricultural land, do apply. There are no legal restrictions on income generation, membership fees, or other types of fund-raising by NGOs.

There is very little specific information on existing NGOs and even less on their breakdown by sector. NGOs are responsible for registering with the district courts, and the government does not maintain a central registry. The new NGO law should assist in regulating the collection of information on NGOs; however, it will take time to compile precise information. Current estimates on the number of NGOs operating in the country vary from as low as 400 to as high as 800.

The population’s level of involvement in volunteer or philanthropic activities is equally difficult to gauge. Albanian NGOs address and undertake advocacy in a broad spectrum of areas, including the environment, juvenile justice, gender, and other social issues. In 2001, there was a noted increase in the involvement of NGOs on matters related to the Stability Pact, the Growth and Poverty Reduction Strategy, and anticorruption initiatives.

The paucity of information on NGOs is also due to the fact that NGOs remain underdeveloped. They lack organizational capacity and are reliant upon foreign donor funding. In addition, there has been little improvement in relations between NGOs and the media. This situation is due primarily to a lack of responsible reporting on the part of journalists and poor public relations skills on the part of NGOs. In light of these issues, 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 in areas such as developing bylaws and operational procedures, recruiting and training board members, fund-raising, strategic planning, and improving public and media relations. The materials generated for this training exist in the local language.

To the extent possible, given these weaknesses, NGOs have been increasingly included in policy making. The recent passage of the NGO law is a case in point. Civil society representatives were involved in the drafting process, including commenting on and discussing the various drafts with the government. Ultimately, the Ministry of Justice agreed to rework the drafts based on this expert input.

The 1998 Constitution is, in part, responsible for the increase in civil society's access to government. In the section on fundamental rights, it guarantees the rights of Albanian citizens to attend meetings of elected bodies, organize for "any lawful purpose," and petition organs of government. Also, 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 on the abrogation of a law. The government has taken other steps to improve transparency and create opportunities for NGO input. However, in general, interaction between civil society and the government remains limited.

In terms of trade unions, the 1998 Constitution provides for the right to unite freely in labor organizations and gives workers the freedom to strike within some legal boundaries, which may be established to assure the provision of essential social services. In addition, the 1995 labor code sets forth the requirements for unions pertaining to registration, representation of employees' interests in court, the raising of tax-exempt funds, and their right to function without interference from the government, employers, or employer organizations. There are two main trade union groups in Albania: the Confederation of the Trade Unions of Albania (KSSH) and the Union of the Independent Trade Unions of Albania (BSPSH). KSSH records membership at approximately 100,000, while BSPSH numbers its members at approximately 118,000. However, membership in both organizations has been declining. The high level of unemployment in Albania in recent years has reduced the effec-

tiveness of trade unions in terms of their ability to engage in collective bargaining.

Albania has made some progress in educational reforms. In 2001, for the first time in recent history, the government expressed formal approval for the concept of private universities. The government also approved the development of a national education center for evaluating and testing. Nevertheless, professors continue to voice concern that hiring and admissions decisions are politically influenced.

Independent Media

1997	1998	1999-2000	2001	2002
4.75	4.75	4.50	4.25	4.00

In May 2000, Albania Radio and Television (RTSH) became an independent public entity. All other electronic media are private. TVSH is the sole public broadcaster in the country and holds two of the four licenses to broadcast nationally. In November 2000, TV Klan and TV Arberia received the remaining two television licenses. Top Albania Radio also received a national broadcast license. There are currently more than 75 private television channels and 30 private radio channels operating throughout the country at the local level.

In terms of print media, political parties, labor unions, associations, and groups publish their own newspapers and magazines. Approximately 200 different publications are available in the main cities, including daily and weekly newspapers, magazines, and pamphlets. There are nine major, daily independent newspapers. The three largest are *Shekulli*, *Gazeta Shqiptare*, and *Koha Jone. Korrieri*, *DITA*, and *Ballkan* are the three newest independent newspapers. The partisan papers include *Zeri i Popullit* (SP), *Rilindja Demokratike* (DP), *Republika* (Republican Party), *LIRIA* (Movement for Legality), *ORA e Shqiperise* (Demo-Christian Party of Albania), and *Alternativa Social Demokratike* (Social Democratic Party).

The print distribution system is wholly private. Daily newspaper circulation continues to 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. Current daily circulation of newspapers is under 50,000 copies. This figure marks a steady decline over the last three years, from a 1998 figure of 85,000 copies. A recent survey conducted by the Albanian Media Institute shows that 65 percent of the public prefers private electronic media. None of the nation's newspapers are financially viable on their own.

Commercial Internet access providers were licensed and began to offer service in 1998 and 1999. As of 2000, there were seven Internet service providers. 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, the poor telecommunications infrastruc-

ture hinders Internet access. It is estimated that as of 2000, there were only 2,500 Internet users.

The 1998 Constitution enshrines both freedom of the press and the right of the public to access state information, and it explicitly prohibits “[p]rior censorship of a means of communication.” Furthermore, it 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 September 1998, Law No. 8410 completely replaced Law No. 8221 and provided for a politically diverse National Council of Radio and Television to regulate and supervise broadcasting. In November 2000, pursuant to the legal framework, the council reviewed a host of license applications in what was a highly competitive process. Perhaps the most notable feature of this process was that the council issued licenses to stations that have sponsored programming that has been openly critical of the current government.

In 2001, regulation of private media was an active arena. Parliament passed amendments to existing legislation that further defined the authority of the chairman of the National Council of Radio and Television and the allocation of frequencies and that set rates for licenses. In addition, since the formal licensing of the media business, many new media outlets had incurred liabilities under the Albanian fee system, and a number of them had found it impossible to make full payment within the allotted schedule. In response, the government established an installment system for the fledgling media industry that permits radio and television operators to pay off their liabilities for 2000 and 2001 over a period of time.

The legal framework protects private electronic media stations, as well as Albanian Radio and Television, from outside interference and prohibits censorship. Article 61 of the new Law on Electronic Media also prohibits sponsors (advertisers) from interfering with the content and scheduling of programs. In addition, it bans political parties, religious organizations, and state bodies from operating a private radio or television station and restricts any one owner of a company that holds national or television stations in its portfolio to a maximum of 40 percent of the total capital of the company.

Despite legislative restrictions, most media outlets are subsidized by, or otherwise affiliated with, political parties. Party and union newspapers generally espouse their sponsors’ views, and newspapers report politically polarized stories. A recent survey conducted by the Albanian Media Institute showed that 58 percent of the population believes that public television still speaks on behalf of the government.

Although there is a legal foundation for freedom of the press, legal penalties for libeling officials and irresponsible reporting do exist. Law No. 7895, For the Criminal Code, which was enacted in 1995, contains a number of provisions that impose a range of criminal penalties for insulting

or defaming public figures and symbols. Defamation of public officials, the president of the republic, and national symbols can result in penalties ranging from a fine to three years in prison. “Calls for national hatred” and propagating false information may be penalized with a fine or up to five years in prison. At times, the state has applied this law to silence criticism of the government. Journalists and human rights activists are campaigning for libel to become a civil, rather than criminal, offense.

Attacks on journalists, while decreasing, remain a significant obstacle to the development of an independent media. Another impediment is a lack of journalistic responsibility. The performance of the media during the election campaign is one useful means of gauging the level of progress in this area. In comparison with the local elections of 2000, there was slight improvement in media coverage at the outset of the 2001 parliamentary elections. However, media coverage deteriorated after the first round.

The ability of the media to protest incursions into their freedom is limited. There are three main nongovernmental organizations for the media. These are the Albanian Independent Journalists League, the Association of Professional Journalists of Albania, and the League of Albanian Journalists. In general, professional media associations in Albania are fragmented and do not function as an effective voice for reform or the promotion of an independent press.

In its 2001 *Annual Survey of Press Freedom*, Freedom House rated Albania’s media as “Partly Free.” In the period from 1994 to 1996, Albania’s rating was downgraded to “Not Free” owing to the government’s 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	2002
4.75	5.00	4.75	4.25	4.25

Parliament is the chief rule-making organ in Albania. However, although it passes legislation, the majority of the actual drafting takes place in the various ministries. Under the 1998 Constitution, certain organic codes (that is, laws on elections or public functionaries) can be approved or amended only with a vote of three-fifths of all members of Parliament. The president has the right to return legislation for review, but a majority of Parliament can overturn the veto. The 1998 Constitution also restricts the president’s power to issue a discrete list of topics that involve the traditional duties of head of state and constitutional guardian.

In 1998, Parliament passed new rules of parliamentary procedure that provide for greater transparency and public input in the legislative process. Improved procedural guidelines also more clearly define the process for reviewing draft laws and thereby give parliamentary commissions more time

to analyze and amend bills. The new rules make Parliament much more transparent by allowing the public and media to attend plenary sessions and permitting radio and television stations to broadcast them. The public and the media may obtain information on draft laws and parliamentary reports, and NGOs and other interested parties may attend commission meetings. Albania's parliamentary commissions may also hold public hearings to gather input on draft legislation or other issues. In mid-1998, Parliament began to make its two-week schedule widely available to interested parties and the press.

Despite these provisions, there is no consistent or frequent consultation among the public, interested parties, and Parliament. Parliament lacks the appropriate resources and the public lacks sufficient information to undertake an effective consultation process. Proper publication and distribution of laws and regulations has been a consistent problem in post-Communist Albania, and in 2000, a State Publications Office was developed to address the problem. By law, it is responsible for publishing legal information such as High Court decisions and commentaries on all organic codes, legal indexes, and legal reviews. However, due to the limited printing capacity of its equipment and frequent power failures, the office currently publishes only the *Official Gazette*.

In June 1999, Parliament adopted Law No. 8503, On the Right of Information for Official Documents, which allows any person to request official information from the state and obligates the government to make official information public. In 2001, the government issued a number of new rules outlining the state's approach to secret information. These rules describe how one obtains a security clearance and how the state classifies and declassifies information. Specific rules and procedures were promulgated to protect state secrets in industrial zones, computer networks, and electronic communications. It remains to be seen whether this new legislation will be used to restrict access to information or to further define what information is available to the public.

To increase government transparency and accountability, the 1998 Constitution also established a national ombudsman, or people's advocate. This official is explicitly authorized to enforce the public's right to information and is generally empowered 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." In an effort to depoliticize the post, the Constitution forbids the ombudsman from involvement in political activities and provides that he or she be elected by a supermajority, or "a vote of three-fifths of all members of the Assembly."

In February 1999, Parliament passed Law No. 8454, For the People's Advocate, on structuring and implementing the ombudsman's office. Since that time, the government has handed down additional decisions to further clarify the jurisdiction of the people's advocate. The first people's advocate, Ermir Dobjani, was elected in February 2000.

The work of the office of the people's advocate shows continued progress in the implementation of this legislation, and the number of complaints filed with the office increased steadily.

With regard to local government, the 1998 Constitution contains provisions on the establishment of 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 referenda. The creation of autonomous local government structures decentralizes the power of the Albanian state and creates a closer link between citizens and the political structures that govern them. The "Basic Principles" section of the Constitution also enshrines this concept.

In February 1999, Government Decision No. 103 established the National Committee for Local Government Decentralization. In December 1999, Parliament approved the National Strategy for Decentralization and Local Autonomy, and since then Parliament has passed, on schedule, the major framework laws called for under this plan. 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, which implement the constitutional provisions described above. In February 2001, Parliament passed two companion pieces of legislation. The first law establishes the parameters of state ownership of property. The second law establishes the legal framework for managing the transfer of property from the central government to local authorities. In August 2001, the state established the Agency for Inventory of State-Owned Real Estate and Transferring Public Real Estate. The transfer of property to local authorities had long been an obstacle to the decentralization effort in Albania, and resolution of this issue marks significant progress in this regard.

The most recent local government elections took place in October 2000. They were monitored by the OSCE. Although the elections received some criticism regarding transparency in the second round, the international community determined that the elections marked overall progress toward international standards. Moreover, the elections were not followed by widespread dismissals, as has occurred in the past. This continuity should have a positive impact on professionalism and capacity building in local governance.

The Constitution specifically prohibits the national government from issuing unfunded mandates to local authorities. 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." The July 2000 Law on Local Government further outlines funding sources, both national and local. The 2001 budget marked the beginning of the implementation of these fiscal provisions. As a result, local governments continue to suffer from insufficient financial resources. They also lack trained and qualified leaders and civil servants. In June 2000, Government Decision 315 created an Institute of Public

Administration to provide training for civil servants.

In 1999, the government removed approximately 5,000 positions from the public sector payroll. It removed another 3,000 the following year. In addition, progress in reviewing the salary structure has resulted in increased efficiency. A pay raise in July 2000 and the passage of a new Law on Public Service in November 1999 provide the legal framework for staffing and promotions based on merit, rather than on political or personal influence, and have partially addressed retention concerns.

RULE OF LAW

Constitutional, Legislative, and Judicial Framework

1997	1998	1999-2000	2001	2002
4.75	5.25	5.00	4.50	4.50

The Constitution of the Republic of Albania was passed in a national referendum on November 22, 1998. In general, the international community gave Albania high praise for the open and inclusive drafting process. Furthermore, the esteemed Venice Commission of the Council of Europe praised the text itself, stating at the end of parliamentary deliberations that “the draft [Constitution], in particular the human rights chapter, is in conformity with European and international standards.”

Under the new Constitution, a Constitutional Court interprets and enforces the Constitution’s provisions. 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 reelection. The jurisdiction of the Constitutional Court is broadly defined, and individuals are specifically granted the right of petition. However, there is at least one important limit on jurisdiction: The Court does not possess 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 items provided guidelines for the issuance and execution of Court decisions.

In terms of ordinary courts, the 1998 Constitution provides for a three-tier system of district courts, courts of appeals, and a Supreme Court. All judicial decisions must explain how the law applies to the particular set of facts before the court, and decisions of the High Court must be published. In 2000, Parliament passed Law No. 8588, For the Organization and Operation of the Supreme Court of the Republic of Albania, which provides for the composition and structure of the High Court. The Constitution also provides for a High Council of Justice, which, with the approval of the president, selects district and appeals court judges. The president, with the consent of Parliament, selects members of the High Court and its chairman. Judges

enjoy immunity that can be lifted only by the organ that appointed them.

Under the earlier interim constitutional provisions and laws, the executive exerted influence over the High Council of Justice, and the high council conducted judicial disciplinary procedures without regard to basic standards of due process. International human rights reports noted this infringement upon the independence of the judiciary. In December 1997, though, Parliament passed a new Law on the Operation of the High Council that introduced basic due process protections such as the right of appeal to the Supreme Court.

During the winter of 2001, the Constitutional Court and the High Court struggled to define their respective jurisdictional competences. The essence of the conflict revolved around the role of counsel in trials held in absentia. The High Court sought to resolve the issue on the basis of the criminal procedure code, and the Constitutional Court grounded its contrary decision in constitutional due process. In the end, the Constitutional Court issued a scathing decision that charged that the Supreme Court had failed to follow its authoritative pronouncement properly and did so in a manner that “creates a dangerous precedent in institutional relations.”

In summer 2001, the Constitutional Court also took center stage in the parliamentary election contest, which revealed a potentially promising development in the body politic regarding the role of judicial institutions. Many candidates filed challenges to the various election contests with local electoral commissions and their decisions up to the CEC. From there, appeals were lodged with the Constitutional Court, which responded quickly by extending its normal hours of operation to review an unprecedented body of cases. The high volume of complaints lodged in subsequent rounds of the election did extend the process and garner criticism—particularly from DP leadership. However, it also represented a necessary commitment to the exhaustion of local judicial remedies. Ironically, these events may represent one of the first times that the opposition DP has satisfied this basic jurisdictional requirement of the European Court of Human Rights, thus highlighting the poverty of their frequently employed boycott strategies.

At the day-to-day level, lower courts continue to face a considerable workload without adequate material resources, organization, and discipline. Case management presents an ongoing challenge, and case backlogs are commonplace. In April 2001, the Ministry of Justice issued a regulation that establishes a standard administrative structure for lower courts. The regulation defines basic rules for registering cases, maintaining archives, and budgeting. The judicial budgeting office of the High Court has also begun to develop an independent, comprehensive approach to court budgeting. However, the challenges facing the lower courts are not solely administrative. It is widely acknowledged, for example, that the pressures of bribery and intimidation continue to compromise the judiciary in the areas of judicial

ethics and discipline. The courts' overall marginal administrative performance, coupled with the credible accounts of corruption, causes the general public to hold the judiciary in low regard.

At the end of 2000, the Council of Europe issued a report on the status of legal reform activities in the Republic of Albania that highlighted several areas in which additional reforms in the judicial process are needed. Three key areas involved the definition and organization of the judicial police (also referred to as criminal investigators), the enforcement of judgments, and efforts to combat judicial corruption. In the first two areas, the Council of Europe recommended that additional legislative infrastructure be developed as soon as possible. Regarding the third area, the Council of Europe stressed that further attention be given to the EU-Council of Europe OCTOPUS anticorruption program, a World Bank proposal, and the Stability Pact Anti-Corruption Initiative.

In the same period, Parliament passed legislation clarifying the status of the judicial police. The law defines the criteria for becoming a member of the judicial police and outlined the services that the judicial police are to provide. This clarification supplements the 1995 criminal and criminal procedure codes, which were modeled on analogous Italian codes, and strengthens the investigative capacity of the procuracy. This development further clarified the new, nonmilitary structure of the police forces and made clear their obligation to work in close cooperation with prosecutors.

To address the perennially poor enforcement of judicial decisions, Parliament approved legislation establishing a legal infrastructure for a judicial bailiff service that will facilitate prompt enforcement of judicial decisions. The new law sets forth the qualifications of bailiffs, their status—particularly vis-à-vis other institutions—and disciplinary standards. However, by the end of the period covered by this report, it was still unclear whether the actual execution of judgments had improved over that of the old Zyra Permbarimi (Office of the Executors). The real challenge for the government will be the proper staffing and equipping of this reconfigured office.

The government also proffered new legislation to update and elaborate the structure and duties of the Ministry of Justice and the office of the prosecutor-general. Both pieces of draft legislation included provisions that engendered substantial debate. The Ministry of Justice draft contained provisions on judicial inspection functions that resembled those allocated to the High Council of Justice under the Constitution. The draft on the office of the prosecutor-general contained provisions that would have allowed presidents to dismiss prosecutors-general if they were deemed to be failing to fulfill their duties.

The president immediately returned the law on the Ministry of Justice for further parliamentary review. In addition to the constitutional concerns, the underlying source of the controversy is that the High Council of Justice's inspectorate has failed to adequately fulfill its disciplinary in-

vestigative function owing in large part to a lack of even the most basic resources. The resolution of these competencies and the allocation of necessary resources clearly represent fundamental questions of policy. Parliament passed similar Ministry of Justice legislation again in May 2001. However, the precise resolution of the underlying issues languished for the remainder of the reporting period.

In contrast, the draft Law on the Office of the Prosecutor-General was modified to omit the controversial provision. Parliament passed a new law in February 2001, thus establishing a complete framework for the prosecutorial service. Central to the new law is the seven-member Council of Prosecutors. The council is composed of five prosecutors elected at a general assembly of prosecutors and two representatives appointed by the Ministry of Justice and the president. The council has authority for organizing competitions for the selection of new prosecutors and reviewing the work of sitting prosecutors.

Removal of the prosecutor-general became the subject of additional controversy in the spring of 2001 when a group of center-right parliamentarians called for his removal, alleging that he had improper links to known criminal figures. The prosecutor-general conceded that he had had a personal relationship with one of the individuals in question, but he denied that he had engaged in any activity that compromised his position. He noted the fact that members of his office had proceeded unfettered with the prosecution of this figure during his tenure. At the end of March, Parliament rejected a motion for debate about a proposal on the prosecutor-general's removal.

During the same time period, the minister of justice called on Parliament to remove three members of the High Court for their alleged improper involvement in the release of a suspected drug dealer in the southern city of Fier. The High Council of Justice had censured and dismissed lower court judges for their involvement, and the issue sparked a public discussion about the independence of the judiciary versus the need to police judicial conduct. Despite the peculiar circumstances, observers concluded that the justice minister had not made a proper evidentiary case, and the motion failed to garner the two-thirds vote necessary for the judges' removal.

Paying off court officials is one of the most common types of bribes cited by the Albanian citizenry, and judicial corruption is widely considered to be endemic. As a general proposition, judges are ill prepared to resist external influences and to apply the law impartially, for the majority have received inadequate training in the new system of post-Communist legislation. In an attempt to dilute the influence of the old judges from the previous regime, new judges were produced in a six-month crash course in the early 1990s. Many of these new judges had formerly held nonlegal positions. Many new judges have also been drawn from the ranks of new law school graduates, and given the poor state of legal education generally, 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. In 1996, Parliament authorized the establishment of a magistrates school to provide potential judges with postgraduate training. With assistance from the European Union, the Council of Europe, and the American Bar Association, the school began operation in 1997. The first class of 20 graduated in 2000. The school is in the process of developing continuing judicial education classes for sitting judges.

Cognizant of their poor public image, members of the judiciary have taken internal measures to increase their professionalism. In December 1999, the first National Judicial Conference (NJC) was held, as required under the Constitution. The NJC is a national body that is organized by, and composed of, the members of the judiciary. It has the constitutional responsibility for selecting 9 of the 15 members of the High Council of Justice. During the period covered by this report, the organization held additional regional and committee meetings, and it continued to work on raising public awareness of judicial issues. It is generally acknowledged that the NJC has filled an important void that was created when the Albanian Association of Judges became inactive in the mid-1990s.

Despite the judiciary's limitations, the government continues to respect human rights in general, albeit with certain clear exceptions. Reports of arbitrary detentions and arrests remain both credible and relatively widespread, and detainees are kept in overcrowded conditions and subject to beatings. These problems persist despite protections incorporated within the 1995 criminal and criminal procedure codes, which together establish many basic due process protections. For example, under Article 202 of the criminal procedure code, the court may issue a search warrant for a person or premises on the basis of "grounded reasons." There are exceptions for cases in which a police officer encounters a crime in progress. In 2000, the government began to address concerns about detention when it passed Law No. 8570, For Some Changes to the Penal Procedure Code of the Republic of Albania, which limits the extension of detention periods. The government addressed the issue of police training with Decision 281, For Organizing and Operating the Police Academy, which sets forth provisions for the organization and management of police training.

Moreover, police reform continues to be a priority, and multinational assistance providers supply training, materials, and advice on an ongoing basis. The professional organization of the police continues to improve, with special units like the organized crime unit recognizing the need for refinements in the allocation of limited resources. Also, the Ministry for Public Order's release of the number of police officers disciplined during 2000 highlighted the substantial number of dismissals for improper conduct. These refinements have been credited with increasing arrests and seizures of contraband. There also appears to be a continued

decline in the overall crime rate and an increase in the number of cases solved.

Persons accused of crimes have a constitutional right to a "free defense when [they do] not have sufficient means." However, the government has not established a reliable system to ensure that this right is properly upheld. In accordance with the criminal procedure code, the courts are to be supplied with a list of local lawyers from which they may pick someone to represent a criminal defendant. According to the code, the lawyer is then entitled to payment from the government for any fees the defendant cannot pay, but the government is consistently delinquent. A limited number of nongovernmental clinics have begun providing these types of services, and the results are encouraging. Still, the need continues to exceed supply—particularly in civil matters. Consequently, the general constitutional guarantee of human rights protection remains fragile.

Part II of the Constitution, "Fundamental Human Rights and Freedoms," enumerates the rights and guarantees that individuals, Albanian or foreign, enjoy against state interference in their lives. Limitations of these rights are permitted only when it is established that they are in the public interest or will protect the rights of others. Any limitation is supposed to be in proportion to the circumstances generating the restriction, and under no circumstance may the limitation exceed the limits accepted in the European Convention on Human Rights. In summer 2000, Parliament ratified Protocol VI of the convention on the abolition of the death penalty.

In terms of minority rights, the new Constitution cites "coexistence" as the basis of the Albanian state. Furthermore, the president of the Venice Commission of the Council of Europe suggested specific protective language for all suspect classes. His broad language was incorporated into the Constitution as a prohibition against discrimination based on "gender, race, religion, ethnicity, language, political, religious or philosophical beliefs, economic conditions, education, social status, or ancestry." Generally, discrimination on these bases does not constitute a significant problem in Albania.

With the propensity of Albanian politicians to organize street protests, the balancing of rights to peaceful assembly and free speech with the state's responsibility for preserving public order has remained a sensitive topic. Immediately prior to the 2001 elections, Parliament passed legislation that addresses this issue. The legislation guarantees the rights of any person to organize and participate in a peaceful assembly. However, it also defines the circumstances under which an assembly may be prohibited and outlines the rights and duties of organizers, the police, and the media. The bulk of the provisions seeks to create an administrative structure for the safe management of demonstrations in public areas.

At the beginning of 2001, the government committed to a review of existing legislation in order to assess its compatibility with the country's international human rights com-

mitments. It also began to coordinate with the United Nations High Commissioner for Human Rights on the development of its capacity to report on progress in the fulfillment of U.N. human rights conventions. At the end of 2000, Parliament ratified a series of international agreements—including the Vienna Convention on the Law of Treaties, which further ensconced the domestic Albanian legal system within the international legal system.

Corruption

1999-2000	2001	2002
6.00	5.50	5.25

In 2001, the Regional Corruption Monitoring System of the Southeast European Legal Development Initiative surveyed 1,001 Albanian adults on their views regarding the role corruption plays in society. The adults surveyed listed corruption as the number one socioeconomic problem, with 60 percent of those surveyed rating it as one of the top three problems. Interestingly, of the countries in the region, Albania rated the highest in terms of citizen tolerance for corrupt practices and in terms of susceptibility to corruption and public pressure to engage in corrupt practices. The survey also showed that both within Albania and throughout the region, younger, wealthier residents of big cities are considered to be more willing participants in the cycle of corruption. The spread of corruption throughout the public sector was also considered to be broad. In Albania, doctors, judges, customs and tax officials, and police officers led the list of public officials who are viewed as applying pressure to receive bribes and other improper favors; over 80 percent of those surveyed considered “nearly all” or “most” customs officers and judges to be involved in corruption.

This pessimistic assessment has been prevalent in recent years. In a 1997 nationwide household survey, 55 percent rated bribing 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 admitted paying bribes, the recipients most often cited were medical personnel, followed by public utilities personnel, police officers, and court employees.

Furthermore, allegations of high-level corruption abound, with both the 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. For example, former Prime Ministers Aleksander Meksi (DP), Nano (SP), and Bashkim Fino (SP) have all been subject to allegations of profiting from their position through special deals on real estate development, smuggling, and other ventures. Similar allegations have also been made with regard to former Ministers of Finance Genc Ruli (DP), Dylber Vrioni (DP), and Malaj (SP). Prel Martini, former chief judge of the court

of appeals, was removed after the change in government in 1997, following years of allegations of corruption. During the 1996–1997 pyramid scheme crisis, there were credible reports of political connections to the plot’s organizers. For example, VEFA Holding, once Albania’s largest investment fund, was alleged to have made substantial donations to the DP. The failure of the national Commercial Registry to publish records of business formations, mergers, sales, and the like, as required by law, continues to make it difficult, if not impossible, to objectively verify the status and ownership of business enterprises.

Following the 1997 elections, the new government launched a major anticorruption initiative. This initiative involved both governmental and nongovernmental actors and culminated in a national workshop in the middle of 1998. The initiative enjoyed the support of the World Bank, the U.S. Agency for International Development, 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.

The government revised its anticorruption plan in 2000 by bringing it into alignment with the Stability Pact Anti-Corruption Initiative. Although the revised plan has been received favorably in terms of substance, it has been critically assessed as lacking detail such as strategic priorities timing for implementation. Furthermore, its emphasis on legislation, as opposed to institutional implementation, leaves substantial challenges for the near term. Late in 2001, government representatives to the Stability Pact Anti-Corruption Initiative met in Croatia with representatives of civil society to develop “collaborative partnerships to combat corruption.” The action plan that emerged for Albania outlined agreement on the need for a broad-based publicity campaign and greater support for civil society involvement. Prior to the conference, Albanian civil society representatives had formed the Albanian Coalition Against Corruption, which developed a relatively detailed action calling for increased involvement of civil society in various aspects of the implementation of the government’s plan. Whether the civil society initiative will be fully integrated into the strategic planning and execution of anticorruption initiatives remains to be seen.

Internally, the government has moved forward on new legislation that establishes an “internal affairs” division of the Ministry for Public Order. The new internal control service has the stated purposes of preventing, detecting, and documenting the criminal activity of members of the state police and other divisions within the ministry. Employees of the internal control service, which is considered a separate police division, enjoy the same status as members of the judicial police.

The Ministry for Public Order has declared that the most significant threats to Albanian society are organized crime and endemic corruption. The combination of the two has undermined good governance at all levels and has led

the International Crisis Group to conclude that a distorted psyche has emerged in the ranks of state employees that links “wealth from illegal trafficking” with “economic development.” The government has paid additional attention to this issue in terms of both drugs and human trafficking, and new legislation has further defined narcotics trafficking and methods for its prevention. Pursuant to this legislation, the National Coordination Committee for the Fight Against Drugs has been established. This new office will answer directly to the prime minister.

The OSCE has also conducted a review of existing legislation that contains provisions on human trafficking, and its conclusion was that “sufficient” legislation exists for the government to prosecute persons engaged in human trafficking. However, the OSCE cited weaknesses in support for the victims of trafficking and in witness protection. In terms of the latter, the government began to take initial steps when it introduced measures that established some basic criteria for assessing threats to witnesses and providing needed protection. The government’s decision defined as eligible those whose lives or personal property are at risk, as well as those whose families are at risk of the same.

The government has also paid increasing attention to a common corollary to trafficking: money laundering. In summer 2000, Parliament passed the first serious domestic legislation on money laundering. These provisions incorporate into domestic law a number of international standards, such as imposing record keeping and “know your client” provisions on a broad range of institutions. In the fall of 2001, the Republic of Albania ratified the Council of Europe’s Convention on Laundering, Search, Seizure, and Confiscation of the Proceeds from Crime, which will enter into force in February 2002. This convention will help Albania address the issue of money laundering on an international scale by assisting it in freezing and seizing the assets of organized crime across borders.

The success of these initiatives will depend on a more vigorous internal government commitment than has historically been present. For example, in the mid-1990s, Parliament adopted the basic legal and administrative framework addressing asset disclosure. 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. A parliamentary commission is tasked with reviewing the information. Article 1 contains a list of “officials” who are covered, including judges, investigators, mayors, and local government employees. However, the law leaves it to the Council of Ministers to issue regulations, and full implementation continues to be an aspiration.

The 2001 Transparency International *Regional Report* noted that corruption investigations and prosecutions are very limited, with only a handful having been fully pursued in recent years. The highly publicized case of Idajet Beqiri, a minority party leader, is one notable exception, but serious systematic monitoring is not the rule in Albania. Furthermore, some of the international watchdog groups, like

Transparency International, have not been conducting detailed monitoring and rating of Albania in the past year.

The World Bank conducted the last broad-based international study of systemic corruption in Albania in 2000 and determined that the country’s level of administrative corruption was the highest in Central and Eastern Europe. However, the degree to which firms in the country rated state institutions as having been “captured” by corruption was “low.” Moreover, the “captor” firms that participated in the survey indicated that their influence on state institutions was relatively limited.

At the international level, the Republic of Albania continues to demonstrate a willingness to engage in transborder anticorruption initiatives. In March 2001, the government made the decision to place a representative office at the regional center of the Southeast Europe Cooperation Initiative, which focuses on cross-border crime. In mid-2001, Parliament ratified the Council of Europe Criminal Convention on Corruption and joined the Group of States Against Corruption. At some time in the future, the OSCE will schedule a peer review evaluation of Albania.

ECONOMIC LIBERALIZATION & SOCIAL INDICATORS

Privatization				
1997	1998	1999-2000	2001	2002
3.75	4.00	4.00	3.75	3.25
Macroeconomic Policy				
1998	1999-2000	2001	2002	
5.00	5.00	4.50	4.00	
Microeconomic Policy				
1998	1999-2000	2001	2002	
4.50	4.50	4.25	4.00	

In April 2001, the International Monetary Fund conducted its final assessment of Albania under its three-year Poverty Reduction and Growth Facility. The IMF commended Albania on its performance under the program and concluded that all quantitative targets had been met and that most structural measures had been carried out. Real GDP remained stable, and unemployment fell from the previous year’s six-year high. As a result of Albania’s increasing economic and political stability, the IMF indicated that it intends to negotiate a follow-up PRGF, estimated to begin in January 2002. Although the exact conditions of the PRGF had not been set as of year’s end, the anticipated focus of the program is macroeconomic stability, institutional reform, foreign investment, and new domestic business develop-

ment. Negotiations on a Stabilization and Association Agreement with the European Union are expected to begin in the early part of 2002. Albania joined the World Trade Organization in September 2000.

A key component of structural reform that has not been completed is the privatization of the Savings Bank (SB), the largest bank in Albania. With the privatization of the National Commercial Bank in June 2000, the SB became the only remaining state bank. The government announced the privatization tender for the SB in June 2001, with the expectation that the process will be completed in early 2002. As discussed above, the conditions for the second PRGF have not yet been set. However, given the importance of privatizing the SB, the conditions are likely to include benchmarks for progress in the privatization process. Privatization of the SB, as well as other reforms in the banking sector, should contribute to increases in the savings rate and encourage economic development.

On other privatization fronts, the government made progress in telecommunications, mining, oil, and hydro-power. In telecommunications, the government moved forward on the form and structure of a privatized Albtelecom. The government will establish a joint stock company whereby ownership is shared among former owners of telecom property, telecom employees, and other strategic investors. The government hopes to conclude its sale by December 2001.

In the mobile phone market, a subsidiary of the British company Vodafone and the Greek company Panafon purchased Albania's second global system for mobile communications license in February 2001. The government also approved an agreement with a Turkish company to secure much needed investment and modernization of Albania's flagging chromium and copper mining sectors. Following this transaction, the Albanian Parliament approved a concession to the Italian company Darfo for much of the chrome industry. It is anticipated that this investment will reverse the recent decline in the chrome industry. In terms of the oil industry, progress has been made with both Servcom and its refining arm, ARMO. Finally, in terms of hydropower, the government concluded a concession agreement for the hydroelectric station at Kalivac that contained a package of tax holidays and other privileges. Privatization of the electricity monopoly is not anticipated in the near future.

In addition to the funds raised through privatization, the government has been able to raise revenue through improved tax collection. In 2000, tax collection was up 30 percent from its 1999 level. Much of the improvement was due to better enforcement in the collection of the value-added tax. In 2000, the number of registered VAT payers increased by 17 percent. The increase in tax revenue over the last two years was also the result of improved border controls and the government's campaign against corruption. The fact that tax collection exceeded 2001 projections allowed the government to keep the fiscal deficit at

9.2 percent of gross domestic product, while simultaneously increasing social spending. The 2001 budget focused priority on public infrastructure, health care, and education. Education spending accounted for 3.2 percent of the budget, up from 3 percent in 2000, and health care increased from 2.3 percent to 2.7 percent.

While the role of the securities market has remained *de minimis* in terms of capital accumulation, the government did direct some attention to the elaboration of the requisite underlying mechanisms during the period covered by this report. In June 2001, it promulgated rules and procedures for establishing financial and accounting requirements for those who participate in securities-related activities. Previously, this area was largely unregulated and added to the fragility of this fledgling segment of the market.

The government is also seeking to stimulate capital utilization through secured lending. Over the past few years, the Republic of Albania has been working to introduce a system of secured transactions that will permit nonpossessory security interests in movable property. The original legislative design was based on the European Bank for Reconstruction and Development's model law on secured transactions. Early in 2001, the government issued implementing regulations for the regulation of these "pledges." If successful, this initiative could jump-start secured lending—an area that has largely collapsed owing to its dependence on real property in a country that suffers from the lack of a reliable, functioning land title system.

Another potential confidence-boosting measure for the private sector can be found in the enlargement of the legal infrastructure for commercial arbitration. In 2001, Albania moved forward in this area by ratifying both the European Convention on International Commercial Arbitration and the New York Convention on the Recognition and Enforcement of Foreign Arbitral Awards. With the prevalent lack of trust in the judicial system, international arbitration can be expected to play an increasingly important role in the attraction of foreign direct investment.

In terms of infrastructure, the country's much needed internal highway reconstruction program saw several positive developments. The platforms of both main political parties focused priority on the east-west transport corridor—and the highway specifically. During 2001, Albania affirmed its commitment to a trans-Balkan highway network by ratifying a loan agreement with the International Development Association and completed final negotiations with the European Bank for Reconstruction and Development for other funding. The state also approved the exercise of its power of eminent domain to expropriate certain properties that were needed to complete aspects of the road construction. On June 18, 2001, eight years after the initiation of the project, Prime Minister Meta officially opened the four-lane Tirana-Durres Highway.

Despite its economic improvement, Albania remains the poorest country in southeast Europe. This fact played a role in the recent parliamentary election campaign, during which

the SP targeted underprivileged segments of society with social spending. As long as economic conditions remain poor, Albania will continue to suffer from extensive emigration. The flight of educated and skilled Albanians hinders the political, economic, and social reform progress of the country. To address this issue, priority areas for the poverty reduction component of the upcoming PRGF are ex-

pected to be health, education, rural development, labor, and social affairs.

Scott Carlson is the director of Central and Eastern European programs at the American Bar Association Central and East European Law Initiative (ABA/CEELI). Wendy Betts is a country director with ABA/CEELI.

ARMENIA



Polity: Presidential-parliamentary democracy

Economy: Capitalist-statist (transitional)

Population: 3,800,000

GNI per capita at PPP \$ (2000): 2,580

Capital: Yerevan

Ethnic Groups: Armenian (93 percent), Azeri (3 percent), Russian (2 percent), Kurd and others (2 percent)

Size of private sector as % of GDP (mid-2001): 60

The scores and ratings for this country reflect the consensus of Freedom House, its academic advisors, and the author of this report. The opinions expressed in this report are those of the author.

↓↓ and ↑↑ indicate score changes of .25 or more. ↓ and ↑ indicate changes of less than .25.

NATIONS IN TRANSIT SCORES

	1997	1998	1999-2000	2001	2002
Democratization	4.70	↓ 4.80	↑↑ 4.50	↓ 4.56	4.56
Rule of Law	na	na	5.38	5.38	5.38
Economic Liberalization	4.00	↓ 4.08	↑↑ 3.58	3.58	3.58

KEY ANNUAL INDICATORS

	1995	1996	1997	1998	1999	2000	2001
GDP per capita (\$)	341.6	422.4	432.2	498.2	485.5	504.0	702.1
Real GDP growth (% change)	6.9	5.9	3.3	7.2	3.3	6.0	6.0
Inflation rate	176.7	18.8	13.8	8.7	0.7	-0.8	3.1
Exports (\$ millions)	271.0	290.0	234.0	229.0	247.0	307.0	356.0
Imports (\$ millions)	674.0	760.0	793.0	806.0	721.0	774.0	848.0
Foreign Direct Investment (\$ millions)	25.0	18.0	52.0	221.0	122.0	104.0	140.0
Unemployment rate	6.7	9.3	10.8	9.4	11.2	11.7	9.6
Life Expectancy (years)	72.3	72.7	73.7	74.4	73.0	73.6	73.0

INTRODUCTION

Despite a decade of independence and an ongoing transition to democracy and the free market, Armenia has not yet lived up to the expectations of its people who put an end to Communist rule. The country has built the main institutions of state and avoided long periods of instability, but a host of factors have prevented Armenia from stepping onto the path of development. These include the reversal of political reform in the early 1990s and the failure of Armenia's leaders to establish the rule of law. The past decade has taken an enormous social and economic toll on Armenia. The slump in living standards has been so deep 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 it has engendered widespread political apathy and has led to a decline in civic consciousness. Post-Soviet poverty coupled with rampant corruption has fueled popular disillusionment with politicians and democratic values in general. Many people no longer feel that political participation and civic activism can help resolve their problems. They simply do not see democratization as the key to prosperity.

This fact makes it easier for government authorities to maintain Armenia's flawed political system, which combines elements of democracy and oligarchic rule. Although basic civil liberties are in place and the press is relatively free, the right of citizens to change their government has been severely, and at times brutally, restricted. Most elections held since 1995 have fallen short of international standards.

Armenia's greatest reform achievements are confined to the macroeconomic front. In 1992 and 1993, the country suffered hyperinflation and a tremendous slump in living standards. The Nagorno-Karabakh conflict and turmoil in the region as a whole were among the main factors that strangled the economy by cutting off traditional trade routes. Since 1994, the macroeconomic policy of successive Armenian governments has largely followed the prescriptions of the International Monetary Fund 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. However, recent trends, though positive, have not considerably raised 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.

Throughout 2001 President Robert Kocharian continued to strengthen his hold on power. After a six-month power struggle that resulted from the October 1999 ter-

rorist attack on the Parliament building, Kocharian restored his supremacy in the Armenian leadership. Since then he has presided over the further weakening of his political opponents, including the relatives and close associates of Prime Minister Vazgen Sarkisian and Speaker of Parliament Karen Demirchian, who were murdered in the 1999 attack. These two charismatic men co-chaired the Miasnutiun (Unity) bloc, which had swept to a landslide victory in the largely democratic parliamentary elections of May 1999. The five gunmen who killed them, along with six other officials, went on trial in February 2001. The defendants insist that they masterminded the massacre alone.

Meanwhile, simmering tensions between the Republican and People's Parties that make up Unity culminated in the bloc's collapse in September 2001. The Republican Party of Armenia (RPA), led by Prime Minister Andranik Markarian, wanted to be loyal to Kocharian. The People's Party of Armenia (PPA), led by Demirchian's younger son, Stepan, chose to join forces with two major opposition parties. Virtually no major political group avoided a split or scandal in 2001. This fact led to an erosion of the opposition camp—a welcome development for Kocharian, who announced his decision to seek reelection in the 2003 presidential election.

DEMOCRATIZATION

Political Process

1997	1998	1999-2000	2001	2002
5.50	5.75	5.25	5.50	5.50

During the period covered by this report, President Kocharian further strengthened his position. At the same time, practically every political party capable of challenging him was embroiled in internal bickering and rifts. The president used his sweeping constitutional powers and divide-and-rule policies to win over or co-opt a considerable number of senior party members and thereby spread discord in most major parties. Several politicians who could scuttle Kocharian's plans to win a second five-year term in 2003 were kept busy putting down internal revolts staged by pro-presidential activists. A series of defections from opposition factions within Armenia's Azgayin Zhoghov (the National Assembly, or Parliament) also facilitated Kocharian's control of the main power levers by precluding additional legislative inroads into presidential authority.

Unlike the other two Caucasian states, Georgia and Azerbaijan, 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, which was enacted in 1995, is also credited with providing a legal framework for overcoming political crises. The constitutional mechanism for the peaceful transfer of power proved effective in February 1998 when President Levon Ter-Petrosian was forced to resign. Likewise, after the shootings in Parliament, rival government factions did not opt for unconstitutional actions. Despite frequent changes of government—Armenia has had 10 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. The supposedly democratic process was distorted further during the period covered by this report when the division between the ruling forces and the opposition became blurred. Specifically, some top politicians popularized the idea that a party operated on the same playing field whether it was in the government or part of the opposition. This notion only disoriented Armenia's already apathetic electorate. Critics claimed that Kocharian brought about those distortions himself by luring opposition figures into government or giving them other material benefits.

Further adding to the ambiguity is Armenia's constitutional order. The Unity bloc, which won the 1999 elections, nominally forms the country's government. However, Prime Minister Markarian has little control of the so-called power ministries that presidential loyalists head.

Under the Armenian Constitution, the status of the ministers of defense, interior, national security, and foreign affairs is not different from that of other cabinet members. They are all nominated by the prime minister and appointed by the president. The latter has to reckon with Parliament, which can unseat the entire government with a vote of no confidence. Nevertheless, parliamentary majorities have rarely been at odds with the head of state in post-Soviet Armenia, not least because of the president's right to dissolve the legislature. One such standoff, which was sparked by the October 1999 massacre in Parliament, ended in May 2000 in a victory for the head of state.

The Unity-led parliamentary majority, fearing imminent dissolution of the National Assembly, chose at the time to avoid further confrontation with Kocharian after he sacked then Prime Minister Aram Sarkisian, the brother and successor of the assassinated premier. The next prime minister, Andranik Markarian, also represents Unity but is far more loyal to Kocharian, whose allies have held the key posts in Markarian's government. The strengthening of Kocharian's positions was a logical continuation of political processes

that followed the power struggle of 1999 and 2000. The president's constitutional superiority and knack for Machiavellian moves have left his opponents inside and outside the government in disarray, and most of them have jumped on the presidential bandwagon.

Markarian's RPA controls only a handful of ministries. The PPA, the RPA's junior partner in the now defunct Unity bloc, had lost all of its government posts even before it formally broke with the Republicans and joined the opposition in September 2001. Unity's collapse marked another milestone in Kocharian's political triumph since the October 1999 assassination of eight senior officials, including the two co-founders of the once formidable alliance. Members of the RPA and PPA who suspected Kocharian of masterminding the bloodbath lost the power struggle and were driven out of government by May 1999. That was the beginning of Unity's end.

In February 2001, a group of RPA members, led by the slain prime minister's brother Aram Sarkisian, accused their leadership of being too submissive to Kocharian and left the party. They formed their own party, Republic. The reverse happened in the PPA, whose leadership remains opposed to the president. The PPA's pro-government minority quit the party in July 2001, protesting its growing links with the opposition. Similar splits also hit two other major opposition groups: the center-right National Democratic Union (NDU) and the Armenian Communist Party (ACP).

The party rifts, nonetheless, brought some clarity to Armenia's political landscape by the end of the year. The PPA, Republic, and National Accord Front (another major opposition party) teamed up in September 2001 to launch a nationwide campaign for Kocharian's impeachment. The trio thus emerged as the main opposition force in Armenia. It may put forward a single candidate in the 2003 presidential election. The three center-left parties accused Kocharian of mismanaging the economy and sabotaging the investigation into the 1999 assassinations. Kocharian, who has no party of his own, is backed largely by Markarian's RPA, the PPA splinter group, and the influential Armenian Revolutionary Federation (ARF). However, none of these parties has committed itself to backing Kocharian's reelection.

Legal procedures for the registration of political parties are fairly simple in Armenia. This is evidenced by the fact that there were nearly a hundred registered parties as of November 2001. Only a dozen play a role in the nation's political life, and even they are not strong enough to affect governance, not least because of the sweeping powers that the Constitution vests in the office of the president. Still, Armenian parties received a major boost in December 2000 when Parliament increased from 56 to 94 the number of seats contested under the system of proportional representation. Parliament reduced the number of seats distributed in single-mandate constituencies from 75 to 37. The next elections for the 131-member National Assembly are due in May 2003.

The last legislative elections occurred on May 31, 1999. Twenty-one blocs and political parties and more than 800 individual candidates contested them. The Central Election Commission did not refuse registration to any party or bloc.

The Organization for Security and Cooperation in Europe, which sent a 200-member mission to monitor the elections, characterized the vote as a “relevant step toward [Armenia’s] compliance with OSCE standards” and concluded that it 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.

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 RPA and Demirchian’s PPA, 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 enjoyed the backing of about 25 ostensibly independent deputies that have strong governmental ties. The ACP finished a distant second, with 12 percent of the proportional vote and 9 seats in Parliament. Two nationalist groups, the ARF and the Right and Accord bloc, each won 8 seats. Two center-right parties, the obscure Country of Law Party and the opposition NDU, also cleared the 5 percent threshold needed to get seats under Armenia’s system of proportional representation. Each party won 6 seats. Most political opponents accepted the legitimacy of Unity’s victory, despite their criticism of the election’s handling. None of the elected deputies represented an ethnic minority, and only four were women. Two women’s groups that participated in the election failed to receive a mandate.

The most recent presidential election, which took place in March 1998, was far more controversial. Kocharian’s main challengers were Karen Demirchian, then a factory director, and Vazgen Manukian, the head of the opposition NDU. Kocharian won 38.76 percent of the vote and Demirchian 30.67 percent, according to official results. Since neither contender won a majority, a runoff 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, which had sent a 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.

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.

Kocharian’s growing strength has allowed him to concentrate on internationally sponsored efforts to resolve the Nagorno-Karabakh conflict, the main contributor to instability in the region and a major issue in Armenian politics. The self-proclaimed Nagorno-Karabakh Republic has grown tightly integrated with Armenia since it broke away from Soviet Azerbaijan in the late 1980s. After a series of direct talks in the beginning of 2001, the conflicting parties were reportedly closer to a peace deal than ever before. However, progress in the peace talks had given way to renewed uncertainty by June 2001. Each side blamed the other for the continuing stalemate.

Civil Society

1997	1998	1999-2000	2001	2002
3.50	3.50	3.50	3.50	3.50

Armenia entered the post-Communist period with strong prerequisites for a vibrant civil society. Hundreds of non-governmental organizations 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. 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.

According to the Ministry of Justice, there were more than 1,800 registered NGOs in Armenia as of November 2001. Nevertheless, only a fraction operates 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. The overwhelming majority of them exist thanks to Western (mainly American) grants and financial assistance from the Diaspora. This is particularly true of Armenian charities. On paper, there are hundreds, but few manage to operate without external sources of funding. Also engaging in philanthropy are the so-called unions of compatriots that comprise residents of Yerevan who are natives of a particular region of the country. It is also not uncommon for wealthy individuals to help their native city or village. External family networks often serve a similar function.

Most Armenians are too poor to participate in such activities. The largest domestically based charity, the All-Armenian Hayastan Fund, raises the bulk of its funds from Diaspora communities. It has spent \$70 million on various projects in Armenia and Karabakh since its creation in 1992 by then President Levon Ter-Petrosian. In addition, leading Diaspora charities such as the Armenian Benevolent Union, the Lincy Foundation, and the Armenian Relief Society are active in Armenia.

Even religious groups that engage in benevolence rely on external funding. The largest and most influential of them, the Armenian Apostolic Church, finances most of its charitable activities with Diaspora donations. The small Armenian Evangelical Church does the same. Other foreign religious charities that are present in Armenia include the United Methodist Committee on Relief and the Catholic Relief Societies.

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.

NGOs have not been very active in lobbying the government or Parliament for passage of legislation. Parliament included many of their suggestions in the existing law on NGOs, which was passed in 1996, but this is a rare example of successful policy advocacy. Throughout 2001, a standing committee of the Armenian Parliament consulted with journalists' associations and media-related NGOs on ways to amend a controversial law on television and radio.

In early 2001, the American group World Learning began implementing a four-year project of the U.S. Agency for International Development that is designed to assist Armenian NGOs that specialize in "advocacy, coalition-building and networking." USAID also provides the bulk of funding for the NGO Training and Resource Center, which the Armenian Assembly of America created in 1994 with the stated aim of promoting "positive social, political and economic transformation in Armenia." Since then the center has provided 140 grants worth nearly \$500,000 to local civic groups that are involved in benevolence, consumer protection, election monitoring, health care, legal reform, and refugee rights. It released 14 such grants in 2001. In October 2000, the center won a \$2.2 million grant from USAID to continue its activities.

Although NGOs must register with the Ministry of Justice, their large number indicates that registration is a fairly easy process. Most Armenian NGOs are too small to delineate functions. Generally a founder sets an NGO's agenda and leads fund-raising efforts. Nonprofit organizations are subject to taxation on property, vehicles, and employee incomes. NGOs must disclose revenue sources in order to establish their tax liability. They may collect cost recovery fees and earn income, but they cannot make a profit.

The public's attitude toward the NGO sector is generally positive, and the media's coverage of NGOs is equally so. However, the government's attitude is rather indifferent. Although most central and local government structures assign officials assigned to deal with NGOs, the opinion of civic groups has had little bearing on the government's decision-making process.

Armenian trade unions play an even smaller role in the country's political and economic life, because post-Soviet

deindustrialization and mass unemployment have rendered them moribund and ineffectual. Most unions are holdovers from the Soviet period and operate under the umbrella of the Confederation of Labor Unions (CLU). The CLU claims to have about 700,000 members, or 58 percent of the country's workforce. Strikes have largely been confined to the public sector when employees demand payment of back wages. Strikes in the private sector are extremely rare because workers are generally 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. Its membership includes 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 that the USE held in 2000 and 2001 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, act largely behind the scenes. By law, only parties may engage in political activities.

There are at least three private think tanks in Armenia. Each has its own publication and periodically holds conferences and seminars. However, there is no evidence that any of them has a serious impact on policy.

Armenia depoliticized its education system when Communist rule ended in 1990. According to the Ministry of Education, 84 of the country's 101 institutions of higher education are private. However, state-run universities continue to maintain higher educational standards. Their curricula are free of political influence and propaganda.

Independent Media

1997	1998	1999-2000	2001	2002
5.25	5.25	4.75	4.75	4.75

Armenian media, with all their flaws and weaknesses, provide some hope about the future of democratization. Armenian newspapers and broadcasting organizations continue 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 rare owing to persistent financial constraints and journalists' lack of professionalism and exposure to Western standards of journalism.

During the period covered by this report, no major violations of or threats to freedom of expression were reported. Still, in the absence of freedom of information legislation,

the authorities continued to withhold important information from the public. Likewise, the Armenian Parliament continued to delay passage of a new media law. Instead, it passed highly controversial legislation on regulating the activities of television and radio companies.

On January 12, 2001, most Armenian television channels suspended their broadcasts for 45 minutes to protest some of the law's provisions. One provision envisaged the creation of a national commission that would be appointed by the president and empowered to issue and revoke broadcasting licenses. The private broadcasters feared that this could give the authorities additional leverage against the electronic media. The channels also opposed a provision requiring them to produce at least 65 percent of their programming. Throughout 2001, the parliamentary committee that drafted the law met with television representatives and media associations to discuss ways of amending it.

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, 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. Frequently, authorities have not even enforced these flawed legal tools when media freedom has been jeopardized.

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 of restricting freedom of speech. The right of journalists to protect their sources is not absolute under the media law, which is widely seen as outdated. Parliament has yet to debate a new media bill that a local media watchdog agency and a group of lawyers drafted jointly in 1997. Several hundred media outlets are officially registered with the Armenian Ministry of Justice, but only about 150 newspapers and magazines, 60 national and local television stations, 9 FM radio stations, and 5 news agencies are regularly active.

The legal framework for the 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 defama-

tion is made in writing or through broadcasting, it can lead to a three-year prison term. 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. There were no reported cases of libel suits against journalists during the period in question.

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). Shant extended its broadcasts to the capital and surrounding areas in February 2001.

A1-Plus attracts viewers mainly with its news reporting, which is seen as the most objective and unbiased in the country. However, the company is poorly equipped and is not accessible in most of Armenia's regions. The financially stronger Prometevs and Armenia TV have been quite successful with talk shows and entertainment programs, but the quality of their news programs is low. The state-run Armenian Public Television is the main mouthpiece of government propaganda. It is extremely hostile and biased toward Kocharian's opponents and rarely airs criticism of the regime.

There are eight independent FM radio stations based in Yerevan and one such station in Gyumri. They confine their programming largely to music and brief newscasts. State radio retransmits the daily programs of Radio Free Europe/Radio Liberty and the Voice of America.

The state, including local government bodies, owns only a handful of Armenia's newspapers. The only state-owned national daily, *Hayastani Hanrapetutyun*, has a circulation of 4,000 copies per issue. 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* (2,500) and the biweekly papers *Iravunk* (15,000) and *Golos Armenii* (3,500) tend to cover events from a leftist, and somewhat nationalist, perspective. *Hayots Ashkhar* and *Golos Armenii* are pro-presidential. The ARF controls *Yerkir*, and Prime Minister Markarian's RPA controls the pro-government *Zhamanak* (1,500). The centrist daily *Azg* (3,000) is close to a party with Diaspora connections, and the dailies *Aravot* (5,000) and *Haykakan Zhamanak* (3,000) have a liberal, and usually pro-Western, orientation. These two papers are sympathetic to former President Ter-Petrosian and his allies, and like *Iravunk*, they are very critical of the current authorities.

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 newspapers depend 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. Broadcast media are more financially viable, thanks to larger audiences.

In most cases, the content of news coverage rarely opposes the wishes of media owners or patrons. This fact encourages a tendency toward 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 come to light only through information leaks.

Newspaper distribution is one area in which the authorities have maintained some leverage against independent media. The state agency, Haymamul, distributes more than half of the nation's publications and controls most of its kiosks. On November 15, 2001, the government finally decided to press ahead with the repeatedly delayed privatization of the agency. The process is expected to take three to four months to complete.

There are several press associations in Armenia, but none of them represents 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, acts like a media watchdog by monitoring ongoing trends, examining media legislation, and occasionally holding seminars. There is generally little coordination among the country's press associations, even though they have issued joint statements in the past in the face of unacceptable government actions. No code of ethics binds the Armenian journalistic community.

The International Telecommunications Union, an organization within the United Nations system, reports that in 1999 there were approximately 30,000 Internet users in Armenia. The Internet is not subject to formal restrictions, but poverty is so widespread in the country that only a small percentage of private households are actually connected to it. Instead, regular users generally have access at work, at universities, or in increasingly popular Internet cafés. Armenians often use the Internet to make telephone calls abroad. Myriad small businesses offer this service, and their tariffs are much lower than those charged by the telecommunications monopoly, ArmenTel.

There are about two dozen Internet service providers in Armenia, all of which rely on ArmenTel for satellite connections. These providers contend that ArmenTel's 15-year legal monopoly on telecom services, which the government granted in March 1998 during the group's takeover by Greece's Hellenic Telecommunications Organization (OTE), has slowed the development of Armenia's information technology sector.

Governance and Public Administration

1997	1998	1999-2000	2001	2002
4.50	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 strengthen his control of the executive and legislative branches. A series of defections further reduced the opposition minority in Parliament. Local government bodies were still restricted in their activities and independence, and reform of the civil service, which the authorities initiated after years of delay, provoked political controversy.

Lack of powers leaves the 131-member National Assembly in a disadvantaged position vis-à-vis the executive. The post-Soviet Constitution, enacted in 1995, allows the president to dissolve the legislature practically at will. Even so, Parliament may unseat the head of state with a two-thirds majority if the Constitutional Court finds him guilty of grave offenses. Parliament may also dismiss the government by a vote of no confidence, and only it has the power to pass laws. However, presidential decrees, decrees by regional governors, and some decisions by local executive committees carry the status of law. The current Parliament had more clout until Kocharian's victory in the power struggle that followed the October 1999 terrorist attack. Many of its members jumped on the presidential bandwagon at the time.

Although the National Assembly's authority to oversee the executive's work is limited, it has often formed special commissions and held hearings on issues of popular concern. In June 2000, for example, an ad hoc parliamentary commission made a bombshell allegation that fraud and inefficiency in the energy sector had cost Armenia more than \$200 million in the 1990s. The commission's scandalous report led state prosecutors to launch a criminal investigation, which was still going on as of November 2001. In May 2001, Parliament formed two special commissions to oversee the controversial probe of the October 1999 assassinations and to investigate alleged abuses in the telecom sector.

Although the national press widely publicizes parliamentary debates in Yerevan, local governments function less transparently. Draft legislation is generally available to the media and the public, but local businesspeople frequently

complain about what they see as frequent and abrupt changes in economic legislation. The absence of specific legislation guaranteeing the access of citizens to government-related information diminishes transparency as well. Parliament was due to debate one such bill in December 2001.

Provincial governors and the mayor of Yerevan, whose rank is equivalent to that of a provincial governor, are appointed by and accountable to the president rather than the local population or Parliament. Locally elected councils of elders and locally elected district administrators (city or village mayors) govern the urban and rural communities (villages, towns, cities, and city districts) in Armenia's 10 provinces. Each local council consists of 5 to 15 members. The Law on Local Self-Government, which Parliament adopted on June 30, 1996, regulates relations between local governments and the central government. District administrators form their own staffs 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 recommendations of provincial governors, who, under the Constitution, act as representatives of the central government and are responsible for implementing its policy. The dependence of community administrations on provincial and central authorities limits their impact on local affairs. The most recent local elections in Armenia took place on October 24, 1999. A monitoring mission from the Council of Europe determined that the elections were "free and fair."

The central government controls all taxation, and the Ministry of Finance considers all budgetary requests from local governments. Technically, municipalities are free to determine spending priorities, but the scarcity of money leaves them few choices. Taxes on land and property, fixed state tariffs, and 15 percent of all income and profit taxes collected in a community go directly to its budget. This means that the bulk of local funds comes from the central government in the form of annual budget allocations.

In the year 2001, reform of Armenia's civil service, which lacks competence and independence, finally began. On December 4, Parliament approved in the second and final reading a controversial law on the civil service. The bill, which the presidential administration and the government drafted, is supposed to protect civil servants from arbitrary sackings. The absence of such safeguards had forced many bureaucrats to side with the ruling regime in political battles.

Parliament rejected the bill twice before passing in the first reading on July 24, 2001. Heated debates centered on a controversial provision that gives the president the authority to name all seven members of a state commission that would have determined key appointments in the civil service. When the opposition branded the clause as

unconstitutional, the legislation was sent to the Council of Europe for examination. Although the law might indeed contribute to better governance, low public sector wages will continue to provide fertile ground for corruption and inefficiency.

RULE OF LAW

Constitutional, Legislative, and Judicial Framework

1997	1998	1999-2000	2001	2002
4.75	5.00	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 widely criticized for its shift of power to the presidency at the expense of Parliament, finally compelled President Kocharian to suggest a package of constitutional amendments that would somewhat curtail his sweeping powers. The proposed changes, if enacted, could also foster the development of an independent judiciary.

Constitutional reform was a major theme of Kocharian's 1998 presidential election campaign. It was also one of the conditions for Armenia's accession to the Council of Europe in January 2001. The Armenian leader repeatedly pledged to give up some of his sweeping powers but made it clear that he was against changing the country's system of government. The draft amendments, which were made public in July 2001, were the product of two years of work by a presidential commission on constitutional reform. Kocharian must secure approval of the amendments by Parliament in order to put them on a nationwide referendum, which he hopes to call in spring 2002. Parliamentary debates on the issue are expected to begin early in the year.

Most opposition groups have brushed aside the proposed amendments as cosmetic and meaningless. They instead want to transform Armenia into a parliamentary republic. In December 2001, five groups put forward an alternative draft constitution. They argued that voters should be able to choose between the two variants of constitutional reform when they go to the polls in 2002. Kocharian vehemently rejected the idea and threatened to dissolve Parliament if it put the opposition draft on a referendum. The Armenian leader largely controls the legislature and is therefore likely to get his way.

Kocharian's constitutional package does envisage some significant curbs on presidential authority. The president, for example, would need Parliament's consent to appoint a prime minister; would no longer be able to approve or veto government decisions; and would be allowed to dissolve the legislature only in six specific cases. The amendments would also abolish the death penalty; introduce a separate

article on press freedom; allow non-citizens to vote in local elections; and lift the ban on dual citizenship.

The so-called Venice Commission of the Council of Europe, which monitors Armenia's progress toward fulfilling obligations attached to its membership in the Strasbourg-based organization, concluded in a report that the draft amendments would "ensure separation of the authorities." Nevertheless, Kocharian's proposal was not as far-reaching as many Armenian politicians would like. The president would remain the most powerful official in the nation, and the government's executive authority would remain rather limited.

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 the Court have been rare. Kocharian's proposed constitutional amendments would make the body far more accessible by allowing ordinary citizens to appeal to it directly.

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 Speaker of Parliament Armen Khachatrian and ruled that his ouster on September 26 by a majority of deputies was unconstitutional. There were no specific examples of judicial enforcement of the Constitution in 2001.

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 2001, Parliament had a new draft criminal code on its autumn agenda.

In keeping with Armenia's obligations to the Council of Europe, no death sentence has been carried out since 1990. Under Armenian law, police officers may detain and keep suspects in custody for up to 72 hours before leveling criminal charges. They need a court decision to turn detention into an arrest. Article 18 of the Constitution states 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 have even been instances in which prisoners have died because of mistreatment while in custody. In fact, according to Amnesty International, the torture and ill treatment of suspects in custody is the most common human rights abuse in Armenia. In a report that scrutinizes the human rights record of 149 nations during the period from January to December 2000, the London-based group criticized the Armenian authorities for failure

to investigate all instances of police brutality "thoroughly and impartially." The Amnesty report specifically mentioned the abuse of suspects 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. In November 2000, the UN Committee against Torture reportedly urged the Armenian government to guarantee detainees immediate access to their lawyer, family members, and a doctor of their choice. During the period covered by this report, there were no reported cases of law enforcement officials being prosecuted for mistreatment of suspects.

Prison conditions in Armenia remain harsh, owing mainly to a lack of public funds. Throughout 2000, government authorities acknowledged serious difficulties in combating the spread of tuberculosis, which is the main cause of prison deaths. Under an agreement signed with the government in August 2000, the International Committee of the Red Cross provided about \$1 million for improving health conditions in Armenia's jails. The money was spent primarily on the construction of a separate tuberculosis ward at the country's main prison hospital that can accommodate up to 220 prisoners suffering from the disease. The construction work was completed in October 2001. In a related move, the government set up a special fund in August 2001 that is supposed to attract public funds and private donations for improving prison conditions. Most of Armenia's prisons were transferred from the jurisdiction of the Interior Ministry to that of the Justice Ministry in October and November 2001—a measure that could also improve conditions there. The transfer was another key requirement of the Council of Europe. In addition, on June 12, 2001, Parliament declared a general amnesty that affected roughly one-third of the total prison population. More than 1,200 inmates were released, and nearly 900 others had their jail terms shortened.

One of the major changes in Armenia's 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 2 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. There are also guarantees for health care, education, and an adequate standard of living. The Venice Commission has concluded that Kocharian's constitutional amendments would "significantly strengthen constitutional guarantees for human rights protection."

Article 28 of the Constitution guarantees the right to own and inherit property, and Article 36 guarantees intellectual property rights. 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, but the Kocharian proposals would abolish the restriction.

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, and the government does not enforce fair business competition properly. Although over the past decade the government has put in place the core legislative framework needed for a market economy, it has not yet enacted a number of key laws. Some existing laws simply contradict each other. The “2001 Investment Climate Statement” of the U.S. embassy in Yerevan states that the Armenian regulatory system still lacks transparency despite being “one of the most developed” in the former Soviet Union. The report also notes the existence of “near monopolies” in certain sectors of the economy.

Throughout 2001, the authorities faced growing calls from Western governments and lending agencies to improve Armenia’s business environment. Meeting in Paris on July 11–12, the donors issued a statement urging the removal of “constraints for private sector development such as corruption and bureaucratic red tape.” John Odling-Smee, director of the International Monetary Fund’s European II Department, stressed during a visit to Yerevan in late July the “need to push ahead as rapidly as possible with the elimination of unnecessary regulations and harassment of small private businesses.” A pledge to improve the business environment and clamp down on corruption is part of the Markarian government’s three-year economic program, which the executive boards of the IMF and the World Bank approved in May 2001.

Ethnic minorities, including Kurds, Russians, Ukrainians, Assyrians, and Jews, make up less than 5 percent of Armenia’s population. Most of their cultural organizations operate under the umbrella structure called the Union of Nationalities of Armenia. 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.”

Armenia’s Constitution and laws also guarantee religious freedom. At the same time, they uphold the legal superiority of the Armenian Apostolic Church, with which over 90 percent of Armenians are thought to be affiliated. The Apostolic Church, one of the world’s most ancient Christian denominations, is widely credited with preserving Armenians’ national identity and cultural heritage during centuries of foreign oppression. Its privileged status in modern-day Armenia was underscored in 2001 when the country officially marked the 1,700th anniversary of the adoption of Christianity as a state religion. The government-sponsored celebrations culminated in September 2001 during a historic visit to Armenia by Pope John Paul II. The pontiff paid tribute to “the glorious history of Chris-

tianity” in Armenia during a three-day trip that cemented growing ties between the Roman Catholic and Armenian Apostolic Churches. The pope also held an open-air mass for the small Armenian Catholic community.

In line with the conditions for membership in the Council of Europe, Armenia has formally committed itself to ensuring that nontraditional religious communities are allowed to practice their faith without discrimination. Such communities are among the 50 religious groups registered with the government’s Department of Religious Affairs. However, the government has denied registration to one group, the Jehovah’s Witnesses, because of its opposition to compulsory military service.

When Armenia joined the Council of Europe in July 2001, it undertook to pass legislation within the next three years that allows conscientious objectors to do alternative service. Nonetheless, the authorities continue to prosecute members of the group. In its annual report on the state of religious freedom around the world, the U.S. State Department said that as of October 2001, 13 members of Jehovah’s Witnesses were still in prison in Armenia on charges of draft evasion or, if forcibly drafted, on charges of desertion due to refusal to serve. According to the report, the government released 14 members over the course of the year but kept them under house arrest. It also set 21 free on probation. On September 18, an Armenian court acquitted a 50-year-old man whom prosecutors had accused of “enticing” minors into membership in the group. The Yerevan office of the Organization for Security and Cooperation in Europe welcomed the verdict and argued that the case should never have been brought in the first place.

The impartiality and fairness of Armenian judges varies dramatically, depending on the nature of the case they are trying. 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. This 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. However, under the proposed constitutional changes, the right to dismiss those judges would become the exclusive prerogative of the Constitutional Court. The amendments also aim to complicate the president’s ability to appoint judges.

The inquiry into the parliamentary assassinations of 1999 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 to Kocharian’s foes in the government and who sought to implicate the president in the attack. In April 2000, though, as Kocharian began to regain his strength, the same courts ordered the release of suspects who prosecutors thought could testify against the head of state. As a result, the changing political scene in Armenia strongly affected the course of the investigation.

A department within the Ministry of Justice deals with the courts, but its functions are not clearly defined. Some lawyers view it as an instrument for putting government pressure on the judiciary, but 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 and 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. The Council of Justice may become more independent as a result of the constitutional reform. Under the amendments, all of Armenia's judges, rather than the head of state, would choose the nine judges who sit on the body.

Corruption

1999-2000	2001	2002
5.75	5.75	5.75

Corruption and nepotism are rampant in Armenia. The magnitude of this endemic problem has not diminished, despite repeated announcements of crackdowns. Faced with growing Western pressure to improve governance, though, government authorities set out to draft a comprehensive anticorruption program. However, its successful implementation appears doubtful.

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 a friend or relative. 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, continued to expand his involvement in business in 2001. Close ties with Sarkisian, the second most powerful man in Armenia, have been essential for companies engaged in lucrative imports of fuel.

On August 25, 2001, Kocharian signed into law a bill on financial disclosure. The law, which will take effect on January 1, 2002, obliges government officials to declare their revenues and property every year. The most high-ranking officials, including the president and government ministers, will have to do so by March 2002. Previously, only election candidates were obliged to declare their revenues. Whether or not the new law will reduce corrupt practices remains to be seen.

Despite the large scale of corruption, the Interior Ministry has reported that as of 2000, the police and the prosecutor's office had opened only 36 criminal cases on graft. The highest single bribe reported by the police was

\$20,000. Ministry officials could not provide any data on the number of officials who were tried for and/or convicted of corruption.

None of the cases apparently involved high-ranking policy makers. Those who faced trial served in Ter-Petrosian'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, which Bleyan's supporters and some human rights groups condemned as politically motivated, ended in December 2000. Bleyan was sentenced to seven years in jail. In May 2001, the higher court that considered an appeal by Bleyan's lawyer reduced the sentence to five years. When authorities issued the general amnesty less than two months later, Bleyan was set free.

Likewise, former Interior Minister Vano Siradeghian was tried for alleged contract killings and abuse of power. He fled the country in April 2000. In another example of selective justice, police arrested in October 2001 the controversial former chief of Armenia's prisons, Mushegh Saghatelian, on a string of charges, including abuse of power and mistreatment of detainees. Some of the accusations date to September 1996, when Saghatelian, by most witness accounts, personally beat opponents of then President Ter-Petrosian who had been arrested in the wake of his fraudulent reelection. The current authorities moved against Saghatelian after he publicly accused Kocharian of masterminding the October 1999 bloodbath in Parliament. Saghatelian was among the senior officials who had lost their jobs as a result of the ensuing power struggle.

Also facing prosecution was Ashot Safarian, the former minister of trade and industry in Ter-Petrosian's administration. In February 2001, Safarian was arrested and charged with "illegally" writing off the \$6.2 million debt of a Georgian chemical company to the Armenian government in 1996. A few days later, a Yerevan court released him from jail pending the investigation. According to some press reports in October 2001, the prosecutors considered dropping the case.

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. In April 2001, Parliament approved a government initiative to create the Court of Economic Arbitration for the adjudication of commercial disputes. Previously, ordinary courts of first instance settled such cases. The new court formally began its work on October 20, 2001, with the swearing-in of its chairman and six justices, all of whom Kocharian appointed.

Every Armenian leader who holds public office pledges to fight corruption. Kocharian made anticorruption initia-

tives 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.

A special government commission on anticorruption initiatives held its first meeting on February 2, 2001. The commission received a \$300,000 grant from the World Bank in May to draw up a comprehensive plan to combat bribery, nepotism, and other corrupt practices that are widespread among various-level government officials. Prime Minister Markarian said at the time that rampant corruption is “one of the key challenges facing the state.” Improvement of the investment climate in Armenia was one of the main goals of the declared anticorruption drive. Markarian and other officials argued that a strict enforcement of the laws on civil service, licensing, financial disclosure, and state procurements would make it much harder for corrupt officials to extort bribes from businesspeople.

As of late 2001, though, there were no visible signs of a real crackdown on corruption and no reported cases of criminal proceedings against high-ranking officials. Armenia’s energy sector, which is still largely state owned, continued to be a major source of corruption. Officials admit that the sector incurs millions of dollars’ worth of financial losses each year due to fraud, embezzlement, and mismanagement. Some experts put the annual losses at \$50 million. This was the main reason the government decided to privatize the country’s power distribution networks.

A special parliamentary commission alleged in June 2000 that during the early and mid-1990s alone (a period during which Armenia suffered severe power shortages), corruption in the energy sector cost Armenia about \$200 million in damages. The commission implicated some former top officials in the fraud. In October 2000, Armenia’s then prosecutor-general told Parliament that “the vast majority of conclusions” made by the commission proved truthful, and he vowed to launch a criminal investigation. As of October 2001, though, the prosecutors claimed to have uncovered only \$5 million in embezzled funds. Although criminal proceedings were under way against 53 energy officials, none of the officials held a senior government post. The investigators claimed that the prosecution of more high-ranking officials was complicated by a lack of documentary evidence.

Also in 2001, the authorities were forced to investigate claims that the country’s scarce natural resources are being exploited in blatant violation of existing laws and regulations. The allegations about a “relentless plunder” of minerals, construction stones, and other resources were first made by a former deputy minister for state property, who said that wealthy individuals with government connections had been allowed to do business in the sector without having appropriate licenses. In August 2001, Minister for Industrial Infrastructures David Zadoyan, who is investigating

the allegations, admitted that many of the charges are true but said that estimates of the damage caused to the state had been grossly exaggerated. Zadoyan put the figure at \$10 million. He also stated that authorities had opened criminal cases against 68 of some 400 private firms that operate stone and mineral quarries across Armenia.

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 \$350, 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. Bribing customs and tax officials is routine. 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. Businesspeople complain that the procedures for obtaining such licenses are unclear.

The passage in August 2001 of a law on licensing could improve the situation. The law lists 22 forms of economic activity that require a license and sets a maximum time frame for their issuance. For example, the government’s licensing agency must approve or reject a license application in the food and service sector within 3 days. Companies seeking a license to engage in financial services, real estate trade, private health care, and education will have to wait up to 30 days.

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-size 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 racketeering can bring 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. Preelection 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.

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, 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. Transparency International did not rate Armenia in 2001.

ECONOMIC LIBERALIZATION & SOCIAL INDICATORS

Privatization				
1997	1998	1999-2000	2001	2002
4.00	3.75	3.25	3.25	3.25
Macroeconomic Policy				
1998	1999-2000	2001	2002	
4.25	3.50	3.50	3.50	
Microeconomic Policy				
1998	1999-2000	2001	2002	
4.25	4.00	4.00	4.00	

Armenia’s 10-year transition to a free market has produced mixed results. By mid-2001, for example, sweeping reforms had helped create an economy in which the private sector produced around 80 percent of gross domestic product. 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

\$700 million, the volume of foreign investment 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. Deindustrialization, a steep decline in educational and health care standards, and the absence of an effective social security system have shattered the foundations of civil society.

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 5.5 percent. Growth hit a record high rate of 9.1 percent in the first 11 months of 2001. Successive governments have largely followed the World Bank’s and IMF’s prescriptions for tight fiscal monetary policies and a large-scale privatization of state assets. The two lending institutions have been a key driving force behind the government policies that have ensured macroeconomic stabilization. Hyperinflation was curbed in 1994, and inflation has stayed in the single digits (in annual terms) since 1997. Inflation was not expected to exceed 3 percent in 2001. In addition, Armenia boasts a fairly sound and convertible national currency, the dram, and, according to a joint study by *The Wall Street Journal* and the Heritage Foundation released in November 2001, the most open economy in the Commonwealth of Independent States.

Armenia’s reforms have earned the country a reputation in the West as one of the best macroeconomic performers among the non-Baltic former Soviet states. The growth rates, however, have been insufficient for a tangible economic recovery. According to World Bank estimates, 55 percent of Armenians still live below the national poverty line. The World Bank’s “country assistance strategy” (CAS) for Armenia, which was circulated in May 2001, points to the “narrow base” of the seven-year growth and concludes that it had a “limited impact on job generation, and, hence, on poverty.” The report adds, “Overall, most growth has taken place outside the manufacturing sector—the very sector where Armenia may have the strongest competitive advantage, particularly through its educated labor force.”

Western donors, local economists, and some government officials agree that Armenian growth has benefited mainly the rich and has widened income disparity. President Kocharian’s chief economic aide, Vahram Nercissiantz, argued in November 2001 that poor tax collection and the resulting low level of public spending have seriously hampered the rise in living standards. In his view, which other economists share, the authorities should ensure a more just distribution of incomes if they want to make a difference in most people’s lives.

This would require, first of all, tackling widespread tax evasion. Indeed, tax revenues were expected to make up less than 15 percent of Armenia’s \$2.1 billion GDP in 2001. As a result, Armenia has an annual budget worth less than \$500 million. This amount is entirely insufficient to meet the country’s basic needs. Economists are particularly concerned about the consistently meager amount of funds that

the government spends on education and health care.

Johannes Linn, the World Bank's vice president for Europe and Central Asia, termed this lack of a substantial increase in living standards since 1994 an "economic paradox." During a visit to Yerevan in July 2001, Linn summed up the situation as follows: "On the one hand, we see good growth and macroeconomic stability. On the other hand, we still see a lot of poverty, limited domestic and foreign investment. We see a lot of progress in terms of policy reform and improved legislation, but at the same time hear a lot of skepticism among investors and the population." The chief challenge facing the Armenian government, Linn said, is to make sure that "the progress benefits everyone."

In practice, this means shifting the focus of economic reform from macroeconomic to microeconomic policy. The World Bank and other Western donors, including the IMF, argued throughout 2001 that having achieved relative macroeconomic stability, Armenia should now concentrate on improving its risky business environment. Namely, it must combat rampant corruption, enforce fair business competition, and ensure the broader rule of law. The authorities seemed to agree with this recipe for economic development. During the period in question, Parliament passed several laws that are intended to facilitate the achievement of that goal. It remains to be seen, though, whether the situation on the ground will improve significantly.

In July 2001, the National Assembly approved a three-year government plan that, if implemented successfully, will complete Armenia's decade-long privatization process. The legislature approved a list of more than 900 large and medium-size enterprises (including strategic industries in the mining and energy sectors) that will be put up for sale. Their sell-off will leave almost the entire Armenian economy in private hands. Forty percent of the listed enterprises are slated for privatization by July 2002.

It must be said, however, that privatization, though vital for growth, has not had the desired effect since its launch in 1991. As of August 2001, more than 90 percent of agricultural land and 80 percent of state-run businesses (8,436) had been privatized. According to the Ministry of State Property, the total proceeds from privatization are a mere \$350 million. Only two-thirds of that was paid in cash; the lion's share came from the sale of Armenian enterprises to foreign investors through international tenders. In general, though, foreign interest in the privatization process has been rather weak.

This trend did not change in 2001. The government sold only 82 medium-size and large enterprises to private investors for a total of just \$4 million. A Ukrainian company was close to purchasing a 51 percent controlling stake in Yerevan's famous chemical giant Nairit in a \$35 million deal with the Armenian government.

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 corruption and favoritism have often tainted privatization has only added to the public's 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 toward encouraging foreign investment and privatization. On December 26, 2000, Parliament approved a package of sweeping changes in around two dozen laws in an effort to reduce the overall tax burden on business enterprises and individual taxpayers. The changes were made along the lines of the government's proposals and replaced the hitherto existing two-tier tax scale for profits (15 and 25 percent) with a flat 20 percent rate. Companies with annual turnover of no more than 10 million drams (\$18,000) were exempted from the 20 percent value-added tax. Previously, the VAT threshold was set at 3 million drams.

Newly privatized industries and new companies formed with foreign investment receive a 2-year exemption from profit taxes. They then pay half of the profit tax for years 3 to 10. If the company is liquidated before the fifth year of operation, however, it must pay the total amount of taxes that would otherwise have been due starting in the third year after registration.

The highest rate of social security payroll tax paid by employers was reduced from 28 to 15 percent. Also, the maximum rate of the tax on the personal incomes of Armenian residents was slashed from 30 to 20 percent. Individuals with monthly revenues of up to 80,000 drams (\$145) are taxed at a 10 percent rate. In addition, the authorities lowered the threshold for nontaxable income from 28,000 to 20,000 drams. Parliament also accepted a government proposal to introduce a 10 percent tax on interest earned by bank deposits. The authorities hoped that the tax cuts would stimulate the economy and reduce incentives for tax evasion. Whether or not the cuts are the principal cause of the country's accelerated economic growth is far from clear.

Armenia imposes a variety of other taxes, including excise duties on luxury goods. Private farms are taxed at a flat 15 percent rate. Taxes levied on the private sector have been the main source of the government's budget revenues in recent years. Tax revenues have risen considerably since 1997 but are still insufficient to meet the country's basic needs. With tax evasion remaining widespread, many economists think that the informal sector of the economy may be almost equal in size to the formal economy. Lacking sufficient public funds, Armenia is heavily dependent on financial injections from the World Bank and the IMF. In May 2001, the executive boards of the two institutions approved fresh loans to Armenia after endorsing the country's three-year economic program. Shortly afterward, the IMF released the first \$13 million installment of its three-year Poverty Reduction and Growth Facility loan worth \$87 million. The

World Bank, for its part, approved a new \$50 million Structural Adjustment Credit and thereby increased the total amount of its loans to Armenia to \$654 million.

The World Bank and IMF loans seem to have been a major contributor to economic reforms over the past decade. In late 2001, the two institutions blocked the release of fresh loans after the government failed to meet its third-quarter revenue targets. The World Bank has covered approximately half of Armenia's budget deficits for the past several years. The Markarian government has moved to reduce that dependence in the coming years, and external funding is set to make up less than 30 percent of the deficit in its budget for 2002.

Armenia's overall external debt stood at \$857 million as of September 2001. Armenia's debt to Russia decreased to \$94 million in April 2001 after the Markarian government diverted \$20 million in proceeds from privatization to its urgent servicing. The move came after Russia refused to reschedule its repayment.

On December 29, 2001, the two governments announced that they had finalized an agreement that gives Russia substantial stakes in several large Armenian companies as payment for Yerevan's debt. Officials publicized what they said is the final list of enterprises that will be handed over to Russia as part of the deal. These included Armenia's largest thermal power plant, an electronics factory, and three research institutes that formerly worked for the Soviet defense industry. Russia reportedly had pushed for the inclusion of Armenia's more lucrative mining companies and power grids in the repayment scheme. Western donors were strongly opposed to the handover of the power grids, but they approved in principle the Armenian government's intention to meet the debt repayments with its assets.

The debt agreement was expected to be signed during Russian president Vladimir Putin's visit to Armenia in September 2001. However, bilateral talks dragged on for months, and as of December 2001 it was still unclear whether Russia had agreed to write off Armenia's entire debt in exchange for the five enterprises.

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. The largest and most successful of them is the Armenian branch of Britain's HSBC Holdings. It has some 13,500 clients and aggregate assets worth \$70 million. Armenia's banking legislation is seen as one of the most liberal in the former Soviet Union because it places no restrictions on foreign banks.

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 it is convertible for current account transactions. The CBA sets the rate based on the results of interbank currency trading, and its exchange rate policy has been largely stable and predictable. The same has been true for interest rates, which are fully market based.

Armenian laws guarantee fair business competition. However, government connections are essential for doing business, especially for engaging in lucrative imports of some basic goods. Although free-market mechanisms have functioned rather effectively in the retail and services sectors and domestic manufacturing, businesspeople continue to complain about harassment by tax officials and bribery among government officials. Western donors increasingly tell the authorities that better governance is vital for attracting more foreign direct investment, the total amount of which has been highly insufficient so far. FDI stood at a modest \$50 million in the first half of 2001, according to official data.

Speaking in May 2001 in New York at a major international conference on investment opportunities in Armenia, Kocharian pledged to tackle "strong bureaucratic obstruction and the evil of corruption." The conference was co-sponsored by the U.S. government and the World Bank, whose president, James Wolfensohn, urged Western companies to invest more heavily in Armenia and said that Armenia's leadership is committed to free-market economics.

However, in a major setback for Armenia later in the year, foreign investors showed no interest in the privatization of its four power grids. International tenders for a 51 percent controlling stake in the power grids failed because no foreign company submitted a bid. Only Russia's Unified Energy Systems (UES) monopoly seriously considered doing so, but it withdrew from the bidding after the Armenian government insisted (at the World Bank's urging) that it pay for the power utilities in cash. Russian natural gas and nuclear fuel generates about 80 percent of Armenia's electricity. Over the course of 2001, Russia heavily used that dependence to strengthen its economic presence in Armenia. The planned assets-for-debt deal between Yerevan and Moscow was a vivid manifestation of that fact. Analysts agree that Russia is unlikely to make sizable investments in the Armenian energy sector. Having undergone substantial reform since the 1990s, the sector still operates at a loss.

Armenia has paid a heavy price for its decade-long transition to the free market. Mass impoverishment 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. Unemployment, the greatest social problem for the average Armenian family, is the main reason hundreds of thousands of people have left Armenia since the early 1990s. (Estimates on the current size of Armenia's population vary. The government conducted a census from October 10 to October 19, 2001, that is expected to clarify the figure.) The official unemployment rate was 12 percent in August 2001, virtually the same as in 2000. However, real joblessness is far higher. Unofficial estimates (some of them based on economic surveys) range from 25 to 40 percent. The average monthly wage was 23,500 drams (\$42) in December 2001, according to official statistics. Analysts say the real figure is higher be-

cause many employees underreport wages in order to pay lower income and social security taxes.

The cash-strapped government budget of \$450 million precludes the creation of an effective social security system. A meager \$50.4 million, or 2.4 percent of GDP, was allocated for social programs in 2001. Some 200,000 socially vulnerable families are eligible to receive \$12 in monthly benefits. The pension system, based on the pay-as-you-go principle, is also in dire straits. The average monthly retirement benefit for 580,000 pensioners is only \$10. Most retirees live with and rely on their children.

The picture is equally grim in the area of public health, the needs of which the state is no longer able to meet. Patients have to pay for most medical services, but many Armenians cannot afford them. Similarly, the lack of public funds has also led to a decline in educational standards. Underpaid schoolteachers and university professors have few material incentives to provide high-quality instruction. Free education is now limited to 11-year sec-

ondary schools. More than half the country's state university students now pay their own tuition.

The difficult socioeconomic conditions in Armenia have given rise to populism and demagoguery. 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. Its viability as a state depends primarily on sustained economic development.

Emil Danielyan is a Yerevan-based journalist and political analyst.

AZERBAIJAN



Polity: Presidential (dominant party)

Economy: Capitalist-statist

Population: 8,100,000

GNI per capita at PPP \$ (2000): 2,740

Capital: Baku

Ethnic Groups: Azeri (90 percent), Dagestani (3 percent), Russian (3 percent), Armenian (2 percent), other (2 percent)

Size of private sector as % of GDP (mid-2001): 60

The scores and ratings for this country reflect the consensus of Freedom House, its academic advisors, and the author of this report. The opinions expressed in this report are those of the author.

↓↓ and ↑↑ indicate score changes of .25 or more. ↓ and ↑ indicate changes of less than .25.

NATIONS IN TRANSIT SCORES

	1997	1998	1999-2000	2001	2002
Democratization	5.60	↑ 5.55	↑ 5.50	↑ 5.56	↑ 5.44
Rule of Law	na	na	5.75	5.75	5.75
Economic Liberalization	5.13	↑ 5.00	5.00	↑ 4.92	↑↑ 4.42

KEY ANNUAL INDICATORS

	1995	1996	1997	1998	1999	2000	2001
GDP per capita (\$)	312.6	407.4	503.3	559.1	571.5	652.1	696.9
Real GDP growth (% change)	-11.8	1.3	5.8	10.0	7.4	11.1	8.0
Inflation rate	412.0	19.7	3.5	-0.8	-8.5	1.8	2.0
Exports (\$ millions)	680.0	789.0	808.0	678.0	1,027.0	1,886.0	na
Imports (\$ millions)	955.0	1,338.0	1,375.0	1,724.0	1,433.0	1,539.0	na
Foreign Direct Investment (\$ millions)	282.0	661.0	1,093.0	1,024.0	550.0	117.0	314.0
Unemployment rate	0.7	0.8	1.0	1.1	1.2	1.2	1.3
Life Expectancy (years)	69.0	70.0	70.9	71.4	71.5	71.7	72.0

INTRODUCTION

Ten years after gaining its independence, Azerbaijan maintains a strictly presidential system of government that exhibits clear authoritarian traits. Although the country has made great headway in building the foundations of a liberal democratic system, vestiges of the past remain and may take a long time to overcome. Likewise, economic reform has taken place to a certain degree but not to the extent seen in other countries in transition from communism. The government relies heavily on actual and projected income from the oil and gas industry.

The most pressing political issue in Azerbaijan is that of succession. President Heydar Aliyev, who is 79 years old, remains the center of the nation's political system. His power over all branches of the government is solid, and no major decision is made without his explicit approval. Aliyev seems in good health, but for simple reasons of age, his tenure in power is likely to be limited to a few years. Politics in both the opposition and government camps is focused on positioning for the post-Aliyev era.

Azerbaijan has experienced some positive social and economic changes during the last decade. Nevertheless, the country is still marred by hardship, and the conflict with Armenia continues to be the principal problem. Although a cease-fire has held since 1994, it has cemented the occupation of close to 20 percent of Azerbaijan's territory by Armenian troops and perpetuated the displacement of more than 1 million people, including 220,000 Azeris who were evicted from Armenia, 60,000 Azeris who were driven from Nagorno-Karabakh, 50,000 Meskhetian Turks who fled ethnic conflict in Uzbekistan, and more than 700,000 ethnic Azeris who were cleansed from areas outside Nagorno-Karabakh. Early in 2001, a high-profile negotiation session in Key West, Florida, renewed hopes for a negotiated settlement, but that optimism was gone by the summer. A solution to the conflict now seems as distant as ever, and advocates of military solutions have become emboldened.

Azerbaijan has also endured difficulties on the external front. In August 2001, for example, an Iranian warship forced Azeri exploration vessels out of Azerbaijan's Sharq-Alov field, claiming they were in Iranian waters. Subsequently, Iranian jets violated Azerbaijan's airspace on a daily basis until a Turkish diplomatic intervention forced them to stand down. Meanwhile, limited unrest erupted in the northwestern region of Zaqatala, where possibly externally inspired religious movements tried to tip the balance in this region in which north Caucasian minorities live.

In this increasingly tense regional atmosphere, developments on the domestic scene have produced mixed results. Azerbaijan is neither a fully democratic state nor a staunchly authoritarian country. Opposition forces, for example, express their dissatisfaction with government policies through a vibrant print media. At the same time, broadcast media remain under the government's control—

at least for now—though an unstoppable privatization process has finally begun. Independent TV channels, in particular, face numerous difficulties.

One setback and one advance marked the period covered by this report. Observers unanimously branded the parliamentary elections of November 2000 as neither free nor fair. These elections were a definite setback, because widespread fraud put into question the democratic intentions of the government, or at least parts of the governing bloc. In spite of this setback, the Council of Europe accepted Azerbaijan's membership in January 2001. This represents both a symbolic and a practical leap forward. It lends the Azerbaijani government a certain level of legitimacy as a member of the democratic club of nations. It also gives the COE a direct supervisory position in the Azerbaijani political scene, including on legislative, judicial, and human rights issues. In economic terms, Azerbaijan continues to struggle, but the benefits of the oil industry are gradually beginning to show. Whereas the economy in neighboring Georgia continues to deteriorate, the situation in Azerbaijan is slowly but steadily improving. This can be observed, for example, in the construction of new roads and in the restoration of historic buildings.

Azerbaijan's progress toward a democratic system of government and a market economy has been slow, and advances have been intertwined with setbacks. In addition, Azerbaijan's stability and development are excessively dependent on individuals and not on institutions. And since the mechanisms for a peaceful transfer of power are not in place, there is widespread concern that the country's fragile stability will be put in jeopardy when the time for a change in leadership finally arrives.

DEMOCRATIZATION

Political Process

1997	1998	1999-2000	2001	2002
5.75	5.50	5.50	5.75	5.75

The governmental structure of Azerbaijan is based on a strong executive. As in many post-Soviet states, Parliament is a considerably weaker force than the presidency. Moreover, the *aparət* (presidential office) wields significant authority that is comparable or superior to the government's, thus ensuring the executive's power even in the unlikely event of a conflict between the president and Parliament. This structure, coupled with the president's firm grip on the legislature, has ensured a stable political process in the country.

One of the main achievements in Azerbaijani politics in the 1990s that has contributed significantly to stability is the emergence and consolidation of a political party system. Unlike in neighboring Georgia and Armenia, where opposition politics are in a constant state of flux, Azerbaijan saw the establishment in the early 1990s of several major

political parties that remain the main opposition forces to this day. These parties have experienced only minor changes in their leadership. Although a certain level of fragmentation has undoubtedly occurred, with factions splitting away from the major parties, the main contenders for power are clear. Likewise, the government bloc contains factions with different interests and concerns. Since the resignation of three high-level foreign policy officials in late 1999, though, the ruling bloc has remained outwardly unified.

The government bloc consists of the ruling New Azerbaijan Party (YAP) and a collection of minor political groups that have been co-opted or otherwise tied to the regime. A significant number of YAP officials served under Heydar Aliyev during his tenure as leader of the Communist-led Republic of Azerbaijan from 1969 to 1982. Hence, YAP benefits from a large number of well-entrenched and experienced functionaries, though they tend to be averse to change. It also has a young wing that consists of foreign-educated and seemingly reform-minded members who have associated themselves with the ruling circles. These two groups have widely divergent worldviews, and their political as well as economic beliefs are often less than compatible.

The succession issue seems to have caused factionalism within the YAP, and whoever comes out on top of that struggle will be well positioned to become the country's next president. This power struggle may very well split YAP once Heydar Aliyev is out of office. In addition to the media's and the opposition's increasingly harsh criticism of the regime, the presence of the president's son, Ilham Aliyev, in the so-called reformist wing of the party has fueled speculation that the younger Aliyev is being groomed to succeed his father. Lending further credence to the allegations, Ilham Aliyev was elected first deputy chairman of the party in November 2001.

To date, though, Ilham Aliyev has not launched a separate program or political team of his own that would confirm his modern and reformist credentials. However, given that Azerbaijan in many respects remains a traditional society, it is almost unthinkable that a son would publicly articulate a different political program while his father is still in office. In a sense, then, Ilham Aliyev is basing his independent political career on being a reformer but is unable to prove his credentials.

The Azerbaijani opposition displays tendencies toward both fragmentation and cooperation. Most major parties in today's political sphere find their roots in the Azerbaijan Popular Front Party (AXCP) of the late 1980s that led Azerbaijan to independence and governed the country from 1992 to 1993. The differences among these parties are centered more on personalities than on political ideology. In spite of having fragmented into several dozen parties, only a few of which can be considered major, the opposition has exhibited a substantial level of cooperation, whether in organizing demonstrations or simply coordinating policy in response to government policies or actions. Leftist forces are represented mainly by the Social Democratic Party and

the Communist Party but have little public appeal. Center-right and nationalist parties dominate. The opposition parties with the largest degree of popular support are the Musavat Party, the Azerbaijan National Independence Party (AMIP), the Democratic Party, and the AXCP, with the possible addition of the Liberal Party and the Vatandash Hamrayliyi Partiyasi (Civil Solidarity Party).

The Musavat Party benefits from a relatively strong cadre and is perhaps the least personality centered of the Azerbaijani parties. Founded in 1911, it is the oldest political party in Azerbaijan and is credited with establishing and ruling the first Azerbaijani republic between 1918 and 1920. Musavat produces the most popular political newspaper in the country, *Yeni Musavat*, and claims to be the largest opposition party. However, the relative lack of charisma of parts of its leadership and its association with the failed AXCP government of 1992–1993 are liabilities.

The AXCP is to an even higher degree tainted by its experience in the early 1990s. It has been further marred by tensions within the party. When former President Ebulfez Elçibey returned from internal exile in 1998, the party split in two wings: the “classics,” led by Elçibey, and the “reformers,” led by the 40-year-old deputy chairman, Ali Kerimov. After Elçibey's death in August 2000, the rift within AXCP led to its division into two irreconcilable wings, both claiming to be the legitimate ruling bodies of the party. The reformers, which clearly have a larger following among the party's rank and file, define themselves as centrist, dissociate their wing from neoliberal economic ideas, and promote a limited role for the state in the economy.

AMIP, led by Etibar Mamedov, is a main contender for a leading role in the opposition. It is decidedly liberal in the economic sphere, advocating a minimal economic role for the state, and has stayed in loyal opposition to both the AXCP government and the Aliyev regime. This has helped AMIP to emerge as the largest opposition party together with Musavat.

Finally, the Democratic Party is led by Rasul Guliyev, a former Speaker of Parliament under Aliyev. Guliyev is currently in exile in the United States after having been indicted for corruption while director of an oil plant in Baku. The Democratic Party stands out as a splinter group, not of the AXCP but of the Aliyev government.

It should be noted that these four main opposition parties broadly share Aliyev's foreign policy. Their main differences with the regime are related to the internal political and economic situation in the country. Musavat and the AMIP seem to be the two strongest opposition parties today.

The relationship between the government and opposition in Azerbaijan is generally hostile. The opposition, especially after the flawed elections of 1998 and 2000, denies the government's legitimacy and calls for its unconditional resignation and the holding of new and fair elections. The government, meanwhile, dismisses the opposition as unserious and provocative. There has been no dialogue between the government and the opposition since mid-2000,

when a row over the composition of the Central Electoral Commission (CEC) for the 2000 parliamentary elections led to an opposition boycott that incapacitated the body. In response, the government changed the relevant law and removed the opposition members' effective veto right over electoral commissions at all levels.

Yet under the surface, the situation is more complex. The opposition is divided over how to deal with the government, and a rift appears to have emerged. The AXCP and AMIP have traditionally been less oppositional and have not rejected cooperating with the government when it has been possible to strike compromises. On the other hand, among the larger parties, Musavat and the Democratic Party are more radical in their opposition to the current authorities and refusal to cooperate with the government. Musavat in particular is basing its political strategy on staunch opposition, thereby hoping to gain popularity among a disenchanted population.

To a large extent, the rift between the government and the opposition stems from the legislative elections of November 2000. These elections were heralded as having the potential to play a crucial role in the stabilization of Azerbaijani politics. During the late 1990s, Azerbaijan clearly had achieved important progress in democratization. Significant legislative reform had prepared a good foundation for elections, press censorship had been abolished, and opposition media functioned, albeit not without difficulties. These positive developments, together with the regime's responsiveness to international criticism and advice, generated hope for improvements in the conduct of elections. In addition, with a looming succession crisis, it was thought, a legitimately elected Parliament could become a strong institution capable of handling the crisis after Heydar Aliyev's eventual departure from power.

In practice, though, the November 2000 parliamentary elections proved to be a watershed event of a different kind. As the election approached, ominous signs of undue government interference in the process became apparent. The registration of candidates was a central issue. Another was the use of state television—the only mass media available in many rural areas—to present an unmistakably biased view of the ruling party.

The Azerbaijani Parliament consists of 125 seats, of which 25 are awarded through proportional representation on party lists. The remaining 100 members are elected in single-member constituencies. Currently, though, the single-member Khankendi seat in Armenian-occupied Nagorno-Karabakh is vacant. Few parties have a truly nationwide representation, and only YAP and Musavat can lay claim to having a thorough infrastructure in all regions of the country. As a result, for the 2000 elections, not every party ran its own candidates in every region of the country. Instead, the opposition parties collectively secured a presence in practically every precinct by working together to present one credible candidate who had a good chance of winning.

A major problem arose, however, regarding the registration of candidates both for the proportional party list and for the single-member constituencies. Although 13 parties presented the 50,000 signatures necessary for registration on the party list, the CEC rejected the applications of 8, including Musavat and the AMIP, on dubious grounds. The CEC claimed that several thousand signatures had been forged without presenting conclusive evidence or leaving any possibility for the parties in question to address the claims. The situation was similar in the single-member constituencies, where more than half of the candidates were refused registration. This led to suspicion that the regime was attempting to predetermine the outcome of the election by regulating the list of candidates and participating parties, hence relieving itself of the need to alter the results on election day.

International criticism focused on the ban on parties in the comparatively less important proportional election. The single-member constituencies that were to elect 80 percent of Parliament received much less attention. As a result, in a decision whose constitutional basis was questionable at best, President Aliyev asked the CEC to reverse its earlier ban and allow all 13 parties to participate in the proportional vote. In contrast, only a small number of the rejected candidates for seats in single-member constituencies had their cases reviewed. Moreover, since the CEC reversed its decision only on October 11, the parties that received permission to contest the election had less than three weeks to set up a campaign. Voting was scheduled for November 5. The parties also had difficulty finding printing offices that were willing to produce their posters and flyers.

During Azerbaijan's brief electoral history, the Central Electoral Commission and its corollaries at the district and precinct levels have been a constant issue of concern. When the opposition boycotted the 1998 presidential election, it did so largely over the composition and functions of the CEC. This was a major issue again in 2000 when, under heavy international pressure, Parliament adopted a reformed electoral law in June. It also passed a new law on the CEC that gave the opposition the possibility to block a quorum at all levels of the electoral commission and thereby to affect decision-making power.

The opposition wasted no time in exercising this power. It boycotted the CEC's first three meetings and in practice incapacitated the body. In response, the government pushed through a revision of the law in July that removed the opposition's de facto veto right and gave the ruling party the power to appoint electoral commission chairmen at all levels. Still, the OSCE and other international organizations concluded that the law provided "a comprehensive legislative framework for the conduct of elections" and presented "significant improvements as compared to the previous law."

In the week preceding the elections, though, a number of additional precincts were created on military bases and in prisons throughout the country. Both domestic and in-

ternational observers had difficulty gaining access to these polling stations. In addition, an audit of voter registration lists showed an error margin of 30 percent. That is, the lists included people who were not living at their stated address, were deceased, or simply were not real people. On election day, numerous violations were noted. These included various forms of ballot stuffing, the falsification of results protocols, and intimidation of voters and opposition members of precinct-level electoral commissions.

More important, perhaps, the official voter turnout figures, which precincts reported hourly, were artificially altered from early on in the day. Observers noted numerous instances in which official turnout figures were two or three times higher than the turnout observed on location. Official figures showed a turnout of 68 percent, whereas observers noted an actual turnout of approximately a third of the electorate. Furthermore, the computerized system used at the district level to tabulate precinct results and send them electronically to the CEC exhibited serious flaws. Domestic and international observers were denied access both to the computers and to the data entered in them. One might call these events electronic ballot stuffing.

By the evening of November 5, the ruling YAP claimed victory with more than 70 percent of the vote. Only one opposition party, the AXCP, was initially acknowledged to have narrowly overcome the 6 percent threshold to gain seats on the party list. Officially, Musavat, the AMIP, and the Democratic Party each received between 1.5 percent and 5 percent of the vote. These figures stood in stark contrast to the results of independent exit polls and to the vote counting that most international observers witnessed. According to these unofficial sources, the YAP received far from a majority of votes. In some, but by no means all, precincts, the ruling party did receive a plurality of votes. In others, individual opposition parties received greater support. In particular, Musavat enjoyed a large following and established its position as the main opposition party.

In many areas, Musavat reportedly emerged victorious, even if, as its officials claimed, it did not receive 50 percent of the vote. The AMIP also displayed strength. The showing of the AXCP, no doubt due to its internal rifts, was weak in comparison. Many opposition candidates seemed to challenge the YAP, but its candidates prevailed in all but a few single-member constituencies.

The composition of the newly elected Parliament left the leaders of the main opposition parties outside the legislature. Musavat, the AMIP, and the Democratic Party were all denied representation on the party list system. Nevertheless, they were able to secure victories in a few single-member constituencies. Initially, only the AXCP was reported to have passed the 6 percent threshold for proportional representation. This situation rapidly led to a unanimous opposition boycott of Parliament. Although the AXCP somewhat reluctantly participated in the boycott at first, it soon decided to take advantage of the privilege of being "permitted" into Parliament. Moreover, two

minor parties, the Civil Solidarity Party and the Communist Party, officially passed the threshold. However, these parties hardly waged a campaign and, according to all estimates, had a very low following in Azerbaijani society going into the election. It was fairly apparent, then, that their inclusion in Parliament had been engineered. With the entry of three nominally opposition parties in Parliament, the ruling party's take of the vote declined to 62 percent.

On November 6, the OSCE and the Council of Europe issued a short joint report giving roughly equal importance to the progress made in the previous five years and the significant shortcomings of the election and the counting process. Although the report noted "serious deficiencies in regard to implementation of the election legislation," it proved instrumental in securing Azerbaijan's preliminary admission into the COE on November 9. The COE observed that Azerbaijan was "willing to comply with Council of Europe standards" at the same time that it asked the government of Azerbaijan "to submit, within a month, a report responding to the criticisms voiced by the international observer mission after the parliamentary elections on 5 November 2000, and to rectify the instances of reported frauds." In the report it issued on November 7, the U.S.-based National Democratic Institute expressed more unambiguous disappointment with the conduct of the vote. The organization noted that "the November 5, 2000, Parliamentary elections represent a continuation of a pattern of seriously flawed elections in Azerbaijan that fail to meet even minimum international standards."

Many observers have criticized Azerbaijan's admission into the Council of Europe in spite of the highly flawed elections. Yet its decision must be viewed in proper perspective. Russia was admitted in 1996 at the height of its war in Chechnya and while it was in violation of some of the COE's most central principles. Likewise, had the COE decided against admitting Azerbaijan, Armenia would have joined alone, even though its military occupation of Azeri territory is in direct violation of COE provisions. By admitting Russia in 1996 and linking Azerbaijan's membership with Armenia's, the Council of Europe had placed itself in a situation in which it had little choice but to accept Azerbaijan regardless of the conduct and outcome of the election.

Although parliamentary elections are an important event, Azerbaijan remains a presidential republic. The most recent presidential elections took place in 1998, and an opposition boycott helped Aliyev to an easy victory with 75 percent of the vote. Only one major contender, AMIP chairman Etibar Mamedov, competed against him. Observers reported that Aliyev clearly received a majority of the vote. They doubted, though, that he received the constitutionally mandated two-thirds of the vote needed to win in the first round, and the outcome led to widespread allegations of fraud.

The next election is scheduled for 2003, and President Aliyev has declared his intention to run. Opposition voices claim that his candidacy would violate the spirit of the Con-

stitution, which stipulates that a president can sit only for two consecutive terms. Aliyev was elected in 1993 and re-elected in 1998; however, the Constitution was promulgated only in 1995. Legally speaking, then, Aliyev is eligible to run in 2003 since his current term can be considered his first.

This election is likely to determine Azerbaijan's future, and opposition candidates are already beginning the scramble to become the common, unified candidate. The succession issue has become the major determinant of Azerbaijani political life, and with Aliyev solidly in command, the opposition is fully aware that it has little chance of coming to power while Aliyev is still alive and well. Their role extends only to influencing government policy by capitalizing on public opinion or foreign pressure.

In this deadlocked context, the opposition is focusing its strategy on preventing the regime from engineering a smooth succession of power either to Ilham Aliyev or to some other member of the ruling elite. Its influence is strong enough to create substantial concern in ruling circles regarding the viability of a dynastic succession, and already divisions within the ruling bloc and attempts to co-opt certain opposition forces suggest that the government is taking this group seriously. However, the country's stability is endangered by the intense focus on succession. When succession finally becomes a reality, a major political struggle is likely to break out, and the stakes for everyone involved will be extremely high.

Civil Society

1997	1998	1999-2000	2001	2002
5.00	5.00	4.75	4.50	4.50

In 2001, Azerbaijan showed further progress in the development of civil society. Most of the developments took place within the internal capacity of the NGO sector rather than in its external influence on political decision making in the country. According to data from the Ministry of Justice, there are around 1,400 NGOs registered in Azerbaijan. Nearly 100 new NGOs were registered in 2000 alone. However, according to the U.S.-based Initiative for Social Action and Renewal in Eurasia, only 300 NGOs are truly active in the country. See chart for their spheres of activity.

The new Law on Nongovernmental Organizations and Funds, which Parliament adopted on June 13, 2000, regulates the activities of NGOs. This law replaced the previous law dating from 1992 and now forms the main legal basis for the activities of NGOs. Nearly 150 local NGOs participated in the discussion of the law together with representatives of Parliament and the president's office, but only a few of their suggestions were accepted. Although the law's aim was to ease the registration process for NGOs, it does not differ much from its predecessor.

One of the main features of the law that dissatisfies NGOs is Section 2.4, which does not allow local NGOs

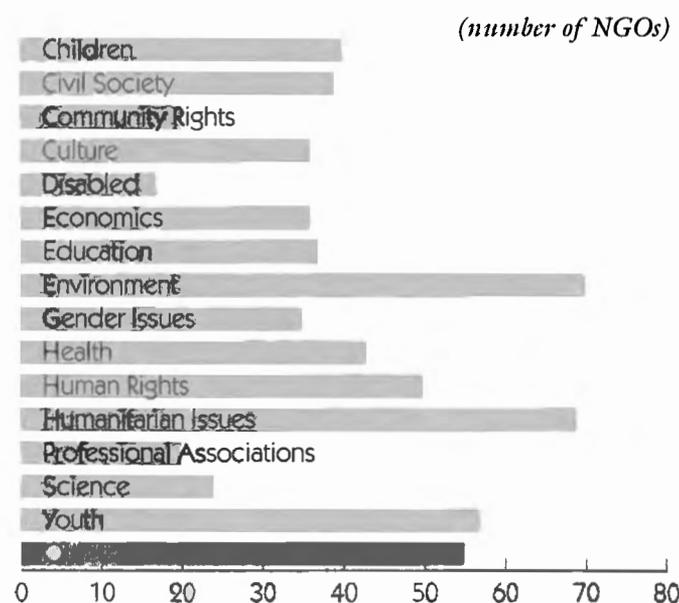
receiving grants from foreign legal entities to participate in political processes. As a result, since most of the local NGOs depend heavily on foreign funding, they were not allowed to monitor the November 2000 parliamentary elections. Another issue of contention for local NGOs remains the registration process with the Ministry of Justice. The Law on the Registration of Legal Entities clearly specifies a time frame for processing the applications of NGOs, but most often groups have to wait for months beyond that before they are registered.

According to Azerbaijan's newly adopted tax code, NGOs in Azerbaijan do not pay taxes on grants. Instead, they pay a 27 percent tax on any profit that they make on commercial activities. The wages of individuals working with NGOs are taxable at the progressive scale rate.

The public's perception of NGOs remains weak, especially in the areas outside the capital, Baku. According to a survey that ISAR conducted in 2000, only 7 percent of Azerbaijan's population has some awareness of what the NGO sector is. It must be noted, however, that media reports on the activities of NGOs have increased and NGO relations with governmental bodies have improved over the past few years. To create more awareness of this sector among the general population, as well as within governmental and business sectors, ISAR organized an annual fair of Azerbaijani NGOs for the second consecutive year in 2001. This event took place on May 25 and 26 in Baku. Nearly 80 domestic NGOs from various regions of the country participated in the fair.

In 2001, the internal capacity of Azerbaijani NGOs and the third sector in general experienced progress in certain areas. An increase in Internet access and the availability of Internet resources are significant changes from previous years. The Open Society Institute, ISAR, and Azerweb

NGO Areas of Activity



Source: Initiative for Social Action and Renewal in Eurasia

(managed by Save the Children) provide some of the best Internet resources, including a directory of local and international NGOs as well as news-related items. Individual organizations also showed greater attempts to create their own Web sites. The local NGO Azerbaijan Young Lawyers Union has also implemented an e-mail project called Electronic Legal Assistance to NGOs. From July 25 to August 1, 2001, an on-line conference among 40 NGOs of Azerbaijan, Georgia, and Armenia took place with the help of the U.S.-based organization Project Harmony.

Western organizations have paid significant attention to the training of NGOs in Azerbaijan. In March 2001, for example, ISAR sponsored a four-day conference entitled "The Role of NGOs in Azerbaijani Society." In addition to representatives of governmental bodies, businesses, and the mass media, the conference hosted over 100 NGO representatives from Baku, Sheki, Ganja, Mingchevir, Lenkoran, Salyan, and Quba. More than 15 specialists from Western and Eastern European countries also took part in the event, which was intended as a forum for exchange of information and expertise on how to improve relations between NGOs and other sectors of society. Nevertheless, the internal organizational capacity of NGOs and their management structures remains weak. Most NGOs are organized around one or two individuals, who obtain their skills and know-how through NGO resource centers or individual training sessions.

NGOs that work on women's issues have also shown progress in their activities. In August 2001, the Center of Young Leaders organized a women's leadership training seminar in the Gazakh region. Around 8 women activists from Azerbaijan also participated in a three-day training seminar in Georgia that was organized by the Institute for Democracy in Eastern Europe. In total, the event brought together 32 women from the south Caucasian countries.

Azerbaijani NGOs remain heavily dependent on foreign grants and assistance, and a shortage of funding limits their activities and capacity for growth. Local philanthropy is poorly developed, and the state provides almost no funding. Assistance from major local business entities goes to specific NGOs, usually based on personal connections. Thus, competition for limited resources contributes to an unhealthy environment for cooperation among local organizations.

Azerbaijani NGOs showed little progress in participating in the political life of the country. Although some groups have made proposals on the solution of the Nagorno-Karabakh conflict and other political events in the country on several occasions, no real mechanism for their participation in decision-making processes exists. NGOs also have little influence on matters of decentralization and local self-governance.

A major setback for the activities of NGOs has been the turmoil associated with the work of foreign missionary organizations and so-called religious propaganda. For example, in response to the danger of Wahhabism, which reportedly has

been spreading in the country, President Aliyev established the State Committee on Religious Affairs in 2001. This body immediately started the reregistration process of nearly 2,000 mosques, churches, and other religious communities and organizations. According to Rafiq Aliyev, chairman of the committee, the state has reregistered only 410 groups.

Religious organizations initiated activities in Azerbaijan almost immediately after the country became independent. Islamic groups from different countries, including Iran, Turkey, Saudi Arabia, and the UAE, have financed the construction of many new mosques and the establishment of religious schools, or *madrassas*. Moreover, a number of Christian missionary organizations have also begun activities in the country, often under the cover of charity or humanitarian outreach. These organizations are more active in the country's provinces than in Baku.

For most of the 1990s, these religious organizations conducted grassroots work without posing a threat to the national security of Azerbaijan. However, the government has pursued criminal investigations into the activities of the Islamic Party of Azerbaijan, which is allegedly funded by Iran, and the religious group Jeyshullah, which assassinated famous historian and political figure Ziya Bunyatov. Many Muslim groups have also sent Azeri youth to study Islam in foreign countries.

The educational system in Azerbaijan is still heavily dependent on the state. According to the Ministry of Education, there are 48 institutions for higher education in the country, 30 of which are state owned and 18 of which are private. Although there is no official political influence over these institutions, public funding effectively keeps the state in control of the system.

Independent Media

1997	1998	1999-2000	2001	2002
5.50	5.50	5.50	5.75	5.50

Azerbaijan's entry in the Council of Europe in 2001 raised expectations for the faster development of a free and independent media in Azerbaijan. In practice, though, there was not much positive change for most of the year, and representatives of the media continued to struggle with the authorities in their daily work. However, a standoff between the media and the authorities at the end of 2001 led to some significant reforms.

According to the president's office, there were more than 650 different media outlets in Azerbaijan in 2001. These include newspapers, magazines, news agencies, journalists' unions, and television and radio companies. The majority of these were established by political and private entities.

Although official censorship was abolished in 1998, newspapers and magazines have been hit hard by government pressure. According to the Azeri Committee on

the Protection of Journalists Rights, nearly 70 journalists were assaulted or subjected to various kinds of pressure from government authorities in the first half of 2001. The total amount of fines extracted from newspapers was 310 million manats (roughly \$65,000) during the same time period.

Authorities also effectively use the judicial system to put pressure on print media. In 2001, for example, the chief of staff of the president's office sued Shahbaz Khuduoglu, editor of the newspaper *Milletin Sesi*. Likewise, the mayor of Baku filed charges against the editor of the newspaper *Bakinskiy Bulvar*. Courts found both newspapers guilty of assaulting the dignity of these individuals, sentenced the editors to six months in prison, and closed the papers down. However, under heavy pressure from local and international media unions, President Aliyev granted amnesty to both editors. The government also uses fiscal policy to put pressure on newspapers. Often by increasing the tariffs on paper, authorities have tried to limit the ability of newspapers to expand their markets.

One of the largest—and truly independent—newspapers is *Zerkalo*, which has a daily circulation of 5,500 copies. *Zerkalo's* weekly publication enjoyed a circulation rate of 10,000 until former editor in chief Rauf Talishinskiy established his own newspaper, *Echo*, and thereby divided the readership. Although reasons for this split are still not clear, there are rumors that *Zerkalo* experienced an ideological rift among its own staff. Other major newspapers remain the *Yeni Musavat* (18,500 copies), *Azadlig* (6,000 copies), and *Uch Nogte* (8,500). Most newspapers are closely affiliated with political parties. The few English-language newspapers in Azerbaijan are aimed primarily at foreign citizens and the business community.

A major change for the print media in the country was the restoration of the Latin alphabet in 1992. Azerbaijan had used this alphabet during from 1918 until 1939, when the Cyrillic alphabet was imposed. However, since the use of Cyrillic for half a century meant that most Azerbaijanis could not read the Latin alphabet, newspapers continued publishing their text in Cyrillic. Interestingly, many newspapers and magazines did print their headlines in Latin. In June 2001, though, a presidential decree forced all print media to use the Latin alphabet exclusively, starting from August 1. A number of media outlets protested the decision and argued that it was intended to lower the public's ability to acquire information, given its lack of knowledge of the Latin alphabet. Moreover, observers of the situation predicted that the circulation of newspapers and magazines would fall. However, such fears were not realized, and leading newspapers actually saw an increase in demand immediately after August 1. This move is important, as it brings Azerbaijan closer to the Western world and, in particular, to Turkey.

The television industry in Azerbaijan also experienced many difficulties in 2001. While two new private broadcasters, Azad Azarbaycan and Lider TV, were established

during the year, another private company, ABA TV, was forced to close down. Tax authorities seized equipment worth \$320 million from ABA, claiming that the company had obtained it illegally. The president of ABA, Faig Zulfugarov, subsequently fled to the United States, where he asked for political asylum. There, he blamed the shut-down on the station's record of independent reporting. Regional broadcasters were also under substantial pressure by local authorities in 2001. Hayal TV and Gutb TV, which are based in the town of Quba, were forced to close down for allegedly lacking official permission to broadcast. However, both stations were formally registered with the Ministry of Justice. In truth, the shut-downs appeared to be linked to demands from the local governmental administration for majority shares in the companies and equal representation among their leaderships. ANS TV remained the most independent and trusted television and radio company in Azerbaijan, with Space and Lider TV following.

The state-run broadcaster operates two television channels but is not popular owing to the inferior quality of its programs. However, these are the only channels that cover the entire territory of the republic. Many regions do not have access to private channels. According to the chief of the presidential Office on Sociopolitical Affairs, Ali Hasanov, a new bill on public television was in preparation in 2001 and scheduled for submission to Parliament at the end of the year. The expertise of the Council of Europe, as well as that of Russian, German, and British public television, was taken into consideration in the drafting of the bill.

One of the most important developments in the area of independent media in 2001 was the president's decree of July 20 on the establishment of the National Council on Press, TV, Radio, and the Internet. This law, aimed at regulating the media sector in the country, will create a national body of 39 members that consists of three standing commissions on the press, television and radio, and the Internet. The president will appoint 18 members of the council, and public organizations will nominate the rest. To date, though, the council has failed to bring about major changes in the country's media.

The difficulties surrounding the media's operation in the country were highlighted on December 12, 2001, when an unsanctioned demonstration outside the headquarters of the YAP was dispersed by force. The demonstration took place after the YAP Congress had accused opposition media outlets of undermining Azerbaijan's statehood. International journalism NGOs and the secretary general of the Council of Europe intervened and demanded an end to such harassment. President Aliyev stepped in a week later and held a three-hour meeting with representatives of the media. Importantly, he called the YAP's accusations against the independent media plainly "wrong."

Having taken the views of the media into account, President Aliyev signed a decree on "additional measures on increasing state attention to the mass media" and allowed

significant amendments to the country's mass media law on December 28. These amendments abolished the system of media registration, removed prohibitions on advertisement and financing, and cancelled legislation that had allowed executive authorities to close media outlets. On the president's recommendation, libel lawsuits by state officials against the media were also dropped. Together, these changes amounted to a dramatic improvement in the country's media legislation. They might also translate into a real change in attitude on the part of the leadership. Journalists expressed hope that the president's newly-found relationship with the media will trickle down and influence the attitudes of lower-level officials as well.

Azerbaijan's journalist and media unions experienced further growth and development in 2001. For example, a new organization was recently established whose membership includes journalists from Azerbaijan, Georgia, Chechnya, Kabardino-Balkaria, Adygeya, Ingushetia, and Karachayev-Cherkessia. Azeri journalists also expanded their regional and international links by obtaining membership in various international associations and unions. Some of the major journalists' unions in Azerbaijan are Yeni Nesil, led by Arif Aliyev; the Journalists' Trade Union, led by Azer Hasret; and the Baku Press Club.

The Internet continues to be a growing industry in Azerbaijan. The number of Internet clubs in Baku, as well as in the regions, has grown at a staggering rate. This, in turn, has provided cheaper and faster Internet access to the public, especially to young people. The development and expansion of the Internet has also contributed positively to the growth of independent media. However, much to the dissatisfaction of the media, the Ministry of Communication recently raised tariffs on Internet usage.

Governance and Public Administration

1997	1998	1999-2000	2001	2002
6.25	6.25	6.25	6.25	6.00

Governance and rule of law in Azerbaijan have been severely impeded by the continuing occupation of close to 20 percent of the country's territory by the Republic of Armenia. The former Nagorno-Karabakh Autonomous Province is now administered by officials of the self-styled and unrecognized Nagorno-Karabakh Republic. In addition to Nagorno-Karabakh, the provinces of Kelbajar, Jibrail, Lachin, Qubati, and Zangilan, as well as large parts of the provinces of Agdam and Fizuli, are under occupation. As a result of the ethnic cleansing that occurred between 1992 and 1994, the entire populations of these provinces and the whole non-Armenian population (mainly Azeris and Kurds) of Nagorno-Karabakh were internally displaced. Hence, there is a vacuum of recognized government authority in these areas. Under current Azerbaijani legislation, Nagorno-Karabakh is no longer autonomous. However, Azerbaijan would offer to grant

Nagorno-Karabakh a high level of territorial autonomy in the event that a negotiated settlement of the conflict is reached and Armenian troops are withdrawn.

Azerbaijan also suffers from the fact that its territory is divided into two noncontiguous parts. That is, Nakhchivan, a small portion of Azerbaijani territory, is wedged between Iran and Armenia and has an 11-kilometer border with Turkey. According to the 1995 Constitution, Nakhchivan has the status of an autonomous republic. It is populated almost exclusively by Azeris.

The Azerbaijani Constitution provides for the division of powers among the legislative, executive, and judicial branches of government. However, even a quick glance at the Constitution reveals the unmistakable dominance of the executive branch and, in particular, of the office of the president of the republic. The president appoints the prime minister and the cabinet, signs laws, can issue decrees that have the force of law, and may overrule Parliament if it thrice refuses his candidate for prime minister.

These large presidential powers are not unusual in former Soviet states, and the constitutional powers of the legislative and judiciary branches are still relatively significant. For example, since many of the president's powers are exercised "in coordination with" the legislative branch, Parliament could theoretically block many presidential initiatives. In addition, the legal basis for Parliament to be the ultimate rule-making institution is present. However, in practice, both the legislative and judicial branches are relatively weak and, for most practical purposes, heavily influenced by the presidential office. This is especially the case for Parliament, which is under the tight control of the president's YAP.

Members of the media regularly attend sessions of Parliament. This, in turn, gives the public access to legislation. However, concerns have been voiced that the executive amends legislative acts after Parliament passes them.

Like the national level, the subnational level supports both appointed and elected administrations. The centrally appointed executive representatives in the regions wield the most power because they are direct extensions of the central executive power. A major development in 1999 was the introduction of multiparty elections for municipal governments. However, the first elections were marred by substantial allegations of irregularities. In comparison with the executive representatives, though, municipal governments have only limited powers. They are responsible for local taxes and payments, municipal property, local social security, and economic development. They also raise revenues through taxes and are in charge of their own budgets.

To a large extent, the civil service operates as it did in the Soviet period and is plagued by inefficiency and corruption. Major structural reforms have not been implemented, and the wage levels of civil servants have fallen drastically to a few dozen dollars a month. This is hardly conducive to building an effective and dynamic civil service with an ambition to serve the public. The lack of for-

eign assistance has made matters worse. Here, as in many other areas, Section 907a of the U.S. Freedom Support Act has been a big problem for Azerbaijan's development. This section, which was added under heavy pressure from the Armenian lobby at a time when Azerbaijan had no diplomatic representation in the United States, prohibits government-to-government assistance from the United States to Azerbaijan because of its "blockade" of Armenia. Successive American administrations have tried to remove this piece of legislation but failed.

In the aftermath of the September 11 terrorist attacks and in light of Azerbaijan's immediate and unwavering support for the United States, Congress passed a bill sponsored by Senator Sam Brownback (R-Kans.) that gave the president the authority to waive Section 907a until December 31, 2002. The bill also gives the president the right to extend that waiver indefinitely. The repeal of Section 907a will mean increased assistance to Azerbaijan, especially for controlling its borders more effectively. It may also lead to more technical assistance to the government on economic policy. Yet for the past nine years, this provision has prevented the United States from giving assistance that could have contributed to reforming or training Azerbaijan's civil service.

RULE OF LAW

Constitutional, Legislative, and Judicial Framework

1997	1998	1999-2000	2001	2002
5.50	5.50	5.50	5.25	5.25

With Azerbaijan's admission to the Council of Europe, many local and international observers expected great changes in the judicial and legislative systems. To date, the country's legislative foundation has been reformed greatly to bring it up to European standards. However, there is room for improvement in the areas of human rights and the rule of law.

The Constitution of Azerbaijan, which was adopted by a referendum on November 12, 1995, provides for an independent judicial system. In practice, though, judges and courts depend heavily on the executive branch. The president appoints Supreme Court and Constitutional Court judges, who are subject to confirmation by Parliament. The president directly appoints lower-level judges. Courts of general jurisdiction hear criminal, civil, and juvenile cases. District and municipal courts try the majority of cases. The Supreme Court may also act as the court of first instance, depending on the nature and seriousness of the crime.

The government appoints prosecutors to offices at the district, municipal, and national levels. Prosecutors are ultimately responsible to the minister of justice. The Constitution prescribes equal status for prosecutors and defense attorneys before the courts. In practice, though, the pre-

rogatives of prosecutors outweigh those of defense attorneys. Article 65 of the Constitution also provides for public defenders. Investigations often rely on obtaining confessions rather than obtaining evidence against suspects. There is widespread belief in the country that judges and prosecutors are corrupt. In the past year, the executive branch has used courts on numerous occasions to put pressure on mass media outlets. Some of the prominent court cases led to the imprisonment of editors at the newspapers *Milletin Sesi* and *Bakinskiy Bulvar*.

The Constitution provides a full range of civil rights and freedoms. Among them are rights to property (Article 29), intellectual property (Article 30), national and ethnic identity (Article 44), and use of one's mother tongue (Article 45). Although the government respects most of these rights in practice, it frequently obstructs free assembly and free association. Political parties have been prohibited from conducting street rallies on numerous occasions, and the registration process at the Ministry of Justice has often been an impediment.

Membership in the Council of Europe has proven to be of noticeable benefit, because Azerbaijan continues to improve its legislative foundation. In 2001, the Milli Mejlis (National Assembly) ratified the European Convention on Human Rights, which will enable Azerbaijani citizens who are unhappy with the rulings of local courts to appeal directly to the European Court of Human Rights. At year's end, Azerbaijan also signed the European Convention on Extradition. The convention provides for extradition of persons who are wanted for criminal prosecution or sentencing, but it does not apply to political or military offenses. A new criminal code, civil code, family code, and code on administrative violations were all adopted in 2000 to replace Soviet-era laws.

The Constitutional Court of Azerbaijan, created in 1998, is the highest judiciary body in the country. Upon request from high state bodies, the Constitutional Court interprets the Constitution of Azerbaijan. It consists of nine judges. The Constitutional Court has yet to prove its independence from the executive branch, because most of its decisions have been on nonsensitive and nonprovocative matters such as the housing code, pensions, and the labor code. The Constitutional Court does have a good record of cooperation with international organizations and the Constitutional Courts of other countries. The Commission on Human Rights, which was created in 1999 with a \$400,000 grant from the UNDP, has failed to produce significant improvements in the human rights situation in the country.

In 2001, President Aliyev made changes to the State Commission on Pardons. Whereas the old commission comprised only governmental officials, the new one includes representatives of NGOs and the mass media. The opposition has argued that these changes are symbolic and intended to deceive the international community, whereas the real workings of the commission will not change. Throughout the year, President Aliyev issued several decrees that par-

doned some prisoners and lowered the sentences of others. The most prominent pardon was the one given to Nariman Imranov, the former minister of national security, whose life sentence was changed to 15 years in prison. In February 2001, Parliament approved the Amnesty Law, submitted by President Aliyev. Under the law, almost 2,300 prisoners are eligible for release and a further 800 will have their terms reduced.

During the period covered by this report, much of the legal debate centered on political prisoners. Before being admitted to the Council of Europe, the government committed itself to freeing all political prisoners in the country. In practice, however, this proved to be a problematic task, as the government, local human rights organizations, and the COE couldn't agree on the definition of "political prisoner" and, thus, on the list of all persons to be released. The numbers varied widely, from 50 listed by the U.S. State Department to 700 according to the Human Rights Center of Azerbaijan. Finally, on October 25, 2001, after numerous monitoring visits by its experts, the Council of Europe unveiled a list of 23 jailed persons whom it considers political prisoners. Those 23 include former Interior Minister Iskander Hamidov; former Defense Minister Rahim Gaziev; former coup leader and Prime Minister Suret Huseinov; the leader of the self-proclaimed Talysh-Mughan Republic, Alikram Humbatov; and former Ganja (city) Police Chief Natig Efendiev, who was extradited from Turkey the previous year.

Another major legal change in 2001 was the imposition of tighter governmental control over the activities of religious groups and sects. Article 48 of the Constitution provides that persons of all faiths may choose and practice their religion without restrictions, and the Azerbaijani government generally respected this right. In 2001, however, the growing threat of Wahhabism and other forms of religious fundamentalism in the northern regions and in Baku forced the government to crack down on religious activity in the country. On June 21, President Aliyev created the State Committee on Religious Affairs and began a reregistration process for more than 2,000 mosques, churches, temples, and other religious sects. The commission will also keep a close eye on the activities of missionaries, which, it claims, try to entice uninformed and needy people into their sects.

There are several independent human rights organizations in the country. The most prominent of these are the Human Rights Center of Azerbaijan, the Institute for Peace and Democracy, the Azerbaijan National Committee of the Helsinki Citizens' Assembly, and the Bureau for Human Rights and the Rule of Law.

The Constitution and laws of Azerbaijan do not impose any discrimination on women or ethnic minorities. There are 11 female members of Parliament, and 2 women occupy ministerial positions. Members of ethnic minorities also occupy senior governmental posts. In the Azerbaijani political atmosphere, however, ethnicity is not a big issue.

The fact that especially Muslim minority populations like Lezgins and Talysh are thoroughly intermixed with Azeris and that members of these minority groups are often bilingual also reduces the salience of ethnicity in politics and helps members of these minority groups play a role in politics irrespective of their ethnicity. However, explicitly ethnically or religiously based political parties are denied registration, and the participation of women in politics is hindered to a certain extent by social norms.

In 2000, the government enacted a new criminal code that bans acts of torture and authorizes punishments for violators of the law of up to 10 years in prison. The government also adopted the definition of torture that is contained in the UN Convention on Torture. Although there is no systematic torture in prisons, numerous cases have been reported in which police have physically abused detainees. The government rarely takes action to punish abusers. Authorities also often ignore procedures for the arrest and detention of persons. Individuals are frequently detained without legal warrants, and relatives of suspects are occasionally detained as part of an attempt to reveal a suspect's whereabouts.

Corruption

1999-2000	2001	2002
6.00	6.25	6.25

Azerbaijan has the reputation of being a country marred by corruption to a larger extent than most other countries. Although its legal system prohibits government officials and members of Parliament from involvement in economic life, the spirit of these laws is not adhered to. Family members of senior officials are prominent in the business life of the country, including in the broadcast media. The country's Law on Financial Disclosure has recently become an issue of controversy as political parties have been asked to publicize their financial sources. Audits of the executive and legislative branches do occur. Irregularities were discovered at several Kyrgyz embassies that were recently audited.

Azerbaijan ranked fourth from the bottom in both Transparency International's and the World Bank's global indexes of corruption for the period 1999–2000. Each index tracked 90 countries. In its 2001 Corruption Perceptions Index, Transparency International ranked Azerbaijan as one of the 10 most corrupt countries in the world. As in neighboring Georgia and Armenia (not included in Transparency International's rankings for 2001), the population of Azerbaijan perceives the government and bureaucracies at all levels as unanimously corrupt—and it does so with good reason. Bribe taking by officials down to the level of primary school teachers is endemic in the former Soviet states, and Azerbaijan is no exception. The level of red tape in the bureaucracy and the need to obtain signatures and stamps from several officials for simple proce-

dures have fostered an environment of rampant corruption in the country.

More detailed studies of actual occurrence of corruption corroborate this picture. In a recent study by the UN Inter-regional Crime and Justice Research Institute, for example, most Western European cities and countries showed less than 1 percent of their populations having direct experience with official corruption. In contrast, 10–20 percent of the populations of post-Communist countries typically experienced corruption. Among capital cities, Baku ranked fifth with 19 percent, after Tirana, Vilnius, Ulaanbaatar, and Minsk.

Another interesting indicator is that of state capture, the phenomenon of special interest groups hijacking the state for their narrow self-interest by manipulating policy formation and shaping rules and policies to their advantage. In a recent World Bank Business Environment Survey examining the so-called purchase of legislation, decrees, and judiciary rulings in transition economies, Azerbaijan emerged as the country in the former Communist bloc with the highest degree of state capture. It was followed closely by Moldova, Ukraine, and Russia. Over 40 percent of firms surveyed in Azerbaijan reported that their business had been directly affected by illicit private influence on state institutions. In assessing this information, however, it should be noted that the booming oil industry in Azerbaijan has created a more vibrant business climate than one will find in most former Soviet states. This, in turn, may have increased both competition and incentives for corruption. Nevertheless, the image of Azerbaijan is clear: corruption has become a major problem that pervades most of Azerbaijani society. It is a major impediment to the economic and social development of the country.

The public's reaction to the omnipresent corruption has been a mixture of apathy and frustration. Unlike in neighboring Georgia, there are no high-profile cases in which senior officials have been accused of corruption. There are also no high-profile anticorruption activists within the government. This explains the lack of public anticorruption activism in Azerbaijan. Yet widespread corruption in the country's leadership has been perhaps the main reason for the gradual decline of the ruling party's popularity, as evidenced by unofficial accounts of election results as well as by opinion polls. However, the public's apathy toward politicians, the government, and even the opposition is exemplified by the citizen who expressed his intention to vote for the ruling YAP in the 2000 parliamentary elections only because officials of that party could be thought to have already filled their pockets. The opposition, however, would have to start "stealing" from scratch if it came to power. Whether fair or unfair, this attitude is a good indicator of widespread and deeply rooted malaise in Azerbaijani society and of a political system that undermines the very governance of the country.

Investigations of high-level officials for corruption are rare in the country. When they do occur, they often lead to the settling of scores within the government's ranks rather

than to the initiation of serious anticorruption drives. The corruption allegations against former Foreign Minister Hasan Hasanov and former Speaker of Parliament Rasul Guliyev, for example, were both compelling, and there was little doubt these two figures had embezzled enormous amounts of funds. Yet the initiation of legal proceedings against them was in all likelihood related not only to their crimes but also to their rifts with President Aliyev. Such investigations frequently die out when political winds change.

ECONOMIC LIBERALIZATION & SOCIAL INDICATORS

Privatization				
1997	1998	1999-2000	2001	2002
5.25	5.00	5.00	4.75	4.25
Macroeconomic Policy				
1998	1999-2000	2001	2002	
5.00	5.00	5.00	4.50	
Microeconomic Policy				
1998	1999-2000	2001	2002	
5.00	5.00	5.00	4.50	

During the past decade, Azerbaijan has undertaken many positive economic reforms and has experienced a dramatic shift from a centralized command economy to a market system. In particular, the comprehensive economic stabilization program that President Aliyev initiated in 1995 has led to significant macroeconomic improvements. In 2001, Azerbaijan's economy remained on this course of development. Inflation was kept at a minimal level, industrial output and gross domestic product increased thanks to increased oil production, and the gradual privatization of state property continued.

In addition, on April 30, 2001, President Aliyev abolished the Ministry of State Property, the Ministry of Economy, the Ministry of Trade, the State Committee for Entrepreneurship Support, and the Agency of Investments. In their place, he established the Ministry of Economic Development as the central executive body in the economic sector that is responsible for carrying out state policy in the sphere of socioeconomic development, international cooperation, macroeconomics, trade, investment, development of entrepreneurship, privatization and management of state property, regulation of monopolistic development, and competition. Farhad Aliyev, the former minister of state property, was appointed minister for economic development.

As in the 5 previous years, real GDP in Azerbaijan grew in the first 10 months of 2001 by 9.3 percent, while real

wages increased by 24 percent. Industrial production was up by 5.4 percent in the first 9 months of 2001, and the State Oil Company of Azerbaijan reported an increase in oil production. Although the growth of GDP is a positive factor, its heavy dependence on the oil and gas sector remains a concern among local and international economists.

Foreign investments are also disproportionately concentrated in the oil and gas sector. According to the newly created Ministry of Economic Development, 65 percent of investments are made in the oil and gas sector and only 16 percent in other industrial sectors. Another disturbing fact is that the majority of foreign investments are made in Baku and on the Apsheron peninsula; the rest of the country receives only a minimum of foreign investment. Nazim Imanov, a prominent opposition economist, argues that 93 percent of all budget revenues come from Baku, whereas the regions contribute only 7 percent. The opening of the Baku Steel Company in June 2001 was positive news. Some \$50 million was invested in this private steel-producing plant, which aims at satisfying the steel needs of Azerbaijan and neighboring countries.

Important recent news in the oil and gas sector of Azerbaijan includes the signing of the gas agreement between Azerbaijan and Turkey; agreement on a gas pipeline by the governments of Azerbaijan, Turkey, and Georgia; and progress toward the construction of the Baku-Tbilisi-Ceyhan (BTC) oil pipeline. According to David Woodward, president of the Azerbaijan International Operating Company, the construction of the BTC pipeline is expected to start in the first half of 2002 and to be completed by early 2005. Currently, necessary talks with Western financial institutions are under way to secure funding for this \$2.9 billion project. This much debated and questioned pipeline is slowly but steadily becoming a reality.

Progress also continues in the privatization process. According to the Ministry of Agriculture, 178 billion manat (\$37 million) worth of state-owned properties and 606 billion manat (\$127 million) worth of municipal properties have been privatized to date. Thus, nearly 94.4 percent of all rural land and property that was earmarked for privatization has indeed been transferred to private hands. Privatization in the agricultural sector has been completed in 26 provinces. In the industrial sector, the denationalization of medium and large enterprises, as part of Azerbaijan's long-awaited second stage of privatization, is set to begin. Three hundred enterprises, mainly in the communication, air transport, fuel and energy, mechanical, and chemical sectors, will be put up for auction. At the same time, the privatization of small enterprises is still under way. The Ministry of Economic Development reported in October 2001 that 1,477 small enterprises and facilities had been privatized in the first 10 months of the year and 24,577 total since the start of the privatization process. Overall, the privatization process in Azerbaijan is run according to the Law on the Privatization of State-Owned Property.

As a result of the privatization process, the share of the private sector in Azerbaijan's economy has continued to grow. In some sectors, such as agriculture, the share of private production is close to 100 percent, whereas in the service and industrial sectors it is around 50 percent. Currently, nearly 30 percent of the total workforce is concentrated in the agricultural sector. According to the Azerbaijan Confederation of Entrepreneurs, some 70 percent of the able-bodied population (nearly 2.6 million people) work in the private sector of the economy.

In 2001, Azerbaijan promulgated a long-awaited new tax code that consolidates most of the country's taxes into a single, comprehensive law. The new code also seeks to promote the development of small and medium-size businesses by lowering most tax rates.

Azerbaijan's banking sector consists of the National Bank of Azerbaijan (NBA), which fulfills the functions of a central bank with \$640 million in reserves, and numerous commercial banks. In 2001, President Aliyev reappointed Elman Rustamov as chairman of the NBA, thus indicating his approval of reforms in the banking system in the past few years. Although the NBA is still highly dependent on the executive powers of the government, it has managed to keep itself out of politics. It has a good record of cooperation with international agencies such as the World Bank, the International Monetary Fund, and the International Finance Corporation on reform of the country's banking system.

The national currency, the manat, remains weak and unpopular with the public, which prefers to invest in U.S. dollars and pounds sterling as a secure way of fighting inflation. According to some local economists, nearly 80 percent of all transactions in the country are made in cash. The number of commercial banks in Azerbaijan has decreased in the past few years as the NBA has tried to tighten regulations and increase the levels of founding capital needed to form a commercial bank. Currently, there are 4 large state-owned banks and nearly 50 commercial banks. The latter are weak and still inexperienced in the management of banking operations. They are often created to fulfill the credit needs of their shareholders and are not prepared to respond to the growing needs of local and international companies. In 2001, the minister of finance dismissed Fuad Akhundov, chairman of the International Bank of Azerbaijan, the largest and most reliable bank in the country. Although the reasons remain unclear, some say the decision was related to the government's plans to privatize the bank.

In 2001, Azerbaijan experienced a positive trade balance for the second year in a row. The surplus amounted to \$440 million. After the collapse of the Soviet Union, the government was confronted with the challenge of shifting trade patterns from traditional partners in the Soviet republics to neighboring countries of the Middle East and Europe. Today, Azerbaijan's major trading partners are Russia, Turkey, Georgia, Iran, and the European Union.

However, the trade patterns and prospects of foreign investment are hampered by the de facto monopoly that the ruling circles keep on foreign trade. For trade and investment to take off, this pattern of activity will have to change.

During the period covered by this report, Azerbaijan continued to cooperate with international financial institutions, which in turn provided loans for covering the nation's budget deficit. Although the deficit has been reduced to 1 or 2 percent of GDP, the government continues to borrow from the IMF and World Bank. According to First Deputy Prime Minister Abbas Abbasov, the foreign debt of Azerbaijan amounted to \$1.14 billion by October 2001. Most of the loans have been spent on macroeconomic stabilization, investment projects, and payments on the national balance.

Private entrepreneurship remains one of the most struggling segments of the Azerbaijani economy. A high level of corruption and harassment by governmental officials and tax police, in addition to a weak legal system, creates few incentives for business development. In the past few years, the private sector has experienced a consolidation of businessmen into unions and confederations. One of these unions is the Azerbaijan Confederation of Entrepreneurs, which according to its president, Aliakbar Mamedov, unites over 600 private entities from 12 regions of the country.

To create transparency in the collection of oil revenues, President Aliyev formed a special State Oil Fund in 1999 into which all revenues from the extraction and sale of oil and gas, as well as bonuses from contracts with Western oil companies, will be collected. The fund is subordinated to the president. First Deputy Prime Minister Abbas Abbasov has reported that to date, \$435 million has been accumulated in the oil fund. President Aliyev has appointed a relatively unknown economist, Samir Sharifov, as executive director of the fund. Nevertheless, concern remains that the Azerbaijani economy is too dependent on oil exports, which in turn has increased corruption in the government and bureaucracy.

Although Azerbaijan's economy continues to grow, the uneven distribution of these economic gains has contributed to increasing levels of inequality. Azerbaijan is not a traditional developing country. Although the literacy rate and access to health services remain strong, high levels of unemployment and poverty limit opportunities to enjoy sustainable development and economic security. According to the United Nations Development Program, average life expectancy is 71.3 years. Official unemployment figures, which are highly unreliable, remain at the level of 15–20 percent. Nearly two million Azerbaijanis have emigrated abroad, mainly to Russia, to earn a living.

Despite these difficult circumstances, the government has decided to further reduce compensation for vulnerable segments of the population. Under heavy pressure from international financial institutions to balance the federal

budget, the government has determined to slash social benefits from \$200 million to \$30 million in 2002. The majority of the general public remain unaware of these changes owing to poor publicity of the issue.

Other important sectors such as education, health care, and science also remain underfunded. According to the latest draft of the state budget for the year 2002, science will receive 1.2 percent, the health sector 5.2 percent, education 21 percent, and social benefits 13 percent of the total budget. According to Minister of Education Misir Mardanov, in the past decade, not a single secondary school has been built in the country.

The difficult social situation in Azerbaijan became undeniable when the Society of Karabakh War Invalids staged a hunger strike and public demonstrations in 2001 to demand higher payments. The standoff between the authorities and the strikers went on for weeks and contributed to domestic instability. It ended when the police arrested 50 participants of the hunger strike. According to news reports, the prosecutor-general's office accused the invalids of "organizing mass demonstrations," "incitement to illegal actions and violence," and embezzlement of more than \$200,000.

Internally displaced persons suffer the most from Azerbaijan's severe social and economic conditions. Living in tent camps for the eighth consecutive year, this vulnerable segment of the population is receiving less and less international assistance. According to sources with the UN High Commissioner for Refugees, aid dropped from \$11 million in 1999 to \$7 million in 2001. Many Western relief agencies based in the area could soon be on their way out as well. To compensate partially for their expected withdrawal, President Aliyev issued a decree to divert some money from the State Oil Fund to the urgent needs of refugees and internally displaced persons.

President Aliyev also issued a decree in March 2001 to create a commission for the development of a Poverty Reduction Strategy Program. The commission is made up of representatives of governmental offices, NGOs, and academic institutions. The program itself must outline concrete steps that the government should take in the economic and social sectors to reduce poverty. Under agreements with the IMF, the World Bank, and the Asian Development Bank, Azerbaijan must complete the program within a one-year period.

Svante E. Cornell is the editor of the Central Asia-Caucasus Analyst, published by the Johns Hopkins University, School of Advanced International Studies. He also lectures at Uppsala University in Sweden and is the executive director of Cornell Caspian Consulting. Fariz Ismailzade, who contributed to this report, is a senior associate with Cornell Caspian Consulting and a graduate student at the Washington University in St. Louis, Missouri.

BELARUS



Polity: Presidential

Economy: Statist

Population: 10,000,000

GNI per capita at PPP \$ (2000): 7,550

Capital: Minsk

Ethnic Groups: Byelorussian (78 percent), Russian (11 percent), other, including Polish and Ukrainian 11 percent)

Size of private sector as % of GDP (mid-2001): 20

The scores and ratings for this country reflect the consensus of Freedom House, its academic advisors, and the author of this report. The opinions expressed in this report are those of the author.

↓↓ and ↑↑ indicate score changes of .25 or more. ↓ and ↑ indicate changes of less than .25.

NATIONS IN TRANSIT SCORES

	1997	1998	1999-2000	2001	2002
Democratization	5.90	↓↓ 6.20	↓ 6.44	↓ 6.56	6.56
Rule of Law	na	na	5.88	↓ 6.00	6.00
Economic Liberalization	6.00	↓↓ 6.25	6.25	6.25	6.25

KEY ANNUAL INDICATORS

	1995	1996	1997	1998	1999	2000	2001
GDP per capita (\$)	1,009.2	1,349.9	1,368.2	1,483.8	1,210.8	1,275.4	1,095.5
Real GDP growth (% change)	-10.4	2.8	11.4	8.4	3.4	5.8	2.5
Inflation rate	709.3	52.7	63.8	73.2	293.8	168.9	59.8
Exports (\$ millions)	4,803.0	5,790.0	6,919.0	6,172.0	5,646.0	6,987.0	7,335.0
Imports (\$ millions)	5,469.0	6,939.0	8,326.0	7,673.0	6,216.0	7,825.0	7,981.0
Foreign Direct Investment (\$ millions)	15.0	105.0	350.0	201.0	443.0	90.0	100.0
Unemployment rate	2.7	3.9	2.8	2.3	2.2	2.1	2.2
Life Expectancy (years)	68.5	68.6	68.5	68.4	67.9	68.1	68.0

INTRODUCTION

In the decade since the collapse of the Soviet Union, Belarus has become a presidential dictatorship and a consolidated autocracy. President Alyaksandr Lukashenka came to power in 1994 following an election that international observers deemed free and fair. Since then, though, he has steadily strengthened his grip on power by reintroducing censorship, frustrating the work of independent trade unions, and limiting the rights of candidates for elected office. His government has also severely limited civil liberties, including freedom of association, assembly, religion, movement, speech, and the press. A 1996 referendum on amendments to the Constitution extended Lukashenka’s term in office from five to seven years and broadened his control over the legislative, executive, and judicial branches of government. Lukashenka received an additional five years in office when he proved victorious in the presidential election of September 9, 2001.

A weak opposition, a passive and apathetic population, a popular president, and a historical legacy of weak dissident movements have all contributed to the stability of Belarus’s political system. Internal security forces have also been key to the endurance of Lukashenka’s authoritarian regime. This fact is reflected in the 2002 state budget, which allocates \$3 million to the presidential guards—a sum greater than the amount allocated to Parliament and the government combined.

Lukashenka halted economic liberalization in 1995 because it contradicted his plans to establish a neo-Soviet regime. Instead, he has fostered an atmosphere that is hostile to private enterprise and inhibits foreign investment. Since the government is largely committed to a planned economy, it has generally blocked privatization and has continued to provide subsidies to loss-making state enterprises. To date, only 10 percent of state enterprises and 40 percent of communal enterprises have been privatized.

Following his reelection in September 2001, Lukashenka announced that he would support tentative steps toward economic liberalization, and he ordered the government to submit a new reform plan to him before the end of the year. He did so in large part because he was under pressure from high inflation rates, reduced subsidies from Russia, and strict requirements from the International Monetary Fund and the World Bank to introduce reforms. Although implementation of any such program would represent a sea change in Lukashenka’s attitude toward the market, international financial organizations remain cautious about the president’s new enthusiasm. Just prior to the election, Belarus failed to complete a six-month reform program that the IMF had considered a prerequisite to new loan negotiations. Likewise, at year’s end the president rejected “shock therapy” as part of any reform plan.

Belarus’s deteriorating human rights situation has led to the isolation of the Lukashenka regime. Western govern-

ments and international organizations, including the United States, the European Union, the Organization for Security and Cooperation in Europe, and the Council of Europe, have systematically documented the spread of authoritarianism and antidemocratic practices in the country and have refused to recognize the 1996 referendum that disbanded the Supreme Soviet. They have also concluded that the parliamentary elections of 2000 and the presidential election of 2001 were not democratic.

In 1997, in response to the 1996 referendum on presidential power, the Council of Europe suspended Belarus’s guest status. In November 2001, the COE’s Parliamentary Assembly recommended that the suspension remain in place until the Belarusian regime shows greater respect for human rights. Also in 2001, Radio Liberty doubled its broadcasts to Belarus, and the U.S. Congress introduced the Belarus Democracy Act, which seeks to impose sanctions on Belarus and provide \$30 million in assistance for Belarusian democratic forces (including political parties), the development of independent media, and other democracy-building activities. Although the opposition hailed the bill, Foreign Minister Mikhail Khvastou warned that it could lead to the severance of diplomatic relations between Belarus and the United States. President Lukashenka decried the provision as “colossal support to the forces that have already started to destabilize the situation in the country.” He then refused to hold any further talks with the opposition. As of November 2001, the bill had been read twice and referred to the U.S. Senate Committee on Foreign Relations.

In December 1999, Russia and Belarus signed a treaty that outlined plans for the creation of a union state, including a unified legal and economic space and extensive political and military integration. In July 2000, the 10th anniversary of the declaration of Belarusian sovereignty, an all-Belarusian congress declared its opposition to the union treaty and called for democratic reforms. Western and Central European diplomatic envoys were in attendance. To date, the Belarus-Russia union remains amorphous, and the two sides have made tangible progress only in the security sphere.

DEMOCRATIZATION

Political Process

1997	1998	1999-2000	2001	2002
6.00	6.25	6.75	6.75	6.75

President Alyaksandr Lukashenka’s regime is clearly authoritarian. It is neither as harsh as the former Soviet regime nor as liberal as a Western democracy. Instead, it is an ideological amalgam of pan-Eastern Slavism, Russian Orthodoxy, and Soviet-style Belarusian nationalism.

In a 1999 interview with *Rossiyskaya Gazeta*, Lukashenka admitted that “elements” of authoritarianism existed

in Belarus. Since then, he has increasingly introduced Soviet-style practices such as creating political parties, civic organizations, trade unions, and youth groups that are loyal to the authorities and help project the appearance of pluralism. At state enterprises and offices, he has also reappointed political informants whose assignment is to explain and mobilize support for government policies.

Belarus's education system also remains a vehicle for propagating the regime's ideological policies. President Lukashenka has controlled entrance examinations for institutions of higher education for several years. In 2001, he imposed additional restrictions on school curricula after complaining to a congress of teachers that classrooms were "places for [the] ideological depravation of the youth." Even the Academy of Sciences lost its independence when, in 2001, Lukashenka decreed that henceforth he would appoint the body's president and approve members of its presidium. He then appointed the former head of his presidential administration, Mikhail Myasnikovich, as the academy's president. The Belarusian Helsinki Committee denounced the new policies as evidence of the state's increasingly "totalitarian character."

During the period covered by this report, new evidence surfaced about the existence of an official death squad that might be responsible for the disappearance of leading opposition figures, including former Interior Minister Yuriy Zakharank, former Deputy Chairman of the Supreme Soviet Viktor Ganchar, and Ganchar's business colleague Anatol Krasovsky. First, in November 2000, the independent news agency Belapan received an anonymous letter from an officer in the Belarusian security services that detailed how a special unit of the Presidential Protective Service allegedly had murdered both Ganchar and Dmitry Zavadsky, a cameraman with Russian Public Television (ORT). This special unit is known as *Almaz*.

Second, in 2001, Ivan Tsitsyankou, the former head of the presidential administration, gave an interview to the independent newspaper *Den* in which he suggested that Lukashenka's involvement in the disappearance of opposition leaders was "obvious." Since the interview, Tsitsyankou's family has accused Lukashenka of ordering the prosecutor-general's office to take revenge on them. The offices of *Den* have been burglarized twice.

Third, the newspaper *Belorusskaya Delovaya Gazeta* published an interview with Aleh Alkayeu, the former warden of Minsk's death row prison, who claimed that Almaz commander Dmitry Pavlyuchenka had borrowed the prison's execution pistol on a number of occasions. Fourth, during the 2001 presidential campaign, Uladzimir Hancharyk, head of the Federation of Trade Unions of Belarus (FTUB) and the united opposition candidate in the election, released documents that appear to implicate several government authorities in the disappearance of opposition politicians. Belarusian officials denied the accusations. And fifth, during the same period, Dmitry Petrushkevich and Aleh Sluchek, two former investigators with the state procuracy,

requested asylum in the United States after revealing additional documents that appear to point to Lukashenka's involvement in the death squad.

In October 2001, during a visit to Gomel, Lukashenka admitted the existence of a special unit that had been established to murder organized crime bosses. However, mounting evidence suggests that the same death squad went on to murder the president's political opponents—a fact Lukashenka vehemently denies. The prosecutor-general's office has refused to open an investigation into the squad and the disappearances. However, it is important to note that Almaz allegedly operates under the direction of Prosecutor-General Viktor Sheiman, the former head of the National Security Council.

In November 1996, Belarus held a controversial referendum in which 84.14 percent of voters approved substantial changes to the 1994 Constitution. These included extending the presidential term from five to seven years, expanding presidential powers, and creating a pliant bicameral *Natsionalnoye Sobranie*, or Parliament. The Supreme Soviet, which voters had elected freely in 1995, was subsequently dissolved. Western governments have refused to recognize the legitimacy of the new assembly.

In October 2000, Belarus held its first parliamentary elections since the creation of its new Parliament. In advance of the election, the Chamber of Representatives unanimously accepted 10 amendments to the electoral code. These included provisions on the regulation of election observers, the ability of candidates to run in locales in which their parties do not have registered branches, and the collection of signatures in support of candidates. Lukashenka rejected proposals to allow members of 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 Organization for Security and Cooperation in Europe, 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 one technical team to gather information on the campaign and a second team to monitor the balloting. The only international observers present during the elections were from Russia and the Inter-Parliamentary Assembly of the Commonwealth of Independent States.

In addition, the OSCE had organized a dialogue between the opposition and government authorities that was intended to ensure a free and fair campaign. Specifically, opposition parties agreed to participate in the elections if the government passed a more democratic and transparent electoral code; guaranteed equal access of candidates to state media; ceased its harassment and imprisonment of opposition figures; and granted Parliament more substantial duties. However, when Lukashenka stacked the dialogue with 81 pro-government parties and nongovernmental organizations and failed to meet the opposition's demands, sev-

eral opposition parties decided to boycott the election. (After the 2001 presidential election, Lukashenka again offered to launch another “sociopolitical dialogue,” and eight opposition parties confirmed their willingness to participate. However, President Lukashenka rescinded his offer two months later in response to U.S. proposals to grant \$30 million in aid to Belarusian democratic forces.)

Ultimately, seven opposition parties boycotted the elections. Several opposition leaders, including Mihalay Statkevich and Mikhail Chyhir, registered as candidates. However, Chyhir withdrew from the second round after accusing the authorities of using “dirty techniques” against him.

In September 2000, Lukashenka addressed 2,500 delegates of the Congress of Soviets of Peoples Deputies, a reconstituted Soviet-era institution, and asked them to campaign for pro-regime candidates. The congress unanimously backed Lukashenka’s domestic and foreign policies. That same month, 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. Police also arrested the newspaper’s editor, its legal adviser, and the owner of its printing house on charges of “propagandizing an election boycott,” an activity that is illegal under the administrative offenses code but not under the electoral code.

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

The Belarusian Central Election Commission (CEC) 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. It reported 5,000 infringements such as voter intimidation, campaigning for pro-regime candidates on election day, ballot box stuffing, 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 voter turnout in Minsk was less than 50 percent and, therefore, invalid.

In 1994, the Supreme Soviet overwhelmingly approved a new Constitution that called for a strong presidency. That same year, voters elected Lukashenka, a 39-year-old non-party populist who had campaigned on an anticorruption platform, as president. In an election that international observers considered free and fair, Lukashenka took 45 percent of the vote in the first round. His closest challenger

was then Prime Minister Vyacheslau Kebich, a pro-Russian centrist, who finished the first round with 17 percent of the vote. In a runoff, Lukashenka defeated Kebich with an overwhelming 80 percent of the vote.

Under the 1994 Constitution, Lukashenka’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 claimed that approximately four million voters, or 53 percent of the electorate, participated. Nevertheless, the ballot results were declared invalid and the opposition CEC was unable to declare a winner 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 who had participated in the unofficial election. According to the 1994 Constitution, since a valid election was not held after the expiry of Lukashenka’s official term in office, the legal head of state is Siamion Sharetski, chairman of the disbanded 1994 Supreme Soviet.

The Belarusian Civic Initiative promoted a challenger to Lukashenka in the September 2001 presidential election and created the Election 2001 bloc that united opposition groups such as the Belarusian Helsinki Committee and members of the 1994 Supreme Soviet. By July 2001, only 4 out of 25 candidates had collected the legally required signatures to register as candidates. These were Lukashenka, Hancharyk, Syamyon Domash, and Liberal Democratic Party (LDPB) leader Syarhey Haydukevich. Domash subsequently withdrew from the campaign and gave his support to Hancharyk. The opposition bloc that backed Hancharyk consisted of national democrats and centrists from the former state bureaucracy, Russophone liberals, and new business interests.

Official state media and Lukashenka poured Soviet-style scorn upon Hancharyk and the opposition and accused them of being “anti-Russian” and “fascist.” Hancharyk received only a quarter of the media’s campaign coverage, and almost all of it was negative. In contrast, the official media’s coverage of the incumbent was positive.

Several foreigners were accused of espionage or other crimes on behalf of the opposition. Robert Fielding, a representative of the AFL-CIO, was expelled from the country and accused of plotting to overthrow Lukashenka. A German citizen, Christoph Lez, and an Italian citizen, Antonio Piu, were arrested as spies and sentenced to seven and four years, respectively, in prison. They received pardons after the election. Prior to the election, President Lukashenka also banned the use of foreign assistance to support election campaigns, rallies, seminars, and propaganda. The OSCE was unable to organize a full-fledged monitoring mission because it was not allowed into Belarus until three weeks before the election. State media continually portrayed the OSCE as a Trojan horse for the Western-backed opposition, and Lukashenka accused it of conspiring with the opposition to destabilize the country with 14,000 to 18,000 “militants” disguised as election monitors.

The campaign itself was fraught with irregularities. The media in particular were subject to manipulation. When official newspapers carried Lukashenka's campaign material, they increased their circulation and distributed copies free of charge. In contrast, state media censored Hancharyk's election materials. When opposition newspapers tried to publish his campaign platform, authorities forced them to print blank pages. Beltelecom, the state Internet service provider, shut down their Web sites on election day.

Authorities also seized issues of opposition newspapers such as *Nasha Svaboda*. The State Committee on the Press issued warnings to newspapers like *Svobodniye Norosti* for the "dissemination of false information." Likewise, in an attempt to halt the publication of opposition newspapers, authorities raided the Magic printing house on several occasions, sealed Magic's premises, and froze its bank account during a tax inspection. Tax police also seized computers from *Nasha Svaboda*, *Belaruskiy Uschod*, *Volny Horad*, *Novaya Gazeta Smorgoni*, *Kutseyina*, and *Narodnaya Volya*. The KGB threatened the Grodno newspaper *Palonyia* with closure. The office of *Den* was burgled twice and its computer disks stolen.

During the campaign, police raided the offices of the following NGOs: Voters' Club, Charter-97, Spring (Viasna) 96, the Union of Belarusian Students (ZBS), the Association of Journalists, Aslon, Civic Initiatives, Gart, Ratusha, Kontur, and Vilenshina. Several months after the election, the Ministry of Justice banned the ZBS. According to Krystyna Sidun, the head of the ZBS, the organization was closed "because most students voted against Lukashenka in the presidential elections." Riot police also broke up campaign meetings with Hancharyk in Soligorsk.

The election itself proved open to massive fraud. Authorities encouraged early voting as a way of manipulating the vote count in favor of the incumbent, and 14 percent of the electorate allegedly voted early. The opposition Belarusian Party of Communists (BPC) claimed that authorities had distributed blank voting ballots to rural councils. Territorial electoral commissions consisted mainly of pro-Lukashenka representatives, and applications to the commissions by approximately 600 persons with ties to the opposition were rejected. As the OSCE noted in its final report on the election, "With only 239 out of some 80,000 commission members nominated by political parties, the Electoral Code clearly failed to ensure a balanced representation of both pro-governmental and opposition political interests in the commissions."

According to official election results, President Lukashenka proved victorious in the first round with 75.65 percent of the vote. Uladzimir Hancharyk, the opposition-backed candidate, received only 15.65 percent. Syarhey Haydukevich, the leader of the LDPB, received only 2.48 percent. However, the official outcome contradicted many public opinion polls, which projected public support for Lukashenka at only 33–48 percent. Hancharyk and the opposition alleged that the first-round

results had been falsified and that the real result was closer to 46 percent for Lukashenka and 40 percent for Hancharyk. If accurate, this outcome would have forced a second round of voting—something Lukashenka wanted to avoid, since it would have presented voters with a clear choice between the incumbent and the democratic opposition. The Club of Voters, an NGO that monitored the election, claimed that up to 25 percent of all votes cast for Hancharyk were given to Lukashenka. This provides further support for Hancharyk's claim that Lukashenka did not win in the first round.

The OSCE concluded that the election had "fundamental flaws," and the U.S. State Department called it a "facade." Only the CIS Inter-Parliamentary Assembly concluded that the election had been free and fair.

Since 1990, voter turnout at the municipal, provincial, and national levels has been declining. Although official figures are typically high, opposition parties and election observers challenge them consistently. For example, when official turnout for the 1996 referendum on presidential powers was reported at 84 percent, opposition parties claimed that the figure had been falsified. Voter turnout had allegedly surged by 26 percent in the last four hours of polling. Viktor Gonchar, the head of the election commission until just before the referendum, called the figure "simply fantastic." Similarly, official turnout in the October 2000 parliamentary elections was 60 percent, but the opposition claimed that the true figure was closer to 45 percent.

According to official figures, voter turnout for the September 2001 presidential election was 84 percent. The united opposition disputed these results and claimed instead that the elections should have gone to a second round between Lukashenka and Uladzimir Hancharyk. In its final report, the OSCE Office for Democratic Institutions and Human Rights confirmed that the elections failed to meet COE and OSCE standards for democratic elections. Since the election, the OSCE has criticized the purges and arrests of managers and state officials who backed Hancharyk. Even the chairman of the Russian Central Election Commission concluded that the elections had complied with only some international election standards.

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." However, the Constitution also states that parties can be banned if they aim to change the government by force or to propagate war or ethnic hatred.

Opposition parties face numerous restrictions and regular harassment in Belarus. In recent years, authorities have raided the headquarters of numerous opposition parties, suspended or seized their publications, and arrested and detained their leaders. Some opposition leaders have even been forced to seek asylum in the West.

One notable case of harassment is that involving former Prime Minister Mikhail Chyhir. In November 1999, authorities released Chyhir after he served eight months in prison on embezzlement charges. In May 2000, though, a Minsk court convicted him on new charges of abuse of power, gave him a three-year suspended sentence, and fined him \$220,000. Although the conviction deprived Chyhir the right to hold office for five years, he was allowed to register as a candidate in the 2000 parliamentary elections. Chyhir's son, Alyksandr, went to trial in December 2001 for car theft. However, he claims that prosecutors have trumped up the charges in order to apply political pressure on his father.

As of December 2000, there were 18 registered political parties in Belarus. Of these, only 10 or 12 function at the oblast and raion levels. Belarusian parties are divided into two camps: pro-Lukashenka and anti-Lukashenka. Pro-Lukashenka parties share similar ideological programs that combine dislike of economic reform, support for an authoritarian regime, disinterest in reviving the Belarusian language and culture, hostility toward the West and NATO, and strong support for a union with Russia and a revived Soviet Union. These parties, which form the base of support for the Lukashenka regime, include the Agrarians, the Patriotic Party, the CPB, the LDPB, and the Party of Labor and Justice.

The parties in opposition to Lukashenka have diametrically opposed ideological platforms. They range from nationalist parties that oppose Lukashenka's support for a union with Russia and his hostility toward Belarusian independence to reformist parties that support economic reform and democratization, as well as national revival. The former include parties such as the Conservative Christian Party and the National Party. The latter include the BPF, the Social Sport Party, the United Civic Party (UCP), the Belarusian Social Democratic Party (Narodnaya Hramada), the Social Democratic Party of Popular Accord, the Peasant Party, the Belarusian Christian-Democratic Party, and Hope. Other smaller reformist parties include the Party of Common Sense, the Party for Social Justice, the Party of Labor, the People's Party "Rebirth," the Green Party, the Republican Party, and the National Democratic Party. The most influential members of the opposition established the Coordinating Council of Democratic Forces in 1999. It consists of the BPF, the Belarusian Social Democratic Party (Narodnaya Hramada), the UCP, the Assembly of NGOs, the Congress of Democratic Trade Unions, and Charter-97. The Belarusian Party of Communists, unlike its rival the Communist Party of Belarus, is anti-Lukashenka.

On January 26, 1999, Lukashenka issued the presidential decree "On Some Measures to Regulate the Activities of Political Parties, Trade Unions, and Other Public Associations," which required all political parties to reregister. Although the government reregistered the majority of Belarusian parties, some, including the Belarusian Peasant Party, the Belarusian Socialist Party and the Christian-Democratic Choice Party, did not bother to reregister. The government refused to reregister the Belarusian Christian

Democratic Union and the Party of Common Sense because they lacked sufficient membership. The opposition BPC was denied registration because the Justice Ministry stated that it could not claim in its charter to be a successor to the Soviet-era Communist Party. Instead, the authorities registered the pro-government and hard-line CPB.

The proportion of the population belonging to political parties is minuscule. Membership figures are very unreliable but suggest that less than 1 percent of the population belongs to a party. In 1999, Belarus's opposition parties reported the following levels of membership: BPC, 20,000 members; Peasant Party, 12,000; Social Sport Party, 7,000; BPF, 5,000 (reported before its split in 1999–2000); Hope, 5,000; UCP, 3,000; and Social-Democratic Hramada, 2,000. The figures for pro-Lukashenka parties were LDPB, 18,000 members; Agrarians, 12,000; Patriotic Party, 12,000; and CPB, 7,000. Several pro-Lukashenka parties reported fewer than 3,000 members each.

The representation of women in Belarusian politics has declined since the abolition of the Soviet quota system. Only 13 women were elected to the Supreme Soviet in 1990 and only 9 women in 1995. Only 5 women joined the lower house of the new Parliament in 1996; 19 joined the upper house (thus accounting for 30.1 percent of the total number of deputies). In the current government, only 1 of the 27 ministers is a woman. Likewise, there are no female chairs of local authority councils.

Although women do exceptionally well in higher education, they are looked over for higher-paid and more influential professional positions. As a result, they represent a smaller percent of business executives, politicians, government officials, and members of the media. Women account for 20–50 percent of membership in political parties.

Civil Society

1997	1998	1999-2000	2001	2002
5.25	5.75	6.00	6.50	6.25

Belarus's state-controlled economy and its authoritarian political system have worked against the development of private philanthropic institutions and have made citizens wary of joining NGOs. As of January 2000, there were 8 confederations of associations, 153 international NGOs, and 709 national NGOs registered with the Ministry of Justice. There were also 955 local NGOs. Many of these groups maintain close ties to the government.

International organizations have criticized the Belarusian 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. Since the law does not distinguish between for-profit and nonprofit NGOs, the latter do not receive any tax privileges. The government taxes in-

ternational humanitarian aid, and private businesses cannot write off donations to NGOs. There are no specific regulations on interest-group participation in politics. Article 40 of the Constitution protects freedom of assembly and the right to petition the government and state bodies.

Public demonstrations remain the main vehicle for expressing opposition to government policies. However, 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.” Authorities have also tried to deter protests by imposing heavy fines on demonstration organizers and by subjecting them to administrative arrest. They have also used violence to break up unsanctioned meetings and marches. 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.

The majority of Belarus’s NGOs are based in large urban centers. More than 50 percent are concentrated in the capital, Minsk. These include educational, women’s, cultural, environmental, youth, religious, media, and business groups, and their total membership is estimated at approximately 100,000 people. However, according to some unofficial calculations, the number of opposition-minded individuals who are truly active in civil society hardly exceeds 20,000 nationwide. These include educational, women’s, cultural, environmental, youth, religious, media, and business groups. Some of the largest and most well-known NGOs are the Congress of Military Officers, the PEN Center, the F. Skaryna Language Association, the International Discussion Club, and the International Foundation for the Humanities. Most NGOs lack experience, skills, funds, staff, and overall organization.

Belarus’s 23 women’s NGOs engage in advocacy work related to employment, participation in political decision making, violence against women, and legal rights. Some of the most prominent women’s groups are the Belarusian Union of Women, the Independent Democratic Movement of Women, the All-Belarusian Women’s League, the Association of Young Christian Women, the Women’s Discussion Club, and the Belarusian Association of Women-Lawyers. There is also one opposition women’s political party, the Women’s Party Nadezhda (Hope). Women’s groups represent only a minority of the NGOs in the Assembly of Democratic NGOs in Belarus.

The fact that the number of youth NGOs and youth wings of political parties is growing in Belarus is a reflection of the radicalization of young people living under the Lukashenka regime. These groups include the Youth Information Center, the Belarusian National Scout Association, the Belarusian Student Association, the Youth Democratic Initiative, and the Youth Union. Groups with links to political parties, including the Leninist Young Communist League, Mlady Front (the youth wing of the BPF), Malada

Hramada (the youth wing of the Social-Democratic Hramada), UCP Youth (the youth wing of the United Civic Party), and the student movement Zubr, espouse views that range across the political spectrum.

The Belarusian Patriotic Youth Union and the Republican Pioneer Organization are among the pro-Lukashenka youth groups that receive funding from the state. These two groups are similar to the Soviet-era Pioneer and Komsomol youth organizations, and their creation in 1997–1998 helped mark the country’s return to a Soviet-style orientation. The antiregime Union of Belarusian Students was banned in December 2001.

Some NGOs provide independent legal assistance, defend human rights, and collect information on human rights abuses. These include the Association for Legal Assistance to the Population, the Center for Legal Protection, the League for Human Rights, the Association of Journalists, the Association of Prisoners of the Lukashenka Regime, the Center for Legal Protection of the Media, the Foundation for Legal Cooperation, the Helsinki Committee, the Human Rights Association, the Center for Human Rights, the Civil Society Center, Charter-97, the Movement for Free and Democratic Elections, and the local office of ProMedia (a program sponsored by the Washington-based International Research and Exchanges Board). The League for the Freedom of Sexual Minorities is a forum for gay and lesbian rights activists. Belarus has a few public policy research institutes, but they have no influence on the policy process.

In recent years, the state’s treatment of NGOs has worsened. Refusals of, or delays in, registration, intimidation and repression of NGO leaders, refusals to rent office space, and slander campaigns in the state media are common occurrences. In 1999, the president issued a decree that required all NGOs to reregister. The pro-regime officials who led the registration followed a new civic code that contained 20 reasons why an NGO might be denied registration, including its nonrecognition under the 1996 Constitution. Many NGOs did not even try to reregister because they assumed the state would refuse their application anyway.

In 1999, any activity on behalf of an unregistered NGO was made punishable by law. In addition, new regulations prohibited private organizations from using private residences as their legal address. Since the state also controls the use of public office space, this policy essentially denied many NGOs a place to work. Unregistered NGOs are subject to severe administrative and criminal penalties.

Government intimidation has forced many international philanthropic organizations such as the Soros Foundation to close their operations in Belarus. Prior to the 2001 presidential election, the president issued a decree, “On Certain Measures of Regulation of the Procedure of Receipt and Use of Foreign Charitable Aid,” which restricted the ability of NGOs to use foreign assistance for many activities, including election monitoring.

Despite all of these limitations, the role of NGOs in the 2001 presidential elections provided a glimmer of hope for

the future of Belarusian civil society. That is, even though Belarusian civil society is still weak overall, large numbers of citizens worked together to educate voters about their constitutional rights and alternatives to the current regime. Throughout the country, small groups led programs to encourage high voter turnout, especially among the country's younger generation. One coalition of NGOs called "Civic Initiative—Independent Observation" mobilized more than 10,000 domestic observers. In a preliminary election report, the OSCE noted that "civil society in Belarus showed encouraging and significant signs of substantive engagement by citizens on democracy issues."

Larger NGOs, particularly groups that work with Western institutions or have several years of experience, issue publications and have leadership structures with full-time and volunteer staff. Both local organizations and Western institutions have backed NGO development programs, including the creation of the Belarusian Association of Resource Centers, a network of 25 regional NGO resource centers. They have also made information on management issues available in the native language. Some NGOs, including the United Belarus Way, the Centre Supolnosc, the L. Sapiha Foundation, and the American group 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.

Belarusian 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 apply for foreign grants, domestic funds are limited, and their leaders simply lack experience. Government authorities often harass NGOs with financial audits and tax collections.

In August 1995, the independent Free Trade Union of Belarus, the Minsk Metro Union, and the Railroad and Transport Facilities Workers' Union were banned—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 government re-registered the Free Trade Union of Belarus and registered the new Congress of Democratic Trade Unions.

More than 25,000 workers belong to independent trade unions. In contrast, the FTUB, the successor to the official Soviet-era trade union, claims 5 million members, or nearly 95 percent of the workforce. Workers are discouraged from joining independent trade unions. The practice of forcing workers to join the FTUB ended when the organization joined the anti-Lukashenka opposition in 2000.

In May 2001, when the FTUB established a coordinating body that would represent the organization's 600,000 members in Minsk, the authorities failed to impose their candidate as the head of the new body. Other labor activity

in 2001 included a nationwide strike by the Free Trade Union of Entrepreneurs against excessive taxation and government pressure on small businesses. The independent Trade Union of the Armed Forces complained late in the year about the miserable socioeconomic conditions in which conscripts and officers live.

Although 20 percent of Belarus's workforce is employed in collectivized agriculture, few workers belong to the Union of Cooperatives. A small number of NGOs, including the Union of Entrepreneurs and Lease Holders and the Belarusian Association of Journalists (BAJ), represent the private sector. In addition to parties and NGOs, the state forced independent trade unions to reregister in 1999. This process was complicated, though, by the fact that a union either had to prove the existence of members in every region of the country or had to account for at least 10 percent of the workforce in one enterprise.

In April 2001, the International Labor Organization demanded that Belarusian authorities improve labor legislation, halt violations of trade union rights, and follow ILO recommendations. The ILO accused the authorities of orchestrating a smear campaign in the state media, sacking trade union leaders critical of the regime, and denying registration to independent trade unions. Earlier in the year, for example, when workers organized strikes over unpaid wages, the state media launched a smear campaign against the FTUB and its leader, Uladzimir Hancharyk. The state's campaign against the FTUB intensified when Hancharyk announced his intention to run in the 2001 presidential election.

Independent Media

1997	1998	1999-2000	2001	2002
6.25	6.50	6.75	6.75	6.75

"The only journalist who can have poor relations with me is one who, if you will pardon the expression, is abnormal," Lukashenka told *Rossiyskaya Gazeta* on May 23, 1998. That is, although Belarus's Constitution enshrines freedom of expression, access to information, and a free press, President Lukashenka tolerates little criticism of his regime. Over the years, he has placed increasing restrictions on the media.

In 1997, the Chamber of Representatives passed the law "On Amendments and Corrections to the Law on Press and Other Means of Media," which prohibited defamation of the president, senior government officials, and other individuals in the ruling elite. The law, which took effect in January 1998, also allowed the State Committee on the Press to suspend a publication for one year without a court ruling and banned imported publications that allegedly "do harm to the political and economic interests of the Republic of Belarus." The Belarusian Association of Journalists believes that a new draft law, which was submitted to Parliament in November 2001, would erode freedom of the

press even further. If approved, the law would ban any mention of unregistered parties and NGOs in the media, simplify procedures for the state to close newspapers, and prohibit media outlets from receiving assistance from abroad.

Government authorities have increasingly used the tax police to impose restrictions on independent publications. In January 2001, tax police raided the Magic publishing house and confiscated its printing equipment. In August, they raided Magic again. Magic prints many independent newspapers, including *Narodnaya Volya*, *Rabochy*, *Belorusskaya Delovaya Gazeta*, and others.

During the presidential election campaign of 2001, government authorities increased their harassment of independent media because they supported the opposition. In July, for example, when police raided the offices of *Volny Horad*, a newspaper in Krychau that backed opposition candidate Syamyon Domash, they arrested three journalists and confiscated computers and publications. Police also confiscated six computers from *Narodnaya Volya*; 40,000 copies of *Rabochy*, which published allegations of corruption against President Lukashenka; and 400,000 copies of *Nasha Svaboda*, which had devoted an entire issue to opposition candidate Uladzimir Hancharyk.

Following the election, the Minsk regional committee launched a libel case against Iosif Syaredzich, the editor of *Narodnaya Volya*, for publishing allegations that the committee head had instructed village-level committees to falsify the outcome. Other newspapers came under fire for supporting Hancharyk (*Bretskii Kur'er*) or for publishing materials that linked Lukashenka to a death squad (*Pahonya* and *Naviny*). In addition, the tax police filed a request to close *Belaruskaya Maladzyozhnaya*. The charge? Failure to occupy offices at that paper's registered address.

In July 1997, the Council of Ministers introduced strict regulations that have forced foreign correspondents in Belarus to censor their reporting and thereby have prevented them from filing articles that are critical of conditions in the country. Foreign correspondents are held personally liable for critical remarks they make about officials in the regime. Since March 1998, state officials have been prevented from sharing official information with independent publications and from placing advertisements in them. The intention is to deny the independent media access to information and finances.

In February 2000, six of the country's largest independent publications—*Narodnaya Volya*, *Belorusskaya Delovaya Gazeta*, *Belorusskaya Gazeta*, *Svobodniye Novosti*, *Belorusskiy Rynok*, and *Komsomolskaya Pravda v Belorussii*—sent an open letter to Prime Minister Uladzimir Yarmoshyn demanding an end to discrimination against nonstate publications. They noted that although the state postal service had raised the distribution rates for independent publications by 400–600 percent, it had offered subsidies to state media. This letter was followed by a demonstration in Minsk at which participants demanded “equal economic conditions for state and independent media” and access to official information.

In 2000, the State Committee on the Press 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. In addition, the state distributor, Belkniga, refused to distribute an issue of *Arche* that was devoted to Jewish culture. The state-run House of the Press halted printing of its subsequent edition. The same year, the State Committee on the Press issued a warning to the independent newspaper *Nasha Niva* for “fomenting interethnic enmity” when it published material that was critical of the Russian military intervention in Chechnya.

Nearly half of the Belarusian press is independent. However, the independent press accounts for only 10–15 percent of the official circulation of printed media and generally consists of local publications that are devoted to entertainment and socioeconomic issues. It is largely devoid of political commentary.

Belarus has only 10 independent newspapers, 1 independent news agency, and a few local newspapers that provide unfettered political comment. The state controls and provides subsidies to a number of large publications, including *Sovietskaya Belorussiya*, *Zryazda*, *Narodnaya Gazeta*, *Respublika*, and *Znania Yunosti*. It reports that *Sovietskaya Belorussiya* enjoys a weekly circulation of 331,000, the largest in the country.

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. The state has also utilized high taxes and heavy fines to try to close down independent publications.

State media promote government policies and attack the opposition. Lukashenka, for example, has told the State Broadcasting Company (SBC) that he would like it to act as a conduit for state ideology. He has also promised that he will never allow private and wealthy individuals to launch their own television and radio stations. Mikhail Padhajny, the head of the State Committee on the Press, has denied that the country's independent media are censored and suppressed.

In July 2000, only three months before parliamentary elections, Viktor Chykin, the head of the pro-regime CPB, became the new SBC chairman. In his capacity as the deputy mayor of Minsk, Chykin had earned a reputation for restricting opposition rallies and organizing media campaigns that denounced the opposition as “fascists.” During the parliamentary campaign, Lukashenka also ordered the creation of a new information agency that “should be absolutely state-run.”

Since March 1997, print, audio, and video materials have been restricted for importation into Belarus. Likewise, Belarus's postal service is not allowed to deliver opposition publications that have been banned in Belarus but are now printed in Lithuania. Belarusian border guards have been told to confiscate them. In general, 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.

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. Although Belarusian television and radio suffers from Russian competition, the state has suspended some Russian broadcasts for their critical reports on the Lukashenka regime. Some independent radio and television stations do exist. According to the U.S. Department of State, though, “[a]ll nationally available radio and television broadcasts originating in the country are government-owned.” The Belarusian service of Radio Liberty continues to provide independent coverage of events in Belarus, and in August 2001 it doubled its daily broadcast from four to eight hours. Radio Racja, an independent radio station that was shut down in 1996, now broadcasts from Lithuania and Poland on shortwave.

There are two major journalistic associations in Belarus. The first, the Belarusian Association of Journalists, is an independent group that unites more than 750 members throughout Belarus. BAJ is a member of the International Federation of Journalists. The second, 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 2001.

Governance and Public Administration

1997	1998	1999-2000	2001	2002
6.00	6.25	6.25	6.25	6.50

Belarus’s bicameral Parliament is completely subservient to the executive, which rules by decree. It holds no real power but, rather, performs the same role of rubber stamp authority as the former Soviet-era Supreme Soviet. The Chamber of Representatives, Parliament’s 110-member lower house, originally consisted of former Supreme Soviet deputies who were loyal to the regime. The Council of the Republic, the 64-member upper house, is made up of 8 presidential appointees and 8 deputies from each of the country’s six oblasts and the city of Minsk. Local councils elect the body’s remaining members. The manner in which seats in the upper house are filled guarantees that all 64 members are pro-presidential supporters. Women account for one-eighth of the deputies in the upper house but less than 10 percent of deputies in the lower house.

Local councils are elected for four-year terms and work alongside presidential prefects whom the executive appoints. The executive also nominates chairpersons of local councils. According to the 1996 Constitution, the jurisdiction of local councils includes local budgets, local taxes,

socioeconomic development, and the disposal of communal property. In reality, though, these councils function just as they did in the Soviet era. They have failed to reform the municipal system and to 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	2002
6.00	6.25	6.50	6.75	6.75

The now disbanded Supreme Soviet adopted Belarus’s first post-Soviet Constitution on March 15, 1994. Two years later, a highly controversial referendum resulted in amendments to and the creation of 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 Lukashenka 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, Lukashenka has ruled by presidential fiat. Between 1997 and 2001, he issued more than 200 decrees and edicts. The amended Constitution’s provisions on human rights resemble the same freedoms that Soviet citizens enjoyed in name but not in practice. Likewise, under Article 23, the state may restrict these rights in the interests of “national security.” The executive, of course, defines the threat.

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 use 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’s human rights record. Relations between the OSCE and Lukashenka are tense, particularly during election campaigns.

Constitutional and legislative guarantees for minority rights are used only to protect the status of Russians and the Russian language in Belarus. Under Lukashenka the Belarusian language, national churches, and Belarusian culture have been progressively downgraded in the media, among state officials, and in education. In February 2001, for example, when Lukashenka addressed a conference of

the cultural and creative unions, he advised members of the audience to “defend the cultural heritage and spiritual wealth of the entire Slavic civilization” from Americanization.

Police have arrested members of the opposition for carrying the banned white-red-white national flag, which they wave instead of the official Soviet-style flag. Belarusian authorities have also incited and encouraged anti-Semitic and anti-Catholic sentiments in ways that resemble the “antinationalist” propaganda campaigns of the Soviet era. Government officials and the media have even accused the opposition of displaying “fascist” tendencies. In Minsk there is no longer a single Belarusian-language school.

The 2002 government budget allocates state funding only for the Belarusian Orthodox Church, which represents the Belarusian exarchate of the Russian Orthodox Church and supports President Lukashenka’s pan-Eastern Slavic ideology and foreign orientation. In 2002, Parliament will consider amendments to laws on education and religion that would expand the role of the Belarusian Orthodox Church in the “spiritual-patriotic education of younger generations.” Opposition groups, particularly national democrats, tend to favor the Greek Catholic and Autocephalous Churches, which are more pro-Western in their orientation. These two churches and the Roman Catholic Church are subject to various forms of discrimination. Religious groups do not play a role in NGO and charitable activity.

The 1991 criminal code was amended in May 1994 to prohibit “dangerous crimes against the state,” defamation of the president, and plots to seize power by violent means or through the overthrow of the state. A 1997 decree introduced additional measures against “terrorism.” The Belarusian Helsinki Committee and the Belarusian League for Human Rights have documented the government’s use of these provisions against the opposition to justify beatings, torture, administrative imprisonments, denials of medical care, heavy fines, and psychological duress. At times, opposition activists have been detained up to two years while their cases were being considered. A draft law on combating terrorism, which was submitted to Parliament in November 2001, may envision further restrictions on freedom of assembly.

Although Belarus introduced new criminal codes in January 2001, these provisions do not radically alter the law. Investigative bodies are still under the control of the Ministry of Interior, the State Prosecution Service, and the KGB, and the executive still determines judicial appointments, dismissals, salaries, and housing. As the result, Belarus’s judiciary remains neither independent nor impartial, particularly when dealing with the opposition.

Since 1997, the Ministry of Justice has overseen 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	2002
5.25	5.25	5.25

Belarus’s Soviet-style regime and illiberal economy have shielded the country from the high levels of corruption that exist elsewhere in the region. Nevertheless, petty corruption is widespread among local customs, border, medical, tax, and higher education officials. In a July–August 2001 poll among owners of small and medium-size businesses, for example, the International Finance Corporation found that 85 percent of respondents had offered bribes to state officials. Of these, 44 percent gave occasional bribes and 41 percent regular bribes.

When Lukashenka first ran for president, he campaigned on an anticorruption platform. Since his election, though, he often has used anticorruption measures to restrict the private sector and persecute high-ranking members of the opposition. Authorities also use alleged corruption charges as a means of deflecting attention from their own acts of political repression against individuals who have joined the opposition. In June 2001, for example, Yuryy Bandazhewski, the rector of Gomel University, received an eight-year prison sentence for alleged corruption. However, authorities launched the case against him only after he exposed a state cover-up of the radiation effects of the 1986 Chernobyl nuclear accident.

Other individuals who have been arrested on corruption charges after criticizing 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 Lukashenka. In March 2000, he was sentenced to six years in prison on charges of fraud and misappropriation of funds.

Belarus’s budget process is not transparent, and the opposition has accused Lukashenka of running an extra-budgetary and unconstitutional presidential fund. In addition, shadow sector economic interests and private entrepreneurs who have connections to the presidential administration have been known to make donations to funds controlled by the executive. Lukashenka often uses private funds to finance targeted projects such as pro-regime NGOs.

Numerous laws, presidential decrees, and government resolutions regulate the private business sector; many date to the early 1990s. Since the Lukashenka regime is hostile to private enterprise, attempts to create private companies are usually thwarted by overregulation and resistance from civil servants. More than 20 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 and oppositionists, and since the

executive controls the judiciary, entrepreneurs who have been wrongly accused of crimes do not receive fair treatment in courts.

Transparency International did not rank Belarus in its 2001 Corruption Perceptions Index. Since business interests in Belarus are few, very little data on public perception of corruption is available. In its 2000 index, Transparency International gave Belarus a score of 4.1 (where 10 represents the least corrupt and 0 the most corrupt) and ranked it 43rd out of 90 countries. This ranking was lower than Russia's and Ukraine's.

ECONOMIC LIBERALIZATION & SOCIAL INDICATORS

Privatization				
1997	1998	1999-2000	2001	2002
6.00	6.00	6.00	6.00	6.00

Macroeconomic Policy				
1998	1999-2000	2001	2002	
6.25	6.25	6.25	6.25	

Microeconomic Policy				
1998	1999-2000	2001	2002	
6.50	6.50	6.50	6.50	

The Belarusian economy remains largely in state hands. This is a reflection of Lukashenka's support for an authoritarian, neo-Soviet state and a command administrative economy. Large and centrally controlled industrial enterprises continue to dominate the economy. The country's strong links with Russia since 1996 and preferential prices on Russian energy have encouraged Lukashenka to avoid economic reforms.

The state also indirectly controls nonstate joint stock enterprises either by acting as a major shareholder or by delegating 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.

The Heritage Foundation's most recent *Index of Economic Freedom* describes Belarus's economy as "repressed" and gives the country a world ranking of 146 out of 155 countries. Belarus's economic liberalization score in the Heritage survey has declined steadily since 1995, when Lukashenka began to reintroduce a Soviet-style political and economic regime. The country's score was 3.70 in 1995 and 4.25 in 2001.

In its 2001 *Transition Report*, the EBRD welcomed the recent liberalization of Belarus's foreign exchange market and the reduction of some administrative controls. Nevertheless, it remained concerned about the country's high inflation rate, its vulnerability to microeconomic instability, and government's intention to remain heavily involved in the economy. In general, international financial organizations remain cautious in their assessment of the new economic reform plan that Lukashenka outlined after his election victory in September 2001. In the past, he has broken pledges to introduce similar policies.

During the second half of the 1990s, the share of industry and agriculture in gross domestic product declined by nearly half, while the service sector share increased by a third. A large shadow economy also exists in Belarus, particularly in the smuggling of goods to and from Russia, Poland, and Lithuania. In October 2001, Lukashenka offered a one-year amnesty on declarations of shadow capital and capital that has been sent abroad.

Lukashenka 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 government's program. Price and wage controls—the principal means of controlling inflation—have led to further shortages of goods.

During the period covered by this report, the economies of Russia and Ukraine began to grow for the first time, but Belarus's economy remained in decline. The combined debts of the agricultural sector total 1.1 trillion Belarusian rubles (\$720 million). The number of collective farms that operate at a loss continues to grow and now accounts for 57 percent of the total. Nearly 2,000 other enterprises (or 17.5 percent of the total) also operate at a loss. Lax monetary expansion has given Belarus the highest inflation rate in the CIS: 27.9 percent.

Poor economic indicators and Russia's unwillingness to continue subsidizing the Belarusian economy forced President Lukashenka to pay lip service to moderate economic liberalization in fall 2001. Following his reelection, Lukashenka told the upper house of Parliament that the new government must ensure macroeconomic and financial stability, reform the state sector, and foster entrepreneurship. In addition, the number of government ministries was reduced from 44 to 28 to help save costs.

During the presidential election, Lukashenka promised to raise the average wage to \$100 in 2002—a move that would only add to the country's inflationary and budgetary pressures. In addition, the IMF warned that if rising wages were not matched by rising labor productivity, the increase in living standards would prove illusory. The December 2001 government program sets a target monthly wage of \$250 by 2005 and anticipates raising monthly pensions to 48 percent of this amount. Belarus will also feel inflationary pressure if commercial banks follow

through on plans to make large loans to the country's loss-making agricultural sector.

After his reelection, Lukashenka promised to "open the floodgates for the development of transparent and fair entrepreneurship." In his estimate, nearly two million people already work outside the state sector, and it is on this foundation that Belarus's private sector would be built. Lukashenka also promised Belarusian entrepreneurs that they would be given first choice when the state transforms its enterprises into joint stock companies.

At the same time, though, the president declared that privatized companies would not be allowed to lay off employees or decrease their wages and that the state would maintain a controlling stake in industries in the first stage of privatization. He also warned that privatization would be based on a "very complex mechanism" that would require the approval of employees, managers, and local authorities. The program that the government unveiled in December 2001 included provisions on liberalizing the economy, promoting a favorable investment climate, easing the tax burden, and simplifying licensing regulations.

These moderate economic reform measures are aimed partly at satisfying the World Bank and the IMF, which has not provided assistance to Belarus since Lukashenka's consolidation of power in 1995. The IMF in particular remains wary of the plan. Only months before the plan's announcement, the Belarusian government had failed to carry out a six-month IMF-monitored program that was a precondition for possible renewed lending. This program's key goal was to achieve microeconomic stability by tightening monetary policy, increasing foreign exchange reserves, and providing strict fiscal discipline. Under the program, Belarus was also supposed to end its interference in commercial banks, cut subsidies to housing services and transport, and raise value-added, excise, and profit taxes.

At a November 2001 meeting, newly appointed Prime Minister Henadz Navitsky assured the IMF that his government would further liberalize monetary controls, tighten tax policy, curb inflation, speed up price liberalization, remove cross subsidies, increase privatization, and remove obstacles to free trade. The latter requirement is aimed at securing Belarusian membership in the World Trade Organization. The World Bank has promised to finance various projects only after the government liberalizes its monetary and pricing policies. The EBRD's new strategy for Belarus takes into account the recommendations of the OSCE and the COE, both of which described the 2000 parliamentary and the 2001 presidential elections as undemocratic. In response, the EBRD has frozen public sector projects until Belarus shows progress in democratic reform.

Lukashenka's plan to make moderate steps toward economic liberalization would not touch the agricultural sector, which in 2001 lost 147 billion Belarusian rubles (\$94 million). According to the president, this sector of the economy does not need reform—just "improvement." The

profitability of the agricultural sector declined from 45 percent in 1991 to 12 percent in 1999 and 2.9 percent in 2001. Official figures recorded a year-on-year increase in GDP of 4 percent from January to November 2001, compared to 6 percent in 2000. Industrial output in 2001 was also lower.

Earlier budgets were based on highly unrealistic assumptions and unachievable targets of growth and inflation. High inflationary pressures will continue to be fueled 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. In the first half of 2001, the budget experienced a revenue shortfall of 2.8 percent from its target. The State Tax Committee blamed this on the increasing number of loss-making enterprises, lower than expected growth in agricultural output, and VAT exemptions for enterprises that totaled 27.6 billion rubles (around \$16.5 million). Enterprise arrears to the state budget increased to 100 billion rubles (approximately \$60 million).

Article 44 of the Constitution and Article 86 of the civil code establish the right to property ownership in Belarus. 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.

In 1992 and 1994, the government of Vyacheslav Kebich liberalized prices as part of its modest economic reform program. Since Lukashenka's accession to power in 1994, though, the state has controlled prices more tightly. Due to the government's loose monetary policy, wages and price controls became the only means of controlling inflation. However, this policy has led to acute shortages of foodstuffs and consumer commodities and has pushed these items into the unofficial economy, where they cost 3 to 3.5 times more. Likewise, Belarus still has the highest inflation rate in the CIS—a factor that has further impoverished the population. As part of its modest plan for agricultural reform, the government has promised to free agricultural prices in spring 2002.

The country's lack of hard currency creates serious impediments to trade with non CIS states. Likewise, although Belarus has eliminated most import duties on Russia goods, duties on goods from other countries still range from 5 to 90 percent. In addition, 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; and 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, 80–90 percent of Belarus's trade was with the USSR. Today, 60 percent of its exports and 64.3 percent of its imports remain within the CIS. Since the early 1990s, when trade turnover collapsed, im-

port 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.

Belarus has not restructured or privatized its energy sector, even though it possesses a large refining capacity for oil and gas. The country produces only 10 percent of its energy needs and imports the rest from Russia. Owing to its plans for a close political-military union with Russia, Belarus pays less than a third of what neighboring Ukraine pays. It does so through a combination of barter deals, refinancing, and government agreements that allow it to export substandard goods. The Russian firms Lukoil and Yukos also have a controlling stake in large Belarusian refineries such as the joint stock company Naftan.

Late in 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 with support from Western Europe and the EU, Belarus could earn enough from transit fees to offset the cost of its annual imports of Russian energy.

Belarus's labor force numbered 4.3 million in 1999, with women making up 51.4 percent of this number. The highest rates of employment for women are in communications, trade and public catering, health care, education, culture, finances, credit, and insurance. Tens of thousands of women suffer violence each year, according to the Women's Education and Consulting Center. However, most women do not report this violence to the police.

Women are unable to find employment that complements their achievements in higher education. State funding for sectors in which women are employed is lower, and the positions women hold enjoy lower social status and salaries than the positions men hold. Women's wages are, on average, two-thirds of men's. Likewise, women suffer from higher rates of poverty.

Unemployment figures are very low but do not reflect high hidden unemployment in industry and agriculture. Unemployment is higher among women than men. In December 2001, authorities jailed two women for 10 days and fined two others \$950 each when they picketed

Lukashenka's residence to protest unfair distribution of housing. The women had also just lost their jobs.

Pensioners account for a large percentage of the population and are Lukashenka'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. A poll conducted in 2001 by the Ministry of Economy found that half of Belarusians could not make ends meet; 59 percent of respondents said their standards of living had declined during the year. Per capita consumption of staple foods fell by more than one-third during the 1990s.

Education makes up 15–20 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 Lukashenka, however, the situation has reverted to the Soviet-era policy and Belarusian has gradually been squeezed out of secondary schools. The Russian language completely dominates higher education.

Although health spending as a proportion of the budget is also around 15 percent, this has not prevented a decline in the provision of health care. Health care expenditures equal 5.1 percent of the GDP—higher than that in Ukraine but similar to that in 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. According to the *Human Development Report 2001*, life expectancy at birth in Belarus has declined from 71.5 years for the period 1970–1975 to 68.5 years for the period 1995–2000. Likewise, for the period 1995–2000, the probability of surviving to age 65 was 80 percent for women but only 51.3 percent for men. Although the estimated birth rate was only 9.7 per 1,000 population in 1999, the infant mortality rate was 23 per 1,000 live births.

Taras Kuzio is a research associate at the Center for Russian and East European Studies at the University of Toronto. He is the author, most recently, of Ukraine: Perestroika to Independence (Macmillan, 2000).

BOSNIA & HERZEGOVINA



Polity: International protectorate

Economy: Mixed statist (transitional)

Population: 3,400,000

GNI per capita at PPP \$ (2000): na

Capital: Sarajevo

Ethnic Groups: Serb (31 percent), Bozniak (44 percent), Croat (17 percent), other (8 percent)

Size of private sector as % of GDP (mid-2001): 40

The scores and ratings for this country reflect the consensus of Freedom House, its academic advisors, and the author of this report. The opinions expressed in this report are those of the author.

↓↓ and ↑↑ indicate score changes of .25 or more. ↓ and ↑ indicate changes of less than .25.

NATIONS IN TRANSIT SCORES

	1997	1998	1999-2000	2001	2002
Democratization	na	5.35	↑ 5.13	↑ 4.94	↑↑ 4.56
Rule of Law	na	na	6.00	↑↑ 5.63	↑↑ 5.38
Economic Liberalization	na	5.67	↑ 5.58	↑ 5.50	↑ 5.33

KEY ANNUAL INDICATORS

	1995	1996	1997	1998	1999	2000	2001
GDP per capita (\$)	444.5	668.5	815.0	992.6	1,054.4	1,012.3	1,070.2
Real GDP growth (% change)	20.8	86.0	37.0	10.0	10.0	5.0	5.0
Inflation rate (Federation/RS)	-4.4/12.9	-24.5/16.9	14.0/-7.3	5.1/2.0	-0.3/14.0	1.9/14.7	3.3/11.0
Exports (\$ millions)	152.0	336.0	575.0	697.0	649.0	732.0	877.0
Imports (\$ millions)	1,082.0	1,882.0	2,333.0	2,656.0	2,502.0	2,348.0	2,485.0
Foreign Direct Investment (\$ millions)	0.0	0.0	0.0	100.0	90.0	150.0	164.0
Unemployment rate	na	na	37.0	38.0	40.0	40.1	na
Life Expectancy (years)	72.7	na	73.0	na	73.0	73.3	68.0

INTRODUCTION

The years 2000 and 2001 brought major change to the countries of the former Federal Republic of Yugoslavia, including the end of a decade of authoritarian nationalist rule in Croatia and Yugoslavia. In Bosnia, the nationalist parties that have dominated government for more than a decade remained the biggest political groupings but were considerably weakened by local and general elections in 2000. As a result of the elections, governments changed at most levels and a loose coalition of moderate parties came to power. This coalition governs Bosnia with strong backing from the international community, the main power broker in the country.

The shift toward non-nationalist parties, however, was only partial. As the European Stability Initiative noted in a recent report, the selection of both nationalist and moderate parties mirrored the results of Bosnia's first election in November 1990, suggesting a lack of political transformation in the country despite a decade of war and sociopolitical crisis. In addition, despite the new government's success in increasing refugee returns to areas where they form an ethnic minority, its attempts to reduce widespread corruption, and its initiation of long-delayed economic reform, Bosnia remains a deeply divided country in which the danger of political setbacks is real.

Throughout 2001, political extremists sought to undermine Bosnia's tentative steps toward a more integrated state. In March, the Croatian Democratic Union (HDZ), the dominant Croat party that maintains close links to the former Tudjman regime in Croatia, left Bosnian institutions and sought to set up a system of Croat self-government in Herzegovina. Ostensibly triggered by new election rules that they believed put Croats at a disadvantage, the party and its allies engaged in creating a de facto third entity in Bosnia alongside the Serb Republic and the Croat-Bosniak Federation of Bosnia-Herzegovina. Although the Croat self-government ultimately failed, relations between many Croats in Herzegovina and Bosnian and international authorities remain tense. In the Serb Republic, two major riots in May against the reconstruction of mosques in Trebinje and Banja Luka revealed the fragility of interethnic peace in the country.

Despite increasing criticism of the Dayton Peace Accords by some local political actors, especially among the Bosniak political elite, the international community remains committed to the accords and few viable alternatives have emerged. At the same time, the country's central institutions have strengthened in recent years. This is the result of both the active support of international agencies in the country—especially the Office of the High Representative, the main international body overseeing the civilian implementation of the peace process—and a landmark decision by the Constitutional Court of Bosnia in July 2000 that Croats, Serbs, and Bosniaks should enjoy the same rights through-

out the whole territory of the country. As a result, the Serb Republic and the Croat-Bosniak Federation had to begin reforming their Constitutions and institutions to accommodate any groups that had previously been excluded.

Nevertheless, Bosnia-Herzegovina remains governed by a complex system of overlapping authorities without much coordination and cooperation among them. The institutional system provides few incentives for interethnic cooperation, and only the weak Bosnia-wide state institutions incorporate the three dominant communities. The current system has been decisively maintained by the strong political role of the High Representative (HR), who oversees the civilian aspects of the peace implementation process. Wolfgang Petrisch, Bosnia's third HR, has been in office since 1999 but is due to end his term in 2002. Petrisch has been forceful in passing laws, dismissing officials, and assisting in the establishment of moderate governments. Although the interventionist policies of the HR and the international community have produced some positive results, they have also highlighted the dependency of the current political system on an outside arbiter to overcome deadlock. In addition, although both domestic and international actors have substantially debated the need for constitutional reform in Bosnia, little progress has been made in defining or establishing consensus for such reform.

Overall, political progress in Bosnia since the end of the war in late 1995 has been torturously slow and marked by considerable setbacks, mostly in the form of elections that reaffirm radical nationalist parties. The substantial international financial support and political involvement that has transformed Bosnia into a de facto protectorate has not succeeded in molding postwar Bosnia into a viable state rooted in the support of most of its citizens. As a result, Bosnia remains economically and socially weak, without much prospect for significant improvement in the near future.

DEMOCRATIZATION

Political Process			
1998	1999-2000	2001	2002
5.00	5.00	4.75	4.25

Bosnia's current political system is the product of a peace agreement that the international community concluded in Dayton, Ohio, in November 1995 to end three and a half years of war. The significant role of the international community has made Bosnia a de facto protectorate that is characterized by a loose federation with a weak central government. With 14 constitutions and governments with legislative powers, the political system of Bosnia is both inherently complex and asymmetrical. Ultimately, this fact has rendered the system unstable and dysfunctional.

The territory of Bosnia is divided into two entities, the Serb Republic and the Croat-Bosniak Federation of Bosnia-

Herzegovina (hereafter the Federation). The Serb Republic was established by the Bosnian Serb leadership during the war and was supposed to secede from Bosnia. The Federation is the product of U.S.-brokered negotiations between the Bosniak and Croat leaderships in 1994. It is a loose binational federation that consists of 10 cantons. In addition to these two entities, the disputed city of Brcko was transformed into a separate multinational district in 1999 and placed under international administration.

The power of the central government is strictly limited to foreign affairs, trade, monetary policy, and other areas related to the maintenance of the joint state. All other responsibilities, including defense, are vested in the entities. In recent years, the international community has sought to shift some of the entities' defense prerogatives to the joint state institution, through the creation either of a joint command or even of a joint army. However, the leadership of the Serb Republic has opposed all calls for the integration of the two armies.

The Federation has failed to work as a political unit for most of its existence. Of its 10 cantons, only 2 are ethnically mixed. Croats or Bosniaks dominate the other cantons and have little incentive to cooperate. Owing to its limited powers, the government of the Federation has been largely inoperational. Even in the Federation's few areas of competence, Croats and Bosniaks have essentially maintained separate institutions. Until recently, for example, the army of the Federation consisted mostly of monoethnic units under the de facto command of their respective ethnic communities.

The Serb Republic, on the other hand, has suffered mainly from a lack of geographic congruity. That is, the region is divided by the city of Brcko into two halves, and its highly centralized government has been unable to exercise effective control over the territory. In addition, the Serb Republic has been suffering from a continuous conflict between its political elite, which seeks to block any progress in strengthening Bosnian institutions, and the Office of the High Representative, which has dismissed elected officials, including the president of the Serb Republic in 1999, and banned political parties that are opposed to the Dayton Peace Accords.

Bosnia's national legislature is bicameral. The upper house, the House of Peoples, has 15 members (5 Bosniaks and 5 Croats each from the Federation and 5 Serbs from the Serb Republic) who are chosen by the legislatures of the two entities. The lower house, the House of Representatives, has 42 members (14 Croats and 14 Bosniaks from the Federation and 14 representatives from the Serb Republic) who are elected directly by proportional representation from the two entities.

Bosnia also maintains a semipresidential system that consists of three directly elected members who rotate the chairmanship of the presidency every eight months. The Croat and Bosniak members are elected in the Federation, and the Serb member is elected in the Serb Republic. As a consensus-based democracy, any member can block deci-

sions if he or she invokes the "vital" interest of the entities. Only a two-thirds majority vote of the Serb Republic's Narodna Skupstina (National Assembly) or the Federation's Parliament can override a veto.

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 Bosniaks. Thirty members must be Croats. The lower house has 140 members who are elected directly by proportional representation. The president and vice president of the Federation are elected by the two houses and are relatively weak. A Croat must fill one of the two slots and a Bosniak the other. They rotate control of the two offices on a yearly basis. The Federation's 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 Serb Republic has an 83-member unicameral National Assembly that is elected directly by proportional representation. Its president is directly elected and holds considerable constitutional powers.

Three monoethnic, nationalistic parties dominated Bosnian politics throughout the 1990s. The Party of Democratic Action (SDA) sought to represent the Bosniak population. The HDZ, a branch of the Croatian party founded and led by Croatian president Franjo Tudjman until his death in December 1999, defined itself as the party of Bosnian Croats. And the Serb Democratic Party (SDS), led before and during the war by indicted war criminal Radovan Karadzic, dominated the political expression of Bosnian Serbs. The blurring of party and government lines has limited the political space for other political parties, particularly those advocating a more moderate political line, and stifled their ability to carry out policy if elected.

With the exception of the Social Democratic Party (SDP) and the Party for Bosnia and Herzegovina (SbiH) in predominantly Bosniak areas, non-nationalist parties have been unable to attract mass membership or establish substantial party infrastructures. Although parties have platforms, party politics tends not to be content driven. Strong party presidents who determine the program dominate most groups. Parties possess little internal democracy, and change is driven by their leaders more than their member bases. In addition, the representation of national interests takes precedence over economic and social reform for most parties, with the exception of the SDP, the Party of Democratic Prosperity (PDP), and other smaller parties.

The first postwar change of government took place in the Serb Republic in 1997 when the SDS was replaced by a weak coalition of moderate nationalists. In the Federation and at the national level, this change occurred only after the November 2000 elections and extensive postelection coalition building. However, the authorities have continued to work with the nationalist parties when

necessary. As a result, it would be misleading to overstate the dichotomy between moderate and nationalist parties.

In the Serb Republic, the SDS supports the government. In the Federation and in the joint institutions, the SDA has supported some of the initiatives of new governments. Most noticeably, though, the HDZ and the SDS have been prone to “opt out” of the political system, as evidenced by the HDZ’s withdrawal from Bosnian institutions in March 2001. The High Representative has banned more radical political forces, such as the Serbian Radical Party (SRS), for their opposition to the Dayton Peace Accords and the Bosnian state. Relations between the government and the opposition, as well as between the governments at the different levels, have often been difficult and tense, with no one willing to seek compromise.

Bosnia has held elections with great frequency since the end of the war in 1995. The reasons are twofold. The first is simple: Bosnia has multiple levels of government. Second, the international community had hoped that elections would bring more moderate forces to power.

Although the Dayton Constitution calls for a multi-party system of government, Bosnia did not have an election law until August 2001. Instead, since the end of the war, the OSCE had organized all elections and applied its own electoral rules. Passage of the law was a condition for Bosnian membership in the Council of Europe.

The new Law on Elections was passed after considerable delays and amid much controversy. The nationalist governments before November 2000 had been unable to agree on a law. Even after the change of government, moderate parties in both entities disagreed over key aspects of the law. In June 2001, the first attempt in the House of Peoples to pass the Law on Elections failed owing to opposition from members of the ruling Alliance for Change. Two key controversies surrounded the law. First, the Bosniak parties proposed holding nationwide elections for the three-member presidency and the House of Peoples, instead of separate elections in each entity. The Constitutional Court’s decision in 2000 on the equal status of Bosniaks, Croats, and Serbs provided justification for this proposal. However, the proposition not only met the opposition of other parties, especially the Serb Republic, but it also contradicted the Bosnian Constitution, which prescribes the method of electing the members of the presidency. Although the OSCE and the OHR had proposed a preferential voting system, the previously used majoritarian method of electing members of the presidency within their constituency was selected. The second controversy focused on the voting rights of individuals who illegally occupy property in Bosnia. The SDP and the SbiH insisted that illegal occupants may not vote or participate as candidates in elections. Although this provision was aimed at facilitating refugee returns, it was problematic with regard to defending basic rights, including the right to vote.

Despite the reservations of both the government and opposition parties, both houses of the parliamentary as-

sembly passed the final version of the Law on Elections with a broad majority. However, the law’s passage was largely the result of pressure from the OSCE and the OHR; it is also one of the key criteria for membership in the Council of Europe. In addition, since the Constitutional Court’s equal status decision had not yet been implemented in the entity constitutions, the procedures for electing members to the House of People in the Federation and for choosing the president and vice president in the Serb Republic were left to be determined at a later date.

Bosnia’s new Law on Elections regulates the electoral system, campaign financing, and the registration of parties and candidates. Instead of the OSCE, a special commission will now oversee elections. It will be elected by the House of Representatives of Bosnia and consist of two Croats, two Serbs, two Bosniaks, and one member representing a different nation or ethnic group.

There are three restrictions on candidates and political parties. The parties and candidates must support an independent Bosnia and are prohibited from advocating secession of parts of the country. The law additionally specifies that indicted or convicted war criminals may not stand as candidates and that no candidate may occupy property that is owned by refugees or displaced persons. The law strictly regulates campaign financing and obliges parties and candidates to report their income and property. Spending is limited to one konvertibilna marka per voter in each electoral race. The voting system does not set a threshold for gaining representation. Voting is based on an open-list proportional system that allows voters to opt for individual candidates or party lists. Elections take place in multimember constituencies.

Bosnia held its first postwar elections in 1996 for the Bosnian House of Representatives, the Federation House of Representatives, the Parliament and president of the Serb Republic, and the Bosnian presidency. The three nationalist parties won an overwhelming victory in these elections, taking the 3 slots in the national presidency and collectively sweeping 36 of the 42 seats in the Bosnian House of Representatives. Specifically, the SDA won 19 seats; the SDS, 9; and the HDZ, 8. In the elections for the 3-member presidency, SDA leader Alija Izetbegovic took the seat reserved for the Bosniak member, HDZ candidate Kresimir Zubak took the Croat seat, and SDS candidate Momcilo Krajisnik claimed the Serb seat. Izetbegovic became the chair of the presidency, and Biljana Plavsic became the president of the Serb Republic. Although the vote was managed by the OSCE, it was still fraught with widespread fraud and voter intimidation.

In 1997, the Serb Republic held early parliamentary elections after President Biljana Plavsic dissolved the body. The elections ended the political dominance of the SDS and brought about the Western-backed government of Milorad Dodik of the SNSD. Dodik ruled with a narrow majority until 2000.

The next general elections took place in 1998. Although the power of the nationalist parties was somewhat eroded, the SDA and the HDZ retained a majority of seats at the Federation level and, together with the SDS, at the level of the joint Parliament. Nikola Poplasen, a member of the extreme nationalist SRS, won the Serb Republic presidency. For the state presidency, Izetbegovic took the Bosnian slot; Ante Jelavic, the Croatian post; and Zivko Radisic, the Serbian position.

2000 BOSNIAN ELECTIONS, HOUSE OF REPRESENTATIVES

In November 2000, Bosnia held elections for the Bosnian House of Representatives, the Federation House of Representatives, the Serb Republic National Assembly, and other entity-level offices. Despite widespread—and accurate—anticipation that the SDP and other moderate parties would prove victorious, the nationalist HDZ and SDS still performed better than expected. The SDS profited from the ban on the SRS, while the HDZ mobilized support in opposition to a last-minute change in the electoral rules to the Parliament of the Federation. Although the three nationalist parties were not defeated outright in the elections, they could muster only 19 of the 42 seats in the Bosnian House of Representatives, thus denying them the possibility of continuing to govern in a loose coalition.

**Table 1. Bosnian House of Representatives
Election Results, November 2000**

Party	Percentage	Seats
Federation of Bosnia-Herzegovina		
SDP	27.3	8
SDA	27.0	7
HDZ BiH	19.3	5
Stranka za BiH	15.6	4
DNZ BiH	2.2	1
NHI	2.0	1
Others	6.6	1
Serb Republic		
SDS	39.7	6
PDP	15.2	2
SNSD/DSP	10.6	1
SDA	7.4	1
SP RS	5.7	1
Stranka za BiH	5.4	1
SDP	5.2	1
SNS RS–Biljana Plavsic	4.5	1
Others	6.3	0

In the aftermath of the elections, the SDP and the SBiH created a broad coalition—the Alliance for Change—in which smaller Croat, Bosniak, and other moderate parties agreed to participate. This 10-member coalition, with the support

of the PDP, the Party of Independent Social Democrats (SNSD), and other smaller parties in the Serb Republic, mustered sufficient support in the 42-member Bosnian House of Representatives to form the government and replace the previous coalition of nationalist parties. The first government was led by Croat professor of economics Bozidar Matic. When the government failed to pass an electoral law in June 2001, though, he resigned and was replaced by the most prominent politician of the coalition, Zlatko Lagumdžija. Since the seat of chairman of the Council of Ministers is a rotating position, Lagumdžija's term will end in March 2002.

2000 FEDERATION ELECTIONS, HOUSE OF REPRESENTATIVES

Elections to the Federation's House of Representatives and its 10 cantons took place simultaneously with the state-wide election. The SDP gained nearly equal support as the SDA. However, the HDZ was not seriously challenged by its more moderate splinter groups such as the New Croat Initiative (NHI) of former presidency member Kresimir Zubak. The HDZ capitalized on new voting rules passed by the OSCE shortly before the elections that allow Bosniak members of the cantons to vote for Croat members (and vice versa) in the Federation House of Peoples. Specifically, the HDZ made the new rules a hot-button issue and warned that Croat representation in the House of Peoples could be reduced to "loyal Croats" who are elected by the dominant Bosniak parties. The HDZ also organized a parallel referendum on the rights of Croats in Bosnia, asking Croat voters whether they would favor "their own political, educational, scientific, cultural, and other institutions on the entire territory of Bosnia and Herzegovina." Although the OSCE declared the referendum illegal, the HDZ reported that 71 percent of registered Bosnian Croats participated, with 98.96 percent voting in favor of the question on Croat autonomy.

**Table 2. Federation House of Representatives
Election Results, November 2000**

Party	Percentage	Seats
SDA	26.8	38
SDP	26.1	37
HDZ	17.5	25
SBiH	14.9	21
Others	14.7	19

The moderate parties made most of their gains among the Bosniak population. In addition to the SDP, the SBiH, under the leadership of Haris Silajdzic, also managed to increase its share of the vote. This party split off from the SDA in 1996 and advocates a unified Bosnia on a secular platform. Until 2000, the party formed coalitions mostly with the SDA, its running mate in the 1998 elections.

As in the statewide Bosnian elections, the Alliance for Change secured only a slight majority over the nationalist parties. It won 69 of the 140 seats in the Federation House of Representatives, while the SDA and the HDZ took control of 63. However, the Alliance for Change succeeded in garnering the support of some other smaller parties, and its coalition was able to elect the Federation prime minister. The new coalition also secured the indirectly elected Federation posts of president and vice president. In February 2001, Karlo Filipovic, a Croat and a member of the SDP, was elected president. Safet Halilovic, a Bosniak and a member of the SBiH, became vice president.

2000 SERB REPUBLIC ELECTIONS, NATIONAL ASSEMBLY

The third major elections of 2000 were for the Serb Republic president and the Serb Republic National Assembly. The SDS reemerged by a large margin as the strongest political party in the entity and effectively ended the government of Prime Minister Milorad Dodik of the SNSD. In the presidential election, Mirko Sarovic, the candidate of the SDS, and vice presidential candidate Dragan Cavic were elected with 50.1 percent of the vote. They defeated Milorad Dodik, who ran for the slot but mustered only 25.9 percent.

In balloting for the 83-member Serb Republic National Assembly, only three parties secured more than 10 percent of the vote. These were the SDS (36.1 percent), the SNSD (13 percent), and a new player, the PDP (12.3 percent). The power base of all three parties lies in the Federation. The PDP's showing was particularly noteworthy because the party was founded shortly before the elections. It is led by Mladen Ivanic, an economic expert and a member of the Yugoslav think tank G-17. With the exception of the SNSD, all Serb parties, including the SNS and the Socialist Party of the Serb Republic (SPRS), failed to make a significant showing.

**Table 3. Serb Republic National Assembly
Election Results, November 2000**

Party	Percentage	Seats
SDS	36.1	31
SNSD	13.0	11
PDP	12.3	11
SDA	7.6	6
SBiH	5.2	4
SDP	5.0	4
SPRS	4.9	4
DSP	4.1	4
DNS	3.5	3
SNS-B. Plavsic	2.3	2
Others	6.0	3

Due to significant pressure from the OHR and other international organizations, the SDS was unable to form a government. Instead, Mladen Ivanic established a govern-

ment of experts. This government received the support of the SDS, which in return received posts and influence at lower levels of the administration.

GENERAL ASSESSMENT OF THE 2000 ELECTIONS

The establishment of governments in the Federation and at the statewide level by non-nationalist parties was welcomed by the international community. However, the coalition has been shaky at times and lacks majority support from Croats and Serbs. During its first year in power, the Alliance for Change was unable to transform Bosnian politics radically and, thus, disappointed many of its supporters. In particular, differences between the SDP and the SBiH have frequently prevented reforms and threatened the stability of the alliance at critical junctures. The SBiH remains programmatically close to the SDA in many respects, and this fact casts doubt on the long-term viability of the coalition.

The outcome of the 2000 parliamentary elections also had a significant impact on the Bosnian presidency—changing most of its composition even though an election wasn't held. In October 2000, Alija Izetbegovic resigned from his post and cited age as the reason. Halid Genjac, a member of the SDA, replaced him temporarily. The Law on Vacancies, which the House of Peoples passed shortly before Izetbegovic's resignation, was then amended by the High Representative because it favored nationalist candidates. The amended law stipulates that the lower house can put forward candidates, and if the upper chamber rejects the first two, the third nominee will automatically be appointed. Genjac was eventually replaced by Beriz Belkic, a member of the SBiH, which belongs to the Alliance for Change. In March 2001, the HR dismissed Ante Jelavic, the Croat member of the presidency, for establishing the Croat self-government and thereby violating the Dayton Accords. Jelavic was replaced by Jozo Krizanovic, a member of the SDP.

Bosnian politics saw additional change in 2001 with the formal departure of two leading politicians from active politics. Haris Silajdzic resigned from the leadership of the SBiH in September 2001, citing health reasons, and was replaced by former deputy president Safet Halilovic. However, Silajdzic has remained involved in Bosnian politics and continues to wield considerable influence. Similarly, although Alija Izetbegovic resigned from his post as SDA president in October 2001, he remains influential within the party and holds the position of honorary chairman. The personality of Izetbegovic is hard to replace, and the new president, Sulejman Tihic, lacks the profile and prominence to reassert the political dominance of the SDA over the Bosniak population. Although the party has sought to present itself as a more moderate group, its political profile has remained largely unchanged.

The elections in November 2000 were widely estimated to have been free and fair. Voting conditions, especially in

terms of campaign reporting in the media, were considerably better than during the first postwar elections in 1996. Nevertheless, some cases of fraud and ballot stuffing were reported. The most significant case of fraud took place in Srebrenica, where the SDS intimidated some voters and organized multiple voting for others. As a result, the Provisional Elections Commission reduced some of the SDS's seats in the town's local elections, which took place at the same time as the statewide and Serb Republic elections. Candidates from other parties were disqualified across Bosnia for either breaking the preelection silence or issuing statements against the Dayton Peace Accords. The political atmosphere was considerably polarized. The Croat referendum, in particular, contributed to tensions during the campaign. In fact, the Helsinki Committee called the campaign the "dirtiest of all" since the end of the war in Bosnia.

Voter turnout in Bosnia's postwar elections generally has been high. However, the numbers have declined somewhat in recent years. In the September 1997 elections, the OSCE reported turnout at 80–85 percent of registered voters. In the April 2000 municipal elections, voter turnout was 65.7 percent. For the November 2000 elections, it was 64.4 percent. The decline in voter participation is the result of the frequency of elections since 1996 and the lack of substantial political change resulting from the elections. In November 2000, the SRS's call to boycott the elections and the HDZ's critique of the election system contributed further to the drop. Gender-specific information on voter turnout is not available. The next elections in Bosnia are for the presidency and are scheduled for late 2002.

Overall, political developments in 2001 granted moderate political parties more access to power in Bosnia. However, the continued strength of nationalist parties and the slight majority of the coalition governments still render the political system both unstable and fragmented. A full return of nationalist parties in Bosnia cannot be excluded in upcoming elections.

The dismissal of the president of the Serb Republic in 1999 and the Croat member of the Bosnian presidency in March 2001 highlights the fact that the High Representative holds considerable executive power in the country. In the Dayton Accords, his powers were originally limited to facilitating the civilian implementation of the peace process. During a meeting of the Peace Implementation Council (PIC) in Bonn in 1997, his powers were considerably augmented. The HR now has the right to impose laws and decisions, as well as to dismiss officials for obstructing the peace accords. And, in fact, since the Bonn meeting, more than 60 officials have been dismissed and more than 100 laws and decisions have been passed.

The PIC nominates the High Representative, who must regularly report to the PIC. As such, the HR is not accountable within the framework of the domestic political system. The expansion of this role was largely the result of the intransigence of the nationalist parties. At the same time,

though, the executive and legislative powers of the HR have diminished the responsibilities of elected officials and reduced the overall effectiveness of the institutional framework of Bosnia.

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 entitywide, campaigns, the most important are the HDZ, the SDA, the SDP, the SDS, and the SBiH.

The establishment of postwar Bosnia as a trilateral state has further marginalized the smaller ethnic minorities in the country. Roma, in particular, remain excluded from substantial political participation. This is caused less by open discrimination than by the structure of the political system itself. No parliamentary party represents the specific interests of minorities in the country.

In recent years, the international community has undertaken considerable efforts to increase the representation of women in Bosnia's political system. When less than 10 percent of the candidates in the first postwar elections were women, new election rules were drafted to require that at least 30 percent of the candidates be women. As a result, the number of women in the Bosnian House of Representatives increased from 2 to 26 percent in 1998 and from 5 to 18 percent at the municipal level. The rules for the local and general elections in 2000 required one-third of the candidates to be women. Today, women hold 18 percent of all elected offices in Bosnia—the highest level in southeastern Europe.

Civil Society

1998	1999-2000	2001	2002
5.00	4.50	4.50	4.25

Due to the high degree of international intervention in Bosnia, the country has a large number of nongovernmental organizations that are mostly foreign funded. The small civil society sector that emerged in the years prior to the war mostly promoted interethnic tolerance and sought to reduce the nationalist polarization in the country. At the same time, different national communities established their own organizations, mainly religious institutions engaged in humanitarian activities. However, with the exception of humanitarian organizations and a small but vibrant civil society in Tuzla and Sarajevo, the war disrupted the development of civil society in Bosnia.

Today, six years after the war, Bosnia's nongovernmental sector is weak. While some of this frailty can be attributed to economic hardships and a general lack of tradition for volunteerism in the region, some of it is specific to the effect of war on the country's social structure. The ethnic divisions in the country, including the Serb Republic itself, have made it even more difficult for NGOs to become ac-

tive. Finally, a case can be made that the large international presence in the country has effectively reduced the potential for grassroots NGO activity. First, international organizations have hired many Bosnian citizens who otherwise might have initiated their own civil society activities. Second, numerous civil society programs have been initiated based on the judgments of Western donors rather than in response to local needs. As a result, according to an assessment in the *Journal of Peace Research*, the frequent changes in Western priorities have had a negative impact on the long-term development of local NGO capacities and structures.

Funding for NGOs has come mostly from governmental sources in North America and Western Europe. Some has come from private sources, most significantly from George Soros through the local Open Society Foundation. Although these foreign contributions have been considerable, they are frequently uncoordinated and directed toward short-term projects. As a result, many NGOs are essentially commissioned to carry out the policy priorities of Western donors and have little room to develop their own priorities. The future reduction of international funding in Bosnia might further weaken the sector.

Most citizens see NGOs either as irrelevant to their lives or as a possible job opportunity. In addition, a number of NGOs suffer from a credibility gap because their activists appear to spend more time participating in international workshops and seminars than in communicating with their constituencies. Small, local groups or traditional civil society groups that do not have substantial financial needs might be better suited to making a long-term impact in Bosnia. According to *An Introduction to the Non-Profit Sector in the Balkans*, which was published in 2000, NGOs in Bosnia are engaged in a variety of fields of activity.

Table 4. NGO Areas of Activity

Activity	Percentage
Environment	27
Human Rights	19
Youth	19
Social Issues	15
Culture and Sport	14
Gender	13
Health	11
Humanitarian Aid	10
Reconstruction	10
Other	12.5

A number of organizations in Bosnia do have historical roots and are more firmly established. Among these are religiously based NGOs such as the Muslim organization Merhamet and the Catholic group Caritas. All major religious communities maintain their own humanitarian organizations, which are funded through donations, support from third countries, and the religious hierarchy. Although most organizations cater to their own religious community, oth-

ers, including the Jewish group La Benevolenzia, gained a reputation for providing interethnic and interdenominational humanitarian aid during war. In addition, *vakufs*, traditional charitable organizations affiliated with the Islamic community, were reestablished after the end of Communist rule.

The total number of NGOs is hard to estimate, owing partly to the absence of nationwide registration procedures. In addition, many groups exist in name but are largely inactive. According to some estimates, there are approximately 1,000 registered NGOs in the Serb Republic and the Federation combined, but only 30 percent are thought to be active. In contrast, the International Council of Voluntary Agencies' directory of NGOs active in Bosnia lists only 173 international and 365 local NGOs.

Only a small overall percentage of Bosnia's population is active in voluntary activities. This is largely the result of the country's precarious economic situation and the absence of a tradition of volunteerism. However, NGOs do provide an important source of employment for the most educated segments of the population. According to some estimates, 1,000 people work full-time for NGOs.

Since the Serb Republic and the Federation are responsible for establishing their own legal frameworks for NGOs, their laws have sometimes proved inconsistent. NGOs that seek a nationwide presence must register separately in the two entities. There are no legal impediments to the work of NGOs in Bosnia.

Few groups are financially viable, and their dependency on now dwindling foreign donations is aggravated by a dearth of domestic funding from the public and private sectors. Likewise, international funding restricts the activities of many NGOs to the provision of services and subjects them to someone else's funding priorities and cycles. There are few incentives for business or private individuals to contribute money to NGOs, thus limiting most of their support to in-kind gifts. With the exception of humanitarian organizations, NGOs have the same tax status as for-profit enterprises. Only international NGOs receive some tax reductions.

Although the various levels of Bosnian government have typically viewed NGOs with suspicion, changes in the country's political climate have improved their relations in recent years. In some parts of Bosnia, for example, NGO liaison officers within the local governmental administrations provide office space for NGOs or assist them in fundraising. In addition, when governments across Bosnia have been slow to adopt new laws or make important decisions, NGOs have frequently resorted to working with international organizations, especially the Office of the High Representative, to lobby for change. Bosnian media outlets regularly report on NGOs activities.

The Constitution guarantees freedom of expression and association, and there are no explicit barriers to interest group participation in politics. The Constitution also guarantees workers the right to join independent trade unions, and this right is respected in practice as well. Trade unions were particularly active in 2001 as the pace of privatization

in the Federation and in the Serb Republic gained speed and led to large-scale job cuts. In the first eight months of 2001, more than 200 strikes took place in the Federation alone. In June 2001, trade unions in the Serb Republic unsuccessfully circulated petitions for the resignation of the government. Nevertheless, with unemployment rates in both entities at over 40 percent, the effectiveness of organized labor is severely limited. Like most Bosnian organizations, trade unions are divided along ethnic lines. There are several free trade unions in Bosnia. 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.

Bosnia's educational system is clearly divided into the three ethnic systems with separate curricula and often even separate schools. Most schools and all universities are public, although a number of private schools have been founded since the war, primarily with the support of religious communities. These schools charge tuition and frequently offer better teaching conditions.

Independent Media

1998	1999-2000	2001	2002
4.75	5.00	4.50	4.25

The media in Bosnia are, with few exceptions, divided between the two entities. Few media outlets reach the entire country. In addition, although there has been considerable privatization in the industry, the media remain strongly influenced by political parties. The international community has undertaken considerable effort to reduce government control over the public television broadcaster—probably the most influential media outlet in the country.

Due to the country's dire economic situation and the relatively high price of daily and weekly print publications, circulation remains low. The main dailies include *Dnevni Avaz*, *Oslobodjenje*, and the tabloid *Jutarnje Novine*—all based in Sarajevo and read mostly among Bosniaks. *Dnevni Nezavisne Novine*, based in the Serb Republic, is the only national newspaper. The other daily based in the Serb Republic is *Glas Srpski*. *Dnevni List*, launched in October 2001 in Mostar, is catering mostly to Croats in Herzegovina. The main weeklies include the independent, private papers *Dani*, *Slobodna Bosna*, and *Ljiljan*—again all based in Sarajevo. The Croat weekly *Hrvatski Ruc* is also based in Sarajevo. In the Serb Republic, the most important independent weekly is *Reporter*, which also produces a separate edition for Yugoslavia, and *Nedjeljne Nezavisne Novine*. In addition to the dailies and weeklies produced in Bosnia, Croatian and Yugoslav publications are widely distributed in Croat and Serb areas of the country, with some (such as the *Blic* from Yugoslavia) publishing a special Bosnia section.

Electronic media reach a broader segment of the population of Bosnia. The main television station in the Serb

Republic, Radio Televizija Republike Srpske, came into existence during the war and was dominated by the SDS until 1997. After the power struggle in the Serb Republic and with the support of NATO's Stabilization Force (SFOR) Mission, the station came under the control of the government of Serb Republic president Biljana Plavsic and later moderate prime minister Milorad Dodik. In addition to public television, a number of private stations have emerged. In Banja Luka, for example, Alternative Television (ATV) has emerged as the most important independent broadcaster.

A joint Croat-Bosniak public broadcast began in the Federation in late October 2001 with the establishment of Federation Television (FTV), which incorporates the Bosniak-dominated Television Bosnia-Herzegovina (TVBiH) and local programming from Croatian Radio-Television (HRT). The merger came about under intense pressure from the Office of the High Representative. In the Federation, a large number of small, private television stations have emerged, but their reach is limited. The main private station in the Federation is NTV Hayat, which originally supported the SDA government but later emerged as an independent station. In August 2001, it joined with three other stations in the Federation and ATV in the Serb Republic to form a network of private broadcasters called Mreza Plus.

In 2001, the main internationally funded project for a Bosnia-wide television station faltered. The Open Broadcast Network, which was founded in 1996 by the OHR, faced severe financial difficulties after international funding was reduced and the station failed to receive a permanent broadcast license. Most of the prominent journalists the station had attracted decided to leave. The station survived by selling a 48 percent stake of its shares to foreign investors. At the statewide level, it has been replaced, in effect, by the Public Broadcast System, which is intended to provide statewide independent public television and radio.

Radio programming is mostly local in Bosnia, despite the existence of some entitywide stations. The stations are frequently well equipped, primarily as a result of substantial international donor support. Although some local stations carry independent news programming, the majority either limit their broadcasts to entertainment or focus on local political and ethnic interests.

Bosnia has an excess of media outlets that are unsustainable in the long term. As IREX Promedia recently remarked, there have been "268 broadcast organizations using nearly 700 transmitters, giving Bosnia one of the highest per capita concentrations of broadcasters in the world." In the Federation there were 42 television stations and 127 radio stations in 2000. In the Serb Republic, there were 29 TV stations and 83 radio stations. As of May 2001, there were 206 radio stations and 67 TV stations registered in Bosnia-Herzegovina.

In recent years, the Independent Media Commission, transformed into the Communications Regulatory Agency in 2001, began licensing electronic media. This process has

led to a consolidation of the media. As a result, a large number of small, nonviable stations have been unable to obtain permanent operating licenses.

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 Serb Republic 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 Bosniak-majority areas or the Serb Republic.

Ostobodjenje has its own distribution network, in addition to its contract with the privately owned distributor 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 Serb Republic daily *Dnevne Nezavisne Novine*, which has a distribution agreement with the Sarajevo daily *Jutarnje Novine* to make both papers available in Sarajevo and Banja Luka.

A number of media outlets and journalists continue to receive direct and indirect funding from political parties and interest groups. In addition, pressure frequently has been exerted on journalists and media, including in the form of threats, beatings, and exclusion from events. The most prominent case was the car bomb attack on the editor in chief of *Zeljko Kopanja* in October 1999.

Freedom of expression is a key feature of both the Bosnian Constitution and the Human Rights Annex to the Dayton Peace Accords. Freedom of the press has also been a key priority of the international organizations that are active in the country. The Communications Regulatory Agency (previously known as the Independent Media Commission) sets the regulatory framework for the media, including rules of conduct during elections. Bosnia's new legal framework for public broadcasting, adopted in 2001, frees state television and radio from direct control of the national and entity governments and establishes them as independent entities.

The High Representative suspended criminal penalties for libel in July 1999, after the nationalist parties used it with increased frequency in 1998 against journalists. A new civil Law on Defamation, drafted by international experts under the auspices of the OSCE, was passed by both entities in early 2001. The law limits the use of defamation against independent journalists by guaranteeing freedom of expression and excluding defamation in cases in which the information reported "is substantially true." The law additionally protects the confidentiality of journalists' sources. The new legal framework, in combination with the change of government at the state and federation levels, has ended most attempts at limiting freedom of speech through the use of defamation or libel laws.

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.

Access to the Internet is still limited in Bosnia. This is due mainly to the country's inadequate telecommunications infrastructure and the limited financial resources of most of its citizens. Nevertheless, the Internet has gained in popularity throughout Bosnia. Access is widely available through Internet cafés and universities, where the cost is relatively low. In 1998, Bosnia had 0.9 Internet hosts per 1,000 people, increasing to 1.4 per 1,000 in 1999. In 2001, an estimated 50,000 people in Bosnia were connected to the Internet. A number of private Internet providers have emerged in recent years.

Freedom House's *Annual Survey of Press Freedom* has rated the media in Bosnia as "Partly Free" since 1999.

Governance and Public Administration

1998	1999-2000	2001	2002
6.00	6.00	6.00	5.50

The Dayton Constitution provides for an elaborate set of checks and balances. The purpose of the system, however, is not so much to fine-tune the balance of power between the legislative and executive branches; rather, it is to protect the rights of each ethnic group in the country. As a result, the governments of the statewide institutions and the Federation are very weak.

The three main legislatures of Bosnia have been marred by blocked decision making and a lack of transparency. According to Annex 4 of the Dayton Accords, the BiH statewide parliamentary assembly has responsibility for enacting legislation, deciding on the sources and amounts of revenues for the government, approving budgets, and ratifying treaties. Although the legislatures are the effective rule-making institutions in Bosnia and in the two entities, the process is cumbersome and slow. Under the Constitution, any of the three communities can declare a proposed parliamentary decision "destructive of a vital interest" by mustering the support of a majority of the delegates of that community—an option invoked repeatedly in the post-Dayton period. In order to pass, though, such a proposed decision then requires a majority vote in the House of Peoples by each of the three communities.

In the Federation, the Council of Ministers must approve laws before they can be 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. Also in the Federation, a veto by either Croat or Bosniak deputies can block a decision from being taken.

Since the legislative institutions at all levels of government in Bosnia are frequently deadlocked, the High Representative has frequently passed laws and decisions. Decision making is blocked not only in matters of concern to representatives of the three nationalities, it is also frustrated by deputies who fear that a decision might reduce their popularity. Ultimately, this situation has made Bosnia function as a *de facto*, if not a *de jure*, protectorate of the international community.

Generally, most governments and public administrations in Bosnia have operated with little transparency. In June 2001, though, the entities and the central government adopted a Freedom of Information Law that obliges governments to disclose information to the public. The law guides the establishment of public access to public information and obliges the government to inform people on how to retrieve it. This law also provides a framework for journalists to obtain information that in the past has frequently been withheld.

Under the Dayton Accords, Bosnia has a very weak central government with substantial powers delegated to subnational levels of government. According to Article III (3) of the accords, all powers and authorities not specifically granted to central institutions reside with the entities. Thus, for instance, the central government until quite recently has consisted of only three ministries (the Ministry for Foreign Affairs, the Ministry for Foreign Trade, and the Ministry for Civil Affairs and Communications). In 2000, three new ministries were created (the Ministry of the Treasury for the Institutions of Bosnia-Herzegovina, the Ministry for Human Rights and Refugees, and the Ministry for European Integration). Each of the entities, on the other hand, has fully developed governments, including Defense and Interior Ministries.

Within the Federation, power is further decentralized into 10 cantons. There are 4 Croat and 4 Bosniak cantons. The other 2 are mixed. The cantons have a high degree of autonomy and possess their own constitutions, parliaments, and governments. In the Federation, most powers are vested in the cantons, including education and policing. Municipalities in the Federation exercise self-government and are democratically elected. The Constitution of the Federation does not, however, spell out the specific powers of municipal governments. Instead, since the cantons define their powers, there are 10 different types of self-government in the Federation alone.

Although the Serb Republic is organized as a centralized, unitary entity, there have been frequent calls for a more regional approach to governmental organization in that entity. The absence of an intermediary level of government (that is, the cantons) is a reflection of a higher degree of centralization of the entity.

Under the Dayton Accords, the district of Brcko has a separate status from the two entities. Although the Federa-

tion and the Serb Republic technically share sovereignty over the area, it is in effect a third entity whose government is under the authority of the common institutions of Bosnia-Herzegovina. In March 2000, the High Representative formally established the institutions of the district, which are governed by a statute for Brcko. Brcko received its own Parliament, Constitution, and budgetary independence. Even more than in the two entities, the international community is involved in the city's governance.

Bosnia-Herzegovina's first postwar local elections were held on September 13 and 14, 1997. The vote was a test of one of the key principles of the Dayton Accords: that people forcibly expelled from their homes should be able to return and participate in the local political process. The voting was initially scheduled to be held in conjunction with national and entity-level presidential elections in September 1996. It was postponed in August 1996, however, because massive fraud was uncovered in the registration process, particularly in the Serb Republic. The Dayton Accords permitted displaced persons to register to vote in the municipality in which they were currently residing if they could prove they had lived there before August 1996. Refugees could register to vote in a municipality where they intended to reside. Bosnian Serb leaders manipulated these rules by encouraging refugees and displaced persons to register in strategic locations such as Brcko, even though they had not lived there before the war and did not intend to live there afterward. Continuing problems with the registration process resulted in two more postponements.

In order to minimize the possibility of such fraud, the OSCE modified the original rules. Under the new regulations, which came into effect for the April 2000 municipal elections, refugees registering to vote in a municipality other than the one in which they resided in 1991 must demonstrate a connection to the municipality based on property, business, employment, or an invitation from a relative who lived in the municipality before the war. Of 485,000 refugee voters, only a few thousand ultimately attempted to register—and ultimately received permission—to vote in a municipality other than the one in which they 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.”

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

Bosnia's second set of municipal elections took place in April 2000 and provided mixed results. Although the nationalist SDA lost power in some important Bosniak-populated areas, such as Sarajevo, Zenica, and Gorazde, in Croat-populated areas and in the Serb Republic, nationalist

parties continued to dominate. The SDP and the SBiH managed to substantially reduce the power of the SDA mostly in urban areas, thus confirming a strong rural-urban divide in the political choices among Bosniaks. Turnout among Croats was low, owing to their participation in multiple elections in 2000 and the absence of any significant political alternative in most HDZ-dominated areas. The increase of the SDS in some parts of the Serb Republic was due in part both to the ban on the SRS and to a vote against the governing coalition of the Serb Republic that was viewed as unrepresentative and ineffective. In November 2000, elections for the municipality of Srebrenica confirmed the dominance of the SDA among refugees and the strength of the SDS among Serbs living in the town.

All levels of government in Bosnia are plagued by a lack of financial resources. Most cantons and both entities have been or are facing severe financial difficulties, despite the fact that international agencies have provided significant financial assistance and performed important services and functions such as running elections that are usually vested with government agencies.

Reflecting the high degree of decentralization in Bosnia, most revenues are raised at the entity level. The state only has limited ability to raise its own taxes and relies mostly on the entities for its budget. The Federation contributes two-thirds of the operating costs for Bosnian institutions, and the Serb Republic gives one-third. The 2001 budget for the state of Bosnia was 304.3 million konvertibilna marka (\$146 million). In contrast, each entity had a budget more than twice that size. Both entities spend a substantial part of their budgets on the military, together amounting for 6 percent of the Bosnian GNP. When the entities failed to heed the international community's demands for more transparent and reduced military spending, the OSCE organized a public awareness campaign to alert citizens about the country's high levels of military spending.

The Federation and the Serb Republic receive revenues from tariffs, customs and excise taxes, fees, and penalties. The cantons in the Federation and the Serb Republic government receive the value-added tax on goods and services, as well as taxes on businesses and personal incomes. The cantons finance municipalities by supplying them with 20–30 percent of the turnover and income taxes. Similarly, the Serb Republic is obliged to pay its municipalities a share of the taxes it collects. Although municipalities in both entities are entitled to gather their own fees, penalties, and some local taxes, these have been minor additions to their budgets.

In August 2001, the Council of Ministers drafted and passed a state-level Law on Civil Service. It has yet to be adopted by Parliament. Until such time, the OHR insists that the recruitment of new civil servants to statewide levels of government be carried out in accordance with the principles of the pending law, including the hiring of civil servants through open public competitions. The EU has recently launched a project on building a professional civil

service for Bosnia's statewide institutions. In the past, the civil service has been subjected both to political pressure and to the need to be representative of the three national groups. Given the number of layers of governance, especially in the Federation, each level of public authority tends to be relatively small, thus limiting the efficacy of the civil service. The joint state civil service is particularly small.

Finally, like other countries in the region, Bosnia-Herzegovina has been seeking membership in European and Atlantic political and security structures. Due to the fragmentation of the political system and its slow transformation, Bosnia's membership in a number of international organizations has been delayed. Although the Council of Europe has set numerous conditions for Bosnian membership, the country did clear one major hurdle in 2001 with the passage of the new Law on Elections. The Parliamentary Assembly of the Council of Europe has recommended admission for Bosnia in January 2002, but as of this writing Bosnia had yet to fulfill the additional criteria to join. Similarly, membership in NATO's Partnership for Peace program has been delayed owing to the existence of two separate armies in Bosnia and the low degree of cooperation between them.

RULE OF LAW

Constitutional, Legislative, and Judicial Framework

1998	1999-2000	2001	2002
6.00	6.00	5.50	5.25

The current Bosnian Constitution, which is contained in Annex 4 of the Dayton Peace Accords, was written mostly by American legal experts. It outlines the basic structure of the Bosnian state, establishes the system of joint institutions, and vests the Serb Republic and the Federation with all residual powers and authorities not expressly granted to statewide institutions. The two entities are specifically responsible for maintaining civilian law enforcement agencies. Defense, taxation, and other functions not specifically vested in the central government are also reserved for the entities. With a two-thirds majority vote, the legislatures of the Federation and of the Serb Republic can veto a federal presidency decision that relates to their respective entity. The High Representative oversees implementation of the Dayton Accords' civilian provisions.

The Constitution, barring its human rights provisions, can be changed. Article X allows for constitutional changes with a two-thirds majority vote in the Bosnian House of Representatives and a simple majority in the House of Peoples. However, fundamental differences between the Serb Republic and the Federation have prevented any constitutional reforms since the document came into force in 1995. Although some political actors have advocated a new

international conference to correct some of the state's institutional problems, most international actors have emphasized the need to fully implement the Dayton Accords first. The Constitutions of the Serb Republic and the Federation, both of which were passed prior to the signing of the Dayton Accords, are subordinated to the Bosnian Constitution.

The Constitutional Court is the key institution charged with ensuring the implementation of the Bosnian Constitution. This 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 Serb Republic National Assembly. The president of the European Court of Human Rights selects the remaining three members, who cannot be citizens of either Bosnia or a neighboring country. The term for the Constitutional Court's first group of judges is five years and will expire in May 2002. Subsequent appointees will be able to serve until the age of 70.

The Constitutional Court can rule on any constitutional dispute between the entities or between the central state and any or both entities. In a landmark decision, the Court ruled in July 2000 that the three main ethnic groups represented in Bosnia—Bosniaks, Croats, and Serbs—enjoy equal status throughout the country. As the *East European Constitutional Review* described it, "The so-called constituent-peoples decision...stated that the entities' respective Constitutions could not give special rights or preferences to any of the three constituent peoples...and had to guarantee the quality of all three groups across the entire territory of Bosnia and Herzegovina."

In addition to the Constitutional Court, the state court of Bosnia and Herzegovina was established in December 2000 by a decision of the HR. This court is charged with cases that lie within the purview of the state, such as citizenship and foreign trade. In the Federation, municipal courts have original jurisdiction in most civil and criminal cases; cantonal courts have appellate jurisdiction over the 10 cantons' municipalities.

Reform of the criminal code has been ongoing in the post-Dayton period. In 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 Serb Republic adopted a new criminal code in 2000 at the 11th session of its National Assembly.

Until 1998, police in both entities made wide use of Communist-era procedures that allowed them to arrest and detain individuals for up to six months without bringing formal charges against them. Although the adoption of new criminal codes has significantly reduced this practice, some arbitrary arrests and detentions still occur. Likewise, there are still reports in all areas of the country of police beating suspects and detainees. In 1999, four prisoners died while in custody in Serb Republic prisons. Prison conditions are poor and below minimum international standards. Moreover, many of the judicial districts in the country have a tremendous backlog of cases.

The Bosnian Constitution guarantees freedom from torture and inhuman or degrading treatment or 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. This document also states that all citizens enjoy these freedoms regardless of sex, race, language, and religion. It also states that all refugees and displaced persons have the right to return freely to their homes of origin. They also have the right, according to Annex 7 of the Dayton Accords, to have property they lost during the war restored to them or to be compensated for such property.

The Constitution provides that the European Convention on Human Rights applies in Bosnia and Herzegovina and takes precedence over other 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 Dayton

Table 5. Return of Refugees and Displaced Persons, January 1996 to July 2001

	REFUGEES				Total	DISPLACED PERSONS				
	Bosniaks	Croats	Serbs	Other		Bosniaks	Croats	Serbs	Other	Total
1996	76,385	3,144	8,477	33	88,039	101,402	505	62,792	42	164,741
1997	74,756	33,568	11,136	820	120,280	39,447	10,191	8,452	205	58,295
1998	78,589	23,187	6,765	1,459	110,000	15,806	4,325	9,139	300	29,570
1999	18,440	6,299	6,332	579	31,650	24,907	6,760	11,315	403	43,385
*2000	7,633	4,834	5,303	837	18,607	36,944	7,779	14,175	449	59,347
*2001	2,565	2,485	5,134	369	10,553	18,198	3,094	14,804	153	36,249
Total	258,368	73,517	43,147	4,097	379,129	236,704	32,654	120,677	1,552	391,587

*Data for 2000 and 2001 indicate registered returns

Accords provides for a Human Rights Commission consisting of an ombudsman and a Human Rights Chamber. The ombudsman has the task of investigating first-instance complaints of alleged human rights violations. Serious cases that the ombudsman cannot settle are referred to the Human Rights Chamber, a judicial body that has the authority to make final and legally binding decisions.

Although the human rights situation in Bosnia 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 particularly difficult to achieve. Since only approximately one-third of all refugees and internally displaced persons have returned in the six years since the end of the war, the ethnic structure of Bosnia remains drastically altered in comparison with data available from 1991.

The return of refugees to minority areas is connected with a number of factors and can be seen as a litmus test for the overall progress in stabilizing Bosnia. In the narrowest sense, the return of refugees is dependent on the immediate security of those who wish to return. Second, the return process is largely conditional on a clarification of property ownership and the restitution of real estate to prewar owners. On a broader scale, the return of refugees is closely interconnected with the political representation and inclusion of the nondominant returnees into the political system. Even more pertinent is the lack of economic prospects for returnees, which is the result of both discrimination and the absence of overall economic development in Bosnia.

The acceleration of the return of refugees to minority areas began in 1999 (see table) and has increased dramatically since. Overall, the return of refugees has been only partially successful. On the one hand, the acceleration of minority returns and the de facto completion of majority returns point to the possibility of success of this, probably most ambitious, chapter of the Dayton Peace Accords. At the same time, though, the fact that a majority of refugees and internally displaced persons have still not returned to their homes renders the assessment less optimistic. The general lack of success in refugee return, particularly until 1999, can largely be attributed to obstruction at the local level. The Serb Republic in particular, even under more moderate governments, has obstructed returns out of fear that Serbs could lose their political, social, and economic dominance in the region. There is also a regional component to problem. That is, Bosnia, like other countries in the Balkans, is home to thousands of refugees. As such, the return process in one country is closely linked with that in neighboring states.

Although the Bosnian Constitution explicitly prohibits discrimination, the entity constitutions have openly favored one or two of the constitutional nations. However, under a July 2000 Constitutional Court decision, these institutional discriminations must be eliminated. Nevertheless, minority ethnic and religious groups still experience discrimination,

and returning refugees are frequently excluded from social services and health care. Many minorities also experience discrimination in the workplace. Religious freedom has also been curtailed to a certain degree. In the Serb Republic in particular, the reconstruction of mosques has been blocked or obstructed by organized incidents of violence, as was the case in May 2001 in Banja Luka and Trebinje.

The Bosnian Constitution provides for an independent judiciary and reserves the administration of justice for the two entities. Although the ruling parties have developed a considerable degree of control over the judiciary in both the Serb Republic and the Federation, the recent change of government and the increased reform efforts of the international community led to some improvements in the independence of the judiciary during the period covered by this report. In November 2000, for example, reform of the judiciary in Bosnia was placed under the supervision of the Independent Judicial Commission. This commission, consisting of Bosnian and international legal experts, reports to the High Representative and both monitors and intervenes in the work of the judicial reform commissions of the entities and cantons. Additionally, the commission monitors the work of courts and prosecutors.

The courts are not linked directly to the Ministry of Justice or any other executive body. However, the various governments, through the Ministries of Justice, provide the judicial branches with their budgets. In both entities, the state is required to provide defendants with legal counsel.

In June 1999, the presidents of the Associations of Judges and Prosecutors in the Federation and the Serb Republic adopted identical codes of ethics. These codes are meant to apply to the members of the Association of Judges of the Federation, the Association of Prosecutors of the Federation, and the Association of Judges and Prosecutors of the Serb Republic. The codes provide a common framework of conduct for judges and prosecutors throughout Bosnia and ensure that those involved in the judicial process receive similar standards of treatment.

In May 2000, the HR imposed a Law on Judicial and Prosecutorial Service in the Federation. The law was intended to contribute to the depoliticization of the judiciary through the establishment of independent judicial selection commissions at the Federation and cantonal levels. Under the law, judges and prosecutors are no longer to be appointed or dismissed without the affirmative recommendations of the independent commissions. The law also contains a provision under which all sitting judges and prosecutors are subject to review over a period of the 18 months from the date the law was imposed. The HR also undertook similar efforts in the Serb Republic in 2000. In addition, in July 2001, the Independent Judicial Commission and the Ministry of Justice in each entity signed memorandums of understanding that spell out specific procedures for hiring judges and prosecutors in order to ensure higher professional qualifications overall and better representation of minorities.

A considerable problem with the judicial system in Bosnia is the fact that judges are frequently exposed to threats or harassment either by the ruling political parties or sometimes by local organized crime figures. For instance, in April 2000, the Sarajevo weekly *Dani* reported that 75 criminal indictments had been issued against 14 well-known Sarajevo organized crime figures but not one case had been concluded. *Dani* also reported a noticeable reluctance on the part of public prosecutors to issue indictments or appeal unfavorable verdicts.

Another problem confronting the judicial systems in the post-Dayton period has been judicial enforcement. Since the country's judicial space is divided into three separate jurisdictions, decisions reached in one part of Bosnia are generally of no consequence in another part. Efforts to alleviate this problem have been ongoing. In May 1998, for example, the Ministers of Justice of the Federation and the Serb Republic signed a Memorandum of Understanding on the Regulation of Legal Assistance Between Institutions of the Federation of Bosnia and Herzegovina and the Serb Republic. The document addresses such issues as tracing witnesses, serving of subpoenas, conducting reenactments and investigations at the scene of a crime, and facilitating ad hoc cooperation between the entities. Within both entities, even when judicial officials attempt to render independent decisions, local authorities often refuse to carry them out.

Along with the domestic courts, an additional layer of the judiciary has been of major significance in Bosnia. In 1993, the UN Security Council established the International Criminal Tribunal for the Former Yugoslavia (ICTFY) in The Hague. Since then, international officials have criticized all three factions (but especially the Serbs) for their lack of cooperation with ICTFY authorities. Although the Serb Republic Parliament concluded a bill in September 2001 on cooperation with the tribunal, the efforts has been criticized as unnecessary, since the Serb Republic is already obliged to cooperate under the Dayton Accords. In the same month, 38 indicted Bosnian war criminals were still at large, most of them in the Serb Republic.

Former Serb Republic president Biljana Plavsic voluntarily surrendered to the tribunal in January 2001 under an indictment for war crimes. She was later released to live in Belgrade pending the trial. In a landmark conviction, the ICTFY sentenced Radislav Krstic, a former general of the Bosnian Serb army, to 46 years in prison for genocide and crimes against humanity in connection with the fall of Srebrenica in July 1995. The extradition of Slobodan Milosevic to The Hague was perceived as a major breakthrough in Bosnia, despite the fact that both Radovan Karadzic and Ratko Mladic are still at large. Milosevic was originally indicted for war crimes in Kosovo. In October 2001, when Milosevic's indictment was extended to Croatia, Chief Prosecutor Carla del Ponte noted that additional indictments for crimes committed in Bosnia were forthcoming.

Corruption

1999-2000	2001	2002
6.00	5.75	5.50

Corruption is a key obstacle to economic reform and the establishment of the rule of law in Bosnia. In addition to problems comparable to those of other countries in transition, Bosnia faces corruption resulting from the wartime union of nationalist parties and public administrations. Given the amount of international aid flowing into Bosnia and the level of fragmentation of public authority, Bosnia is particularly vulnerable to corruption.

Since the legal and ethical standards proscribing public and private sector activity for government officials are relatively weak, the international community has been working to improve them. In February 2000, the Provisional Elections Commission added amendments to its rules and regulations governing elections in Bosnia that prohibit all elected officials and members of their immediate families from sitting on the boards of companies in which the state owns more than a 25 percent stake 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 reportedly forced more than 130 officials to resign from their elected mandates or from boards of enterprises, and more than 1,000 politicians to leave company managements. The new Law on Elections, passed in August 2001, obliges parties and candidates to disclose all resources and donations after an election. In addition, candidates must submit a statement to the electoral commission with information on their income and property holdings. Similar regulations existed prior to the passage of the law.

A key anticorruption measure undertaken recently has been the closure of payment bureaus in the Serb Republic and the Federation that held a monopoly over managing financial transactions in the entities. Commercial banks and a variety of state institutions have taken over their responsibilities. The bureaus' elimination, which was supported by the international community, put an end to a major source for state control over the private sector. In addition, a number of other legal mechanisms have been put in place to limit corruption. In May 2001, for example, the Serb Republic government adopted a new Law on Public Procurement. Laws on reforming the judiciary in both entities have also sought to reduce corruption.

As part of the international community's efforts to reduce high levels of corruption in Bosnia, some public officials have been dismissed from their posts. The most prominent case was the High Representative's dismissal in 2001 of Adhem Bicakcic, a former prime minister of the Federation, from the directorship of Elektroprivreda (the Federation's electrical company) for corruption and embezzlement. The country's new central government has also initiated investigations of the previous government, and its efforts

have revealed a considerable degree of embezzlement and fraud at several Bosnian embassies, especially in Vienna and New York. Initiatives are under way to create a statewide body with representatives from both entities and the joint Ministry for European Integration to coordinate the fight against corruption. The group will meet under the auspices of the Stability Pact Anti-Corruption Initiative.

At the entity level, the HR established the post of special auditor in March 2001 to oversee public funds at all levels of government in the Federation. The new government in the Serb Republic has also made the fight against corruption a priority, partly because the previous government of Milorad Dodik had been perceived as prone to engage in corrupt activities. The Parliament of the Serb Republic passed an anticorruption program in June 2001.

Some nationalist parties continue to solicit bribes. For example, in an attempt to finance the Croat self-government, the HDZ sought illegal payments from private businesses in areas under their control. In April 2001, the Office of the High Representative, SFOR, and local law enforcement authorities took over the Hercegovacka Banka in Mostar. The bank was placed under special supervision, and its transactions were subject to international supervision.

Significant corruption also exists at most levels of public administration in Bosnia. Although it is difficult to assess the magnitude of corruption at different levels, corruption is most serious in the customs services and in the larger sphere of economic investment. Large-scale smuggling has deprived the state and its entities of significant income, and the payment of bribes is a major barrier for potential investors in the country. In the civil service, low salaries have led many workers to demand bribes. Corruption is particularly widespread in the Serb Republic, where salaries tend to be even lower than in the Federation.

A recent World Bank survey sought to evaluate the perception of corruption among business managers, public officials, and the general public. Fifty percent of public officials admitted accepting bribes in exchange for altering the content of legislation; one-third noted that colleagues who refused bribes were marginalized and sometimes even forced to quit. Among the general public, 20 percent admitted having paid or received bribes for public services. Both businessmen and members of the general public noted that corruption is preventing private investment and that the costs of business transactions had increased as a result of corruption. The institutions perceived to be most corrupt in the Serb Republic, according to a survey by Transparency International, are the customs offices and public services providers; perceived as least corrupt are churches, the army, educational institutions, and international organizations.

In 2000, the international community made corruption, in terms of both raising awareness and prosecuting perpetrators, a priority. During the preelection period that year, the OSCE tried to raise awareness about corruption and encouraged citizens to vote against corrupt officials. In addition, the OHR carried out public awareness campaigns

through posters and television and radio spots. A Bosnian chapter of Transparency International opened in February 2001. The group's first report, which looks at allegations of corruption within the international community, mostly identifies lack of transparency in the international community's decision-making processes, particularly with regard to the distribution of aid, as a source of corruption. Although the report neither revealed new cases of corruption nor blamed particular representatives of the international community, it did lead to a severe critique of Transparency International by some international agencies. Transparency International does not rate Bosnia in its annual Corruptions Perception Index.

ECONOMIC LIBERALIZATION & SOCIAL INDICATORS

Privatization				
1998	1999-2000	2001	2002	
5.50	5.00	5.00	5.00	
Macroeconomic Policy				
1998	1999-2000	2001	2002	
6.00	5.50	5.50	5.50	
Microeconomic Policy				
1998	1999-2000	2001	2002	
6.00	6.25	6.00	5.50	

Despite more than five years of massive international aid to Bosnia, the economic and social situation in the country remains bleak. Although privatization has accelerated recently, the state of the economy is weak and living standards remain low. The lack of economic progress and delays in the democratization of Bosnia have been closely intertwined. Political control over large parts of the economy furthered the rule of the nationalist parties who drew both financial benefit and patronage from the economic system. The fragmentation of Bosnia into three markets, tax regimes, and political systems has also prevented the influx of foreign investment and hindered the development of viable economic policies.

Privatization has been seriously delayed in both the Serb Republic and the Federation for a number of years. The process initially received substantial international support and resulted in the creation of a complex system of 12 privatization agencies, 1 for each canton and entity. The Federation passed the first privatization laws in 1997, but privatization of apartments and small enterprises did not begin until 1999. Mass privatization did not begin until October 2000. The delays, closely related to the unwilling-

ness of the nationalist parties to lose resources and voter loyalty, led to the suspension of American aid for the privatization program in late 1999. Frequently, managers have let their enterprises run down so that they themselves could purchase the businesses cheaply during the privatization process.

A significant portion of the privatization process has been carried out through the issuance of certificates that are designed to compensate citizens for lost earnings in banks and unpaid wages throughout the 1990s. However, few citizens have actually used their certificates to make direct investments in businesses. Instead, their dire economic situation has led them to sell the certificates well below their nominal value, mainly to a small group of investors. Most companies in the Federation have been privatized with these certificates; only about 25 percent of the purchases have been made with cash. In the Serb Republic, a similar system of certificate privatization has been used. Although the sale of certificates well below their value has been avoided by linking them to the actual worth of the businesses, other hurdles were created to prevent minorities from taking control of privatized apartments or businesses. The key problem of certificate-based privatization has been the resultant lack of infusion of new capital. The mixture of voucher and cash in the requirement for purchase bids (except for apartments) has further complicated the process and excluded citizens who don't have sufficient resources. Instead, privatization has frequently been carried out to the advantage of businessmen who are close to one of the nationalist parties.

The privatization process in Bosnia is expected to continue for another couple of years. Included in the plan is the sale of companies under international tenders. This phase of the process—if buyers can be found—potentially could provide the government with substantial revenues. At the same time, there is the danger that many newly privatized companies will collapse due to a lack of investment.

In addition to the difficulties of privatization, Bosnia has received very little foreign investment in the postwar years. In fact, the World Bank has noted that it ranks at the bottom of the countries in the region in terms of foreign investment. For example, between 1996 and 1999, Bosnia received an annual average of \$4.7 million in foreign investment. Neighboring Macedonia, the second lowest recipient of foreign investment, averaged \$43 million annually. Although the rate of foreign investment has picked up in recent years, the overall amount remains quite low. Foreign investors are now concerned more about a tax system that is fragmented and lacks transparency than they are about political instability. To improve the climate for foreign investment, Bosnia opened an international tender bureau in 2000 that is charged with the sale of 137 companies in both entities. To date, though, the bureau, which is supported by the U.S. Agency for International Development, the German GTZ, the World Bank, and the EU, has had limited success.

In the second half of 2001, though, a handful of major companies were successfully sold to foreign investors. The

Belgian beer company Interbrew, for example, acquired the Banja Luka Brewery. In the Federation, a Slovenian company invested in the Volkswagen-Unis factory, and an Austrian company purchased a cement factory. Although these sales did not mark a significant turnaround in Bosnia's international investment climate, they did indicate important improvements over previous years.

Most international contributions to the Bosnian economy come in the shape of foreign aid. By 2000, more than \$5 billion in aid had been flown into Bosnia since the end of the war. Since 1999, the amount of aid given has dropped to approximately \$800 million per year. In 1999, the World Bank launched a program to give the two entities and the central government \$300 million over three years to carry out reforms in banking, the tax sector, and social services. Due to the slow pace of reform, though, the distribution of this aid has proceeded more slowly than planned.

Under the Dayton Accords, monetary policy is the responsibility of the central government. In 1998, the Central Bank began to issue the konvertibilna marka (KM), which is fully convertible and, under the rules of the country's currency board, was pegged at a parity rate first with the German mark and since 1999 at 1.96 to the euro. After initial resistance by many Serbs and Croats, the KM became the main currency in Bosnia along with the German mark. Despite the switch of the German mark, which was used interchangeably in large parts of Bosnia, to the euro on January 1, 2002, the KM will remain in circulation.

In the banking sector, the closure of the payment bureaus in January 2001 marked a major step in reform. Until then, the bureaus had taken on many tasks traditionally reserved for commercial banks. All companies were obliged to funnel their payments through these institutions, which had split during the war into separate Croat, Serb, and Bosniak networks. The bureaus were not only ineffective, slow, and costly, they were also subject to political interference and corruption since they were under governmental control. When nearly 3000 such bureaus were closed, commercial banks took over most of their tasks.

Data on the number of functioning banks in Bosnia vary. There are approximately 33 to 38 operational banks in the Federation and 19 in the Serb Republic. Banks operate with limited capital and maintain small operations. The entities themselves hold more than 90 percent of all bank assets. Although some banks in the Federation have been privatized recently, the process has been slower in the Serb Republic owing mainly to lack of interest.

Slow progress in economic reform has negatively affected social development in the country. Unemployment in both entities stands above 40 percent. Average monthly incomes are only 437 KM (approximately \$200) in the Federation and 299 KM (approximately \$136) in the Serb Republic. And as the International Crisis Group has noted, 46 percent of the Federation population and 75 percent of the Serb Republic population cannot afford the basic basket of

goods and food for a family of four.

In addition to salaries, pensions are low and paid infrequently. In November 2000, the OHR made a decision on amending the Law on Pensions, since Parliament itself could not agree on reforms. The new law provides for a minimum monthly pension of 117 KM (approximately \$53) in the Federation and 80 KM (approximately \$36) in the Serb Republic. In addition, the law improves the mechanisms for the collection of pension contributions. Although the reform measure formally reduces pensions, the fact that it is supposed to contribute to greater regularity in the distribution of payments is considered a positive step. Nevertheless pensioners in both entities, but especially in the Serb Republic, continue to protest payment delays.

Bosnia's tax system is still in need of reform. The nominal tax burdens are excessive, and the state suffers from an inability to collect taxes effectively. Due to the country's porous borders and uneven tax regulation and enforcement, a significant share of goods sold in Bosnia is not taxed. In particular, lower tax rates in Brcko and the persistence of its notorious Arizona Market have contributed to a significant loss of revenue for both entities, but especially for the Serb Republic. The Arizona Market, a sprawling bazaar that offers a wide range of products, is estimated to account for \$100 million per year in lost revenues for the state. Current discussions on reform of the tax system focus on the possible introduction of a value-added tax.

Bosnia's educational and health care system suffered severely in the war and have not recovered since. In particular, high defense expenditures in both entities have limited the availability of resources for social services and education. The Dayton Peace Accords vested responsibility for educational policy with the entities. In the Serb Repub-

lic, education is governed in a highly centralized fashion. In the Federation, though, each canton has its own Ministry of Education. As a result, there are no institutional mechanisms in place for the reintegration of a national system. Education throughout Bosnia is, with few exceptions, public. Private education lacks both tradition and resources.

The health care system is still largely divided among the Serb, Croat, and Bosniak communities. The total expenditure on health care amounts to 12 percent of GDP, significantly higher than the 3–5 percent of comparable countries. Despite one of the highest contribution rates in Central and Eastern Europe for health benefits (18 percent of gross salaries in the Federation and 21 percent in the Serb Republic between 1997 and 1999), the funds are insufficient to cover the costs of the system. An indication of the overall decline of the health care system is declining life expectancy. Since 1989, it has fallen from 69.2 to 68.78 for men and from 74.6 to 74.31 for women. Infant mortality is high, with 11 per 1,000 live births.

As a consequence of the lack of progress in interethnic relations, public distrust in institutions, and overall economic and social decline, a significant share of the population has either emigrated or would like to do so. According to official figures, between the end of the war in December 1995 and the end of 2000, more than 100,000 Bosnians left the country (approximately 2.6 percent of the population). More than 60 percent of all Bosnian youth would like to leave.

Florian Bieber is a senior, non-resident research fellow with the European Centre for Minority Issues. He is based in Belgrade, Yugoslavia. He is also a coeditor of the journal Southeast European Politics and the founder and editor of Balkan Academic News.

BULGARIA



Polity: Parliamentary democracy

Economy: Mixed capitalist (transitional)

Population: 8,100,000

GNI per capita at PPP \$ (2000): 5,560

Capital: Sofia

Ethnic Groups: Bulgarian (83 percent), Turkish (9 percent), Roma (3 percent), other (5 percent)

Size of private sector as % of GDP (mid-2001): 70

The scores and ratings for this country reflect the consensus of Freedom House, its academic advisors, and the author of this report. The opinions expressed in this report are those of the author.

↘↘ and ↗↗ indicate score changes of .25 or more. ↘ and ↗ indicate changes of less than .25.

NATIONS IN TRANSIT SCORES

	1997	1998	1999-2000	2001	2002
Democratization	3.90	↗↗ 3.55	↗ 3.31	↗↗ 3.06	↗ 3.00
Rule of Law	na	na	4.13	4.13	↗ 4.00
Economic Liberalization	5.38	↗↗ 4.08	↗↗ 3.75	↗↗ 3.50	↗↗ 3.25

KEY ANNUAL INDICATORS

	1995	1996	1997	1998	1999	2000	2001
GDP per capita (\$)	1,563.1	1,178.6	1,230.0	1,489.6	1,514.5	1,475.8	1,619.2
Real GDP growth (% change)	2.1	-10.9	-6.9	3.5	2.4	5.8	4.0
Inflation rate	62.0	123.0	1,082.0	22.2	0.7	9.9	8.0
Exports (\$ millions)	4,967.0	4,689.0	4,809.0	4,193.0	4,006.0	4,812.0	5,100.0
Imports (\$ millions)	4,930.0	4,568.0	4,488.0	4,574.0	5,087.0	5,988.0	6,800.0
Foreign Direct Investment (\$ millions)	82.0	81.0	503.0	537.0	836.0	1,000.0	500.0
Unemployment rate	11.1	12.5	13.7	12.2	16.0	17.9	17.4
Life Expectancy (years)	70.9	70.8	70.7	71.1	71.4	71.5	72.0

INTRODUCTION

The year 2001 proved to be a volatile one for Bulgaria, and two important elections dramatically changed the political status quo in the country. In parliamentary elections in June, a coalition led by former King Simeon Saxe-Coburg-Gotha, or Simeon II, and the National Movement for Simeon II (NMSS) won a landslide victory. This coalition succeeded the government of the Union of Democratic Forces (UDF)—the first one to stay in power for a full four-year mandate. The presidential election in November brought to power Georgi Parvanov, the leader of the former Communist Party. Even though both elections were free, fair, and well organized, the fact that their outcomes surprised pollsters, the general public, and international observers revealed three worrisome trends.

The first reason for concern is the growing gap between popular perceptions of the democratic system and the elite's own agenda. For example, although the UDF government launched a series of comprehensive macroeconomic and structural reforms, introduced a currency board, intensified the privatization process, and revamped the tax system, these changes had an increasingly negative impact on family budgets. At the same time, the public grew more cynical about politicians' unfulfilled promises to lower crime rates and complete reform of the judicial system, as well as about persistent allegations of corruption and clientelism within the government administration. The 2001 electoral campaigns, with their intense focus on achievements in macroeconomic stabilization, international prestige, and EU integration, only emphasized the disparity between the attitudes of the ruling elite and the living standards of the electorate. Having failed to account for this growing gap, politicians and pollsters seemed equally surprised by the scale of Simeon II's victory in the parliamentary elections and the low level of turnout for the presidential contest.

The second alarming trend is the growth of antiparty sentiments. The economic difficulties that have characterized the years of transition inevitably tarnished the image of Bulgaria's main political actors. For the past 12 years, voter support has alternated between two main political parties, the UDF and the Bulgarian Socialist party (BSP), and open public protests and weak support of the incumbent government have typically preceded parliamentary elections. However, each new government has consistently failed to reverse negative trends, and neither party has ever managed to live up to the expectations of voters. Hence, over time, a large part of society grew pessimistic that alternations in political power would ever produce positive results. Growing voter dissatisfaction with post-Communist reforms evolved into distrust of the entire political elite, regardless of its role as an opposition or ruling majority. The impressive victory of the NMSS only three months after its formation embodies this distrust. Nevertheless, in the long run, the public's growing lack of con-

fidence in political parties could be a potential threat to the stability of Bulgaria's democratic system.

The third disconcerting trend of the past year was the alarming decline of public confidence in Bulgaria's democratic institutions. Although the democratic system stands on a solid foundation and has functioned relatively well during the transition period, the public's trust in its efficiency has decreased significantly. The apparent division between the popular vote and public opinion on the one hand and governance on the other has caused a substantial, and increasing, number of people to lose interest in solving their problems via the state or civil society. This trend only further weakens Bulgaria's democratic institutions and renders central policy making less meaningful. It also makes anticorruption initiatives practically impossible to implement.

Although these trends fail to signal an immediate threat of violent breakdown in the country, they do suggest the potential for the slow erosion of Bulgaria's democratic institutions. Without implementation of adequate policies, economic growth will continue to predominantly benefit small parts of the elite and, as a general rule, the less law-abiding parts of society. This sentiment appears to have been prevalent among the Bulgarian electorate during both the parliamentary and the presidential elections in 2001 and may account for the surprising electoral results. Apparently, most voters have lost trust in any elite individual or institution that has, directly or indirectly, brought about the present situation. Even Bulgaria's new prime minister, only six months after his election victory, suffered from dramatic drops in his approval ratings. Likewise, 55 percent of the public expressed no confidence in Parliament and 59 percent no confidence in the courts at year's end.

These three disconcerting trends aside, Bulgaria's political system does have its strengths, including a stable parliamentary system that adheres to democratic practice. For more than a decade, Bulgaria has conducted elections that are free, fair, and orderly and adhere to the rule of law. Likewise, power has changed hands peacefully between parties and individuals that represent both the Left and the Right, and there is a stable tradition in place of maintaining effective minority representation in Parliament, even if it is still limited to the party of the ethnic Bulgarian Turks. Parliament functions smoothly and strictly follows 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 former president consistently tried to establish himself as a nonpartisan representative of the entire nation, and Bulgaria's new president will most likely follow the same pattern. However, although the government adheres to the Constitution and to laws, the judiciary remains the least reformed branch of power. Print media are free of state control, and electronic media are gaining in independence as private companies successfully set up radio and television stations. Nongovernmental organizations are active in all walks of public life.

Thus, whether one is a pessimist or an optimist about the political system in Bulgaria depends on the evidence one chooses to believe: the encouraging macroeconomic indicators or the opinion polls that show growing dissatisfaction with the nation's political elites. Either way, the main strengths of the political system are clear and derive from three factors. First, since 1989 there has been no alternative to the democratic political order. Despite some difficulties in the past 10 years, the fate of democracy in Bulgaria has never been in question. Second, the positions of Bulgaria's political parties on key political issues have converged. That is, all major political forces see membership in the European Union and NATO as the country's main goals. And third, Bulgaria's political system has proved itself capable of overcoming political crises without threatening the democratic order.

DEMOCRATIZATION

Political Process

1997	1998	1999-2000	2001	2002
3.25	2.75	2.25	2.00	2.00

Bulgaria has a purely proportional electoral system in which voters express a preference for parties only. The most recent parliamentary elections took place on June 17, 2001, and marked the first completion of a full four-year mandate by a government since 1989. Ivan Kostov, the prime minister and leader of the ruling center-right UDF, had governed the country with authority and undertaken unpopular market reforms. Despite impressive macroeconomic results, unemployment remained at 18 percent, social programs were wanting, and suspicions of corruption and clientelism were rampant. All these factors had worked together to undermine public support for the UDF's policies, and, as a result, an electoral showdown was expected between the UDF and the BSP, the country's pro-NATO former Communists. Three months before the elections, though, the country's king in exile, Simeon Saxe-Coburg-Gotha, announced the creation of a new party called the National Movement for Simeon II. On election day, the NMSS won 43 percent of the vote for 120 of Parliament's 240 seats. The UDF took 18 percent of the vote, or 51 seats, and the BSP won 17 percent of the vote, or 48 seats. The only other party that passed the 4 percent threshold for gaining representation in Parliament was the ethnic Turks' Movement for Rights and Freedoms (MRF), which received 7 percent of the vote and 21 seats. The magnitude of the king's victory was entirely unexpected. His NMSS achieved victory in all societal groups regardless of income, age, or education and in 28 of the country's 31 regions. Voter turnout was 67 percent.

Expelled by the Communist authorities in 1946 at the age of nine, Simeon had traveled regularly to Bulgaria in recent years. In April 2001, after a decision of the Consti-

tutional Court effectively rendered him ineligible to run for the presidency, he announced his intention to participate in the parliamentary elections as leader of the NMSS. The former monarch's declaration came as a surprise to Bulgaria's politicians but was welcomed by the country's increasingly apathetic public. Thus, the seemingly extraordinary victory of Simeon lends itself to an ordinary explanation. By declaring that he would "establish and lead a public movement for new ethics in politics and for new economic solutions, with ideas that are new for Bulgaria and with new people to steer it," Simeon successfully appealed to the anti-status quo and to the anti-establishment sentiments of voters.

Even though the NMSS was only a seat short of an absolute majority, it established a coalition government so as to avoid massive opposition in the legislature. Given this strategic objective, the formation of the new government proved the former king's second success, the first, of course, being his electoral triumph. Following several rounds of negotiations, the NMSS and the MRF signed an agreement to govern the country together. Likewise, after he became the prime minister, Simeon proceeded to make more political history by appointing two ethnic Turks and members of the MRF to his government. As a result, for the first time since gaining its independence from the Ottoman Empire in 1878, Bulgaria has ethnic Turks as ministers. Simeon also managed to appease the BSP—potentially the most outspoken enemy of the coalition—by inviting two prominent mayors with BSP connections to take key positions in his cabinet. The UDF, however, would not accept the role of a junior partner, and it currently is the only political force that clearly remains in the opposition.

Simeon entered the political race with only three precise intentions: to reverse the negative aspects of economic reform within 800 days, to introduce higher ethics in politics, and to involve a greater number of women in his movement. He promised immediate increases in retiree pensions, child benefits, and teacher and police salaries; antidrug measures; quality health care for every Bulgarian; reform and modernization of the nation's education system; popularization of sports activities; and a program of microcredit lending and promotion of small and medium-size businesses with soft-term loans of up to 10,000 Bulgarian leva, or BGN (\$5,000).

The willingness of the ex-king to alleviate the plight of persons most affected by the economic reforms of the previous government was admirable, and his platform, combined with his charisma, appealed to the majority of Bulgaria's voters. However, once prime minister, Simeon faced the harsh and impossible task of matching his plans to the realities of building and maintaining a market economy according to IMF standards. Voter dissatisfaction with this turn of events was quickly reflected in public opinion polls. And Simeon, who rarely talks to the media, often appears offended when journalists insist on clear answers to urgent policy questions.

Bulgarian women are active voters. In some elections, especially for the president of the republic or for local may-

ors, the number of women voters is higher than that of men. Women are under-represented in government institutions. However, the NMSS met one of its platform objectives for the 2001 parliamentary elections when it included an unprecedented number of women in top positions on electoral lists. As a result, 25.4 percent of current members of Parliament are women, compared to 7.5 percent in the previous assembly. There are also two female ministers in the government, one of whom is a deputy prime minister.

Bulgaria's Election Law has experienced only minor changes since its adoption in 1991, including in April 2001, just two months prior to parliamentary elections. As of June 2001, the Central Election Commission had registered 54 political parties and coalitions to participate in the parliamentary elections. The number of parties and coalitions registered for the 1997 parliamentary elections was 38; for the 1999 local elections, 96.

The Constitution of Bulgaria bans the formation of parties on the basis of ethnicity, religion, or race. However, although the statutes of the MRF state that members are welcome regardless of their ethnicity or religion, the party is for all intents and purposes an ethnic one representing the interests of Bulgarian Turks. Even though only a small number of non-Turks belong to the party, the Constitutional Court still ruled in 1992 that the MRF is not unconstitutional and can function as a normal party. That ruling marked the beginning of the successful Bulgarian experiment in peaceful ethnic coexistence.

Six pairs of presidential and vice presidential candidates competed in the last presidential elections, which took place on November 11 and 18, 2001. The electoral campaign was rather intense, and the media covered it well. Although low voter turnout was expected, the record low showing of only 41.76 percent of the electorate surprised even pollsters. (Turnout in the second round was 55.09 percent.) The other surprise, which illustrated clearly the public's growing impatience with the political establishment, was the small margin between the top two candidates in the first round: the incumbent, President Petar Stoyanov, who gained 34.95 percent of the vote, and Georgi Parvanov, the leader of the former Communists, who received 36.39 percent. Stoyanov ran as an independent candidate with the endorsement of the UDF, the NMSS, and several smaller parties.

It is worth mentioning that President Stoyanov lost the election despite having three things in his favor. First, he was generally considered a good president. Second, the new prime minister endorsed him, even if halfheartedly. And third, polling data suggested that Parvanov had no chance of winning. Therefore, the most plausible explanation for the race's surprising results seems to be that voters still associated Stoyanov with the UDF, even though he ran as an independent candidate. The political wave that swept the UDF out of power five months earlier apparently had not yet subsided. However, one could also argue that the government as a representative of the political class in general, and not the UDF specifically, had been defeated in both elections. That is, vot-

ers simply cast their ballots against the government as a whole for failing to meet their expectations.

From 1996 to 2001, President Stoyanov was a key figure in Bulgaria's democratic transition. He was the one politician who enjoyed public trust in the winter of 1997, when the outcry over hyperinflation moved the country to the brink of civil war. He presided over the successful introduction of a currency board, the end of hyperinflation, the first successful completions of agreements between Bulgaria and the IMF, the stabilization of the country's banking system, and the start of negotiations on membership in the European Union. Stoyanov was also the first Bulgarian politician to persuade the nation about the necessity of providing NATO a corridor through its airspace.

Bulgaria's new president, Georgi Parvanov, represents the social democratic wing of the BSP, and he is considered a reform-minded leader of the former Communists. Parvanov's résumé is slightly tarnished because he began his political career in 1990 as a member of the ultranationalist Social Committee for Defense of National Security, a protest movement against the reestablishment of the political rights of the Turkish minority in the country. Given that Parvanov remained an outspoken opponent of the MRF as late as 1996, his political partnership with the party has proved quite surprising. If his commitment to minority rights remains strong throughout his mandate, the new president will prove wrong those who argue that he joined forces with the MRF only to win votes.

Parvanov has pledged continuity with the work of his predecessor and has named full membership in NATO and the EU as especially important goals for the country. However, the political record of Parvanov's vice president, Angel Marin, and advisory team gives some cause for concern. Marin is a retired general who was fired in 1998 for publicly disagreeing with military reforms and with the country's focus on joining NATO. Likewise, the presidential advisory team includes two foreign policy advisers who are known for their opinions that Bulgaria should keep close ties with Russia even if it jeopardizes its plans to join NATO. Parvanov's national security adviser and national defense secretary are also ambivalent toward Bulgarian integration in the EU and NATO. It remains to be seen how the new president will tackle the differences between the political biographies of his advisers and his pledge for continuity in the country's national priorities.

Civil Society

1997	1998	1999-2000	2001	2002
4.00	3.75	3.75	3.50	3.25

Over the last 11 years, Bulgaria has produced a large number of nongovernmental organizations. However, only a small portion of these can be considered truly effective. That is, since neither the government nor individual citizens have truly benefited from the existence and work of

NGOs, one cannot yet conclude that Bulgaria has a fully developed civil society.

According to the 1998 *Directory of Nonprofit Organizations in Bulgaria*, published by the Information Center of the Open Society Fund of Sofia, more than 1,000 nonprofit organizations were active in more than 50 towns. These groups focused on crucial areas of Bulgarian social life, including human rights, minority issues, health care, education, women's issues, charity work, public policy, the environment, culture, science, social services, information technology, religion, sports, and business development. It remains unclear how many people are actively engaged in private voluntary activity today.

The Bulgarian Women's Union is one of two major women's groups in Bulgaria. It has 25 chapters in Sofia and another 24 around the country. The second group is the Democratic Women's Union, which is the successor of the Communist-era Women's Union. All ethnic groups, including Turks, Roma, Bulgarian Muslims, Armenians, and Jews, have their own NGOs that are engaged in a variety of civic activities. Roma are especially interesting in this respect. Although they are not represented in the government, some of their NGOs function as political discussion clubs and protoparties. There are around 150 functioning Roma NGOs throughout the country. The number of registered Roma groups is at least three times greater.

Churches also engage in charitable activities by distributing aid and creating local networks that assist the elderly and children. The main religious denomination in Bulgaria is Eastern Orthodoxy, but there are numerous religious minorities. According to existing data, 84.9 percent of the population is Orthodox Christian. Another 13.1 percent is Muslim; 0.8 percent, Jewish; 0.7 percent, Catholic; 0.3 percent, Protestant; and 0.2 percent, other. Although there are no clear data on worship attendance levels, some reports indicate that Evangelical Protestants tend to participate in religious services more frequently than members of other religious groups. Members of the Catholic community also regularly attend religious services. The Muslim, Catholic, and Protestant communities are among the most dynamic religious organizations in the country. Their main activities include charitable work and organizing gatherings of their members. Although the Orthodox Church remains the most influential one in Bulgaria, only a small percent of the population attend its services regularly.

NGO registration runs smoothly and does not involve more than the expected formalities that any group of people can easily meet. Registration is not costly and takes approximately one month to complete. In October 2000, the National Assembly adopted a new law on NGOs that loosens ties between NGOs and the executive, enters all NGOs into a transparent public register, allows groups to engage in for-profit activities under certain conditions, and requires all groups to conduct annual audits. NGOs helped draft the law and lobbied for it in the assembly. In its 2002 budget, the government allocates some financial resources for NGOs.

According to the Corporate Taxation Act of 1997, "the balance before taxation could be decreased by up to 5 percent of the positive balance, provided donations are deducted from the capital reserves, through donations to" educational, health care, scientific research, charitable, social welfare, environmental, and other nonprofit groups. Although this provision is a first step in encouraging corporate philanthropy, it has not sufficiently induced businesses to give money to NGOs. To date, more than 80 percent of the funding for the NGO sector still comes from foreign sources. The government does not tax NGOs themselves, but they must comply with the Local Taxes and Tariffs Act of 1997, which states that "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." NGOs may also carry out for-profit activities, provided the work does not clash with their aims and is registered separately. Groups must pay normal taxes on all such for-profit work, and they must invest all net profits into their main activities.

NGOs have proved to be an important and needed part of society. The government has gradually learned to be tolerant of them and occasionally has even taken the initiative to use their expertise. The most recent example of the government's changing attitudes toward the NGO sector was the formation of a parliamentary committee that addresses the problems of civil society. The public council of this commission includes 21 members representing 28 NGOs. Other parliamentary committees recruit NGO experts as advisers when they organize public hearings on issues of national importance. Most governmental officials, however, still retain some hostility toward NGOs. A clear example of this rivalry surfaced in the context of the recent anticorruption campaign, during which some public foundations affiliated with the UDF became the target of extensive investigation. Although the investigation has not yet produced any evidence of mismanagement, these foundations have received rather hostile coverage in the media.

There are three large independent trade unions in Bulgaria. The successor of the Communist era is the Confederation of Independent Trade Unions in Bulgaria. Podkrepa (Support) was established in 1989 as part of the political opposition, and Promyana (Change) emerged during the civil unrest of 1997 with the support of the UDF. Together, these trade unions represent around two million workers. Although the overall influence of trade unions has increased in recent years, there is an opposite trend in actual membership. This is due chiefly to the restructuring of the economy and large-scale privatization, which have caused all-time levels of unemployment. Trade unions take part in the so-called tripartite commission for negotiations with the government on wages in different branches of industry, management policies, and the privatization of individual enterprises. Workers' rights to engage in collective bargaining and to strike are protected by law. There are growing numbers of farmers' groups and small-business associations.

The participation of interest groups in politics remains largely unregulated. Think tanks have repeatedly urged the National Assembly to legalize and regulate lobbying, feeling sure that this will result in better transparency and deal a blow to clientelism. They have been unsuccessful thus far.

Bulgaria's education system is sufficiently free of political influence and propaganda. The most serious problems facing Bulgarian students are the continuous revisions of educational requirements imposed by the Ministry of Education. These changes result mainly from frequent alternations of people in ministerial positions. Currently, there are 6,834 educational institutions in the country, including 3,249 child care centers (of which 18 are private), 3,497 primary and secondary schools (of which 89 are private), and 88 colleges and universities (of which 10 are private).

Independent Media

1997	1998	1999-2000	2001	2002
3.75	3.50	3.50	3.25	3.25

Media independence in Bulgaria is a problem, as it is in any democracy, and is the result of an ongoing bargain between the public at large and the nation's leaders. If one asks whether the Bulgarian mass media are independent of the state, the answer is yes. If one asks whether the media are independent of power groupings, be they political or economic, and are guided by the public interest alone, then the answer is no.

With the exception a few local newspapers, all print media in Bulgaria are privately owned. At the end of 2001, the nation's largest private, national newspapers enjoyed the following levels of circulation: *Troud*, 240,000; *24 Hours*, 180,000; *Standard*, 50,000; *Monitor*, 50,000; *Sega*, 20,000; *Novinar*, 18,000; *Douma*, 12,000; *Republica*, 9,000; *Democratsia*, 6,000; and *Dnevnik*, 6,000. Overall, there are 139 newspapers and magazines, including 7 large weekly magazines, 23 monthly magazines, and 15 large regional dailies.

Although print media have worked diligently and successfully since 1989 to emancipate themselves from governmental control, the state has been tenacious in prolonging its grip on the electronic press. National Radio and TV, which is still state owned and remains the most influential broadcaster in the country, cannot be pronounced politically independent of the government. Nevertheless, the radio business as a whole has experienced radical change. Out of 11 radio stations with national coverage, only 1 is state owned. There are also 98 local radio stations. As for television, there are 63 stations in the country, 10 of which reach national audiences and only 1 of which is state owned. The rest are regional cable networks.

With the exception of party-run newspapers and publications that defend the economic interests of their owners,

newspapers in Bulgaria are mainly independent. The same applies to radio stations. The government has tried to use its discretion over granting broadcast licenses to influence the electronic media, but its efforts have produced few results. On the other hand, state-owned radio and television are dependent on the governing majority in large part because of the unwillingness of the ruling majorities to create a legal framework that provides for their independence.

The year 2001 started and ended with scandals concerning the appointments of general directors at National Radio and TV. Despite the passage of a new Media Law in the fall, there are serious concerns that it fails to guarantee the independence of the Council for Electronic Media. The council comprises nine members, four appointed by the president and five by parliament. A positive element in the new law, however, is the regulation of licensing of electronic media. Those who are fighting for the independence of state-owned media have looked to the Bulgarian Constitution, which guarantees freedom of speech. However, the government has not been attacked on this in the Constitutional Court, for individuals cannot bring complaints directly to that body.

On the whole, the record of Bulgarian courts on matters pertaining to freedom of speech meets international standards. When criticizing governmental officials, journalists can be accused of libel. Under the penal code, which was amended in March 2000, both prosecutors and individual citizens can bring charges against a person for libel, the penalty for which is no longer imprisonment but, rather, a monetary fee. Since the penal code was amended, 97 cases of libel have been filed against journalists and 1 has led to a conviction.

Among Bulgaria's most important journalistic associations are the Media Coalition and the Free Speech Civil Forum Association. The Journalist Union, a holdover from the Communist period, is trying to reform its image. More than 50 percent of the journalists in Bulgaria are women.

There has been a 50 percent increase in the number of Internet hosts in Bulgaria since 2000. As of January 2001, there were 18.8 hosts per 10,000 people. There are no restrictions on Internet access for private citizens.

Governance and Public Administration

1997	1998	1999-2000	2001	2002
4.25	4.00	3.75	3.50	3.50

Bulgaria has a democratic system of government that is rooted in the principle of checks and balances. It has remained stable over the last decade even when serious shifts of power have taken place. According to the 1991 Constitution, Bulgaria is a parliamentary democracy in which supreme power resides with the legislative branch. The parliamentary majority appoints the executive. There are, however, adequate provisions for minority rule, should the majority fail to form a

government that is acceptable to the full National Assembly. In times of crisis within the cabinet, the president can appoint a provisional government to prepare for general elections. Throughout the last decade, Bulgaria's system of democratic government has been tested heavily and repeatedly and has never failed. All changes of government have followed legal and constitutional procedures.

The president of Bulgaria, who holds practically no executive powers, represents the country abroad and is considered nonpartisan. Since presidents are elected directly by the people, though, they enjoy the same level of legitimacy as members of the National Assembly. The president cannot translate this legitimacy into executive decision-making power but can wield substantial influence. This has helped during several crises in which the president has served as a very powerful facilitator of tough political deals.

The Constitutional Court decides whether the National Assembly and other major institutions work according to the law. In its 10-year history, the Court has repealed many unconstitutional proposals and has proved to be a good guardian of the law. The Supreme Court has the right to declare unlawful decisions of the Council of Ministers null and void, and it has exercised this discretion repeatedly. One can conclude that the country's system of checks and balances has been sufficiently effective thus far.

Under the Bulgarian Constitution, the Bulgarian National Assembly is the only body that can formulate rules with the force of law. Other bodies—but mainly the executive branch—can adopt normative acts, but their legal force is lower than that of laws. The legislature adopts laws with a simple majority. It also makes changes to the Constitution, 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. Although the president of Bulgaria can veto laws, Parliament can override vetoes with a simple majority.

Committee hearings and legislative sessions are open to the public and the media. Some draft legislation can be found on the Bulgarian National Assembly's Internet site, and some sessions of the National Assembly are broadcast live on television. The work of the Council of Ministers is observable only through the regular press conferences of its members and through a daily bulletin published on the Bulgarian government's Internet site. A particularly positive development was the final adoption of the Law on Access to Public Information in July 2000.

The changes in local government in Bulgaria date to 1991 with the adoption of the new Constitution and the Local Self-Government and Local Administration Act. The Constitution divides the national territory of Bulgaria into municipalities and regions. The basic territorial and administrative unit in the country is the municipality. The regional divisions only facilitate coordination between the national government and the municipalities. Municipalities

are juridical persons that have the right to own property and maintain independent budgets. Municipalities also have the authority to deal on normative and executive levels 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 environment protection. However, the central government determines local budgets.

The Council of Ministers appoints regional governors. Municipal councils and mayors are elected. Since 1999, localities of fewer than 500 inhabitants have not had to elect their own mayor. Instead, their mayors are appointed by the local government of the nearest and largest locality. Between 1989 and mid-1999, every municipality in Bulgaria held elections for councils and mayors at least twice. All elections have been free and fair, with changes in the parties in power occurring frequently.

Municipal governments have two sources of revenue: central budget subsidies and taxes. Since the Constitution requires the National Assembly to approve all tax rates, local and property tax rates are defined by each municipality and then adopted en bloc by the Parliament. Once the municipalities receive their budget subsidies from the central government, they have complete control over their own budgets. The only exception applies to moneys received from the central budget for specific targeted national programs. Traditionally, most municipalities rely on the central budget subsidy for many of their needs, and on the whole, budgets have been very inadequate in the last 10 years. The insufficiency and frequent mismanagement of funds have often forced the municipalities to neglect their provision of many basic services to the community. At the same time, the municipalities have not demonstrated enough energy and inventiveness in finding new local sources for their budgets.

At the local government level, people have proved that they are capable of selecting more good local leaders and civil servants, and many municipalities are making significant progress in this direction. Local civil servants are employees of the municipalities and not of the central government. Still, partisanship and central interference have a direct effect on appointments and policy making.

Reform of Bulgaria's civil service began with the adoption of the Administration Act of 1998 and the Civil Servants Act of 1999. Although a new Civil Service Law was adopted in 2000, its implementation has been somewhat problematical. The main problem concerns Article 20, which requires civil servants to resolve without delay a citizen's request. In practice, though, there is still considerable lag time before citizens receive the decision of the state administration. The minister of state administration has stated that the Civil Service Law will be changed, but he did not elaborate on the substance of his intentions.

RULE OF LAW

Constitutional, Legislative, and Judicial Framework

1997	1998	1999-2000	2001	2002
4.25	3.75	3.50	3.50	3.50

Bulgaria's Constitution has been in force since July 1991, and its text has never been amended. Although different political forces have declared their intentions to seek changes, they have never initiated any formal procedures to that effect. Negotiations for EU membership may require changes in some constitutional texts in the medium term.

The Constitutional Court is the only body entitled to interpret and enforce the Constitution. The Court consists of 12 members who are appointed in equal quotas by Parliament, the president, and a joint meeting of the justices of the two Supreme Courts. Each justice serves a nine-year term, with 4 of the 12 justices being replaced every three years. In its 10 years of practice, the Constitutional Court has made a reputation for itself as a respected and authoritative guardian of the Constitution. A recent example was Decision No. 3 of February 8, 2001, which confirmed that Bulgaria's former king was not eligible to enter the elections for president of Bulgaria.

The penal code and penal procedures code experienced minor changes during the period covered by this report. However, one potentially important change in the penal procedures code was the introduction of the mandatory arrest of persons who are accused of committing heavy crimes, if they have been accused by the prosecution of a similar crime. That is, the new language gives prosecutors the right to detain anybody simply by raising two consecutive charges. Otherwise, only judges can authorize searches and arrests, unless an immediate arrest is necessary to stop a criminal act. In such cases, a judge must confirm the arrest within 24 hours. The only notable change in the penal code during this period was the decriminalization of the provision of nonsecured loans by bankers. While this measure is not expected to have a tangible economic effect, it does provide a preliminary indication of the willingness of the new parliamentary majority to eliminate similar provisions.

Reports by the International Helsinki Federation suggest that the situation regarding human rights violations did not change in Bulgaria during the period of observation. In slight contrast, in its 2001 *Regular Report on Bulgaria's Progress Toward Accession*, the European Commission found that there has been a small reduction in the number of detainees reporting physical abuse. The commission's report also noted that a specialized human rights committee has been set up within the National Police Service and that the average period of pretrial detention has been decreasing. Nevertheless, some cases of police violence are still reported, especially at the time of arrest or

during a detainee's attempted escape. Several cases of shootings by off-duty police officers, at least one of which ended in a person's death, have raised public awareness significantly and have resulted in changes to internal police procedures for the use of firearms. Despite numerous prosecutions of officers for excessive use of force, the IHF has reported that the punishments have been lenient.

At the same time, Bulgaria's criminal justice system is very slow. This is due mainly to deficiencies in procedural norms and in the accountability mechanism for prosecutors and judges. There are ample opportunities for defendants and their lawyers to procrastinate and delay, and judges are unable to streamline the process.

There are adequate formal provisions for the protection of human rights in Bulgaria. The Constitution includes numerous provisions on the protection of rights, including two explicit passages on business and property rights. Article 17 enshrines the inviolable right to property ownership and inheritance. Expropriation is allowed only under special circumstances and only after fair compensation has been made. Article 19 guarantees freedom of economic initiative and enterprise and bans the abuse of monopoly power.

Article 6 of the Bulgarian Constitution bans discrimination based on race, nationality, ethnic identity, sex, and religion. Bulgaria has also ratified most international human rights, minority rights, and social conventions. Despite the presence of these provisions, Bulgaria is often charged with their violation. Human rights observers have particularly noted race-based discrimination, especially with respect to Roma and within the law enforcement system. Both the IHF and the European Commission have indicated that attempts to pass a very restrictive law on religious denominations have proved unsuccessful. In a positive development, the state-owned national television broadcaster has launched a short Turkish-language newscast.

The judicial system in Bulgaria is independent from political and other influences, and members of the judiciary are immune from prosecution except in the case of serious crimes that carry sentences of more than five years in prison. The preeminent governing body of the judiciary is the Supreme Judicial Council, whose members are elected by judges, prosecutors, investigators, and other members of the legal profession. The Supreme Judicial Council is entitled to submit its own budget to the government, but the practice in recent years has been for government, and then Parliament, to pass significantly lower budgets than the ones suggested by the council.

Due to a lack of reform, even after years of observation of deficiencies in the regulation of the judiciary, courts in Bulgaria do not function efficiently. They are slow, and their practice is inconsistent. Their public image is low, and there are clear indications of corruption, especially at lower levels. In addition, there is an insufficient number of judges, the turnover rate of judges is high, the court system is not computerized, communications are slow and unreliable, and in some places there is a scarcity of courtrooms.

Nevertheless, procedures are in place to help ensure a fair trial. As a rule, court hearings are open to the public. The defense also has a full opportunity to examine evidence, develop and defend a case, and appeal judicial decisions. The application of the laws is ultimately overseen by the Supreme Court of Cassation and by the Supreme Administrative Court. On numerous occasions the two courts, especially the latter, have demonstrated their independence from the executive branch. Although there are opportunities for politics to influence the appointments of judges and justices, the three levels of the court system and the collective character of decisions at the highest levels guarantee that the overwhelming majority of court decisions are free of such influence. There is no direct link between the Ministry of Justice and the courts. The minister of justice has the right to chair sessions of the Supreme Judicial Council and to make proposals to the council, especially for administrative punishments for members of the judiciary. However, the minister may not vote on council decisions.

The state is not obliged to provide public defenders except in criminal cases in which severe punishment (a minimum of 10 years in prison) is possible, in cases in which the defendant is a minor, and under other complex circumstances that are described in Article 70 of the penal procedure code. The authority of the courts is recognized and, once made, judicial decisions are effectively enforced. However, the process of enforcement is considered slow and allows ample opportunities for parties to avoid the procedures for significant periods of time, especially with respect to civil law decisions.

Corruption

1999-2000	2001	2002
4.75	4.75	4.50

The ability of government officials to engage in private economic activities is limited, especially at higher levels of government. This limitation has formally applied to civil servants since the promulgation of the Civil Servants Act in 2000. It has also been enforced informally on politicians by the public and the media. Although specific codes of conduct for civil servants and policy makers are still being developed, the political constraints on the involvement of top policy makers in private businesses have become binding. That is, one of the major reasons for the ruling party's defeat in the 2001 parliamentary elections was the public's perception that the government was resorting to corrupt practices and was serving specific businesses and firms. As a result, the newly elected majority and its government have officially and publicly severed all ties with Bulgarian or foreign businesses. At present, none of the top policy makers in the legislative, executive, and judicial branches of power can be considered as having or serving direct ties with spe-

cific firms or business sectors.

Following the adoption in May 2000 of the Publicity of Personal Property of High Government Officials in the Republic of Bulgaria Act, the state audit office created a public register of the property owned by a broad range of senior public officials. Access to the register is guaranteed to the media and thereby to the public. The law is being enforced, and in most cases public officials submit the required declarations in time. There have, however, been some notable cases of nonsubmission, the most prominent of which have involved members of Parliament who are not penalized because they are immune from prosecution. Thus, at the present time, the only effective enforcement of the law comes from voters at the ballot box. Other legislative acts that aim at increasing the level of accountability of public officials are the State Internal Financial Control Act of 2001, the Access to Public Information Act of 2000, and the Public Procurement Act of 1999.

Racketeering is against the law in Bulgaria. Although racketeering was a serious problem in the early 1990s, specific provisions have been introduced in the penal code to address this complicated matter. Since the introduction of these provisions in 1996 and 1997, reports have shown a marked decrease in the spread and significance of the problem. The Bulgarian National Audit Office reviews all government bodies that control budgetary resources and can investigate every member of these bodies.

After the parliamentary elections of June 2001, the new majority received a strong public mandate to combat corruption. One of Simeon II's major campaign promises was to deal with the problems of corruption, and the credibility of this promise was one of the major factors behind the NMSS's victory. In October 2001, the new government adopted a national strategy for combating corruption. In December, it then published a white paper that describes the situation in the country and contains many detailed charges of corruption against the previous government. These charges have been presented to the prosecutor-general and are expected to lead to investigations and trials.

Specific charges have already been brought against several former government officials, the most prominent being a former deputy prime minister and minister of industry who was in charge of the overall privatization process between 1997 and 1999. The other officials include the former executive director of the Privatization Agency and the former director of the State Road Agency. Since the prosecution has not made public the charges against them, it is very difficult to say whether there is substance and lack of prejudice in the accusations or whether the new political majority is using the anticorruption rhetoric and actions to target its political opponents. Though leaks are prohibited by law prior to a public court indictment, the prosecution has surreptitiously given out information on the investigation and formal charges. Such leaks serve only politics, not justice.

The potential for corruption in Bulgaria's current economic environment remains high. Even though efforts are

under way to decrease state intervention in economic and market activities, the number of licensing and registration regimes remains relatively high, and the bureaucratic procedures remain somewhat complex and expensive for the private person. The level of accountability for public officials who have discretion over large sums of money is improving slowly, but their own remuneration is insufficient to dissuade corrupt practices. As of September 2001, the average monthly salary in the government sector was BGN 330 (approximately \$150). Even though this represents a significant increase from BGN 290 in September 2000, and BGN 240 in September 1999, it is still low relative to the cost of living and does not provide a significant disincentive for engagement in corrupt practices.

Two organizations periodically perform and publish measurements of the level of corruption in Bulgaria. The first is the local branch of Transparency International, called Transparency Without Borders, which participates in the annual compilation of the well-known Corruptions Perception Index. On a scale of 1 (most corrupt) to 10 (least corrupt), the index for Bulgaria has improved every year since its first inclusion in the survey in 1998. (See Table 1.) Transparency International's index is regularly and broadly publicized in the country, and Transparency Without Borders has been active in raising awareness about the problem with the public.

Table 1. TI Corruptions Perception Index: Bulgaria's Ranking 1998–2001

Year	TI CPI Score	TI Rank
1998	2.9	66 th out of 85
1999	3.3	63 rd out of 99
2000	3.5	52 nd out of 90
2001	3.9	47 th out of 91

The second organization dealing with issues of corruption in Bulgaria is a broad coalition of Bulgarian nongovernmental organizations called Coalition 2000. This group has an active awareness and public education agenda. It also uses sociological surveys to measure such components as attitudes toward corruption, participation in corrupt practices, and perceptions about the spread and effects of corruption. The results of these surveys indicate that most measurements improved between the first survey in June 1998 and the last one in January 2001. One very interesting observation that can be made from these data is that there is a divergence between the indexes measuring actual corrupt practices and the indexes measuring perceptions of corruption. The surveys of Coalition 2000 indicate that the former have decreased more than twice over the last three years, while the latter have remained stable or have increased slightly.

Coalition 2000's Index of Corruption Pressure, which measures the occurrence of public officials demanding

bribes, fell from 2.1 in 1998 to 1.4 in 2001 on a scale where 10 represents the highest levels of corruption and 0 the lowest. The organization's surveys do not indicate the existence of any area in which bribes are indispensable to obtain favors or services. However, its indexes of public perceptions indicate problems in the customs service, the tax administration, the police, the judiciary, and the privatization process.

ECONOMIC LIBERALIZATION & SOCIAL INDICATORS

Privatization				
1997	1998	1999-2000	2001	2002
5.00	4.00	3.75	3.50	3.00
Macroeconomic Policy				
1998	1999-2000	2001	2002	
4.00	3.50	3.25	3.00	
Microeconomic Policy				
1998	1999-2000	2001	2002	
4.25	4.00	3.75	3.75	

Generally speaking, economic developments are necessarily linked to all other social processes, including a nation's political life and the functioning of its democracy. In the case of Bulgaria, though, the relationship between economic developments and the consolidation of democracy since the mid-1990s has been ambiguous. Although economic reforms have generally aided democratic consolidation, they have also caused tendencies that may weaken the functioning of democratic institutions in the future.

On the one side, the introduction of hard budget constraints and the creation of regulatory and administrative bodies that facilitate reform and integration with the EU have led to sustained economic growth. Real GDP has been growing at approximately 1 percent per quarter since the introduction of the currency board in mid-1997. In addition, inflation has fallen sharply from its prereform levels, the budget balances are very low relative to GDP, investment levels are rising, and foreign direct investment has picked up significantly. Independent institutions have also been created to regulate specific economic activities, and liberalization is progressing along the lines required by the EU integration and negotiation process. These positive developments have made Bulgaria's economy much more predictable and stable and have helped changed the nature of the public debate on economic issues and public policy. The public has also become more demanding in terms of transparency and the quality of governance.

On the other side, these same reforms have brought about a sharp increase in unemployment, in particular through the closure of insolvent firms that traditionally employed large numbers of people in certain regions and social groups. Thus, unemployment has not only increased, but it has done so in a very uneven manner, geographically, educationally, demographically, and socially speaking. At the same time, owing to the sharp recovery of investment, the share of consumption in GDP has been dropping, and real household consumption has been much slower to recover than other components of GDP. The inability of households to increase their consumption has made them skeptical about the reform process and has created an atmosphere that could foster public demands for “strong hand” policies and politicians. Although this may present a risk to democratic consolidation, the risk does not seem very high yet. In the first round of the 2001 presidential elections, for example, the “strong hand” candidate ran a distant third with 20 percent of the vote under conditions of historically low turnout.

The Bulgarian economy continues to be mostly private, and the private sector has continued to increase its share in overall economic activity. According to data from the National Statistical Institute (NSI) for the four quarters ending in mid-2001, the share of gross value added in the private sector is 70.3 percent (from 67.2 percent in the corresponding period ending in mid-2000); its share in GDP has increased to 62.4 percent (from 58.7 percent). The NSI’s labor force survey indicates that for the 12 months ending August 2001, the share of the labor force employed in the private sector had increased to 55.2 percent. Arable land restitution has been completed, and forest land restitution has exceeded 80 percent.

The informal sector of Bulgaria’s economy continues to play an important role. Although there are no new data on the size of this sector during the period covered by this report, earlier estimates suggest that it accounts for 20–40 percent of GDP. However, some of these estimates, including the ones prepared by trade unions, have the tendency to be politically charged and unreliable. Recent trends that might be more indicative of changes in the size of the informal sector include continuing increases in tax and tariff collection and rising levels of monetization of the economy. In addition, a falling overall tax burden diminishes the incentives to avoid taxation by engaging in shadow activities.

The year 2001 was an important one in Bulgaria’s privatization process. Most small-scale enterprises and a significant portion of large enterprises have already been privatized. However, numerous large-size enterprises need to be sold. Under changes that were made to the Privatization Law in late 2000, this process was supposed to be relatively complex and in most cases would have involved Parliament. However, the 2001 elections took place before this process was complete, and the outgoing government did not want to impose its strategies on its successor. Instead, it felt the new majority and government would need time to work

out their own strategy. Thus, for the period September 2000 to September 2001, the total financial effect (payments, liabilities undertaken, and pledged future investments) was only \$300 million and the number of transactions only 360. The more important deals were the sales of Hemus Air (the country’s second largest airline); various industrial complexes, hotels, and restaurants in the resort area of Slanchev Briag; the largest open-air market and commercial center in Sofia; and two coal mines.

Privatization legislation experienced a significant change during the period covered by this report. The government prepared a completely new Privatization Law, and to date it has passed its first reading in Parliament. The process of adopting this law was accompanied by the revision and preparation of privatization strategies for the aforementioned state-owned monopolies. In both cases, the government’s intention was to improve the quality of the privatization process by increasing transparency, simplifying procedures, eliminating preferences, and speeding up the process. This suggests that the new government does not intend to slow down or reverse the privatization process.

The macroeconomic outlook in Bulgaria was very positive during the four quarters ending June 2001. After four years of sound macroeconomic policies, low budget deficits, and optimization of the tax burden, the Bulgarian economy grew at a rate of 5.8 percent in 2000 and at a rate of 4.8 percent in the first half of 2001. The country’s tax system also continues to improve, and the tendency for taxes collected to grow faster than GDP continued during the period under observation. This process is expected to end in 2002 owing to the significant lowering of some tax rates that is envisaged in the Budget Act for 2002.

Some of Bulgaria’s major tax rates are going to be reduced in the following manner: The corporate tax rate will be set at 15 percent, down from 15 percent for smaller firms and 20 percent for larger firms in 2001. Likewise, the personal income tax rate will fall across four brackets from 20 to 18 percent, from 26 to 24 percent, from 30 to 28 percent, and from 38 to 29 percent. At the same time, an increase in taxation may be observed in the introduction of the value-added tax, which remains unchanged at 20 percent, for previously exempt medicines and tourist packages sold abroad. Although the process of tax collection will continue to present challenges for businesses, the drop in tax rates is expected to improve overall compliance.

The budget deficit posted by the consolidated state budget for 2000 was 1.1 percent of GDP. For 2001, it is also expected to be around 1 percent of actual GDP. Bulgaria’s new parliamentary majority explicitly included a balanced budget in its campaign platform, and it has sustained this commitment since the formation of its government in July 2001. The consolidated budget deficit envisaged in the Budget Act for 2002 is 0.8 percent of projected GDP.

Bulgaria’s reasonable fiscal position and its credible lack of monetary discretion under the currency board arrange-

ment have contributed to relative price and exchange rate stability. The inflation rate for 2001 was 4.82 percent December on December. This compares with 11.41 percent for 2000 and 6.14 percent for 1999. The decrease in inflation occurred despite the implementation of scheduled increases in administered prices. The exchange rate of the Bulgarian lev has continued to follow the exchange rate of the deutsche mark/euro, to which it is pegged at a rate of DM 1 = BGN 1 and EUR 1 = BGN 1.95583.

In November 2001, the government issued Eurobonds worth EUR 250 million. The issue was placed successfully, and the yield was approximately 7.5 percent—a rate significantly below the levels Bulgaria's credit rating would suggest. This may be due to the fact that the issue was small. The significance of the event is in the fact that for the first time since a unilateral moratorium was placed on Bulgaria's foreign debt in March 1990, the Bulgarian state has been able to borrow from creditors other than official ones and international financial institutions. The issue also represents another benchmark for Bulgaria and can be a useful indicator of the international market's opinion about the progress of transition in Bulgaria.

Another important indicator of Bulgaria's macroeconomic policies is the country's relationship with the IMF and the EU. In the fall of 2001, the newly elected Bulgarian government negotiated a two-year agreement with the IMF for approximately \$300 million. The IMF is expected to approve the agreement in February 2002. The negotiation process and the agreement itself reflect the consequences of the events of September 11, after which the IMF and the government agreed that the projected budget deficit needed to be much more conservative than they originally thought. Bulgaria's relations with the World Bank and the EU are well structured around Bulgaria's ongoing negotiations on EU membership.

The Bulgarian financial sector has continued to be stable, and monetary policy under a currency board regime has continued to be predictable and appropriate. Bulgarian banks are mostly privately owned by larger banks based in the European Union. The banking sector generates significant profit and has demonstrated over the last three years a constant tendency toward increasing the amount of credit it offers to the economy. During the final months of 2000 and the first 10 months of 2001, Bulgarian banks significantly intensified the introduction of new bank retail products such as different types of accounts, credit cards, and consumer and mortgage loans. All Bulgarian banks comply with international prudential standards. Most of the foreign-owned banks comply with international accounting standards, and a deadline for such compliance for the rest of the banking sector has been set.

According to the Bulgarian National Bank Act of 1997, the central bank in Bulgaria is completely independent from day-to-day politics and operates under the strict rules of a currency board regime. This regime has been enhanced by the Foreign Exchange Act, which came into force at the

beginning of 2000. Both current account and capital account transactions in Bulgaria correspond to the international standards for convertibility. Under these rules, the national currency has remained stable at the fixed exchange rate to the euro, and the level of confidence in the currency, indirectly measured by the level of monetization, has been growing.

The Bulgarian capital market continues to be underdeveloped. Although its infrastructure is in place and transactions have been made for the last four years, the overall level of activity is low in terms of both volume and the presence of liquid assets. Only during the second half of 2001, when the newly created private pension funds began to accumulate contributions and banks started using the possibility to develop mortgage-based derivatives, did volumes on the Bulgarian stock exchange start to increase. This increase has been observed for too short a period, however, to support a conclusion that there is a definite upward trend in activity on the Bulgarian stock market.

Bulgaria's market for government bonds is more active than the stock market. There are several types of government bonds. Brady bonds, which were issued in 1994, are related to the foreign debt of the country and are actively traded on the international Brady bond market. There are also domestic government bonds denominated in U.S. dollars, euros, and Bulgarian leva. The dollar-denominated domestic bonds, most of which were also issued in 1994, are related to the government's assumption of bad company debts accumulated before 1990. The bulk of domestic treasuries are issued to finance the budget deficit and consist of government bills and government bonds. The primary market is well developed, and auctions are held every week. In 2001, between BGN 60 and 65 million in bonds were sold every month. Volume on the secondary market was around BGN 650 million per month in 2001, indicating that the annual turnover on this market is between 25 and 30 percent of GDP.

Bulgaria's Constitution guarantees property rights, and there are formal rules and an independent legal system in place for defining and enforcing these rights. However, the quality of enforcement, though improving, is still low.

Although prices in Bulgaria have mostly been liberalized, the percentage of prices under government control or influence remains around 15–20 percent. The energy and public service sectors continue to receive government subsidies, but these are decreasing as scheduled according to different government programs. Foreign trade has also been liberalized to a high degree, but the operation of the customs administration is considered cumbersome and inefficient. Customs officers regularly rank very high in corruption perception polls, and a customs information system has not been put in place despite years of preparation. As a result, nontariff barriers to international trade are still in place. However, the fast growth of foreign trade turnover and foreign direct investment over the period 1999–2001 indicates that these barriers are not very effective in stopping the

flow of goods. The liberalization of the capital account with the new Foreign Exchange Act of 2000 has also contributed to this growth.

Foreign trade turnover runs at about 100 percent of GDP and renders Bulgaria a very open economy. For the first three quarters of 2001, exports grew by 7.3 percent and imports by 12.3 percent relative to 2000. The slower growth of exports can be attributed to problems of domestic demand in some of Bulgaria's major export markets, including Italy, Germany, Turkey, Yugoslavia, Greece, and Macedonia. The EU area and EU-related zones like the Central European Free Trade Agreement (CEFTA) dominate Bulgaria's foreign trade relations. The only major exceptions are exports to the neighboring countries of Yugoslavia, Macedonia, and Turkey and energy imports from Russia (oil, gas, nuclear fuel) and Ukraine (coal). The goods structure of foreign trade turnover indicates a continuing increase in the share of investment goods in imports and finished consumer goods in exports.

Foreign direct investment slowed during the first 10 months of 2001 relative to the same period in 2000. The decrease of \$323 million may be explained by one large privatization deal that took place in 2000—the sale of Bulbank for EUR 360 million. That is, the slowdown might be attributed to lower levels of foreign direct investment through privatization. In contrast, preliminary data from the Bulgaria Foreign Investment Agency indicate that growth in greenfield foreign direct investments continued in 2001.

There are no legal impediments to owning and operating a business in Bulgaria. Ownership is regulated by law and is generally respected. Although the courts' enforcement of bankruptcy and insolvency procedures is slow, there have been noticeable improvements in their ability to deal with different kinds of cases. Likewise, although a number of licensing regimes have been revoked, their number and scope remain an important problem. Parliament has, however, proposed revoking even more. The new government's program includes specific measures to improve competition. While a regulatory framework for the promotion and protection of competition is essentially in place, its effective implementation will require experience and refinement.

Among the major areas in which competition needs to be introduced are the energy and rail transport markets. To that end, the government has announced plans to split the railway monopoly and open transport services to competition in 2002. It also intends to begin a partial liberalization of the domestic electricity and gas markets for larger consumers.

Employment and the standard of living are among the major factors motivating the behavior of Bulgarians, and these issues are also consistently present at the top of the list of public concerns. Third-quarter data for 2001 revealed a decline in the number of registered unemployed from 680 in the same period in 2000 to 630. The overall rate of unemployment dropped from 17.8 to 16.5 per-

cent, according to the National Employment Agency. However, the National Statistical Institute reported an increase in the number of unemployed from 550,000 to 632,000 people for the same period and a corresponding rise in the unemployment rate from 16.2 to 18.6 percent. The large discrepancy between the two sets of data is due to the fact that the NSI has changed its definition of who is unemployed and who is merely inactive in the labor force to correspond with the methodology of the International Labor Organization. As a result, the two institutions differ in their inferences about the size of the labor force but are very close with respect to the number of unemployed people. Regardless of method, it is clear that high levels of unemployment remain a very important social, and therefore political, factor.

Between September 2000 and September 2001, the average wage in the country increased by 10 percent in nominal terms from BGN 241 to 264 per month. For the same period, though, the level of consumer price index inflation was 4.7 percent, which leads to the inference that real wages increased by only about 5 percent. The significant discrepancy between reported wages in the public and private sectors of the economy may be explained by the strong incentive private enterprises have to under-report wages in labor contracts and thereby avoid taxes. Average wages typically range between BGN 220 and 350 for most sectors of the economy. There are, however, some exceptions. Average wages are less than BGN 200 in the agricultural sector and in hotels and catering but are close to BGN 500 in the utilities and financial services sector.

During the period covered by this report, the most important social sector development was the actual start of the pension reform. Pursuant to the compulsory social security code and the Voluntary Supplementary Social Security Act, both adopted in 1999, the Bulgarian pension system has three pillars. The first pillar is the inherited pay-as-you-go compulsory system, which is administered by the National Social Security Institute (NSSI). The second pillar consists of the fully funded compulsory supplementary system under which a small but growing portion of the contributions of workers born after December 31, 1959, goes into individual private pension accounts. (At present there are eight such funds.) The third pillar consists of voluntary supplementary retirement plans to which any person can openly contribute. This structure of the pension system was implemented in 1999 and 2000. In 2001, everyone in Bulgaria either chose or was assigned a private pension fund for the second pillar. As of January 1, 2002, all three pillars had become fully operational and the structural reform process had been completed. The projections of the Finance Ministry and the NSSI are that the system will be financially sound and in the black within five to seven years.

Reform of Bulgaria's health system was introduced in 1999 and is structured around two bodies that represent the interests of the medical profession and the interests of patients. The National Health Security Fund, which

represents patients, is financed by a health care contribution of 6 percent of worker salaries. Every year, these two bodies negotiate a contract that specifies the conditions of prehospital health care for the next year. The extension of this reform process to hospital care is scheduled for 2002.

Infant mortality and fertility rates in Bulgaria have shown gradual improvement over the last several years. (See Table 2) A possible explanation for this positive trend is Bulgaria's sustained macroeconomic stability. Specifically, the increased predictability of the economic environment and the slow rise in salaries for at least some categories of young workers have been conducive to a slight improvement in demographic trends, even though serious problems remain.

Table 2. Infant Mortality, Fertility, and Birth Rates in Bulgaria

Year	Infant Mortality Rate	Fertility Rate	Birth Rate
1997	17.5	1.09	7.74
1998	14.4	1.11	7.94
1999	14.6	1.23	8.82
2000	13.3	1.27	9.04

Source: National Statistical Institute

The Bulgarian educational system consists of primary schools (grades 1–4), secondary schools (grades 5–8), high schools (grades 9–12/13), and colleges and universities.

High schools are differentiated into general and professional (technical, science, arts) institutions, with the bulk of the students attending the former. There are 88 institutions of higher education, including 47 colleges and 41 universities and specialized institutes, with enrollment reaching 243,291 students for the academic year 2000–2001.

Overall, the number of students enrolled in the country's educational system (including higher education) decreased from 1,403,892 for the academic year 1997–1998 to 1,321,952 in 2000–2001. Of these, 867,354 were enrolled in primary and secondary schools and 243,291 in higher education. During the same period, the total number of educational institutions dropped from 3,889 to 3,585, owing mainly to closures of secondary schools for general education. Also, the number of teachers declined over the same period from 110,541 to 107,355. The government report on the implementation of the consolidated state budget in 2000 shows that overall expenditures on education increased by 14.2 percent in nominal terms and 2.2 percent in real terms relative to 1999.

Ivan Krastev is the chairman of the board of the Centre for Liberal Strategies, a nongovernmental think tank based in Sofia, Bulgaria. Mr. Krastev was assisted in the preparation of this report by Ralitsa Peeva, program director for political research; Deyan Kirvanov, program director for political research; and Georgy Ganev, program director for economic research at the Centre for Liberal Strategies.

CROATIA



Polity: Parliamentary democracy
Economy: Mixed capitalist (transitional)
Population: 4,700,000
GNI per capita at PPP \$ (2000): 7,960
Capital: Zagreb
Ethnic Groups: Croat (78 percent), Serb (12 percent), Bozniak (1 percent), other (9 percent)
Size of private sector as % of GDP (mid-2001): 60

The scores and ratings for this country reflect the consensus of Freedom House, its academic advisors, and the author of this report. The opinions expressed in this report are those of the author.

↓↓ and ↑↑ indicate score changes of .25 or more. ↓ and ↑ indicate changes of less than .25.

NATIONS IN TRANSIT SCORES

	1997	1998	1999-2000	2001	2002
Democratization	4.20	↓ 4.25	↑ 4.19	↑↑ 3.25	3.25
Rule of Law	na	na	5.00	↑↑ 4.13	4.13
Economic Liberalization	3.88	↑ 3.83	↑ 3.67	↑ 3.58	↑ 3.50

KEY ANNUAL INDICATORS

	1995	1996	1997	1998	1999	2000	2001
GDP per capita (\$)	4,029.0	4,421.9	4,398.3	4,805.2	4,405.7	4,343.8	4,547.9
Real GDP growth (% change)	6.8	6.0	6.5	2.5	-0.4	3.7	3.8
Inflation rate	2.0	3.5	3.6	5.7	4.2	6.2	5.7
Exports (\$ millions)	4,633.0	4,546.0	4,210.0	4,605.0	4,395.0	4,567.0	4,795.0
Imports (\$ millions)	7,892.0	8,169.0	9,407.0	8,752.0	9,693.0	7,771.0	8,159.0
Foreign Direct Investment (\$ millions)	109.0	486.0	347.0	835.0	1,445.0	827.0	470.0
Unemployment rate	14.5	10.0	9.9	11.4	13.6	16.1	15.3
Life Expectancy (years)	72.1	72.4	72.5	na	na	73.3	74.0

INTRODUCTION

A decade after it declared independence from the former Yugoslavia, Croatia is still struggling to move from the margins to the mainstream of Europe. Since taking office in January 2000, Prime Minister Ivica Racan's center-left coalition government has launched painful economic reforms, ended Croatia's international isolation, and provided the Balkan country with its first taste of genuine, freewheeling democracy. But the young nation has a long way to go before it achieves Western European living standards and the government's goal of acceptance into the European Union.

Croatia is still shaking off the deleterious effects of a decade of economic mismanagement and authoritarian rule under the late Franjo Tudjman and four decades of Tito's communism. Unemployment reached around 15 percent in the middle of 2001 before leveling off. The number of jobless and pensioners exceeds that of the employed. Croatia is the second most prosperous of the former Yugoslav republics, behind Slovenia, but incomes still lag far behind those found in Western Europe. Croatia's average income of \$4,840 in 2000 was less than half that in Portugal, the poorest of the European Union's 15 members.

To its credit, Tudjman's regime repaired large-scale war damages, ended hyperinflation, and made some headway in privatization and banking reform. But Tudjman, who died in office in 1999, bullied the opposition and outspoken journalists, did little to make the bureaucracy more transparent and efficient or curb corruption, and, for the most part, made a shambles of privatization. A thicket of business regulations continues to keep away many investors. As of March 2001, Croatia had attracted only \$4.8 billion in direct private investment since 1993, mainly in telecommunications, banking, and pharmaceuticals.

Already, the Racan government has trimmed pension and health spending, cut civil service wages, and laid off thousands of state workers. In many ways, though, these changes were relatively easy because they did not deeply affect most ordinary Croatians. The Racan government's next round of liberalization measures will spread the pain more broadly and, for many Croatians, cut closer to the bone.

The ruling coalition faces the daunting task of making good on its commitments to the International Monetary Fund to slash government spending and privatize large firms at a time when so many Croatians are already out of work. The coalition's agenda for 2002 and beyond includes weaning the pension and health systems off their costly dependence on the state budget and completing the privatization of Hrvatski Telekom (HT) and other big state firms. Privatization is likely to lead to major job losses. At the same time, the government is counting on privatization receipts to help finance its budget deficit.

Racan's government also faces the burden of living up to the expectations created by its own generous campaign

pledges. These included reducing unemployment, maintaining wage levels and social welfare programs, cutting taxes, and making back payments to pensioners. To meet these goals, Racan, 57, must cobble together a consensus within his coalition on the pace and extent of reforms. Some observers suggest that the need to maintain internal peace and keep all coalition partners happy has prevented the government from proposing more decisive measures. Many also believe that as the next elections approach, some coalition parties are likely to accuse the government of being subservient to the IMF. These parties will be able to point to the many economists who say that Croatia could achieve faster growth if it rejected the IMF's conditions for lending and adopted looser fiscal and monetary policies.

The government's prospects in the next elections, expected in late 2003 or early 2004, will likely hinge on its success in showing tangible benefits from the reforms, including making a solid dent in the unemployment rate. Opposition to the reforms comes largely from the losers in Croatia's new political and economic environment: former presidential cronies and insiders of Tudjman's Croatia Democratic Union (HDZ) party; war veterans who receive generous welfare benefits; and the country's 1 million pensioners and the more than 300,000 Croatians who are unemployed. Most of those without jobs have only limited education or attended vocational schools and lack the high-end skills needed to compete successfully in a market economy.

Although Croatia is on a par with Western European countries in its infant mortality, literacy, and life expectancy rates, many of those who oppose Racan's reform plans have few hopes of achieving Western European levels of prosperity. World Bank figures compiled in 2000 and based on 1998 data show that 10 percent of Croatians live in absolute poverty, defined by the agency as living on less than \$5.30 per day, adjusted for purchasing power within the country. The World Bank found that the poor tend to live in overcrowded, crumbling homes, have meager diets, and are poorly educated. Moreover, the income gap between rich and poor in Croatia is higher than that in most neighboring transition countries, the agency reported.

Due primarily to increased domestic demand and solid export growth, Croatia's economy has largely recovered from a recession in 1999. That slowdown was brought on by a tight monetary policy, tough international borrowing conditions in the wake of Russia's financial crisis, and a slump in the critical tourism sector that was caused by the Kosovo conflict. Despite government spending cuts and the global economic slowdown, the European Bank for Reconstruction and Development projected GDP growth of 3.8 percent in 2001, up slightly from 3.7 percent in 2000 but still below the buoyant growth of between 6 and 6.8 percent notched up between 1995 and 1997. Late in 2001, IMF economists predicted GDP growth of 4.2 percent in 2002.

The government has faced a backlash not only for its economic reform program, but also for its cooperation with

the International Criminal Tribunal for the Former Yugoslavia (ICTFY) and efforts to prosecute Croatian soldiers for atrocities committed during the 1991–1995 civil war. In July 2001, the Racan government gave the go-ahead for extradition to The Hague of two generals suspected of war crimes committed during offensives against Serb rebels in September 1993 and August 1995. The two men were the first Croatian citizens indicted by the ICTFY.

Racan warned that failure to cooperate with The Hague would set back Croatia's efforts to end its international isolation. Many Croats, however, consider the soldiers who fought against Serb rebels to be heroes and deny that they committed atrocities in a four-year conflict that killed at least 10,000 Croats, forced hundreds of thousands from their homes, wrecked many homes and factories, and devastated the vital tourism industry. Four members of the Croatian Social Liberal Party (HSL), the second largest in the ruling coalition, threatened to resign over the war crimes issue. Nevertheless, the government easily won a confidence vote in Parliament that Prime Minister Racan was compelled to call. One of the two indicted men, General Rahim Ademi, surrendered to The Hague, but at year's end the other suspect, General Ante Gotovina, remained at large.

Veterans also protested the government's arrest of dozens of Croats who are suspected of killing ethnic Serb civilians during and after the war, largely in battles between the newly formed Croatian army and the country's own considerable Serb minority. Some 100,000 war veterans, backed by the HDZ, held an antigovernment demonstration in the Adriatic coastal city of Split in February to protest the prosecution of Mirko Norac, a retired general, and four other war crimes suspects. The 33-year-old Norac was a commander in the former frontline town of Gospić when Croat forces massacred Serb civilians in 1991.

In addition to proving its strength in Parliament, Racan's coalition defeated the HDZ in local elections in May. The victories in two-thirds of Croatia's 21 counties ousted the HDZ from control of local governments throughout the country. The HDZ was, however, the largest single vote getter in two-thirds of the counties and came in second in the cosmopolitan capital of Zagreb, home to a quarter of Croatia's 4.7 million people. The right-wing HDZ, now headed by Ivo Sanader, did particularly well in smaller, rural counties that were most heavily affected by the conflict with Serbia. Many local campaigns focused on both traditional grassroots matters and national issues including the government's overall performance, European integration, and the arrest of war crimes suspects.

Since coming to power, the Racan government has also taken steps to increase judicial independence, protect minority rights, and make the state broadcaster, Croatian Radio and Television (HRT), more independent. Overall, the changes have improved Croatia's relationships with key Western institutions. Most important, the reforms have brought the country slightly closer to the biggest prize of all: membership in the European Union. Croatia signed a

Stabilization and Association Agreement with the EU in October 2001 that formally made Zagreb a candidate for membership in the Brussels-based economic and political union. Croatia, however, is unlikely to become a full EU member before 2007. A survey released in February by Croatia's European Integration Ministry reported that 78.7 percent of respondents wanted their country to join the EU. About the same number believed that membership would boost living standards.

Under the SAA, Croatia will reduce tariffs on EU goods progressively through 2007. The EU has already unilaterally opened its market to most Croatian products. Croatia also signed a pact in February 2001 with the four-nation European Free Trade Association that will open markets for goods beginning in 2002 and later lead to a freer exchange of services and establish investment rules. EFTA nations account for only 2.5 percent of world trade but are particularly strong in financial services and shipbuilding.

These moves came on the heels of Croatia's entry into the World Trade Organization in late 2000 and signing of a Partnership for Peace agreement with NATO that same year. NATO improved relations with Croatia amid the Racan government's efforts to facilitate the return to the country of ethnic Serb Croatian refugees and otherwise comply with the 1995 Dayton Accords that ended the war in neighboring Bosnia-Herzegovina. As of May 2001, 120,000 Croatian refugees and more than 200,000 persons who had been displaced within Croatia had returned to the area of their original homes, according to the United Nations High Commissioner for Refugees.

DEMOCRATIZATION

Political Process

1997	1998	1999-2000	2001	2002
4.00	4.25	4.25	3.25	3.25

Six opposition parties, united in two coalitions, won an overwhelming victory in Croatia's January 3, 2000, parliamentary elections. Coming just weeks after the death of Croatia's authoritarian president Franjo Tudjman, the election was a key step in ending the country's international isolation and securing Western aid to revive Croatia's moribund economy. The first election coalition consisted of two center-left parties: Racan's Social Democratic Party (SDP) and the HSL. The SDP is the successor to the Yugoslav-era League of Communists, which had been the sole legal party in Yugoslavia from the end of World War II until 1989. Following the collapse of communism, it transformed itself into a European-style social democratic party. The second coalition comprised the so-called Porec group of centrist parties: the Liberal Party, the regional Istrian Democratic Congress (IDS), the Croatian People's Party (HNS), and the Croatian Peasants Party. Together, these parties—the "Opposition

Six”—formed a coalition government under Ivica Račan, president of the SDP.

In the final results, the SDP/HLSL coalition held 71 seats; the HDZ, 46; the Porec group, 24; and a right-wing coalition of the Croatian Party of Rights and the Croatian Christian Democratic Union, 5. Several smaller parties failed to win seats. Voter turnout was 75 percent. The new government narrowly missed gaining the two-thirds majority in Parliament that is needed to change the Constitution, while the ousted HDZ, which won more seats than one of the coalitions now in government, split between moderates and hard-liners. Led by Mate Granic, a former foreign minister, a group of moderates left the party and founded the Democratic Center Party, which holds several parliamentary seats.

While noting some problems with the state media's coverage and in the electoral process, the Vienna-based Organization for Security and Cooperation in Europe stated in its final election report that the balloting “marked progress towards meeting the country's commitments of democratic governance as a participating state of the OSCE.” The OSCE noted that news and editorial coverage on the state-run Croatian Radio and Television 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 found that HRT's coverage had improved noticeably over previous elections but was often biased in favor of the HDZ. Private television and radio stations provided more balanced coverage. Private print media, however, were often partisan.

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 of the Law on Elections. On election day, observers reported serious irregularities in some polling stations in Bosnia, one of 47 countries where nonresident Croats could vote and where the bulk of out-of-country voting actually occurred. Nonetheless, the 2000 elections stood in marked contrast with the 1995 elections to Parliament's lower house, which the OSCE and other international observers had described as seriously flawed.

The 2000 vote took place under an electoral law that the outgoing Parliament had passed on October 31, 1999. Under the new law, 140 seats are filled according to proportional representation; 6 are allocated to so-called diaspora voters, or Croatian citizens living outside the country without permanent residence in Croatia; and 5 are reserved for ethnic minorities. For the 140 general seats, the law divides the country into 10 geographical districts, each of which has 14 seats. Previously, voters elected 28 members of Parliament in single-seat districts and 92 members according to proportional representation. Twelve seats were reserved for Croats living abroad and 7 for minorities. The 1990 Constitution requires the House of Representatives to have

only between 100 and 160 members, who are elected for four-year terms.

Perhaps the biggest change under the new law is the reduction in the number of additional seats reserved for diaspora voters. Although they make up only 2 percent of Croatia's population, the previous law had given diaspora voters 12 seats, or 10 percent of the total. Most are ethnic Croats, and their ability to vote was linked to Tudjman's grand scheme of incorporating Croat-majority areas of Bosnia into a Greater Croatia. The UN, the Council of Europe, and the OSCE had criticized the diaspora seats, arguing that ethnic Croats of Bosnia-Herzegovina are citizens of that country and should not be allowed to vote in Croatian elections. Under the new law, diaspora voters receive a number of seats proportional to their share of the total electorate. Some 85 percent of diaspora voters cast ballots for the HDZ.

Although the OSCE generally considers the new law an improvement over the previous electoral law, it has cited several concerns, most notably the reduction in the number of seats that are reserved for minorities to 5 from 7. Of these seats, it also reduced the number of seats reserved for ethnic Serbs to 1 from 3 (or less than 1 percent of the total), even though ethnic Serbs make up some 6 percent of Croatia's population. Of the 4 remaining seats, 1 is reserved for the Italian minority, 1 for the Hungarian minority, 1 for the Czech and Slovak community, and 1 for the combined Russian, Jewish, German, Austrian, and Ukrainian minorities.

The OSCE also said that Croatia's citizenship law, 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 grants voting rights to many ethnic Croats who reside permanently in Bosnia but enjoy Croatian citizenship. Meanwhile, the government has made it hard for ethnic Serbs who fled Croatian army offensives in 1995 against occupying Serb troops in eastern Slavonia 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. According to the OSCE, expelled voters outnumbered displaced voters by 14,500 to 1,400 in the 2000 parliamentary elections yet had access to only 2 special polling places; displaced voters had access to 309.

Despite these drawbacks, the OSCE noted several positive features in the law. They included 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 for coalitions to win party list seats. Now coalitions only have to pass the same threshold required for individual parties, which is 5 percent.

The new law further provided for the allocation to all parties of broadcast time and print space on an equal and nondiscriminatory basis. Although this applied to both public and private media, the opposition's primary concern heading into the elections had been the HDZ's partisan use of the state-run HRT. The outgoing lower house adopted regulations calling on HRT to provide balanced news and editorial coverage, but this stopped short of opposition demands to transform HRT into an independent public broadcaster.

In contrast with previous elections, all parties had wide latitude to campaign freely. In keeping with the new law, 12 NGOs and civic groups monitored the vote. The largest was the group Citizens to Observe the Elections in an Organized Manner, which deployed more than 5,000 observers. Under the banner of Glas (Voice) 99, a coalition of 148 NGOs encouraged voter participation and carried out voter education.

In 2001, the coalition lost the support of the IDS, which pulled out after the government suspended the provisions of a new Istrian County statute that had made Italian an official language on a par with Croatian. The coalition still had a comfortable majority of 88 seats in the 151-member Parliament. The IDS, which holds 4 seats, accused the government of failing to show enough support for local issues in Istrian County.

Also in 2001, Parliament passed a constitutional amendment that abolished its upper house. Supporters of the amendment argued that the chamber's limited powers prevented it from playing a serious role in government and drained resources from the state budget. Opponents, mainly followers of the HDZ, accused the government of a politically motivated move. Through its control of the upper house, the HDZ had been able to delay reform-minded legislation. Had the chamber not been abolished, the HDZ would likely have retained control in the next round of elections.

Croatia's 1990 Constitution vests executive powers in a president who is directly elected for a five-year term, with a two-term limit. The president appoints the prime minister, subject to parliamentary approval, and appoints other members of the government based on the prime minister's proposals. On February 7, 2000, Croatian voters completed a speedy and sweeping change of their government when they elected Stjepan Mesic, a reformist, as president in a second round of voting. The election capped a two-month period that also saw the death of authoritarian president Franjo Tudjman in early December 1999, the 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.

During the campaign, both Mesic and his second-round opponent, Drazen Budisa, leader of the center-left HSLs, pledged to liberalize the economy, reduce the powers of the president, promote basic rights, and inte-

grate Croatia into Europe and NATO. Mesic—the last leader of Yugoslavia's rotating presidency, a onetime Tudjman associate, and the current candidate of the small centrist HNS—won the second round with 56 percent of the vote.

Although Tudjman easily won the 1997 election with the backing of a strongly partisan state media and ample use of state resources, the 2000 campaign was tightly and vigorously contested and the state media was far more balanced. The OSCE noted some problems with the legal framework of the elections but concluded that the "elections marked further progress in fulfilling the country's commitments as a participating state of the OSCE."

The elections were called following the death of President Tudjman on December 10, 1999. In the first round of voting on January 24, 2000, Mesic won 41.11 percent; Budisa, the candidate of the center-left SDP/HSLs coalition, 27.71 percent; and Mate Granic, the foreign minister in the outgoing HDZ government, 22.47 percent. Six other candidates split the remaining votes. Mesic and Budisa advanced to a second round since Mesic failed to win a majority, which is required under the Constitution. Turnout was 63 percent in the first round and 61 percent in the second round. In the out-of-country voting, mainly in neighboring Bosnia, voter turnout was only in the high teens.

In its final report on the election, the OSCE said that voting was generally fair and transparent, although there were irregularities in some polling stations. The state broadcaster, HRT, was more balanced in its news and editorial coverage, particularly in contrast with previous elections but also when compared with the 2000 parliamentary elections. Private broadcast and print media also provided generally balanced coverage. The OSCE, however, expressed many of the same concerns it had voiced about the parliamentary elections with regard to the disparity in voting rights between ethnic Croats and ethnic Serbs who reside outside Croatia. Observers also reported serious irregularities during the first round of voting in some polling stations in Bosnia, 1 of nearly 50 countries where nonresident citizens could vote. The procedures in Bosnia improved noticeably during the second round.

Croatia's presidential election law has remained essentially unchanged since it was introduced 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 allowed domestic NGOs to monitor the election, even though the law makes no explicit provision for domestic monitoring. It also allowed political parties to observe the work of electoral commissions at all levels. However, while the 1999 parliamentary election law allows party representatives to actually sit on the electoral commissions, the 1992 presidential law explicitly prohibits party representatives from membership on them.

Civil Society

1997	1998	1999-2000	2001	2002
3.50	3.50	3.50	2.75	2.75

The Racan government has made it easier for NGOs to register and has done little to interfere with their work. In October 2001, Parliament approved a new Law on Associations. According to the International Center for Not-for-Profit Law, the new law's "positive features" include provisions for the voluntary register registration of associations, streamlined conditions procedures for registering foreign NGOs, and a reduction in "the government's intrusion in issues related to the internal government of an association." Under the previous Law on Associations, the government had broad powers to block the founding of an NGO, monitor NGO activities, and suspend an NGO's activities through administrative procedures.

Likewise, in December 2000, the government completed a cooperative agreement between itself and the country's nongovernmental and nonprofit sector. Among other things, this nonbinding agreement sets forth principles of cooperation that are based, among other things, on partnership, transparency of activities, the "promotion of equal opportunities for all," and the "promotion of nonviolence and active acceptance of diversities." It anticipates "possible models of cooperation" such as consultation between the legislature and NGOs during deliberations over new laws and amendments. Under the program, which the government accepted in January 2001, nearly 16,000 NGOs were invited to "join forces and create [this] new framework for the development of civil society in Croatia as well as to enhance democratization and modernization of the society as a whole."

The two largest NGOs involved in the January and February 2000 elections were Citizens Organized to Monitor Elections (GONG) and Voice 99, itself a coalition of 148 NGOs. Both groups organized preelection informational campaigns. The OSCE's final report on the 2000 presidential election noted that Voice 99 had engaged in partisan activities and urged NGOs to remain neutral when active in the electoral process. GONG also deployed more than 5,000 observers and was the largest of 12 NGOs and civic groups that monitored the vote. In 1997, the election commission had refused to allow GONG to monitor the balloting.

The Croatian Helsinki Committee has been in the forefront of human rights monitoring in the country. Several NGOs provide legal assistance in cases involving housing and citizenship—two areas in which the state is widely believed to discriminate against ethnic Serbs. Although there are no national-based NGOs that work on women's rights, smaller groups such as Be Active, Be Emancipated (BaBe) are active in Zagreb and other large cities.

Croatian trade unions, including five major labor confederations and several large unaffiliated unions, are gen-

erally independent. The largest of the five major confederations 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 Croatian workers are union members. The country's painful transition to a market economy, however, has limited the unions' bargaining power. Given Croatia's high unemployment rate, unions generally limit themselves to seeking marginal improvements in wages and working conditions rather than pushing for comprehensive gains in these areas.

Although the Constitution permits workers to stage strikes, members of the armed forces, police, and civil service may not. Unless otherwise specified in their contracts, workers may strike only at the end of their contract, and even then they must first go through mediation. In reality, authorities generally tolerate strikes that do not meet these requirements. Collective bargaining is legal and is practiced freely.

Independent Media

1997	1998	1999-2000	2001	2002
4.75	4.75	5.00	3.50	3.50

Freed from the harassment of the Tudjman era, Croatian media now face few official restrictions. In a much awaited move, Parliament approved legislation in 2001 that frees both HRT and the HINA state news agency from government control. The new law also requires the government to privatize HRT's third channel.

Doubts soon emerged, however, that the law on HRT might fail to give broadcasters true autonomy. Under that law, which Parliament passed in February, a 19-member council will appoint news editors for HTV, the television side of the state-run broadcaster. Nongovernmental groups will appoint 16 of the council's members. The president, prime minister, and Parliament Speaker will appoint the remaining 3 members. Western diplomats, however, fear that an additional, and influential, management board with oversight powers will undermine the council's independence. Parliament will appoint 6 of the board's 9 members.

Nonetheless, the government's efforts to reform HRT are significant given that, according to the OSCE, HTV is the main source of information for an estimated 75–90 percent of Croatia's population and that over half the adult population regularly watch HTV's main evening news program. HRT broadcasts on 3 national television and radio networks. Private broadcasters provide 13 television and 126 radio stations.

The Racan government's efforts to grant autonomy to HRT are only the most recent in a series of changes since the end of the Tudjman regime that have improved press freedom in Croatia. Finally free from government control, the Constitutional Court in February and April 2000 struck down articles on defamation and libel from the public information law and penal code. The Tudjman regime and its allies had used these articles to file hundreds of lawsuits against independent media. The Tudjman administration and its security agents also routinely threatened, dismissed from jobs, wiretapped, and beat journalists and harassed independent media through demands for excessive fees and punitive tax enforcement.

Croatia has 10 national and regional daily newspapers and 5 main weekly papers. The two largest dailies, *Jutarnji List* and *Vecernji List*, boast circulations of about 200,000 copies per day. Nevertheless, even these papers have struggled under the impact of the country's economic crisis, which has made a daily paper something of a luxury for many Croatians. Moreover, newspapers continue to face fallout from the financial problems at Tisak, Croatia's largest news distributor. The company was driven to near bankruptcy by the corrupt dealings of Miroslav Kuttel, a businessman who is close to the HDZ leadership. When Tisak began withholding payments to newspaper publishers for sales of periodicals, it created serious hardships for independent papers. Creditors, and later the government, eventually took control of Tisak, and today new companies are distributing papers and magazines. Nonetheless, independent media are still having trouble recovering money from Tisak.

According to telecommunications operator Hrvatski Telekom, Croatia had around 320,000 Internet users as of May 2001. Another 60,000 to 70,000 new users were expected by the end of the year. HT dominates the market but competes with several private Internet service providers, including Iskon, GlobalNet, and VIP-Net.

Governance and Public Administration

1997	1998	1999-2000	2001	2002
4.00	4.00	4.00	3.50	3.50

The reformist government elected in January 2000 has operated with considerable transparency when compared with its predecessor. Moreover, in 2001, as part of its efforts to slash government spending, the Racan government introduced a new salary structure for most civil servants that was aimed at reducing by 9 percent the state's overall wage bill for the year. Some observers suggested that the salary cuts could lead to an increase in corruption, as state workers turn to graft to supplement their shrunken earnings.

Observers say that Croatia should strengthen its current government budgeting and audit procedures. The World Bank, for example, suggested in a November 2001

report that the government try to improve accountability in public spending by shifting substantial budgetary responsibility to the Finance Ministry from individual ministries, expanding the Finance Ministry's budget supervision audits, and giving Parliament a greater oversight role.

The coalition's strong showing in the May 20, 2001, local elections may also help improve government administration at the grassroots level, though by year's end the full effect of the elections was not clear. Prime Minister Racan's ruling coalition won control of a majority of county assemblies in the county and municipal elections and thereby sharply reduced the HDZ's power at the grassroots level in what were Croatia's freest local polls ever. Although the HDZ was the largest party or coalition in 16 of the 20 counties, it managed to secure a majority in only 4.

Although the OSCE concluded that the elections were "conducted generally in accordance with OSCE commitments for democratic elections," it did note areas of concern. Foremost among these was the adoption of a new local election law on April 11, 2001—just 39 days before the vote. As a result, parties and election commissions were not always clear on procedures. Moreover, the law itself, the OSCE noted, establishes a quota for minority representation in each district but sets out no procedures for meeting it. The law also allows the government to call elections on only 30 days' notice and permits a party to sit on an election commission only after the commission has confirmed the party's list. This means that parties are not involved in the critical candidate registration process. In addition, electoral rolls continue to identify the ethnicity of voters. At the same time, the OSCE said the new law was an improvement over previous legislation because it allows parties to have some representation on election commissions, requires elected representatives to be permanent residents in their districts, and makes it easy for nongovernmental groups to monitor elections. The OSCE noted, moreover, that the provision for ethnic minority representation, despite its flaws, encourages parties to field minority candidates.

As with the 2000 national elections, ethnic Serbs who were displaced from their homes in the civil war found it harder to vote than ethnic Croats who are in similar straits. Authorities provided 1,600 displaced ethnic Serbs with 3 special polling stations and 9,000 displaced ethnic Croats with 58 special polling stations. Displaced voters cast absentee ballots for assemblies in areas where they have their permanent residences.

Regardless of who is in power, local governments continue to face serious financial constraints that stem from Croatia's ongoing economic difficulties, the aftereffects of war, and the specific arrangements governing local finances. According to a May 1998 report by the Congress of Local and Regional Assemblies in Europe, local and regional authorities face large disparities in their economic situations. Those in areas directly affected by armed conflict in the 1990s face the most hardships. In addition, Zagreb can

impose a surcharge of up to 60 percent on income taxes collected by the central government, while other cities with populations over 40,000 can impose surcharges of up to only 30 percent. Moreover, Zagreb gets to keep 45 percent of income tax revenues, with the remainder going to the state coffers. In contrast, outside Zagreb, the state keeps 70 percent of income tax revenues and gives only 25 percent to cities and 5 percent to counties.

The government also sets aside 40 percent of profit taxes for municipalities and counties. The CLRAE report noted, however, that given Croatia's difficult economic situation, these taxes do not provide sufficient funds to meet local needs. It also criticized the 1992 local administration act's broad definitions of the responsibilities of municipalities, towns, and counties. These definitions "do not suffice to identify clearly, in operational terms, the powers assigned to local authorities." The report 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	2002
4.75	4.75	4.75	3.75	3.75

Human rights in Croatia improved considerably following the death of President Franjo Tudjman in late 1999 and elections in early 2000 that brought to power a reformist president and broke the HDZ's grip on Parliament. The new government has generally respected basic rights. It also has committed itself to helping ethnic Serbs return to pre-war homes, curbed the surveillance powers of the domestic security services, and cooperated with the International Criminal Tribunal for the Former Yugoslavia.

The government claims that some 80,000 of the estimated 300,000 Serbs who fled Croatia in the 1990s have returned. However, Milan Djukic, the head of the Serbian National Party, told the *Los Angeles Times* in June 2001 that only about 40,000 Serb returnees had come back to stay. Moreover, significant human rights problems remain, including a citizenship law that discriminates against ethnic Serbs; unofficial harassment and discrimination against Serbs, Roma, and other ethnic minorities; and unofficial discrimination against women.

The actual process of returning ethnic Serbs to their homes has proceeded slowly, despite the government's stated commitments. This is in part because there are few available jobs in the regions to which Serbs seek to return. Ethnic Serbs also have had trouble receiving pensions and other social security benefits, recovering their property, documenting their citizenship, and voting. These problems are most

acute in the four former UN-protected areas of eastern Slavonia, western Slavonia, the Krajina, and Banija-Kordun, which formed a self-styled Serb republic in the early 1990s.

Nevertheless, the Racan government's more tolerant attitude toward the Serb minority and willingness to cooperate with international investigations and prosecutions of war crimes have been particularly striking, given that Tudjman had driven Croatia into international isolation over these issues. Authorities have helped displaced ethnic Serbs return to their homes from their temporary residences in eastern Slavonia. The government has also replaced the controversial Commission on Return with a new high-level body to oversee returns. In addition, it has made changes to the law governing reconstruction that offer the possibility of equal treatment for Serbs who were internally displaced or refugees.

Croatian courts have also ordered the retrials of some soldiers who were acquitted of war-related killings. In February 2001, for example, Croatia's Supreme Court ordered the retrial on charges of war crimes of six Croats after a lower court found four not guilty and sentenced the other two to short prison terms. The six were tried for extortion, abduction, and attempted murder of at least 13 ethnic Serbs and the murder of one man in 1991. The Court said the trial had determined that at least three of the defendants had a hand in the murder. In May, Deputy Prime Minister Goran Granic stated that the government hoped all ethnic Serb refugees would be able to return to their homes by the end of 2002.

Some local authorities and courts, however, 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 where Serbs seek to return, some housing commissions and courts have refused to remove current Croat occupants from Serb homes, according to the U.S. State Department and other sources. In eastern Slavonia, housing commissions and courts have continued to evict temporary Serb occupants so that Croats could return.

The divisive issue of return 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. They also joined predominantly Serb areas of Bosnia-Herzegovina under the self-styled Republic of Serbian Krajina. Fighting in late 1991 and Serb abuses forced many thousands of ethnic Croats to flee the region. A 1992 peace plan placed UN troops in areas under Serb control in order to protect Serb civilians and speed the return of displaced Croats. In May 1995, the Croatian army launched Operation Flash to recapture Serb-held territory in western Slavonia; this was followed in August by Operation Storm, which recaptured further Serb-held territory, leaving 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 some 150,000 to 200,000 Serbs into eastern Slavonia, Bosnia, and Yugoslavia from western Slavonia, the Krajina, and elsewhere.

Faced with huge numbers of internally displaced persons, the government in 1995 passed a law that allowed authorities to grant to those displaced temporary use of “abandoned” private property. The Law on the Temporary Takeover and Administration of Specified Property also set up municipal-level bodies to carry out its provisions. In practice, the housing commissions primarily allowed ethnic Croats to occupy homes abandoned by ethnic Serbs. Most of the Croats were either displaced from eastern Slavonia and elsewhere in the early 1990s or came, with the government’s encouragement, from Bosnia and Yugoslavia. Many refugees and displaced persons also simply occupied property on their own. In particular, many ethnic Serbs who were displaced by Operations Flash and Storm moved into homes in eastern Slavonia and elsewhere that had been abandoned by ethnic Croats in the early 1990s. Legislation prohibits evictions until alternative accommodations can be found. However, a 1995 amendment to the law rendered most Serbs ineligible for this protection.

The former Tudjman administration came under increasing international pressure to introduce fair return procedures after January 1998. At that time, the United Nations handed control to Croatia of eastern Slavonia following a two-year transitional period under international administration, as called for in the 1995 Dayton Accords, which ended the Bosnian conflict. Eastern Slavonia was the last Serb-held territory not in Croatian hands. Its return nominally removed the largest remaining hurdle to a full repatriation of Croatians displaced by the war.

Faced with this new reality, the Tudjman regime passed two laws that nominally set out procedures for authorities to handle returns in an evenhanded manner. The 1998 Procedures for Return of Persons Who Have Left the Republic of Croatia set up methods for ethnic Serb refugees in Bosnia and Yugoslavia to regulate their Croatian citizenship status, obtain citizenship papers, return to Croatia, and reclaim their property. The 1998 Program for Return and Accommodation of Displaced Persons, Refugees, and Resettled Persons set up municipal housing commissions that included minority members to resolve housing disputes between current occupants and the actual property owners. This helped some displaced and refugee Serbs to return to their homes.

In addition to facing problems in reclaiming their properties, ethnic Serbs have had difficulties regaining tenancy rights. Under a law in effect between 1995 and 1998, authorities deemed people who left “socially owned” apartments in war-affected areas to be stripped 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 Flash and Storm could not re-

turn and thus lost their tenancy rights. Courts in eastern Slavonia that heard claims for restoration of lost tenancy rights frequently recognized these rights for Croat returnees but rarely for displaced Serbs.

Another factor making reintegration of ethnic Serbs difficult is the continued uneven application of the 1997 Law on Convalidation. The law commits the government to validate documents, decisions, and acts passed by Serb authorities in formerly occupied areas of Croatia, thereby allowing ethnic Serb citizens with these documents to access state services. Most requests are from elderly persons and deal with pensions and past employment in occupied territories during the conflict.

Another area of concern is Croatia’s 1991 citizenship law, which discriminates against non-Croat minorities. The law allows ethnic Croats to become Croatian citizens purely on ethnic grounds. Non-Croats must satisfy stricter requirements to obtain citizenship. Authorities frequently have denied citizenship to non-ethnic Croats under the citizenship law’s Article 26, which allows the government to deny citizenship on broad “national interest” grounds, according to the U.S. State Department’s February 2001 report on Croatia’s human rights record. Authorities have also denied citizenship under Article 8, which requires that candidates maintain a permanent residence in the country for the five years preceding their citizenship applications and that their actions demonstrate that they are “attached to the legal system and customs of Croatia,” the report added. It notes, however, that in 2000, “the Interior Ministry began recognizing the period that (mostly ethnic Serbs) spent outside the country as refugees as applicable to the 5-year residency requirement.”

Non-Croats must also demonstrate proficiency in the Croatian language and Latin script. Lack of citizenship makes it hard for Croatian Serbs to return to Croatia and for returnee Serbs and those who remained inside Croatia to work, receive reconstruction assistance, and apply for repossession of property. Muslims also reportedly faced trouble in confirming their citizenship.

In addition to specific problems confronting ethnic Serbs, ethnic minorities in general face discrimination in a range of everyday areas, including education, employment, and housing. “Problems of discrimination and intolerance persist in many key fields of life, particularly concerning Serbs and Roma/Gypsy communities,” according to a July 2001 report by the Council of Europe. The World Bank has also suggested that ethnic minorities frequently face discrimination when looking for jobs. “Non-Croat workers have been turned down by potential employers, or face barriers in obtaining necessary documentation, or suffer from lack of protection of their rights,” the agency said in an April 2001 report on poverty in Croatia. The report further noted that ethnic minorities who suffer from serious disabilities sometimes have trouble gaining access to necessary government benefits. “Access to social benefits and services for work-incapable non-Croats,” the report said, “has been reported

to be constrained in various ways, including open discrimination practiced by some local officials.”

The country’s estimated 30,000 to 40,000 Roma face some of the most severe discrimination and disadvantages. Many Roma lack Croatian citizenship or identity papers and have limited education and Croatian language skills. Only about 10 percent of Romani children even begin primary school, and only 1 percent attend secondary school. Romani children, moreover, face serious discrimination at school, according to the U.S. State Department report.

With the change in regime, Croatians have been better able to exercise basic rights and liberties. This is particularly true in the area of freedom of assembly. Even in 1999, before Tudjman’s death, Croatian authorities increasingly granted the opposition the same opportunities for assembly as the ruling party. The government did not, for example, keep opposition parties from holding rallies and demonstrations in advance of the January 2000 elections. In 2001, trade unions organized protests against economic reforms that had led to layoffs and salary reductions for employees of the postal service and other public entities. In addition, thousands of veterans and supporters of the HDZ rallied against the government’s pursuit of suspected Croatian war criminals.

In another positive development, in 2000 the government annulled a provision of an internal security law that gave police wide surveillance powers. During the Tudjman years, press reports and some opposition politicians had claimed that authorities wiretapped independent media, opposition political figures, and others.

NGOs report that spousal abuse and other violence against women is widespread and under-reported. They also suggest that alcohol abuse and the economic plight of war veterans are partly to blame. Women reportedly face some unofficial discrimination in employment opportunities. Anecdotal evidence suggests that they hold mostly low-level clerical and blue-collar jobs and are often the first to be fired when companies lay off workers. Women are also under-represented in government and politics. They won only 21 percent of the seats in the January 2000 parliamentary elections and 14 percent of the seats in the 2001 local elections.

Croatians of all faiths can generally worship freely. Roughly 85 percent of Croats are Roman Catholic, along with smaller numbers of Eastern Orthodox Catholics, Christians, Muslims, and Jews. The Roman Catholic Church and Catholic Croats receive benefits that are not granted to other religious communities. These benefits include state financing of pensions for priests and nuns and recognition of Catholic marriages by the state, which thus eliminates the need to register such marriages with civil officials. The HDZ government also agreed in 1998 to return Catholic Church properties confiscated by the Tito regime after 1945. Jewish leaders say that basic information provided to students about Judaism is inaccurate, according to the U.S. State Department report.

Fundamental rights are underpinned by a court system that is slowly moving from being largely a tool of the Tudjman regime to an independent body. Although some problems still exist—including the persistence of political influence, large backlogs of cases, and funding shortfalls—the Racan government has taken substantial measures to grant greater autonomy to judges and prosecutors. In May 2001, Parliament adopted legislation that frees the chief state prosecutor from government control and authorizes him to choose county and municipal state prosecutors. Previously, the state judicial council held this authority and was criticized for selecting prosecutors based on their loyalty to the president and the HDZ. The new law makes the top prosecutor, currently Radovan Ortynski, responsible to Parliament. Just a few months earlier, in December 2000, the government amended the law to give the justice minister, rather than the state judicial council, the power to nominate and discipline court presidents. Those amendments also aimed at making the appointment and discipline of judges more transparent by authorizing the Constitutional Court to review such proceedings.

Defendants have the right to see attorneys within 24 hours of their arrest. In practice, however, authorities reportedly have often prevented suspects from having attorneys present during all parts of the investigation process. Nonetheless, this practice appears to be less frequent under the current government. At times, judges have also failed to uphold due process rights that are mandated by the Constitution. The court system is highly inefficient and severely backlogged, and the pretrial detention period is often lengthy.

Critics say that existing laws are not adequate to protect ethnic minorities. For example, Parliament in 2000 abolished provisions of the law on minority rights that had ensured representation in Parliament and other public institutions for minorities making up more than 8 percent of Croatia’s population.

The issue of which groups are recognized as minorities has been contentious. In 1998, the government dropped from the Constitution’s preamble Muslims (the largest minority after Serbs), Albanians, and Slovenes as recognized national minorities on the grounds that they were not indigenous groups. An official Council on National Minorities, set up in 1998 as a forum for minority views on policy proposals affecting them, appears to have had limited influence.

Corruption

1999-2000	2001	2002
5.25	4.50	4.50

Since taking office, Croatia’s reformist government has introduced measures to combat the nexus of corruption and politics that had reportedly reached senior levels of the

Tudjman administration and allowed well-connected presidential supporters to gain control of, loot, and bankrupt numerous companies. The new government has investigated and begun prosecuting numerous businessmen and former senior officials. In October 2001, Parliament approved the creation within the state prosecutor's office of a unit to fight corruption and organized crime. By year's end, it was too early to judge the new body's impact.

International observers have generally praised the Racan government's anticorruption efforts. For example, the Berlin-based Transparency International's 2001 Corruption Perceptions Index rated Croatia in a three-way tie for 47th place out of 91 countries, with a score of 3.9 out of 10. The top-ranked and least-corrupt country, Finland, received a 9.9. Croatia's score, though low, is still far better than its 71st place ranking in 1999, the last year of the Tudjman regime. Likewise, representatives of the NATO Stability Pact's Anti-Corruption Initiative in March and again in June awarded top marks to the Racan government's anticorruption program.

For now, there is little evidence that the Racan government itself is tainted by corruption. Yet corruption clearly remains a serious problem, as evidenced by both the Transparency International score and opinion polls of ordinary Croatians. In an August 2001 poll by the Center for Market Research, for example, 83 percent of respondents said that corruption is a problem in Croatia. Fifty-two percent said that corruption is worse now than under socialism. Respondents cited the health system (44 percent) and the judiciary (13 percent) as areas where bribery and corruption are most prevalent.

The World Bank has drawn a link between corruption and Croatia's rising ratio of pension beneficiaries to contributing workers, which has led to higher labor taxes. This higher labor cost has "pushed economic activity underground, contributing to corruption and higher rents," the agency said in an April report on poverty in Croatia. In a move that cut labor costs somewhat, the Racan government reduced mandatory employer health and pension contributions.

The Racan government has also indicted several former government officials and tycoons on charges that include 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 Croatia's three main newspapers, and other companies through fraudulent dealings. In 2000, Prime Minister Racan also placed Deputy Prime Minister Slavko Linic in charge of a high-level task force to investigate the legality of privatizations, set up a financial police unit, and entered Croatia into the Stability Pact's Anti-Corruption Initiative. Moreover, "credible efforts have also been made to reduce tax and customs duty evasion," the World Bank said in a September 2001 report.

The Racan government's efforts to sort out the Tudjman regime's financial accounts have revealed that official cor-

ruption under Tudjman was perhaps even more extensive and deeply rooted than previously believed. The government maintained numerous off-the-books spending accounts, manipulated the privatizations of state-owned companies, and gave out contracts to benefit friends, family members, and political supporters. The September 2000 *Investment Climate Report* prepared by the United States embassy in Zagreb noted 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." It also said that procurement processes were generally "rife with corruption." Many observers believe that corruption was one of the issues that led to the defeat of Tudjman's HDZ in the January 2000 elections.

ECONOMIC LIBERALIZATION & SOCIAL INDICATORS

Privatization				
1997	1998	1999-2000	2001	2002
4.00	4.00	3.75	3.50	3.25
Macroeconomic Policy				
1998	1999-2000	2001	2002	
3.75	3.50	3.50	3.50	
Microeconomic Policy				
1998	1999-2000	2001	2002	
3.75	3.75	3.75	3.75	

Croatia's economic problems arguably were a major factor in the HDZ's defeat in the January 2000 parliamentary elections and pose possibly the greatest challenge to the current reformist government. Since taking office, the Racan government has cut public spending and taken steps to attract foreign investment. Yet it will take time for the impacts of these measures to filter through the economy.

Late in 2001, the government looked set to meet its target of reducing the budget deficit to 5.3 percent of gross domestic product in 2001 from 6.5 percent in 2000. Zagreb hopes to further reduce the deficit to 4.25 percent of GDP in 2002 and 1.4 percent in 2003. In the process, state spending would drop to 37.6 percent of GDP by 2003.

Ahead of the 2000 parliamentary elections, the Tudjman administration increased public spending to a record 56 percent of GDP. Bailouts and the recapitalization of several banks also had increased public debt. Meanwhile, in the latter half of the 1990s, the government maintained tight monetary policies that drove up interest rates and allowed the kuna to appreciate. In turn, these effects of monetary

policy choked off capital investment and stunted exports. At the same time, the absence of deeper economic reforms limited foreign direct investment and forced Croatia to rely increasingly on foreign borrowing to finance a widening current account deficit.

The government plans to keep nominal total public sector wages flat in 2002 and 2003 while increasing some wages, a combination that will require some state workers to lose their jobs. To this end, the government laid off some 10,000 workers in 2001, nearly 70 percent of them from the Defense Ministry. The government also made major cuts in the Interior Ministry, where 1,500 workers had lost their jobs by midyear. Both ministries had been instrumental in Croatia's independence struggle and in keeping Tudjman in power.

Several economic indicators in 2001 pointed to improved conditions in 2002. In the first seven months of 2001, industrial production rose by 5.5 percent and retail sales grew by 11.7 percent year on year. Nonship merchandise exports increased by 10.3 percent year on year during the first half of the year.

With the government sticking to a tight monetary policy and with oil, labor costs, and producer prices declining, retail price inflation dropped to a two-year low of 3.8 percent in July 2001 before soaring to 5.8 percent in August. The jump came in response to increases in state-set prices for electricity, telecommunications, and natural gas. IMF economists predicted in the fourth quarter that inflation in 2002 would range from 3.5 to 4 percent.

The Racan government is focusing its monetary policy on keeping inflation in check, mainly through interest rate adjustments and open market operations, and on maintaining a stable rate for the kuna. In the first half of 2001, the government easily met its benchmark on international reserves held by the central bank. The Croatian National Bank's foreign currency reserves exceeded \$4 billion in August 2001, the IMF said in a November report, although the figure was inflated somewhat because of spending by foreigners during the peak tourist season.

Signaling support for the Racan government's reform program, the IMF in March 2001 approved a 14-month standby credit worth about \$255 million. The credit was intended largely as a precautionary measure and as a boost for foreign investor confidence. Given the country's comfortable level of foreign reserves and good access to international capital markets, the government was not expected to draw down any of the credit. In December 2001, the World Bank approved a \$202 million structural adjustment loan that will complement the IMF program.

Many of the Racan government's tough measures, such as trimming the budget deficit, cutting spending on state salaries, and reforming the pension and health care systems, come as part of its commitments to the IMF. This conditioning of loans on liberalization could allow nationalistic opponents of the measures to claim that foreign interests control economic policy. At the same time, it could help

the government by allowing it to shift some of the blame to the IMF should the public mood sour on the reforms.

Further signs of international approval of Croatia's reforms came from the bond markets, where the government was rewarded for its efforts with low borrowing costs. In July 2001, the government increased a 10-year, 500-million-euro bond deal by 250 million euros. The spread on the increase was only 182 basis points over German bonds.

The Racan government has curbed the Tudjman administration's practice of granting informal subsidies to state enterprises. These subsidies make it harder for private firms to compete and keep ailing concerns afloat. The subsidies included write-offs of payroll contributions and taxes, debt-equity swaps, debt restructuring, guarantees on short-term loans, and assumption of foreign debts. To replace the subsidies, the government has raised the prices of goods such as electricity and gasoline to better reflect market prices.

In a related problem, the level of arrears in payments between companies remains high. Total arrears in the economy fell to 11 percent of GDP in June 2001 from 13 percent at the end of 2000 and 19 percent at the end of 1999, according to a November 2001 report by the European Bank for Reconstruction and Development. This largely reflected the government's whittling down of its arrears and the improved health of the banking system. The report noted, however, that the number of enterprises in arrears increased to 33,076 in June 2001 from 30,278 at the end of 1999. The number with arrears in excess of three months, and thus technically bankrupt, is also rising.

The EBRD report also suggested that enterprise restructuring has been hampered in part by what it called Croatia's inefficient judiciary, which has been unable to cope with the rising number of bankruptcy filings. In July 2001, the government launched a \$7 million project aimed at improving the efficiency of bankruptcy proceedings through better training of personnel and information management. The project is funded by the World Bank and is being carried out jointly with the United States Agency for International Development.

One of the Racan government's priorities for 2002 is the privatization of large state enterprises. Already, according to the EBRD, the private sector made up 60 percent of GDP in 2000, up from 55 percent in 1998 and only 25 percent in 1992. The Croatian Privatization Fund (CPF) is moving forward with plans to sell off most nonstrategic state-owned enterprises by the end of 2002. The CPF reduced the number of companies in its portfolio to 1,598 in September 2001 from 1,852 in mid-2000 through liquidation and sales of minority stakes. Although privatization is critical to raising government revenue in the short term, it is unlikely to raise much revenue after 2003, when there will likely be few state firms left to sell off.

In July 2001, Germany's Deutsche Telekom paid \$422 million to boost its stake in Hrvatski Telekom, the state-owned telecommunications firm, to 51 percent from 35 percent. Citing low telecom prices, however, Zagreb put

off until at least 2002 an initial public offering for up to 40 percent of the remaining shares in HT. It also delayed privatization of Hrvatska Elektroprivreda (HEP), the state's electricity board, and Industrija Nafta (INA), the country's oil and gas company, saying that it needed more time to restructure the two enterprises. The delays opened a hole in the government's financing needs that it filled in part by increased foreign borrowing. Jadranski Naftovod, which runs the Adriatic gas pipeline, is also being prepared for privatization.

In a November 2001 report, the IMF suggested that the Croatian government's progress in preparing HEP and INA for privatization had been "slower than envisaged" under the country's standby financing arrangement with the agency. The report noted, however, that authorities had appointed privatization advisers for both companies and had taken some decisions on divesting the companies' noncore assets. Moreover, the government's efforts to foster more competitive energy markets received a boost in July 2001 after Parliament approved five laws that set out the framework for privatization of energy companies and regulation of markets in electricity, gas, oil, and derivatives.

The World Bank has suggested that the Tudjman regime's practice of selling stakes in state enterprises to managers and employees of these firms has impeded foreign investment and made it difficult to carry out further reforms. "Insider privatization, in combination with [an] interventionist Government and subsidization of ailing firms, has created strong coalitions that have been able to slow down the restructuring of the economy, protecting privileges and rents for entrenched firms and industries," the agency said in an April 2001 report on poverty in Croatia.

Reversing the trend of recent years, the government has also kept a tight lid on wages and the number of jobs in state enterprises. Gross labor costs in 10 large enterprises tracked by the IMF were 8 percent lower in the first half of 2001 compared with a year earlier. These 10 enterprises had 2 percent fewer workers in June 2001 year on year, and most had programs in place to cut staff.

Critics blame Croatia's labor laws in part for the country's high unemployment, and the World Bank believes that looser labor regulations are in order. "Over-regulation of employment is limiting opportunities for small businesses and flexible working arrangements, both of which could constitute a viable alternative to wage employment for the poor," the agency has argued. The World Bank has also recommended that the Croatian government change the labor law to make it easier for employers to fire workers and hire part-time help. It also says the government could create a more nourishing climate for private sector growth by easing regulations for setting up small businesses, improving and harmonizing land and real estate registration systems, speeding the flow of commercial lawsuits, and streamlining administrative procedures for foreign investment.

Croatia's banking sector is slowly recovering from a crisis that started in 1998 and contributed to the economic recession that began late that year. In a process initiated under the previous HDZ administration, authorities have rehabilitated and sold several ailing banks, tightened prudential requirements, and upgraded the legal and regulatory framework governing the banking sector. Restructuring, privatization, and, recently, mergers have resulted in consolidation of the banking sector.

Growing bank deposits and a reduction in reserve requirements have contributed to falling interest rates and easier credit. All insured deposit holders in failed banks had been fully paid by the end of 2000. The World Bank, however, warned in a September 2001 report that the level of nonperforming loans, at about 10 percent of Croatian banks' total portfolios, remains "high."

Foreign owners have brought more professional and sophisticated management to Croatian banks. Some 85 percent of Croatian bank assets are now foreign owned, with Italian banks leading the field. Since December 1999, the government has sold majority stakes in state-owned Splitska Banka, Privredna Banka, and Rijecka Banka. Together, these three banks had accounted for more than 60 percent of all state-owned bank assets. In 2002 and 2003, the government plans to privatize at least three more state-owned banks: Croatia Banka, Hrvatska Postanska Banka, and Zagrebacka Banka, the country's largest.

In addition to reviving and selling these six large banks, Croatian authorities have shut down or restructured several smaller banks whose failure would not pose a systemic risk. Since 1999, the Croatian National Bank, the central bank, has initiated bankruptcy proceedings against at least a dozen banks. It has also appointed temporary administrators for several banks with the aim of introducing better management procedures. Along with stricter prudential requirements and improved regulation, 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.

Despite spending more than most other Central and Eastern European countries on social welfare, the government manages to help relatively few needy Croats. This is because "most social spending is costly and poorly targeted, while relatively well targeted social assistance programs are small," according to the World Bank. In addition, pension expenditures, which make up the largest category of social spending, have actually increased income inequality. One-quarter of the elderly and disabled do not receive a pension, and one-half receive benefits that are not sufficient to lift them above the poverty line. The government's social spending, including administrative costs, was 35 percent of GDP in 2000, according to the World Bank.

In September 2001, Parliament adopted a package of laws trimming 700 million kuna from social welfare benefits. Among other changes, the new laws will reduce some

pensions and disability payments to civilian and military war invalids. Late in 2001, the government was also set to introduce a second round of pension reforms that it hopes will make the system more stable. All Croatian workers under age 40 will be required to pay 5 percent of their gross salaries into a pension fund of their choice. The government plans a third phase of pension reform in the future under which it would match 25 percent of additional voluntary savings.

Changes like these are designed to put in place a more market-based pension system and ultimately replace the current pay-as-you-go scheme. The old system receives only a small percentage of its revenues from the sale of securities, with the balance coming from employers' contributions and other sources, primarily budget financing. Under the Tudjman administration, the fund was often topped off through indirect loans from the central bank.

The government has faced strong opposition to its efforts to modify the pension system, in part because of the way the Tudjman regime used the pension system to garner political support. Pension payments increased to an estimated 14 percent of GDP in 2001 from 10 percent in 1990. This is mainly because the government used pensions to cushion the blow of layoffs and awarded pensions to disabled soldiers and the dependents of soldiers from the 1991–1995 war. Soldiers who were disabled in the war receive pensions that are 3.5 times higher on average than those received by civilians, while the dependents of soldiers killed in the war receive pensions that are 5 times higher than civilian pensions. Yet revenues from contributions cover only around 60 percent of current pension outlays, thus requiring the government to fill the gap from its central budget coffers. The World Bank has suggested that to help address these imbalances, the government improve revenue com-

pliance among farmers and self-employed Croats, index their minimum taxable bases to wage growth, and make changes to the soldiers' pension benefits.

The government is attempting to reduce health care spending with policies like requiring co-payments for some medications and putting hard budget caps on hospitals. However, critics say that an overhaul is needed to wean the system from its reliance on government funding and make it sustainable. In a November 2001 report, for example, the World Bank revealed that Croatia's current system gives health care providers few incentives to cut costs since it pays hospitals on the basis of their cost of providing services and encourages the use of specialists. The agency suggested that the government take measures to shift the use of health services toward primary care from more expensive secondary care, raise co-payments and reduce exemptions, and reduce health insurance payments in areas including sick pay and maternity benefits. Public spending on health is around 7 percent of GDP annually—almost double the European average.

By many measures, Croatia's educational system is functioning poorly. The average Croatian student completes fewer years of education than his counterparts in OECD countries. Only a third of students pursuing higher education get their degrees, and those who do complete their programs take far longer to do so than is necessary. Moreover, the ratio of students to teachers in secondary schools is declining below that found in OECD countries, and many teachers are poorly qualified.

Charles Graybow is a consultant to several organizations on democratization and human rights issues. He is also a former research coordinator of Freedom in the World, Freedom House's annual global survey of political rights and civil liberties.

CZECH REPUBLIC



Polity: Parliamentary democracy

Economy: Mixed capitalist

Population: 10,300,000

GNI per capita at PPP \$ (2000): 13,780

Capital: Prague

Ethnic Groups: Czech (94 percent), Slovak (3 percent), other, including Polish (3 percent)

Size of private sector as % of GDP (mid-2001): 80

The scores and ratings for this country reflect the consensus of Freedom House, its academic advisors, and the author of this report. The opinions expressed in this report are those of the author.

↕↕ and ↗↗ indicate score changes of .25 or more. ↘ and ↗ indicate changes of less than .25.

NATIONS IN TRANSIT SCORES

	1997	1998	1999-2000	2001	2002
Democratization	1.50	1.50	↘↘ 1.75	↘ 1.81	↘↘ 2.13
Rule of Law	na	na	2.75	↘↘ 3.13	3.13
Economic Liberalization	1.88	↘ 2.00	↗ 1.92	↘ 2.00	↘ 2.08

KEY ANNUAL INDICATORS

	1995	1996	1997	1998	1999	2000	2001
GDP per capita (\$)	5,049.4	5,619.6	5,109.4	5,528.7	5,290.5	4,920.0	5,472.8
Real GDP growth (% change)	5.9	4.8	-1.0	-2.2	-0.8	3.1	3.5
Inflation rate	9.1	8.8	8.5	10.7	2.1	3.9	4.9
Exports (\$ millions)	21,463.0	21,691.0	22,777.0	26,351.0	26,265.0	29,052.0	33,000.0
Imports (\$ millions)	25,140.0	27,568.0	27,317.0	28,905.0	28,167.0	32,183.0	38,000.0
Foreign Direct Investment (\$ millions)	2,526.0	1,276.0	1,275.0	3,591.0	6,234.0	4,477.0	5,000.0
Unemployment rate	2.9	3.5	5.2	7.5	9.4	8.8	8.9
Life Expectancy (years)	73.4	73.8	73.9	74.5	74.7	74.8	75.0

INTRODUCTION

Since 1989, the Czech Republic has implemented the framework of a stable democratic society. In particular, the country has a solidly liberal Constitution that provides for a system of democratic institutions. The Charter for Fundamental Rights and Freedoms provides guarantees for basic human rights, in addition to specific political, minority, economic, social, and legal rights. Other attributes of a democracy, including respect for liberal democratic values and the rule of law, are present but still need time to deepen in the conscience of Czech society and in the practice of state institutions. The country has also joined NATO and is well positioned for admission to the European Union, having concluded accession talks on nearly all of the required legislative chapters.

At the same time, one could argue that in some aspects of public life, especially with regard to corruption, the situation has actually deteriorated. In the first few years after the return to democracy, the Czech Republic's elected leaders worked mostly for the broad public benefit and for the reintroduction of the rule of law. In more recent years, however, there has been an increasing perception that there is greater corruption throughout the government.

As evidence, critics would point to recent efforts by the ruling party and its supporters to put election laws in place that might hinder smaller political parties; to limit the executive powers of the President and the independence of the central bank; and to gain influence over the media, especially television broadcasting. Public opinion reflects this broad political development. In 1989, 33.6 percent of all Czechs believed that everything was as it should be in the country; by 1998 the number had declined to 10.9 percent. Likewise, feelings of fear, anxiety, and insecurity affected only 7.8 percent in 1989, but 27.4 percent in 1998. Nevertheless, against questionable efforts like these stands the innate strength of Czech society, culture, traditions, expectations, and active resistance, all of which are aided greatly by the country's proximity to the West and its membership in international institutions.

The main attributes of a market economy have also been put in place over the last decade. Prices and trade are largely free. Most state enterprises have been privatized. And, by and large, the country has recovered from the economic decline of the mid-1990s. This process was aided by strong global growth and the current government's commitment to privatize large state-owned assets and attract massive foreign investments. However, the poor performance of remaining state-owned companies and the lack of transparency in business still need serious attention.

DEMOCRATIZATION

Political Process

1997	1998	1999-2000	2001	2002
1.25	1.25	1.75	1.75	2.00

The Czech Constitution provides for a bicameral, parliamentary system of government. The Chamber of Deputies, Parliament's lower house, holds decisive legislative power. The Senate, Parliament's upper house, must approve constitutional amendments, election laws, and the election of the President, who is chosen by Parliament. The Senate and the president may veto all other legislation and send it back to the Chamber of Deputies for another vote. However, a simple majority of 101 out of 200 deputies suffices for the final approval of a law. Elections to the full Chamber of Deputies occur every four years. Elections for one-third of the Senate take place every two years.

The President, who is restricted to two terms in office, is elected by Parliament for a five-year period. The main presidential powers are the appointment of justices to the Constitutional Court, the seven members of the Council of the Czech National Bank, and, upon the recommendation of Parliament, other high-level public officials such as the members of the Commission for Securities. The President also has the power to pardon indicted or sentenced citizens.

The most recent elections to the Chamber of Deputies took place in 1998. The Czech Social Democratic Party (CSSD) proved victorious with 32.3 percent of the vote (74 seats). The then-ruling Civic Democratic Party (ODS) received only 27.7 percent (63 seats). Three other parties passed the five percent threshold needed to secure seats. These were the Communist Party of Bohemia and Moravia (11 percent, 24 seats), the Christian and Democratic Union-Czechoslovak People's Party (9 percent, 20 seats), and the Freedom Union (8.6 percent, 19 seats).

Although the outcome forced the ODS out of power, it negotiated control of several key government posts in what has been described as the Opposition Treaty. The ODS received top positions in Parliament, including the chairmanship of the Chamber of Deputies, in exchange for supporting the minority CSSD government. The CSSD and the ODS share power more or less equally on various government committees and commissions, as well as on the boards of directors of state companies and institutions. For the benefit of the public, they maintain a rhetorical confrontation, but on key parliamentary votes they work together. This successful power-sharing arrangement has provided the parties a strong motivation to perpetuate the arrangement after the 2002 elections, in which the ODS is currently considered the frontrunner.

The strongest political party in the Czech Republic is arguably the ODS, whose chairman, Vaclav Klaus, is also chairman of the Chamber of Deputies. The ODS has ap-

proximately 20,000 members and maintains a highly centralized structure. In the eyes of some observers, the ODS has largely been a one-man party since its founding in 1991. While it is indeed right of center in much of its positions, the ODS is pragmatic and often supports left of center policies. For election purposes the ODS has typically supported the more conservative principles of limited government, lower taxes, welfare reform, and market economics. But when the party was head of government it resisted some much-needed economic reforms, such as changes to the country's socialist welfare and pension systems.

Since 1998, the ODS has supported the CSSD's minority government. However, Vaclav Klaus has expressed some reservations about Czech membership in the EU—a high priority of the current and previous governments. Some observers believe that this view is designed to attract nationalist voters, who are estimated to account for approximately eight percent of the electorate.

The CSSD has risen in influence under the leadership of Milos Zeman, a charismatic, former academician. Zeman marginalized party leaders who tried to continue the social democratic traditions of the past and then transformed the party into a populist one. Together with its *de facto* coalition partner, the ODS, the CSSD follows more a pragmatic than a principled path. The CSSD proved victorious in the 1998 parliamentary elections thanks to its strong criticism of the ODS' alleged corruption and embezzlement of state property. However, it then formed a partnership with the ODS, divided power with it, and, as a result, failed to fulfill many of its election promises.

At the CSSD's last party congress, Zeman relinquished his chairmanship (as he had pledged after the 1998 elections) to make room for Vladimir Spidla, a new chairman who belongs to the far left wing of the party. Spidla has, however, shown himself to be as pragmatic as his predecessor, and much of his rhetoric has likely been tailored to highlight the differences between the CSSD and its so-called opposition—the ODS. For the 2002 election campaign, Spidla has promised the expansion of welfare, unemployment, and various other benefits. In the event that the CSSD government would again be voted in, it is likely that necessary reforms would again be avoided.

The Communist Party has opposed most democratic reforms, and it still enjoys the support of more than 10 percent of Czech voters. With more than 100,000 members, the Communist Party has by far the most members of all Czech political parties, and it is also the wealthiest. In the 2002 elections, the party is expected to retain 12 to 15 percent of the seats in the Chamber of Deputies.

The Opposition Treaty was dented somewhat by the November 2000 elections in which the ODS, the CSSD, and the Communists lost their Senate majority. Together, they now hold only 40 out of 81 seats, down from 50 before the elections. Instead, a significant number of voters gave their support to candidates representing the Coalition of Four, an alliance of four smaller democratic parties that

took control of 39 seats. This grouping—frequently referred to as the Quad Four—initially consisted of the Christian and Democratic Union-Czechoslovak People's Party (KDU-CSL), the Freedom Union (US), the Civic Democratic Alliance (ODA), and the Democratic Union (DEU). In January 2002, the US and the DEU merged. Voter turnout for the 2000 elections was only 35 percent in the first round and about 15 percent in the second round.

Apart from all of the above-mentioned parties, no other groupings have real prospects of winning seats in the 2002 parliamentary elections. Any new party that might wish to enter the political scene will face difficulties in attracting the public's attention, as the state only provides support to parties that have received three percent of the popular vote in a national election. Specifically, any party that passes this threshold is given 90 Czech crowns (Kc) (\$2.70) per year for every vote received. Parties that surpass the Parliamentary threshold of five percent also receive 900,000 Kc (\$26,780) a year for every seat they hold. Independent candidates receive no state financial support.

Despite his limited executive powers and his failing health, President Vaclav Havel remains engaged in Czech politics and uses his public speeches to express concern about political developments in the country. His second, and final, term will end in January 2003.

In 2001, President Havel successfully challenged a number of laws before the Constitutional Court. In 2000, the ODS and the CSSD proposed, and Parliament approved, amendments to the election law that would have increased the number of election districts from 8 to 35 and raised the threshold for parties, including ones joined in coalitions, to secure seats. Fearing that the new law would lead to the creation of a *de facto* two-party system, President Havel challenged the law before the Constitutional Court, which ruled in his favor early in 2001. In December 2001, the Chamber passed a new amendment to the election law that, among other things, would create 14 election districts and improve voting opportunities for Czech citizens who live abroad. Final passage of the amendments remained unsettled at year's end.

Civil Society

1997	1998	1999-2000	2001	2002
1.50	1.50	1.50	1.50	1.75

The nonprofit, nongovernmental sector in the Czech Republic is lively and fairly professional but under-financed. Some 50,000 such organizations are now registered in the country, the majority of which are involved in local issues, regional development, recreational activities, or sports, or they pursue cultural, ecological, or family interests. Although a few organizations focus on women's issues, their impact on the social and political scene is limited. Only a handful of independent NGOs are active in the public policy arena.

There are three types of NGOs in the country: foundations, civic associations, and publicly beneficial organizations (PBOs). Although around 3,500 foundations are officially registered, their activities do not appear to influence social life. Most foundations do not support their activity from seed money but, rather, raise their funds as do other NGOs.

The most active organizations are civic associations, which register with little difficulty with the Ministry of Interior. The registration of PBOs, on the other hand, can be rather difficult. The commercial departments of the appeals courts are responsible for granting PBOs registration, and there appears to be reluctance on the part of the departments to permit such registrations. For example, the Prague Commercial Court rejected the application to register the Museum of Tomas Garrigue Masaryk, the founding father of Czechoslovakia, as a PBO. This case is well known because of the fact that the Office of President Havel submitted the application. To date, the Court has given no specific reason for its decision beyond stating, in effect, that a museum cannot qualify as a publicly beneficial organization.

The Czech tradition of financial support for nongovernmental activities was interrupted by the long years of Communist rule. As a result, the culture of private giving for such work remains underdeveloped. Moreover, Czech companies may only subtract two percent of their pretax profits from their tax base for charitable donations. Thus, as much as 70 percent of all so-called “nongovernmental” work is actually supported with government money through the Foundation Investment Fund. Most of the remaining money for NGO activities comes from abroad. The income of nonprofit organizations, including fees for services, publications, and the like, is not taxed, so long as it is used for the purposes outlined in the organization’s registration documents.

A debate over the value of voluntary civil society activities is being waged between President Vaclav Havel, a strong supporter and frequent donor of such activities, and Vaclav Klaus, who has suggested that only elected officials are entitled to be active in the public sphere. President Havel, worried about this sentiment, has warned that the June 2002 elections may be decisive with regard to civil society. They will decide, in his opinion, whether the Czech Republic will indeed be an open society in which “all citizens, at various places and in various ways, can contribute to its fate, and thus participate in political life in the broadest sense of the word,” or will “slowly, imperceptibly, but irreversibly, become closed, until the most substantial issues will always be determined only by the same, relatively narrow brotherhood, in whose hands economic, political, and media power will be concentrated.”

In 2000, the Open Society Fund, based in Prague, noted that “[c]itizens in the Czech Republic are becoming less involved in public affairs. Much public disillusionment stems from an agreement between the country’s two major po-

litical parties [CSSD and ODS], excluding nonpartisan civic influence on policymaking and creating a political climate without real opposition to the government.” Although the CSSD government does not appear to have the same view of NGOs as the ODS, it has cut even the meager support that some groups had been receiving under previous governments, insisting that the government is only responsible for publicly beneficial activities. Public support for the country’s various Christian charities has mostly stopped—protests and petitions notwithstanding. For example, support for the Christian Community of the Emmaus Homes, which cares for homeless people and is the only organization in the country that provides residential, post-penitentiary care, has been cut so dramatically that the organization is having difficulty remaining open. Organizations like the ecological group Rainbow and the country’s few public policy groups receive no government support. The media and the public are sympathetic to NGOs and, in this struggle, generally tend to support them.

Churches and their social activity have revived significantly since 1989. However, the results of the 2001 census indicate a sharp decline in the number of people who believe in God, as compared to the 1991 census. In 1991, 39.9 percent of Czechs characterized themselves as atheists, but by 2001 this number had risen to 58 percent. Likewise, the U.S. State Department’s 2001 report on religious freedom in the Czech Republic cites a February 2001 opinion poll which found that “38 percent of respondents claimed to believe in God, while 52 percent identified themselves as atheists. Nearly half of those responding agreed that churches were beneficial to society.”

The largest church in the Czech Republic is the Roman Catholic Church, with 2.7 million adherents. The Evangelical Church of the Czech Brethren has 137,000 followers. The Hussite Church, originally formed in 1918 as the state church of the Czechoslovak Republic, has 95,000 followers (down from over 1.5 million before World War II). Some 20 other small churches are registered in the Czech Republic, all functioning in a benevolent environment and engaging in ecumenical cooperation. All of these churches receive funding from the state, a practice that is likely to provide continued motivation for discussions about the separation of church and state.

A few religious charitable organizations, including Catholic charities, the Salvation Army, and the Christian Association of Emmaus Homes, are active in the country. These groups mainly run shelters for the homeless and receive most of their support from the state. A recently approved law on churches will seriously complicate their charitable work by requiring them to register as publicly beneficial organizations. Church officials have opposed the law on the grounds that the Charter of Fundamental Rights and Basic Freedoms stipulates that “churches and religious communities establish their organs, appoint their clerics, and set up their devotional and other church institutions independently of the state administration.”

There are few independent public policy research institutes owing to a lack of private funding for this kind of work. The government runs several such institutes in order to fill the void and sustain at least a few groups that engage in collaborative efforts with international organizations. However, these institutes serve more to promote government strategies than to generate independent debate or provide critical assessments of public policy. Although interest groups influence some political decision making, the process sometimes lacks transparency.

The Czech Republic's education system is free but still awaits meaningful reform. Of serious concern is the fact that teachers are underpaid at all levels of the system. For example, elementary and secondary school teachers receive a starting monthly salary of 8,000 to 9,000 Kc (\$220–\$270), and the average monthly salary as of December 2001 was 13,500 Kc (\$365). In comparison, the overall average monthly salary in the country is 14,700 Kc (\$400), and the minimum salary is 5,000 Kc (\$135). In addition, professors have steadily left Czech universities since the collapse of communism to take more lucrative positions in the private sector. As a result, some universities have been forced to cancel courses owing to a lack of teachers. According to media reports, for example, the Philosophical Faculty of Charles University in Prague will not teach Czech literature in the coming year for this reason.

Approximately 40 percent of all Czech workers, mainly in large industrial companies, belong to a trade union. Most unions are members of the Czech-Moravian Association of Trade Unions, which is a successor to the Communist-era Revolutionary Trade Union Movement. Czech trade unions typically represent their members well. In 2001, though, the International Confederation of Free Trade Unions criticized the Czech Republic for restricting the rights of public sector workers to engage in collective bargaining and, in some professions, to strike. It also called on the country to improve its record on discrimination against women, Roma, and people with disabilities.

Independent Media

1997	1998	1999-2000	2001	2002
1.25	1.25	1.75	2.00	2.50

With the exception of three public media outlets—Czech Television, Czech Radio, and the Czech Press Agency—all other media in the country are private. Two private television stations reach a nationwide audience, and another one aspires to do so. There are approximately sixty radio stations broadcast and a vast number of privately owned and financially viable print publications. A significant number of radio stations and print media outlets receive foreign financing.

The country's daily newspapers include *Lidové Noviny* (The People's Newspaper), *Mláďa fronta DNES* (Young Front Today), *Právo* (Law), *Zemské Noviny* (Lands News-

paper), and *Slovo* (Word). Of the many weeklies, *Respekt* and *Euro* are the most respected. The private broadcaster TV NOVA, which has until recently attracted the most viewers, is currently undergoing an ownership dispute. The radio stations Frekvence 1 and Evropa 2 are among the most popular private radio stations. Czech Radio Free Europe, which is now largely funded by Czech Radio, broadcasts all-talk programming seven days a week.

With nongovernmental public policy organizations so weak, the independent media provide the most reliable watchdog service in society. A 1997 Law on the Freedom of Information assists them in this effort. However, the law does not specify sanctions for failure to comply with it and allows the government to set arbitrary fees for providing information.

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 states that individuals have “the right to express their views by word, script, print, image, or other means, as well as [to] freely search for, receive, and distribute ideas and information.” Censorship, according to the Charter, is unacceptable. Freedom House's *Annual Survey of Press Freedom* has rated the Czech Republic as “Free” since 1990.

Despite these guarantees, Czech Television has frequently been subject to political influence. In December 2000, for example, the Council for Radio and Television Broadcasting appointed journalist Jiri Hodac as the new director of Czech Television. Numerous employees of Czech TV opposed the appointment, alleging that Hodac had close ties to the ODS. To bring attention to their grievance, the employees went on strike and occupied the network's premises in a sit-in that lasted several weeks. They also broadcast their own programs and cast Hodac's appointment as a politically motivated challenge to media independence. Massive demonstrations then ensued in Prague's Wenceslas Square in support of the protesters.

Although Hodac initially resisted the protest by firing several staffers and blacking out all broadcasts, he soon agreed to resign under governmental pressure. Nevertheless, the strikers refused to stand down until a new interim director fired senior managers who were loyal to Hodac and until Parliament passed a law intended to limit political influence over broadcasting. Both demands were met, but nearly a year later opinions were mixed regarding the effectiveness of the new legislation in increasing the independence of the public broadcaster. In November 2001, the Council of Czech TV appointed Jiri Balvin as permanent director; he had been serving as interim director since February. Although Svatopluk Karasek, a member of the council, resigned his position in protest to the appointment, ten of the group's fifteen members supported Balvin. A number of political leaders, including the chairmen of the ODS, the CSSD, and the Quad Four, also supported Balvin's appointment.

Political and economic influence on private broadcasting has also been an area of concern. For example, the

private broadcaster TV NOVA has openly supported the ODS and Vaclav Klaus. TV NOVA was originally financed by the American company CME Enterprises, but in 1999, according to news reports, Zelezny forced CME out of the company and relaunched the station. CME Enterprises responded by filing suits both against Zelezny and the Czech Republic. Although CME has lost a number of court cases inside the country, the Paris-based International Court of Arbitration ruled in 2001 that Zelezny must pay CME \$27.1 million for failure to honor a noncompetition agreement. In response to CME's suit against the Czech Republic for failure to protect its investment in the country, the Court ordered the Czech Republic to pay damages. Although the amount of these damages has not yet been decided, CME has demanded some 23 billion Kc (more than \$600 million).

Funding for public media has caused worries as well. In the government's 2002 budget, funding for Czech TV is short 50 million Kc (\$1.49 million) for wages—an amount that will not be necessary, according to the station's management, once a planned reorganization is completed and numerous employees let go. There is some speculation that one of Czech TV's two channels is being prepared for privatization. The situation at Czech Radio appears to be worse, with several programs set for cancellation, including the prime-time commentary program "Mikroforum." The programs of the cultural station "Vltava" are being cut even more severely.

There is some unease about the concentration of print media ownership in two or three large companies. Although these companies appear to have no political agenda, some observers have argued that their efforts to secure a profit have kept some papers seriously understaffed. As a result, investigative journalism in the Czech Republic is limited to a few individuals, mostly working for the two independent weeklies *Respekt* and *Euro*.

In 2000, two journalists were indicted by the government for refusing to disclose their sources for a report on a smear campaign against the vice chairwoman of the CSSD. The report had alleged that an employee of the Office of the Prime Minister had ordered the campaign. Czech courts upheld the right of the journalists to protect their sources, and President Havel offered them a pardon. It was later revealed that the story was indeed true.

The Center for Democracy and Technology has reported that the Internet in the Czech Republic is "now considered a vital source of information for many Czech NGOs and businesses." However, it notes that "[p]rice, particularly the per-minute local connection fee, is a serious impediment to widespread access." According to the International Telecommunications Union, there were 1.4 million Internet users in the Czech Republic in 2001, or 1,362 users per 10,000 inhabitants. There were also 209.78 Internet hosts per 10,000 inhabitants (or a total of 215,525), and 12 personal computers per 100 inhabitants.

Governance and Public Administration

1997	1998	1999-2000	2001	2002
2.00	2.00	2.00	2.00	2.25

The Czech Constitution, which was adopted in December 1992, establishes a relatively good framework for checks and balances among the legislative, executive, and judicial branches of government. The Chamber of Deputies is the effective rule-making institution, but individual members of the Chamber, the Senate, and the government may propose laws. However, since budgetary constraints often limit support staff and hinder the preparation of legislation proposals, most laws are prepared by the government and submitted to Parliament for consideration. Despite the passage of the Law on Access to Public Information, these proposals are made available to the public only upon their submission to Parliament. Few become the subject of public debate, because the institutions and customs of civil society and the press have not developed sufficiently to address them. Even when they do, Parliament rarely pays much attention, as there is little public pressure for accountability.

The instrument of the Parliamentary Investigative Committee has been introduced in the Czech Parliament but has not yet proven very effective. For example, when the Committee recently investigated the collapse of IPB, the largest Czech bank, its target appeared to be then-Minister of Finance Pavel Mertlik for his role in the manner in which the bank was sold. The question of who caused the bank's failure and the resulting loss to Czech taxpayers of more than 100 billion Kc (\$2.8 billion) never became the subject of the Committee's investigation.

In 2000, under pressure from the EU, the Czech Republic established eight self-governing regions and held elections for their new administrations. Some observers have argued that the elections, which were governed by a new law that some say favors larger parties, delivered a narrow victory to the Coalition of Four. Although the regions have few powers at the moment, their influence is expected to grow as government authority is further decentralized. Among their new competencies are education, regional development, social affairs, transport, culture, the environment, and health. However, according to the European Commission's (EC) annual report on Czech accession to the EU, "the financial arrangements [related to these competencies] remains to be settled." The report also notes that "several important laws entered into force" after the regional elections, including the Acts on Regions, District Offices, and Budgetary Rules.

Formally, the new regional governments will begin functioning in 2002 and will have responsibility for elementary and secondary education, health care, and regional transportation. Under current law, the regions have no independent revenue sources. Instead, all of their funding comes from the central budget. Although the central

ministries are reluctant to part with their authority over these funds, the situation is likely to change in the future.

Local governments have been in place since 1990 and appear to have sufficient authority to serve their communities. Some 70 percent of town and village council representatives were elected as independents. Although the Chamber of Deputies approved legislation in 2000 that would have excluded independent candidates from local elections, the Senate rejected the law by a margin of one vote. The ODS, which had proposed legislation, did succeed in passing controversial legislation that prevented independent candidates from running in the 2000 regional elections.

The Czech civil service is still in need of serious reform. Although Parliament completed its first reading of a new Act on the Civil Service in May 2001, the proposed law has yet to reach final passage. According to the EC's report on Czech accession, the absence of this law is "impacting negatively on the effectiveness of the public administration, in particular by encouraging short-term political appointments and by preventing the establishment of attractive career prospects." However, the EC's report also notes that the Czech government has taken "some positive steps." Among these are the opening of a Department for the Civil Service within the Office of the Government and the establishment of the Institute of State Administration, "which will be responsible for organizing training for all state civil servants."

RULE OF LAW

Constitutional, Legislative, and Judicial Framework

1997	1998	1999-2000	2001	2002
1.50	1.50	2.25	2.50	2.50

The Constitution provides for the independence of the Czech National Bank, the Supreme Audit Office, and the Constitutional Court. These safeguards have played a beneficial role in recent years, and the Constitutional Court in particular has played a valuable part in providing independent reviews of legislation. During the period covered by this report, for example, the Court struck down key elements of a new election law that, in its view, would have given significant advantage to larger political parties and made it difficult for smaller parties to gain representation in Parliament. Also in 2001, the Court ruled against measures it believed would limit the independence of the Czech National Bank and reduce the president's powers. Specifically, the Court ruled against constitutional changes that would have placed further limits on the executive powers of the president, including his power to appoint Constitutional Court judges and the top management of the Czech National Bank. Although the CSSD-ODS alliance had managed to push these changes through Parliament, President Havel challenged them and won.

The Czech judiciary comprises district, regional, and higher courts, plus the Supreme Court. Approximately 70 percent of the country's judges have been appointed since 1989. The Ministry of Justice nominates judges, and the president appoints them essentially for life. In fact, though, a judge's tenure is only until the age of 65, at which point the Ministry of Justice has the discretionary power to dismiss them.

Although the judicial system is largely independent, it is still in need of serious reform. In its annual reports on Czech accession to the EU, the EC has consistently criticized the Czech judiciary for its inefficiency and advocated a variety of reforms. In its 2001 report, the EC identified the following "key areas for further improvement": the pace of court proceedings, the enforcement of court decisions, the training of judges and prosecutors, and the improvement of administrative support for judges and courts.

Likewise, in 2001, the Open Society Institute's EU Accession Monitoring Program released a study of judicial independence in which it notes that despite "considerable progress in reforming its court system and guaranteeing the independence of the judiciary ... a number of important problems still need to be addressed by the ongoing reform process." These include the Ministry of Justice's influence over judicial administration and judges' careers, the need for sufficient funding for courts, and the persistence of generally negative attitudes toward the judiciary. According to the report, "Underlying these particular problems are a lack of political will to complete the process of reform and a pervasive public mistrust of the judiciary."

In 2001, Parliament approved amendments to the criminal proceedings code. Changes to the code include distinguishing the roles of investigators and prosecutors and accelerating the proceedings for lesser crimes. In addition, amendments to the civil proceedings code and the commercial code that are aimed at simplifying and accelerating proceedings also took effect. Although these are important reform measures, there has been some concern that they will place further burdens on an already inefficient system. Some observers have expressed concern, for example, that under the new civil code, defense attorneys will be able to prolong litigation through its manner of presenting evidence. Likewise, under the new criminal code, the burden of proof in the pretrial phase will now fall on the prosecution, which is already underfinanced and understaffed. The backlog of cases, which is already formidable in the civil and commercial sectors, thus could then extend to criminal courts and make the judicial system appear more paralyzed in its work.

Another area that awaits reform is the Communist-era system of selecting new judges. Under this system, applicants for judgeships are selected from newly graduated law students, who first serve for three years as court apprentices and are then appointed as judges without fulfilling any other requirements. In December 2001, the government prepared, and Parliament approved, the new Law on Courts and Judges, which is intended to improve judicial independence. However, the law has come under criticism by some judges for

instituting government oversight over judges. Specifically, it calls for additional education for judges and the screening of judges by the Ministry of Justice. The law gives the justice minister the authority to single out judges for review at his discretion. Many judges oppose the law as intruding on, rather than increasing, their independence.

Approximately 90 percent of all state prosecutors began their service prior to 1989 and appear open to improper influence by defense attorneys. As a result, according to Supreme State Prosecutor Marie Bencsova, about 70 percent of all cases submitted by investigators for prosecution are set aside by prosecutors. In particular, cases involving the alleged criminal activities of the post-Communists often fail to appear before a court—not to mention the crimes of communism. Although many criminal cases are not even investigated, the situation could improve under the country's recently amended criminal code. Also of concern is the fact that under the current government the Ministry of Interior has replaced practically all police and security employees who entered service after 1989 with individuals whose careers date to the Communist era. These so-called “experts” include, among others, former Communist guards of political prisoners.

President Havel has spoken out against the pressure exerted on police units fighting organized crime, corruption, and serious economic criminality. He has also publicly stated that he suspects that “someone is successfully attempting to destabilize successful police units.” In addition, President Havel has noted his concern with the “embarrassing inability of the state to resolve [these] cases and uncover the culprit, all of which has a detrimental impact on the apparent waning of citizens' confidence in the democratic state, in the democratic system and its institutions.”

The most important human rights problem in the Czech Republic involves the treatment of the country's Roma minority, which makes up approximately three percent of the Czech population. Although the majority of the population is tolerant, some groups—especially skinheads—target Romas with hateful acts. Investigations of these crimes usually lead nowhere, and many Romas live in a state of permanent insecurity. Although the Roma community continues to face discrimination in education, housing, and employment, some positive steps have been taken in the country. In 2001, for example, the Law on the Rights of National Minorities took effect. According to the EC, this law “strengthens the legislative framework for the protection of minorities.” It also contains provisions on the status of the Council for National Minorities, the purpose of which is “to ensure that minorities have access to the decision-making process as well as the opportunity to make proposals.”

A negative phenomenon that deserves some mention is the growth of the skinhead movement. According to a police report on extremism, the number of skinheads grew by 25 percent in 2000, reaching a total of around 6,200. The number of criminal acts by the skinheads, mostly of a racist nature, also grew in 2000 and totaled 364. In July 2001, the minister of interior pledged to wage a war against this kind of extremism.

Corruption

1999-2000	2001	2002
3.25	3.75	3.75

Corruption, building to a large extent on practices in the Communist period, permeates Czech society. Sociologists speak politely about the “temporary separation of the market from law, and procrastination of the state in forming the institutions of market society.” According to some international assessments, however, the country is now one of the more corrupt countries in Europe. For example, in its Corruption Perceptions Index of 2001, Transparency International ranked the Czech Republic 47th out of 91 countries surveyed and gave it a score of 3.9 (with 0 representing the highest level of perceived corruption and 10 representing the lowest). Bulgaria and Croatia received the same ranking. The only European countries to score worse were Latvia, Moldova, Romania, Russia, Slovakia, Turkey, and Ukraine.

In addition, in its annual report on Czech accession to the EU, the EC was critical of corruption in the Czech Republic, noting that “there continues to be a need for clear political leadership and setting of example from all political figures in order to create a more favorable environment for, and to mobilize a skeptical public opinion behind, anticorruption measures.” Of particular concern in the Czech Republic is a lack of transparency in government procurement. Put simply, receiving a government contract is considered impossible without paying a bribe or having political connections. The standard rate of the bribe is reportedly 10 percent of the value of the contract, and the amount is often passed through legal channels in the form of fees to mediating companies that allegedly have ties to government officials. On June 8, 2001, the Supreme Audit Office announced that, according to its findings, the government violates existing laws in every other government procurement.

In the Czech Republic's initial transition period, the privatization of state-owned enterprises and assets also lacked transparency, and the present government won the 1998 election partly on promises to bring justice to these matters and to “put the tunnellers and fraudsters into jail.” That year, the government launched a “Clean Hands” initiative, but its goals remain largely unfulfilled today. Likewise, although the Czech Republic has signed the relevant multilateral anticorruption conventions, it has not effectively implemented them. Regular police investigations of corruption led to a few convictions in 2001, but most cases never made it to court. For example, massive bank losses in the early stages of privatization have largely been swept under the carpet and are being paid for by taxpayers. It is worth noting, though, that in October 2001 the Czech Republic hosted the Tenth International Anticorruption Conference. The Czech chapter of Transparency International and the Czech government hosted the conference, which, according to Transparency, “was the first of its kind in Central and Eastern Europe.” Politicians, government officials, NGOs,

international development agencies, and private sector businesses were in attendance.

According to a survey conducted in May 2001 by the German polling company GfK Group, 39 percent of the population believes that the government most responsible for the spread of corruption and bribery in the Czech Republic is that of Milos Zeman; 29 percent pointed to the earlier governments of Vaclav Klaus; 19 percent blamed the previous Communist regime; and only 5 percent stated that government is not responsible for corruption and bribery. Nearly three-quarters of all Czechs believe themselves to be the victims of corruption caused by the country's new rich and powerful.

Despite such findings, there are practically no anticorruption measures in place, and no codes of conduct exist for public officials. When the weekly newspaper *Respekt* observed in 2001 that the Zeman government had failed to keep its election promise of combating corruption, the prime minister called the paper the "garbage can of Czech journalism" and threatened to "ask for such financial compensation that *Respekt* will finally be smashed." The conflict led to a thorough recapitulation of proven or suspected acts of corruption by the government ministers in the media, and the prime minister's threat elicited international indignation. One observer of the Czech Republic noted that "the heavy-handed attack of Prague against the press is an offense against Western values."

ECONOMIC LIBERALIZATION & SOCIAL INDICATORS

Privatization				
1997	1998	1999-2000	2001	2002
2.00	2.00	1.75	1.75	1.75
Macroeconomic Policy				
1998	1999-2000	2001	2002	
2.00	2.00	2.25	2.25	
Microeconomic Policy				
1998	1999-2000	2001	2002	
2.00	2.00	2.00	2.25	

Over the last decade, the Czech Republic has been a leader in economic reform in post-Communist Central and Eastern Europe. The country undertook massive reforms in the early 1990s and again in the late 1990s following the 1997 currency crisis. As the EBRD has noted, the Czech Republic "has made considerable progress in transition with 80 percent of economic activity in private hands, a large degree of price liberalization, an open foreign trade re-

gime and no major constraints to foreign investment."

More recently, the Czech economy has climbed out of recession. This is due both to global economic trends and to the current government's policies, namely its commitment to privatizing large state-owned banks and to encouraging a large inflow of foreign investment (averaging \$5 billion a year since 1999). In 2001, GDP was expected to grow around three percent, and inflation remained low at 4.1 percent. However, by the end of the year unemployment had returned to an historic high of 9.4 percent.

Despite this generally positive evaluation, much remains to be done in the Czech economy. The EBRD, for example, has suggested that the Czech Republic needs a "new wave" of reform. This wave would include jumpstarting a stalled process of restructuring industrial enterprises, completing the privatization program, reducing fiscal deficits so that "necessary investments in infrastructure" can be made, improving "municipal infrastructure...and transport links," and developing a financial sector that provides much-needed services to companies.

Some areas of economic reform still require attention, especially the legal and regulatory environment in which businesses operate. Bankruptcy laws, for example, have been improved slightly but remain largely ineffective. In addition, the regulation of capital markets remains unsatisfactory, and sufficient investment capital is generally lacking. There are also sizable backlogs of cases in the commercial courts, and the already high rates of taxation have been rising rather than falling. Finally, government support for the development of small and medium enterprise is still weak, and the welfare system continues to serve as an excuse for many individuals to avoid finding work.

Government balances are also an area of concern. The current government has run increasingly sizable budget deficits—now around 10 percent of GDP—in part to compensate for the debts incurred by state-owned banks under the previous administration. Although overall government indebtedness is still below the EU's limit of 60 percent of GDP, its growth is worrisome in the absence of any plans to reduce mandatory government expenses.

Although the Czech Republic liberated most prices in 1991, energy prices are still regulated. Electricity prices paid by Czech consumers are now substantially higher than the price the Czech electric power monopoly, CEZ, receives for its surplus electricity in European markets. Gas prices are also higher than they would be in a free market.

In addition, residential rents have not been fully deregulated. Persons who have not moved from their apartments since 1989 pay rents that are up to ten times lower than currently negotiated rents. The experience from East Germany has showed that rent deregulation can be beneficial by opening housing markets and allowing housing investment to develop. The country's post-Communist governments have feared that deregulation of this market would lead to social disturbances.

The Czech Republic's pension system has two components: a pay-as-you-go system that is funded by a 26-percent

payroll tax and a supplemental, voluntary pension fund. According to the EBRD, the system's deficit totals 20 billion Kc (\$600 million), or approximately 1 percent of GDP. More than 2 million Czechs, or around 40 percent of the working age population, contribute to private pension plans. The current government remains committed to a social welfare policy under which the government is obliged to care for individuals' needs. In July 2001, an amendment to the Pension Insurance Act went into effect. According to the EC, the act "tightens conditions for early retirement and provides incentives for later retirement."

According to the World Bank, life expectancy in 2000 was 74 years. Infant mortality was 6 per 1,000 live births. The 2001 United Nations *Human Development Report* notes that the poorest ten percent earn 4.3 percent of national income, while the richest ten percent earn 22.4 per-

cent. However, average wages have grown steadily since 1989, reaching an average 14,700 Kc per month (\$430). Changes to the labor code took effect in 2001, including stronger language on the protection of individuals from discrimination in employment.

The management and funding of the country's education system have been neglected since 1989. Although the 2001 *Human Development Report* notes that education funding accounts for 13.6 percent of total government expenditures, problems such as low salaries are driving teachers and professors to employment in other sectors. By European standards, salaries are also low in the health care sector.

Petr Vancura is the director of the Prague Institute for National Security.

ESTONIA



Polity: Parliamentary democracy

Economy: Mixed capitalist

Population: 1,400,000

GNI per capita at PPP \$ (2000): 9,340

Capital: Tallinn

Ethnic Groups: Estonian (65 percent), Russian (28 percent), other (7 percent)

Size of private sector as % of GDP (mid-2001): 75

The scores and ratings for this country reflect the consensus of Freedom House, its academic advisors, and the author of this report. The opinions expressed in this report are those of the author.

↘↘ and ↗↗ indicate score changes of .25 or more. ↘ and ↗ indicate changes of less than .25.

NATIONS IN TRANSIT SCORES

	1997	1998	1999-2000	2001	2002
Democratization	2.10	↗ 2.05	↘ 2.06	↗ 2.00	↗ 1.94
Rule of Law	na	na	2.63	↗↗ 2.38	↗↗ 2.13
Economic Liberalization	2.13	↗ 2.00	↗ 1.92	1.92	1.92

KEY ANNUAL INDICATORS

	1995	1996	1997	1998	1999	2000	2001
GDP per capita (\$)	2,416.5	2,980.2	3,173.6	3,617.0	3,609.1	3,508.5	3,785.6
Real GDP growth (% change)	4.6	4.0	10.4	5.0	-0.7	6.9	4.5
Inflation rate	29.0	23.1	11.2	8.2	3.3	4.0	6.1
Exports (\$ millions)	1,697.0	1,813.0	2,294.0	2,690.0	2,515.0	3,289.0	3,782.0
Imports (\$ millions)	2,363.0	2,832.0	3,419.0	3,806.0	3,337.0	4,077.0	4,689.0
Foreign Direct Investment (\$ millions)	199.0	111.0	130.0	574.0	222.0	324.0	350.0
Unemployment rate	9.8	10.0	9.7	9.9	12.4	13.8	12.7
Life Expectancy (years)	67.8	69.8	70.2	69.8	70.6	70.6	71.0

INTRODUCTION

Since the early years of post-Soviet transition, Estonia has been a regional front-runner in consolidating a democratic system of government and a pro-Western market economy. The country's political system has been remarkably stable during the last decade, despite several changes of government that sometimes occurred in the midst of well-publicized scandals. Today, Estonia can attribute much of its stability to the fact that successive governments have been in agreement on significant broad policy questions, even if they have disagreed on specific issues.

This consensus has allowed Estonia to implement some of the most extensive political and economic reforms in the former Soviet Union. For example, most of the country's leaders have supported the ongoing drive to European Union and NATO membership, which requires significant legislative changes to bring Estonian law into harmony with EU and NATO standards. In relation to many other countries in the region, the country's economic growth over the last 10 years has also contributed to overall political stability. Finally, Estonia's leaders have been able to draw upon the political and economic successes of the country's brief interwar period of independence, a time that is still within living memory of many older Estonians, as a model for current and future policy decisions.

For the last 10 years, Estonia has enjoyed free and fair parliamentary and municipal elections, and the government has respected basic freedoms, including freedom of the press, religion, and the judiciary. Despite some problems with corruption, predominantly at the local governmental level, international corruption-ranking organizations have rated Estonia as the least corrupt country in the former Soviet Union and Eastern Europe. The status of the large non-citizen, mostly ethnic Russian, population remains a source of tension between Estonia and Russia. However, various legislative and policy initiatives do 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. Since regaining independence, Estonia has privatized most state-owned enterprises, enacted very liberal trade policies, welcomed foreign investment, and pursued generally prudent monetary and budgetary policies. Nevertheless, the country still struggles with a large current account deficit, high unemployment, and relatively slow progress in achieving social sector reforms. The country's rural population, the elderly, and others who live on fixed incomes have been among those hardest hit by the transition process.

The year 2001 witnessed some surprising changes in Estonia's political leadership. First, a former Soviet leader in Estonia assumed the largely ceremonial role of president in September. Three months later, a longtime opposition leader was named mayor of the capital city, Tallinn, and the

prime minister announced that he would step down in early 2002. Despite these changes, entrance into the EU and other Western institutions remained a cornerstone of Estonia's economic and foreign policy, and the necessity of meeting often strict EU membership criteria continued to drive much of the country's reform efforts. The economy continued to recover from the recession caused by the August 1998 Russian financial crisis, though at a somewhat decelerated rate. The last phase of privatization, which involves the long-delayed sale of the nation's railroad, moved forward slowly amid political and financial controversies.

DEMOCRATIZATION

Political Process

1997	1998	1999-2000	2001	2002
2.00	1.75	1.75	1.75	1.75

Throughout the last decade, Estonia's political system has remained largely stable. Elections have been conducted both freely and fairly, and successive governments have pursued pro-market and democratic reform policies along essentially the same lines. The country has also remained stable despite several collapses of national governments that have been linked to scandals involving state officials and to unpopular or failed privatization programs. Estonia's independent media have been quick to publicize such negative developments, which have led to growing popular disenchantment with many of the country's political leaders.

This disillusionment, as well as continuing economic difficulties across much of the country, contributed to the victory of Arnold Ruutel, the former chairman of Estonia's Supreme Soviet, in the September 2001 presidential election. While Ruutel's win surprised some in this steadfastly pro-Western country, others saw it as an understandable reaction to the often painful transition process of the last decade. At year's end, Prime Minister Mart Laar announced that he would resign in early 2002 because of growing infighting among members of the national ruling coalition.

In the wake of the restoration of Estonia's independence, the public's desire to break with the Soviet past led to the victory of the Western-oriented, center-right Pro Patria Union in the September 1992 parliamentary elections. Lennart Meri, a Soviet-era dissident and foreign minister in postindependence Estonia, was elected president the same month by direct vote (the procedure subsequently reverted to the election of a president by Parliament). 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.

Estonia's second parliamentary vote, held in March 1995, marked a political shift in the legislature, as the cen-

ter-left Coalition Party/Rural Union alliance secured the largest number of votes. 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 but promised to continue the previous government's reform policies.

For the succeeding 3½ years, the Estonian government was led by fragile minority coalitions and left-right partnerships. Although two governments would collapse in the wake of political scandals—one involving illegal wiretapping and another involving luxury apartments that were obtained illegally during the privatization process—the political system remained stable and reforms continued, if not always at the desired rate.

The 1999 parliamentary elections resulted in the formation of a majority government—one with greater prospects for longevity—by a center-right coalition. Although the left-wing Center Party received the most votes of any single party, the center-right Reform Party and Pro Patria, along with the somewhat more left-leaning Moderates, put aside enough of their differences to form a majority coalition. The three parties, which together captured 53 seats in the 101-seat legislature, evenly divided the 15 cabinet seats among them. The new leadership of Prime Minister and Pro Patria member Mart Laar, who had been the premier earlier in the decade, used its majority in Parliament to pass various legislative measures, including emergency spending cuts and radical tax code changes that were part of the coalition's broader economic liberalization program.

In contrast with the government's progress on the legislative front in 1999 and 2000, the Estonian political scene was rocked in 2001 by a number of scandals involving high-level officials. In February, the newspaper of the opposition Center Party published a bizarre story that accused Prime Minister Laar of having fired at a photograph of his long-standing political rival, Center Party leader Edgar Savisaar, at a shooting range in May 1999. When an investigation revealed that Laar had participated in the shooting, some opposition parties and major national newspapers called on the premier to step down. Although Laar initially claimed that he could not remember any details of the episode, he later admitted that he probably had been involved and that he regretted his actions. However, he refused calls to resign. According to a March public opinion poll, 46 percent of Estonians disapproved of his decision.

In addition to Laar, other senior government figures faced scandal in 2001 in connection with the planned privatization of the country's national railway, Eesti Raudtee. Media scrutiny revealed that a convicted felon, Italian-born Antonio Angotti, was among the managers of the international investment group that had been awarded purchase of the railway and that President Meri's national security adviser, Eerik Kross, had assisted Angotti

in entering the country. Kross resigned his position in April. Transport and Communications Minister Toivo Jurgenson and Economy Minister Mihkel Parnoja also saw their reputations and popularity suffer in connection with the railway scandal. Parnoja's public standing had already been harmed when the earlier privatization of Estonian Energy had led to a rise in electricity prices.

The same month, Prime Minister Laar survived a no-confidence vote initiated by the Center Party, the largest opposition party in Estonia, which accused the government of lack of transparency in Eesti Raudtee's privatization proceedings, as well as of neglect of rural and regional policy and growing unemployment. As a result of these revelations and scandals, public opinion polls indicated that confidence in the government was only 28 percent, the lowest since the three coalition partners came to power after the March 1999 elections. Support for Laar was registered at just 22 percent, while Jurgenson and Parnoja were ranked as the country's least popular state ministers. Nevertheless, Laar resisted pressure to reshuffle his cabinet, and both Jurgenson and Parnoja kept their positions. Months later, Parnoja announced his resignation, saying that negative public opinion and media reports had forced him to step down.

Popular disenchantment with the government, coupled with growing economic hardships in the countryside and the failure of the three-party ruling coalition to rally behind a single candidate, led to the victory of former Soviet Estonian leader Arnold Ruutel in the September 2001 presidential election. Early predictions had projected a win either for parliamentary Speaker and Reform Party member Toomas Savi or for Professor Peeter Tulviste of Pro Patria. However, Ruutel surprised many poll watchers with his successful bid for the presidency after having lost the previous two presidential elections to Lennart Meri, who was barred by the Constitution from seeking a third consecutive term.

In three rounds of parliamentary voting that took place over August 27 and 28, no candidate received the required two-thirds majority. As a result, the election was moved to a vote by the 367-member electoral college of parliamentary members and 266 local government representatives, in which a candidate needs only a simple majority to win. During the first ballot on September 21, Ruutel, the honorary chairman of the opposition People's Union, received 114 votes, followed by Savi with 90, Tulviste with 89, and Peeter Kreitzberg of the Center Party with 72. When the top two contenders faced off in the second and final round of voting, Ruutel defeated Savi by a vote of 186–155 (with 25 unmarked or spoiled ballots). Ruutel enjoyed strong support from local officials in rural areas that have suffered in Estonia's ambitious drive for market reforms. Although Ruutel affirmed that the country's foreign policy priorities of EU and NATO membership should not change, he stressed that reducing unemployment and improving opportunities for education would be among his main goals.

However, any changes in government policy are likely to be limited because the president's post is largely ceremonial.

On December 19, shortly after Parliament adopted the 2002 national budget, Prime Minister Laar announced that he would resign the following month because of increased infighting within the national ruling coalition of Pro Patria, the Reform Party, and the Moderates. His decision followed on the heels of the collapse of the same three-member coalition in the Tallinn City Council less than a week earlier when the Reform Party withdrew its support and announced that it would form a coalition with the opposition Center Party. Some analysts maintained that Laar's decision was a tactical move to try to salvage Pro Patria's declining popularity by moving it into the political opposition. Nevertheless, Laar's government will still enjoy the distinction of having survived longer than any other since Estonia declared independence.

The various political scandals and frequent changes of government during the last 10 years have contributed to the public's general lack of interest in participating in the country's political process. After voter turnout at the national level increased slightly from 67 percent during the 1992 parliamentary poll to approximately 70 percent in 1995, it declined more sharply to 57 percent in 1999. Among the reasons cited for the decline were confusion over the various candidates and parties, many of which espoused similar platforms, and a perceived inability to influence the political system through voting.

In local elections, voter turnout remained steady, though below figures at the national level. Approximately 52 percent of eligible voters, including noncitizen permanent residents, took part in the 1993 and 1996 elections. In the 1999 local elections, turnout dropped to 49.4 percent. Among citizens, turnout was 50.9 percent; noncitizen participation was only 43 percent.

Voter apathy has also been expressed in the low levels of party membership in Estonia. According to a survey conducted by the domestic Saar polling agency in 1997, only 2 percent of ethnic Estonians and 1 percent of nonethnic Estonians stated that they had joined a political party. Figures from 1998 indicated that women comprised nearly half of all party members. A February 2001 public opinion poll revealed that only 39 percent of respondents had a definite party preference and that popular support for all parties had declined during the previous year.

In an attempt to gain wider public support, many political parties have merged during the last decade. Between mid-1998 and mid-2000 alone, the number of political parties registered in Estonia declined by roughly half, from 28 to 13. The parliamentary electoral law also encourages the formation of larger, and therefore fewer, political parties by establishing a 5 percent threshold that parties must meet in order to enter Parliament. Just two months before the registration deadline for the March 1999 parliamentary elections, Parliament approved an amendment to the Law on Parties that raised from 200 to 1,000 the num-

ber of members that a party must have in order to register and run in an election. Some smaller parties raised concerns regarding the late introduction of these changes and claimed that the move was prejudicial against them.

Despite the continuing decrease in the number of parties in Estonia, the country's electoral system remains multiparty based at all levels of government. Seven electoral coalitions and 9 parties competed in the 1995 national legislative elections, and 12 parties took part in the 1999 poll. In September 1998, 13 political parties were represented in Parliament. After the 1999 poll, there were only 7, due largely to mergers of smaller parties. Nineteen parties participated in the 1996 local elections; the number decreased slightly to 14 in 1999.

Although the Constitution stipulates that only citizens of Estonia may be members of political parties, non-citizens, the majority of whom are Russian-speaking nonethnic 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. Other parties maintain that they already represent the interests of different ethnic groups throughout the country. Of the eight parties represented in Parliament after the March 1999 elections, only one, the Estonian United People's Party, can be considered a predominantly Russian party. The Unity in Estonia Party, which regards itself as politically center-right, was officially registered in October 2001. Although two-thirds of its members are nonethnic Estonians, the party's leadership rejects claims that it is solely a "Russian" party.

Questions regarding the participation of Russian speakers in the country's political life were highlighted in December 1998, when Parliament adopted changes to the country's laws on national and local elections. Under the amended law, candidates must possess sufficient Estonian language skills to participate in their respective assembly's work and understand legal acts. The amendments, which took effect in May 1999, did not affect candidates in the March 1999 legislative elections.

The Organization for Security and Cooperation in Europe criticized the amendments as incompatible with Estonia's Constitution and international human rights standards. The commissioner of the Council of Baltic Sea States also expressed concern that they would restrict a citizen's right to run for office and the right of the electorate to vote for the candidates of their choice. On November 21, 2001, in a reversal of policy, Parliament voted to abolish the Estonian-language requirement—a decision that helped convince the OSCE to end its 10-year mission in Estonia on December 31. At the same time, though, Parliament adopted two laws, on November 20 and December 4, respectively, making Estonian the official working language of Parliament and local councils. Reportedly, it did so to balance the law abolishing the Estonian-language requirement for candidates in national and municipal elections.

Civil Society

1997	1998	1999-2000	2001	2002
2.25	2.25	2.50	2.25	2.00

During the decade since the restoration of independence, Estonia's NGO sector has undergone significant and often rapid changes. Popular mass movements in the late 1980s helped set the tone for the nation's emerging political parties and eventually gave way to many smaller, more specialized nonprofit groups that engaged in various types of activities. Nevertheless, the legacy of the Soviet era and ongoing economic difficulties throughout much of the country continue to impede the development of civil society. Many NGOs face such challenges as insufficient management skills, financial constraints, and inadequate cooperation with the government sector and the general public. In response, local and international groups have taken steps to address some of these problems by organizing training programs, conducting research into the state of the country's nonprofit sector, and providing opportunities for greater information exchange.

The first several years after the disintegration of the Soviet Union witnessed a rapid growth in Estonia's nonprofit sector, with the establishment of hundreds of new NGOs and the renewal of some voluntary organizations that had been active before 1940. By 2001, the Central Commercial Registry listed some 14,000 nonprofit associations and foundations. More than half of these groups are housing and real estate associations; the remainder are largely sports clubs, cultural associations, professional and trade unions, hobby organizations, and religious-based groups. Smaller numbers of NGOs are involved in charity work or engaged in issues like education, health, politics, and the environment. Women's issues are represented by such diverse organizations as Estonian Women in Film, the Estonian Women's Studies and Resource Center, and the Estonian Environmental Women's Union. Despite the remarkably large number of officially registered nonprofit organizations, most are either small in size or largely inactive.

After nearly half a century of Soviet rule in Estonia, organized religion holds a less prominent role in society than during the interwar years of independence. Although church attendance enjoyed an initial increase during the independence movement of the early 1990s, the number of churchgoers has decreased significantly over the last several years. Most Estonian citizens are nominally Lutheran. There is also a large Christian Orthodox community that mainly comprises the country's ethnic Russian population. Baptists, Methodists, Roman Catholics, and other Christian sects, as well as Jews, Muslims, and Buddhists, represent a smaller segment of the religious community. A number of religious groups are engaged in local charity work. The Agape Center, an initiative of the Methodist congregation of the city of Parnu, and the Tallinn Christian Care Center

operate assistance programs that include educational outreach, clothing donations, and soup kitchens.

Popular participation in NGOs remains constrained in part because the existence of a truly independent third sector—as opposed to the enforced voluntary activities of the Soviet period—is still a relatively new phenomenon. Other factors include larger economic concerns, which limit the ability of much of the population to engage in charitable activities, and a belief that civic initiatives will not solve the country's problems. Although the exact proportion of the population involved with NGOs is difficult to determine, one recent study found that less than 40 percent are part of at least one nongovernmental group, broadly defined to include political parties, trade unions, professional and educational associations, and cultural and charity organizations. According to a 2001 study conducted by CIVICUS and the Open Estonia Foundation, 42 percent of NGOs surveyed reported membership bases of 30 people or fewer. The same study indicated that perhaps only half of all nonprofit groups in the country enjoy active membership bases.

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 remains improving the overall level of professionalism. Staff members often lack sufficient management and administrative skills in areas like proposal writing, accounting, budget elaboration, and public relations. Nonprofit organizations are frequently led by boards of directors that are not very active or adequately familiar with their responsibilities as board members. During the last several years, a small but capable cadre of local trainers, usually associated with NGO support centers, has developed to assist members of less developed nonprofit groups.

The long-term financial viability of most NGOs remains uncertain because of decreasing aid from foreign sources, inadequate fund-raising efforts, and limited public experience with philanthropic activity. Membership fees, public support, and domestic foundation grants are the main sources of financing. Foundation grants are the most important source of support for smaller NGOs. For the majority of nonprofit groups, gifts from businesses and individuals and income derived from charitable events and other activities are less significant funding sources. However, most NGOs do receive financing from three or more sources.

Although foreign donations may be relatively large in volume, the number of organizations that receive aid from such sources is quite small. In recent years, local government bodies and businesses have begun to contract with NGOs for various services. The Ministry of Internal Affairs has established standards for the delegation of services and the involvement of local authorities in this process. Increasingly, NGOs recognize the importance of sound financial management and accounting. Some large groups already have professional financial staffs and sophisticated financial reporting systems.

Recent legislation governing the operation of nonprofit organizations includes the Law on Nonprofit Associations and the Law on Foundations, which allow groups to earn income only for use in achieving the objectives specified in their articles of association. Nonprofit associations and foundations do not pay taxes on grants, and they enjoy exemptions or deductions for income earned on the investment of grant funds or endowments. By law, NGOs must provide detailed reports of their management and financial activities. The Law on Nonprofit Associations states that a nonprofit group may be recognized as a legal entity only if it is officially entered in the nonprofit associations and foundations register. According to a recent survey of Estonian NGOs, only a fifth of those polled regard the registration process as complicated.

In an effort to help remedy some of their organizational and financial concerns, 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 the country's 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. It also issues publications on various NGO topics in Estonian, Russian, and English. NENO helped to organize Estonia's first national NGO conference in 1999 for nonprofit groups to discuss issues of mutual interest and concern; the second such conference was held in November 2001. However, although many NGOs belong to umbrella groups like NENO, they maintain relatively weak links to such groups, which sometimes fail to communicate effectively with their member organizations. At the same time, the 2001 CIVICUS–Open Estonia Foundation study found that nearly half the NGOs surveyed reported having active or very active cooperation with civil society groups other than umbrella bodies.

Another ongoing problem for the nonprofit sector is the general public's unawareness of, or indifference to, the activities of Estonian NGOs. This is true in part because many groups spend little time publicizing their work. Since most NGOs are not well versed in public relations, the media devotes relatively little attention to them. According to a 2001 survey of nonprofit groups, 77 percent of respondents reported that they function primarily on the local level. The remaining groups reported operating on the national or international level. Perhaps not surprisingly, local and regional newspapers tend to provide greater coverage of local nonprofit groups than do national media. One notable exception has been the inclusion in a leading Estonian paper of a monthly supplement that highlights developments in the nonprofit sector. The paper has been publishing the supplement since May 1999 with international donor support.

The government's perception of the NGO sector continues to improve. In an attempt to strengthen cooperation

between the state and the nonprofit sector on shaping public policy and legislation, representatives of approximately 20 leading NGOs and political parties signed a memorandum of cooperation in December 1999. As a result of the memorandum, the two sides established a chamber of cooperation for maintaining regular contact, prepared a document entitled "The Estonian Civil Society Development Concept" in 2000, and submitted it to Parliament in April 2001 for eventual adoption. Seminars and conferences involving the NGO community and government officials have become more frequent, and the Ministry of Finance has asked NGOs to provide input into the state budget process. Still, it is primarily larger, well-known NGOs acting on the national level that participate in the drafting of legislation and other political discussions.

Estonia's trade union sector, which operates independently from the government, has continued to see membership decline in recent years. According to the U.S. State Department, membership in the Central Organization of Estonian Trade Unions (EAKL), the country's principal trade union alliance, decreased from a reported high of 500,000 in 1992 to 330,000 in 1993, 200,000 in 1994, and only 58,000 in 2000. This decline has been attributed largely to the privatization and breakup of large, government-owned enterprises and the subsequent shift of workers to smaller firms and the service sector. The Organization of Employee Unions, which split from the EAKL in 1993, has 45,000 members. A central union of food-processing and rural workers was established in the late 1990s. Approximately one-third of Estonia's workforce reportedly belongs to one of these three labor federations.

Entrepreneurs organizations have grown in Estonia since the mid-1990s. The country's largest business organization, the Estonian Chamber of Commerce and Industry, has a membership base of around 3,000 large companies and smaller enterprises. The Estonian Business Association represents 46 enterprises, while the Estonian Association of Small and Medium-Size Businesses encompasses approximately 400 member groups. The Estonian Farmers' Federation, whose membership declined from 10,000 in 1991 to approximately 5,000 in 2001, represents the interests of farmers. The Estonian Chamber of Agriculture and Commerce, which unites Estonian agricultural producers, processors, and other groups in the food sector, consists of more than 100 member organizations and companies.

Although the Constitution stipulates that only citizens of Estonia may join political parties, noncitizens may form nonprofit and social groups. A number of organizations addressing the interests of ethnic minorities have been established, including the Russian Culture Union, the Union of Teachers of Russian Schools, and the Union of Slavic Educational and Charity Organizations. Estonian law prohibits political parties and associations from directing their activities toward the violent change of the country's constitutional system or from otherwise violating criminal law. Politically active interest groups focus on issues such as edu-

cation, the environment, minority rights, and social welfare. Organizations involved in public policy research, including the Jaan Tonisson Institute and the Estonian Institute for Future Studies, have worked with the government to affect policy on economic, political, and human rights issues. The country's educational system, which is free from political control, has seen the number of private schools increase during the last decade. In 2000, there were nine private universities, compared to five in 1998, one in 1995, and none in 1990. The number of private primary and secondary schools has risen from none in 1990 to 23 in 1995, 28 in 1998, and 30 in 2000.

Independent Media

1997	1998	1999-2000	2001	2002
1.75	1.75	1.75	1.75	1.75

Since the collapse of the Soviet Union, Estonia developed a vibrant media sector that is characterized by a surprisingly large number of print and broadcast outlets given the country's small population. Partly as a result of intense competition for limited advertising and subscription revenues, financial difficulties continue to plague some newspapers and broadcast media. Despite various legislative shortcomings, particularly regarding the criminalization of libel, Estonia enjoys an independent press that is free from government interference.

Privately owned media began to appear in Estonia in the late 1980s, shortly before the restoration of independence. The daily *Postimees* was the first paper to be privatized, and it has consistently been the best-selling paper in the country. The first nongovernmental 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 nationwide television stations: the privately owned TV3 and Kanal 2 and the state-run public service channel Estonian Television (ETV). The license of another national commercial station, TV1, was revoked in October 2001 after it failed to pay transmission fees. State and private channels broadcast Russian-language programs. Cable and satellite networks offer programs from all over Europe.

More than 30 radio stations, both private and government run, operate throughout the country. Eesti Raadio, the state-owned public service broadcaster, offers a mix of popular and classical music, news, and Russian-language programs on four stations: Raadio 2 (popular music), Raadio 4 (Russian-language broadcasts), Vikerraadio (music and information), and Klassikaraadio (classical music). Other popular radio stations include the privately owned Radio Elmar and Radio KUKU.

All Estonian-language daily newspapers are privately owned and receive no state subsidies. There are dozens of weekly papers and magazines, as well as local and regional

publications. Of the country's six national daily newspapers, four are printed in Estonian and two in Russian. According to a National Readership Survey conducted in mid-2001, circulation of the four major dailies was 264,000 for *Ohtuleht*, 258,000 for *Postimees*, 169,000 for *Eesti Päevaleht*, and 86,000 for *Aripäev*. The country's two largest weeklies, *Eesti Ekspress* and *Maaleht*, account for about 90,000 copies per week. There are approximately a dozen Russian-language newspapers, including the dailies *Estonija* and *Molodjosth Estonii*, which in mid-2001 had circulations of 78,000 and 62,000, respectively. In a high-profile murder case, the publisher of *Estonija* and *Vesti Nedelja Plus*, the largest Russian-language weekly, was shot dead near his home on March 9, 2001. Police maintained that the motive for the attacks and the suspects were unknown.

The Baltic News Service (BNS) is a privately owned news agency. It is headquartered in Tallinn and has branches in both Latvia and Lithuania. BNS and the Estonian News Agency (ETA), previously the state-run outfit, are the country's two main news agencies.

Following the restoration of independence, the government ended its monopoly on printing and distribution facilities. Although the former state newspaper printing plant in Tallinn formally belongs to the government, a private company now operates it. The state does not interfere in the running of the facility. The country's various regional printing plants and distribution networks are privately owned and operated.

One of Estonia's main media organizations is the Estonian Newspaper Association (EALL), an umbrella group of newspaper publishers, editors, and journalists that was established in 1990. Uniting over 40 newspapers that are printed in Estonia, the EALL defends the common interests and rights of newspapers through lobbying efforts, training courses, and publications for member organizations. Of the 14 members of the EALL board, 2 are women. In 1991, the EALL established the Estonian Press Council, comprising various broadcast and print-related organizations, as a regulatory body that supports the development of professional standards and practices for journalists and examines complaints about the media. Other media associations include the Association of Estonian Broadcasters, the Journalists' Union, and the Media Educators Association.

Some private media outlets continue to face financial difficulties. This is due in part to the disparity between the large number of competing media organizations and the small size of the country's population. On October 3, 2001, for example, the Broadcasting Transmission Center suspended the transmissions of commercial station TV1, which owed the center 1.5 million kroons (\$88,000). Employees of the station had not been paid in August and September, and some workers had already quit their jobs. TV1, which the Polish company Polsat purchased in December 2000, had additional debts totaling some 10 million kroons (more than \$500,000). On October 22, the minister of culture annulled the station's broadcasting license.

Despite receiving government funding, the state-run ETV has faced numerous financial problems, which have led to deep funding cuts, staff dismissals, and reductions in programming. In May 2001, the government agreed to provide a state guarantee for a 37-million-kroon (\$2.07 million) 10-year loan to ETV. The amount was less than half of the 77 million kroons that ETV had requested. One of the conditions for the guarantee was that a draft law on turning ETV and Estonian Radio into a joint public broadcasting organization be prepared by the following month. On August 20, the cabinet endorsed the bill, which Parliament still must approve. The proposed merger is expected to reduce expenses through the establishment of a single management structure and a mechanism for using funds more flexibly.

After the country's media advertising market declined from a high of about 720 million kroons in 1998 to some 640 million kroons in 1999, it increased in 2000 to around 670 million kroons. By the third quarter of 2001, the media advertising market was about 520 million kroons, with one source estimating that the year-end figure could exceed 740 million kroons. During the first nine months of 2001, newspapers accounted for 49.2 percent (261 million kroons) of all media advertising. Television followed at 20.4 percent (109 million kroons), magazines at 12.9 percent (68 million kroons), and radio at 10 percent (53 million kroons); other media outlets, including the Internet, made up the remaining 29 million kroons.

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." Although there is no specific press law, print media are regulated through 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. Freedom House's *Annual Survey of Press Freedom* rated Estonia as "Partly Free" in 1992 and "Free" from 1993 to 2001.

Although Estonia's overall legal framework provides adequate protection for press freedom, libel continues to be punishable under criminal law. The Estonian Newspaper Association has lobbied the government to make defamation and libel civil offenses only. In 1997, in a high-profile case, the Estonian Supreme Court upheld a lower court's conviction of investigative reporter Enno Tammer for insulting the wife of Estonian politician Edgar Savisaar during an interview. Tammer was ordered to pay a fine of 220 kroons (approximately \$13). The decision, which represented the first of its kind in post-Soviet Estonia, was criticized by PEN and EALL as an attempt to limit freedom of speech. After two unsuccessful court appeals, Tammer filed

a formal complaint before the European Court of Human Rights in 1998. In February 2001, the ECHR decided unanimously that the Estonian judiciary had not violated Article 10 of the European Convention on Human Rights, which guarantees freedom of expression. Lawyers defending Tammer pledged to appeal the decision to the ECHR Grand Chamber.

Estonia's press, which is now entirely privately owned, enjoys editorial independence from the government. Public service radio and television, which receive financing from the state budget, do not face government interference in their editorial decisions. Although the country's major newspapers possess particular political leanings, not all openly endorse individual parties or candidates. Much of the media conducts probing investigative reports, but some journalists tend to publish rumors and allegations as facts. Some newspapers have presented paid political advertisements as part of their editorial content. The Estonian Press Council hears cases involving journalistic improprieties and addresses problems involving the authorities. Although its decisions are not legally enforceable, the Estonian News Agency can publicize them, thereby exerting pressure on the government to recognize the editorial independence of the country's media. In 2000, the council received 37 complaints, of which 13 were upheld. During the first six months of 2001, it received 18 complaints.

Estonia continues to have one of the highest Internet penetrations of the former Soviet Union and Eastern Europe. It also has more Internet users than some European Union member states. According to a survey conducted by the marketing research firm Emor, 36 percent of the country's 15- to 74-year-olds used the Internet during the third quarter of 2001, compared to 32 percent a year before and 21 percent two years earlier. The increase in Internet use has been attributed to growth in home computer sales and to successful national campaigns to extend Web access throughout the country, including at public sites where Estonians can use the Internet for free. The cost of personal Internet connections and computers remains the only restriction on Internet access that private citizens face.

Governance and Public Administration

1997	1998	1999-2000	2001	2002
2.25	2.25	2.25	2.25	2.25

During the last decade, a number of important reform efforts have focused on improving the work of Estonia's national and local governments and the country's civil service sector. In the years after the collapse of the Soviet Union, the country has seen the return of freely elected municipal officials, the growth of a professional cadre of civil servants, and the recent implementation of measures designed to improve transparency at all levels of public administration. Although Estonia has made considerable progress overall, there is still

work to do, including reducing the number of municipalities, improving the financial viability of local governments, and further modernizing the country's civil service.

Under Estonia's Constitution, a clear division of power exists between the executive and the legislative branches of government, and this separation exists in practice. 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 main work of examining draft laws in Parliament is done by the legislature's 10 committees on the environment, cultural affairs, rural affairs, finance, economic affairs, the Constitution, social affairs, national defense, foreign affairs, and legal affairs. These committees study and comment on any bills submitted to them. The chancellery of the Parliament assists in the preparation of draft legislation by providing advice on legal, economic, and social issues and by offering administrative and technical assistance to members of Parliament. During the first 10 months of 2001, Parliament acted on current or new legislation more than 150 times.

Over the last several years, the government has taken various steps to ensure transparency in the work of the executive and legislative branches. Article 44 of the Constitution requires all state and local governments to provide information about their activities to Estonian citizens at their request. The only exception is information that is intended for internal use only or that is prohibited by law from being revealed. Most sessions of Parliament are open to the general public. The official *State Gazette*, which is available on the Parliament's Web site, publishes laws that the legislature adopts. The government press office, along with each ministry's press secretary, disseminates official information to the news media.

On June 25, 2001, the national government launched a Web portal called TOM (an Estonian acronym for "Today I Decide") that aims to encourage greater transparency in government by enabling Internet users to participate in various stages of the legislative process. This novel program capitalizes on Estonia's widespread use of information technology by displaying bills and amendments to current laws that various ministries have proposed. Before the bills are sent to Parliament, Internet users can log on to the site and submit their comments through a chat room. They can also propose new draft laws for consideration. The prime minister signs suggestions that receive support from a majority of users and sends them to the relevant ministry or Parliament committee for examination and possible reworking. Users of TOM can follow the process from that point for-

ward, including learning who is responsible for handling proposed changes at any given time. By mid-July, less than three weeks after its launch, TOM had 700 registered users and 160,000 visitors to the site.

In November 2000, Parliament adopted a Public Information Act to improve government transparency. The act applies to state and local agencies, as well as to private entities that provide public services like education and health care. Under the law, which took effect on January 1, 2001, all government agencies must maintain Web sites where they post this information. E-mail queries are treated as official requests for information.

At the same time that various developments were taking place at the national governmental level in the late 1980s and 1990s, Estonia's local self-government system was undergoing a number of changes, beginning with the restoration of local council elections in 1989. For the next three years, Estonia had a two-level system of local government that consisted of 15 counties with self-governments at the regional level and 6 larger cities at the municipal level. With the adoption of the Local Government Organization Law in 1993, elected county governments were abolished and the county system was reorganized into regional units of the central state administration. The remaining level of local government consisted of more than 200 towns and rural municipalities, all of which enjoy the same legal status. Although the 1992 Constitution provides a general legal basis for local power, subsequent laws have been adopted to address specific subnational government issues. These include 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).

As established by the Constitution, local authorities manage and autonomously resolve all local issues. The basic functions of local government include such tasks as 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, the county government is responsible for organizing and coordinating the work of national institutions at the local level.

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 that may include supplementing budget revenues and helping finance teacher salaries and capital expenditures. At the same time, the Constitution stipulates that local governments have their own independent budgets and possess the right to levy and collect taxes and to impose fees. The Local Taxation Law establishes the types of taxes that local authorities have a right to levy, including local sales tax, entertainment tax, and motor vehicle tax.

Local governments continue to face financial difficulties and to operate at a deficit. According to the Estonian Ministry of Finance, for the first nine months of 2001, total revenues and grants of local governments equaled 6.698 million kroons (more than \$370,000); total expenditures amounted to 6.75 million kroons. During the same period, revenues from personal income taxes (a shared tax that is centrally imposed and collected) constituted 43 percent of the total income of local budgets. Grants from the national government accounted for 37 percent. The remaining 20 percent was composed of other tax revenues (5 percent), nontax revenues (8.5 percent), capital revenues (6 percent), and grants from abroad (less than 1 percent). Since the vast majority of revenue for local authorities comes from the central government, effectively limiting the financial independence of local governments, recommendations have been made for increasing the number of local taxes and the efficiency of collection measures.

Limited progress continued throughout 2001 on reform efforts to reduce and consolidate the overall number of local authorities. Since most Estonian municipalities have fewer than 2,500 residents, establishing a series of larger local governments would help to improve each authority's financial and administrative capacities. By the end of 1999, 18 municipalities had decided to merge on their own initiative, thereby decreasing the total number of local governments from 256 to 247. Local and national leaders, who began formal consultations in 2000, have disagreed on many details of the often controversial reform plans, which would require the redrawing of dozens of local boundaries and the subsequent layoff of a number of municipal officials. Under a current proposal, the number of municipalities would be reduced to between 80 and 90 following the next local elections in October 2002.

Since the restoration of its independence, Estonia has held three local elections: in October 1993, October 1996, and October 1999. International election observers described each one as free and fair. Although only Estonian citizens may stand as candidates, noncitizen permanent residents who have lived in their respective municipality for at least five years are allowed to vote in local elections. In the 1999 elections, the allied Pro Patria Union, Reform Party, and Moderates took power in two-thirds of Estonia's major cities and towns. In Tallinn they formed a ruling coalition with the help of representatives from two Russian parties.

Interior Minister and Pro Patria member Juri Mois, who was chosen mayor of Tallinn, subsequently became the subject of considerable controversy and scandal. He survived four no-confidence votes that the opposition Center Party sponsored between November 2000 and March 2001. Supporters of the motions against Mois blamed him for allowing a rise in public transportation fees, failing to implement a housing plan endorsed by the city council, increasing the privileges of city officials, and making racist remarks in a speech reported by Radio Free Europe. Mois's credibility was further called into ques-

tion by allegations that he had visited a striptease bar that supposedly houses a brothel and that he maintained a close business relationship with an Estonian Mafia figure. In an unprecedented decision, the Reform Party announced that it would schedule a no-confidence vote against Mois in May 2001 on the grounds that the recent scandals were ruining the credibility of the city government. Rather than face such an action by his own coalition partner, Mois resigned on May 31 and was replaced on June 4 by Tonis Palts, a political newcomer and the president of a major mobile communications operator.

In a dramatic development, the Reform Party decided in early December 2001 to withdraw from its three-party ruling coalition with Pro Patria and the Moderates in the Tallinn City Council and form a coalition with the opposition left-wing Center Party. According to Reform Party leaders, the party made the decision in part because Mayor Tonis Palts had planned to borrow 1.5 billion kroons (\$86 million) in 2002—a move they claimed would put the entire country in debt. On December 13, the Tallinn City Council approved a no-confidence motion against Palts that the Center Party had initiated. Out of 64 members, 38 cast a vote against Palts. Only 33 votes were needed to remove him from office. Later that day, the city council elected longtime opposition leader and Center Party chairman Edgar Savisaar as mayor by a vote of 34–15. On December 19, the new ruling coalition in the city council voted to cancel the municipality's 2002 budget, including the controversial 1.5-billion-kroon loan, and pledged to approve a new, smaller budget in January.

Although Estonia's public administration underwent six reorganizations between 1987 and 1995, substantial reform of the civil service system began in 1996 with the entering into force of three key pieces of legislation that established a legal framework for public service. The Public Service Act, the Government of the Republic Act, and the State Public Servant Official Title and Salary Scale Act address issues such as the rights and duties of public servants, their recruitment and evaluation, and the salary scales for different levels of employment. Under the Public Service Act, local civil servants are considered to be local government employees. Recent reform efforts include the government's approval in April 2001 of the Public Administration Reform Program, which will address such issues as financial management, personnel training and appraisal systems, and general administrative reform.

While most of Estonia's civil servants conduct their work in an impartial and politically neutral manner, the public service administration continues to suffer from a lack of transparency in recruitment, promotion, and remuneration levels, as well as inadequate coordination among different administrative bodies. At the same time, staff turnover rates have declined slightly in years from an estimated 15 percent to 12 percent. As of the end of 2000, there were some 20,500 employees in the Estonian administration, including 4,000 in local government.

According to a wage law amendment that entered into force on April 1, 2001, the salaries of high-level civil servants and members of the boards and supervisory councils of state-owned enterprises must be posted on the Internet as public information. The decree, which applies to approximately 100,000 people, is intended to create greater financial transparency in the civil service sector, where many employees currently receive significant bonuses and allowances in addition to their regular wages. Estonia is one of the few countries in the world that discloses the salaries of its public officials.

RULE OF LAW

Constitutional, Legislative, and Judicial Framework

1997	1998	1999-2000	2001	2002
2.25	2.25	2.00	2.00	1.75

Estonia's judicial system, which operates free from political control, has undergone various reforms during the last 10 years. Efforts continued throughout 2001 to improve the functioning of the judiciary and the prison administration, as well as the integration of ethnic minorities into Estonian society. Nevertheless, reports of abuse of suspects by some law enforcement officials and variations in the quality of court decisions remain areas of concern.

One of the first legislative priorities following the restoration of independence was the reestablishment of Estonia's Constitution, which was adopted by public referendum in June 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. It also guarantees fundamental human rights, including freedom of conscience, religion, thought, and assembly, and prohibits discrimination on the basis of nationality, race, color, sex, language, origin, creed, political or other persuasions, and financial or social status. Estonian citizens have the right to engage in commercial activities and to form profit-making associations, as do foreign citizens and stateless persons residing in Estonia, unless otherwise determined by law. Property rights are also protected under the Constitution. No property may be expropriated without the owner's consent, except in cases of public interest and in exchange for appropriate compensation. In practice, the government generally respects these political, social, and economic rights.

The country's highest independent legal authority is the legal chancellor, who determines whether laws adopted by the national and local governments are in conformity with the Constitution. If a conflict is found and appropri-

ate changes are not made within 20 days, the legal chancellor appeals to the Supreme Court for a repeal of the law. The legal chancellor also serves as an ombudsman by handling individual complaints against state institutions and officials. In February 2001, Parliament appointed a new legal chancellor for a seven-year term. The post had been vacant for nearly eight months after the previous chancellor's term had expired and Parliament had rejected several other candidates proposed by the president.

Although there is no separate court for addressing constitutional matters in Estonia, the Supreme Court also serves as the court of constitutional review through its Constitutional Review Chamber (CRC). The CRC consists of five members whom the Supreme Court elects for no more than two five-year terms on the proposal of its chief justice, who also serves as the chamber's chairman. During the first four months of 2001, the CRC issued six rulings, including one involving Juri Grigoriev, a former KGB officer.

Grigoriev had appealed a denial of his temporary residence permit in Estonia that led to his being threatened with expulsion from the country, despite the fact that he had lived in Estonia for over 40 years. The case stemmed from a 1999 amendment to the Law on Aliens that denies such residency permits to reserve or retired KGB officers on the grounds that they represent a national security threat. Grigoriev took the case to Tallinn's administrative court, which called for a review by the CRC on the constitutionality of the Law on Aliens. In its ruling, the CRC found in favor of Grigoriev, arguing that Parliament could not adopt laws that left the executive branch (in this case, the Citizenship and Migration Board) without sufficient latitude to judge applicants on a case-by-case basis. The CRC further concluded that the threat of expulsion from the country violated Grigoriev's right to familial integrity and could not be justified on political grounds. As a result of the CRC's ruling, Grigoriev was allowed to remain with his family in Estonia.

Throughout 2001, Estonia continued to make progress in the area of judicial reform. While the number of cases heard in the courts increased considerably during the 1990s (and in 2000 for criminal, not civil, cases), the backlog in court cases—defined as the proportion of criminal cases pending for more than one year and civil cases pending longer than two years—decreased slightly during the year 2000. The quality of court decisions in the lowest-level courts, which were among the least satisfactory in the judicial system, appeared to improve, as evidenced by the growing number of decisions upheld on appeal. The number of vacant judges' posts declined slightly from 14 of 238 total posts in 2000 to 10 in 2001. Most judges are now well paid. Judicial decisions in both criminal and civil cases continue to be implemented effectively, and there have been no reported cases in which the government has failed to comply with a court decision. In April 2001, the execution of civil and administrative judgments was trans-

ferred from judges to private individuals who are appointed by the minister of justice but paid by the liable party.

The institutional independence of Estonia's courts has been a topic of considerable debate among the country's judiciary since the 1990s. Estonia's Constitution and other legislation include safeguards for the independence of the judiciary, including provisions for life tenure and protections against removal from office. The impartiality of judges is reinforced by limits on their outside activity, such as prohibitions on holding positions in the executive branch or elsewhere (except in teaching and research) and on being members of the board of directors or founders of public and private limited liability companies. However, although most judges are regarded as politically impartial in their rulings, the Ministry of Justice's close administration of regional and district courts and the courts' limited financial autonomy have been cited as areas of concern.

A new draft law on the courts, which would replace the current Courts Act and the Legal Status of Judges Act, was under consideration in Parliament at the end of 2001. Many Estonian judges have criticized the draft law for failing to address certain problems, such as the Ministry of Justice's level of management and budget control over the courts, while also threatening to exacerbate other problems. For example, allowing judges to work within the Ministry of Justice would blur the lines between the executive and the judicial branches of government.

Estonia's criminal justice system saw improvement in the area of legislation in June 2001, when Parliament adopted a new criminal code and a new Administrative Procedure Act. Positive steps were also taken in shortening the length of pretrial detention, which currently stands at about 3½ months. 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; after a case goes to trial, the court issues warrants. All defendants must be given the immediate opportunity to choose an attorney. The state must provide an attorney to anyone who cannot afford legal counsel.

The government's three-year prison reform plan, which was adopted in March 2000, continues to work toward improving prison conditions throughout Estonia. In December 2000, the Imprisonment Act, which focuses greater attention on resocialization and inmates' rights and aims to improve training for staff members, came into force. However, problems continue in such areas as overcrowding (the prison population stood at 4,750 as of late 2001), inadequate pay of prison officers, and occasional reports of mistreatment of inmates.

A significant proportion of petitions to Estonia's legal chancellor relate to the rights of prison detainees. In early December 2000, nearly 2,000 inmates in five prisons went on a hunger strike to protest new regulations that ban parcels for inmates and establish a 50 percent deduction from their personal funds for victim compensation. The

hunger strike, which was the largest such action by prisoners in the last decade, was over in a week. There have been reports that some officers have used excessive physical force and verbal abuse during the arrest and questioning of suspects.

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, whether or not they are citizens, can file complaints with the legal chancellor in his capacity as ombudsman about alleged violations of human or constitutional rights. In June 2001, representative offices of the legal chancellor were opened in the predominantly ethnic Russian northeastern towns of Narva and Johvi to help ensure that the specific concerns of the nonethnic Estonian population, such as naturalization and language issues, are addressed. Russian continues to be used in the court system and administration in predominantly Russian-speaking regions of the country. Although the 1993 Law on Cultural Autonomy of National Minorities guarantees opportunities for the preservation of the languages and cultures of national minorities, some noncitizens have termed the law discriminatory since it applies only to citizens.

During the Soviet era, large numbers of non-Estonians, mostly Russians, migrated to Estonia. They and their descendants now constitute 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 parent who was a citizen of pre-World War II Estonia is a citizen by birth. Those who arrived during the Soviet period are regarded as immigrants who must apply for citizenship based on requirements that include residency in Estonia and knowledge of the Estonian language.

The 1995 Citizenship Law toughened certain conditions 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 allowing children who were born to legally resident, though stateless, parents after February 26, 1992, to acquire Estonian citizenship at the request of their parents and without having to pass a language test.

As of mid-2001, more than 1 million residents of Estonia are citizens. Of these, around 115,000 have been naturalized since 1992. About 13 percent of the country's population (or 178,000 people) are stateless, most having obtained permanent or temporary residence permits. An estimated 30,000 to 40,000 residents are thought to be illegal. Bureaucratic delays and the language requirement continue to be cited among the primary disincentives for securing citizenship.

In an effort to encourage more residents to take the language exams, the European Union launched a program in 1999 to refund half the money people spend on training courses in Estonian, provided they pass the final exam. By the end of August 2001, 3,072 people had received such refunds. During 2000, approximately 11,000 people passed Estonian-language exams at the elementary, intermediate, and advanced levels combined, including nearly 8,000 adults and some 3,000 primary and secondary school graduates.

The issue of one's knowledge of the Estonian language remains important not only with regard to the acquisition of 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 offering goods and services to the public as part of their work. Many Russian speakers criticized the law, and some international organizations considered it in conflict with EU criteria by violating the principle of free movement of labor and services. In June 2000, the law was amended so that it no longer requires the unconditional use of Estonian in the private sector, but only in cases where it is in the public interest.

In May 2001, Estonia adopted legislation that sets out the specific requirements of Estonian-language proficiency for private sector employees, including pilots, rescue workers, and teachers at private schools and universities. The law entered into force in October. The 1998 Parliamentary and Local Elections Law requires candidates for public office to have a sufficient command of Estonian for participating in debates and understanding legal acts. Although the enforcement of these provisions has been weak in practice, the restrictions have still been criticized for limiting the rights of non-Estonian speakers to choose their candidates at the local level.

On November 21, 2001, Parliament voted to abolish the Estonian-language requirements. Shortly thereafter, though, Parliament adopted a law that makes Estonian the official working language of local councils. Reportedly, it did so to balance the law that abolishes the Estonian-language requirement for candidates. However, the government can grant municipalities the right to conduct their business in another language if it is the language of the majority of the locality's permanent residents. The law will go into effect in October 2002 after the next local government elections.

During the last decade, the government has taken a number of steps to further integrate nonethnic Estonians into society. In 1993, President Meri established a Roundtable of National Minorities to participate in the state's national minorities policy. The roundtable is composed of representatives of ethnic minorities, stateless persons, and political parties. The post of a minister without portfolio who is responsible for population and integration issues was created in 1997. The following year, the state

Non-Estonian Integration Foundation was established to facilitate various integration-related activities. In 2000, the government approved a state integration program for 2000–2007 that focuses on education, language training, and public awareness campaigns; its implementation will be reviewed on an annual basis.

Corruption

1999-2000	2001	2002
3.25	2.75	2.50

Estonia has a reputation as one of the least corrupt countries in Eastern Europe and the former Soviet Union. Over the last several years, it has implemented various policies to enhance the transparency of state institutions and the accountability of public officials. At the same time, several nongovernmental organizations have engaged in anticorruption public education and research projects, sometimes in conjunction with government efforts. Although Estonia has a relatively limited corruption problem overall, areas of concern include corruption at the local government level and within the customs and border guard services.

Comprising the legislative framework for fighting corruption in Estonia are the Anticorruption Act, the Public Service Act, the State Procurement Act, the State Property Act, the Money Laundering Prevention Act, the Public Information Act, and the general criminal code. The primary anticorruption methods aim at preventing conflicts of interest by requiring declarations of financial assets by public officials and by restricting private sector employment. Government officials must submit yearly declarations of economic interests to their respective agency heads, including real estate holdings, vehicles, income sources, shares or interests in businesses, and expensive gifts. They may not join directory bodies at commercial enterprises, unless the enterprise is partly state owned. They may engage in enterprises if they receive permission from their government agency and if the enterprise does not hinder their work as public servants.

According to amendments to a law on wages that came into force in April 2001, the salaries of government officials and heads of state enterprises, as well as any bonuses and additional payments, must be published annually on April 1. The wage report will also appear on each ministry's Web site for public viewing. The amendments have been cited as a means of improving the transparency of officials' salaries, including with regard to illegal financial compensation from private sector activity. In the area of international instruments, Estonia ratified the Council of Europe Civil Law Convention on Corruption in October 2000 and signed (but has not yet ratified) the Criminal Law Convention on Corruption in June 2000.

Anticorruption laws are implemented primarily by members of the security and regular police forces at the investi-

gative stages and by the regular court system once cases go to trial. The security police, which operate as an independent board within the Ministry of Internal Affairs, are the main law enforcement body responsible for investigating corruption, particularly of higher-level officials. In 2000, the security police completed 54 preliminary investigations into corruption offenses, the majority of which involved bribery. The Estonian police board is in charge of lower-level corruption cases, including those involving municipal officials.

In 2000, the number of corruption-related crimes registered by the regular and security police was 146, compared to 112 in 1999. According to official court statistics, 113 cases went to trial in 2000; of these, 81 resulted in convictions and 32 in acquittals. In 1999, of 55 cases that were tried in court, 49 led to convictions and 6 to acquittals. The state audit office has played an important role in helping to develop transparent public management and accounting standards. In late 2001, the auditing committee of the Tallinn City Council found that the municipality's Security and Integration Department violated public procurement laws. An investigation of the department began on November 9.

Most personal services, such as telephone installation and hospital admission, do not require the payment of bribes. However, the low salaries of some public servants (relative to those of private sector counterparts), coupled with wage discrepancies within the civil service, have led to concerns regarding the potential for corruption. The typical public servant reportedly earns around 5,000 kroons per month (around \$285)—somewhat less than the average Estonian wage of 5,800 kroons per month, but considerably less than a comparable-level profession in the private sector. In contrast, the directors of state-owned enterprises receive 100,000 kroons per month, and ministers and chancellors earn 25,000 kroons each.

Customs and border guards have been cited as being particularly vulnerable to corruption, given the illegal activities such as smuggling and organized crime with which they come into contact while performing their jobs. The specific offenses that border guards most often commit include the arrangement and acceptance of bribes and misuse of office. Bribery among local authorities, where business and government officials are sometimes closely connected, is regarded as one of the most serious and widespread corruption problems in Estonia. This likely has been compounded by the fact that local police, who have relatively little training in corruption issues, rather than the more experienced security police, conduct investigations into acts of corruption by local officials.

One of the highest-profile corruption cases in recent years involved Siim Kallas, former president of the Bank of Estonia. The case centered around a \$10 million loan in 1993 by the Bank of Estonia to the now defunct North Estonian Bank for investment in a Swiss fuel company. The firm repaid \$2 million worth of interest, but the rest of the

money was never recovered. In June 1998, Kallas's immunity as a member of Parliament was removed to allow charges to be brought against him. Accused of submitting false information and abuse of 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 Tallinn's city court, Kallas was finally cleared of all charges in October 2000.

Nevertheless, the overall level of corruption in Estonia continues to be considered among the lowest in comparison with other transition countries in the region. In Transparency International's 2001 Corruption Perceptions Index, Estonia received a score of 5.6 on a 10-point scale, where 10 represents the lowest possible level of corruption. Of 91 countries surveyed, Estonia was ranked 28th, the best placing of an Eastern European or former Soviet country. A 1999 Business Environment and Enterprise Performance Survey (BEEPS), which was conducted by the European Bank for Reconstruction and Development and the World Bank, 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. The largest proportion of payments was made for government contracts (34.5 percent), followed by licenses (26.5 percent), customs (15.2 percent), and others. However, when asked how often they face demands for bribes, only about 12 percent of respondents—the second lowest number among the countries surveyed—answered “mostly” or “frequently.”

These findings are largely supported by a poll of 1,008 people conducted by the Saar polling organization in December 2001 on the public's perception of and experience with corruption. According to the survey, 83.5 percent of those questioned indicated that they had never experienced corrupt practices; 69.4 percent provided the same answer three years earlier. Only 1.2 percent said that they came into regular contact with corruption; 6.1 percent said that they had experienced it once; and 2.8 percent said that they had experienced it more than once. Those surveyed cited bribery, abuse of power, theft, using state money for personal purposes, and breaking the law as examples of corruption. Among the persons or groups who were perceived to be the most corrupt were state officials, businessmen, politicians, police, and court officials.

During the last several years, a few nongovernmental organizations have worked to raise public awareness of and to help combat corruption. The Jaan Tonisson Institute, which serves as the national chapter of Transparency International, has conducted various educational programs and research projects on corruption-related issues, often in cooperation with state agencies, other nonprofit organizations, and private enterprises. The Estonian Law Center, which provides various programs for the legal community, initiated a two-year project in December 1999 to analyze current anticorruption legislation.

ECONOMIC LIBERALIZATION & SOCIAL INDICATORS

Privatization				
1997	1998	1999-2000	2001	2002
2.25	2.00	1.75	1.75	1.75

Macroeconomic Policy				
1998	1999-2000	2001	2002	
2.00	2.00	2.00	2.00	

Microeconomic Policy				
1998	1999-2000	2001	2002	
2.00	2.00	2.00	2.00	

Almost immediately after regaining its independence, Estonia took steps to reorient its economy from a centrally planned to a market-based system. The government has a limited direct role over most of the economy because of the country's currency board arrangement and a balanced budget requirement in the Constitution. As a result, Estonia boasts one of the most free and competitive market systems in the former Soviet Union and Eastern Europe. In the latest Index of Economic Freedom compiled by *The Wall Street Journal* and the Heritage Foundation, Estonia rose to rank 4th out of 155 countries surveyed. Successful economic reforms have had a positive influence on the corresponding process of democratization and political stability, despite the fact that certain segments of the population have seen their living standards decline over the last decade.

Since regaining independence, Estonia has witnessed significant progress in its economic sector, which in turn has helped to ensure the country's overall political stability. 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 were the introduction of a fully convertible currency under a currency board system, adoption of prudent financial and administrative practices in the banking sector, extremely liberal trade practices, a rapid and extensive privatization program, comprehensive price liberalization, and highly favorable policies toward foreign investment.

The currency board system is particularly significant with regard to its effect on political decisions. Its existence, which precludes the central bank from changing interest rates or the foreign exchange value of the currency, effectively means that there is no monetary policy in the country. While some of the population, especially younger, urban residents, have reaped the rewards of Estonia's financial prosperity, others, particularly rural inhabitants and the elderly, have suffered disproportionately from the negative consequences of mar-

ket reforms, including rising prices for consumer goods. These developments helped to bring a center-left coalition to power in the 1995 parliamentary elections. Although that government changed the general thrust of Estonia's political and economic priorities, it did advocate more protectionist measures for the most vulnerable segments of society.

During the next two years, continuing sound economic management led to a drop in inflation rates from double to single digits and growth in real GDP of 4–10 percent a year. However, the Estonian economy suffered considerably from the successive Asian and Russian crises in 1997 and August 1998. 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. The impact of the Russian crisis was felt 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 1 percent of their assets in Russia, was more modest, although their profits were hurt by Estonia's general economic downturn.

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 agricultural sector's share of the economy had already been decreasing over the last decade, with the percent of GDP coming from agriculture having dropped from 21 percent in 1989 to 6.4 percent in 1998 and 5.8 percent in 1999. However, the decline was accelerated by the Russian crisis, as evidenced by average annual growth rates in the agricultural sector of -0.8 percent in 1998 and -1.4 percent in 1999. During the same period, the industrial sector also contracted, with the percent of GDP from industry decreasing from 40.6 percent in 1989 to 28.1 percent in 1998 and 25.7 percent in 1999.

By contrast, the service sector grew 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 from a largely industrial and agricultural economy to one based increasingly on the service sector is illustrated by average annual growth rates for the period 1989–1999 of -5.0 percent in agriculture, -5.7 percent in industry, and 0.3 percent in services. Reminiscent of the results of the 1995 parliamentary elections, this decline in the agricultural and industrial sectors, and the resulting hardships for those segments of the population most directly affected, contributed to the victory of the left-wing Center Party in the March 1999 parliamentary poll (although three other parties ultimately formed a majority center-right ruling coalition).

On a more positive note, 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 4.7 percent in 1999. Although exports dropped substantially, a significant contraction in domestic demand as a consequence of a general recession led imports to decline at an even faster rate. Foreign direct investment doubled from \$267 million in 1997 to \$581 million in 1998. The significant jump was caused by Swedish investment in Estonia's two largest banks.

Signs of economic recovery had become clearly evident in the second half of 1999. 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 the year. By the end of 2000, the economy had resumed much of its previous growth, with GDP having increased by almost 7 percent during the year. Economic growth decelerated somewhat to 5 percent in the second quarter of 2001. This was due to a decrease in domestic demand that stemmed from persistent high unemployment (13.9 percent in 2000 and 12.4 percent as of the second quarter of 2001) and acceleration in inflation (from 3.9 percent in 1999 to 6.3 percent as of July 2001). In addition to growing inflation, the upturn in the economy has led in the last two years to increased imports and a rise in the current account deficit from 4.7 percent of GDP in 1999 to 6.8 percent as of the first quarter 2001.

While grappling with the effects of the Asian and Russian crises, Estonia's government has focused during the last few years on preparations for eventual entry into the European Union. In the economic sector, this has been translated into 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. After having applied for EU membership in 1995, Estonia began accession negotiations in March 1998. By late 2001, Estonia had closed 19 of the 31 negotiation chapters of EU regulations with which applicant countries must comply to qualify for membership.

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. According to an EU preaccession program prepared by Estonia's Finance Ministry, major reforms lasting until 2015 will require 42 billion kroons (\$2.42 billion); this amount will have to be spent within the next five years. The country's struggling agricultural sector, which will face greater restrictions on sending goods to EU and other markets, is

likely to feel significant repercussions upon entry into the EU. Ironically, the Estonian government's earlier tariff-free policy, which was praised by international organizations and Western governments, subsequently was amended to meet the EU's strict membership criteria. Specifically, customs tariffs on agricultural products were introduced in 2000 on products originating from non-EU countries and countries with which Estonia does not have free trade agreements.

During the last several years, Estonia's government has advocated EU membership not only for economic but also for political reasons. Many regard entry into the EU as yet another step along the inevitable road back to the "community of European nations," as well as a necessary precursor to NATO membership. Others have argued that Estonia's government has pursued various policy changes necessary for EU accession too rapidly and without sufficiently informing the public about EU-related issues. Successive governments have pushed for EU membership, and public support has stood at roughly 40–50 percent over the last couple of years. According to one recent poll, 73 percent of those surveyed believe that EU membership will have a negative effect on consumer prices, while 41 percent believe that it will have negative consequences on reducing unemployment.

Estonia's rapid and comprehensive privatization program, which included the use of vouchers that could be bought and sold on secondary markets with listed prices, was largely completed by 1998. Currently, approximately 70 percent of the country's GDP is generated by the private sector. Despite such impressive achievements, the last phase of the privatization process—the sale and subsequent modernization of the few remaining large infrastructure and energy enterprises to conform to EU requirements—has met with considerable difficulties.

After negotiations for the sale of the national freight carrier Eesti Raudtee were criticized for having taken several years, a March 1999 election promise by the ruling coalition to privatize the railroad by the end of May renewed what soon became a stalled process. Owing to its strategic implications—Eesti Raudtee includes the highly profitable business of handling transit cargo from Russia via Estonia to Central Europe—every phase of the railroad's privatization has been controversial. In December 2000, the country's privatization agency approved the sale of Eesti Raudtee to the U.S.-based Rail Estonia. However, when Rail Estonia refused to make public the name of the strategic investor it planned to include in the project, the third-choice bidder, the Estonian RER consortium, went to court, claiming that Rail Estonia had violated the original terms of the tender competition and thus should not qualify as a strategic investor.

With the case pending, the privatization agency decided to continue negotiations with its second choice, Baltic Rail Services (BRS), a consortium of U.S., British, and Estonian investors. In April 2001, the government finally reached an agreement to sell 66 percent of Eesti Raudtee to BRS, which

paid the \$57 million purchasing price in late August. However, opposition politicians and the state audit office criticized the deal for reasons including doubts about whether BRS would make good on its promise to invest in Eesti Raudtee. As a consequence of the political fallout from these controversies, both Economy Minister Mihkel Parnoja and Transport and Communications Minister Toivo Jurgenson faced separate no-confidence votes brought by the opposition in Parliament. Although both ministers survived the votes, Parnoja ultimately resigned in September.

The privatization of the national power utility Eesti Energia has been fraught with political battles, with successive governments having negotiated with the U.S.-based NRG Energy for over five years about the partial sell-off of the Estonian firm. Estonia's president, opposition parties, business leaders, and the management of Eesti Energia have opposed the plan because they are concerned about things like higher energy prices. Nevertheless, an agreement was signed in August 2000 for the sale of a 49 percent government stake in two Narva power plants that supply over 90 percent of the country's electricity.

In contrast with the relatively quick progress Estonia has made in its 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 have created a growing sense of urgency to implement various pension and health care reforms. In September 2001, Estonia adopted a law establishing a three-pillar pension system that consists of payments by the state, compulsory monthly payments by employers and employees, and voluntary payments by employees. Implementation of the second pillar, which will begin in July 2002, has proven especially problematic because acceptance of the idea of mandatory contributions has progressed slowly. In the health sector, previous reforms in primary care continue to be supplemented by efforts at improvements in efficiency and financing policies.

Aili Piano is a senior researcher at Freedom House and the managing editor of Freedom in the World, the annual global survey of political rights and civil liberties. She is a specialist on the former Soviet Union.

GEORGIA



Polity: Presidential-parliamentary democracy

Economy: Capitalist-statist (transitional)

Population: 5,500,000

GNI per capita at PPP \$ (2000): 2,680

Capital: Tbilisi

Ethnic Groups: Georgian (70 percent), Armenian (8 percent), Russian (6 percent), Azeri (6 percent), Ossetian (3 percent), Abkhaz (2 percent), other (5 percent)

Size of private sector as % of GDP (mid-2001): 60

The scores and ratings for this country reflect the consensus of Freedom House, its academic advisors, and the author of this report. The opinions expressed in this report are those of the author.

↕↕ and ↗↗ indicate score changes of .25 or more. ↘ and ↙ indicate changes of less than .25.

NATIONS IN TRANSIT SCORES

	1997	1998	1999-2000	2001	2002
Democratization	4.70	↗ 4.55	↗↗ 4.00	↘ 4.19	↘↘ 4.44
Rule of Law	.na	.na	4.50	↘ 4.63	↘↘ 4.88
Economic Liberalization	4.13	↗ 4.00	↗↗ 3.67	↘ 3.75	3.75

KEY ANNUAL INDICATORS

	1995	1996	1997	1998	1999	2000	2001
GDP per capita (\$)	534.6	563.0	657.0	771.5	524.0	555.9	580.6
Real GDP growth (% change)	2.4	10.5	10.8	2.9	3.0	1.9	3.0
Inflation rate	162.7	39.4	7.1	3.6	19.2	4.1	5.6
Exports (\$ millions)	363.0	417.0	494.0	478.0	477.0	645.0	671.0
Imports (\$ millions)	700.0	768.0	1,052.0	1,164.0	1,018.0	1,006.0	1,050.0
Foreign Direct Investment (\$ millions)	6.0	54.0	236.0	221.0	60.0	152.0	100.0
Unemployment rate	3.1	2.8	7.7	12.3	12.7	10.3	na
Life Expectancy (years)	72.5	na	72.5	na	na	73.0	73.0

INTRODUCTION

The successes and failures of democracy-building in Georgia are closely linked to the state-building process. The latter was challenged in the early 1990s by violent ethnopolitical and civil conflicts and continues to be seriously impeded by several factors. These include the existence of “frozen” conflict areas such as Abkhazia and South Ossetia; the uncertain status of the Autonomous Republic of Ajaria; the ineffectiveness of state institutions; rampant official corruption; and spillover effects from conflicts elsewhere in the region, such as in Chechnya. A one-day military mutiny in May 2001 and an episode of renewed fighting in the fall in Kodori Gorge of Abkhazia, pitting Georgian and Chechen fighters against the Abkhaz militia, underscored Georgia’s volatility.

The process of democratic development in Georgia is accordingly uneven. The country has made considerable progress regarding the free operation of political parties, civic organizations, and the media, as well as in privatization and other areas of economic liberalization. This, however, has not led to the creation of an effective democratic system of governance, and the government has not put in place a framework for fair political and economic competition. The power ministries and the law enforcement system resist reform (save for certain changes in the judiciary) and play a disproportionate role in the political process. In addition, the fairness of the election process is widely questioned. Meanwhile, extortion by various government agencies and the existence of “chosen” economic agents that enjoy significant privileges distort economic competition. Georgia’s ongoing fiscal crisis, moreover, exacerbates social problems and undermines the government’s ability to address major problems facing the country. There is also an alarming trend of violence against religious minorities.

The level of personal freedom enjoyed by Georgians differs considerably from region to region. The central government generally does not infringe on political pluralism or freedom of expression. However, Ajaria’s leader, Aslan Abashidze, has used his republic’s autonomy to consolidate a one-man autocracy that does not tolerate independent civic and political activities. In the ethnic Armenian enclave of Samtskhe-Javakheti and the Azeri enclave of Kvemo Kartli, elections are characterized by large-scale irregularities that help the incumbents. The secessionist Abkhazia and South Ossetia regions, meanwhile, have few connections to civic and political life in the rest of Georgia. Their regimes are not democratic, despite some gains in political pluralism in the past several years.

Georgia’s gradually deepening crisis of governance came close to disrupting the constitutional process at the end of 2001. The government’s inability to overcome its fiscal crisis and tackle the problem of corruption sent its popularity to a low point, while President Eduard Shevardnadze was unable to put an end to open bickering within his cabinet.

The climax came in the form of mass student protests in October and November 2001 that called for the president’s resignation. Although a series of lower-level resignations helped end the crisis, tensions persist.

DEMOCRATIZATION

Political Process

1997	1998	1999-2000	2001	2002
5.00	4.50	4.00	4.50	5.00

Georgian politics since independence have been largely dominated by President Eduard Shevardnadze, who was invited to serve as the head of state in March 1992 by the leaders of the coup, or uprising, that overthrew Zviad Gamsakhurdia. The latter was Georgia’s first popularly elected president. Shevardnadze was the chairman of Parliament, which made him head of state, between 1992 and 1995 before becoming president. His skillful balancing of different political and, particularly in early 1990s, paramilitary groups brought a measure of stability to the country. During his tenure, political and civic groups have enjoyed fairly unrestricted freedom of expression and action.

Beginning in the mid-1990s, Shevardnadze appeared to be allied with a group of young reformers that was led by Zurab Zhvania, the speaker of Parliament between 1995 and 2001. This reformist group held the leading position in the Citizens’ Union of Georgia (CUG), the president’s party, and Zhvania is widely believed to be Shevardnadze’s successor of choice when constitutional term limits force the president to step down in 2005. The CUG itself has never been a consolidated political force with a common vision and values. Rather, it is a loose coalition of different groups united by personal allegiance to Shevardnadze.

Although this alliance led to some successful democratic and economic reforms in the latter half of the 1990s, Shevardnadze balanced the influence of the reformers with that of other political actors, mainly from the former Communist *nomenklatura*, privileged business groups, and the law enforcement agencies. Members of these groups increasingly resisted the reformers’ drive for change, and the president—oscillating between the various actors—failed to set a consistent political agenda. The result has been a divided, ineffectual, and directionless government and a reform process that has been stalled since 1998.

By 2000, rifts within the CUG faction in Parliament and, to an even greater extent, in the cabinet had become increasingly open. In the spring and summer of 2001, Minister of Justice Mikheil Saakashvili and some other members of the reformist camp openly accused the minister of internal affairs, Kakha Targamadze, the minister of the economy, Vano Chkhartishvili, and several other key figures in the government of corruption. In September, Shevardnadze resigned from his position as CUG chairman,

signaling that he was distancing himself from the reformers and siding with forces allied with Targamadze and Chkhartishvili. Almost immediately, the CUG faction in Parliament split into several groups. Later that month, Saakashvili resigned and accused the president of encouraging corruption.

An October 30 Ministry of Security raid on the offices of *Rustavi-2*, the leading independent television channel, was widely perceived as the beginning of an attack on independent media specifically and democratic freedoms in general. It led to mass protests by students who demanded the resignation of the law enforcement ministers and the president. Parliament Speaker Zhvania, who sided with the protesters, resigned, while Shevardnadze sacked the entire cabinet. However, the president later reappointed almost all of the same ministers, save the most unpopular ones whose resignation the reformers had demanded earlier. With Parliament deeply fragmented and the president unpopular, there were growing calls for early parliamentary and presidential elections, which are due in 2003 and 2005, respectively.

Amid this infighting among members of the president's team, the parliamentary opposition chose Zhvania as the main target of its attacks. This led to a paradoxical situation in which the opposition either tacitly or openly supported the president's ministers against criticism of the so-called reformers, who were formally considered the president's supporters. Revival, the party of Aslan Abashidze, led the opposition in a boycott of most parliamentary sessions in the spring and summer of 2001 and seriously disrupted the body's work.

The crisis in October and November left the Parliament without any group holding a majority and led to a redrawing of Georgia's political landscape. The CUG's reformist wing became the most vocal opponents of Shevardnadze while splitting into two parts. Zhvania leads a more moderate faction that appears to have taken control of the party machine since the CUG congress in December. The faction includes Nino Burjanadze, a politician who is close to Zhvania and who was elected as the speaker of Parliament after Zhvania's resignation.

The CUG's more radical reformist wing, which is led by Mikheil Saakashvili, cut all ties to the party and announced the establishment of the National Movement, a broad anti-government alliance that has called for bolder reforms. However, Zhvania's and Saakashvili's groups continue to coordinate their policies. In Parliament, they occasionally cooperate with the Industrialist, Traditionalist, and Christian Democratic factions but have not created a true alliance. Their major opponent appears to be the New Right, a CUG splinter group that consists mainly of new businessmen. The media considers the New Right's *eminence gris* to be Badri Patarkatsishvili, a right-hand man of Russian oligarch Boris Berezovski who returned to Georgia after being targeted by the Russian prosecutor's office. Amid these changes, President Shevardnadze is likely to continue his balancing role. As this jockeying suggests, Georgian poli-

tics is often freewheeling and the government generally does not openly repress its opponents.

In the 1999 parliamentary elections, 33 parties and blocs vied for Parliament's 150 proportional seats, and 3,000 candidates contested the 85 seats chosen in single-member constituencies. The official results gave only three parties enough votes to overcome the seven percent threshold that is needed to enter Parliament: CUG, 41.75 per cent; Revival, 26.58 percent; and Industry Will Save Georgia, 7.08 percent. Voter turnout was 67 percent. The CUG's strong showing gave it a comfortable majority in Parliament. However, following various defections and a series of party splits that mostly involved the CUG, Parliament had as many as 14 factions by late 2001.

Although the OSCE's observer mission noted a number of irregularities in the elections, it concluded that "Georgian voters were generally able to express their will." The worst abuses took place in the republic of Ajaria, where authorities barely allowed the opposition to function. There, with opposition parties facing severe restrictions on their ability to campaign, the ruling Revival Party won 95 percent of the vote.

The most recent presidential elections took place in 2000, and President Shevardnadze won with 78.82 percent of the vote. His major rival, former Communist leader Jumber Patiashvili, took 16.66 percent of the vote, while four other candidates each won under one half of one percent. Voter turnout was 76 percent. Both the OSCE and the Council of Europe's Parliamentary Assembly noted serious irregularities, including media bias, ballot box stuffing, and a lack of transparency in the counting and tabulating of votes. As with all other national elections since 1992, the self-proclaimed republics of Abkhazia and South Ossetia did not participate in either the parliamentary or the presidential elections.

By-elections for two parliamentary seats in October 2001 were not free of controversy. In the Vake District, where Saakashvili, the main opposition candidate, won comfortably, there were incidents of actual and attempted theft of ballot boxes. In the Bagdadi district, ISFED, a Georgian NGO that monitors elections, sued the winning candidate for buying votes.

Although all parliamentary elections have been held under a mixed system of national party lists and majoritarian representation, the legislation governing elections in Georgia has changed from one vote to the next. The threshold for party lists to gain seats in Parliament increased from four percent in 1990 to five percent in 1995 and seven percent in 1999 in an effort to encourage larger coalitions. The most controversial election law issue is the manner in which electoral commissions are appointed. Between 1990 and 1995, the fact that the commissions consisted of political party members made them representative but also encouraged back-room deals.

Under 1999 amendments to the election law that were intended to make membership on election commissions less

political, commission members were to be appointed by Parliament, the president, and the parties represented in Parliament. In practice, although most members of the new commissions do not formally represent political parties, the nomination process allows the government to promote individuals who would lend their support to the party associated with the government. This has damaged popular trust in the fairness of the election process.

In August 2001, a new election code was enacted. The code provides for the creation of completely nonpartisan electoral commissions that consist of NGO representatives. Under the legislation, coalitions of NGOs that have experience in monitoring elections or in democracy, civil society, and human rights issues will be able to submit the names of 14 candidates to Parliament. That body, in turn, will choose the seven-member Central Electoral Commission (CEC) by a two-thirds majority, and the CEC will then appoint lower level (provincial and local) commissions. However, the parliamentary crisis in 2001 did not allow for the creation of a new CEC in September, as was envisioned, and the change in party balance in Parliament may lead to modifications of the new code.

To contest elections, parties that are not already represented in Parliament must obtain 50,000 signatures to register a party list and 1,000 signatures to register a candidate in a single-seat district. Presidential candidates must obtain 50,000 signatures.

For the most part, there are no serious barriers to the formation and activities of political parties, except in Ajaria. As of November 2001, Georgia had 145 registered parties. The government has only twice denied registration to parties. In 1998 this happened to Virk, a group based in an ethnically Armenian region of Javakheti. The government said Virk's charter violated the 1997 Law on Citizens' Political Associations, which bans the creation of parties based on region. In 2001, the Ministry of Justice denied registration to Mkhedrioni, an erstwhile militia that was notorious for undermining the chances for political order in the early 1990s but registered as a party after authorities released its leading members from jail. The Ministry of Justice alleged that the organization was still terrorist in nature.

The main problem concerning political parties is their weakness rather than state repression. The very fact that both major parties in the 1999 parliamentary elections rallied around central and regional leaders such as Eduard Shevardnadze and Aslan Abashidze, respectively, indicated that parties are only weakly anchored in the broader public. The CUG's swift dissolution after Shevardnadze's resignation from its chairmanship confirmed this trend. According to CORBI, a Georgian polling organization, only 4.4 percent of the population belongs to a political party; 2.2 percent claim membership in either Revival or CUG.

Although minority regions tend to have high turnout figures, ethnic minorities tend to support government candidates and play a largely passive role in political life. For

instance, in the Kvemo Kartli Province, which has a large ethnic Azeri population, official turnout figures in presidential elections have reached an unrealistic 98 percent. Insufficient knowledge of the Georgian language, as well as a fear that their ethnicity may become an issue in political fights, are among the reasons that minorities do not get more involved in politics.

The current Parliament has 14 ethnic minority representatives, all of whom were part of the parliamentary majority that collapsed in the fall of 2001. The highest executive positions held by minorities are two deputy ministerial posts. Minorities are better represented in some regions. For instance, in Javakheti, an Armenian enclave in Georgia, ethnic Armenians dominate the local administration. Women are not well represented, but a number of them hold important positions. For example, in November 2001, Nino Burjanadze was elected as the speaker of Parliament, constitutionally the second most important position in the country.

Civil Society

1997	1998	1999-2000	2001	2002
4.50	4.25	3.75	4.00	4.00

Georgia's NGO sector has grown over the last decade. It is fairly vibrant and plays an increasingly important role in public and political life. Nevertheless, the number of Georgians involved in NGOs remains only a small segment of society. A number of NGOs act as aggressive advocates and pressure groups on a variety of issues, in a sense compensating for the weakness of the political opposition. NGOs are often successful in blocking or encouraging legislation. For example, Section 3 of the administrative code, which is the equivalent of the Freedom of Information Act in the United States, was enacted mainly due to the activism of NGOs and journalists. The Georgian Young Lawyers' Association and the Institute of Liberty play a particularly active role in the legislative process. Several ministries have created councils for advice or public oversight that are comprised mainly of NGO representatives and journalists. Law enforcement agencies and most regional and local level authorities are, however, less likely to cooperate with NGOs.

The increased influence of NGOs has led to frequent allegations by some political parties and the media of hidden political links—mainly that they are close to the CUG's reformist wing. Most NGOs, however, try to distance themselves from political parties. Another negative side of the growing influence of NGOs is the proliferation of quasi-NGOs created by government agencies or political groups. Media outlets that are generally critical of western values and influence often denounce NGOs in general as agents of such influence. The more pro-democratic media are largely sympathetic to NGOs and use them as their main source for expert opinions.

In 1997, a new civic code defined two legal forms of noncommercial organizations: foundations, which must be registered with the Ministry of Justice, and associations, which must be registered with local courts. As of November 2001, Georgia had 571 foundations. Overall, there were about 4,000 registered organizations in 1997, including associations. The total number of registered organizations is believed to have grown since then, but more recent figures are not available. Although many of these groups exist only in name, there are at least several hundred active organizations.

The civil code allows NGOs to register fairly easily. The law denies registration to NGOs that call for a violent overthrow of the 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 offenses, and so far this has not been done. There is no special tax status for NGOs, but the 1996 Law on Grants exempts grant revenue from all taxes except the income tax. The law does not give Georgian businesses a tax incentive to donate money for charitable purposes. NGOs are obliged to disclose their revenue sources to tax authorities, but only a few make such information public.

Most NGOs are based around small groups of activists and, with few exceptions, have no real organizational structure. The best organizations have regular staff and are well equipped with information technology.

For the most part, NGO membership includes younger and more educated members of society. Sociological surveys confirm that only a small fraction of society is involved in NGO activities. According to data released by the Institute of Polling and Marketing in December 2001, 94.1 percent of respondents to a survey said they do not take part in NGO activities. Up to 80 percent think NGO activism is meaningless and will not lead to any improvement in their lives. Many people, particularly those residing outside Tbilisi, have difficulty distinguishing between NGOs and government organizations.

Geographically, civil society activism is more advanced in the capital city and unevenly distributed in the rest of the country. By sector, NGO activism is conspicuous in 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 organizations is small but growing in some regions.

Many women are active in, or even lead, NGOs, and some 60 groups work specifically on women's issues. Experts estimate the number of active members of these NGOs at about 600 to 700, though their formal membership is much higher. In recent years, two networks of female-based organizations have been created: The Coalition of Associations Working on Women and Gender Issues, supported by the OSCE, and the Georgian Regional Network for Gender Equality.

The past two years have witnessed a significant increase in the number and activities of ethnic-based community organizations, particularly in Azeri and Armenian enclaves. Some 60 groups work in this field, with an estimated 400 to 500 active members. The formal membership of these groups is reportedly around 50,000. The Public Movement for Multinational Georgia includes 27 groups. Its objectives include encouraging minority participation in civic and political life, influencing legislation that affects minorities, and protecting minority culture.

Although religious groups are involved in charitable work, the level of their involvement is not high. Through its Lazarus Foundation, the mainstream Georgian Orthodox Church cooperates with the International Organization of Christian Churches in charitable works in several regions of the country. International organizations that have religious affiliations, including the United Methodist Committee on Relief, Caritas, and the Salvation Army, are also active in Georgia. However, against the backdrop of increasing religious intolerance, these agencies are sometimes harassed because of their alleged hidden agendas to engage in proselytizing. For example, in 2001 the Baptist Church was forced to stop construction of a senior's asylum.

There have been several programs aimed specifically at NGO development in Georgia. The Horizonti Foundation and the Center for Training and Consultancy are the most active in conducting training programs on NGO management issues. These and several other organizations have published advisory materials for NGOs in the Georgian and Russian languages. Horizonti also publishes a monthly newsletter in Georgian, Russian, and English on various issues of concern to NGOs.

In a country with a limited tradition of volunteerism, grants from Western foundations constitute the main source of financial support for NGOs. Membership dues, voluntary contributions, and income from activities account for only a small portion of NGO funding. The Georgian government does not provide financial resources to NGOs, and support from Georgian business is negligible. In 2001, however, several business groups created the New Georgian Foundation, which donated money to education and sports programs.

Attempts to create large associations of NGOs have not been successful. Most leading organizations resist such initiatives because they fear that different political groups would manipulate them. Ad hoc coalitions aimed at influencing legislation or organizing public advocacy campaigns have proven more effective.

Trade unions are weak in Georgia. The successors to the Soviet-era unions belong to the Georgian Trade Unions Amalgamation. Their membership has declined from 1.4 million workers in 1996 to around 675,000 in 2001 out of a total workforce that is estimated at 2.3 million. The most viable and active independent trade union is Solidaroba (Solidarity), a schoolteachers' union that was formally established in May 2000 in Kutaisi, Georgia's second largest city. By the end of 2001, it had opened a number of branches through-

out Georgia and its membership had reached 4,000. While Solidaroba has faced harassment by local authorities, it has enjoyed better relations with the Ministry of Education.

There are several farmers' groups in Georgia. The largest, Memamuleta Kavshiri, counts 25,000 members. Business associations are weakly developed but their number is growing. While large businesses often defend their interests through backroom and usually corrupt deals, some interest groups organize themselves as public associations. The Industrialists' Union has been the most successful and conspicuous among them. It created the Industry Will Save Georgia electoral bloc that placed third in the 1999 elections. Other important organized interest groups include the Large Taxpayers' Union, the Bankers' Association, the Union of Petrol Importers, the Insurers' Association, and the Union of the Disabled.

The 1998 Law Concerning Lobbyist Activities allows any legal entity or a group of 50 people to take part in the legislative process through a hired lobbyist. However, Georgia has very few registered lobbying organizations, which may suggest that businesses prefer to influence legislation through less transparent means. Of Georgia's several public policy institutes, the most developed are the Caucasian Institute for Peace, Democracy and Development, the Centre for Strategic Studies, and the Centre for Strategic Research and Development. Some policy institutes have experience drafting policy documents for the government, but in general there is little cooperation of this type between the institutes and the government. These groups tend to focus on working with international organizations and trying to influence public opinion.

Private educational institutions have proliferated since independence, especially at the university level. According to data from the Ministry of Education, there are 220 private and 24 state universities, but some 60 percent of university students attend the state schools. For the most part, the quality of the new private universities is low. Schools that set high educational standards tend to be those that have Western ties. These schools include the European School of Management, the Caucasian Business School, the Georgian Institute for Public Affairs, and the Black Sea University. At the secondary level, 350 out of the 3,170 schools are private. State educational institutions suffer from corruption and insufficient funding, but they are not subject to political influence.

Independent Media

1997	1998	1999-2000	2001	2002
4.50	4.25	3.75	3.50	3.75

Georgia's media are free from censorship. However, the government maintains control over some strategic outlets. Most independent media outlets lack professionalism, credibility, and financial viability, therefore making them vulnerable to influence through financial pressure. In late 2001, Badri Patarkatsishvili, a controversial tycoon who is close to

the New Right political party, started to develop a large media holding by buying some existing media entities and establishing new ones. In 2002, this emerging media holding is expected to become the mouthpiece for a political alliance that Patarkatsishvili reportedly is forging.

Television is the main source of information for the vast majority of the population. Both national channels are state-controlled and give preference to official points of view. Although state coverage is still far from being editorially independent, competition from independent companies has forced state television in the past three years to make its programming more balanced. The main independent channel is Rustavi-2, which survived government attempts to close it down in 1997. It broadcasts in Tbilisi and a handful of other regions, while its affiliated local channels rebroadcast Rustavi-2 shows and some other programming. Rustavi-2 is the clear leader in terms of ratings, share of the national advertisement market, and influence on public opinion. Despite some allegations of bias, it tries to maintain balance in its political coverage.

Other independent television stations, unless supported by powerful business or political interests, are hardly financially viable. Those that are supported by powerful interests tend to express the political views of their supporters. Channel 9, while relying on financial subsidies from a business group, is the most politically independent of these stations. There are a number of small regional television stations outside the capital that try to maintain their independence but struggle financially. Some of them have joined the Rustavi-2 network; others created the ten-member United Television Network (UTN) in January 2000 in order to pool advertising revenues.

Whether or not state domination of television outside Tbilisi will be broken may depend on the results of a tender for the rights to a broadcasting frequency that had been used by the Russian ORT network. The creation of the National Regulatory Commission for Communication in May 2000 was considered a major step in ensuring fair competition among broadcast media. The commission's long-awaited decision on the contested frequency is being closely watched as a measure of the body's independence.

A number of independent radio stations broadcast on AM and FM frequencies, with most of their programming consisting of music. Although many regions now have popular independent stations, state radio is still strong outside Tbilisi. Radio 105 became highly popular for its political satire but lost its cutting edge after a financial dispute among its founders in late 2001.

All print media are formally private. However, the successors to erstwhile Communist newspapers, including the Georgian-language *Sakartvelos Respublika*, and its Russian-, Armenian- and Azerbaijani-language counterparts, receive government subsidies, have editors appointed by the president, and serve as official propaganda outlets. Their circulation (6,000 to 7,000 for *Sakartvelos Respublika*) mainly depends on obligatory subscriptions

by government agencies. The market is dominated by independent newspapers, and in 2001 the most popular papers saw their circulations increase. Two weekly newspapers, *Kviris Palitra* and the recently established *Akhali Versia*, clearly outplayed the others. Their circulation is estimated at 60,000 and 50,000, respectively. Both are fairly critical of the government. The tabloid weekly magazine *Sarke* has an even higher circulation of about 70,000 copies.

Daily newspapers are numerous but much weaker. The circulation of the most popular dailies, *Alia* and *Akhali Taoba*, is under 10,000 copies. Small newspapers outside the capital struggle to maintain both financial viability and independence. Grants from foreign foundations give newspapers some temporary relief. Competition from television, the obvious political bias of most papers, and their inability to pay decent incomes in order to attract good journalists explains the relative failure of the print media.

Six major information agencies compete. One of them, Sakinpormi, is government-controlled and 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 oriented towards Georgian-language information markets, while Black Sea Press and Caucasus Press cater mostly to international organizations and embassies in Georgia.

There are eight distribution agencies, three of them state-owned. The distribution share of private agencies is increasing. Press Distribution Service Ltd., established by four independent newspapers in 1996, is the largest distributor in Tbilisi with some 50 percent of the market. The state agency Sakpresa and the private Presinfo agency dominate distribution outside Tbilisi.

Apart from constitutional provisions that guarantee 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 the 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."

The July 2001 murder of Giorgi Sanaia, a popular Rustavi-2 anchorman, led to an unprecedented expression of public grief and anger. Most ordinary Georgians, as well as the leadership of the company, blamed the murder on a covert government effort to intimidate independent media, though there was no evidence of such activity. In December 2001, the police arrested the alleged killer and presented the incident as non-political, but most media and members of the public remained skeptical. In October 2001, a criminal case was filed against Rustavi-2 for large-scale tax evasion. The refusal of the company's leadership to submit documents to the Ministry of Security in relation to the case led to a ministry raid on the station. That was followed by mass protests. The company's leadership said the matter

had been cleared with the tax inspection authorities a few days before the raid.

A proliferation of investigative reporting that alleges corruption or other crimes by high-ranking officials has led to an increase in the number of cases filed against journalists and media outlets. The claimants prefer to sue for defamation rather than libel. In most cases, though, the actual targets of media investigations deny the allegations but do not file suit. Sixteen such cases were filed in the last three years. The most prominent cases were those filed by Kakha Targamadze, a former minister of internal affairs, against the *Resonansi* newspaper, and by Valeri Asatiani, a former minister of culture, against Rustavi-2. Court decisions usually favor the media, as in the suit against *Resonansi*. The one time the media lost, in a case involving Rustavi-2, the outcome was clearly non-political.

The media face greater restrictions outside the capital. In Ajaria, there are no independent broadcasts on political issues. When Channel 25, the only independent television company in Ajaria, began to broadcast news programs in February 1999, three of its four owners were forced under threat to cede 75 percent of the company's shares to a local boss. In the self-proclaimed Abkhazian and South-Ossetian republics, a few independent outlets have appeared, but authorities control most media.

The number of people using the Internet is low but rapidly growing. A 2001 poll by the Georgian Opinion Research Business International (GORBI) group showed 5.3 percent of respondents using the Internet, though many of them use it only occasionally. The company Sanet continues to be the main Internet service provider, with around 10,000 accounts, followed by Georgia Online, which is owned by Rustavi-2, and ICN. Each of the latter two companies has 5,000 to 7,000 accounts.

There are a number of journalists' associations and NGOs that promote media issues, but none of them play a leading role. Media rights are more effectively promoted by ad hoc coalitions of NGOs and journalists. There are no figures on the number of female journalists who belong to press associations, but a majority of Georgian journalists are indeed female.

Freedom House's annual *Survey of Press Freedom* rated Georgia "Partly Free" in 1992 and 1993, "Not Free" from 1994 to 1996, and "Partly Free" from 1997 to 2001.

Governance and Public Administration

1997	1998	1999-2000	2001	2002
4.50	5.00	4.50	4.75	5.00

The Georgian Constitution calls for the separation of powers among the executive, legislative, and judicial branches of government. The president cannot dissolve Parliament and must secure its agreement on the main provisions of his budget before passage. Under Article 73 of the Constitu-

tion, 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. Despite the presumed political strength of President Shevardnadze, he is not a strong leader within the executive branch, and government ministers openly promote conflicting agendas. Military, rather than civilian, leaders typically run Georgia's so-called power ministries (defense, security, and internal affairs). However, since November 2001, this has not been true of the Ministry of Security. In addition, while the army steers clear of political life, the security service and especially the Ministry of Internal Affairs tend to intervene in political and economic life, including the electoral process.

Parliament is independent in its legislative activities. The body was fairly productive between 1995 and 1999 when it enacted important legislation that laid down the foundation for reforms in many areas of life in Georgia. The 1999 Parliament, however, was particularly unproductive because of internal divisions within the majority CUG faction. Since the final break-up of the faction in September 2001, there has been no prospect in sight for the creation of a new majority; hence, Parliament is not likely in the foreseeable future to be able to pursue any coherent legislative agenda. While legislation gives Parliament fairly effective tools with which to exercise its right of oversight, such as the power to confirm or reject ministerial nominations, hold hearings, and set up investigative commissions, Parliament has been relatively unsuccessful in exercising these rights. Its increasing weakness has allowed executive officials to ignore parliamentary oversight efforts.

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 between the executive and legislature are quite weak.

Branches of power differ with regard to openness and transparency. Chapter 3 of the July 1999 administrative code requires government officials to make available to the public at no cost original versions of public documents. Although this law effectively increased access to public information, some government agencies are still reluctant to comply with these requirements.

The 1995 Constitution does not define a territorial arrangement for the country. Article 2 of the Constitution says that the territorial arrangement will be defined after the country's territorial integrity is restored. Currently, the territory of Abkhazia and most of South Ossetia, both of which were autonomous within Georgia under the Soviet Constitution, are outside the government's control and do not participate in Georgia's political life. The exception is the Tbilisi-based Abkhazian government in exile. This gov-

ernment is recognized by the Georgian government as the sole legitimate representative of Abkhazia and in effect handles issues involving internally displaced persons.

The third autonomous territory within the country is Ajaria. Tbilisi never contested Ajaria's special status, but it was only in April 2000 that the Georgian Parliament amended the Constitution to include a clause guaranteeing Ajaria's autonomy. Legislation defining the separation of powers between the center and Ajaria has yet to be developed. In 2001, Ajaria adopted a new Constitution that introduced a two-chamber Parliament and the position of head of the republic. In practice, the Ajarian leadership often defies Georgian legislation, in particular by refusing to pay taxes to the central government.

In 1994, President Shevardnadze created a new level of governance between the district and national levels called the *mkhare*. The *mkhare* is ruled by the president's *rtsmunebuli*, or authorized representative, who is informally called a "governor." However, this level exists only by presidential decree and its constitutionality is contested. Under this arrangement, Georgia is divided into 12 *mkhares*, including autonomous regions and the capital as an independent unit.

Local government on the *rayon* (district) level and below is organized according to a law enacted in February 1997 and amended in August 2001. Under the 1997 version of the law, presidential appointees held administrative power at the district level and in Georgia's seven largest cities. Amendments to the 1997 law, adopted in August 2001 after long and heated debates, led to only a modest increase in local powers. Mayors of all cities except Tbilisi and Poti will be elected by direct popular vote, while heads of district-level administrations will be selected by the president from locally elected *sakrebulos*, or elected councils in settlements of more than 5,000 residents. Local elections scheduled for November 2001 were postponed until June 2002 because of the late adoption of the new election code and general disarray in the political system.

The *sakrebulos* have very limited powers and do not really play a role in local governance. For example, local councils approve budgets submitted by *gamgebeli*, or centrally appointed local administrators. However, if the councils fail to do so in the first two months of the year, the president may dismiss them. Excessive centralization of the political system and insufficient devolution of power to the local level are among the most frequently criticized aspects of the Georgian political system. In his pre-election speech in March 2000, President Shevardnadze pledged that in 2001 *gamgebeli*s would be elected by direct popular vote, a measure required by the Council of Europe. However, amendments that were adopted in August 2001 after long and heated debates only led to a modest increase in local powers. Although the mayors of all cities except Tbilisi and Poti will be elected by direct popular vote, the heads of district-level administrations will be selected by the president from locally elected *sakrebulos*.

Municipal governments collect some revenues through the management of municipal property and the collection of local taxes. However, 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 relations with officials in the capital.

A 1997 law gives local governments responsibility over local civil servants. However, there are no effective provisions for improving the efficiency or professionalism of civil servants. Incoming heads of state agencies generally conduct major staff overhauls motivated more by political loyalty and personal connections than by professional competence. Moreover, the extremely low salaries paid to civil servants make 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 civil servants.

RULE OF LAW

Constitutional, Legislative, and Judicial Framework

1997	1998	1999-2000	2001	2002
5.00	4.75	4.00	4.00	4.25

The 1995 Parliament brought Georgian legislation closer to international standards. The implementation of this legislation, however, is questionable. Resistance to the reforms by the law enforcement system, in particular the internal affairs and security ministries and the procuracy, have probably been the greatest challenge to the constitutional order. The government has been relatively successful in carrying out judicial reforms, but the general environment in which the judiciary operates has reduced any positive effects. Although the president's policies have been more or less conducive to the development of political pluralism, they have not been consistent in terms of upholding the rule of law.

The government created a Constitutional Court in 1996. The president, Parliament, and Supreme Court each name three of the Constitutional Court's nine members, who hold ten-year terms. There have been a number of cases in which the Court has ruled against the state in favor of individual citizens and organizations. In the most publicized case of 2001, the Court determined that it was unconstitutional to hold a second round of elections in three western districts during the 1999 parliamentary elections. The effect was to declare invalid the elections of three members of the then ruling coalition. The Constitutional Court also agreed with the opposition Labor Party that the *mkhare* territorial unit is unconstitutional. In common law courts, direct invocations of the Constitution have become a relatively established practice, especially in civil cases.

Between 1997 and 1999, Parliament enacted a package of laws designed to reform the law enforcement system, including the criminal justice system. These laws were: On General Courts (1997), On the Office of the Public Prosecutor (1997), the Code of Civil Proceedings (1997), the Criminal Proceedings Code (1998), the General Administrative Code (1999), and the Criminal Code on Imprisonment (1999). The aim of these reforms was to create a legal system that would reduce the pervasive powers of the procuracy, increase the defense attorneys' role, and enhance the independence and authority of the judiciary. Under the reforms, 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 authority of the Ministry of Internal Affairs and placed under the Ministry of Justice. Since then, however, reforms to the law enforcement system have stalled, save for the penitentiary system where authorities have taken strong anti-corruption measures. In November 2001, the president created an Interagency Commission on Institutional Reform of the Law Enforcement System under the Security Council. The commission's recommendations are expected by spring 2002.

Chapter 2 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 gender. Article 21 of the Constitution guarantees the right to own and inherit property. Article 30 requires that the state to 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.

Article 43 of the Constitution creates the post of public defender. The office is nominated by the president and elected by Parliament to a five-year term, but it is not accountable to either the president or Parliament. In May 1999, Georgia ratified the European Convention on Human Rights. A number of laws passed between 1996 and 1999 created specific mechanisms to protect these freedoms but in some cases restricted rights provided for by the Constitution. For example, the Law on Meetings and Manifestations requires special permission to hold protests on streets and near government offices.

The criminal code, which was enacted in July 1999, is largely modeled on the Soviet-era law but does not contain some of its predecessor's most notorious aspects. The main thrust of the government's efforts to reform the criminal justice system has been the Criminal Procedures Code, which was adopted prior to Georgia's accession to the Council of Europe in April 1999. The code was meant to demonstrate Georgia's readiness to comply with international human rights standards. However, in May and July 1999, Parliament adopted more than 300 amendments to the code that were

later denounced by the New York-based organization Human Rights Watch as “backtracking on reform.” Of particular 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 spending 72 hours in detention. Similarly, a suspect may be remanded for up to nine months in pretrial detention, and this period is often exceeded in practice.

Police continue to carry out searches without warrants and to make unregistered arrests, usually to extort money. Formal complaints against such violations are rare, as most citizens have limited awareness of their rights and are easily intimidated by police. Defendants often state during court proceedings that they confessed to crimes 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. Officials termed all of these cases suicides.

A new judicial system has been in place since May 1999. According to the Constitution, the judiciary is independent from the other branches, and judges are prohibited from joining political parties or participating in political activities. Under the 1999 changes, judges are appointed by the president upon nomination by the Council of Justice, a consultative body of 12 members (4 nominated by the president, 4 by Parliament, and 1 by the Supreme Court). The chairman of the Supreme Court and the chairmen of the Supreme Courts of Abkhazia and Ajaria participate as *ex officio* members.

New judges must pass exams conducted by the Council of Justice with the assistance of international organizations. Judges receive monthly salaries of \$250 to \$350, which is relatively high by the standards of the Georgian public service. However, these reforms have not eliminated judicial corruption, which appears to have replaced political pressure as the major problem facing the courts. Frequent delays in the payment judges’ salaries, for example, are an ongoing problem that perpetuates corruption. Courts have also proven susceptible to public pressure when confronted with cases involving religious minorities. Although the Ministry of Justice made considerable progress in enforcing cases during the first nine months of 2001, the implementation of court decisions, especially in civil cases, is still often lacking.

The role of defense attorneys in court proceedings has increased considerably, but professional and ethical standards are often low. The state provides public defenders to criminal defendants who cannot afford an attorney. The Law on the Bar, adopted in June 2001, states that all lawyers must pass exams administered by a future Georgian Bar Association and later become members of the bar. The Council of Justice will administer the initial exams, and the first 100 lawyers who pass will be entitled to create the Bar Association. Beginning in January 2003, only members of the Bar Association will have the right to represent clients in court. The objective of the reform is to create a mecha-

nism for self government of lawyers and to enforce professional and ethical standards.

Georgia has no specific legislation on ethnic or religious minority and gender rights. The past three years have seen an increase in religious intolerance. Some 75 percent of Georgians are eastern Orthodox (both Georgian and Russian), 13 percent are Muslim (Georgian and Azeri), and 8 percent are Armenian Apostolic. Other religious faiths have far fewer adherents. These include Catholics (50,000), Yezidi Kurds (33,000), Evangelists (18,000), and Jehovah’s Witnesses (15,000).

Since 1999, there have been more than 80 violent attacks against members of religious minority groups. Over 40 such episodes took place in 2001. The main victims have been Jehovah’s Witnesses and, to a lesser extent, Baptists and other members of mainstream churches. A group led by a defrocked Orthodox priest, Basil Mkalavishvili, and the Jvari (Cross) organization took part in most of the assaults. Assailants even attacked some newspapers such as *Resonansi* that reported on these groups’ activities in a critical vein. The police did not take any action, and on some occasions members of the police and other state agencies took part in the attacks. The perpetrators have not been punished, though on some occasions the victims have sued.

In January 2001, the Georgian Supreme Court canceled the registration of the Jehovah’s Witnesses, and the group appealed to the European Court of Justice. Given that religious violence is mainly targeted towards small churches headquartered in the United States, one explanation of this new trend may be general dissatisfaction with the policies of Georgia’s pro-Western government.

In 2000 and 2001, there was a campaign to give the Georgian Orthodox Church a special legal status through a constitutionally established agreement between the Orthodox Church and the state. Although NGOs warned that such an agreement could lead to inequality between members of different denominations, the project was too popular for any politician to oppose it. On March 30, 2001, an amendment to Article 9 of the Constitution established that a special agreement that was to be in compliance with international human rights norms should govern relations between the Georgian state and the Georgian Orthodox Church. However, after this amendment was adopted the matter of drafting the actual agreement drew little attention.

Corruption

1999-2000	2001	2002
5.00	5.25	5.50

There is a strong consensus in Georgia that corruption has become a major obstacle to political and economic development, and the problem of graft has become the central issue in political struggles. While the government recog-

nizes the scope and urgency of the problem, it has taken no effective measures to remedy it.

According to the 1997 Law on Corruption and the Incompatibility of Interests in the Public Service, high-ranking public officials (including members of Parliament, 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. The officials also must submit public declarations of their property and income. This requirement was extended by presidential decree to all civil servants.

Despite these reforms, it is widely recognized that major business groups have close ties to leading state agencies and promote their interests through them. Two factions in Parliament, the Industrialists and the New Faction (which is linked to the New Right party), mainly consist of businessmen. Until recently, the United Georgian Bank, one of the largest banks in Georgia, was represented in government by Vano Chkhartishvili, the minister of economy, trade, and industry. (Chkhartishvili was not reappointed after the government was sacked in November 2001.) The bank is still represented in Parliament by 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 republic's leader, Aslan Abashidze, and much of the regional economy is believed to be under the direct control of the Abashidze clan.

Corruption is rampant in various spheres of public life, though its scale varies from one agency or region to another. In a poll conducted by GORBI in 2001, 60.4 percent of respondents said that all or at least a majority of public servants were corrupt, and 36.8 percent considered some of them to be corrupt. The respondents considered customs to be the most corrupt agency, followed by police and tax inspection. According to the Institute of Polling and Marketing and other sources, the routine activities that are most commonly subject to corruption are obtaining a construction permit, getting a business registered, and obtaining a passport. In addition, public servants often illegally sell state information for private gain, and Georgians often pay bribes to obtain exemptions from mandatory military service or gain admission to prestigious departments in universities. Extortion of protection money by law enforcement agencies has become an established practice.

Extremely low salaries in the public sector encourage corrupt activity. In 2001, the average salary of an employee in the budgetary sector was 53 *lari* (about \$26), while a minister received 165 *lari*. Because of the fiscal crisis that began in 1998, even those salaries would often go unpaid for months. However, many government agencies pay bonuses to public servants from their so-called "extra-budget" incomes. As a result, actual remuneration in various public agencies varies considerably.

Until recently, almost no cases of high-level corruption were prosecuted. In the fall of 2000, 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. All but two were released in the course of the investigation. When this report went to press, court proceedings for the two remaining officials were underway.

The media have been active in investigating cases of alleged corruption. Since early 2000, 60 Minutes, a weekly program on Rustavi-2, has devoted itself almost exclusively to exposing high-level corruption in state agencies. The program has become one of the highest rated shows on Georgian television.

Investigative reports by the media appear to confirm the widespread belief that government agents, in particular law enforcement officials, are closely implicated in cigarette, fuel, and alcohol smuggling; the drug trade; and abductions for ransom. Regions outside of government control such as Abkhazia and South Ossetia provide safe haven for those involved in such activities. As a result of the second war in Chechnya, Pankisi Gorge has become another area where trade in narcotics and hostages under the protection of corrupt law enforcement officers has flourished. The Gorge is host to considerable numbers of refugees who fled the war and, reportedly, to some fighters as well. The U.S. State Department considers Georgia a secondary route for the heroin transport from Afghanistan to Europe.

In July 2000, President Shevardnadze created a seven-member working group to elaborate a national anticorruption program. The group was chaired by the head of the Supreme Court, Lado Chanturia. In the spring of 2001, the group presented its recommendations, 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 tackling political corruption. Following the group's recommendation, a coordinating body under the president was created to elaborate further anticorruption policies and monitor their implementation. So far, these efforts have not brought tangible results.

In March 2001, the president issued a decree that included specific measures aimed at increasing transparency in key government institutions, reducing excessive government control of business agencies, and improving the monitoring of income and spending of public officials. Most of the decree's provisions, however, were either insufficiently fulfilled or not at all. In line with the recommendations of the anticorruption group, the Ministry of Justice proposed a draft law on returning property to the state that was unlawfully acquired by public officials. Most cabinet members opposed the proposal.

Growing public awareness of the problem of corruption may be the main positive result of the government's anticorruption measures. Some economic experts, including the contributors to the UNDP's annual *Human Devel-*

opment Report, view the diminishing gap in 2000 and 2001 between registered incomes and actual levels of spending as a positive effect of the anticorruption campaign. This could mean, however, that money gained through corruption is simply sent abroad rather than spent in the country.

In the past few years, several textbooks have been written in the field of civic education. Among the books' objectives is the development of an anticorruption mindset among students. In 2001, a program of anti-crime and anticorruption education began in 20 schools in Tbilisi and Batumi. In these schools, anticorruption education is part of the obligatory curriculum. There are also several optional courses.

Georgia was rated 84th out of 99 countries in Transparency International's 1999 Corruption Perceptions Index. The country received a score of 2.3 on a scale of 0 to 10, with a 10 given to the least corrupt country. Transparency International did not rate Georgia in 2000 and 2001.

ECONOMIC LIBERALIZATION & SOCIAL INDICATORS

Privatization				
1997	1998	1999-2000	2001	2002
4.25	4.00	3.00	3.25	3.25
Macroeconomic Policy				
1998	1999-2000	2001	2002	
4.00	4.00	4.00	4.00	
Microeconomic Policy				
1998	1999-2000	2001	2002	
4.00	4.00	4.00	4.00	

The Georgian economy experienced a catastrophic decline after the break-up of the Soviet Union. Growth in GDP, for example, has been volatile, rising from an abysmal -11.4 percent in 1994 to 10.8 percent in 1997, and then falling sharply again to 2 percent in 2000. The relative stability of the lari, which Georgia introduced in the mid-1990s, continues to be one of the government's major economic successes. In the mid-1990s the government also tamed inflation, carried out large-scale privatization, and enacted fairly liberal economic legislation. Since 1999, however, both political and economic reforms slowed.

Since 1994, Georgia has largely followed the World Bank and the International Monetary Fund's recommendations for macroeconomic policies. While the reformist camp of the leadership generally supports economic liberalization and considers the Bretton Woods institutions, United States Agency for International Development (USAID), and

other Western institutions to be its allies in this process, many other government officials resist carrying out reforms. For example, in the early 1990s, officials who were opposed to reform exempted from privatization most large manufacturing enterprises on the grounds that they were strategic national assets. It is much more difficult to privatize these companies now, as their assets were plundered and they accumulated huge debts.

According to the State Department of Statistics, more than 85 percent of GDP was produced by the private sector in 2000, up slightly from 82 percent in 1999. The UNDP estimates that more than 75 percent of Georgia's economically active population works in the private sector. More than 80 percent of agricultural production is in private hands. The process of privatization, however, has slowed considerably during the past two years.

The 1997 Law on State Property Privatization regulates the privatization process, with the exception of land and housing privatization. Housing privatization was largely completed in the early 1990s under a Soviet-era law that allowed citizens to purchase the housing 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, while 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.

For enterprises, the government initially used voucher privatization. Under this system, Soviet-era managers or Georgians with *nomenklatura* connections gained ownership of almost all valuable assets. In some cases, top managers of enterprises set aside for privatization kept outsiders from bidding (often using force or the threat of force), with the privatization taking place at a starting price of 1 lari.

In May 1997, the Ministry of State Property Management launched a new system of privatization of large state-owned enterprises that used international tenders prepared in close collaboration with Western advisers. The ministry prioritized the reform of three crucial sectors of the economy: energy, telecommunications, and transportation. In late 1998, the Tbilisi electricity distribution company Telasi was sold to the American firm Applied Energy Services (AES). AES also took ownership in 2000 of the two largest blocs of the Tbilisi thermal power station, which has the greatest power-generating capacity in Georgia, and in 2001 of two other hydrothermal electric plants. In 2001, the German banking giant Kommerzbank was developing the terms of reference for telecommunications privatization. However, the terms of the tender expired in November 2001 without any success. A new tender is scheduled for January 2002.

The government's large-scale failure to collect taxes has led to a severe, ongoing fiscal crisis that began in 1998. The 2001 budget was cut by one-fourth in the fall but even this

reduced target was missed by 87 million GEL (\$43 million). Apart from poor administration, inadequate tax collection is often blamed on the June 1997 tax code, which was drafted in close collaboration with a number of foreign advisors and relies heavily on Western (particularly German) codes. Specifically, the 20 percent value added tax (VAT) is believed to be too difficult to administer in an economy that lacks an adequate system for tracking records for most types of transactions. This and other shortcomings in Georgian legislation and administration are often blamed on the very large size of the shadow economy in Georgia. Although the International Monetary Fund estimates the shadow economy at 35 percent of GDP, the United Nations Development Programme puts the figure at 70 percent. By the UNDP estimate, the shadow economy includes, for example, 75 percent of small and medium size enterprise (SME) turnover, 60 percent of the tobacco business, and 70 percent of fuel imports.

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. The draft law sets out different tax regimes for large enterprises as opposed to SMEs. No changes are proposed for the former, whereas the VAT and income taxes on SMEs with sales of less than 100,000 GEL per annum would be replaced by a flat tax at 5 percent of sales. Parliament has yet to discuss the draft proposals.

Despite the country's fiscal crisis, the National Bank of Georgia (NBG), the central bank, has become independent. A June 1995 law strengthened the NBG's authority to implement anti-inflationary monetary policies 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. In late 1998, the NBG instituted a free floating regime for the lari. After an initial fall, the currency regained lost ground and has been relatively stable, fluctuating between 1.85 and 2.20 per dollar. Because of an increase in the consumption prices of electricity and gas, inflation grew by 10.5 percent in 2001, up from 4.6 percent in 2000.

The NBG's policies also contributed to a consolidation of the private banking sector by increasing the minimum foundation capital of commercial banks to \$5 million. This reduced the number of Georgian commercial banks to 18. The International Financial Corporation and the European Bank for Reconstruction and Development obtained equity stakes in some banks. In the fall of 2000, the TBC bank became the first Georgian bank to obtain an international rating by Thomson Financial. Public confidence in banking institutions has been increasing: between 1996 and 2001, commercial bank deposits increased fourfold. However, the absolute volume of deposits is still low and major banks do most of their business servicing government spending and international credits. Extremely high interest rates, ranging from 1.5 percent to 3 percent per month, make lending, especially long-term lending, problematic. These

rates, however, are down from monthly rates of between 2 percent and 7 percent in 2000.

The creation of a Georgian capital market infrastructure was initiated at the end of 1999, when the Caucasus Stock Exchange won a tender to manage the Georgian Stock Exchange (GSE). Today, some 350 companies are registered on the GSE and take part in trading each Tuesday. The GSE has signed a memorandum of understanding with the Istanbul stock exchange that will allow Georgian and Turkish investors to have access to both markets beginning in 2002.

Article 21 of the Constitution guarantees the right to property ownership and inheritance. Intellectual property rights are protected 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 acceded to a number of international conventions protecting property rights. The Constitution permits the expropriation of property, with full compensation, in cases of "necessary social need" as determined by law or court decision. No expropriations have taken place.

The government largely completed price liberalization by 1996. Energy and urban electric transport are the only areas where prices remain controlled.

The 1994 Law on Entrepreneurial Activity codified and fundamentally changed many corporate laws and regulations. According to the 1997 civil code and the Code of Civil Proceedings, commercial companies must be registered by the district court of justice and added to the state register. New, simpler regulations for business registration are being discussed. The main obstacle to entrepreneurial activities, however, is interference by numerous inspection and law enforcement bodies that constitutes a web of informal taxation. In June 2001, Parliament passed an amendment to Article 218 of the tax code providing that only the tax inspection office and its affiliated agencies have the right to check the accounting books of private companies. All unusual checks must be authorized by a judge. The amendment reportedly has reduced the number of inspections.

The 1999 judicial reforms moved economic disputes to common law courts from a separate court of arbitration. This has increased the speed and transparency of the proceedings. However, the competence of judges in applying new economic legislation is insufficient, and corruption continues to be a major problem. In late 2000, the first private court of arbitration was established. Currently, several such courts are active and two of them are quite efficient.

Under Article 30 of the Constitution, the state is required to foster conditions conducive to free enterprise and competition. The 1996 Law on Monopoly Activity and Competition created an agency charged with antimonopoly enforcement for all goods markets, while the NBG regulates the securities and financial markets. Business competition is hindered, however, by the existence of patronage networks that practice insider dealing among preferred eco-

conomic actors. Government-granted monopolies exist in such sectors as rail transport, telecommunications, and energy.

In June 2000, Georgia joined the World Trade Organization. According to its membership terms, Georgia must make all legislative changes required by the international trade body within five years.

Severe energy shortages have become a symbol of the Georgian economic crisis. Since independence, Tbilisi has typically enjoyed only four to six hours of electricity per day in winter, while most of the country averages three to four hours and some areas 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 strengthened considerably by the 1997 Electricity Law, which created the independent Georgian National Electricity Regulatory Commission (GNERC). The commission adopted a transparent tariff framework and issued licenses to sector enterprises. A wholesale electricity market has been created, with major power distributing and generating companies having been privatized. The government has begun extending the same approach to the natural gas sector. In September 2001, the management of electricity distribution was transferred to a Spanish company that won a tender organized by the World Bank. The first sign of tangible improvement came in November and December 2001, when most parts of the capital had electricity almost around-the-clock. However, it took a threat from AES to withdraw from Georgia to close more than six months of negotiations between AES-Telasi and GNERC on a new electricity tariff. AES ultimately suspended investments in Georgia until 2002 and left AES-Telasi to finance itself.

Georgia currently imports its gas from Russia and electricity from Russia and Armenia. Since gas is crucial for domestic electricity generation and heating, Russia's monopoly of gas supplies constitutes a major problem given the strained relations between the two countries. The Southern Caucasus Energy Corridor Projects—the Baku-Tbilisi-Ceyhan oil and Baku-Tbilisi-Erzrum gas pipelines—could improve the energy situation somewhat if their construction begins as expected in summer 2002. The annual income from these projects is expected to be about \$273 million.

According to official statistics, the unemployment rate in summer 2001 was 26.9 percent (33.1 percent for men and 21.9 percent for women) among Georgians aged 15 and older and 42.8 percent among the economically active population. The difficulty of finding work given the dramatic drop in economic production since independence has forced many Georgians to look for alternatives to formal

jobs, leading to an increase in the number of self-employed workers. More than 78 percent of self-employed workers are engaged in agricultural activities that allow them to avoid hunger but provide very small—if any—monetary incomes.

For many public sector workers, 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, where about 30 percent of the economically active population is underemployed, than in any other region. State-provided unemployment compensation is 63.20 lari (approximately \$32), paid over a period of six months. Official statistics registered a sharp increase in the average monthly salary to 127.6 lari in 1997 from 42.5 in 1998, but the average salary has since declined to 114.4 lari in 1999 and 111 in 2001.

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 of payments were in arrears in 1998 and 20.6 percent in 1999) because of Georgia's severe fiscal crisis and rampant corruption. In the second half of 2000, against the backdrop of modest improvements in tax collection, the accumulation of arrears in pensions ceased, although old arrears persist. The ministry of finance had started payments in the first half of the fiscal year, but stopped making payments after the sequester of the state budget.

The level of education in Georgia is on a par with that in high-income countries. Public funding for education, however, has been shrinking. In 1999, Georgia spent 2.2 percent of GDP on education, compared to about 5.4 percent in Eastern European countries and 3.7 percent in Latin America.

Georgian primary schools have a 95 percent graduation rate. Of those who graduate, 97 percent enter Level I secondary school; approximately 96 percent of these students graduate. However, only 58.84 percent of Level I graduates continue to Level II secondary schools.

The infant mortality rate has remained relatively steady since 1993, ranging between 10 and 20 deaths per 1,000 live births. The rate was about 16 deaths per 1,000 live births in 1999. Maternal mortality declined to 64.8 deaths per 100,000 live births in 2000 after peaking at close to 71 in 1997, up considerably from 32 in 1993.

Ghia Nodia is a political scientist based in Tbilisi, Georgia. He is the chairman of the Caucasian Institute for Peace, Democracy and Development and holds a chair in political science at the Ilia Chanchavadze University of Language and Culture.

HUNGARY



Polity: Parliamentary democracy

Economy: Mixed capitalist

Population: 10,000,000

GNI per capita at PPP \$ (2000): 11,990

Capital: Budapest

Ethnic Groups: Hungarian (90 percent), Roma (4 percent), German (3 percent), other (3 percent)

Size of private sector as % of GDP (mid-2001): 80

The scores and ratings for this country reflect the consensus of Freedom House, its academic advisors, and the author of this report. The opinions expressed in this report are those of the author.

↓↓ and ↑↑ indicate score changes of .25 or more. ↓ and ↑ indicate changes of less than .25.

NATIONS IN TRANSIT SCORES

	1997	1998	1999-2000	2001	2002
Democratization	1.50	1.50	↓↓ 1.75	↓ 1.94	1.94
Rule of Law	na	na	2.13	↓↓ 2.50	2.50
Economic Liberalization	1.63	↓ 1.67	↓ 1.75	↓ 1.92	↓ 2.00

KEY ANNUAL INDICATORS

	1995	1996	1997	1998	1999	2000	2001
GDP per capita (\$)	4,359.4	4,424.6	4,494.9	4,641.0	4,757.4	4,589.4	5,121.0
Real GDP growth (% change)	1.5	1.3	4.6	4.9	4.2	5.2	4.5
Inflation rate	28.2	23.6	18.3	14.3	10.0	9.8	9.1
Exports (\$ millions)	12,810.0	14,183.0	19,637.0	20,749.0	21,844.0	25,346.0	28,451.0
Imports (\$ millions)	15,252.0	16,828.0	21,600.0	23,102.0	24,020.0	27,466.0	31,678.0
Foreign Direct Investment (\$ millions)	4,410.0	2,279.0	1,741.0	1,555.0	1,720.0	1,167.0	1,314.0
Unemployment rate	12.1	11.8	11.6	10.1	9.9	9.1	8.4
Life Expectancy (years)	69.8	70.3	70.6	70.5	70.6	71.2	71.0

INTRODUCTION

Since October 1989, Hungary has been a constitutional democracy in which independent courts guarantee the rule of law. The Constitutional Court, in particular, has extensively practiced its right to overturn any legislation or government act that it deems unconstitutional. In general, the constitutional framework provides for human rights and for the protection of minorities. However, in certain areas either specific human rights legislation is lacking or existing provisions violate basic civil liberties. A general antidiscrimination law is entirely absent from the legal system.

Hungary's economic system is overwhelmingly capitalist. Over the last decade, the government has sold the vast majority of state-owned assets to private investors, and it has adopted fundamental laws that guarantee one's freedom to engage in economic activity. Property rights are also generally respected. The state has removed most price regulations and limited its monopolies to a small number of strategically important fields. Outside the public sector, market factors largely determine prices and wages.

During the period covered by this report, Hungary did not experience any major changes in its constitutional regulations. Yet a tendency observed in previous years, namely the shift in balance between the executive and the legislative branches of government, grew more marked. On several occasions, for example, the government used its parliamentary majority to weaken legislative oversight in general and investigations of alleged corruption cases that involve its representatives in particular.

The constitutional framework and specific laws generally provide for freedom of the press. However, the passage in 2001 of legislation that was intended to provide a more balanced representation of opinions in each and every media forum drew the ire of many commentators, who viewed the new law as an imposition on editorial freedom. Governmental control of the state-owned section of the electronic media has also received substantial criticism at home and abroad.

Broadly speaking, Hungary's constitutional regime is stable. It is clearly not threatened by open attempts at its overthrow but, rather, by the declining role of some formal democratic institutions. This is due, in part, to lack of effective enforcement, or neglect, of existing laws. This declining role has gained strength over a long period of time, as subsequent administrations have failed to strictly observe limits on their power or have sought to maximize their prerogatives. Since 1998, the ruling coalition, which is led by the Federation of Young Democrats–Hungarian Civic Party (FIDESZ–HCP), has demonstrated a desire to weaken constitutional controls over the executive.

The single largest social problem in Hungary continues to be the plight of the Roma (or Gypsy) minority, whose members experience police brutality and discrimination in employment and education. In 2001, some well-publicized

cases of conflict between the Roma minority and members of the non-Roma majority came to the fore. Most notably, France offered refugee status to a number of Roma families that had unsuccessfully brought a suit against Hungary in the European Court of Human Rights. The suit was rejected on formal rather than substantive grounds, with the ECHR claiming that the claimants did not exhaust all local remedies. Nevertheless, French authorities found their claims well grounded. In addition, the adoption in 2001 of the so-called status law, which grants certain economic and legal privileges to ethnic Hungarians living outside Hungary, generated some controversy domestically and considerable controversy abroad, most notably with neighboring Romania.

Today, more than a decade after the fall of communism, Hungary's institutional framework for constitutional democracy and a market economy is largely intact. At the same time, the everyday performance of some of the country's core democratic institutions falls short of what an established democratic polity requires. This is largely the result of a long tradition of insufficient law enforcement that is partly attributable to the legacy of the former Communist regime. In many instances, however, certain political players in the post-Communist regime have deliberately furthered the trend. Even more worrisome is the fact that the general public perceives these institutions, particularly the legislature, as having little day-to-day relevance to the actual conduct of public affairs in Hungary.

DEMOCRATIZATION

Political Process

1997	1998	1999-2000	2001	2002
1.25	1.25	1.25	1.25	1.25

Institutionally, the Hungarian political system has not undergone any significant modification since the country substantially reshaped its Constitution in October 1989 and adopted a new electoral law in the same period. Under the Constitution, Hungary is a parliamentary democracy in which popular sovereignty resides in the Országgyűlés (Parliament) and principal executive authority rests with the prime minister, who leads the government. The powers of the president of the republic are largely ceremonial.

Hungary's electoral law establishes a mixed electoral system that combines territorial electoral districts, based on a two-tier first-past-the-post system, with a vote on national party lists. Representatives who are elected in districts fill a little less than half of the seats in Parliament. The remaining seats are filled through party lists according to a proportional principle. The aim of the system is to guarantee representation in the legislature to a viable majority of like-minded political parties while still retaining a sufficient level of proportionality. Despite its apparent complexity, this system has served its dual objective well, with the

majoritarian component of the system being slightly stronger than the proportional. All three parliamentary elections since 1989 have resulted in a peaceful change of power, and the composition of each new government has reflected the electoral will, as represented by the popular vote.

A significant indicator of stability is the fact that no post-transition government has been forced to resign prematurely. That is, every government has completed its full term. Likewise, the proportionality of the electoral system is indicated by the fact that in all three post-transition elections, several minor parties have gained a mandate in Parliament. On the other hand, the overall number of parties represented in Parliament has remained remarkably stable throughout the post-Communist period. In all three legislative elections, six parties have entered Parliament. This is largely due to a 5 percent national threshold for legislative representation.

By contrast, observers anticipate that the 2002 legislative elections will bring about a significant realignment of the political landscape and that fewer parties will win representation in Parliament. They view this possibility as part of a longer process in which Hungarian political parties have been coalescing around one of two major ideological blocs. Specifically, a center-right bloc has emerged largely out of the parties that make up the current governing coalition, in which the FIDESZ-HCP is the senior partner. The junior partners in the coalition, most notably the Hungarian Democratic Forum (MDF), have retained their organizational independence but appear to have lost much of their capacity for independent political initiative. At the same time, a center-left bloc has formed around the post-Communist Hungarian Socialist Party (MSZP). The liberal Alliance of Free Democrats (SZDSZ) is its junior partner. The far-right Hungarian Justice and Life Party (MIEP), while maintaining opposing views on several key issues like EU membership, gives its ideological and practical support to the Fidesz-MPP-led coalition on ideologically charged issues that divide the coalition and the other two opposition parties.

In terms of partisan politics, the single most important event of the period covered by this report was the all but complete disintegration of the Independent Smallholders Party (FKGP), a junior partner in the ruling coalition that commanded nearly 15 percent of the popular vote in 1998. Owing to a series of corruption cases, nearly half of the party's representatives in Parliament defected in 2001. It now stands little chance of passing the 5 percent hurdle in the 2002 legislative elections.

Also notable in 2001 was the conclusion of an agreement between FIDESZ-HCP and Lungo Drom, a Roma organization, on cooperation in the 2002 parliamentary election campaign. Under the agreement, Roma candidates would receive three seats on FIDESZ-HCP's national list and seven seats on its regional lists. Florian Farkas, the head of Lungo Drom, described the alliance as "historic" and noted that it had been established "in the interest of

the prosperity of the nation ... in which Hungary's [Roma] obtain economic, social, legal and political interest representation." At the same time, Lorant Kertes, the chairman of the Democratic Roma Party, was critical of the alliance, fearing that it would divide Hungary's Roma community and therefore weaken its ability to pursue its agenda. Although the Fidesz-Lungo Drom agreement is an important gesture for its creation of Roma representation in Parliament, it should be noted that Florian Farkas lacks credibility among many Roma organizations and intellectuals, in part because his organization is often perceived as avoiding conflict with government authorities on important Roma issues.

The ideological cleavage between the two main blocs is considerable. Each side views the other as inherently hostile to political plurality and to the democratic polity as a whole. Some fear that the intensity of the conflict between the two political blocs is not conducive to the effectiveness and stability of the country's political system. Yet there is at least notional agreement between the two sides on such strategic issues as Hungary's Western orientation and the desirability of joining the European Union.

Domestic and international election-monitoring organizations such as the Organization for Security and Cooperation in Europe have judged all three post-Communist legislative elections as free and fair. The most recent Parliament elections took place in May 1998 and resulted in the dismissal of a center-left coalition that had consisted of the post-Communist MSZP and the liberal SZDSZ. The present governing coalition, led by Prime Minister Viktor Orban, comprises three center-right parties: the FIDESZ-HCP with 148 seats, the FKGP with 48 seats, and the MDF with 17 seats. The MSZP controls 134 seats and the SZDSZ 24. The far right-wing MIEP also emerged in this election and took 14 out of 386 seats. In 2001, these figures changed considerably when many representatives of the FKGP left the faction. The party's leaders now have little influence, even over the very members of the cabinet it has nominally delegated.

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 Arpad Goncz, 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 election, Parliament elected Ferenc Madl, a well-known professor of jurisprudence and a member of the conservative government between 1990 and 1994, 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. Popular participation in the political process, for example, has remained relatively low by European standards, 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. By comparison, no Western European country other than Switzerland (where local referenda decide most public issues) has a lower turnout in national legislative elections. In regional perspective, too, the nation's voter turnout rate is 19th among 26 former Communist and former Soviet countries, according to the International Institute for Democracy and Electoral Assistance (IDEA). In a narrower regional perspective, Hungary ranks 7th out of 10 Eastern and Central European countries.

Another indicator of insufficient popular backing for the democratic regimes is the fact that membership in political parties is low. Even according to their own records, the aggregate membership in the six parties represented in Parliament does not exceed 210,000, or less than 2.5 percent of the adult population. Furthermore, party officials readily admit that only an insignificant proportion of that figure can be regarded as effectively taking part in intraparty political activities. Due to these facts, rank-and-file members have little if any say in determining their party's general direction, except during leadership contests. In most parties, central executive bodies, which comprise a small number of elected officials, make the important political decisions. 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 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, especially during interelection periods. Since 1990, no single popular initiative has proved strong enough to significantly shape the nation's political agenda.

Civil Society

1997	1998	1999-2000	2001	2002
1.25	1.25	1.25	1.25	1.25

According to the Central Bureau of Statistics, there were 61,907 registered nongovernmental organizations in Hungary in 1999, 65,335 in 2000, and 67,151 in 2001. Ex-

perts agree, though, that no more than 20,000 or 30,000 of these actually carry out continuous activity. A 1998 amendment to the law on nonprofit organizations created a special category for NGOs whose activity promotes the "public benefit." This status, which the Metropolitan Court in Budapest can grant after reviewing an organization's application, guarantees NGOs special rights and obligations. An estimated 10,000 groups have the status of a public benefit organization.

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 such as bringing lawsuits against government agencies. Although there are no exact figures on the share of the population that participates in NGOs, estimates show that no more than 1 or 2 percent of the population engages in voluntary activity. Hungarian NGOs employ approximately 60,000 paid staff members. All major Hungarian churches, many small grassroots religious groups, and international religious organizations (or their Hungarian branches) maintain considerable networks for distributing goods to the needy. They typically focus their work on activities like helping the homeless or maintaining telephone help services of various kinds.

More than 60 percent of the Hungarian population claims to belong to one religious group or another. However, according to the U.S. State Department's 2001 *Report on International Religious Freedom*, independent surveys in the mid-1990s "indicated that the population is not particularly devout. Only 15 percent of those surveyed considered themselves to be religiously active and closely followed the tenets of their church. The majority, 55 percent, said they practiced religion in their own way or were nominally religious but not regularly active in their church."

The Roman Catholic Church is by far Hungary's largest and most influential religious formation. It enjoys the loyalty of approximately 70 percent of all persons who maintain religious ties. Traditionally, the largest Protestant church is the Calvinist Church, which claims the adherence of up to 21 percent. The Calvinist Church is especially strong in the eastern regions of the country. It is also the most politically active group and has strong ties with certain right-wing groups and parties.

The Catholic and Calvinist Churches, together with the other "historical churches" such as the Lutheran Church, the Unitarian (Anti-Trinitarian) Church, the Greek Orthodox Church, and the Jewish community, have certain privileges in gaining access to government support and public education. Newer religious groups—that is, mainly those that emerged after 1989, when religious life was freed from its previous constraints—enjoy fewer privileges. Some of the latter, especially a Pentecostal group called the Congregation of Faith, have steadily increased in popularity over the last two decades, despite repression in the 1980s and politically inspired denunciations in the

1990s. The Congregation of Faith now claims to be Hungary's fourth largest church.

Hungary was the first post-Communist country to adopt a law regulating the activities of public interest NGOs. Organizations that receive this status must disclose their revenues on an annual basis. A special feature of the law is a provision that allows all taxpayers to donate 1 percent of their personal income tax payments to any public interest NGO they choose. The beneficiaries of these payments must disclose such donations. Although there is a core of experienced trainers and practitioners who regularly organize courses in NGO management and fund-raising, 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 an annual budget that exceeds 5,000,000 forints (\$18,000) and, therefore, can be considered financially viable. Some of the better-trained and -organized NGOs receive funding from international organizations. These groups typically have well-defined agendas and focus on issues such as women or the environment that have greater international appeal. Yet the overwhelming majority of NGOs have to rely on their own resources or government funding. A program under which state property can be donated to non-profit organizations has stirred some controversy, with critics charging that the current ruling coalition has favored organizations with which it has political ties. Such allegations were made in connection with the previous government as well.

A variety of trade union associations has emerged in Hungary since 1989. Still, the post-Communist National Association of Hungarian Trade Unions is by far the most organized and has more members and vaster financial resources than the newly formed unions. Estimates of the number of employers that belong to trade unions vary widely. According to union estimates, the number of organized workplaces is no fewer than 1.3 million, or 36.1 percent of the total workforce. The records of the Bureau of Revenues indicate, though, that only 775,000 employers (or 20 percent) pay their members' union fees regularly. The proportion of organized workers is significantly lower in the private sector, and trade unions are virtually nonexistent in companies with fewer than 10 employees. Companies of this size represent 1.1 million laborers, or about 30 percent of Hungary's workforce of 3.8 million. Interest groups that represent small businesses and farmers are large in number but little in consequence, not least because they are plagued by internal divisions.

Trade union politics are notably nonmilitant, in part because the core labor establishment still comprises former fellow-traveler union bosses whose political ties with the nation's new political elite (excluding the MSZP) are notoriously weak. Arguably, their capacity for mobilization is quite limited even among their own ranks. The lack of strong labor organizations might have mitigated the political conflicts accompanying the most painful phases of the country's

political and economic transformation, yet this fact may turn out to be a problem in the future. Should a significant proportion of the population grow frustrated in its long-term economic and social prospects, the absence of well-established and effective institutionalized structures of worker action could lead to participation in more anarchic and violent forms of protest.

A number of public policy research institutes, typically in the field of economic policy, emerged during the early years of transition. Some, including GKI Ltd., Kopint-Datorg Ltd. and Tarki Ltd., were able to secure their reputations as reliable sources of information, often as a kind of external check on officially released data. On the whole, however, research institutes concentrate more on analysis and prediction than on policy proposals, and their influence on policy decisions is, in general, not clearly recognizable.

In the early stages of transition from Communist rule, Hungary introduced the legal basis for a pluralist (mixed public and private) education system. Although recent data have indicated shifting preferences, the vast majority of students still attend public educational institutions. It is estimated that in the year 2000 around 130,000 children (or 15 percent) under the age of 18 attended different private schools. Of these, 85,000 attended various church-based schools, and around 45,000 went to schools maintained by nonreligious private organizations. By comparison, in 1992 only 23,000 children attended church-based schools, and around 5,000 were registered in parochial institutions.

The primary and secondary levels of education are relatively free from ideological propaganda, and teachers may select from a wide variety of authorized educational materials. Ideologically inspired interventions by government authorities are rare, and a case in 2001 was an exception rather than the rule. In this case, the Public Administration Bureau of the city of Budapest, which supervises the operation of the school system, attempted to shut down a primary school that is run by a private foundation. The head of the Bureau alleged that the organization has ties with the Church of Scientology.

Independent Media

1997	1998	1999-2000	2001	2002
1.50	1.50	2.00	2.25	2.25

Hungary has a reasonably diverse market for print and electronic media. The primary sources of information on public affairs are the various television news programs. According to recent data, the three most popular prime-time daily evening news broadcasts boast 2.5 million to 3 million viewers on an average day. Public radio is also a major source of information, and its main news programs attract 1.5 million to 2 million listeners. The four national daily political newspapers have a total circulation of around 350,000 copies, with considerable estimated overlaps in readership. These

papers primarily provide information for the better-educated and wealthier segments of the population.

The vast majority of Hungary's media are 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 1,000 adults), only 300 did so by the end of the decade. Moreover, as a result of significant restructuring in the market for daily newspapers, tabloids and quasi tabloids 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.

Traditionally, the Bertelsmann-owned *Nepszabadsag* has enjoyed higher circulation (approximately 210,000 copies) than any other daily. Recently, however, the paper has taken second place to *Metro*, a free quasi tabloid that was founded less than two years ago and already enjoys a daily circulation of 240,000. Incidentally, *Nepszabadsag* is expected to change hands soon, because Hungarian regulations do not allow companies to own more than a 25 percent stake in both a national daily and a national television station. Bertelsmann's share in RTL-KLUB television (see below) exceeds that amount. The Swiss organization Ringier is expected to buy *Nepszabadsag*. Should this happen, it might foreshadow further realignments in the print media market, since Ringier owns another national daily newspaper, *Magyar Hirlap*.

After the merger in 2000 of the right-leaning newspapers *Napi Magyarorszag* and *Magyar Nemzet*, only four nationally circulated political dailies, including *Nepszabadsag*, remained. Analysts generally agree, though, that the Hungarian market is not strong enough to sustain four political dailies. Similar tendencies have been observed in the tabloid market as well. In 2001, for example, *Blikk* and *Mai Nap*, the two tabloids with the highest circulation, merged. So far, though, the transaction has failed to deliver expected increases in sales.

Hungary has five national television channels, three of which 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 began only a few years ago, it is difficult to estimate the financial viability of these stations. Nevertheless, observers tend to agree that TV2 and RTL-KLUB will be profitable in the long run.

Privately run media in Hungary are, for the most part,

editorially independent. It is true, though, that government agencies and party leaders have attempted at times to influence editorial decisions. For example, Parliament passed a piece of legislation in May 2001 that opponents believed would make serious impositions on editorial freedom. The bill, named Lex Repassy after its sponsor Robert Repassy, effectively stated that if a news organization publishes an opinion that someone considers unfavorable to him or her, it may be legally obliged to publish that person's response as a form of correction. In December, the Constitutional Court declared the law void in its present form. As one news report noted, the court "concluded that the legislation would excessively limit freedom of the press and expression by introducing the right of response without the restrictions applied in international practice."

Specifically, paragraphs 9 to 11 of the court's ruling upheld the principle of having opposing opinions obligatorily published, but claimed that the contested bill lacks sufficient specificity and thus is contrary to the rule of law. This implies that with sufficient specification, the bill could pass the test of constitutional review. A representative of the MSZP called the ruling "a red-letter day in the history of Hungarian press freedom." Repassy, however, believed the court's decision still "recognized...the right of reply as an important means of protecting the personal rights of the individual." He stated his intention to modify and re-submit the bill.

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 establishing a board of trustees for each channel. Each board has an eight-member presidium (or standing committee) with a four-year mandate. Half of each presidium's members are nominated by the ruling parties and the other half by opposition parties.

In 1998, shortly after the current government came to power, the presidium for Hungarian Television was dissolved. This action followed a series of contentious and failed attempts to elect the chairman of the institution. The new governing parties named their four representatives to the presidiums and noted that under the law 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 far-right MIEP, which has only 14 seats in Parliament, demanded two out of the four slots. The MSZP and the SZDSZ, with a total of 158 seats in Parliament, strongly disagreed. Thus, since the opposition parties failed to agree on their appointments, the presidium was formed solely with the four persons whom the governing parties selected.

Leaders of the opposition claimed, on the other hand, that the law allows for unilaterally forming the presidia only if opposition parties have failed to nominate candidates. They believe, also citing the law, that reaching agreement is not a prerequisite of having representation on the presidia. That is, the law does not specify that lack of agreement on either

side is sufficient ground for unilaterally forming the presidential bodies.

In discussing the controversy over the presidia, it is important to note that some observers of Hungary have suggested that the problem is with the law itself. The East European Constitutional Review, for example, has described the law as “faulty”, containing “legal loopholes” that can be exploited for political advantage. Specifically, the law states that “half of the members eligible to be elected into the Board of Trustees shall be nominated by the governing Parliamentary factions, the other half by the opposing factions in such a manner that at least one member nominated by all factions shall be elected ... The Presidential Body of the Board of Trustees is formed when all of its members are elected. However, the fact that the governing or the opposition parties do not nominate a member, shall not hinder the formation of the Presidential Body of the Board of Trustees.”

In 1999, the Constitutional Court issued a ruling on the law, which stated that “[w]ithout any doubt, it is an infringement of a rule protecting fundamental constitutional rights if either the government or the opposition is over-represented in the presidia...and thus may gain decisive influence” (paragraph 4 and paragraph 7.3). However, it also ruled that “unilaterally forming the presidia is, from a constitutional perspective, a ‘lesser danger’ for the freedom of opinion than if, in the absence of presidia, the boards of trustees of public media cannot function at all” (paragraph 7.3). For practical purposes, the court’s ruling upheld the current situation but recognized the concerns of the opposition parties.

This process was essentially repeated in early 2000, when the mandates of the presidia overseeing national public radio and Duna TV (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. Consequently, it is now widely argued that there is general bias in the media’s coverage of political events and a lack of monitoring of the executive’s activities in the national public media. According to the National Radio and Television Board, an organization that supervises the programs and activities of public and commercial broadcasting stations, appearances by politicians belonging to the ruling coalition parties outnumbered opposition voices by four or five to one during the first few months of 2001. In particular, the board has pointed out that certain public television and radio programs explicitly promote the ruling coalition’s political agenda.

The Hungarian press has uncovered illicit state activities, but transparency remains a problem. Difficulties associated with 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 previous years, the parliamentary commissioner for data protection and freedom of information tried in vain to persuade the cabinet to make the pro-

ceedings of its regular sessions accessible. In a recent case, the cabinet refused for months to answer questions about the use of public funds to disseminate information about cabinet activities. The opposition considers this information partisan propaganda.

Hungary has established the necessary environment in which a free press can function. The Constitutional Court ruled in 1994 that Article 232 of the criminal code, which deals with libel, was 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 a criminal prohibition against deliberately spreading panic that was used occasionally against journalists. In the same year, the Court upheld prohibitions against desecrating national symbols and displaying authoritarian symbols—a move that some 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 that “the law must secure the right to free speech regardless of its value-or truth-content.”

On the whole, the Constitutional Court has remained consistent in its robust interpretation of the freedom of expression. However, lower-level courts are occasionally more lenient with government officials who try to take legal action against journalists. Likewise, since the Constitutional Court is not an appeals court, the concrete legal practice is generally less favorable toward press freedom.

Governance and Public Administration

1997	1998	1999-2000	2001	2002
1.75	1.75	2.50	3.00	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. Deputies who represent parties in the governing coalition support the course urged by their leaders and rarely if ever vote against the instructions of the government. Therefore, the system of checks and balances between the legislative and the executive branches, and especially the opposition’s right to question the government’s activities, gains special significance. Typically, the legislature exercises its control over the executive not by voting against bills that the executive has proposed, but by engaging in public discussions.

One of the most important guarantees against any abuse

of the power 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, which Parliament adopted in 1994, details the rights of members of Parliament vis-à-vis the executive branch. It specifies that members of the government must answer interpellations and questions posed by members of 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, Parliament must establish special committees 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 instrumental in ensuring transparency and accountability.

Over the last three years, however, there has been a shift in the balance of power between the legislative and the executive branches of government. The shift concerns the general deliberative function of the legislature as well as the more specific problem of ad hoc investigational committees. In early 1999, representatives of the coalition parties decided that plenary parliamentary sessions should be held not every week but only every third week. As a result, the total annual number of plenary sessions has declined considerably.

The government's justification for the change was that since the legislature has little or no legislative staff, it would be more efficient to hold sessions every three weeks. However, it should be noted in this regard that Parliament's operational costs have continued to increase, despite the introduction of the three-week system. Thus, citing budgetary constraints on legislative staff could be seen as disingenuous. Another argument that is more often made in support of the three-week system is that representatives might attend to the concerns of their respective electoral districts in the intervening weeks. In fact, only 176 out of 386 representatives are elected in individual districts. Thus, one might argue that the other 210 representatives have little to attend to in the interim period.

To be sure, certain evidence suggests that despite the three-week system the productivity of the legislature has shown no dramatic decrease. The number of interpellations has remained largely unchanged, with 804 in the period between 1994 and 1998 and 696 in the period between 1998 and 2001. In addition, in the period between 1999 and 2001, Parliament passed 211 new bills and 268 resolutions. Of the 211 new bills, the ratification of international treaties, requiring no extended discussion, amounted to 134 in the period. In a comparable period with the 1-week system, between 1995 and 1997, Parliament passed 229 new bills and 374 resolutions. Of the 229 new bills, the ratification of international treaties amounted to 91. Thus, the

legislature passed 138 new domestic bills between 1995 and 1997, and 77 new domestic bills between 1999 and 2001. Although these figures might suggest a slight reduction in the legislature's productivity, it must be noted that the first few years of the transition period represented an extraordinary demand for new legislation in all areas of life. The slight reduction in the level of new legislation proposed may then represent the decreasing pressure to produce new bills in general.

However, other evidence suggests that the legislature's oversight capacity has been diminished as a result of the three-week system. For much of the past decade, the number of plenary sessions in non-election years ranged from 91 to 98. After the introduction of the three-week policy, the numbers fell to 66 in 1999 and to 69 in 2000. In the first part of 2001, there were only 35 sessions. The number of weeks during which plenary sessions take place declined from an average of 40 in the early 1990s to a mere 16 in 1999 and 17 in 2000. This essentially means that the legislature was deprived of the right to pose questions to representatives of the executive branch during 36 and 35 weeks, respectively, of the year. As a result, the number of so-called immediate questions dropped from a total of 1,276 between 1994 and 1998 to a mere 508 between 1998 and 2001. This aspect of the legislature's work is meant to impose external constraints on the executive by creating a scene of continuously discussing the activities of the executive. The rights granted to the opposition such as posing questions regularly or staging parliamentary investigations is crucial for the proper functioning of the legislature and the fulfillment of its role as a check on executive power.

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 well-publicized meetings of one such committee in 1996 and 1997 were widely seen as having been instrumental in the fall of the previous coalition. The parliamentary minority's right to such investigations is safeguarded by the provision that special committees must be established at the written proposal of at least 78 representatives.

By contrast, since the 1998 legislative elections, opposition parties have made nearly 20 requests for investigations of a variety of cases, with none resulting in the creation of a special committee. Rather, representatives of the coalition parties have either voted against the creation of such investigative bodies or tried to alter the proposed agenda of the committees. However, current regulations do not permit these actions. Most recently, the parliamentary majority rejected two separate calls by opposition parties to establish probes into alleged corruption cases that could have had direct links to the prime minister's family. Jozsef

KAZAKHSTAN



Polity: Presidential (dominant party)

Economy: Capitalist-statist

Population: 14,800,000

GNI per capita at PPP \$ (2000): 5,490

Capital: Astana

Ethnic Groups: Kazakh (53 percent), Russian (30 percent), Ukrainian (4 percent), German (2 percent), other (11 percent)

Size of private sector as % of GDP (mid-2001): 60

The scores and ratings for this country reflect the consensus of Freedom House, its academic advisors, and the author of this report. The opinions expressed in this report are those of the author.

↓↓ and ↑↑ indicate score changes of .25 or more. ↓ and ↑ indicate changes of less than .25.

NATIONS IN TRANSIT SCORES

	1997	1998	1999-2000	2001	2002
Democratization	5.30	↓ 5.35	↓ 5.38	↓ 5.56	↓↓ 5.88
Rule of Law	na	na	5.75	↓↓ 6.00	↓ 6.13
Economic Liberalization	4.38	↓ 4.50	4.50	4.50	↑↑ 4.25

KEY ANNUAL INDICATORS

	1995	1996	1997	1998	1999	2000	2001
GDP per capita (\$)	1,040.0	1,332.8	1,429.5	1,452.3	1,127.2	1,229.5	1,504.8
Real GDP growth (% change)	-8.2	0.5	1.7	-1.9	2.7	9.6	10.0
Inflation rate	176.3	39.1	17.4	7.3	8.3	13.2	8.6
Exports (\$ millions)	5,440.0	6,292.0	6,899.0	5,871.0	5,989.0	9,615.0	10,500.0
Imports (\$ millions)	5,326.0	6,627.0	7,176.0	6,672.0	5,645.0	6,850.0	8,200.0
Foreign Direct Investment (\$ millions)	964.0	1,137.0	1,320.0	1,136.0	1,584.0	1,244.0	2,000.0
Unemployment rate	13.0	8.6	7.3	6.6	6.3	12.2	11.0
Life Expectancy (years)	64.9	64.1	64.5	64.6	65.5	65.5	66.0

INTRODUCTION

In his early years in office, President Nursultan Nazarbayev achieved impressive success in portraying resource-rich Kazakhstan as a stable multiethnic state, well geared to introduce reforms and attract foreign investment under his enlightened leadership. By the end of his first decade in office, Nazarbayev had squandered most of his carefully cultivated reform credentials and found himself personally implicated in international media reports about high-level corruption in the country's oil and gas sector.

Since Kazakhstan adopted a new Constitution in a nationwide referendum in 1995, Nazarbayev, along with his close family members, has taken control of most strategic resources and distribution networks. The country's oil and mining sectors, pipeline and transportation networks, security services, and national media remain under the control of close family members. The 1996 takeover by the president's eldest daughter, Dariga Nazarbayeva, of the newly privatized Khabar news agency, turned out to be a severe blow to press freedom. The rapid rise of Nazarbayeva's husband, Rakhat Aliev, from an influential head of Almaty's taxation department in 1999 to deputy head of the national security service in 2001, appeared to confirm widespread speculation that Aliev was preparing to assume the leadership mantle from his father-in-law.

Moreover, a law enacted by the rubber-stamp Parliament in June 2000 gave Nazarbayev life-long immunity from prosecution, potentially allowing him to wield control over future presidents and governments. The law can be seen as an effort by the 62-year old president to safeguard himself from a potential battle for succession between his two sons-in-law. Timur Kulibaev, Nazarbayev's other son-in-law, is the head of the pipeline company Oil and Gas Transport, which oversees the marketing, transportation, and sale of hydrocarbon reserves. Before a recent restructuring, the company was known as Kazakhtransoil.

The Nazarbayev regime created a crisis in November 2001 when it dismissed several prominent reformers and technocrats known as the Young Turks. These young reformers, who had joined in the criticism voiced by a parliamentary deputy of Rakhat Aliev's hold over the national media, included Alikhan Baimenov, the minister of labor and social protection; Zhanat Ertilesova, the deputy minister of defense; Oraz Zhandosov, the deputy premier; and Ghalymzhan Zhakiyanov, the head of Pavlodar Oblast. The only reasons given for the ouster of the Young Turks were references by Prime Minister Kassymzhomart Tokaev to "at least two assassination attempts" on the life of President Nazarbayev and the need to "reconstitute the entire cabinet."

The Young Turks, who advocate greater economic liberalization and decentralization formed a party in 2001 called Democratic Choice of Kazakhstan. Nazarbayev's orchestra-

tion of the political crisis through two of his trusted henchmen, Prime Minister Tokaev and Marat Tazhin, the head of the national security service, was reminiscent of the Soviet method of dealing with dissent. Tazhin dismissed Aliev from his post as deputy prime minister to prevent further debate on reforms, only to see him appointed as deputy commander of the president's personal guard.

Despite these political troubles, Kazakhstan has enjoyed sustained economic growth and increased macroeconomic stability. The country has begun accruing revenues from its rich oil resources and has visions of greater prosperity on the basis of the discovery of what may be the world's largest oil reserves in the Karachaganak fields. Kazakhstan has outpaced most other post-Soviet states in gross domestic product (GDP) growth as well as in controlling inflation, increasing national savings, and providing decent wages. The impressive macroeconomic indicators of growth and stability, however, have been accompanied by reports of high-level corruption, particularly in the oil and gas sectors. Moreover, the government has yet to complement its economic reform measures, including privatization of the oil and gas sectors, with political reforms.

As Western governments and the Swiss Central Bank continue to investigate corruption allegations implicating the president, as well as Nurlan Balgimbaev, a former prime minister and head of the state-owned company Kazakhoil, Nazarbayev has found himself on the losing end of a propaganda war waged in the international arena by a coalition of opposition forces. Former premier Akezhan Kazhegeldin, who has been living in exile in the West since he fled Kazakhstan in 1997, fearing persecution, leads this coalition. The government made some headway in restoring its international image by pledging to "do all within its means" to help the U.S.-led international antiterrorism coalition. Kazakhstan and the United States concluded a long-term strategic partnership following Nazarbayev's visit to Washington in December 2001.

DEMOCRATIZATION

Political Process

1997	1998	1999-2000	2001	2002
5.50	5.50	6.00	6.25	6.25

Kazakhstan's current Constitution, in effect since 1995, provides for a French-style system that combines strong presidential authority with a republican form of government. Through presidential decrees and numerous constitutional amendments rushed through the subservient Parliament, Nazarbayev has tinkered with the political system to give himself an unlimited mandate. There is no legal or institutional barrier to Nazarbayev becoming president for life because term limits and a mandatory retirement age for the president have been lifted. Moreover, the law grants

cially recognized national-cultural centers, with the president, who also serves as the assembly's chairman, nominating the remaining members. These include academics, artists, writers, and social activists who represent various nationalities. The assembly lacks juridical power or a representative base and instead serves as an instrument to co-opt leading ethnic figures into the existing political system. Its members are encouraged to engage in "cultural" or "ethnographic" activities while steering clear of politics.

Civil Society

1997	1998	1999-2000	2001	2002
5.25	5.00	5.00	5.00	5.50

Nazarbayev has sought to co-opt political parties and NGOs into his program for the "democratization of society" and the "creation of the rule of law," both of which are enshrined in *Kazakhstan 2030*, the official vision of Kazakhstan's plan for reform by the year 2030. However, the closure of nearly all independent media, tightened censorship, strict governmental regulation of the civic sphere, and pervasive citizen apathy present serious obstacles to efforts at fostering civic activism and instituting a rule of law.

Kazakhstan's Law on Public Associations, in force since 1998, contains severe restrictions on freedom of assembly. The requirement that groups must obtain advance permission from the authorities to hold a public rally negates the constitutional right to freedom of assembly. Participation in an "unsanctioned" rally or meeting can lead to arrest and later conviction and a fine. Persons convicted and fined in a court of law are ineligible to occupy a public post or contest elections. Article 337 of the criminal code also provides stiff penalties for participation in an unregistered public association. Overall, surveillance by interior ministry forces, legal restrictions, and harsh penalties make it extremely difficult to organize any spontaneous public action. Any form of ethnic organization, as well as opposition activism, is especially castigated.

The Constitution authorizes ethnic groups to form official national cultural centers committed to protecting their cultural heritage. These centers are encouraged, and expected, to solicit support from their "kin" states for the cultural and material advancement of their respective groups. At the same time, the Constitution prohibits the formation of public associations or political parties that have ethnic, religious, or nationalist identities. The German and Korean centers have significantly benefited from material support from their kin states, as well as from individual ethnic sponsors. Germany has offered extensive help to enable the shrinking German community, which has about 300,000 members now compared to 930,000 in 1989, to remain in Kazakhstan. Similarly, South Korea has offered funds to help ethnic Koreans learn Korean and English, as well as other

subjects that will help them compete in a market economy. However, most other ethnic centers remain dependent on state support, which is modest.

The lack of cohesiveness among Russians and their geographic dispersion make it impossible for any single national-cultural center to represent their interests. Lad, the movement of Slavic unity and perhaps the most active Slavic organization in the country, is ineligible for the status of a "national-cultural" center because it does not claim to be a national organization representing a single nationality. Instead the authorities have recognized separate Ukrainian and Belarusan national-cultural organizations and encouraged their formal secession from Lad. A law requiring these centers to be registered with the Ministry of Justice serves as an important screening mechanism. Numerous Russian and Cossack groups in the northeast regions have come under especially tight surveillance. Groups championing the rights of ethnic Uighurs have also faced obstacles and prejudice because of a widespread perception among officials that many Uighurs are either separatists or terrorists.

The Constitution guarantees freedom of religion and proclaims Kazakhstan to be a secular state. Muslims make up 60 percent of the population; Russian Orthodox, about 32 percent; and Protestants, 2 percent. The remaining six percent consists of Catholics, Jews, and others. A report by the State Council of Religious Associations noted that there are 1,150 Islamic and 229 Russian Orthodox congregations in the country. In an attempt to curb foreign missionary activity and restrict militant Islamic groups, the April 2001 draft Law on Religious Freedom proposed banning "extremist religious groups" and making it mandatory for missionaries to register with the government. It also called for a ban on "unauthorized proselytizing activities" and the conferral of authority on the Ministry of Justice to determine "extremist" activities—a power against which citizens would find it difficult to seek redress.

In contrast to its clampdown on ethnic activism, the government has generally refrained from interfering with NGO activities. Counterpart Consortium figures indicate that as of October 2000, 814 out of the 3,050 registered NGOs were fully functioning. The United States Agency for International Development (USAID) has been actively involved in training NGOs to advocate their causes to the government. A joint NGO-parliamentary working group is drafting new NGO legislation. USAID has trained more than 600 government leaders and professionals to implement political and economic reforms; 45 percent of them are women. The agency has focused in particular on electoral reforms by providing training through NGOs to local election observers. The Soros Foundation provides small grants to NGOs to hold hearings and conduct other activities. NGOs produce 35 newsletters and have 7 major associations. Some of the more experienced organizations, including the Counterpart Consortium, the Feminist League, and the Initiative for Social Action and Renewal in Eurasia, serve as umbrella groups for newer NGOs.

As with political parties and public organizations, NGOs must register with the Ministry of Justice. Groups that focus on social welfare issues tend to face relatively little governmental pressure, while those that work on ethnic issues and human rights face obstacles in obtaining registration and maintaining their legal status. Some positive signs of a growing mutual dialogue and partnership between the government and NGOs are emerging. In a poll of government officials in five cities conducted by the Association of Social and Political Scientists, 41.5 percent of respondents recognized the need for the government to “collaborate” with NGOs.

NGOs largely depend on external funding, mainly from the West. Domestic political and financial pressures understandably push NGOs to obtain international assistance and protection. However, given that international aid is on the decline, their sustainability is a particularly serious issue.

Negative attitudes toward NGO activities are still common, in part because a good number of organizations came into being in order to tap into funding opportunities created by international development programs. Many lack internal accountability and are primarily networks of friends and families with limited organizational capacity. The majority of grants to NGOs are for specific projects that reflect the priorities of development agencies rather than local initiatives. This has led some opportunistic individuals to create NGOs simply to make a profit. However, the more successful NGOs, particularly in the health and education sectors, are slowly altering official as well as popular perceptions of their roles.

Another problem is that NGOs have tended to cluster around the former capital, Almaty, and the southern regions. Almost half of all NGOs are concentrated in the Almaty oblast, and an overwhelming proportion of these are in Almaty itself. Meanwhile, the more remote and needy regions, particularly in central and northeastern Kazakhstan, have few NGOs.

Obstacles to NGO activities tend to be informal rather than legal. A common government control mechanism is the creation of state-sponsored “independent” organizations that get favorable treatment in receiving their registration and obtaining funds. Meanwhile, genuinely independent groups are subjected to bureaucratic, financial, and judicial pressure. The government-supported NGOs also compete for international aid. A typical example is the children’s health and charity fund Bobek, which is headed by Sara Nazarbayeva. Serving as an umbrella organization, Bobek sponsors smaller NGOs and funnels international aid to them.

NGOs that promote women’s issues have been quite effective. The Women’s Network of Almaty, a women’s support group set up in 1998, established the country’s first women’s political party, the Political Alliance of Women’s Organizations, to contest the 1999 elections. The Kazakhstan Businesswomen’s Association has demanded equal representation for women in Parliament and other

political organs. It has also set up a Women’s Political Leadership project that offers seminars in 13 major cities to train female NGO leaders, businesswomen, and politicians.

Financial pressures lead many NGOs to seek tax breaks, and this in turn encourages group to seek patronage from the regime so that they can work without fear of being audited. The government often uses tax audits to put disfavored NGOs or businesses out of operation. As a result, NGOs often cultivate informal patronage networks within the regime so that they can work without harassment.

Following lobbying efforts by the International Center for Not-for-Profit Law, Kazakhstan introduced the most progressive NGO taxation regime in Central Asia. NGOs receiving grant money from international organizations, and the donors themselves, are no longer obliged to pay taxes on such contributions. Before January 2000, when the amended tax code came into effect, grants were considered income and therefore subject to taxation. Similarly, NGOs that engage in business activities to supplement their income receive tax breaks.

Independent trade unions are needed to improve labor relations and safeguard worker’s rights. The closure of various industrial enterprises and mining sites because of a lack of finance and equipment has led to nonpayment of wages and the collapse of the social welfare system. Claiming some four million members, the state-sponsored Association of Trade Unions (ATU) remains the largest organization in terms of formal membership. Independent unions have steadily challenged the dominant status of the ATU, a successor to the Soviet-era General Council of Trade Unions. The Confederation of Independent Trade Unions, supported by the Human Rights Bureau and numerous other nonprofit organizations, has set up grassroots organizations across the country and claims 250,000 members. It is the first Soviet-era union in the former empire to gain membership in the World Labor Confederation.

Independent Media

1997	1998	1999-2000	2001	2002
5.25	5.50	5.50	6.00	6.00

Independent media outlets have found it impossible to survive ever since Dariga Nazarbayeva and Rakhat Aliev became the owners of Khabar, the privatized former state news agency. The couple wields control over major newspapers and broadcast channels through auxiliary companies that have majority stakes in these nominally privatized media. Among the prominent print and broadcast media owned or controlled by Nazarbayeva and Aliev are the newspapers *Vremya*, *Karavan*, *Novoe Pokolenie*, *Argumenty I Fakty*, and *Komsomolskaya Gazeta* and the television channels Khabar and KTK. The Russian-language *Kazakhstanskaya Pravda* and the Kazakh-language *Egemen Kazakstan* are the main state-supported newspapers.

Nazarbayev's practice of appointing the akims is geared toward preventing them from developing independent support bases in the regions. It has thus led to a high rate of turnover in regional leadership. The average tenure of an akim is less than one-and-a-half years.

Kazakhstan introduced elections for some local administrative positions in October 2001. However, the OSCE's Office for Democratic Institutions and Human Rights noted that the voting procedures in the elections for regional administrators in Kazakhstan's 14 oblasts were flawed and that the balloting did not meet international standards. The Kazakh Central Election Commission rejected the OSCE's criticism as "superficial." A survey by an independent research institute headed by the sociologist Sabit Zhusupov noted 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. As such, regional heads do not have the formal authority to generate their own revenue from local taxation. In practice, however, they exercise de facto control over these matters. The relationships between Nazarbayev and individual regional heads largely reflect personal connections and patronage. Akims in the regions that have attracted the most foreign investment, such as West Kazakhstan, have exercised considerable control over budgetary matters and have even extracted significant contributions from foreign investors for various "social and welfare projects" in their regional budgets.

Kazakhstan has taken some preliminary steps toward introducing a career civil service system. The Civil Service Agency, created to manage the implementation of the 1999 civil service law, plays a leading role in implementing administrative reform and downsizing ministries that have traditionally controlled recruitment, promotion, and dismissal procedures. USAID and TACIS, the EU's technical assistance program, have offered assistance in developing training programs for civil servants and implementing a system of job descriptions and classifications.

RULE OF LAW

Constitutional, Legislative, and Judicial Framework

1997	1998	1999-2000	2001	2002
5.00	5.25	5.50	5.75	6.00

Neither the Constitution nor the *Kazakhstan 2030* strategic development plan contains any explicit references to the rule of law. Kazakhstan's judicial system came under the severe scrutiny of international observers during the 2001 trial in absentia of Kazhegeldin. He had been accused of numerous politically motivated charges such as acceptance of bribes, non-payment of taxes, misuse of authority as prime minister, and possession of illegal weapons. Kazakh diplomats went so

far as to attempt to subpoena Kazhegeldin during a July 2001 hearing before the U.S. Congress on human rights conditions in Central Asia. In addition, the media published a summons requiring Kazhegeldin to return to Kazakhstan to face trial. The regime's persistent efforts to secure his return and to confiscate his allegedly ill-gained financial assets have proved futile and counterproductive.

In characteristic Soviet fashion, the authorities induced so-called witnesses to testify against Kazhegeldin. In their testimony, many of these individuals confessed to crimes that they might not have committed but for which they could be tried on the basis of their own false testimonies. In addition, a special law amended Article 284 of the criminal procedure code in March 2001 to allow the trial to be held in absentia. Supreme Court Justice Bektas Beknazarov pronounced Kazhegeldin guilty on all counts, sentenced him to ten years imprisonment, ordered full confiscation of his property, and fined him \$11 million as "compensation for the harm caused by his illegal activities while serving as Kazakhstan's Prime Minister."

Before the Kazhegeldin trial, which exposed the subordination of the judicial system and rule of law to the regime, Nazarbayev himself unleashed a scathing attack in June 2001 on the judiciary for committing errors, causing delays, and being incompetent. He deemed existing judicial reforms a "failure" and said that further changes to the internal structure of the judiciary were more urgent than guarantees of its independence. The executive has continued to tamper with the structure and composition of the judiciary without creating any constitutional provisions to safeguard its independence.

Corruption is endemic in the judiciary. Bribes, rather than appeals to higher courts, ordinarily settle cases. Poorly paid judges supplement their incomes by soliciting bribes and favors. Entrance into the legal profession is highly coveted, and anecdotal reports suggest that faculties at the most prestigious universities routinely demand from prospective law students bribes ranging from \$10,000 to \$20,000. The American Bar Association has estimated that 80 percent of Kazakhstan's lawyers are state employed; however, the number of lawyers who are either self-employed or work with foreign companies is growing rapidly. The two main associations of independent lawyers are the Association of Lawyers of Kazakhstan and Legal Development of Kazakhstan, both based in Almaty.

The 1997 criminal code retains many of the features of the Soviet-era code on which it is based. It prohibits authorities from detaining individuals for more than 72 hours without charge. With the approval of a prosecutor, a person may be held for up to ten additional days. In practice, police routinely hold detainees for months without bringing charges against them. Although in some cases the charges are politically motivated, most detainees have been arrested for petty crimes.

The criminal code is subject to interpretation by the executive, particularly by officials in the Ministry of Inter-

nal Affairs. Local police are generally unaware of changes in legislation and simply execute orders received from above. There is no legislation punishing torture by police. The Ministry of Interior Affairs is responsible for conducting inquiries into allegations of torture, but its own officials have a widespread reputation for using torture. Human rights advocates have urged that the prosecutor's office, rather than the Ministry of Interior Affairs, should conduct investigations into allegations of torture.

According to Kazakhstan's International Bureau of Human Rights and Rule of Law, Kazakhstan ranks among the top six or seven countries in the world in the per capita use of the death penalty. The Bureau has convinced the government to introduce a two-year moratorium on capital punishment. It estimates that seven out of every 1,000 citizens are prisoners.

Kazakhstan's Constitution guarantees human rights but does not spell out mechanisms for safeguarding them. It promises citizens equal rights regardless of race, ethnicity, or religion. The status of Kazakh as the sole state language has resulted in ethnic Kazakhs receiving preferential treatment in government employment and education. This has affirmed a widespread belief among non-Kazakhs that they are essentially second-class citizens. The elevated status of the Kazakh language has led several schools and universities to switch to Kazakh from Russian as the medium of instruction.

Corruption

1999-2000	2001	2002
6.00	6.25	6.25

Corruption complaints are widespread at all levels of the government, bureaucracy, and legal system, as well as in education. In 1999, Kazakhstan ranked 84th on Transparency International's Corruption Perception Index. It scored 2.3 on a scale of 1 to 10, with 10 representing the lowest level of corruption. It improved its rating somewhat in 2000, ranking 65th among 91 states surveyed. This placed Kazakhstan above Russia, Kyrgyzstan, and Azerbaijan.

The Nazarbayev regime's request to the Swiss Central Bank to investigate accounts held by Kazhegeldin backfired because authorities discovered suspicious multimillion dollar transfers into accounts suspected of belonging to Nazarbayev, former premier Nurlan Balgimbaev, and numerous family members and associates of the president. Payments into Kazakh treasury accounts for drilling and exploration were transferred instead into private accounts controlled by Nazarbayev, Balgimbaev, and a U.S. middleman, James Giffen. Swiss prosecutors confirmed in September 2001 that millions of dollars have been held in personal accounts linked to Nazarbayev and several of his close associates; these accounts have been frozen while inquiries are being conducted.

A July 2001 article in the *New Yorker* noted that Exxon Mobil paid more than \$1 billion to other foreign companies in a plan devised by Giffen for Kazakhstan to swap oil with Iran. Giffen is accused of paying at least \$35 million in bribes to top Kazakh officials and is under investigation by the U.S. Federal Bureau of Investigation. The article also details how, in return for selling a 25 percent share in the Tengizchevroil joint venture, Nazarbayev made numerous demands on ExxonMobil. These included \$1 billion in cash, a Gulfstream Jet for his personal use, construction of a tennis court near the new presidential palace in Astana, and four mobile satellite communication rigs for the news agency Khabar. Although the Nazarbayev regime has accused former premier Kazhegeldin of funneling oil money from the state treasury into accounts held in Switzerland, inquiries by Swiss Bank officials have failed to find any evidence of his involvement.

A prominent South Korean businessman, Choi Soon-young, is currently on trial in his country for giving \$10 million in bribes to Nazarbayev in 1996. Choi allegedly paid the money in order to procure a diamond-processing license for his Shindongah Company and for other business ventures in Kazakhstan.

The extent and precise manifestation of corruption in Kazakhstan is impossible to document because there are no independent agencies in the country that investigate allegations of corruption. The prosecutor-general's office formally handles such inquiries in conjunction with the Ministries of Justice and Internal Affairs. The prosecutor-general, however, is appointed by the president and is not accountable to the government. Inquiries into alleged corruption cases are almost invariably politically motivated and ordered by top government leaders.

Kozykorpesh Karbuzov, a Ministry of Interior Affairs official, reported that 141 civil service officials were convicted of corruption-related crimes in 2000. However, multimillion-dollar corruption allegations reported in Western media stand no chance of receiving coverage in Kazakhstan's media, and the implicated ruling elite will almost certainly not be prosecuted. The political elite in Kazakhstan consists of prominent political figures who head major business groups. Although these business groups depend on the presidential family for patronage, they compete intensely against each other. The regime has co-opted many powerful entrepreneurs by offering them political positions.

Under pressure from the regime, Bulat Abylov, a prominent young independent entrepreneur, contested elections as a member of the pro-regime Otan Party in 1999. In November 2001, two years after winning a seat, he was dismissed from Parliament after leaving Otan and joining the Democratic Choice of Kazakhstan movement, which was founded by a group of reformists who were dismissed from their government posts. Ermukhan Ertysbaev, a pro-regime ideologue, asserted that "business and power constitute a single monolith in Kazakhstan, whose unconditional

can achieve the same level of wealth as Kuwait, as its leaders are fond of suggesting, while avoiding the glaring economic inequalities between the ruling elites and the rest of the population found in other oil-rich states, notably Saudi Arabia, Iran, Iraq, and Libya. Economic liberalization has also strengthened oligopolies, causing a further setback to political reforms and democratization. Thus far,

economic growth derived from oil money has only exacerbated economic inequalities.

Bhavna Dave is a lecturer in Central Asian studies with the department of politics at the School of Oriental and African Studies, University of London. She has published articles on ethnic, language, and census politics in Kazakhstan.

DEMOCRATIZATION

Political Process

1997	1998	1999-2000	2001	2002
5.00	5.00	5.00	5.75	5.75

In 2001, the political system in Kyrgyzstan was largely stable. With the hotly contested parliamentary and presidential elections of 2000 complete, public rallies were fewer and opposition-led public events drew smaller crowds. Significantly, a widely feared incursion by the radical IMU, which in 1999 and 2000 had created much anxiety among the non-Kyrgyz population and the secular Kyrgyz elite, did not materialize. The government largely tolerated the activities of mainstream opposition political organizations and nongovernmental organizations. However, it exhibited less patience for opposition mass media and investigative journalists who have tried to expose corruption among high-ranking government officials. Moreover, the National Security Committee (the successor to the KGB) launched a major crackdown on nonmainstream groups, notably Hizb-ut-Tahrir. To justify the crackdown, the committee alleged that support links existed between the Taliban government in Afghanistan and radical Islamic groups in Kyrgyzstan such as the IMU. After the terrorist attacks on the United States in September 2001, the committee broadened its allegations to include links to or sympathies toward Osama bin Laden.

The outcomes of the 2000 parliamentary and presidential elections, which laid the groundwork for political development until the next election cycle, shaped Kyrgyzstan's political environment in 2001. During the 2000 elections, the opposition engaged in a bitter struggle with the government and lost. At the same time, although President Akayev's growing penchant for authoritarianism hardly surprised local policy analysts, his reputation in the West as one of the most democratic post-Soviet leaders suffered significant damage.

Akayev, an optic physicist by training and a former president of the Kyrgyz Academy of Science, came to power in 1991 in a direct presidential election in which he defeated the country's former Communist Party leadership with strong backing from both newly established political parties and the public. He presented himself as a strong team player and, during his first term in office, brought a number of young, energetic, and democratically oriented intellectuals into the presidential administration.

Frustrated, however, with growing economic difficulties, social unrest, and the inability of his team to adequately address the country's problems, President Akayev began to replace his entourage with former Communist Party bureaucrats and provincial party bosses who he believed would be more capable of delivering results. This change affected the intellectual environment in Kyrgyz policy-making circles and brought about a Soviet-style political realignment that

concentrated decision making in the hands of the new state bureaucracy. Akayev's new team introduced tactics that were reminiscent of those of the late 1980s, such as marginalizing the political opposition, harassing independent mass media, and vesting power in informal and patronage networks.

On February, 20, 2000, Kyrgyzstan held elections to its bicameral, 105-seat Parliament for the second time since 1991, the year it declared independence. (The last election had taken place in February 1995.) The preelection campaign was free of violence and armed confrontation, and most candidates were able to work openly with their electorate. Few interrogations of the candidates took place during the voting process, and local and international observers enjoyed access to the election ballots. However, one could hardly call the elections free and fair.

The government and the state bureaucracy, which consisted largely of the president's appointees, used various legal means and loopholes to prevent several influential opposition politicians from registering for the parliamentary elections. In some districts, there were also reports of misconduct in the counting of ballots. The irregularities before and during the parliamentary elections were so blatant, in fact, that even the country's pro-government intelligentsia condemned them as "a bad job in the best Soviet tradition." Observers from the Commission on Security and Cooperation in Europe described the election as "a disaster for Kyrgyzstan's reputation as an oasis of democracy in the authoritarian Central Asian desert.... The government's conduct of the campaign," their report continued, "had excluded parties and candidates and ultimately limited the choice open to the electorate. The second round was worse, featuring flagrant official interference and vote rigging."

Even during the registration process, the state bureaucracy used the legal system and minor electoral irregularities to try to weaken the opposition. In February 2000, for example, the Democratic Movement of Kyrgyzstan (DDK), the country's oldest opposition party, lost its registration for committing a so-called violation of legal procedures that prevent party congresses from taking place if they do not have a quorum. Newly introduced regulations that require parties to have been registered for one year before they can participate in an election prevented two other key opposition parties, Ar-Namys (led by Felix Kulov) and Bei Bechara (led by Daniyar Usenov), from participating in the elections. The Central Election Commission (CEC) cited minor irregularities or violations of election rules when they prohibited several more opposition leaders and independent candidates from running as well. For example, it barred candidate Marat Kaiypov from running just one day before the polling on the grounds that he did not resign from his public post before registering for the election.

On election day, 230 candidates competed for 45 seats in the El Okuldor Jiyiny (Legislative Assembly); 186 candidates vied for 45 seats in the Myizam Chygaruu Jiyiny (Assembly of People's Representatives). An additional 15 seats in the Legislative Assembly were filled on the basis of

proportional representation. Since only a few candidates received a mandate in the first round with 50 percent plus one vote, a runoff followed on March 12. Only 57.8 percent of the electorate cast votes in the first round and 61.86 percent in the second round. Male and female voters participated in equal numbers. Kyrgyz society traditionally does not prevent women from participating in public life, and women's NGOs form a powerful lobby.

According to the final results for both houses, independent candidates took 73 seats; the pro-Akayev Union of Democratic Forces, 12 seats; the opposition PKK, 6; the pro-government My Country, 4; the pro-Akayev Democratic Women's Party of Kyrgyzstan, 2; the pro-Akayev Party of the Veterans of the War in Afghanistan, 2; the opposition Poor and Unprotected People's Party, 2; the opposition Ata-Meken Socialist Party (Fatherland), 2; the pro-government Agrarian Labor Party, 1; and the opposition Erkin Kyrgyzstan Progressive and Democratic Party, 1. The independent candidates, who mainly represented cities outside the capital, including its suburbs, were not necessarily presidential loyalists. Many clearly represented the interests of the regions, which were dissatisfied with existing government policies and significant budget cuts that directly affected them.

The election proved to be the opposition's biggest defeat since independence. Two candidates in particular were thought to have the strongest chances of winning. Felix Kulov, the former vice president, and Daniyar Usenov, a former parliamentarian and chairman of the opposition Poor and Unprotected People's Party, both had sound political experience and sufficient financial resources for the preelection campaign. They were also well-known in the country. But Usenov, a powerful man and a tough politician, was barred from participating in the second round on the grounds that he had not disclosed all of his property holdings. Kulov, a prominent opposition leader, garnered a lead in the first round but was dealt a curious upset in the second round. Ultimately, just seven opposition candidates received a mandate in direct elections.

When the parliamentary elections were complete, all sides focused on the presidential elections, which were scheduled for October 20, 2000. The state bureaucracy's strategy was two-pronged. Their main focus, as in neighboring Kazakhstan in 1999, was to prevent the strongest opposition candidates from registering. Their second goal was to let as many weak opposition leaders as possible register. By doing so, they aimed to split the opposition vote.

With the first part of the strategy—to prevent the biggest challengers from entering the race—the state bureaucracy found success. As in the parliamentary elections, the greatest hope for an opposition victory lay with Felix Kulov and Daniyar Usenov. However, both men failed to meet the registration requirements: nominations by September 14, registration by September 24, collection of 100,000 signatures, a clean criminal record, and passage of a fluency test in Kyrgyz. Usenov's previous criminal convictions (on charges he has denied) ruled him out. Kulov, whose spoken

Kyrgyz became the subject of jokes among local journalists, decided not to sit for the language exam. Instead, he gave his support to Omurbek Tekebayev, chairman of the moderate opposition Fatherland. In the end, the election committee officially registered six candidates: President Akayev; Omurbek Tekebayev; Almazbek Atambayev, an industrialist; Melis Eshimkanov, a journalist and one of the leaders of the Banner National Revival Party (Asaba); Tursunbay Bakir-Uulu, a leader of the Erkin Kyrgyzstan Party; and Tursunbek Akunov, a human rights activist.

The mass media were an important force in the campaign. State-controlled television, which remains the most important source of information in Kyrgyzstan, met the legal obligation to provide free airtime to all candidates and all political parties. However, opposition leaders complained that the broadcast gave significantly greater coverage to the incumbent president's activities—something they perceived as indirect support for the president. Pro-government newspapers portrayed the incumbent president and the government as a team that could deliver results. However, the campaigns themselves focused not on manifestos or strategic issues, but on the settlement of regional (north-south) accounts and on candidates' personalities. It is important to note here that several newspapers that are important and influential in the capital city and in surrounding towns do not at all reach most rural areas. Looking back on the campaign, the opposition newspaper *Res Publika* described the policy of the pro-government media in these following words: "to slander, to make fool, to depersonalize."

On election day, President Akayev won in the first round with 74.4 percent of the vote. Turnout was 77.3 percent. To win, he needed only 50 percent plus one vote. Akayev's main opponent, Omurbek Tekebayev, received just 13.9 percent of the vote.

Akayev's success came at an extremely heavy price for Kyrgyzstan. The irregularities in both the parliamentary and the presidential elections tarnished the country's earlier image as an "island of democracy." Kyrgyz policy makers, who simply could not resist the temptation to "correct" the country's democratic procedures in the supposed interests of the majority, justified their actions under the guise of maintaining political stability and unifying the country in the face of incursions by militant Islamists.

Both the ambiguity of the current electoral law and significant changes in the electoral system contributed to the failure of the opposition parties to challenge the pro-government parties and to capture more seats in the parliamentary elections. In 1994, for example, President Akayev initiated a series of constitutional changes that ultimately weakened the legislative branch of government. Through a national referendum, he garnered public support for, among other things, making the unicameral Parliament a bicameral body that would consist of a 35-seat Legislative Assembly and a 70-seat Assembly of People's Representatives. On December 6, 1994, President Akayev presented these changes in the Constitution to the Constitutional Council.

As a result of these changes, Parliament emerged a significantly weaker body. The downsizing hit small, emerging parties particularly hard because it made it difficult for them to compete against regional bosses and representatives of the former state bureaucracy. However, despite the new composition, Parliament remained strong enough to challenge the president on important economic and social policies. Additional constitutional changes in 1998 would change the composition of Parliament yet again by increasing the number of seats in the Legislative Assembly to 60 and decreasing the number of seats in the Assembly of People's Representatives to 45. These provisions guided the parliamentary elections in 2000.

The electoral system in Kyrgyzstan has also undergone several significant changes. Prior to modifications, Kyrgyzstan's election law stipulated that the nomination of candidates should begin "from the day of an official publication of the list of constituencies." Registered political parties, public organizations (such as labor collectives), and groups of voters could all nominate candidates. Candidates were required to deposit an "amount equal to 300 minimum [monthly] salaries" with the Central Election Commission. On April 29, 1999, though, the Legislative Assembly approved new and controversial changes in the election law. Under the amended law, political parties must register at least 12 months prior to an election in order to participate in it.

An election is valid if 50 percent of all registered voters take part. If two or more candidates run in a district and neither wins more than 50 percent of the vote, the district election commission must schedule a runoff within two weeks. The two candidates with the highest votes are eligible for the runoff. The candidate who receives the larger number of votes in the second round wins the seat in Parliament.

Both the Constitution and the Law on Public Organizations generally guarantee basic freedoms of associations and do not restrict the activities of political parties and NGOs. However, state officials have never hesitated to intimidate opposition groups over minor irregularities. At the beginning of the 1990s, more than 40 political parties, groups, and organizations were active in Kyrgyzstan, mainly in Bishkek. By the middle of the 1990s, some had consolidated into more or less coherent Western-style political organizations by trying to identify their core constituencies, clarify their political platforms, and institutionalize their structures. Yet many parties and groups still have no clear strategy, rarely study the interests of their electorate, and are simply unable to reach their potential supporters with a clear policy agenda. Few, if any, have managed to expand their activities effectively beyond the capital. A deeply rooted regional rivalry between the country's urbanized north and its rural south has seriously undermined the opposition's ability to unite.

Although the country banned the Communist Party shortly after the August 1991 coup against Soviet president Mikhail Gorbachev, the party soon reemerged as a significantly weaker and smaller organization. Today, the Party of Communists of Kyrgyzstan (PKK) regularly condemns the

government's radical "shock therapy" approach to economic reforms. It also calls for reestablishing price regulations, reversing the privatization program, and reinstating state control over major sectors of the national economy, including large industrial enterprises, mining, and foreign trade. The PKK is probably the only party in Kyrgyzstan that has a truly mass membership base that stretches around the country. Although the party still receives strong support from industrial workers, pensioners, war veterans, and small groups of the urban intelligentsia, it has been unable to recruit support from the country's decisively important younger voters.

Parties with centrist orientations, including My Country, the Union of Democratic Forces, and the Democratic Women's Party of Kyrgyzstan, support market-oriented economic reforms, further democratization, and improvements in living standards. They also stress that "Kyrgyzstan is our common house" and call for stronger civic nationalism and greater equality for all ethnic groups. These parties rely on support from the state bureaucracy (something that is crucial for the success of pro-government parties) and the liberal national intelligentsia. They also enjoy strong support from ethnic minorities, who still fear a return of the ethnic violence and instability that characterized the years 1989 and 1990. A very important segment of the centrists' electorate is the so-called new Kyrgyz, who made substantial personal fortunes during mass privatization and sought to gain political influence in the legislature and personal immunity from prosecution.

The platforms of opposition nationalist parties like Asaba emphasize national resurgence, ethnic nationalism, and stronger national sovereignty. They appeal primarily to the country's frustrated youth, especially newly urbanized intelligentsia and entrepreneurs, who have largely missed out on the rewards of privatization and economic liberalization. This segment of the population has a negative perception of the government's policies of multiculturalism and civic nationalism, and it has criticized the government's "unnecessary concessions" to ethnic minorities in its language policy and on other issues.

Political life at the *raion* and oblast levels has become increasingly dominated by the local bureaucracies, with whom most people have ties through personal and rebounding tribal and clan loyalties. Kyrgyzstan's clans are amorphous and have no clear mode of operation in the country's political life. They are bound more by informal arrangements and rules, and their strength lies in representing regional interests. The so-called northern clan represents the Chui, Issyk-Kul, Naryn, and Talas regions (oblasts), while the so-called southern clan represents the Batken, Dzalal-Abad, and Osh regions.

These clans have a strong effect on political mobilization and voting patterns, and no political party finds success at the national level without their support. After the 1995 parliamentary elections, for example, this fact became quite clear. Many political leaders realized that establishing and nursing the regional networks of traditional clan support is

often more important than gaining the support of weak political parties and organizations.

Government activities also have undermined the consolidation of opposition parties and political organizations. As a result, many disagreements between the opposition and the government are not over political alternatives but, rather, over government appointments or regional rivalries. This was evident during the 2000 parliamentary elections, which proved to be more about personalities and clan support than about competition among political ideas, programs, and ideologies.

When the government's tolerance for opposition decreased substantially in 2001, public protests and opposition rallies became a risky business. In May, a district court in Bishkek fined Emil Aliev, the deputy chairman of the Ar-Namys, and several other people for organizing unsanctioned demonstrations in the capital. In June, authorities detained several people in Bishkek for "hooliganism" when they organized unsanctioned meetings in support of the popular politician and "people's general," Felix Kulov. Despite strong international pressure, Kulov, a leading opposition figure and the strongest candidate against Akayev in the 2000 presidential elections, had been sentenced on January 22 to seven years in prison for abuse of power. It is difficult to assess the merits of this case because Kulov was once part of the ruling state bureaucracy. Some local observers believe that his troubles relate more to intra-elite struggles for power than to sound political differences. Rumors have circulated that an attempt was made behind the scenes to release him in exchange for his silence.

To be fair, the government has made some concessions. Among the most important was its decision in August 2001 to free Topchubek Turgunaliyev, an eminent and uncompromising opposition leader convicted in 1999 of the dubious charge of maintaining "ideological leadership" over a group of would-be assassins who allegedly had plotted to murder Akayev. Turgunaliyev was among the founding members of the first democratic groups in Kyrgyzstan, including those who brought Akayev to power, and he was among the first to criticize Akayev and his close associates (collectively known as "the Family") for wrongdoings, corruption, and economic mismanagement.

Civil Society

1997	1998	1999-2000	2001	2002
4.50	4.50	4.50	4.50	4.50

The political liberalization of the early 1990s and the influx of extensive support from foreign NGOs, international organizations, and individual countries have helped to establish some foundation for civil society in the Kyrgyz Republic. Since 1991, more than 3,000 NGOs have been established and registered in the republic. However, many have disappeared or become inactive. At present, between 600 and

1,000 NGOs, or between 20 and 30 percent of those registered, are actually active. These groups focus on providing various social services not only in the capital and its surrounding regions but, most important, in remote mountain villages. Many NGOs are led by local activists, whose mission it is to increase awareness about the importance of volunteerism and philanthropy. Many NGO leaders are women who had been active in public life during the Soviet era, when informal quotas required the government to reserve 30–40 percent of all public positions for women. They turned to the work in NGOs when, during the economic recession of the 1990s, they lost their jobs.

Although precise figures are not available, up to 5 percent of the working adult population, or approximately 100,000 people, are active in voluntary activities. This figure does not take into account the *ashar*, an old tradition of providing assistance to community members who are in need—including single mothers, the elderly, and the disabled—by gathering donations or organizing community work. The *ashar*, which are led by *aqsakals* (community elders), are popular in the southern provinces of the republic, especially in the rural areas.

In addition, some religious groups have begun to play a greater role at the community level because Soviet-era restrictions on their activities have been considerably relaxed. Many religious organizations, both Christian and Islamic, focus their activities on religious education and charitable work and receive considerable financial support from foreign charitable organizations. Christian groups, including the Orthodox Church, the Church of Jesus Christ, and the Jehovah's Witnesses, are active in northern Kyrgyzstan, especially in the capital city, its suburbs, and the Issyk-Kul valley. Some groups recently began to work among the small Russian-speaking communities of southern Kyrgyzstan. Traditionally, the Islamic organizations have been active mostly in the Batken, Dzalal-Abad, and Osh oblasts, where Islam has traditionally been strong among rural populations, and in the country's large Uzbek community. By 2001, though, Islamic groups had become more visible in Bishkek and in other large cities in the north.

NGOs in Kyrgyzstan provide a variety of social services. In November 2001, according to Counterpart International, there were more than 1,000 registered NGOs in the country. Two hundred and thirty-six NGOs, or 9.7 percent, were working on women's issues; 305 (12 percent) were providing services to children and youths; around 210 (8.6 percent) were working on education and science; 166 (6.8 percent) were running services for families and pensioners; more than 144 (5.9 percent) were focusing on human rights and civil society; 129 (5.3 percent) were working on health issues; and 120 (4.9 percent) were working on environmental issues and environmental awareness. The geographical distribution of these NGOs is quite uneven. Approximately 323, or around 32 percent, are concentrated in the Chui valley, where the capital is located. Only 66 NGOs, or just 6 percent, are located in the remote Naryn oblast.

Women's NGOs work under the umbrella of the Women's Congress, which is based in Bishkek. These include Women in Mass Media of Central Asia, which advocates the professional development of women working in the Kyrgyz mass media; Bermet, which provides services and support for families and women's rights; and Ene, which provides services and support to orphaned female students at tertiary institutions of education. In 1998, the nation's environmental NGOs played a crucial role in promoting public awareness about a cyanide spill in the Issyk-Kul oblast.

The Constitution of the Kyrgyz Republic (1993), the Law on Public Organizations (1991), and the Law on Non-commercial Organizations (1999) regulate the activities of NGOs in Kyrgyzstan. The Constitution guarantees freedom of association. The Law on Public Organizations sets few restrictions on NGOs, prohibiting only activities that might undermine public security or promote racial, ethnic, or religious intolerance. In practice, state agencies and the state bureaucracy have a strong hold on matters pertaining to registration, taxation, and access to information, especially as they pertain to NGOs that deal with human rights, ecological, or mass media issues.

Nevertheless, the government often prefers to deal with NGOs, especially those led by influential public figures, as long as they do not actively criticize government policies. One of the most important features of political life in Kyrgyzstan are the roundtables and public forums where NGO activists meet government officials, including the president and parliamentarians. At one such forum in May 2001, President Akayev presented "The Complex Development Framework for 2001–2010" to more than 1,000 delegates representing NGOs and public organizations.

The effectiveness of Kyrgyz NGOs is often undermined by a lack of adequate training in planning, management, accounting, and fund-raising. Many NGOs are very small, consisting of only three or four core staff members plus a mere dozen activists. Small NGOs often do not have clear managerial structures or boards of directors, and they tend to rely on informal networks of colleagues, extended family, or patrimonial networks. Training initially presented serious problems, because in the early 1990s no instructors or instructions were available in the Kyrgyz language. By the middle of the 1990s, some training materials had been translated or written in Kyrgyz, and some NGOs had begun to offer training in the native languages.

The financial resources of Kyrgyz NGOs vary widely owing to the steep economic recession and low levels of income in the country. (In 2001, average monthly salaries stood at only 1,323 soms, or \$27.) While a few large NGOs have solid management structures and regular sources of income, most small NGOs face serious financial constraints. It is very difficult and often impossible for NGOs to collect cost recovery fees. Many groups are simply not financially viable, and they rely extensively on funding from foreign sources, including international organizations and individual countries.

Most NGOs have positive working relations with state authorities. Government officials often perceive that NGOs play an important role in providing services to many areas where the government has been forced to cut spending owing to budgetary constraints. However, the authorities do not hesitate to pursue NGOs if they engage in politically sensitive issues. For example, in 2000 the courts revoked the registration of the Kyrgyz Commission of Human Rights because it advocated the rights of several politicians and human rights activists. Some NGOs have been persecuted for organizing unsanctioned actions such as meetings and protest demonstrations. Authorities have also denied registration to NGOs that advocate the rights of the Uigur ethnic minority and promote awareness of the prosecution of the Uigurs in neighboring China.

The Law on Labor guarantees the rights of workers to join independent trade unions. The government generally does not restrict workers' membership in trade unions because the unions do not challenge the government on any key economic policy issues. In the post-Soviet era, the role of unions has largely diminished.

The Federation of Trade Unions of Kyrgyzstan (FTUK) is a direct successor of the Council of Trade Unions, a powerful organization during the Soviet era. However, after 1991 most of the trade union's property was privatized. At the same time, most enterprises collapsed. The FTUK was largely silent when hundreds of thousands workers were laid off or forced to do unpaid work in the 1990s. Although it claimed only a small decrease in membership to around one million people, this was probably untrue. The scale of the economic recession makes it likely that membership declined at a much higher rate. Among the new workers associations to have emerged since 1991 is the Union of Entrepreneurs and Small Business Workers.

Most workers no longer regard the unions as capable of defending their rights. Nevertheless, the FTUK was vocal during the process of changing some local labor regulations. It has also advised the government on such issues as child labor practices, the minimum age for employment, the minimum wage, and health and safety in the workplace. In practice, however, enterprises generally ignore labor regulations, and the trade unions rarely protest against violations of workers' rights.

There is no clear regulation of interest-group participation in politics. Nor are there clear lines between the kinds of activities in which such organizations participate. Most NGOs are simply experimenting with various levels of involvement in the political and policy process. Many arrange conferences and seminars and try to raise awareness of issues such as the status of women, the environment, human rights, and the work of the legislature. Some NGOs, especially those dealing with human rights, organize rallies and meetings. They also send appeals to the government, the legislature, and various international organizations. Many NGOs are active in monitoring elections at the national, oblast, and local levels, and they facilitate training sessions

for election observers and members of monitoring groups. Several NGOs are active in the fields of science and education and often produce and publish their own assessments of government projects.

In the early 1990s, the government actively involved institutions like the National Academy of Science in general policy planning and reforms. Although government authorities have gradually abandoned this practice, they do continue to invite individual policy research institutions to advise them on important issues such as interethnic relations, conflict prevention in the southern oblasts, and legal reforms.

Education remains a focus of both government policies and NGO activities. The government encourages NGOs to provide training and support educational reforms as part of a program to develop a “knowledge nation.” In the mid-1990s, the government attempted to reform the educational system, and several independent schools and universities opened. Due to funding shortages, though, educational reforms have not been completed, and there is some ambiguity in the status of a number of presumably independent schools and universities.

Although educational institutions are generally free of government propaganda or direct political influence, the Ministry of Education still has to approve their registration and curricula. On March 23, 2001, a UNESCO-sponsored roundtable on education took place in Bishkek. Participants in the event discussed, among other issues, priorities for the National Action Plan of Kyrgyzstan. Without considerable international assistance, though, the government will be unable to reform the nation’s educational system.

Independent Media

1997	1998	1999-2000	2001	2002
5.00	5.00	5.00	5.00	5.75

During the period covered by this report, the introduction of new restrictions on the registration of mass media outlets, the closure of prominent opposition newspapers, and continued libel cases against independent journalists and media outlets contributed to a deterioration in press freedom in Kyrgyzstan. At the same time, Kyrgyzstan’s mass media market experienced further consolidation and restructuring. The industry has been seriously affected by the economic downturn of 1999 and 2000 that was triggered by the Russian financial crisis and the collapse of the ruble. Over time, the largest private and state-controlled newspapers and television stations have recovered and recaptured their positions in the market. Yet smaller, especially regional, media outlets still struggle for their survival.

Television and radio remain the two most important sources of public information in Kyrgyzstan, because people have access to them throughout the country. Newspapers, however, are steadily declining in importance because the population is increasingly unable to afford them. Most na-

tional newspapers are based in the capital and do not reach the nation’s remote rural districts. There are a few weekly and monthly magazines, but they target a very narrow market. Producing, publishing, and distributing publications of real quality is difficult in this small and impoverished country.

The Internet is gradually becoming a popular source of public information, but its growth is also limited by financial constraints and a rudimentary infrastructure. With monthly Internet subscriptions often equal to average monthly salaries, the Internet is accessible only in major cities and to a relatively small number of people.

The state-controlled national newspapers, including *Slovo Kyrgyzstana* and *Kyrgyz Tuusu*, and television stations, including KTP and KOORT, reach audiences all over the republic. There are approximately 50 independent, semi-independent, and privately owned newspapers and magazines, including the popular *Vecherniy Bishkek*, *Delo No*, *Asaba*, *Res Publika*, and *AKI-press*. At approximately 60,000 copies each, *Vecherniy Bishkek* and *Asaba* enjoy the highest levels of circulation. *Delo No* claims to have a circulation of 62,000, but the real figure is probably a third of that. Many newspapers have circulations between 10,000 and 20,000 copies, while regional newspapers often have circulations of fewer than 5,000 copies. There are also 14 independent or privately owned television stations and 11 radio stations, including Piramida Television and Radio, Independent Bishkek Television, Asman Television, and Almaz Radio.

Many of Kyrgyzstan’s privately owned newspapers are not financially viable because advertising revenues are limited and circulation bases low. In addition, low incomes make it difficult for readers to absorb increases in the prices of newspapers and magazines. Only a few business executives have the necessary money and experience to establish and run profitable media ventures. By law, advertising is limited to about 20 percent of print space and 25 percent of television and radio airtime. Many media outlets circumvent these regulations by engaging in hidden advertising. According to local experts, only a dozen media outlets are profitable and only two or three print media enjoy national circulation.

The early 1990s saw the collapse of Kyrgyzstan’s centralized system for distributing print media through the state-controlled agency SouzPechat. The national postal service’s delivery fees were too high, and readers simply could not afford them. Today, private vendors and newsstands distribute and sell most of the country’s newspapers. However, the state still controls a partial stake in the country’s leading publishing houses. In June 2001, the state-controlled publishing house Uchkun reportedly refused to print an edition of the opposition newspaper *Res Publika* containing an article that was critical of Akayev’s family.

Articles 15 and 16 of the Constitution guarantee freedom of expression and freedom of the press. Although the media is generally free from direct editorial intervention, most journalists do engage in some form of self-censorship out of fear that they will be prosecuted for defamation. Ar-

ticle 23 of the Law on Mass Media prohibits journalists from publishing state or commercial secrets and from printing articles that offend an individual's honor or dignity. Article 127 of the criminal code treats libel as a criminal offense. Likewise, Article 49 of the Constitution criminalizes any publication that degrades the honor and dignity of the incumbent president. As a result, journalists are highly vulnerable to legal action.

In the past, courts have interpreted these laws broadly and in many cases have not only forced defendants to pay damages, but have sentenced them to terms in prison. A prominent case in point was the suit brought against Zamira Sydykova, the editor of *Res Publika*. However, she was later released. In 2001, the government continued its policy of selective prosecution by pursuing at least seven cases against independent journalists and members of the opposition mass media. By and large, though, journalists in Kyrgyzstan work in an environment that is free from physical threats or direct political interference.

One of the biggest journalistic casualties of 2001 was *Asaba*, an opposition newspaper that was famous for its national radicalism. High-ranking officials sued *Asaba* several times for alleged defamation of character. The tax office, meanwhile, pursued it for nonpayment of taxes. In December 2000, the courts ordered the newspaper to pay one million soms (approximately \$20,000) as repayment to a private investor. On April 20, 2001, the court of arbitration in Bishkek finally broke Melis Eshimkanov, the founding editor and owner of *Asaba*, and declared the newspaper bankrupt. Eshimkanov's efforts to register a new newspaper under a different name—a tactic often used in Kyrgyzstan and Kazakhstan—failed. In May, a regional government official won a case against Ernis Nurdinov for an article he published in *Jany Muun*. To settle the case, Nurdinov agreed to publish a refutation. In October, the opposition newspaper *Res Publika* lost a libel case and was obliged to pay 300,000 soms (\$6,400) in damages to a public official.

On June 21, 2001, in an unprecedented move, the Justice Ministry annulled the registration of 16 new magazines and papers. The reason it gave, which was notably half-baked, was based on an April decision not to register new media outlets until all existing media outlets had completed the reregistering process. The opposition claimed that in reality the decision was made under pressure from Amanbek Karypkulov, the powerful head of the presidential administration, and had nothing to do with the April resolution. The real victims of the decision were the highly influential opposition journalist Melis Eshimkanov, the former editor of *Asaba*, and Alexander Kim, the former editor of *Vecherniy Bishkek*, both of whom had tried to establish new opposition publications. According to Elmira Toktogulova, a regional coordinator of the Central Asia Media Project in Bishkek, the number of media outlets decreased from 600 to 147 (32 electronic and 115 print outlets) in the wake of the new registration requirement. This sharp decrease can be explained in part by the fact that many media outlets

existed in name only. Either financial or organizational constraints prevented them from functioning fully.

Some local journalists have joked bitterly that since there are so few places for opposition journalists to work, the only place to go is outer space. The unfortunate reality is that their joke is not far from the truth. As opposition publications find it increasingly difficult to carve out a niche within traditional media outlets, many are moving to the Internet. There is some evidence that use of the Internet is growing in Kyrgyzstan, and the number of users in the country is among the highest in Central Asia.

According to some estimates, the Internet served between 80,000 and 100,000 people in 2001. These figures include access through both private and public computers. Internet publications, in turn, have increasingly large audiences. Still, at 40 soms (just under \$1) per hour for Internet access, most of the population will remain unable to go online for some time. On the positive side, unlike in Kazakhstan and Russia, in Kyrgyzstan, the government has not moved to establish controls or to impose regulations on the dissemination of information over the Internet.

Governance and Public Administration

1997	1998	1999-2000	2001	2002
4.25	4.50	5.00	5.25	5.50

An independent Kyrgyzstan adopted its first Constitution in 1993. This document provided a fairly good system of checks and balances between the legislature and the executive authority. However, later changes to the Constitution weakened the legislature and disproportionately strengthened the power of the president. A constitutional referendum in 1994 replaced the old single-chamber Zhogorku Kenesh with a new, two-chamber Parliament consisting of a 35-seat Legislative Assembly and a 70-seat Assembly of People's Representatives. Additional changes in 1996 enhanced the power of the president at the expense of the Parliament by giving him the authority to appoint the prime minister and the chairmen of the CEC and the central bank. Changes in 1998 further adjusted the number of seats in Parliament.

Despite these changes, Kyrgyzstan's legislature could prove reasonably effective at balancing the power of the executive if the opposition were able to organize coherent factions and to present a united front. Instead, regional rivalries (locally referred to as a rivalry between "northern" and "southern" clans) often undermine the legislature's effectiveness. Also contributing to the problem are shortages of well-trained workers and other resources needed to fulfill the legislature's investigative responsibilities.

Both the executive and the legislative branches of government operate with some level of transparency. This is due mainly to the presence of a vigorous and independent investigative media and a small but energetic opposition.

Although some legislative and government actions occasionally lack transparency, draft legislation is usually available to the public. In 2001, there were reports of government attempts to negotiate several international treaties without revealing to the public or to the legislature the full details of the treaties' consequences.

Although three-fourths of the current members of Parliament are not affiliated with a political party, the president does not face an obedient rubber stamp legislature. Despite its poor performance in the 2000 parliamentary elections, the opposition managed in 2001 to consolidate its position among independent members and to challenge the executive on a number of key issues. In June, for example, Parliament refused to ratify an agreement with China on border delimitation. Members of Parliament argued that Foreign Minister Muratbek Imanaliyev had misled Parliament when he declared that Kyrgyzstan would not lose any land in the agreement. In fact, the agreement called for Kyrgyzstan to surrender almost 125,000 hectares. In August, Parliament refused to ratify a treaty between Kyrgyzstan and Uzbekistan on military cooperation, despite escalating government pressure.

In response, the government declared that the parliamentarians had simply wanted "to discredit the head of the state" and "to fool people." Instead, the government suggested that their resistance was motivated by a desire to gain more power at the government's expense. Curiously, in September there was a sudden leak of highly compromising material about the dubious financial dealings of some members of Parliament and the expenditure of millions of soms on "wasteful expenses." A month later, President Akayev decreed that the presidential administration would take control of the departments that provide technical and financial support to the legislature. This step may well undermine the legislature's ability to fulfill its investigative responsibilities.

The Kyrgyz Republic consists of 7 oblasts (regions) and 43 *raions* (districts or towns). The activities of local authorities and legislatures are regulated by the Law on Local Governance and Local State Administration in the Republic of Kyrgyzstan, which Parliament introduced in 1991 and modified in 1992, 1994, and 1998. Under this law, the president appoints the oblasts' *akims*, or heads, upon the recommendation of the prime minister and with the consent of the corresponding local *keneshes* (legislatures). The prime minister appoints the heads of *raions* and state administrations with the consent of the relevant local legislatures.

Although the national government has strongly rejected the idea of introducing limited cultural autonomy to the large Uzbek community in southern Kyrgyzstan, the Law on Local Governance does provide for limited decentralization to the subnational level. Local authorities have limited fiscal autonomy but possess the power to carry out social and economic development projects within the local budget, to impose fines and penalties within their jurisdiction, to exercise control over environmental protection and the use of land and natural resources, and to raise additional

revenues. Local legislatures also have the right to call for a vote of no confidence in their respective heads of administrations, but local executives are authorized to overrule most of their decisions. Even though local governments enjoy these limited powers, their activities are seriously constrained by small budgets and difficulties associated with collecting taxes and raising other forms of revenue. Instead, they receive most of their revenues from the central budget.

Local governments, especially at the district and town levels, often lack the expertise and human resources needed to function effectively. Citizens regularly complain that their local executives cannot address their needs and that local civil servants lack adequate professional training to handle their duties. Members of the political opposition have also raised their voices against the incompetence and growing corruption among *chinovniki* (members of the state bureaucracy). The civil bureaucracy still remains unreformed, owing mainly to the scarcity of resources and the unwillingness of the central government to commit itself to this politically difficult issue. In addition, civil servants are expected to be loyal to the president and to support government policy.

RULE OF LAW

Constitutional, Legislative, and Judicial Framework

1997	1998	1999-2000	2001	2002
4.50	4.50	5.00	5.25	5.25

Kyrgyzstan was among the first Central Asian republics to introduce a new post-Soviet Constitution. Although it has experienced major changes since its adoption in 1993, Kyrgyzstan's Constitution remains one of the most liberal in the region. In practice, though, the government has often been slow to uphold its basic rights and guarantees.

In 1998, Kyrgyzstan undertook a major reform when it promulgated a new criminal code. The code had been developed with the assistance of international legal experts and contained provisions that brought some legal procedures in line with Western standards. Under this law, the procurator, which is under the Ministry of Justice, oversees criminal proceedings and authorizes all searches, detentions, and arrests. In practice, though, the law is not vigorously implemented, and police and security forces sometimes detain or search suspected individuals without proper authorization. After the September 11 terrorist attacks on the United States, police and security officials threatened to use the increased threat of terrorism as an excuse to violate regular procedures. And, in fact, human rights activists and others reported several cases of abuse against prisoners. The authorities, however, denied the accusations.

By regional standards, Kyrgyzstan remains fairly liberal, especially in comparison with neighboring Uzbekistan.

Kyrgyzstan's Constitution guarantees basic rights, including freedom of association, religion, expression, and movement. It also guarantees citizenship to all Kyrgyz residents, regardless of their command of the state language or the length of their residency in the country, and provides for business and private property rights. In fact, the country was among the first in the CIS to recognize the right to own, buy, and sell private land.

Although the Constitution prohibits discrimination on the basis of sex, race, nationality, language, creed, and political conviction, human rights activists regularly point to violations of individuals' rights. Some of the most publicized cases pertain to actions against independent journalists and mass media outlets, both of which are consistently subject to harassment through libel suits, other legal actions, tax audits, and accusations of financial impropriety. Journalists are not, however, subject to physical persecution.

Women remain fairly active in Kyrgyzstan's political and economic life, even though the country's economic recession has affected them most. They were the first to lose their jobs during the initial years of the recession, and no mechanisms were in place to protect their rights in the workplace. Women also are underrepresented in Parliament (they hold only 5 out of 105 seats) and in local legislatures (they hold roughly one-quarter of all positions). There are few women in executive positions in the government, in ministries, and in local administrations. Women's organizations report that violence against women and underage and forced marriages are a serious problem in the country, particularly in remote areas. In large urban areas, law enforcement officials are taking the issue seriously.

The government's record on minority rights is often mixed. Between 1991 and 2001, nearly half a million people left the country, and the portion of the population made up by ethnic minorities declined from 47 percent to about 34 percent. This mass emigration was generally attributed to the economic collapse of the early 1990s, when almost 60 percent of industrial enterprises were permanently or temporarily closed and approximately 320,000 jobs were lost.

In 2001, ethnic Kyrgyzs constituted 66 percent of the population; Uzbeks, 14 percent; Russians, 12 percent; Ukrainians, 1.5 percent; Tatars, 1.3 percent; Germans, 0.3 percent; and others, 4.9 percent. In the same year, President Akayev announced a new policy dubbed "Kyrgyzstan is our common home," designed to discourage the emigration of educated and skilled non-Kyrgyz minorities. Parliament also approved a decree that made Russian an official language alongside the Turkic-based Kyrgyz. Kyrgyzstan is now the only country in the region that has adopted Russian as an official language. Nonetheless, non-Kyrgyz minorities still cite discrimination in hiring, promotion, education, and business as important reasons to migrate.

In 2001, members of the Uigur minority, which traditionally has strong links with the Uigurs in Xingjiang, China, claimed that they faced repression for their alleged support of the Uigur Ozatlik Tashkhillaty, a Uigur separatist movement in Xingjiang. A year earlier, a Chinese diplomat was killed and several were wounded at the entrance to the Dostuk Hotel in Bishkek. When law enforcement agencies accused some Uigur associations of providing shelter for terrorists, they arrested several Uigur activists and harassed Uigur associations and newspapers.

The Kyrgyz government generally tolerates the activities of religious organizations and respects the constitutional guarantee of religious freedom. Although the majority of the population is Muslim, other religious groups, including the country's Christian and Jewish minorities, can worship freely and openly. All religious groups must register with the Ministry of Justice. Some small religious groups, including the Baptists and the Seventh-Day Adventists, have reported difficulties in registering with the government.

In 2001, the government continued to persecute the Hizb-ut-Tahrir, allegedly an Islamic fundamentalist movement. According to official law enforcement reports, authorities detained 117 members of this organization during the first eight months of the year. There were reports that after September 11, security forces raided the premises of several alleged supporters of the Hizb-ut-Tahrir and confiscated a large quantity of Islamic literature.

The Constitution of Kyrgyzstan calls for an independent judiciary and establishes the following courts: the Constitutional Court of the Kyrgyz Republic, the Supreme Court of the Kyrgyz Republic, the Higher Arbitration Court of the Kyrgyz Republic, and local courts (oblast courts, the Bishkek city court, district and municipal courts, courts of arbitration, and military courts). However, the president can directly influence justices and procurators since, under the Constitution, he has the authority to appoint and fire the procurator-general, deputy procurators-general, oblast procurators, the procurator of the city of Bishkek, and the military procurator of the Kyrgyz Republic. He does so, however, with the consent of the Assembly of People's Representatives. During the 2000 election campaign, international and local observers complained that the judiciary was biased against opposition candidates and used its powers selectively to harass potentially strong candidates such as Daniyar Usenov and Felix Kulov.

At the same time, the government has made considerable efforts to streamline the court system and to improve professionalism among judges. Judges are now required to pass regular exams and to participate in retraining so that they will stay familiar with constitutional and legal changes in the country. By law, all defendants have the right to counsel, and the state must provide them an attorney if they cannot afford one. However, some

defendants have not received adequate representation because of a lack of funding for the judicial system and a shortage of qualified lawyers. There have also been reports that judicial decisions are not always effectively enforced.

Corruption

1999-2000	2001	2002
6.00	6.00	6.00

Corruption is so widespread and pervasive that, as one Kyrgyzstani businessman declared, businessmen in the republic “face two disasters: bureaucrats and taxes.” Several factors have contributed to the rise of massive corruption. First, there was a general collapse of law and order after the disintegration of the Soviet state. Second, the state bureaucracy benefited most from the ill-conceived mass privatization campaign of the early 1990s. Since many businesses and enterprises were acquired through dubious deals, the business community became extremely vulnerable to investigations by law enforcement agencies. State officials have regularly taken “cuts” from profits or shares in businesses in exchange for providing *kryshas*, or the patronage of various businesses. Likewise, the collection of taxes remains erratic and open to abuse.

Low salaries and lax observance of the law in the public services also contribute to the problem. In 2001, average monthly salaries in the civil service ranged from 2,000 to 6,000 soms (\$42.50–\$127). It is now common for civil servants to supplement their salaries with informal “taxes” and a sophisticated system of bribes. There have also been unconfirmed reports that illicit drug traffickers from Afghanistan increasingly bribe their way through the Kyrgyz customs and border control system. Ordinary citizens and especially entrepreneurs experience a lack of respect for their property rights, increasing red tape, and corruption in their everyday life.

With the help of international organizations, in the late 1990s the Kyrgyz government tried to address the issue of corruption by passing a law that prevents government officials from participating in business activities. The law prohibits parliamentarians and government officials from using their public positions for private purposes. The law also obliges candidates for the legislature and elected state positions to disclose their incomes and private business interests. However, in practice these legal and ethical standards are not observed. The country has a strong and deeply rooted tradition of patronage and an invisible web of patrimonial relations and loyalties. On May 15, 2001, the British newspaper *The Guardian* published an article entitled “Five-Star Headache: Hyatt Discovers the Pitfalls,” in which a journalist reported that President Akayev’s wife had taken a stake in a new Hyatt Hotel “in a show of support of the company.”

In 1997 and 1998, the government launched major anticorruption campaigns and even suspended the implementation of the new stage of the privatization program in order to streamline legal and administrative procedures against corruption. In practice, though, the government implemented the campaign arbitrarily. In 1999 and again in 2000, Felix Kulov, the opposition candidate in the presidential election, faced criminal investigation over accusations of abuse of power and the improper acquisition of almost one million soms from commercial deals. Despite public protests and his plea of innocence, he was arrested, tried by a special military court, and sentenced to a lengthy term in prison.

The business community and self-employed persons have complained that they are unable to conduct legitimate business and are forced to bribe dozens of officials from various regulating state agencies. They have also felt compelled to “voluntarily contribute” to state-initiated campaigns and trapped in a labyrinth of unclear and contradicting laws. In October 2001, for instance, one businessman reported in an interview with a national newspaper that the taxation office had arbitrarily inspected his business nine times over a three-month period, claiming that this had become a common means of extorting bribes.

The mass media and NGOs receive numerous complaints from Kyrgyz citizens who have been forced to pay bribes when they submit applications to public authorities for passports, visas, business licenses, and other permits. They also complain that the process of obtaining business licenses and approvals is too complex. However, the situation has improved slightly in privatized educational institutions and medical centers and in some privately run enterprises that provide services for a fixed fee.

There is general recognition in the country that corruption and red tape undermine business confidence, keep foreign and local investors at bay, and force many businesses into the shadow economy. In November 2001, the Legislative Assembly adopted a draft Law on Simplified Taxation System of Small Entrepreneurship Subjects. The law is designed to simplify the taxation system and to provide greater protection for small businesses against arbitrary taxation and random inspections. Although some NGOs and independent mass media outlets try to expose corrupt practices and to provide anticorruption education to the public, even widely publicized accusations rarely lead to investigations or crackdowns.

In 1999, Transparency International ranked Kyrgyzstan 87th out of 99 countries included in its Corruption Perceptions Index. This ranking put Kyrgyzstan far behind China, Russia, and Kazakhstan. Transparency did not include the country in its 2000 and 2001 indexes. Anecdotal evidence suggests that while corruption is decreasing in the capital and major cities, it is a problem that continues to worsen in most other regions.

ECONOMIC LIBERALIZATION & SOCIAL INDICATORS

Privatization				
1997	1998	1999-2000	2001	2002
4.00	4.25	4.50	4.50	4.25
Macroeconomic Policy				
1998	1999-2000	2001	2002	
3.50	3.50	3.75	3.50	
Microeconomic Policy				
1998	1999-2000	2001	2002	
3.50	3.50	3.75	3.50	

Economic recession, widespread poverty, a deteriorating social infrastructure, and unemployment will have long-lasting negative effects on Kyrgyzstan's ability to maintain political stability and to continue pursuing democratic and market-oriented reforms. The most significant negative effect thus far has been declining support for democratic reforms. Most of the country's urban, middle-class intelligentsia, which in the early 1990s served as the main electoral base of democratic organizations, has lost its social status and been compelled to struggle for survival. Many doctors, teachers, and professionals have either left their miserably paid jobs for small businesses and trade or immigrated to Russia and other countries. The business community, which has been burdened by the absence of law and order and disappointed by the inability of legal and market institutions to function, has allied itself with the state bureaucracy. As a result, many are increasingly in favor of quick fixes and "strong hand" policies. The spread of poverty and economic inequality among rural populations could engender social unrest and support of radical militant organizations.

In 2001, Kyrgyzstan experienced another year of economic growth, despite signs of an economic recession in the United States and the conduct of a major war in neighboring Afghanistan. This growth was prompted by the strong performance of the economies of China, Russia, Kazakhstan, and Uzbekistan, which are Kyrgyzstan's most important trading partners. Cheaper prices for imported oil also contributed to the economic expansion.

In 2001, the national economy grew at an annual rate of around 7 percent, up from 5 percent in 2000. This growth was narrowly based on the extraction and export of natural resources, namely gold. There was also good news in the oil extracting sector, where, according to official reports, the country met its target of extracting 80,000 tons of oil. Although this was not enough oil to warrant the use of Kyrgyzstan's local oil refinery capacity, it was a positive sign for a country that wants to reduce its overwhelming dependence on oil imports, mainly from Russia and Kazakhstan.

The Kyrgyz Petroleum Company has decided to invest \$40 million over the next few years in drilling for new oil fields.

A 12.3 percent increase in agricultural production also contributed significantly to growth in 2001. This important sector of the Kyrgyz economy, which employs a rapidly growing rural population, especially in the southern Dzalal-Abad and Osh oblasts, has registered growth across all types of production. Grain harvests rose by 20 percent, vegetable harvests by 10 percent, and wool production by 3 percent. However, tobacco production fell by 33 percent owing to the previous year's oversupply and to low prices on the international market. When Parliament's decision to lift a five-year moratorium on private land sales came into effect in September 2001, Kyrgyzstan became the first country in Central Asia to permit the purchase and sale of land.

In a bid to attract more visitors to Kyrgyzstan, especially to the country's main holiday attraction, Lake Issyk-Kul, the government declared 2001 a year of tourism. During the Soviet period, tourism was an important sector of the national economy. Thousands of visitors arrived every summer from Russia and neighboring Kazakhstan and Uzbekistan and provided an important source of work and income for the local population. During the 1990s, though, the number of tourists to Kyrgyzstan fell sharply owing to the decline in living standards in the CIS countries and the low quality of services offered at Kyrgyzstan's tourist resorts. In declaring 2001 a year of tourism, the government promised tax holidays, simplified the visa regime, offered better security for travelers, and provided other forms of support to private and public enterprises in the tourism industry. Although the government's plan halted the decline in this sector, it did not result in a significant increase in visitors to the country.

Inflation was under control and estimated at 9 percent in 2001—the lowest in the last 10 years and down from 18 percent in 2000. The exchange rate also remained stable, fluctuating between 47.78 and 49.3 soms per U.S. dollar. According to the Kyrgyz National Statistical Committee, exports increased by about 10 percent, and Kyrgyzstan managed to achieve a trade surplus. Foreign debt remained at \$1.4 billion in 2001, and the government was able to repay or renegotiate its debt obligations.

In September 2001, the government successfully negotiated a new \$90 million poverty reduction program with the IMF. At the same time, the EU allocated \$5 million for a food security program, and the World Bank set aside \$15 million for rehabilitation of the country's water supply system. The Kyrgyz National Statistical Committee reported that Kyrgyzstan's economy attracted 6,050 million soms (\$126 million) in investment between January and October 2001. This amount was 18.7 percent less than in the same period in 2000.

The banking sector, however, continued to suffer from mismanagement and corruption during the period covered by this report. In June 2001, the National Bank declared that one of the country's five largest banks, the commercial

Kurulush Bank, had gone bankrupt. It lost almost 19.5 million soms (around \$405,000). The National Bank put four smaller banks under special administration: the KyrgyzKramds Bank, the Akylinvest Bank, the Asia Universal Bank, and the Insan Bank. Economic difficulties in Turkey also forced the liquidation of a large branch of a Turkish bank in Kyrgyzstan. As a result, public trust in the local banking system remains low, and individuals are redirecting their savings and investments into consumption.

In October 2001, Sadridin Dzhienbekov, the chairman of the State Property and Investments Committee, announced that to date, 68.6 percent of formerly state-controlled properties had been privatized. The government succeeded in pushing its privatization plan for 2002 and 2003 through Parliament. The plan includes the partial privatization of Kyrgyzenergo, the state energy monopoly that the IMF has been pushing Kyrgyzstan to break up for years. Nevertheless, many experts in Kyrgyzstan have publicly questioned the wisdom of the plan. In another development, in late November 2001, the KABAR news agency reported that the legislature had approved a draft law "on a simplified taxation system of small entrepreneurship subjects." If promulgated, the law would reduce the standard income tax rate to between 10 and 20 percent.

Although Kyrgyzstan has been considered a star economic reformer, its economic recovery has been slow to arrive. The government has accepted a package of structural reforms designed by the World Bank and the IMF and has received significant multilateral and bilateral economic assistance (one of the highest in the CIS in per capita terms). However, the Kyrgyz economy sustained a much deeper decline in GDP in the 1990s compared to that of other Central Asian Republics, and the country became the second poorest in the region in per capita GNP terms (ahead only of Tajikistan). Although Kyrgyzstan has liberalized its economy more than any other Central Asian republic, an inadequate legal infrastructure, corruption, and weak institutions have negatively affected the country's economic development. In addition, the country has experienced economic stagnation (especially outside the capital), a declining standard of living, and rising social inequality.

The regional disparities in economic development are large. The capital, Bishkek, and the Chui oblast attract almost 70 percent of all investments and offer substantially higher salaries for skilled workers. Meanwhile, many areas in Naryn, Talas, and the traditionally prosperous Dzalal-Abad and Osh oblasts are struggling not only for foreign investment, but also for state support of their shrinking agricultural and collapsing industrial sectors. Unemployment in the remote southern and eastern areas of the republic has been twice and sometimes three times higher than the national average. All told, this disparity has reinforced a decades-long divide between traditionalist rural Kyrgyz and their Russified, or Westernized, urban compatriots.

The process of economic stabilization has made the disparity between the poorest and richest groups in society

especially visible. Widely promised economic recovery came slowly, and only a few people have benefited from foreign investment. While the fortunate, so-called new Kyrgyz drive BMWs and Mercedes-Benz sedans, more than half of the population lives below the national poverty line. There is also an increasing discrepancy between standards of living in urban and rural areas of the country.

Since electricity, gas, and clean water supplies are more readily available in urban areas, large cities, especially the capital, offer residents a better quality of life than they can find in rural parts of the country. Nonetheless, even in major cities, significant segments of the population live in squalor and do not enjoy regular access to electricity, health care, and even clean drinking water. Rural populations typically live in villages where rapidly aging and poorly maintained infrastructures have created shortages in electricity and gas supplies. This disparity is reflected in the national distribution of income. The wealthiest 20 percent of society control 47.4 percent of the wealth, while the poorest 20 percent of the society control only 6.3 percent of the wealth.

Official statistics show that unemployment is in decline and is now just below 3 percent, or down from 59,000 people in 2000 to only 39,000 in 2001. However, local experts put the jobless rate at between 20 and 25 percent. They also insist that in remote rural areas, the rate may be as high as 25–30 percent if short-term and seasonal employment is excluded from the calculation. In 2001, the World Bank suddenly revised its figures and estimated that around 52 percent of the Kyrgyz population lives below the national poverty line, down from 64 percent for 2000. In this environment, many people have found that the only way they can survive is by shifting their business activity into the shadow economy. Although there are no reliable local studies on the size of the shadow economy, the Economist Intelligence Unit estimates that it may account for as much as 40 percent of GDP. Unfortunately, the shadows can be very dark: reports suggest that Kyrgyzstan is increasingly involved in the production of drugs and is now one of the major routes for illicit drug trafficking from Afghanistan.

The average monthly wage in Kyrgyzstan is around 1,323 soms (\$27), an amount equivalent to approximately 20 percent of wages in Russia or 25 percent of wages in Kazakhstan. In 2001, the United Nations Development Program's Human Development Index ranked Kyrgyzstan 92nd out of 162 countries, behind nearly every former Soviet republic except Moldova, Uzbekistan, and Tajikistan. According to the Ministry of Foreign Affairs, Kyrgyzstan's citizens regularly travel to other CIS countries in search of seasonal jobs. The emigration of the so-called Russian-speaking population almost tripled in 2000 and 2001.

Kyrgyzstan has experienced considerable decline in two important areas: public education and health services. The government claims that both the literacy rate and enrollment in primary schools are around 97 percent. The country also has more than 60,000 students enrolled in tertiary institutions of learning. However, anecdotal evidence sug-

gests that the quality of schooling has deteriorated at all levels, especially in rural areas in the southern provinces, as more children have had to interrupt their education in order to support family businesses. Likewise, many qualified teachers have left education for better-paying jobs. Shortages of electricity and gas have also forced many schools to close during the winter months. Functional illiteracy is growing rapidly among young people and adults who were unable to receive a proper education.

Since the early 1990s, Kyrgyzstan has also experienced a serious decline in public health expenditures. As a result, the quality of public health services has declined, and many hospitals have either closed, scaled back their services, or been privatized. To supplement low budgets and low, and often delayed, wages, public hospitals have been forced to charge patients for medications, hospital admissions, and even op-

erations. However, owing to the protracted economic recession, many ordinary citizens are unable to afford medical services, and reports suggest that the number of cases of tuberculosis, HIV, and other diseases is on the rise. Infant mortality has also risen to 26.1 per 1,000 live births (1999). The government, though unable to increase funding, has tried to reform the public health system. In 1997, for example, it established a supplemental Medical Insurance Fund. To date, though, the reforms have not been completed.

Rafis F. Abazov is a visiting scholar at the Harriman Institute, Columbia University. He is the author of several studies on economic and political transition and security issues in the Central Asian republics and a co-author of the forthcoming Historical Dictionary of Kyrgyzstan (scheduled for publication in 2003).

LATVIA



Polity: Parliamentary democracy

Economy: Mixed capitalist

Population: 2,400,000

GNI per capita at PPP \$ (2000): 7,070

Capital: Riga

Ethnic Groups: Latvian (57 percent), Russian (30 percent), Byelorussian (4 percent), Ukrainian (3 percent), Polish (3 percent), other (3 percent)

Size of private sector as % of GDP (mid-2001): 65

The scores and ratings for this country reflect the consensus of Freedom House, its academic advisors, and the author of this report. The opinions expressed in this report are those of the author.

↕↕ and ↗↗ indicate score changes of .25 or more. ↘ and ↗ indicate changes of less than .25.

NATIONS IN TRANSIT SCORES

	1997	1998	1999-2000	2001	2002
Democratization	2.15	2.15	↗ 2.06	↗ 1.94	1.94
Rule of Law	na	na	2.75	2.75	↘ 2.88
Economic Liberalization	2.50	2.50	2.50	2.50	↗ 2.33

KEY ANNUAL INDICATORS

	1995	1996	1997	1998	1999	2000	2001
GDP per capita (\$)	1,778.5	2,070.5	2,293.2	2,494.0	2,799.1	3,019.4	3,248.8
Real GDP growth (% change)	-0.8	3.3	8.6	3.9	1.1	6.6	6.5
Inflation rate	25.0	17.6	8.4	4.7	2.4	2.8	2.4
Exports (\$ millions)	1,368.0	1,488.0	1,838.0	2,011.0	1,889.0	2,058.0	2,223.0
Imports (\$ millions)	1,947.0	2,286.0	2,686.0	3,141.0	2,916.0	3,116.0	3,428.0
Foreign Direct Investment (\$ millions)	245.0	379.0	515.0	303.0	331.0	398.0	300.0
Unemployment rate	18.1	19.4	14.8	14.0	13.5	13.2	13.1
Life Expectancy (years)	66.8	69.3	69.9	69.7	70.4	70.4	71.0

INTRODUCTION

Latvia's political and economic reforms during the past decade have centered on the goal of joining the European Union and NATO, and the government has used the accession criteria of these institutions to guide the process. Latvia officially applied for membership in the EU in 1995 and started active accession talks in 2000. By the end of 2001, Latvia had completed 22 out of the 31 chapters in its EU membership negotiations. Every post-Soviet Latvian government has aspired to both EU and NATO membership.

One of the key issues in Latvian politics since the restoration of independence in 1991 has been the status of national minorities. At present, noncitizen residents account for approximately 25 percent of the country's population. Of these, some 40 percent want to live in the country without becoming Latvian citizens. The ethnic Russian population has not posed a threat to political stability, and the government has granted citizenship to many residents through naturalization and has also promoted social integration. There have been several encouraging developments in this area. In addition to making further progress in integrating noncitizens, Latvia continues to fulfill all OSCE recommendations regarding citizenship and naturalization. However, the government needs to ensure that the implementation of existing language legislation takes place in a way that fully respects the OSCE's principles of proportionality and justified public interest.

Reports by international organizations have identified corruption as a serious problem. For example, the European Commission has noted that corruption in Latvia is "exacerbated by low salaries in the public sector and extensive use of bureaucratic controls in the economy." The World Bank says that the Latvian economy is "highly concentrated, political parties are closely aligned with economic interests and the country's position on east-west trade and energy transit routes exposes it to strong corruption pressures." The Bank points to the prevalence of what it calls state capture, whereby companies and individuals make illegal payments in order to get around laws and government decrees.

In 2001, Latvia continued to fulfill the political criteria for EU and NATO membership, and its overall record in strengthening democratic institutions, respecting the rule of law, and protecting human rights improved compared to 2000. Free and fair local elections in 2001 brought center-left parties to power in a majority of local municipalities, including the capital city of Riga. Although this outcome suggests that center-right parties have lost significant support for their economic reform agenda, the center-left parties have not signaled that they oppose Latvia's pro-EU policy, therefore making it unlikely that they will slow the accession process if they gain power at the national level.

The political system was generally stable in 2001, as evidenced by the continued commitment of all major par-

ties to the country's constitutional system, the lack of any violence based on ethnicity, and Latvia's continued pro-Western foreign policy. Latvia sees its integration into Western Europe as a guarantee of its economic development and political security. To be accepted for EU membership, however, Latvia must continue adapting its legislation and political system to EU standards. The main areas of concern include shortcomings in the rule of law and the country's weak public administration system. No accession date has been set, and the timing depends largely on Latvia's ability to overcome these problems and continue carrying out economic reforms.

The high level of public trust in President Vaira Vike-Freiberga has been a stabilizing factor in Latvian politics. However, the president has little impact on economic policy. Moreover, several political problems hamper Latvia's ability to carry out deeper reforms. These include frequent changes of government, widespread corruption, public mistrust of political institutions, and sporadic conflicts between Parliament and the judiciary.

Latvia's economy grew by 6.6 percent in 2000, its strongest annual rate of growth since the restoration of independence. In the first half of 2001, with economic performance in the EU area deteriorating, Latvia's gross domestic product (GDP) growth slowed. However, the economy was buoyed somewhat by continued solid demand for Latvian exports in Russia and other post-Soviet countries.

DEMOCRATIZATION

Political Process

1997	1998	1999-2000	2001	2002
2.00	2.00	1.75	1.75	1.75

The most recent national legislative elections took place on October 3, 1998. The center-right People's Party won a plurality with 24 seats. However, it was excluded from a new minority government that consisted of the center-right party Latvia's Way, the For Fatherland and Freedom/LNNK party, and the center-left New Party. The coalition enjoyed the tacit support of the center-left Alliance of Social Democrats. Overall, 6 of the 21 parties and factions contesting the elections for the 100-member Saeima (Parliament) won seats. International organizations, including the OSCE, declared that the elections had been conducted freely and fairly. Members of Parliament are elected for four-year terms by proportional representation. In order to win representation, a party must receive at least 5 percent of the total votes cast in the election.

On May 5, 2000, Latvia's Parliament voted to support a new government headed by Andris Berzins. His center-right coalition government includes four parties: the People's Party, For Fatherland and Freedom/LNNK, Latvia's Way, and the smaller New Party. The People's Party was founded in 1998

as a conservative vehicle for the political aspirations of Andris Skele, a former prime minister who previously had no party affiliation. Skele is also a former owner of a major food industry group, Ave Lat. For Fatherland and Freedom/LNNK is a traditionally nationalist but increasingly moderate party whose ideology currently is not clear. Latvia's Way has been a part of every government since its establishment in 1993. The party nominally pursues a liberal agenda. Because the present government has an absolute majority in Parliament, the center-left opposition parties have little influence in the decision-making process. The government has enjoyed a relatively long tenure by Latvian standards, having been in office for more than a year and a half.

The most radical change to Latvia's political scene in 2001 occurred in the March municipal elections in which left-wing parties gained a majority of seats in the capital city of Riga. Social democratic parties won 14 out of the municipality's 60 seats while the ethnic Russian-dominated For Human Rights in United Latvia union took 13. The results provided a clear sign that, at least in some areas, center-right parties have lost support. These parties will face their next big challenge in the parliamentary elections scheduled for October 2002.

Privatization is high on the political agendas of most parties. The downside of this has been that privatization-related decisions have been decisive in the rise and fall of some government coalitions. Moreover, the interests of major business groups in the privatization process have reportedly been influencing Latvian politics. Major parties get most of their revenues from donations by big businesses, a situation that makes them to some extent dependent on these businesses. There has been some de-

bate over whether the government should provide financing for political parties in an effort to reverse this trend, although no decisions have been made.

According to the Constitution, Parliament elects the president by secret ballot to a four-year term. Any person who enjoys full citizenship rights and is at least 40 years old may be elected president. In the most recent presidential elections, on June 17, 1999, Vaira Vike-Freiberga received 53 out of 100 votes in Parliament and became Latvia's first female president. Parliament elected the president according to the requirements and procedures set forth in the Constitution. Other European governments and the U.S. State Department welcomed the results.

A scientist, Vike-Freiberga had spent most of her life in Canada before returning to Latvia in 1998. She is a member of the Canadian Academy of Science. Her election was greeted with broad popular support, and her activities in office have earned her international praise. President Vike-Freiberga has vigorously supported Latvia's accession to the European Union and NATO. Public opinion surveys show Vike-Freiberga to be the most popular politician in Latvia. Nevertheless, the president's formal powers are limited.

At the national level, voter turnout increased between the late 1980s and early 1990s but then decreased in the mid-1990s. Electoral participation reached its highest level with elections to the Fifth Saeima in 1993, when 90 percent of eligible voters cast ballots. It decreased to 72 percent in both the Sixth and Seventh Saeima elections. Participation in local government elections has declined from 78 percent in 1989 to 63 percent in 1994 and 57 percent in 1997. In the 2001 elections, voter turnout reached 60 percent.

Table 1. Ethnic Breakdown of Latvian Population

Ethnic Group	Citizens	Noncitizens	Aliens	Total	% Population
Latvians	1,361,226	3,282	782	1,365,290	58.1
Lithuanians	16,151	15,477	1,177	32,805	1.4
Estonians	1,462	905	293	2,660	0.1
Belarusians	24,107	68,598	1,557	94,262	4.0
Russians	311,076	357,198	18,931	687,205	29.3
Ukrainians	8,420	50,008	3,412	61,840	2.6
Poles	39,785	18,532	394	58,711	2.5
Jews	5,768	3,718	314	9,800	0.4
Others	1,979	17,029	3,887	36,895	1.6
Total	1,783,974	534,747	30,747	2,349,468	100.0

Source: Board for Citizenship and Migration Affairs, July 1, 2001

The relatively low turnout in most recent elections has been attributed to the public's diminishing confidence in political leaders and increasing political alienation in the face of the difficulties associated with economic reforms. In addition, noncitizens, who constitute approximately 25 percent of Latvia's population, have been unable to participate in either national or local elections. According to estimates by Arnis Cimdars, the head of the Central Election Committee, approximately 60 percent of eligible female voters participated in the last parliamentary elections in 1998.

Latvia's electoral system is multiparty-based at all levels. In the March 2001 local elections, 13 parties won seats on the Riga City Council. Of the 21 parties and factions that participated in the October 1998 national elections, six gained representation in Parliament. The diversity of parties at different levels of government has often made it difficult to reach consensus on issues. Members of the coalition government, for example, hold differing views on privatization, social integration, and the alignment of Latvian laws with those of Western European countries. Disagreements of this kind have in some cases prevented important decisions from being made or delayed the adoption of legislation, most notably in the area of privatization.

As of November 2001, there were 48 political parties registered in Latvia. The Law on Registering Public Organizations was amended in late 1993 to bar registration of Communist, Nazi, or other organizations that would act in contravention of the Constitution. Although Latvia experiences frequent changes of government, political parties are reasonably well established. Most major parties have fairly well defined social bases. Another indicator of Latvia's political stability is the insignificant influence wielded by right- and left-wing extremist forces.

According to Baltic Data House, approximately three percent of respondents to a survey indicated that they belonged to a political party or movement in 2001. Most parties are active only for brief periods during electoral campaigns. Noncitizens are prohibited from forming political organizations but are allowed to join existing parties. According to the Latvian National Bureau of Human Rights, women make up 5 percent of party leaders and constituted 26.64 percent of the 1998 election candidates. Since party membership is not always accurately registered and the data are not always publicly available, it is impossible to determine the proportion of party members who are women.

Ethnic minorities make up 99 percent of Latvia's non-citizen population. As such, the political involvement of ethnic minorities is limited. Latvian citizens who are ethnic minorities enjoy the same political rights as majority ethnic Latvians.

Civil Society

1997	1998	1999-2000	2001	2002
2.25	2.25	2.25	2.00	2.00

An increasing number of NGOs have registered in Latvia in recent years. The total number of NGOs registered with the Ministry of Justice rose from 1,676 in 1995 to 4,500 in 2001. These include cultural, professional, business, social, charitable, and women's organizations. However, according to the NGO Center of Latvia, only about 750 of these organizations were truly active in 2001.

Likewise, only a small segment of the population is actually involved in NGO activities. According to the Baltic Data House survey for 2001, nine percent of Latvians and two percent of non-Latvians belong to NGOs. The NGO Center estimates that only 0.5 to 3.0 percent of Latvians are active in private voluntary efforts. The Center also reports that approximately 70 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. Both organizations have around 100 members. Approximately 30 minority culture societies play an active role in social and political processes.

The three largest religious faiths are Catholicism, Lutheranism, and Orthodoxy. Precise statistics for each denomination on the number of adherents are not available. Sizeable religious minorities include Baptists and various evangelical Protestant groups. The country's once sizable Jewish community, which was largely decimated during the Holocaust, now totals only 6,000 people.

As of August 2001, the Ministry of Justice had registered more than 1,000 religious congregations. This total includes: Lutheran, 302; Roman Catholic, 243; Orthodox, 112; and Baptist, 85. Popular interest in religion has increased in recent years, and churches have provided the following estimates of their membership: Lutheran, 400,000; Roman Catholic, 500,000; and Orthodox, 190,000. The Orthodox are mainly Russian speakers and other noncitizens living in the major cities, while the majority of Catholics live in the east. Although the government does not require the registration of religious groups, the Law on Religious Organizations accords registered religious organizations certain rights and privileges, such as status as a separate legal entity that can own property as well as tax benefits for donors. Religious groups play a significant role in charitable activity. They also have established the Religions Consultative Council, which meets on an ad hoc basis and serves as a forum to discuss matters of common concern between religious groups and the state.

The primary laws that regulate the work of NGOs in Latvia are: the Law on Nonprofit Organizations, which was passed in 1991 and amended in 1993; the 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, groups of ten or more people who have united to pursue nonprofit goals may establish social organizations. Social organizations can conduct entrepreneurial and other activities, establish companies and enterprises, and obtain stocks or shares in these companies in pursuit of their goals. Profits gained from the organization's business activities must be put towards the organization's statutory goals and cannot be distributed among its members. To enroll with the Register of Companies, an NGO must present a charter, protocols, verification of legal address, and a registration application. The state registration fee is 25 *lats* (approximately \$40) for social organizations and 100 *lats* for nonprofit organizations.

According to a report by the Soros Foundation, one of the leading obstacles confronting NGOs in the Baltic states is their lack of management and organizational skills. NGOs are, however, financially viable. According to a report by the NGO Center, the main sources of income for NGOs in Latvia are membership fees, donations from enterprises and firms, private donations, foreign donations, local government funds, fees for services, income from the organizations' 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 their deductions do not exceed 20 percent of their total taxable income. There is generally no difference in the tax policies applied to social organizations and for-profit enterprises. Social organizations pay income and social taxes, but there are some exceptions for charities. NGOs receive funding from both domestic and foreign sources; however, most active organizations are financed by foreign or international sources.

Foundations and associations, to which businesses may make deductible contributions, have complied each year with a complicated government filing and newspaper publication regimen. NGOs have the legal right to take part in state procurement programs.

The government has demonstrated a willingness to engage in dialogue with NGOs. According to the NGO Center report, in Riga, 82 percent of NGOs enjoy some form of cooperation with national and local governments and 31 percent include representatives of national and local governments in management structures. The media commonly cover broadly the views of NGO activists, often presenting their views as counterweights to official positions. NGO activities as such are also common media topics. One of the most active NGOs in 2001 was Transparency International's regional branch in Latvia, known as Delna.

The Constitution guarantees the right to strike, and the Law on Trade Unions mandates that workers, other than uniformed soldiers, have the right to form and join labor unions of their own choosing. The law bans the dismissal of workers who stage strikes, but the government

has not effectively enforced the law. Labor unions may bargain collectively and are largely free of government interference in their negotiations with employers. Although the law 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 union register makes it difficult to estimate what proportion of the workforce is unionized.

The Constitution guarantees the right of citizens to establish political parties. The government may not legally prohibit public gatherings. Public meetings and political demonstrations routinely take place without government interference.

Politically active interest groups include organizations representing businessmen, students, teachers, doctors, non-Latvian residents, and pensioners. Students, pensioners, and teachers were particularly active in promoting their interests in 2001. The European Movement in Latvia and Transparency International's Latvian chapter are particularly active interest groups.

According to the Soros Foundation, public policy research institutes have a relatively limited effect on the political process in Latvia. This is in part due to weaknesses in both the capacity of local research institutions and their networking efforts. To promote public policy research, the Soros Foundation provided special grants in 2001 for the development of research institutes.

By law and generally in practice, the education system in Latvia is free of political influence and propaganda. Soon after the restoration of independence, Latvia developed a broad system of state-funded minority language education that retains Soviet-era schools with Russian language instruction. However, according to the 1998 Law on Education, after 2004 all public secondary and vocational education must be in Latvian only. Russian-speaking residents interpret this policy as a form of political pressure. Approximately 20 percent of universities are private, and this proportion has been increasing.

Independent Media

1997	1998	1999-2000	2001	2002
1.75	1.75	1.75	1.75	1.75

Latvian mass media effectively exercise their freedom of expression. According to Freedom House's *Annual Survey of Press Freedom*, Latvia was rated "Free" in 1991, "Partly Free" in 1992 and 1993, and "Free" between 1994 and 2001.

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 nearest competitor.

Satellite television has a roughly ten percent share of the viewing market. There are also numerous independently owned cable channels.

Latvia has a large number of independent radio outlets, which 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 weekly listeners, Latvijas Radio 2, and Latvijas Radio 3.

Most newspapers and magazines are privately owned. The most popular daily papers are *Diena* (circulation 70,000) and *Lauku Avize* (65,000), both of which are published in Latvian, and *Panorama Latvii* (15,000), which is published in Russian. The state publishes the weekly *Likuma Varda*, as well as *Latvijas Vestnesis*, which appears four times each week. All major cities have their own private newspapers.

In 2001, television accounted for 45 percent of media advertising, followed by newspapers at 33 percent; outdoor venues and other categories, 10 percent; radio, 6 percent; and magazines, 4 percent. Private companies such as Latvijas Preses Apvieniba, Narvesen, and Diena control the distribution system for newspapers. The postal service represents 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 criticism of the government and a wide range of political viewpoints. After an influential economic group in the port city of Ventspils purchased a media group that included the Preses Nams publishing house and several daily newspapers, the owners' political and economic interests apparently influenced news coverage by the group's media outlets.

The Constitution guarantees each person the rights to freely acquire and disseminate information and express his or her views. Censorship is prohibited by the Constitution. The penalties are the same for both private and public officials. There are no legal penalties for "irresponsible" journalism.

The sole journalist's association is the Latvian Journalist Union, whose activities and impact have been limited. The union has 500 registered members, of which 350 are considered to be active. Women make up approximately 50 percent of its membership.

According to the RIPE Network Coordination Center, which serves as an Internet registry for Europe, there are 68 Internet-connected computers for every 10,000 people in Latvia, or approximately 17,000 Internet-connected computers for a total population of about 2.4 million people. In 2001, approximately 140,000 persons, or about 6 percent of the total population, used the Internet on a regular basis. Major television and radio stations and newspapers maintain their own Web sites. With the exception of financial constraints, there are no restrictions on Internet access for private citizens.

Governance and Public Administration

1997	1998	1999-2000	2001	2002
2.50	2.50	2.50	2.25	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. Parliament adopts laws, but both the president and the cabinet of ministers may submit bills. The president also enforces laws and can veto parliamentary legislation. Parliament can override a presidential veto with a repeated affirmative vote on the bill. Moreover, in periods between parliamentary sessions, the cabinet of ministers can adopt regulations that have the force of law. Parliament may cancel these during its next session. Both constitutionally and in practice, Parliament is the country's effective rule-making institution.

The executive and legislative bodies generally operate openly and with transparency. Since early 2000, all bills or draft regulations being considered by Parliament and by the cabinet of ministers have been posted on the Internet. Parliament has adopted a classified information law that is consistent with international standards and practices. Adopted in 1998, the Information Openness Law states that all information in the possession of state and local government administrative institutions, including draft legislation, must be made available to the public, unless the law provides for an exception. Cases have been reported, however, of institutions refusing to implement the law and denying 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 handle functions catering to local needs and conditions and for which local authorities can establish procedures and funding. Latvia's system of local government includes 586 local units that are divided into two levels. At the highest level are the 26 *rajoni* (districts) and the 7 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 administrative reforms that included the transformation of the districts into nine larger units. There has been widespread public debate over the proposal, but no final decision has been taken.

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 giving local governments, particularly municipalities, substantial authority and allowing them to function independently. Local governments can pass their own legislation, provided that it does not conflict with 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. However, noncitizen residents of Latvia are barred from voting in local elections. The country's 600,000 noncitizen residents, most of whom are Russian-speaking, are therefore effectively prevented from participating directly in local politics.

Local assemblies elect the country's mayors. In Latvia's most recent local elections, on March 11, 2001, 12,000 candidates competed for 4,445 seats in 77 city and 489 district councils. The Social Democratic Party (LSDP) and For Human Rights in United Latvia, both of which are opposition parties in Parliament, won an upset victory over the country's ruling coalition. Voter turnout was 60 percent. Since May 2001, the mayor of Riga has been Gundars Bojars, who represents the LSDP. The center-left parties have not called for major shifts in Latvia's orientation toward the European Union. Russian-speaking citizens play an increasingly important role in the political process and tend to vote for the left-wing parties.

In general, local governments do not have sufficient financial resources to adequately carry out their duties. In recent years, various administrative reforms have sharply reduced the revenues of local governments, while at the same time allocating more functions to local authorities.

The State Civil Service Law increased the number of state employees who are considered civil servants. It also requires all civil servants to have completed higher education. The latter provision is aimed at improving the competence and professionalism of the civil service. In addition, the law allows ministers to dismiss civil servants who violate laws and regulations or fail to fulfill their duties in a satisfactory manner. Although the possibility of dismissal may strengthen accountability among civil servants, it also increases the potential for excessive political interference in the bureaucracy. Civil servants also have a duty to refuse to obey illegal orders from superiors. Because of Latvian language requirements, Russian speakers only make up about ten percent of all civil servants.

RULE OF LAW

Constitutional, Legislative, and Judicial Framework

1997	1998	1999-2000	2001	2002
2.25	2.25	2.00	2.00	2.00

The *Satversme* (Constitution) was adopted on February 15, 1922. It was fully reinstated on July 6, 1993, when the Fifth Saeima was elected. In 1996, Parliament adopted the Law on the Constitutional Court. Previously, Parliament adopted laws that ran counter to both the Constitution and the country's international obligations. For example, Parliament violated the Constitution by terminating the man-

dates of several deputies who allegedly had collaborated with the Soviet KGB. Later, the Constitutional Court ruled that such collaboration had not been proven, and the mandates were renewed. Since its establishment, the Constitutional Court has handed down several important decisions, including that the public has a constitutional right to know the salaries of public employees.

In May 1998, Parliament adopted a new criminal law. It replaced the Latvian Soviet Socialist Republic's criminal code that had been in effect since 1961 and had undergone basic revisions in 1993. In April 1999, Parliament abolished the death penalty by ratifying the Sixth Protocol of the European Convention for the Protection of Human Rights and Fundamental Freedoms.

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. However, there have been credible reports that police and prison personnel have beaten inmates, asylum-seekers, and other detainees. The government has prioritized reform of the penal system. But despite the construction of new facilities and foreign assistance, prison conditions remain poor. The inefficient judiciary has not always administered justice in a fair and timely manner. As a result, 40 percent of all prison inmates are either awaiting trial or have not yet been sentenced.

By law, the prosecutor's office must decide within 72 hours of making an arrest whether to charge or release a detainee. The actual charges must be filed within ten days of the arrest. There were no known instances of arbitrary arrest during the period covered by this report. Authorities may not hold a detainee for more than 18 months before taking a case to trial. A defendant has the right to have his attorney present at any time during the process. There are reliable reports that police, especially outside Riga, do not always respect these rights in practice.

In October 1998, Parliament adopted Chapter 8 of the Constitution. The amendments guarantee fundamental human rights, including freedoms of speech, religion, association, and of the press, as well as protection from discrimination based on race, gender, religion, or language. Article 105 guarantees the right to own property. Article 106 protects the right of Latvians to choose their occupations freely.

Following 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 so-called "noncitizen residents" of Latvia. Under the provisions of the 1994 Citizenship Law, various categories of noncitizens became eligible to apply for naturalization. The naturalization regulations included Latvian language and residency requirements, as well as restrictions on naturalization for several groups, including former Soviet intelligence and military officers. They also required applicants to possess satisfac-

tory knowledge of the Latvian Constitution and history and to take an oath of loyalty to the Latvian state. International observers, including 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 amendments to the citizenship law in October 1998. Approved by a simple majority of 53 percent of participating voters, the amendments abolished age and birthplace restrictions on citizenship candidates and granted citizenship to children born in Latvia after August 21, 1991, and whose parents are permanent residents of the country. As a result, practically all noncitizen residents 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 approvals accelerated considerably after the adoption of the amendments. This in turn sparked an increase in the number of naturalization applications.

The naturalization procedure has been eased several times. The naturalization fees for several groups of applicants have been reduced. Only slightly more than 50 percent of applicants pay the full fee. The number of questions on the Latvian history test has been reduced by two-thirds, from 310 questions in 1996 to 93 in 2000. More than 95 percent of applicants successfully pass their tests on their first tries. Max van der Stoel, the OSCE High Commissioner on National Minorities, has confirmed Latvia's progress in the area of naturalization. He stated in January 1999 that Latvia had fulfilled all of his recommendations concerning naturalization and that he would not make any new recommendations in this area.

There are several reasons why many Russian-speaking residents do not apply for Latvian citizenship. These include limited knowledge of the Latvian language, apathy, a lack of information about the naturalization process, and mistrust of the government. Thus far, international organizations and foreign governments, but not the Latvian government itself, have supported language training and public information programs for minorities.

In late 1999, Parliament adopted the Latvian State Language Law, which regulates the use of Latvian and other languages. Under the law, the government had to adopt detailed language regulations by September 1, 2000. Van der Stoel, the OSCE High Commissioner, said that the regulations essentially conform to both Latvian law and the country's international obligations. The U.S. Embassy in Riga commended the coming into force of the Latvian State Language Law on September 1, 2001.

According to the European Commission, both the Language Law and its implementing regulations essentially conform to Latvia's international obligations. For example, they are compatible with the country's EU accession agreement, which calls for the free exercise of business activities for EU companies. However, since the wording of some provisions could give rise to alternative interpretations, it is essential that authorities enforce the Language Law and its implementing regulations only to the extent required by a legitimate public interest.

Many Russian-language media organizations and other groups have expressed sharp criticism of Latvia's official language policy. Russian is still the prevailing language in industrial enterprises, and there have been no reports of widespread dismissals of workers because they lack Latvian language skills. Nevertheless, many ethnic minorities claim that the Language Law is discriminatory.

On February 6, 2001, the government adopted an expanded version of its integration program and listed priority projects for the next two years, along with estimates of financial requirements. It also established a Society Integration Department within the Ministry of Justice that will coordinate implementation of the government's Society Integration Program, announce tenders for projects in the field of society integration, and analyze project proposals. In 2001, Parliament passed the Law on the Society Integration Fund. Under this law, the government established a nonprofit limited liability organization that will raise revenue from the state budget and donors and allocate resources to projects recommended by a consultative council.

Table 2.
Latvia's naturalization process as of August 31, 2001

	# Applications	# Processed	% Processed
<i>Total applications submitted</i>	42,363	5,178	
Female	29,085	3,557	68.7
Male	13,278	1,621	31.3
Latvians, Livonians	64	2	0.2
Lithuanians, Estonians	2,579	129	6.0
Russians	28,073	3,612	66.3
Poles	2,150	213	5.1
Belarusians	4,250	505	10.0
Ukrainians	3,429	470	8.1
Others	1,818	247	4.3

Source: Board for Citizenship and Migration Affairs, August 31, 2001

The consultative council will be part of the Society Integration Fund and made up of representatives from ministries, local governments, and NGOs, as well as international experts.

National and ethnic minorities who are not Latvian citizens find it difficult to participate fully in the country's civic life. Delays in establishing the implementation mechanism for the government's integration policy and policy differences between the ruling political parties slowed down the social integration process.

The Constitution provides for freedom of religion, and the government generally respects this right in practice. However, members of some minority religions that are considered "new religions" have faced problems with the State Military Conscription Center regarding exemptions from military service. Jehovah's Witnesses are one case in point.

Although there are legal protections for women, international observers and domestic human rights groups are increasingly concerned about problems facing Latvian women. Although no exact figures 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 are often 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 cases and that the police are sometimes reluctant to make arrests in such cases.

Most judges have inadequate judicial training, and the inefficiency of the judiciary sometimes places constraints on the fair administration of justice. Corruption in the judicial system is reportedly a problem. The judiciary has a low level of prestige throughout the country. According to an August 2001 survey, most Latvians do not trust the courts. In August 1996, there were 50 vacant judgeships—13 in district courts and 37 in regional courts. By March 2001, the number of vacancies had been reduced significantly, to 26 vacant posts—11 in district courts and 15 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 a committee of judges.

Corruption

1999-2000	2001	2002
3.50	3.50	3.75

According to the World Bank, Latvia suffers from a relatively high level of so-called "state capture." A range of state institutions, including the executive ministries and state agencies, the legislature, and the judiciary, promul-

gate many laws that primarily benefit a narrow range of private sector groups and individuals. This happens as a result of the influence of illicit private benefits given to public officials. This phenomenon ends up reducing the influence of ordinary citizens in day-to-day politics.

State capture is associated with economic groups. While the exact extent of the influence and operations of the private groups involved will probably never be publicly known, some specific cases have been openly discussed in the press. For example, the press has reported on cases of possible illicit influence by private groups in the transportation sector, particularly in the west coast port of Ventspils. The press has also raised questions about Parex Bank's financial support to various political parties.

The Corruption Prevention Law sets out restrictions on the activities of public officials and forces them to declare their assets. The restrictions are aimed at preventing conflicts of interests. They prohibit public officials from making decisions that influence their private interests and accepting payments other than their official remuneration. The asset declaration provision is intended to safeguard against illegal property and financial dealings by public officials.

The government has acknowledged several flaws in the anticorruption law and its enforcement mechanisms. The asset declarations submitted by public officials do not eliminate the possibility of them earning undeclared income, and the State Revenue Service lacks sufficient financial, human, and legal resources to ensure that public officials are declaring their assets fully.

Latvia's Corruption Prevention Law prohibits the president, ministers, parliamentarians, and parliamentary secretaries from most employment other than the jobs to which they have been appointed or elected. They are, however, permitted to work in educational institutions or as artists. The criminal law provides sanctions for blackmail, which includes extortion of property under the threat of violence. The sanctions are more severe for organized groups than for individual violators.

Latvian state institutions do not carry out internal audits on a regular basis. However, the state audit office carries out financial analyses and audits of all state and local government institutions under a long-term schedule. Moreover, in 1999, a department of financial analysis, auditing, and control was created within the state police in order to reveal and deter corrupt practices.

The law prohibits state officials from holding positions in which they could be subject to illegal influence and from exercising authority in situations in which they have a conflict of interest. The law defines 14 categories of state officials, beginning with the president, prime minister, Parliament, and local government deputies, and continuing down to officials employed in state and local government institutions and enterprises, police officers, and members of the armed forces. As of 2001, 40,711 state officials were subject to the law's provisions.

On May 15, 2001, the government adopted a revised Corruption Prevention Program (CPP). Aimed at streamlining the government's anticorruption policies, the CPP provides for measures including protection of whistleblowers, revision of the criminal procedure code to conform to anticorruption requirements, improvement of internal audit procedures, and improvement of the system of financing political parties. The institutional framework for the fight against corruption has been in place since 1997. The 1995 Law on Corruption Prevention regulates anticorruption measures in the public sector.

The government has begun implementing new initiatives in the areas of party financing and fighting corruption and has been drafting amendments to the Anticorruption Law. The government is committed to further improving the legal framework for fighting corruption and implementing these new measures. A draft law on the financing of political parties has been submitted to the government. It provides for direct state financing of political parties and the establishment of a control mechanism over their financial activities. The government has accepted a draft law that would establish a central bureau responsible for fighting corruption. The new Law on Prevention of Conflicts of Interest in Public Institutions aims to prevent illicit practices by public officials. It will replace the existing Law on Corruption Prevention.

In January 1999, Latvia signed the European Criminal Law Convention on Corruption. The new criminal law, in force since April 1999, criminalizes several types of corruption including private sector corruption, abuse of power, and commercial bribery. In June 1998, the Law on the Legalization of Proceeds from Crime entered into force. To implement the law, the government established a control office working under the supervision of the prosecutor's office. In July 1998, the government adopted a regulation on "unusual financial transactions." In October 1998, Latvia ratified the European Convention on Laundering, Search, Seizure and Confiscation of the Proceeds from Crime. However, no leading government official has been prosecuted in recent years.

The government has revised many Latvian regulations to make them compatible with EU standards. While the sheer number and complexity of existing bureaucratic regulations still reportedly encourage corruption, public opinion surveys suggest that these are not perceived as among the most important factors that lead to corruption in Latvia.

Corruption is widespread in Latvia. Its incidence ranges from the taking of small bribes by low-level civil servants in return for carrying out routine bureaucratic tasks to the wrongful awarding of government contracts by high-level officials. Conflicts of interest among government officials are also common. A 1998 World Bank public opinion survey revealed that 13 percent of households and 37 percent of company employees in Latvia had paid bribes. It noted that employees in various state

institutions demand unofficial payments or bribes in return for providing services. The survey found that customs service employees ask for bribes in 48 percent of cases; prosecutors in 42 percent; the highway police in 39 percent; and courts in 38 percent. The reported corruption level in other institutions is somewhat lower.

Civil servants are divided into three levels. The average gross monthly salary of employees at the highest level is 350 lats (\$595); the middle level, 170 lats (\$289); and the lowest level, 140 lats (\$238). Civil servants in the top two levels sometimes receive additional bonuses.

During the past few years, several public opinion surveys have been conducted concerning perceptions of corruption in Latvia. The World Bank's survey indicated that corruption in public services is a serious problem. According to the survey, many households believe that services such as housing and health care are not provided unless unofficial payments are made. Moreover, private companies that pay bribes grow faster and can afford to invest at a higher rate compared to those companies that do not pay bribes. The Criminology Research Center at the Ministry of Justice has also carried out several corruption surveys. In a 1998 survey, 17 percent of respondents said that they had to make unofficial payments to state and municipal institutions in order to receive services. Surveys on the perception of corruption in Latvia have not been carried out for a long enough time to allow for clear assessments of year-to-year trends. Most surveys, however, confirm a relatively high level of corruption.

It is difficult to assess from the surveys whether public intolerance of corruption is growing or diminishing. The Criminology Research Center survey indicated that more than two-thirds of respondents justified paying bribes under certain conditions, such as when officials demand a bribe. According to 2000 data from Transparency International's Latvia branch, 62.5 percent of Latvians believe that individuals "cannot do anything without bribery" because the whole state system is corrupt.

In three opinion surveys conducted in 2000 and 2001 by the EU's Program for Anticorruption Legislation, Education and Information (PHARE), the proportion of respondents considering corruption to be a negative aspect of life increased to 84 percent by the third poll from 81 percent in the first poll. Overall, the surveys found that 14.6 percent of respondents feel that corruption can have both negative and positive effects. A very small number of respondents, 0.8 percent, said that corruption has only positive effects.

The PHARE survey also found that 74.1 percent of respondents believe that corruption is a problem in politics. The figure for public administration is 66.8 percent and for business 48.1 percent. Far lower numbers of Latvians believe that corruption is a problem among NGOs (8.0 percent) and in education (5.3 percent). In addition, 57.3 percent of respondents regard corruption

in Latvia as a very serious problem, and 26.9 percent regard it as a serious problem. Only 0.2 percent of respondents indicated that corruption is not a problem and only 1.6 percent said it is an insignificant problem. The data showed that concern with corruption tends to increase with the age of the respondent.

The results also show that 32.8 percent of respondents believe that the government not only does not combat corruption but also facilitates its growth. Similarly, 30.0 percent of respondents feel the government has been unsuccessful in combating corruption. Moreover, 22.4 percent of respondents believe that the government does not combat corruption in Latvia at all. By comparison, only one percent of Latvians said that the government combats corruption successfully.

The survey also found that 56.3 percent of Latvians believe they personally cannot do anything to prevent corruption because the problem must be combated at the government level. At the same time, 35.7 percent of respondents believe that in order to prevent corruption they could stop giving bribes; 17.5 percent believe that they could inform the responsible state institutions; and 16.1 percent believe that they could inform the press. Only 4.2 percent of respondents said that they could fight corruption by getting involved in NGO activities.

Anticorruption efforts focusing on public education remain somewhat limited. However, in 2001 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. The SAS carried out several projects to educate civil servants about the administrative process.

Delna, an NGO, takes an active role in promoting transparency in public bodies. Since January 2001, Delna has observed the privatization of the Latvian Shipping Company. The government drafted the new Law on Procurement for Government and Municipal Needs in line with recommendations from Delna.

Under the framework of the PHARE program, the government launched the educational project "Together Against Corruption" in schools across Latvia. The government has also held several seminars concerning the investigation of corruption for judges, prosecutors, police officers, and representatives of the media.

In 2000, Transparency International ranked Latvia 57th out of 90 countries surveyed. In 2001, Latvia's ranking dropped to 59th out of 90 countries.

ECONOMIC LIBERALIZATION & SOCIAL INDICATORS

Privatization				
1997	1998	1999-2000	2001	2002
2.50	2.50	2.50	2.50	2.50
Macroeconomic Policy				
1998	1999-2000	2001	2002	
2.50	2.50	2.50	2.25	
Microeconomic Policy				
1998	1999-2000	2001	2002	
2.50	2.50	2.50	2.25	

Latvia's privatization process is almost complete. According to the European Commission's annual progress report, the government is now focusing on privatization of sectors such as utilities, transport, and energy and is also working to restructure these sectors. Overall, it has been virtually impossible to determine the stance of each party on privatization. It is widely believed that the preferences of political parties on privatization are shaped by the parties' relationships with particular businesses.

In spring 2001, the government failed in its third attempt to privatize the Latvian Shipping Company, which has been on the block since 1996. The sale of the company has been the subject of intense and secretive political struggles during the past several years. Also in 2001, Latvian authorities began facing increasing pressure from international agencies to push ahead with the privatization process. The World Bank's resident mission criticized the Latvian Privatization Agency over the slow pace of the privatization of large enterprises. Many observers believe that Latvian politics will become more transparent and essentially more democratic once the privatization process is completed. In the financial sector, bank privatization has been completed. The size of the informal economy was estimated to be around 40 percent of GDP.

In the years immediately following the restoration of independence, when the government was carrying out fiscal reforms, poor tax administration led to increases in tax evasion and nonpayment of tax debts. Whether a person paid income taxes depended more on his or her own honesty than on any government enforcement measures. In recent years, the government has reformed the tax system in order to meet EU requirements. In addition, the government is implementing a comprehensive program to improve tax administration. Since tax rates currently are sufficient to meet the government's revenue needs, the key to the government's achieving its revenue targets rests largely in ensuring adequate compliance with tax laws.

The lat nominally floats freely, but in practice the Bank of Latvia, the central bank, intervenes to keep the currency pegged to the Special Drawing Rights currency of the International Monetary Fund (IMF). The value of the lat is set at 79.97 *santims* (one *santim* equals 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 in return to adopt a tough reform agenda, which includes some difficult measures in the public sector. The program focused on reducing the consolidated government budget deficit from about four percent of GDP in 1999 to two percent in 2000 and one percent in 2001. Since social insurance spending accounts for nearly one-third of the consolidated budget, the government committed itself to cutting spending in this area. However, the IMF refused to back the government's proposed budget deficit for 2002 and, as a result, was not able to complete negotiations with Latvia on a review of the initial phase of the Structural Adjustment Loan.

Under the Latvian Constitution, the state protects the right to own property. The Constitution also guarantees the right to engage in creative and scientific work and protects patent rights and copyrights. In 1993, Parliament passed specific legislation to protect copyrights, trademarks, and patents. Latvia is a member of the World Intellectual Property Organization, the Paris Convention, and the Bern Convention. Although the government has established the legal basis for intellectual property rights and has put in place some enforcement mechanisms, Latvian law only recently set out penalties for violations of these rights.

The Constitution prohibits forced expropriation of property for public needs except in exceptional cases and provided that fair compensation is paid. There have been no cases of arbitrary expropriation of private property by the Latvian government.

Although the market sets most prices and wages, the government continues to set prices for some goods and services, including electricity, rents for government-controlled housing, transportation, and telecommunications. A Central Statistical Bureau survey indicated 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.

The government had granted Lattelekom, the Latvian telecommunications company, a monopoly until 2013. However, as this runs counter to EU policy, the government has decided to liberalize the telecommunications market beginning in 2003. In August 2000, Tilts Communications, which holds the monopoly, filed a claim against the Latvian government in the International Court of Arbitration.

Latvia's trade with the EU has increased from nearly 45 percent of total trade in 1996 to 50 percent in 1997 and 65 percent in 2001. The share of imports coming from EU countries rose during the same period from approximately

50 percent to 55.7 percent. Latvia's trade and current account deficits remain high, at 15 percent of GDP in 2001, and have become matters of increasing concern.

According to the Commission of Europe, the legal framework for private enterprises is broadly in place. In the spring of 2000, Parliament adopted a new commercial code that streamlined administrative procedures, brought commercial regulations more in line with EU requirements, and simplified business registration. The simplifications may remove some of the shortcomings of previous commercial legislation that led to inconsistent interpretation and application by the authorities.

Liberalization of the energy sector took place under the 1998 Law on the Energy Sector. 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 and sets out steps to attract investment in the energy sector and increase energy efficiency. Nevertheless, competition in the electric energy and gas sectors remains limited. Latvia is dependent on neighboring countries, particularly Russia and Lithuania, for its electricity and gas supplies.

According to Latvia's Ministry of the Economy, the number of Latvians employed in the national economy has been declining steadily. In 2000, 1,028,000 people were employed, the lowest number since 1996. According to official figures, the unemployment rate peaked at 10.2 percent in May 1999 before falling to 9.1 percent at the end of 1999 and 8.6 percent in May 2000. Unofficially, however, the unemployment rate may be as high as 14 percent or 15 percent. Despite Latvia's progress in many areas, the relatively high level of unemployment, together with other economic hardships, strongly contributes to distrust of the political system and to pessimism among many Latvians about the future. The pessimism is reinforced by the growing numbers of long-term unemployed workers, who constituted 31.1 percent of all unemployed Latvians in 2000.

Approximately 48 percent of employed workers are women. This suggests that there are no major differences in levels of employment between men and women. Neither are other social groups disproportionately represented among the unemployed. The absence of such disproportionate representation may contribute to political stability, as there are no grounds for opposition activists to frame the employment situation as being discriminatory against any particular group.

However, there are sizable regional disparities in unemployment. The unemployment rate is greater than 55 percent in some regions of eastern Latvia. This reflects the significant differences in economic growth rates among regions. The trend is worrisome because the more developed regions tend to become increasingly richer while some of the depressed areas become even poorer.

Under the 1995 Law on State Pensions, social pensions have been replaced by state social security benefits. As

a result, the level of old-age benefits is tied to the beneficiary's previous contributions to the system. All permanent residents, including noncitizens, qualify for the pension system as well as for other social benefits. The pension system and its reform have been the subjects of considerable political controversy.

Because of the large numbers of pension beneficiaries, the pension system puts heavy fiscal pressure on the country's budget. In early 2000, the fiscal deficit of the social security budget reached 55 million lats (\$92 million). The living standards of retired Latvians are gradually improving, but the size of payments to older Latvians and the reforms of the pension system at large remain focal points of discontent among the least advantaged groups in society. In 2001, the average old-

age pension equaled 58.18 lats (\$98.90) per month.

The United Nations Development Program ranked Latvia 63rd in the world in 2000 on the basis of living standards. Latvia's living standards are relatively low largely because of its low level of wages. In 2001, the net average monthly wage for those employed in the formal economy was 102.73 lats (\$175.61). Wages for public sector workers were slightly higher, at 114.39 lats (\$195.55) per month. Although wage arrears have become rare, low income contributes to social tensions. Moreover, the correspondingly low level of domestic consumption hinders the growth of local sales and services.

Ivars Indans is a researcher at the Latvian Institute of International Affairs.

LITHUANIA



Polity: Parliamentary democracy

Economy: Mixed capitalist

Population: 3,700,000

GNI per capita at PPP \$ (2000): 6,980

Capital: Vilnius

Ethnic Groups: Lithuanian (80 percent), Russian (9 percent), Polish (7 percent), Byelorussian (2 percent), other (2 percent)

Size of private sector as % of GDP (mid-2001): 70

The scores and ratings for this country reflect the consensus of Freedom House, its academic advisors, and the author of this report. The opinions expressed in this report are those of the author.

↓↓ and ↑↑ indicate score changes of .25 or more. ↓ and ↑ indicate changes of less than .25.

NATIONS IN TRANSIT SCORES

	1997	1998	1999-2000	2001	2002
Democratization	2.15	↑ 1.95	↓ 2.00	↑ 1.94	↑ 1.88
Rule of Law	na	na	2.88	↑ 2.75	↓ 2.88
Economic Liberalization	2.50	↓ 2.58	↓↓ 2.83	↑ 2.75	↑↑ 2.42

KEY ANNUAL INDICATORS

	1995	1996	1997	1998	1999	2000	2001
GDP per capita (\$)	1,623.4	2,128.9	2,587.8	2,904.1	2,882.3	3,063.8	3,249.0
Real GDP growth (% change)	3.3	4.7	7.3	5.1	-3.9	3.9	4.0
Inflation rate	39.6	24.6	8.9	5.1	0.8	1.0	1.5
Exports (\$ millions)	2,706.0	3,413.0	4,192.0	3,962.0	3,147.0	4,050.0	4,415.0
Imports (\$ millions)	3,404.0	4,309.0	5,340.0	5,480.0	4,551.0	5,154.0	5,618.0
Foreign Direct Investment (\$ millions)	72.0	152.0	328.0	921.0	478.0	375.0	450.0
Unemployment rate	17.5	16.4	14.1	13.3	14.1	15.4	17.0
Life Expectancy (years)	69.3	70.4	71.2	71.6	72.1	72.6	73.0

INTRODUCTION

Lithuania is a parliamentary democracy in which basic political rights and civil liberties are secure and transfers of power are smooth. Following parliamentary elections in 2000, a profusion of relatively new players entered Lithuania's political scene. Since then, power has shifted from the center-right Liberal Union and the left-leaning New Union (Social Liberals) to a new coalition of the Social Liberals and the Social Democratic Party. Former President Algirdas Brazauskas now heads the government.

Despite the change in government, Lithuania remains politically stable. Its major political parties continue to display unity on the most significant issues affecting the country's development, including accession into NATO and the European Union and transition to a free market economy. President Valdas Adamkus, a Lithuanian American, has played no small part in this process.

In January 2001, the ruling coalition and major opposition groups signed a joint statement on encouraging and supporting speedier integration into the EU. A corresponding document on coordinating the adoption of laws in Parliament is already having a decisive effect. In May 2001, in another demonstration of solidarity, nearly every political party in the country, save for a couple of minor groups, signed an agreement that reaffirms the country's aspiration to join NATO. There is also widespread political consensus and support for strengthening the mechanisms of public administration and the rule of law.

In the economic sphere, Lithuania continues to maintain strong macroeconomic positions and economic growth, owing mainly to a strong and stable national currency, credible banking sector, cautious financial policy, and continued privatization of state property. The restructuring and privatization of the energy sector is under way, and the privatization of commercial banks is nearing completion. While business deregulation continues, structural reforms need to be accelerated in the pension system and in the agricultural and energy sectors.

DEMOCRATIZATION

Political Process

1997	1998	1999-2000	2001	2002
2.00	1.75	1.75	1.75	1.75

Lithuania's electoral system is multiparty based. Half of the nation's parliamentarians are elected in multimandate proportional balloting, while the other half are selected in single-mandate constituencies. Elections are valid if voter turnout is no less than 41 percent. The threshold for legislative representation is 5 percent of the vote.

Lithuania's most recent parliamentary elections took place on October 18, 2000, and the Supreme Electoral Commission of Lithuania acknowledged that they were free and fair. The Organization for Security and Cooperation in Europe and the EU ceased to observe elections in Lithuania in 1997, recognizing that public confidence in, and the conditions for, democratic elections is well established. Voter turnout exceeded 56 percent.

The leftist Social Democratic Party of former President Algirdas Brazauskas won 51 mandates in the 141-seat Parliament. The center-right Liberal Union took 34 seats; the center-left New Union (Social Liberals), 29; and the Conservative Party, 9. Several parties failed to cross the 5 percent threshold in the proportional voting, but another seven parties gained seats in single-mandate constituencies. These included the Peasants Party (4 seats), the Center Union (3), and the Modern Christian Democrats (3).

After signing a coalition agreement, the Liberal Union, the Social Liberals, the Center Union, and the Modern Christian Democrats formed the informal New Policy bloc and garnered the support of several more candidates who had been elected in single-mandate constituencies to secure a 71-vote parliamentary majority. However, the new government, which consisted of the left-leaning Social Liberals and the center-right Liberal Union, proved unstable. It collapsed in June 2001 when the Social Liberals withdrew from the New Policy bloc. The efforts of the Liberal Union and the Conservative Party to rally support for acting Premier Eugenijus Gentvilas and President Adamkus's efforts to form a more rightist government all failed, and in July, the Social Liberals formed a new parliamentary majority with the opposition Social Democrats. The new majority also has the support of 7 members of parliament from the New Democracy Party and the Lithuanian Farmers Party. Of the new government's 14 ministers, 4 are Social Democrats, 1 is a Social Liberal, and the rest are nonpartisan. The leader of the Social Democratic Party, Algirdas Brazauskas, became prime minister.

Observers of Lithuania's political scene anticipated that the new government would inspire increasing confrontation and antagonism between Parliament and society. Foreign and domestic investors expected the government to drag its feet on reforms and decelerate the privatization process. And the country's rightist parties feared that a shift from liberal to social democratic policies would create an imbalance between the government's social obligations and its available resources. Doubts were also expressed about whether the existing pace of EU and NATO integration would be sustained. In its first few months in power, though, the Brazauskas government largely maintained continuity in the country's foreign and domestic policy. That is, despite the introduction of a number of leftist policies that threaten to exacerbate the country's economic climate, the Brazauskas government enjoys the support of about 70 percent of the population—the highest approval ratings ever in post-Communist Lithuania.

Cognizant of the negative impact of disunity and emboldened by the arrival of Lithuania's Social Democrats in the halls of government, Lithuania's right-wing and moderate parties have begun to call for consolidation among their ranks. Fielding a joint candidate for president in 2002 might serve as a dress rehearsal for the 2004 parliamentary elections. The Liberal Union and the Conservative Party are now the two main opposition forces.

In Lithuania's most recent presidential election, which took place on December 21, 1997, voters delivered U.S. émigré and environmentalist Valdas Adamkus a victory in the second round of balloting. Adamkus defeated his rival, attorney (and currently parliamentary Speaker) Arturas Paulauskas by a margin of less than one percentage point. Voter turnout reached 73.78 percent. Since the election, President Adamkus has been one of the most popular figures in Lithuania. The next presidential elections are due at the end of 2002.

Any person who is a citizen of Lithuania by birth, has lived in the country for the three years preceding an election, and has reached the age of 40 may be elected president of the republic. To register for an election, candidates must collect the signatures of at least 20,000 voters. In 2001, the Social Democratic Party proposed abolishing the second round of presidential elections and holding the first and only round simultaneously with municipal elections, due in the spring of 2003. The opposition has severely criticized the idea as defying the principles of democracy.

The largest and the most influential political parties in Lithuania are the Social Democratic Party, the Liberal Union, the Social Liberals, and the Conservative Party. In January 2001, the Labor Democratic Party merged with the Social Democrats to form a strong leftist bloc. As a result, the popularity of the newly merged Social Democratic Party skyrocketed. Likewise, led by young, charismatic leaders, the Liberal Union and the Social Liberals have reinforced their positions since the 2000 parliamentary elections and together have breathed new life into Lithuania's stale political arena. Although the Homeland Union (Lithuanian Conservatives) and the Christian Democrats are no longer in power, the Conservative Party remains an influential opposition force. The once popular Center Union has lost public support.

Over the past decade, the formation of political parties has centered more on the personalities of leaders than on ideology. Examples include the Social Liberals, led by Paulauskas; the Homeland People's Union, led by Laima Andrikiene; and the Moderate Conservatives' Union, led by former Prime Minister Gediminas Vagnorius. A recent trend has been mergers of smaller parties. In October 2001, for instance, four right-wing parties—the Homeland People's Union, the Lithuanian Democratic Party, the Independence Party, and the Lithuanian Freedom League—established the Lithuanian Right Union. The Christian Democratic Party and the Christian Democratic Union merged in May 2001.

Citizens are free to form political parties or 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. Thirty-eight political parties are currently registered. One extreme nationalist party, the Lithuanian Union of National Social Solidarity, has been refused registration 10 times on the grounds that articles in its bylaws on the superiority of the Lithuanian nation contradict the constitutional principles of democracy and equality as well as the Law on Political Parties and Organizations. In 2001, the Lithuanian Socialist Party called on the ruling coalition to legalize the Communist Party, which was banned after the failed coup d'état in Moscow in 1991.

About 2 percent of Lithuania's population of 3.5 million belong to political parties. The former Women's Party was renamed the New Democracy Party, and five other parties have women's divisions. Female representation decreased from 17.4 percent, or 24 seats, in the previous Parliament to 10.6 percent, or 15 seats, in the current Parliament. The Union of Russians joined the Social Democratic Party in the 2000 parliamentary elections. The Polish Electoral Action won 2 seats in single-mandate constituencies.

Civil Society

1997	1998	1999-2000	2001	2002
2.25	2.00	2.00	1.75	1.50

On January 1, 2001, a new Law on Charity and Support came into effect. It simplified grant-giving procedures, removed ambiguities regarding the distinction between charity and support, and legitimized anonymous giving. The law defines charity as help extended to persons who are in a difficult financial situation; it designates support as the provision of assistance to organizations that engage in cultural, scientific, health care, educational, or other activities. One of the most controversial amendments to the law states that only officially registered nonprofit organizations are allowed to receive donations. Although this provision is aimed at preventing the abuse of concessions applicable to private giving, critics charge that the register actually creates conditions for corruption and increases bureaucracy.

The regulations concerning nongovernmental organizations were further eased in June 2001 when annual reports to the State Tax Inspectorate on given and received donations replaced quarterly reports to both the inspectorate and the Lithuanian Department of Statistics (LDS). The requirement that NGO heads and accountants must work under labor contracts and receive remuneration for work on a compulsory basis was repealed for associations and foundations but remains valid for other nonprofit organizations.

According to the NGO Information and Support Center, there are more than 3,000 active nongovernmental organizations in Lithuania. The NGO sector has been

developing steadily in recent years, and approximately 200 new groups are established annually. Volunteerism remains a rare form of NGO support, since nonpaid voluntary activities were legitimated only in July 2000. The Commission for NGO Affairs, which consists of NGO representatives, advises the government on NGO issues and participates in related public policy debates.

At the national level, NGOs register with the Ministries of Justice and Economy; regional groups register with municipalities. Detailed regulation of the structure and management of NGOs and restrictions on the ability of associations and foundations to carry out commercial activities are the main statutory weaknesses. Also, accounting regulations applicable to NGOs are overly complex and require professional handling.

According to the Women's Information Center, there are nearly 60 women's organizations in Lithuania, including 20 regional organizations, 23 national organizations, 10 branches of international women's organizations, and 4 women's studies centers. The Lithuanian Women's Association unites 12 organizations, and the Lithuanian Society of Women in Business unites 200 women entrepreneurs and managers from 13 towns and regions. Ethnic groups are quite active in the country's civic and cultural life. The Russian community, for example, has 60 NGOs engaged in cultural activities. Equally effective are the Polish community's cultural organizations.

Lithuania's various religious communities are vital, autonomous social institutions. About 70 percent of Lithuania's inhabitants consider themselves Roman Catholics. The second largest religious group, with 180,000 members, is the Orthodox Church. Other groups include the Old Believers (50,000 members), Lutherans (30,000), Evangelical Reformed Community (11,000), Sunni Muslims (5,000), and Jews (5,000). The main charitable activity of religious communities is the provision of care for the elderly and the disabled.

Organizational and managerial capacity of NGOs has improved steadily over the last decade, and today the quality of operation and management of about 200 NGOs is comparable to that of leading business enterprises. Efficient project administration, good management, and constituency building are increasingly viewed as key elements of an organization's sustainability. It is now more common for NGOs to have permanent staff and to recruit volunteers.

NGOs have learned to establish contacts with their local constituencies through local media channels, fund-raising events, and involvement of local stakeholders in their activities. In addition, a weekly broadcast about NGOs on Lithuanian National Radio has been a positive development and has helped NGOs increase visibility and public awareness of their work. Nevertheless, weak public relations skills and the absence of fully functioning boards of directors still pose constraints. Likewise, since advocacy remains an abstract concept for many groups, they are less effective at benefiting from the use of communications and political

access at the national and local levels. The NGO Information and Support Center, foundations, and other support organizations provide a number of technical, consulting, and training services to enhance the effectiveness of Lithuanian NGOs.

Beginning in 2002, NGOs will be exempt from paying the income tax, which is currently charged at a rate of 5 percent. Donations from companies of up to 40 percent of their taxable profits are tax-exempt. Most Lithuanian NGOs are not financially viable owing to a lack of permanent sources of income. Most of their funding still comes from international foundations.

The range of assistance provided by NGOs has expanded to include social, economic, and environmental services. Legislation allows NGOs to bid for government contracts, but this practice remains uncommon owing to a complex administrative process. Government support in the form of grants comes mostly from the Ministries of Culture, Education and Science, and Social Security and Labor, as well as from municipalities.

In the first half of 2001, the total amount of charity and support in Lithuania fell by almost 15 percent as compared with the same period in 2000. This phenomenon was largely the result of shrinking donations from abroad. A total of 78 percent of charity and support came from abroad, or 21 percent less than in 2000. Local private firms and individuals contributed one-fifth of all donations—a 17 percent rise over 2000. In addition, the share of donations from domestic corporations grew by 13 percent, and individual giving increased by almost 78 percent. The bulk of charity and support, 61 percent, takes the form of in-kind contributions. Cash funds constitute 38 percent and services a mere 0.5 percent.

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. Although industrial restructuring, privatization, and bankruptcies of large state-owned enterprises have adversely affected the trade union movement, the number of workers belonging to trade unions is increasing steadily. There are about 80 professional organizations with a total of 200,000 members. There are also about 800 associations in Lithuania and more than 300 business organizations.

The activities of individual trade unions and the percentage of workers belonging to them differ significantly across areas of activity. The largest trade union memberships are in the chemicals industry, construction, the energy sector, and the food industry. Equally effective are trade unions in the educational sector.

Trade unions must sign collective agreements with employers on behalf of all employees. A recent amendment to the Law on Labor Contracts eliminated a requirement that employers must receive the approval of the trade union in order to dismiss one of its members. This provision remains valid for the dismissal of a member of a trade union's governing body.

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 players in the policy-making process, and the Lithuanian Industrialists Confederation is the leading lobby in the country. Trade unions are growing more influential owing to their large membership bases and organizational structures. In most situations, government authorities are attentive, but not always responsive, to the opinions of interest groups.

The policy-making process relies increasingly on joint task forces and policy initiatives that involve government officials, businesspeople, specialists, and independent policy analysts. The Sunrise Commission, established in 1999 to formulate proposals for improving business conditions, comprises several task forces of government officials, independent experts, and business representatives. Public hearings of draft laws are now more frequently used in the policy-making process. The Lithuanian Free Market Institute is the most influential public policy group in the country.

Lobbying was legitimized in July 2000 to let individuals and legal entities engage in paid activities aimed at influencing the legislative process, improving legal acts, and streamlining the drafting of legislation. A person or a company wishing to engage in lobbying must register with the Central Commission of Service Ethics. The law bans former politicians and state officials from conducting lobbyist activities for a year after leaving their posts. Politicians and officials who are prohibited from being paid members of managing bodies of corporations or other private institutions may not engage in lobbying.

Registered lobbyists must report on whose behalf they are working, the amount of income received, and the issue addressed. As lobbyists note, the fact that associations are not subject to the aforesaid reporting requirements causes controversy when representatives of associations become delegates to official commissions and receive state remuneration for what is in essence lobbying activity. 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 interest groups may expand. That is, critics charge that the practice of establishing specific legal norms for particular business or social groups rather than general and equitable rules increases incentives to influence decision-making authorities.

Lithuania's educational system is considered to be free of political influence and propaganda. In the 1999–2000 school year, 1.5 percent of all educational establishments were private. A mere 0.8 percent of schools that offer primary (1–4 grades), basic (5–10 grades), and secondary (11–12 grades) education are privately owned. Eleven percent of all vocational schools and colleges and four of the country's 16 institutions of higher education are private.

Independent Media

1997	1998	1999-2000	2001	2002
1.75	1.50	1.75	1.75	1.75

The main sources of public information are radio, television, and national and local daily newspapers. The vast majority of Lithuania's mass media are privately owned. The state still owns part of the ELTA news agency and the public broadcasting company National Radio and Television.

The major national dailies are *Lietuvos Rytas*, with a circulation of 61,000; *Kauno Diena*, 43,000; *Respublika*, 41,000; and *Lietuvos Zinios*, 17,000. *Verslo Zinios*, with a circulation rate of 9,500, is the most popular business paper. The most popular television stations are TV3 and LNK, each enjoying about 24 percent of total viewership. Local and cable television channels account for 17 percent. Baltijos TV, with 13 percent, ranks fifth. The viewership of Lithuanian Television is 10 percent. Lithuanian Radio enjoys the largest radio audience, with 45 percent of all listening time. The next most popular radio stations are M-1, M-1 Plus, and Lietus.

Lithuania's leading private media are financially viable. Debates on introducing a subscriber's fee for the debt-laden Lithuanian Television are under way. If approved, each household would pay 4–6 litas (\$1–\$1.50) beginning July 1, 2002. Lithuanian Radio and Lithuanian Television also plan to move to a producer system and to sign annual contracts with employees.

Electronic sources of information are expanding, and traffic to the Web sites of news agencies, radio stations, television channels, and daily papers is increasing steadily. The most popular information portals are Delfi, the Web sites of the news agencies ELTA and BNS, and the Web site of the M-1 radio station.

Lithuania's mass media continue to enjoy the highest degree of public confidence (over 70 percent of the population) of all institutions. The Commission on the Ethics of Journalists and Publishers and the Inspector of Journalists' Ethics function as supervisory institutions. Attempts to establish an ombudsman's office for the media failed when the 2000 Law on Public Information was adopted. Notably, most influential media representatives act professionally in accordance with the Ethical Code of Journalists and Publishers.

Lithuania's newspaper distribution system is privately owned. The largest periodicals like *Lietuvos Rytas* operate their own subscription services. The only exception is the state-owned *Lithuanian Post*, which holds a small share of the market. It distributes small periodicals and targets mostly rural audiences. The largest distribution company, *Lietuvos Spauda*, was formed from a former Soviet monopoly. Several private companies distribute publications through a chain of gas stations, grocery stores, and hotels.

The media in Lithuania are editorially independent. Publications may be closed and journalists penalized only by court decisions. There has been some evidence of private owners influencing journalists. In addition, the new government of Social Democrats and Social Liberals has tried to limit communication with the media by allowing reporters and journalists to communicate with ministers only in a remote press conference hall and only if the ministers themselves agree. Direct radio feeds of cabinet sessions for reporters have been terminated. State-owned National Radio and Television remain 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 provides 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.” Although there are no special penalties for libeling public officials, the criminal code does provide 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 an indemnity of 500 litas (\$125) to 10,000 litas (\$2,500) for publicizing false information that dishonors a person or for publishing information about a person’s private life without his or her prior consent. In the fall of 2000, for example, criminal charges were brought against the daily *Lietuvos Aidas* for inciting ethnic discord when it published about 50 anti-Semitic articles. However, in March 2001, the Lithuanian Jewish community asked the general-prosecutor’s office to drop the charges against the newspaper’s chiefs after they issued an apology.

The Journalists Union, the Public Relations Association, and the Journalists Center are the most prominent media organizations. In November 2001, the Lithuanian Journalists Federation was established. The federation aims to be more active than the Journalists Union in conducting different projects, organizing training sessions for journalists, and protecting journalists’ rights. Its establishment was viewed as a protest against the Journalists Union, which had ignored its members’ proposal to summon an extraordinary congress. The federation is expected to unite some 400 journalists from around the country.

According to recent public opinion surveys, 19.5 percent of the Lithuanian population use the Internet—a figure three times the world’s average. Some 8.5 percent of Lithuanian inhabitants use the Internet every day or several times a week, and a total of 5.8 percent of Lithuanian citizens have access to the Internet at home. There are no restrictions or regulations on the use of the Internet. However, the Internet market has been affected by the 1998 Law on Telecommunications, which granted Lithuanian Telecom a monopoly in terrestrial communications until 2003.

Governance and Public Administration

1997	1998	1999-2000	2001	2002
2.50	2.50	2.50	2.50	2.50

Reform of the civil service system has been initiated in Lithuania. At the close of 2001, Parliament was still debating a new bill that would help create an apparatus of professional civil servants; ensure continuity in the work of state and municipal authorities; and promote political neutrality, transparency, and responsible decision making in the provision of high-quality governmental services. The bill is also aimed at implementing a clear and transparent system of remuneration for public service and eliminating wage disparities and unjustifiably high layoff benefits.

According to the functioning 1999 Law on Civil Service, government employees are divided into politicians (ministers and elected officials), politically appointed civil servants, career civil servants, and civil servants engaged in the provision of governmental services. Municipal civil servants are employees of local governments. The law confers a considerable degree of independence on civil servants, and critics charge that this policy poses a serious hindrance to state governance and public administration reforms.

The new Law on Civil Service is expected to unify and streamline the system by specifying a unified list of civil service offices and excluding from it persons who provide public services or perform technical functions. The draft law also defines the responsibilities of civil servants and outlines general principles for applying punitive measures when those obligations are not fulfilled. Remuneration will be based on three levels of qualifications.

Although Lithuania’s Constitution and laws provide for a separation of legislative and executive powers, this system of checks and balances contains serious flaws. For example, there is disarray in the division of legislative and executive powers in drafting bills. Although the legislature is the effective rule-making institution, some two-thirds of bills are prepared by the government. The practice of delegating lawmaking powers to lower-tier executive institutions is widespread. Executive authorities have the right to enact legal provisions and statutory regulations that they themselves are responsible for implementing. They also define the procedures for inspecting and ensuring compliance with them. Such inappropriately extended powers can lead to excessive regulation and arbitrariness in law enforcement.

The Lithuanian legislature is criticized for over-regulation and interventionism, which can be attributed to the practice of outlining detailed requirements rather than general rules in laws. The high number and inconsistency of legal acts are two other serious complaints. These weaknesses are mainly the result of chaotically and hastily adopting laws without setting forth a clear conceptual framework that gives proper regard for the strategic objectives of the state. The legislature adopted more than 3,300 legal acts

and 15,500 government decrees from 1990 through 2001. The years 2000 and 2001 alone saw the passage of more than 800 laws and about 3,000 government decrees. To amend the situation, the Ministry of Justice adopted a resolution in December 2001 that enacts a methodology for preparing the conceptual frameworks of legal acts before drafting new laws or replacing existing ones. Each framework will indicate the rationale for adopting a new law; specify its goals, objectives, and content; contain an impact analysis and listing of legal documents that will be replaced or revoked; and analyze international legal norms. This measure is expected to be a watershed moment in legislative reform.

Lithuanian law provides for the disclosure of government documents and sanctions such as no-confidence votes and impeachments. Also in place are self-policing mechanisms such as ethics committees. The office of the state ombudsman is responsible for external monitoring of state behavior. Controversial amendments to the Law on the Legislature's Investigators have been proposed. If adopted, they would restrict the right of ombudsmen to review the actions of Lithuanian law enforcement bodies. The Human Rights Committee claims that narrowing the authority of parliamentary overseers would not be appropriate.

According to the Constitution, parliamentary investigators are prohibited from investigating instances of excessive bureaucracy and abuse of power only within the judiciary. There is already much concern that the current law does not allow them to investigate decision making in legal proceedings, and this clause remains in the new version of the law. Meanwhile, parliamentary investigators have uncovered numerous instances of abuse of office by law enforcement officials. Due to the efforts of parliamentary investigators, prisoners and detained suspects can now receive medical examinations from independent medical professionals.

Although Lithuania's legislative and executive authorities are becoming increasingly open, they are still criticized for lacking transparency. By law, bills and regulations must be announced on the Web sites of respective policy-drafting institutions, but laws are often adopted without prior notice or public scrutiny. Cabinet sessions take place behind closed doors. The Parliament is more open, but it is not obligated to inform the public or the media of its work. The practice of public hearings is being increasingly used in parliamentary debates.

In November 2001, Parliament amended the Law on Local Government to allow foreign citizens permanently residing in Lithuania to vote and contest seats in municipal councils. However, foreign citizens may not be elected mayors, deputy mayors, or members of boards of municipal councils. These amendments were adopted in order to bring the law in line with proposed constitutional amendments on the rights of foreign citizens to participate in municipal elections.

The existing system of subnational government was established on the basis of the 1992 Constitution and the 1994 Laws on Local Government and Administrative Territorial Units. Lithuania has one level of local government, which includes 60 municipalities mostly with 30,000 to 50,000 inhabitants. There are 10 regional administrations, or territorial units of the central government, that are headed by centrally appointed governors. At the municipal level, subnational officials are chosen in free elections. The tenure of municipal councils is three years. These councils, in turn, appoint mayors. The general opinion is that mayors, heads of territorial administrations, and governors of regional administrations should also be elected rather than appointed.

The responsibilities of the country's municipalities are divided into independent functions and duties delegated by the central government. Their main independent responsibilities include municipal development, management of local enterprises, and establishment and supervision of protected areas and objects. The main responsibilities delegated by the central government are primary and secondary education, primary health care and disease prevention, culture and sports, development of leisure and the tourism industry, environmental protection, the provision of social assistance, garbage collection, fire protection, heating, water supply, and sewerage. In some areas, such as health care and education, both central and local authorities are involved. Ambiguities in the division of power have impeded 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.

Municipal governments generally lack funds to meet their expenditure obligations, owing mainly to mismanagement and expanding local government authority. Municipalities are free to allocate funds among expenditure categories, with the exception of functions delegated by the central government. Municipal revenues are raised and transferred by the central government, and changes are negotiated between municipalities and the central government and approved by Parliament 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 revenues comes from personal income taxes and subsidies from the central budget. The fiscal capacities of local governments are equalized according to expenditure-need assumptions.

Professional skills and managerial abilities of local officials vary significantly across municipalities. In most locales, leaders and civil servants lack skills and are inclined toward excessive interventionism. Political connections and cronyism are widespread in the hiring of civil servants, but such influence on professional activities is weaker. In 2001, parliamentary chairman Arturas Paulauskas formed a task force to establish ethical prin-

ciples for politicians and civil servants, including honoring the individual and the state and exhibiting fairness, altruism, propriety, and openness in one's work. These principles are expected to provide the foundation for a planned official code of civil service ethics.

RULE OF LAW

Constitutional, Legislative and Judicial Framework

1997	1998	1999-2000	2001	2002
2.25	2.00	2.00	1.75	2.00

On July 1, 2001, a new civil code that is in accord with EU law and other international legal acts came into effect. The law 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. In 2001, several amendments to the Lithuanian Constitution were also initiated, each one relating to Lithuania's integration processes with the EU. In November, Parliament approved in its first reading an amendment to Article 47 that allows foreign citizens and corporations as well as Lithuanian companies to buy farmland. Lithuanian corporations will be able to buy farmland as soon as the amendment passes; foreigners will have to wait until Lithuania joins the EU. An amendment to Article 119, submitted to Parliament in July, envisages increasing the tenure of municipal government bodies from three to four years as well as giving EU citizens who reside permanently in Lithuania the right to vote and contest seats in municipal council elections. Changes to Article 36 would provide grant authority and functions in certain matters to the EU and supremacy to EU law over Lithuanian legislation.

The initiation of a constitutional amendment requires the consensus of one-quarter of the members of Parliament. The legislature must vote twice on the measure, with an interval of three months separating the two ballots. A two-thirds majority is required in both ballots for a constitutional amendment to pass. The Constitution may also be amended by referendum.

Lithuania's Constitutional Court has proved to be an independent, powerful, and reliable guardian of constitutional rights. However, rulings of the Constitutional Court are not always properly enforced. The Constitutional Court has adopted 65 rulings that find laws to be in conflict with the Constitution, but only 44 of its decisions have been implemented. According to the Constitution, a law loses its legal force on the day the Constitutional Court's ruling is published.

In November 2001, the Constitutional Court ruled that the government's 1998 protocol decision to allow

Denmark's Danisco Sugar to acquire about 90 percent ownership in Lithuania's sugar factories violates the Constitution. The Court was asked to judge whether the aforesaid decision did not contradict the constitutional articles banning monopolization of production and markets and protecting honest competition. The Constitution requires that market concentration issues be established by government resolutions, not protocol decisions. In July 2001, the Constitutional Court also ruled that legislation reducing judges' salaries violated constitutional clauses on the separation of powers. The former government of Gediminas Vagnorius had raised wages for judges significantly, but Prime Minister Andrius Kubilius later reduced them drastically as part of general budget cuts in 1999. In October 2001, the Constitutional Court found unconstitutional a provision in the Lithuanian code of administrative violations of law that allowed authorities to hold a person's driver's license until he or she paid an outstanding traffic fine.

Parliament has adopted a new criminal code that will take effect in 2003. The existing criminal code and Law on Criminal Procedure have been reformed through more than 300 amendments. A number of activities, including homosexuality, have been decriminalized, and capital punishment has been abolished. The court system has been modernized, and criminal prosecution is now subject to stricter procedures. Yet criminal penalties in Lithuania remain rather strict, and its prison population is among the largest in Europe. Public prosecutors authorize searches. Judges issue warrants.

A recent inspection and study by the European Committee for the Prevention of Torture and Inhuman or Degrading Treatment or Punishment defined conditions of detainees in police lockup in Lithuania as inhuman and degrading. They found ill treatment, abuse, violence, and even torture of those detained by police to be of great concern. Compared to police facilities, relatively few allegations of physical ill treatment of inmates by prison staff were noted. However, a high level of interprisoner violence was recorded. Overcrowding in Lithuanian prisons was found to be a serious problem. The Lukiskes Prison in central Vilnius, with a capacity of 906, held 1,578 prisoners as of May 2001; 72 are serving life terms. President Adamkus has contended that even though conditions for inmates are good, international aid is needed to make improvements. On October 30, 2001, in spite of the Council of Europe's recommendation, Parliament rejected amendments to the criminal and penal codes that would have eased conditions for prisoners who are serving life sentences. The amendments would have allowed prisoners to be transferred from prisons to high-security work colonies after serving at least a decade of hard time without infraction.

Judicial decisions are enforced quite effectively in the criminal sphere, but the enforcement of decisions in civil cases is regarded as ineffective. There are serious concerns, though, over delays in probing criminal cases, even the simplest of which are dragged out for months. The process of court hearings is long, and witnesses and victims can be

called to court dozens of times. A new code on criminal process, currently under preparation, is expected to bridge these gaps, but the president has proposed improving the performance of Lithuanian law enforcement without delay.

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 on 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. In 2000, 183 applications regarding violations of human rights were registered in Lithuania. There is also some evidence of discrimination against women and sexual minorities. The 1999 Law on Equal Gender Opportunities defines and prohibits gender discrimination and regulates relationships in the areas of employment and education. A controller's office for equal gender opportunities has been established.

According to a survey commissioned by the United Nations Development Program in November 2001, almost 39 percent of Lithuanian citizens claim that human rights are systematically violated in Lithuania; only 3.2 percent think violations are totally or almost nonexistent. A total of 85 percent of the respondents complained about violations of the right to work, 77 percent about violations of the right to fair wages, and 79 percent about violations of a proper living standard. More than half of those polled expressed dissatisfaction with social safety, health care, and educational provision. The most secure rights, according to respondents, are freedom of religious conviction, freedom of expression, and the rights of ethnic minorities. In general, Lithuania's human rights record is very good, and the country stands out in the region in terms of activities performed by ombudsmen.

Minorities are free to establish their own educational, cultural, and religious institutions. Inciting ethnic discord is prohibited. Since 1999, the country's Jewish community has expressed concern over anti-Semitic remarks made by some politicians and fringe political groups. The daily *Lietuvos Aidas* faced criminal charges for inciting ethnic discord when it published about 50 anti-Semitic articles in 2000. The Lithuanian president, the prime minister, and some professional organizations of journalists strongly criticized the anti-Semitic attacks in the paper. As mentioned previously, the Lithuanian Jewish community asked the general-prosecutor's office to drop charges against the newspaper's chiefs, who had apologized for the publications and promised not to publish such material in the future. That same month, the parliamentary Ethics and Procedures Commission ruled that Vytautas Sustauskas, a member of Parliament, had behaved unethically and irresponsibly when he incited ethnic and religious discord with anti-Semitic remarks during an interview with a Swedish television station. The Center Union asked the Ministry of Justice to outlaw Sustauskas's populist Lithuanian Freedom Union based on the Law on Political

Parties, which forbids the incitement of ethnic, religious, and national strife by political parties.

The Lithuanian state recognizes nine religions as traditional: Roman Catholicism, Greek-rite Catholicism, Evangelical Lutheranism, Evangelical Reformers, Orthodoxy, Old Believers, Judaism, Sunni Islam (the traditional religion of Lithuanian Tartars), and Karaism. The Lithuanian Law on Religions mandates parliamentary recognition of other non-traditional religions as part of Lithuania's historic, spiritual, or social heritage if they enjoy public support and do not violate the country's laws and morals. Thus, there is a four-tier system of traditional, state-recognized, registered, and unregistered religious groups. The Law on Religions allows religious communities to ask for state recognition after 25 years have passed since their registration with the Ministry of Justice. In July 2001, Parliament granted the Union of Lithuanian Evangelical Baptist Communities (1,000 members) official state recognition but refused to give the group official status as a traditional religious community. Some members of Parliament have proposed naming pagans, adherents of the historic Baltic belief system, as a traditional religious community. Pagans have been refused legitimization until now. Around 18 percent of the population does not identify with any religious denomination.

Both traditional and state-recognized religious communities can receive state subsidies and do not pay social and health insurance for clergy and other employees. They are not charged a value-added tax on electricity, telephone service, and heating. Only so-called traditional communities have the right to teach religion in state schools and buy land to build churches. Others have to rent land. Religious communities that are registered by the Ministry of Justice cannot receive state subsidies, tax exemptions, or social benefits, but they can rent land for religious buildings. Unregistered communities may not rent land, but there are no reports that such groups have been prevented from worshiping or seeking new members.

The courts of the Republic of Lithuania include district and county courts, the court of appeals, and the Supreme Court of Lithuania. It is estimated that one-third to one-half of all judges are new appointees. The number of judges has grown from 456 in 1996 to 700 in 2001; of these, 450 are employed in district courts. Nevertheless, an increase in caseloads has caused a net deficit of judges, especially at the local level.

Recently, the administration of justice and separation of powers in Lithuania have appeared to be in serious disarray. A 1999 ruling by the Constitutional Court voided much of Lithuania's established law and legal practice regarding the courts, finding that the executive branch had undue influence in violation of the Constitution's system of checks and balances. The Court's ruling established a conceptual basis for judicial independence, but it also created a legal vacuum. While the aforesaid legal acts became void after the Court's ruling took effect, a new Law on Courts is still in preparation. As a result, the lines of administrative authority are currently unregulated.

A recent study by the Open Society Institute found that Lithuanian courts have inadequate financial autonomy and that judges work in unsatisfactory conditions. The study also found that a reduction in judges' salaries threatens to interfere with independence of the judiciary and create unacceptable pressures on judges' impartiality. The Ministry of Justice has no formal control over court decisions except in matters of technical support, but its influence is significant. Most lawyers and businesspeople claim that the state exerts pressure on judges, particularly in cases against state institutions regarding economic matters. There has been evidence of state officials exerting pressure on judges to deliver guilty verdicts in certain resonant criminal cases or to adopt favorable rulings toward particular persons in civil cases.

In November 2000, Parliament resolved by an absolute majority of votes that the country's prosecutor-general is appointed by the president with Parliament's approval. Until then, Parliament had made the appointment on the recommendation of the parliamentary Committee on Legal Affairs. Although most judges rule fairly and impartially, opinion polls still indicate that public mistrust of judges is high (about 80 percent). Politicians and members of the media also distrust the judicial branch. As a result, judges operate in a hostile atmosphere in which a significant part of legal costs are paid as bribes to them and to solicitors. Large companies are more likely to initiate lawsuits than small businesses and ordinary citizens, who find the expense in time and money too great.

Judges on the Supreme Court and court of appeals are nominated by the president and approved by the legislature. The president also 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. Because of a dramatic decline in the number of available lawyers, who were poorly compensated, the government now requires that private lawyers provide a certain amount of service to the state. At present, the average monthly salary of lawyers is \$2,000, while the country's average is \$267.

Corruption

1999-2000	2001	2002
3.75	3.75	3.75

Since 1997, the Special Investigation Bureau within the Interior Ministry has been in charge of official anticorruption initiatives. The bureau reports to the president and Parliament. The president appoints and dismisses the director of the bureau at the recommendation of Parliament. Lithuania is the only European country with a special anti-corruption institution of this kind.

In the fall of 2001, the government adopted a national anticorruption strategy that was prepared by the Special Investigation Bureau in cooperation with Danish and local experts. Key elements of the strategy include corruption prevention, investigation of corruption-related offenses, and public awareness of and support in disclosing corruption. The strategy envisages streamlining of interagency structure for fighting corruption by organizing, planning, and executing joint actions that will help deter and disclose crimes. The implementation of the strategy will involve state authorities, NGOs, educational institutions, auditing organizations, and the private sector.

This strategy is the first official Lithuanian document that recognizes deregulation and reduction of bureaucracy as keys to fighting corruption. Its main focus will be on eliminating legal loopholes that create conditions for abuse of official power by granting excessive authority to public officials. The strategy also envisages making public officials personally responsible for enacting inadequate legal provisions, regulations, or administrative decisions. A work plan for implementing the strategy is under consideration.

According to the Law on Civil Service, civil servants are not allowed to sit on enterprise boards, represent enterprises, or make contracts with related entities. Yet the press has featured numerous political ties to businesses. The worst situation is in state-owned sectors, where old *nomenklatura*-type appointees have close connections with central government and municipal authorities. Ethical standards concerning relationships between businesses and politicians are in place but are frequently ignored. Public opinion does not exert much pressure on politicians to obey these standards. On the other hand, the public is often suspicious about businesspeople in politics, even if there is no evidence of the abuse of official power.

By law, when persons accept employment in state service, they cannot represent any interest related to their former place of employment for one year. The law also 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 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 are applied in a rather formal or fragmented manner.

In 2001, the Special Investigation Bureau exposed 194 crimes. Of these, 118 were against state office—an increase of 110 percent over the previous year. A total of 124 officials were determined to be under suspicion of crimes. The Special Investigation Bureau also launched 145 criminal cases in 2001, of which six were terminated. Most of the cases involved police officers, civil servants, and customs officers. Charges have also been brought against several lawyers,

solicitors, notaries, and officials of the State Border Security Department and the Investigation Department. A number of municipal officials who are involved in corrupt practices have been exposed and under investigation. Several lawyers, notaries, and tax officers have been prosecuted and convicted.

Corruption and bribery are entrenched in many areas. As businesspeople report, the most vulnerable areas are customs, public procurements and tenders, the road police, offices that issue licenses and government permissions, courts, tax inspections, and municipal services. Investigations suggest that corruption occurs in at least 75 percent of public procurements. The mass media, schools, and the army are considered the least corrupt institutions.

Corruption is particularly pervasive within Lithuania's extensive regulatory system. The biggest cause for concern is the inconsistency and discretion 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, and consents or warrants, because they are predicated on vague rules and involve excessively complex procedures. In many cases, permissions must be obtained not only for entities to operate in the market, but also for particular products and professional activities or processes.

Most regulatory obligations are vaguely defined, change frequently, and are repetitive or even retroactive. Companies are subject to extensive employment, sanitary, and reporting requirements. Routine administrative procedures and decision-making processes are frequently protracted. Regulatory authorities have a right to perform on-site inspections for labor safety, fire prevention, hygiene, and other work conditions and to impose large penalties without court proceedings. This, in turn, creates ample opportunity for corruption.

The launch of the Sunset and Sunrise Commissions in 1999 by the Kubilius administration was a major contribution to Lithuania's efforts to curtail corruption. Their respective aims were to reduce bureaucracy and to improve the business environment by eliminating unjustified regulations. For example, 10 market regulation agencies responsible for controlling food and nonfood products were reorganized into 2 agencies, thus eliminating overlapping regulations and reducing the bureaucratic apparatus. In November 2001, Prime Minister Brazauskas revived the Sunrise Commission with the goal of implementing many significant proposals that had been formulated but never implemented owing to frequent cabinet reshuffles and a lack of executive discipline in executing government-approved policies. The adoption of a proposal that allows applicants to file all necessary documents for obtaining official permissions with one authority and the creation of automatic procedures for issuing those permissions will be vital in the fight against corruption.

The salaries of civil servants, both at national and subnational levels, are higher than those paid to individuals

with comparable qualifications and responsibilities in the private sector. The difference has been steadily widening since 1990. At present, the average net earnings of civil servants are \$276 per month as compared with the country's average of \$267.

The results of an opinion poll presented by the Lithuanian branch of Transparency International in early October 2001 show that 61 percent of Lithuanians are prepared to offer bribes if it might benefit them. Although most people condemn corruption, they also recognize it has become the norm. Some 72 percent said that bribes help solve problems; 36 percent of residents and 37 percent of businesspeople had given bribes over the last five years. Half of those polled thought corruption had increased over the same period. Yet 77 percent of residents and 60 percent of businesspeople maintained that corruption is a serious drag on civic and business growth. Although most residents of the country learn about corruption from the media, businesspeople claim to have personal experience with it. The likelihood of facing corrupt officials is estimated to be about 50 percent in the road police, 40 percent in health care institutions, and 30 percent in customs. As the Transparency International survey revealed, the average bribe a citizen offers is around \$200; businesspeople shell out an average of \$2,000.

ECONOMIC LIBERALIZATION & SOCIAL INDICATORS

Privatization				
1997	1998	1999-2000	2001	2002
2.25	2.25	2.50	2.50	2.25
Macroeconomic Policy				
1998	1999-2000	2001	2002	
2.75	3.25	3.00	2.75	
Microeconomic Policy				
1998	1999-2000	2001	2002	
2.75	2.75	2.75	2.25	

Steady macroeconomic stabilization, early and effective voucher privatization, the continued sale of state property, and business liberalization have been essential to the democratization process in Lithuania. Today, international organizations recognize that Lithuania is on track with economic restructuring and adjustments designed to meet the requirements of EU membership. Yet they still put pressure on the country to tighten fiscal policy and accelerate structural changes. The IMF, for example, has called for continued efforts to reform municipal finances, to clear

central government arrears to the state health insurance fund, and to overhaul the tax system in the run-up to EU accession. The continued privatization of state enterprises is another priority.

Lithuania is in the second phase of privatization, which is based on cash sales. The first round, voucher privatization, was completed in 1995 and absorbed 81 percent of state property that was slated for sale. Cash privatization was considerably delayed owing to prolonged debates on the sale of strategic items, especially state-owned banks. The merger of Lithuania's Hansabankas' with the Lithuanian Savings Bank, the second largest commercial bank and the biggest retail bank, and the sale of the Shipping Company LISCO in April 2001 marked the start of privatization of strategic enterprises. In November 2001, the German Norddeutsche Landesbank Girozentrale won the tender on the sale of a 76 percent stake in the Agricultural Bank, the last state-owned bank. Thus far, about 3,000 items have been sold during the second round of privatization; another 3,000 entities are slated for sale. The biggest sales will include the power utility Lithuanian Energy, the natural gas distribution company Lietuvos Dujos, Lithuanian Airlines, and Lithuanian Railway.

The 1997 Law on Privatization defines several methods of privatization, including public auction, public tender, direct negotiations, public sale of shares, rent-to-own, and transfer of control of state-owned enterprises. Foreign and local investors have equal rights. Buyers of large enterprises are subject to special qualification requirements and obligations regarding future investments and job preservation. This has often reduced the transparency and pace of privatization and resulted in artificial ownership concentration and lower proceeds. The state has the right to retain a so-called golden share that grants extra nonproperty rights when more than half of the public stock in a public utility or in a transportation, energy, oil, or communications enterprise is sold. Privatization through the stock exchange—the key to efficient and transparent privatization—has been scant. Of the 947 entities privatized in 2000, only 26 were sold on the stock exchange. In late 2001, a decision was made to expand the use of the stock exchange in this regard.

According to the LDS, the private sector creates about 75 percent of the country's GDP and employs 70.5 percent of all working individuals. Small and medium-sized enterprises account for about 96 percent of all registered companies. Of the more than 100,000 operating small and medium-size businesses, 43 percent are engaged in commerce, 32 percent in services, and 9.5 percent in manufacturing. Private ownership rights have been restored to 79 percent of all rural lands claimed in citizens' applications.

According to expert estimates, the informal sector shrank from 27 percent of gross domestic product in 1998 to 21 percent in 2001, owing mainly to the expansion of local enterprises and increased reliance on their good reputation. Unreported exports and imports decreased from an

estimated 20 percent of total trade in 1998 to 14 percent in 2001. The main factors that continue to stimulate informal undertakings are high taxes, excessive state regulation and market restrictions, price differences with neighboring countries, an underdeveloped public administration, and corruption. Informal activities are particularly widespread in commerce involving foreign countries, small businesses, and household services. An increase in excise duties has bolstered the illegal trade in fuel and tobacco products.

Over the past few years, Lithuania has maintained strong macroeconomic positions and economic growth, with low inflation and interest rates. Lithuania's GDP rose by 3.9 percent in 2000 and 5.7 percent in 2001. Expanding mining and processing industries, plus rising trade and exports, have contributed decisively to this growth. However, a decline has been recorded in transportation, warehousing, communications, and agriculture. Annual inflation was 2 percent in 2001, as compared with 1.4 percent in 2000, 0.3 percent in 1999, and 2.4 percent in 1998. The average rate of inflation was 1.3 percent in 2001 and 1 percent in 2000.

The year 2001 was marked by significant policy decisions, including the repegging of the national currency, the litas, from the U.S. dollar to the euro. The change is scheduled to take place on February 2, 2002. In addition, Parliament adopted amendments to the Law on the Bank of Lithuania that give the central bank more independence. It also made numerous changes to the tax system, owing mainly to EU integration and membership in the World Trade Organization. However, some of the changes to the tax system stem from the government's leftist policies and threaten to aggravate Lithuania's business environment.

The tax burden increased steadily until 1998 and has constituted 32 percent of GDP for the past three years. By some estimates, the tax burden may make up as much as 37 percent of GDP. Over 90 percent of tax revenues are collected from VATs, income taxes, excise duties, and customs duties. The 18 percent VAT is the most effective of all Lithuanian taxes. The personal income tax is charged at a regular rate of 33 percent but will fall to 29 percent starting in 2003. Tax-exempt minimum income will rise from 214 to 250 litas in April 2002. A 15 percent capital gains tax was abolished on January 1, 2001, but the ruling coalition is seeking to reimpose it.

The corporate income tax will drop from 24 to 15 percent in January 2002. At the same time, though, a zero tax rate on reinvested profits will be eliminated. This decision is likely to exacerbate the investment climate, reduce the competitiveness of Lithuanian enterprises, and increase tax evasion. Starting in 2002, excise duties will be charged only on alcohol, fuel, and tobacco, as required by the EU.

High tax rates and ambiguous rules have led to large-scale tax evasion. Lithuania's tax laws grant broad powers to tax officers who have the right to exact tax arrears from personal accounts and to seize a taxpayer's property without court proceedings. The object, scope, and time of an

inspection are left to an officer's discretion. In September 2001, amendments to the Law on Tax Administration took effect. These changes in law expanded the powers of tax officers by allowing them to impose various restrictions on business enterprises, to take copies of a taxpayer's documents or computer data temporarily, and to lift or reduce penalties and fines. On the positive side, bonus payments for exacted taxes and the right to terminate a business activity for violations of tax laws were abolished.

When the litas is repegged to the U.S. dollar, it will be neither devalued nor revalued during the shift. Since 1994, Lithuania's currency board system has backed cash in circulation with 100 percent hard currency and gold reserves. It has also secured full internal convertibility of the national currency, shielded the monetary system from political pressure, brought about a considerable decline in interest rates, and curbed inflation, which fell from 35.7 percent in 1995 to 2 percent in 2001.

The Bank of Lithuania is an independent institution. Amendments to the Law on the Bank of Lithuania, adopted in March 2001, redefined price stability rather than currency stability as the central bank's primary aim. Critics charge that the bank does not have the necessary instruments to ensure price stability, even though responsibility for it rests entirely in its hands. Under a currency board regime, the Bank of Lithuania has limited powers to regulate interest rates and curb inflation. Yet the amended law opens the way for an arbitrarily regulated exchange rate—a provision that has been criticized as superfluous given that the law precludes devaluation or revaluation of the litas during the repeg.

Lithuania's banking sector is stable. At present, nine commercial banks and branches of four foreign banks—the Polish bank Kredyt Bank S.A., the German Nord/LB and Bank Vereins-und Westbank, and the Finish Merita Bank Plc—are operating in the country. In April 2001, the Lithuanian Savings Bank merged with Lithuania's Hansabankas and was reorganized into Hansa-LTB. It has a combined share of about 36 percent of the Lithuanian deposit market. Vilnius Bankas, owned by the Swedish banking group SEB, holds 41 percent. Negotiations with the German Norddeutsche Landesbank Girozentrale are under way on the sale of the last state-owned bank, the Agricultural Bank. Since the start of reforms, bankruptcy proceedings have been instituted against 14 Lithuanian commercial banks, of which 12 have been declared bankrupt.

The banking sector relies on traditional governmental safety mechanisms. International accounting and risk management standards are being implemented. As of July 2001, Lithuanian banks must comply with five prudential requirements on a daily basis. These are capital adequacy, liquidity, maximum open position in foreign currency and precious metals, maximum exposure to a single borrower, and large exposure. A mandatory deposit insurance system has also been installed. In October 2000, the mandatory reserve requirement for commercial banks was reduced

from 10 to 8 percent; a further cut, down to 6 percent, is planned.

The National Stock Exchange of Lithuania (NSEL) comprises 56 companies, of which 7 are on the Official List and 49 on the Current List. While the Official and Current Lists have been quite stable, the number of nonlisted securities has shrunk owing to concentration trends and the reorganization of companies into limited liability enterprises. Every year some 50 companies withdraw from the NSEL. These trends are likely to intensify since the number of shareholders allowed in limited liability companies was raised from 50 to 100 in July 2001. At the end of September 2001, the capitalization of the NSEL totaled \$3 billion, with \$1.525 billion for listed securities and \$1.475 billion for unlisted securities.

A program for business deregulation, launched by the Kubilius administration in 1999, marked a watershed in the improvement of business conditions in Lithuania. A Sunrise Commission, set up for removing unnecessary market constraints, brought about long-awaited amendments to income tax laws and the liberalization of employment, customs, capital market, land purchase, and building regulations. A lack of political will and administrative discipline, a lengthy approval process, and cabinet reshuffles have prevented full implementation of the program. In addition, the current government is actually considering new regulations. In the fall of 2001, for example, it set a minimum purchase price for grain and reintroduced state regulation of refined sugar prices. Price regulations are still applicable to energy resources, agricultural commodities, pharmaceuticals, medicines and medical services, and transportation.

The main obstacles to running a business are excessive licensing, registration, closure, reporting, and other requirements. The regulations are vaguely defined, frequently changed, repetitive, and not readily available. More than 70 controlling institutions have a right to apply and prescribe rules at their own discretion, thus making compliance costly, cumbersome, and time-consuming, especially for small businesses. In addition to registering with the Ministry of Economics and municipal authorities, companies must register with the State Tax Inspectorate and the State Social Insurance Board. A single register of legal entities is still nonexistent. There is also no unified mechanism for the exchange of information among state institutions.

Licenses and official permissions are required for a wide range of business undertakings and professional activities, but the procedures for obtaining licenses and permissions are lengthy, complex, and often incoherent. According to a survey conducted by the LDS, 86 percent of firms consider the business environment in Lithuania to be unsatisfactory. Of the 230,000 small and medium-size enterprises that were registered as of January 1, 2000, only about 102,000 were in operation, 68,000 had closed down, and the remaining 60,000 had suspended their activities. Almost half of all new enterprises are liquidated during their first three years of operation.

The 1999 Law on Competition prohibits monopolistic practices as defined in EU law and lays down responsibility for violations of competition on the part of the state. The Competition Council, an independent public institution, oversees the implementation of the Law on Competition and competition policy in general. In July 2001, a new Law on Joint Stock Companies came into effect. Companies may now borrow from both their corporate and individual shareholders, but a limit is set on interest payable on such loans. New laws shorten bankruptcy proceedings and call for two rounds of responding to creditors' claims. However, these laws contain serious flaws.

The Constitution and corresponding laws guarantee and protect property rights. However, court delays are frequent, and the process of post-Communist property restitution has been protracted. Progress has been made in securing intellectual property. Violations of authorship rights and the volume of pirated materials have declined. Computer software remains particularly vulnerable to abuse, though, owing largely to a lack of experience and technical capacity, inadequate sanctions for offenses, and insufficient authority of supervisory institutions. Real estate registers are reliable but not entirely operational.

Lithuania became a member of the World Trade Organization on April 24, 2001. To meet WTO obligations, Lithuania reduced import duties on sugar, alcoholic drinks, agricultural and textile products, and certain household and construction goods. It also raised import duties on wine to the maximum allowable rates and increased tariffs on certain imported vegetables.

A small domestic market, scant natural resources, and a favorable geopolitical location make Lithuania open to, and dependent on, foreign trade. Foreign trade remains a driving force in the country's economic growth. According to the LDS, Lithuania's exports grew by 20.3 percent and imports rose by 15.1 percent in 2001. Exports to EU countries accounted for 48 percent of total exports; exports to CIS countries were 19.5 percent. Imports from the EU totaled 44.4 percent, while imports from the CIS made up over 29.7 percent. The trade balance remains negative; however, with exports growing faster than imports, the foreign trade deficit has shrunk.

Lithuania's applied tariffs currently average 5.4 percent on all products, 15.2 percent on agricultural products, and 2.5 percent on industrial commodities. The average tariffs Lithuania charges of countries with most favored nation status are lower than in all other countries in the region, except Estonia. More than 70 percent of total foreign trade is with countries that have free trade agreements with Lithuania, including member states of the EU and the European Free Trade Association, as well as Latvia, Estonia, Poland, the Czech Republic, Slovakia, Slovenia, Turkey, Hungary, Ukraine, and Bulgaria. Lithuania's main export partners are the United Kingdom, Latvia, Germany, and Russia. Its main import partners are Russia, Germany, Poland, and Italy. Mineral products, vehicles, and chemical

products constitute the bulk of imports. Exports include mostly mineral products, textiles, agricultural products, and foodstuffs.

Cumulative foreign direct investment has grown to \$2.53 billion, or \$775 per capita. The bulk of FDI comes from Denmark, Sweden, the United States, Germany, and Estonia and is directed to processing industries, commerce, financial intermediaries, and telecommunications. During the period covered by this report, 62.7 percent of FDI went to the capital, Vilnius, while the cities Kaunas and Klaipeda received 10.3 percent each. In September 2001, tax breaks for large-scale investors were revoked. These had included a 5-year freeze on direct tax rates for investors who pledged to invest at least \$50 million within 3 years and a freeze of up to 10 years for strategic investors. Corporate tax breaks remain valid for foreign companies that received them prior to their elimination in 1997. Profits can be taken out of the country freely. Interest payable to foreign entities is taxed.

Around 80 percent of Lithuanian power plants are owned by the state, and restructuring of the energy sector has been seriously protracted. Enforcement of the Law on Electricity, which was adopted in July 2000 and provides for the creation of a competitive market and free competition between producers and suppliers, has been postponed twice. Lithuanian Energy, a vertically integrated monopoly in which the state holds an 86 percent stake, was reorganized at the end of 2001 into two electricity distribution spin-offs and two power-generating facilities. Although the intention is to privatize these new entities, the transmission networks and the function of the market operator will be left to the state.

In November 21, a plan for privatizing the natural gas distribution company Lietuvos Dujos was also adopted. A strategic investor and a gas supplier will be offered 34 percent of the stock each. The state will retain 24 percent and sell the remaining 8 percent to local enterprises. Since gas suppliers and their related companies will not be allowed to become strategic investors, this prevents the Russian suppliers Itera and Gazprom from participating in the tender. The sale to a Western strategic investor is set for completion by mid-2002. One of the requirements of this investor is the ability to link Lithuania's natural gas network to EU pipelines and thereby ensure alternative supplies.

The state-owned Ignalina nuclear power plant supplies around 76 percent of all electricity consumed in Lithuania. Lithuania has pledged to decommission the first of Ignalina's two reactors by January 1, 2005. A decision regarding the closure of the second reactor will be made in 2004. Since Ignalina is the largest electrical energy producer in Lithuania, its closure will affect the country's entire electricity market. As a result, its closure is closely related to the overall process of energy reform. That is, it will create conditions for new market entrants and link Lithuania's overall energy market to those of west and north Europe. Lithuania is dependent on gas and oil pipelines from the CIS countries. The launch of the Butinge oil terminal has provided facili-

ties to import oil. Other facilities include the Klaipeda oil terminal and railways.

A fraying social safety net, high unemployment, and delayed pension, health care, and education reforms have been serious drags on Lithuania's democratization process. The launch of mandatory fully funded pension insurance is scheduled for 2004. In addition, in December 2001, the World Bank agreed to grant Lithuania \$693,700 for technical assistance in reforming its pension system. A partial voucher funding system is being introduced in secondary education. These reforms, along with continued business deregulation, are expected to accelerate changes in other social areas and thus in the overall development of the country. According to the UN's *Human Development Report* released in July 2001, Lithuania is among those countries with high levels of human development (based on life expectancy, adult literacy, per capita GDP, and purchasing power indicators) and ranks 47th out of a total of 162 countries.

As the 2001 population census shows, Lithuania's population has decreased by 5 percent over the past 10 years, owing mainly to emigration. It now totals 3.491 million, down from 3.675 million in 1989. A 2000 report by the LDS shows fewer marriages, more unregistered couples living together, and a threefold increase since 1990 of children born to young mothers out of wedlock. The number of crimes committed by young people has almost doubled.

Lithuania's demographic trends are rather varying. According to the UN's recent *Human Development Report*, the country's birth rate fell from 12.7 per 1,000 inhabitants in 1993 to 9.2 in 2000. At the same time, its mortality rate continued a downward slide from 12.3 per 1,000 in 1993 to 10.5 in 2001. The most common causes of death are cardiovascular diseases, malignant tumors, and nonmedical deaths. Nonmedical death is the most common cause of death among young people.

Infant mortality decreased from 15.4 per 1,000 live births in 1993 to 8.5 in 2000. The number of abortions was 69.6 per 100 births in 2000. Women's life expectancy grew from 75 years in 1993 to 77.9 years in 2000; for men, it fell from 69.1 to 67.6 years. The difference between these gender indicators is due mainly to a higher rate of death resulting from nonmedical causes among young men. The divorce rate grew to 6.4 divorces per 10 marriages. The number of suicides rose dramatically until 1996, hitting 46.4 per 100,000 inhabitants. It dropped to 41.9 in 1999 and rose to 44 in 2000, as compared with an average of 20 in EU countries.

A total of 70.5 percent of working persons were employed in the private sector. In 2001, the average annual rate of unemployment was 12.5 percent, compared with 11.5 percent in 2000. As demand for labor and seasonal jobs decreased, the rate of unemployment reached 12.9 percent at the end of 2001, up from 12.6 percent at the end of 2000, 10 percent in 1999, and 6.9 percent in 1998. Regional disparities in unemployment are quite sizable. The

rate of unemployment was 8.7 percent in Vilnius, 8.5 percent in Kaunas, and 9.4 percent in Klaipeda. However, Siauliai and Panevezys reported 14 and 16.2 percent, respectively. The highest unemployment, over 25 percent, was recorded in the resort towns Druskininkai and Mazeikiai. The overall rise in unemployment in 2001 was due mainly to delayed structural reforms, excessive employment regulations, and increased labor costs.

Unemployment benefits depend on a person's state social insurance record and are paid for no more than six months in a given year. They range from the amount of state-supported income, \$34 per month, to the sum of two minimum living standards, \$63 per month. In March 2001, liberalization of the labor market began in spite of heavy pressure from trade unions. The main changes include legitimizing a free format for labor contracts and reducing unemployment benefits.

The average monthly gross wage has continued its upward slide and now stands at \$267, up from \$155 in 1996. It is \$275 in the public sector and \$259 in the private sector. Blue-collar workers receive on average \$203, while white-collar employees earn \$328. The minimum mandatory monthly wage is 430 litas, or \$107.5. Nearly 36 percent of employees receive no more than \$125 in gross monthly wages.

The bulk of consumption expenditures, 44.4 percent, are on food. Another 10.8 percent goes for public utilities, 7.5 percent for transportation, 7.5 percent for clothing and footwear, and 4.5 percent for culture and recreation. Pensioners, agricultural workers, the disabled, and low-income individuals are entitled to heating and transport concessions.

Sixteen percent of the population is estimated to live below the subsistence level. In a recent survey by the LDS, about half of respondents reported that their living standards had declined over the past 12 months. Forty-seven percent said conditions had not changed, and only 4.9 reported improvements. A total of 66.2 percent of those polled put themselves in the middle-income category. One-third rated themselves poor, and only 1.1 percent claimed to belong to the upper-income category.

The start of mandatory fully funded pension insurance with private pension funds is scheduled for 2004. The current national pension system operates on a pay-as-you-go basis. 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. A widening gap between liabilities and the financial capacity of the social insurance fund has caused a growing deficit. In 2001, the average old-age pension was \$79.25, or 29.7 percent of the country's average monthly gross wage. Special state pensions are paid to distinguished persons, military and internal affairs officials, scholars, and others, including victims of the Soviet occupation and the Chernobyl nuclear accident. The retirement age is being increased gradually until it reaches 60 years for women and 62.5 years for men in 2006.

Lithuania's public education system is costly and ineffective. Partial voucher funding will be introduced in secondary education starting in 2002. Under this scheme, a set amount of funding will be allocated to every pupil, and schools will be financed based on actual levels of enrollment. Municipalities, rather than the schools themselves, will administer these funds and will have the right to redistribute 10 percent of the total allocations. Although such redistribution may interfere with reform, the new voucher scheme is seen as an important step toward injecting market principles and competitive forces into the educational system. It is thus expected to enhance the quality and efficiency of educational service provision and to improve the use of resources. Expenditures on education rose from 21.8 percent of the national budget in 1995 to 32.7 percent in 2000. They constituted 6.64 percent of GDP in 2000, up from 5.6 percent in 1995.

The health care system in Lithuania is also costly and inefficient. The requirements for the availability and quality of services are vaguely defined, and patients' choice of doctors and medical establishments is limited. Despite decentralization, many health care establishments remain centrally managed. The scope and fees for medical services are centrally defined, and the financing of health care establishments is based on quantitative rather than qualitative indicators. Over the past two years, many hospitals and clinics have appeared on the verge of closure. Central government debts to pharmacies alone have reached \$29 million. The number of doctors and hospital beds remains too high. The proportion of GDP expended on health care fell from 4.83 percent in 1998 to 4.3 percent in 2001.

Aneta Piasecka is a policy analyst at the Lithuanian Free Market Institute.

MACEDONIA



Polity: Parliamentary democracy

Economy: Capitalist-statist

Population: 2,000,000

GNI per capita at PPP \$ (2000): 5,020

Capital: Skopje

Ethnic Groups: Macedonian (67 percent), Albanian (23 percent), Turkish (4 percent), Roma (2 percent), Serb (2 percent), other (2 percent)

Size of private sector as % of GDP (mid-2001): 60

The scores and ratings for this country reflect the consensus of Freedom House, its academic advisors, and the author of this report. The opinions expressed in this report are those of the author.

↓↓ and ↑↑ indicate score changes of .25 or more. ↓ and ↑ indicate changes of less than .25.

NATIONS IN TRANSIT SCORES

	1997	1998	1999-2000	2001	2002
Democratization	3.90	↓ 3.95	↑↑ 3.44	↓↓ 3.75	↓↓ 4.13
Rule of Law	na	na	4.63	4.63	↓ 5.13
Economic Liberalization	4.50	↓ 4.67	↑ 4.58	4.58	↓ 4.67

KEY ANNUAL INDICATORS

	1995	1996	1997	1998	1999	2000	2001
GDP per capita (\$)	2,266.6	2,224.8	1,866.5	1,790.4	1,837.4	1,792.0	1,737.7
Real GDP growth (% change)	-1.2	1.2	1.4	2.9	2.7	5.1	-4.0
Inflation rate	16.4	2.5	1.5	0.6	-1.3	9.2	6.2
Exports (\$ millions)	1,204.0	1,147.0	1,237.0	1,292.0	1,192.0	1,367.0	1,400.0
Imports (\$ millions)	1,425.0	1,464.0	1,623.0	1,711.0	1,600.0	1,968.0	2,000.0
Foreign Direct Investment (\$ millions)	12.0	12.0	18.0	175.0	27.0	169.0	350.0
Unemployment rate	37.7	31.9	36.0	34.5	32.4	32.1	30.5
Life Expectancy (years)	71.9	72.2	72.4	na	72.5	72.8	73.0

INTRODUCTION

From its bloodless secession from Yugoslavia in 1991 until 2001, Macedonia was considered a model country in transition. Despite recurrent political, economic, and social crises, Macedonia weathered its first 10 years of independence with little threat of collapse. Its primary challenge was to establish a country that could accommodate both its ethnic Macedonian majority (66 percent of the population) and its Albanian minority (23 percent). Although Macedonians have insisted on the creation of a unitary state, Albanians have advocated official binationalism. Nonetheless, Macedonia has remained the most tolerant Balkan state by preserving its Titoist legacy of recognizing national minorities and their rights. Such tolerance has been manifest, for example, by pluralism in the media, minority-language education from preschool to university, minority civil society organizations, and interethnic power sharing at the national level. Similarly, although Macedonian citizens consider themselves more impoverished now than before independence, the World Bank and the IMF have given the Macedonian government high marks for fiscal management and currency control.

In 1998, Macedonia made a clear political and economic decision when it ousted the Social-Democratic Alliance of Macedonia (SDSM)/Albanian Party for Democratic Prosperity (PDP) coalition that had been in power since 1991. The new government, an “unholy alliance” of the nationalist Internal Macedonian Revolutionary Organization (VMRO) and Democratic Party for Albanians (DPA), represented unprecedented political accommodation. It also made unrealistic and ultimately unfulfilled promises of economic development and prosperity. Political and economic optimism ended when the Kosovo war started in March 1999.

Confronted with 360,000 refugees, Macedonia’s citizens had to assess their own identities: Are they first and foremost members of their ethnic community, regardless of political borders? Or are they citizens of their country with all its ethnic, religious, and linguistic diversity? The war’s short duration and the refugees’ quick repatriation obviated a thorough probe of these questions but nonetheless increased social and political acrimony within and among Macedonia’s major communities. Heated presidential and municipal elections in 1999 and 2000, respectively, provoked intraethnic accusations that the governing parties were selling out their constituencies’ “national” interests. As Albanians became increasingly active in national postwar politics, Macedonians worried about this community’s influence as the swing vote on key issues facing the country. Macedonians also grew to resent Albanians for their perceived access to privileged “war benefits,” whether refugee relief subsidies or political concessions in higher education.

Although Macedonia largely overcame the immediate impact of the Kosovo war, the country has since experienced increasingly dire internal repercussions. These began

with domestic political scandals in 2000 that led to the resignations of the country’s foreign and defense ministers and culminated in February 2001 in a war between Macedonia’s security forces and Albanian guerrillas representing the National Liberation Army (NLA). Some estimates suggest that the war has cost Macedonia \$1 million per day, thus setting back the country’s economic development by as much as 15 to 30 years.

Under international pressure, the VMRO/DPA coalition was expanded into the Grand Coalition, which includes the SDSM (the Macedonian opposition) and the PDP (the Albanian opposition). Intended as a united front to defeat the Albanian insurgency, this coalition failed to achieve its objectives. In August 2001, following six months of low-intensity war and approximately 100 civilian and 80 military casualties, European and American pressure compelled the Grand Coalition to sign a Framework Accord that was intended to end the shooting and lead to fundamental political reform.

Despite this accord, the prevailing mood continues to be characterized by barely contained anger. Ethnic Macedonians resent the negotiation process that ended the “baby war” and fail to believe that the resulting changes will lead to sustainable peace or coexistence. Moreover, they question Western intentions for the country and claim that without outside military and political support, the NLA could not have sustained its aggression against Macedonia. Ethnic Albanians suspect that Macedonia will not honor the terms of the settlement. Anything less than full implementation of the accord threatens a resumption of the war. Pessimists predict renewed violence in spring 2002, and, indeed, Prime Minister Ljubco Georgievski has declared publicly his expectation that further war is inevitable.

Macedonia has survived its turbulence with far less human and infrastructural damage than other Yugoslav successor states. What it has suffered, however, is heightened social and political hemorrhaging. Despite signing the Framework Accord, formally disbanding the NLA, and passing important constitutional amendments, Macedonia still has not regained four key things: territorial, military, political, and social authority.

First, there are stretches along the Kosovo border that remain under direct or indirect guerrilla control. Continuing intermittent gunfire and the absence of police have prevented the return of nearly 100,000 internally displaced persons (IDPs) to the Tetovo and Kumanovo regions. Repatriation of IDPs remains the primary reason Parliament refuses to ratify a general amnesty for NLA members, which itself is the NLA’s foremost condition for abandoning its armed struggle. Generally speaking, residential segregation has been increasing as Macedonians from the “crisis regions” have sold property and moved eastward. Meanwhile, Albanians from towns such as Bitola and Prilep have felt compelled to move west.

Second, armed attacks against both civilians and the military occur almost nightly. This has been true despite

the NLA's disarmament in September 2001 and the subsequent deployment of NATO troops and OSCE monitors. At present, only severe weather is preventing larger-scale armed confrontations.

Third, Macedonia has yet to regain the political authority it ceded to international intervention. There is continuing resentment in the country over the role of the European Union and the United States in dictating the settlement of the war. Deep-seated, if presently dormant, intra-Macedonian disputes exist over the country's future as a unitary versus a confederated state and about formally ceding Albanian-populated areas to Albania or Kosovo. Disagreements about the Framework Accord have weakened Macedonia's political foundations. With general elections scheduled for early 2002, parties are jockeying for position by distancing themselves from the settlement they themselves signed. Furthermore, the International Criminal Tribunal for the Former Yugoslavia has declared its intention to investigate incidents committed by Macedonian security forces that are led by Interior Minister Ljuben Boskoski.

Last, there is massive public skepticism in Macedonia. It is evident, for example, in militarized domestic politics—that is, in the presence of party-based paramilitary groups. In addition to so-called spontaneous riots in Bitola and Skopje during the summer of 2001, random ethnically motivated street violence has been increasing.

During its first 10 years of independence, Macedonia prided itself on steady, if plodding, progress. Today, its citizens feel their country has regressed 20 or more years in less than 12 months. Once a model country in transition, Macedonia is now the model of a country adrift.

DEMOCRATIZATION

Political Process

1997	1998	1999-2000	2001	2002
3.50	3.50	3.50	3.75	4.50

Since 1991, Macedonia has had two elected governments. The first, a coalition of the Macedonian SDSM and the Albanian PDP, was considered an extension of the previous Communist regime. Unresolved interethnic disputes left both Macedonians and Albanians dissatisfied and led to an overwhelming opposition victory in 1998. In the second government, the majority, so-called ultranationalist Macedonian VMRO, along with its Macedonian partner, the Democratic Alternative (DA), invited the so-called ultranationalist DPA to join the government. Broad consensus existed that if these ethnopolitical extremes could find a *modus vivendi*, so could their constituencies.

The promise of political stability eroded, however, when the Kosovo war strained Macedonia's political establishment almost to the breaking point. Ethnic Macedonians feared that the 360,000 mostly Albanian refugees from Kosovo

would upset Macedonia's demographic ratio. Unprepared for this crisis, the VMRO government went into near paralysis, thus creating a vacuum that Western military authorities and multinational humanitarian agencies filled. Albanians, pressured to avoid exploiting the refugee crisis for political gain, began collecting their political rewards once the war had ended. Ethnic Albanians filled more ministerial positions; concessions were made regarding minority-language education; and ultimately the Albanian vote was courted to secure the election of the VMRO presidential candidate in 1999.

Despite some turbulence in Macedonia's political life, the country seemed to recover its basic stability by late 1999. However, this soon faded in 2000 as the VMRO government stood accused of numerous political and economic scandals that undermined its credibility even among its most ardent supporters. Topping the list of scandals was the revelation that Minister of the Interior Dosta Dimovska had authorized widespread illegal wiretapping of political opponents—and not just politicians, but members of the media, business leaders, and others. Although Prime Minister Georgievski long denied these allegations, Dimovska eventually resigned. Revelations of severe corruption, including in the Ministry of Defense, increasingly eroded public confidence in the government and in the integrity of the political establishment in general.

The outbreak of the Albanian insurgency in February 2001 undermined the governing coalition's validity altogether and forced the formation of a government of national unity known as the Grand Coalition. This four-party coalition of the VMRO, SDSM, DPA, and PDP was expected to provide the legitimacy required to contain the insurgency both politically and militarily. Contrary to expectations, though, intra- and interethnic conflicts precluded effective governmental action on either the political or the military stage. Rather than acting as a coalescing factor, the Grand Coalition operated as a dysfunctional substitute for government, permitting each party to cast blame on the others when it was politically expedient.

One point of contention was the PDP's refusal to act in concert with the other parties. As the EU, NATO, and the United States arbitrated the cease-fire that led to the August Framework Accord, the PDP was seen representing NLA interests rather than those of Macedonia's own Albanian community. Rancor within the Grand Coalition escalated throughout the two-month parliamentary ratification of constitutional amendments on decentralizing power and protecting the political rights and civil liberties of Albanians. Frequently, imminent rejection of the amendments threatened the resumption of war. Although the amendments have passed, political stability has not resulted. In November 2001, the SDSM announced that it had fulfilled its obligations and then withdrew from the coalition. Prime Minister Georgievski then installed a new multiparty cabinet that includes Dosta Dimovska, the discredited former interior minister, as a vice president.

The Framework Accord also called for general elections in January 2002, but Parliament has postponed them until April or later. The SDSM, now officially the opposition, no longer disguises its antagonism toward the VMRO. SDSM leader Branko Crvenkovski openly blames Prime Minister Georgievski and the VMRO for warmongering, whereas the government accuses the SDSM of blatant pre-election marketing. Since elections require dissolving Parliament, and since the government retains sufficient votes to prevent Parliament's dissolution, elections will occur either when the VMRO decides or when the government's mandate ends in October 2002. Insofar as Albanians remain in government, some political stability remains, though it is at best teetering rather than steady.

Macedonia's parliamentary and presidential elections are staggered. Members of Parliament are elected for four-year terms and the president to a five-year term. To run for the presidency, candidates need signatures from 10,000 registered voters or the support of 30 members of Parliament. In 1999, six candidates qualified: Vasil Tupurkovski (DA), Boris Trajkovski (VMRO), Stojan Andov (Liberal Democratic Party, LDP), Tito Petkovski (SDSM), Muarem Nexhipi (DPA), and Muhamed Halili (PDP). To win outright, a candidate must receive the majority of votes cast. Otherwise the top two candidates enter a runoff. The candidate receiving the majority of ballots is elected, provided more than 50 percent of registered voters have cast ballots. Any turnout below the legal threshold requires a repeat election.

In 1999, incumbent President Kiro Gligorov announced that he would not stand again, thus elevating Vasil Tupurkovski, a member of the post-Tito rotating Yugoslav federal presidency, to the front-runner position. Tupurkovski, who formed the DA in 1998, was appointed to lead development cooperation in the newly elected VMRO/DA government. Unfulfilled promises of massive Taiwanese aid eliminated Tupurkovski as a presidential contender and narrowed the race to Trajkovski and Petkovski. As expected, Albanians cast first-round ballots for the Albanian candidates but realized neither could win. In the runoff, however, due to the VMRO/DPA coalition, Albanian support of Trajkovski directly determined his election.

Lacking domestic campaign issues, Macedonian parties focused on Kosovo and thus made the election a referendum on foreign issues that are unaffected by Macedonian politics. Since Albanians supported Trajkovski, the Macedonian parties portrayed him as an Albanian dupe. VMRO, the party once expected to foment a Macedonian-Albanian civil war, was accused of caving in to Albanian pressure. Runoff balloting heightened suspicions that Albanians had manipulated the elections. Polling station monitors, including the Organization for Cooperation and Security in Europe, reported numerous irregularities in western Macedonia, primarily with Albanian voters. Even after the National Election Commission and the Supreme Court required a revote in 230 districts, many ethnic Macedonians

felt that Trajkovski had been co-opted by the Albanians. In condemning Trajkovski for stealing the election, SDSM leader Crvenkovski commented that Petkovski had achieved a "moral" if not a legal victory. Implicitly he dismissed "Albanian" votes when electing a "Macedonian" candidate. Had only "Macedonian" votes been counted, Petkovski would have won. Macedonian parties contend that Albanians effectively have "taken over" Macedonian politics because their swing vote determines the outcome of close contests.

Though the next presidential elections are not due until 2004, the feeling that Albanians have hijacked Macedonian politics has increased significantly since the war started in February 2001 and in light of the constitutional debates that followed the signing of the Framework Accord in August 2001. President Trajkovski's early refusal to deploy Macedonian troops against NLA insurgents and his insistence on seeking a negotiated settlement to Macedonia's crisis have made him a special target for condemnation by radical Macedonian nationalists who reject accommodating any Albanian demands. At times, open hostility has broken out between the president and the militant wing of his own party, the VMRO, which is led by Prime Minister Georgievski. Viewed at first as a puppet of VMRO extremists, Trajkovski has been compelled to overcome the pro forma symbolic nature of his office through constant negotiations with Western diplomatic and military representatives. Whether this will strengthen or weaken Trajkovski and the presidency in the long run remains unclear. Indications thus far are all negative.

Article 20 of Macedonia's Constitution permits the formation of political parties. Only 500 Macedonian citizens are required to form a new party. Whereas immediately after independence Macedonia had upward of 60 parties, thus illustrating the ease of registration, only 27 are active now. Of these, 3 Macedonian parties operate seriously: VMRO-Democratic Party for Macedonian National Unity (DPMNE), SDSM, and LDP. Minor parties include the Socialist Party and the Movement for All Macedonian Action. Macedonia's Albanians belong mostly to the DPA and the PDP. Minor Albanian parties include the National Democratic Party and the Party for Democratic Action-True Path. Other ethnic communities have formed one or more parties as well. These include the Democratic Union of Serbs, the Democratic Progressive Party of Romas, and the Democratic Party of Turks.

Although all parties formally are membership based, in fact they rest largely on the personalities of their respective leaders. This is particularly characteristic of the four major parties: VMRO (Ljubco Georgievski), SDSM (Branko Crvenkovski), DPA (Arben Xhaferi), and PDP (Imeri Imeri). Personal differences have led to the emergence of several splinter parties in recent years. The Democratic Alliance was created by former SDSM Interior Minister Pavle Trajanov in 1999; and the VMRO-VMRO was formed unilaterally in 2000 by six VMRO-DPMNE members of Parliament who felt their parent party had

betrayed its electoral mandate. Tupurkovski's DA split in 2001, and the splinter New Democracy Party currently sits in Prime Minister Georgievski's reshuffled cabinet. Controversy erupted when NLA insurgents declared their intention to form a party and enter national politics once amnesty had been granted. In November 2001, however, NLA leader Ali Ahmeti announced that former NLA members would join existing Albanian parties.

Several NGOs have trained Macedonians in developing and implementing interest-group strategies, including forming political parties, conducting effective work strikes, and holding public demonstrations. These occurred, for example, following the closure of the Makedonka textile plant in Stip. After the collapse in 1997 of a pyramid scheme involving the private bank TAT and in which approximately 30,000 investors lost nearly \$90 million, defrauded investors eventually formed an anticorruption political party. Pensioners also have their own party.

Various parties participate at all levels of government. The mayor of metropolitan Skopje, for example, is from the LDP, but Skopje's five municipalities are split between VMRO and LDP mayors. Throughout the country, only two Macedonian and Albanian parties have elected mayors and city councillors. Precise party membership, however, is unclear for two reasons: questionable polling data due to public mistrust of information-gathering exercises, and deliberately inflated party rosters. Ethnic Macedonian identification with specific parties has fluctuated with growing general political mistrust during the period covered by this report. Specific ethnic Albanian political identification has also wavered as parties have sought authority within both the legitimate political arena and over the NLA. These tendencies are evident in wild swings in levels of declared public support for the parties in power and in the opposition.

Voter participation generally ranges between 70 and 80 percent. Whereas approximately 73 percent voted in the 1998 parliamentary and 1999 presidential elections, under 60 percent (below 40 percent for Albanians) voted in the September 2000 municipal elections. Women constitute over half the population, but their political participation is disproportionately low. Despite local and international NGO efforts to raise women's political participation, women remain politically marginal and occupy few positions of power, especially at the national level. Two exceptions are Dosta Dimovska of the VMRO and Radmila Kiprianova of the DA, both of whom were appointed vice presidents in 1998. Dimovska served as minister of the interior in 1999 but resigned owing to scandal. She was reappointed as a vice president in 2000. Kiprianova has been nominated Macedonia's ambassador to the United States. From 1994 to 1998, only 3.8 percent of members of Parliament were women. Though doubling in 1998, Macedonian women's political participation remains among the lowest in Europe.

Constitutionally, Parliament is Macedonia's only effective rule-making body. Its authority applies to passing legislation, amending the Constitution, electing the government,

and appointing 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, chosen through direct elections, is the head of state and thus is uninvolved with rule-making procedures. Macedonia's Parliament is divided between 85 directly elected (majoritarian) and 35 proportionally determined (party list) seats. Candidates must meet a 5 percent threshold of total votes cast in order to win a proportional seat. For majoritarian seats, candidates must receive a majority of ballots, provided one-third of registered voters turn out at the polls. Disputes have arisen over unequal parliamentary representation, with some constituencies consisting of 7,000 voters and others 70,000.

In the 1998 elections, Macedonians expressed their dissatisfaction with the SDSM/PDP coalition that had governed since 1991. Seen as a direct continuation of the former Communist regime, both Macedonian and Albanian political leaderships were regarded as arrogant and interested more in self-preservation than in advancing the interests of the country as a whole. Once the VMRO and the DA joined forces, the electorate overwhelmingly supported the opposition. Forty-nine seats went to the VMRO, 10 to the DA, and 11 to the DPA. The SDSM, led by former Prime Minister Crvenkovski, took 29 seats. The PDP (SDSM's Albanian coalition partner until 1998) won 14 seats; the LDP, 4; the Socialist Party, 2; and the Party for the Complete Emancipation of the Roma, 1. Parliament elected VMRO leader Ljubco Georgievski as prime minister. The VMRO heads most ministries. However, compared with the previous government, more Albanians have entered higher levels of government. Members of the DPA hold important positions in the Ministries of the Interior and Education, for example.

With the formation of the Grand Coalition in spring 2001, the national government changed in character. To address the insurgency, the government was reduced to a four-party—indeed a four-person—council of the VMRO's Georgievski, the SDSM's Crvenkovski, the DPA's Xhaferi, and the PDP's Imeri. Under intense international pressure, particularly from James Pardew of the United States and Francois Leotard of the EU, this inner circle negotiated the cease-fire with the NLA and eventually the Framework Accord in August 2001. Ethnic Macedonian resentment of underrepresentation in this process emerged when the accord faced parliamentary ratification. Not only did parties outside the coalition object, but VMRO members of Parliament who had been excluded from the negotiations advocated its rejection. Once international pressure had secured parliamentary ratification of the accord, the SDSM left the Grand Coalition. Throughout the war and its aftermath, the electorate has increasingly indicated its skepticism of government, and of the VMRO in particular. Post-ratification opinion polls show the SDSM far ahead of the VMRO, which is seen as having caused the war or having failed to contain it effectively. Nonetheless, Macedonians

clearly remember how the SDSM governed previously and support the SDSM only for lack of alternatives at the national political level.

Civil Society

1997	1998	1999-2000	2001	2002
3.75	3.75	3.50	3.75	4.00

Civil society is a contentious concept in post-Communist models of social and political organization. Many international development agencies and their governments overlook discrepancies between Western ideals of civil society (mediating between government and citizens) and local socioeconomic realities (affording necessary financial and human resources). Macedonia is no exception. Debates on this topic often focus on the connection between civil society and nongovernmental organizations: Do NGOs create civil society, or vice versa? Briefly, civil society creates conditions allowing NGOs to emerge and function; reciprocally, NGOs reinforce the vitality of civil society.

In Macedonia, neither condition prevails. Many NGOs are vestigial Yugoslav-era organizations that are “of” but not “for” citizens. Economic conditions and tax legislation impede voluntary organizations and their financial support. A 23 percent tax on philanthropic contributions, the intent of which is to thwart money laundering, further discourages business from financing NGOs.

Philanthropy and volunteerism, both prerequisites for a vital nongovernmental sector, are alien to Macedonia. Notions of self-help are highly localized, rarely crossing traditional boundaries of personal responsibility. These factors constrain civil society, including nongovernmental, voluntary, and charitable organizations. Although average Macedonians are too preoccupied with survival to work voluntarily, a few truly voluntary organizations do exist, for example: the SOS Telephone (in Skopje and Kumanovo); Daja and Majka (two Roma women’s NGOs in Kumanovo); the Association of Single Mothers (in Stip); and the Organization of Macedonian Women (in Gostivar).

Overall, Macedonians view NGOs as potential employers, particularly since most enjoy foreign financial support. The wars in Kosovo in 1999 and Macedonia in 2001 aggravated this tendency. In 1999, international organizations shifted their Kosovo operations to Macedonia. To replace staff who were unable to relocate, they recruited heavily—especially among Macedonia’s Albanians—and became some of Macedonia’s biggest employers. International spending in Macedonia diminished following the overthrow of Slobodan Milosevic and caused local concern that Macedonia’s NGOs might not survive the West’s shift in focus toward Serbia.

In response to Macedonia’s war, however, large sums of foreign money again have been channeled into the country, including to NGOs that promote improved interethnic

relations. This favorable treatment currently is affected by the West’s focus on “the war on terrorism” and the reconstruction of Afghanistan. As in the post-Kosovo war period, if sufficient finances are not allocated to Macedonia overall, the country’s economic recovery will be thwarted, as will the growth of NGOs, which depend on the population’s ability to separate employment from voluntary involvement in civil society. Thus, once again, Western funding priorities largely will determine Macedonia’s ability to develop NGOs as an engine that drives civil society.

The precise number of active NGOs in Macedonia is unknown. In 1998, the Macedonian Center for International Cooperation (MCIC) published *The Guide to Nongovernmental Organizations in Macedonia* (not updated since), which lists approximately 300 international and domestic organizations. Macedonia’s basic court, where NGO registrations are recorded, reports closer to 2,600 organizations. Some NGOs that registered in Macedonia in 1999 to continue working in Kosovo have since returned to Kosovo. The Macedonian war has also prompted international NGOs such as the Institute for War and Peace Reporting to open local offices.

Like political parties, local NGOs inflate their membership. Umbrella organizations such as the Union of Women in Macedonia, for example, claim thousands of members, including subgroups that represent specific ethnic communities. Among its hundreds of “registered” members, few are usually active. The small core staffs and “paper” members of most NGOs restrict questions of management structure to larger groups, especially umbrella organizations. Limited local funding sources further constrain serious organizational development and capacity building.

NGOs typically bid on projects once foreign donors make funds available, but they are often otherwise inactive. International NGOs such as STAR, which has been developing women’s organizations since 1995, are challenged to find women to participate in capacity-building workshops that prepare individuals to create and lead future NGOs. Nonetheless, some organizations do conduct training programs. The Institute for Sustainable Communities (ISC), for example, has trained local mentor trainers whom NGOs may consult on organizational development problems. STAR, ISC, the National Democratic Institute for International Affairs, and others have issued brochures, handbooks, training primers, and other materials in Macedonian and Albanian.

Although NGOs face few procedural obstacles, the overall NGO environment is hazy since no tradition of civic activism outside governmental control exists. Government tolerates NGOs, but they are neither encouraged nor considered beneficial. Having retained a centralist style of administration, the Macedonian government regards information as the provenance of the state and reluctantly, or unwillingly, releases information to NGOs and the general public. NGOs have few expectations of government and rarely attempt to make their presence known in an effective way.

Although the Soros Foundation and the MCIC have opened resource centers to address legal and regulatory matters, NGOs remain fairly passive in this area. The media are apathetic toward NGOs, and NGOs equally refrain from educating the media. NGO-led events (such as protests against industrial pollution) receive media coverage, but rarely do NGOs and the media cooperate on issues of general public concern. The Kosovo and Macedonian wars focused public attention on humanitarian organizations, though this attention was not necessarily positive.

In April 2001, for example, Skopje's TV 5 publicly accused Catholic Relief Services of posting anti-Macedonian propaganda on its Web site. Though this faded within weeks, it did have a chilling effect within the international humanitarian NGO community. Similarly, in November 2001 the Ethnic Conflict Resolution Project, one of the few local NGOs that focus actively on interethnic issues, unexpectedly was expelled from its office at the Faculty of Philosophy, University of Sts. Cyril and Methodius, Skopje, where it had been located since 1995. Generally, however, politicians are simply dismissive of NGOs.

With few exceptions, NGOs infrequently lobby for legislation. The Movement of Ecologists of Macedonia, for example, has advocated for greater environmental protection and has contributed to Macedonia's National Environmental Action Plan. The women's group ESE has lobbied for maternity leave rights and other pieces of family law. In both instances, the government has taken this advocacy seriously.

In brief, Macedonia's inability to afford volunteerism remains a crucial problem with an unforeseeable solution. Absent international support, most domestic NGOs would fold. The membership fees NGOs might collect are at best symbolic. Otherwise, NGOs are restricted in generating income. Although NGOs are required by law to report income and expenses, they typically reveal sources but not expenditures. They do so largely to avoid tax obligations, because Macedonian NGOs are not tax-exempt. NGO project funds do enjoy limited tax concessions, but they are otherwise taxed. Submitting false receipts for financial reports is commonplace. Questionable financial management and perceived personal enrichment contribute to general public skepticism about NGOs and thus diminish their importance in developing Macedonia's civil society.

Other interest groups and trade unions do exist. Unemployment and small-business growth have reduced the role of trade syndicates. Privatization and Macedonia's declining industrial sector, which has experienced an 80 percent fall in textile production and a 60 percent reduction in heavy machinery exports since the Kosovo war, also have contributed to worker redundancy and smaller union membership. Membership in unions is unofficially estimated at about 240,000. Although Western countries spent nearly

400 million deutsche marks (DM) annually on local procurements (largely of food and textiles) after the Kosovo war, Macedonia's agricultural sector has yet to recover. Farming has been private since the 1950s, when collectivization was rescinded. Agribusinesses are rare, however, and most Macedonian farmers remain small-scale producers. International NGOs such as Volunteers in Overseas Cooperative Assistance, a USAID contractor that specializes in agriculture, have attempted to establish commodity-based farmers' associations, but with little success. Likewise, Macedonia has professional and business associations, but they are not yet active in developing the private business sector.

Numerous articles of the 1991 Macedonian Constitution guarantee freedom of religion. Religious activities, however, are regulated by the 1997 Law on Religious Communities and Religious Groups and by the Constitutional Court's amendments to that law. Macedonia's population is divided roughly among Orthodox Christians (66 percent), Muslims (30 percent), Catholics (1 percent), and other faiths (3 percent). The role of religion in public life, however, is often a contentious issue.

Disagreements divide not just the Orthodox and Muslim communities, but also the Orthodox and non-Orthodox Macedonians. The Macedonian Orthodox Church reacted vehemently to the proposed constitutional change to eliminate its superiority over other religions, to the point of threatening excommunication for those members of Parliament who vote for this change. The church's plan to erect an 80-meter illuminated cross on Mt. Vodno overlooking Skopje has enraged Muslims, who view this as symbolic of Orthodoxy's attempt to usurp Macedonia's identity. Since President Trajkovski is a Protestant, he has faced accusations from Orthodox Macedonians of infidelity to the "nation," including during the election campaign in 1999 and the war in 2001.

Faith-based organizations are rare in Macedonia. Although some have been active over recent years, information about their precise number, membership, and scope of activities is unavailable. El-Hilal came into prominence during the Kosovo war as the one humanitarian organization that expeditiously delivered relief supplies to refugee camps. Describing itself as a Muslim relief organization with a nondenominational humanitarian mandate, el-Hilal nonetheless is perceived primarily as serving the Albanian community. Foreign faith-based organizations, especially those working among the Roma, occasionally are viewed suspiciously, given the number of organizations that disguise proselytizing behind humanitarian work. Attempts by domestic and international organizations to bridge religious divides by focusing on shared tenets of peace and tolerance have succeeded only minimally. In summer 2001, the secular Macedonian Center for International Cooperation assembled representatives of the Macedonian Orthodox and Muslim communities for a low-profile meeting in Switzerland but

failed to obtain their signatures on a final communiqué. Similar efforts by American organizations such as the Global Dialogue Institute and the World Conference on Religion and Peace have yet to secure interfaith cooperation of any sort.

Education remains a highly disputed area of public life in Macedonia. Although private education is still largely illegal, the government is considering privatizing kindergartens. Private primary schooling is allowed only for Macedonians who also hold foreign passports. Private secondary schooling is available on a limited basis, and private university education is a contested political topic.

With their Yugoslav legacy of separating schoolchildren by language, schools both reinforce segregation and serve as a tool for politicians who wish to display their nationalist credentials. Political interference in education is manifest at multiple levels. Macedonian and Albanian children do not follow identical curricula, for example, owing to political objections from both communities about “their” children learning the “other’s” history. Albanians regularly protest that Macedonian educational authorities systematically have underfunded Albanian schools. Elementary school attrition rates among Albanians (let alone attrition rates between elementary and high school) are vastly greater than those among Macedonians.

The most volatile educational issue has been the existence of an Albanian-language university. Since 1996–1997, when the unrecognized University in Mala Recica (popularly called the University of Tetovo) was established, this subject has been a focal point of political and at times violent conflict. This year, Macedonia agreed to open a private trilingual (Albanian, Macedonian, English) university in Tetovo, as proposed by Max van der Stoep (then OSCE high commissioner for national minorities) and funded by the international community. Albanian nationalists, including members of the PDP, reject this solution on several grounds. They object to the idea that the only recognized Albanian university would be private when Macedonian higher education is state funded. They also claim that their community’s identity hinges on having a fully developed Albanian-language, not multilingual, university. Tertiary education, therefore, remains a hot political issue.

The war in 2001, and the resultant decline in security in northern and northwestern Macedonia, has also had an impact on education and education politics. The 2001–2002 school year was postponed owing to the number of internally displaced schoolchildren who had to be accommodated wherever they were living. Even once the school year began, some parents objected to sending their children to schools that either adjoined or were attended by children of the “other community.” Although expressed in terms of security concerns, these objections were clearly motivated by a desire to segregate, much as in growing residential segregation.

Independent Media

1997	1998	1999-2000	2001	2002
4.00	4.00	3.75	3.75	3.75

Macedonia has among the highest per capita rates of electronic media in southeast Europe. For only 2.2 million people there are 120 radio and television stations. Only 20 percent are licensed and operate legally. In contrast, Macedonian readership of print media is relatively low, and there are significantly fewer publications in circulation than in neighboring countries. Whereas on the surface the country’s abundance of media reflects its pluralism, a feature that distinguishes it from all of its neighbors, this very multiplicity has also created information ghettos. Members of one community infrequently use media from another community, even when language is not a barrier. Most Macedonian citizens see only their own parochial interests reflected back to them by journalists who are from their community. People from one part of Macedonia often are unfamiliar with the daily life of people from other regions, especially if the regions in question are ethnically and linguistically distinct. Such concern is usually aroused only at times of crisis, when prejudicial attitudes tend to prevail.

At best, therefore, the media serve to further segregate Macedonia’s ethnolinguistic communities. At worst, they provide biased, insufficient, and at times inaccurate information that escalates interethnic tensions and occasionally leads to sporadic violence. Currently, the only venues for communities to exchange views regularly are media programs led by Search for Common Ground in Macedonia. Encompassing print, radio, and television, the organization has engaged Macedonian, Albanian, Turkish, and other local journalists since 1994 in joint reporting efforts, which have been published or broadcast in all major languages of Macedonia.

The government controls Macedonian Radio and Television (MRTV), the state-run television and radio broadcaster, which until 1999 was the only nationwide network. No plans exist to reform MRTV, despite demands for “public service broadcasting” that resembles the British Broadcasting Corporation. NIP Nova Makedonija—the publisher of two daily Macedonian-language papers, *Nova Makedonija* and *Vecer*; one Albanian daily, *Flaka e Vellazerimit*; the thrice weekly Turkish paper *Birlik*; and the Macedonian weekly *Puls*—is government controlled. Approximately one-third of its shares are state owned, and positions of responsibility are assigned politically rather than professionally. With each new administration posting its own functionaries to run NIP Nova Makedonija and MRTV, the two are by definition “pro-government,” irrespective of the party in power.

All other media are privately held. At times they show clear political bias; some are even owned by political parties. The pro-LDP Makpetrol Company, for example, owns TV Telma in Skopje. Until 2000, Ljubisav Ivanov, 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 TV and radio stations continue to operate without repercussion. Significantly, the licensing process has allowed two private stations, A1 TV and Radio Kanal 77, to gain national coverage.

The Macedonian dailies *Makedonija Denes* (preceded by its weekly, *Denes*) and *Utrinski Vesnik* and the Albanian paper *Fakti* began publishing between late 1999 and early 2000. In mid-2000, another Macedonian independent daily, *Vest*, also appeared. The weeklies remain unchanged except for the addition of *Kapital*, which focuses on economic issues. The circulation of political publications such as *Makedonsko Sonce* and *Delo* is tiny and makes them insignificant players. Owing to low readership, daily papers with circulation over 50,000 are considered successful. Of NIP Nova Makedonija's papers, only *Veeer* reaches this level. *Nova Makedonija* claims a daily circulation of 20,000, which is doubtful.

Of the private Macedonian papers, *Dnevnik* and *Utrinski Vesnik* each have a daily circulation of around 50,000 copies. Among Albanian papers, state-run *Flaka* has a fractional percentage of readers (under 3,000), and the private paper *Fakti* prints 15,000 daily. Until the 2001 war, *Dnevnik* enjoyed substantial Albanian readership. This has dropped owing to Albanian complaints of *Dnevnik*'s prejudicial coverage of the war. Enmity between the Macedonian and the Albanian press has risen to such a high level that some journalists refuse to meet publicly to address media-related issues.

Two tiers of television stations exist. There are several successful, "professional" local stations, but there are even more stations that mostly rebroadcast downloaded satellite signals. The first category includes A1 TV (Macedonian, in Skopje), TV ART (Albanian, in Tetovo), TV KISS (Serbian/Macedonian, in Tetovo), TV TERA (Macedonian, in Bitola), TV Festa (Albanian, in Kumanovo), TV IRIS (Macedonian, in Stip), and TV VIS (Macedonian, in Strumica). The stations in Skopje alone include two full-time 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 Sutel), and one Serbian station (TV 96).

The airwaves are also overcrowded with radio stations that specialize in entertainment. Many local TV stations also have affiliated radio stations. Since only Kanal 77 has national reach, it is difficult to rate radio stations as major or minor. 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 role during the Kosovo war by disseminating refugee-related information that helped families reunite.

Macedonians increasingly are using the Internet, though precise figures are unavailable. Computer prices still limit home use. Internet cafés, once found only in Skopje, have become common. Access to the Internet is unrestricted,

and several commercial providers are competing for the market: Ultra Communication's Unet, Informa, Macedonia On Line, Onnet, and Macedonian telecommunications. University personnel have noncommercial access through Marnet, and the Soros Foundation offers NGOs free Internet access through its own server.

The moribund Union of Journalists is a holdover from the Yugoslav era. In 1995, the International Research and Exchanges Board supported the Journalists' Club for Interethnic Dialogue as an alternative organization for progressive young journalists, but it folded after several months. Younger journalists tend not to join professional organizations, and consequently the number of Macedonia's journalists is unknown. Women comprise over half the working print and broadcast journalists, though they rarely fill positions of authority. However, TV TERA in Bitola and previously A1 in Skopje have both had women editors in chief. Likewise, the head of the Union of Journalists is a woman (Maria Dimovska).

Macedonia fell within the "Partly Free" category in Freedom House's 2001 *Annual Survey of Press Freedom*. Defined as "free of government intervention," Macedonian media are largely editorially independent. Private media, however, generally reflect their owners' politics in their coverage of events as well as in their commentaries. Journalists typically do not differentiate between reporting and editorializing, and the war in 2001 further blurred the meaning of "free and independent media." On two occasions, private print and broadcast media organized public protests against the government's handling of the crisis. In each case, the media not only staged the event but then covered it as well. None of the media involved perceived that there was a conflict between their roles as news reporters and as news makers.

The media that operate 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 the editorial viewpoint of national TV and radio. Likewise, it is entirely normal for government to articulate its wishes to state-affiliated papers, protestations of editorial independence notwithstanding. Such interventions usually affect not newsgathering per se, but its tone.

Chapter II, Article 16, of the Constitution protects freedom of expression and guards against censorship. Legal penalties for libel, slander, and misinformation have not been used to harass or censor the media. Although the government accused A1 and Sitel TV of anti-state activities, or "irresponsible journalism," during the Kosovo war, it took no legal action against them. Opposition media also vociferously attacked the VMRO during the presidential and local elections, accusing the VMRO of collusion with Albanians and harboring plans to dismember Macedonia. Rather than seek legal recourse, the government took paralegal action. Conveniently, it discovered that *Makedonija Denes* had failed to pay taxes and necessitated the paper's closure, until public outcry led to its reopening.

Left to survive on circulation and advertisements, most private media would go bankrupt. The broadcast media market is oversaturated, and it cannot support hundreds of players. The government offers limited support for independent media by redistributing annually the approximately DM 3 million it collects in TV and radio taxes. Independent media complain, however, of unfair disbursement practices. Pro-government media receive amounts far exceeding what is given to media outlets that are out of favor with the government. Generally, financially viable broadcast media are owned by individuals who have the means to support them. MRTV offers artificially low advertising rates and thereby prevents fair competition for the revenues that independent broadcast media need to survive. MRTV's financial dominance was challenged in 2000 when Hellenic Telecom purchased Sitel TV, which had been owned by the Socialist Party. Even though major Greek political actors own many Greek media conglomerates, the media in Greece differ from the Macedonian media in their focus on profit rather than political patronage. Evidence to date indicates that this sale has not yet affected Sitel's financial or programmatic profile.

Of Macedonia's papers, only *Dnevnik* is profitable. Its closest competitor, *Vecer*, is published by NIP Nova Makedonija and therefore does not need to show a profit. *Utrinski Vesnik*'s popularity has increased, and it is becoming the second financially viable Macedonian-language paper.

Of the two national distribution networks, the larger is owned by NIP Nova Makedonija and therefore caters to pro-government publications. The second, Tutun, though privately owned, also tends to be pro-government. *Dnevnik*, due to the obstacles it encountered distributing an "opposition" paper, launched a virtual army of street hawkers and lowered its price from 30 to 5 denari. Its current price is 10 denari. At 30 denari, the monthly cost of buying *Dnevnik* represented nearly 10 percent of an average salary. In response, NIP Nova Makedonija and competing private papers also lowered their prices. Now all papers are sold on the street. Reduced prices and street sales have led to substantially increased circulation rates of all daily papers.

Governance and Public Administration

1997	1998	1999-2000	2001	2002
4.00	4.00	3.00	3.75	4.25

Transparency is not a hot topic in Macedonia. Citizens do not commonly voice opinions on government processes, only on results. Transparency International has rated Macedonia in the top 40 percent of corrupt societies. TI measures perceptions rather than empirical indicators of corruption, and in Macedonia perceptions usually outweigh statistics. For example, local and national elections are generally equally free and fair. Nonetheless, parties receiving less than expected support quickly make accusations of fraud,

even when voting has been declared free and fair by international observers. Macedonians commonly assume that the local party in power cheats because of access to voter rosters or registration cards. That multiple parties are represented on city councils is one indication that fraud, which undoubtedly does occur, is not as pervasive as the accusations would indicate.

The transparency required of Parliament is not particularly effective. Sessions of Parliament are open to the public, but attendance is not encouraged. Public comment is permitted on first drafts of legislation but not on second drafts. Although by law the *Sluzben Vesnik* (*Parliamentary Gazetteer*) must announce draft legislation, average citizens seldom read it. As a result, public input on legislation is rare. The media, however, do report regularly on both the legislative and executive branches of government.

Transparency is also obstructed by the opaqueness of the government's system of checks and balances. Although checks and balances are structurally present, real distribution of power is determined by party membership. Parliament passes legislation, elects the head of government (the prime minister), and appoints judges. Since the VMRO has a parliamentary majority, it has effective control over all three branches of government. The government tends to act with impunity and exercises checks and balances when caught in a situation in which no other option is available. Although checks and balances are intended to prevent abuse of power preemptively, the Macedonian government's application is mostly punitive, such as withholding a Parliament member's salary or requiring the resignation of a ministerial official.

Macedonia has been criticized for its increasing centralization, despite the existence of legislation that devolves power to the country's 123 *opstini* (singular: *opstina*, municipality), each with its own mayor. Constitutionally, municipalities are units of self-administration that are authorized to act on issues such as community services (utilities, for example), urban planning, and "other fields determined by law." Municipalities also have only limited access to funds and therefore are caught in a fiscal catch-22. That is, 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 to Skopje and to submit budgets to the state for financing local initiatives. Consequently, local governments complain that Skopje exercises too much control.

One provision of the Framework Accord signed in August 2001 is the passage of legislation that will increase the authority of local self-government. Should this legislation pass in Parliament, its implementation would still depend on the national government's allocation of concomitant funds. This has been a point of dispute between ethnic Macedonians and Albanians, because the former fear that greater autonomy for Albanian-populated areas would lead to the eventual partitioning of Macedonia along ethnic lines. The basis for this concern is that, currently, most civil servants, irrespective of demographics, are ethnic Macedonians.

Albanians, in contrast, have long complained about the lack of Albanian, or Albanian-speaking, civil servants, especially in predominately Albanian areas. Among the most contentious areas of civil service are the police. Under international pressure, the Macedonian government is currently increasing the number of Albanian police who serve in western Macedonia. Still, the deployment of ethnically mixed police teams to former NLA-held villages remains a military and political flash point.

Municipal governments face other operational obstacles. For example, city councillors from opposing parties may fail to reach consensus. In Skopje, one party runs the Municipal Sanitation Department and another party administers the sanitary landfill. Consequently, Skopje's solid waste goes to the plain-earth landfill run by the same party that heads the Municipal Sanitation Department. The absence of effective municipal government is also often cited as the source of rural underdevelopment. The Resen municipal government, for example, does not collect garbage from villages in its district. As a result, Lake Prespa has experienced problems with water pollution and delays in developing tourism.

Local civil servants are exclusively employees of local government. The only exceptions are employees in branches of national ministries. Civil service reform has not occurred, despite repeated urgings by international organizations that deal with administrative reforms. As with higher levels of government, local civil servants have been accused of refusing to provide services without compensation. Over several years, various 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 governments and domestic NGOs. Observers of the Macedonian government agree that a professional civil service is indispensable and would contribute substantially to citizens' overall confidence in government.

RULE OF LAW

Constitutional, Legislative, and Judicial Framework

1997	1998	1999-2000	2001	2002
4.25	4.50	4.25	4.25	4.75

In September 1991, the Republic of Macedonia adopted its post-independence Constitution. On November 15, 2001, Macedonia's Parliament ratified the 15 constitutional amendments that had been adopted in the August 2001 Framework Accord: 94 members of Parliament voted for it and 14 against. This ratification signaled the formal end of the war that began in February 2001. The amendments include limited recognition of Albanian as an official language and increased Albanian access to public sector em-

ployment, especially with the police. The Constitution's preamble, which previously had distinguished between ethnic Macedonians and other nationalities, was also amended to erase any inference that minorities are second-class citizens. Although Parliament has ratified the amendments, it has not adopted all the legislative reforms that the accord calls for. Parliament was scheduled to vote on a new law on local self-government in early December 2001. Its passage was a precondition for the World Bank, the EU, and the United States to proceed with a long-planned donors' conference. As of the end of December, Parliament had not voted on this legislation, thus leaving the donors' conference in question.

Macedonia's first 10 years of statehood were highlighted by continuous and acrimonious debate about its Constitution, which the Albanian community refused to endorse when Macedonia declared independence in 1991. There are various explanations why war, and eventually constitutional change, occurred in 2001. Ethnic Macedonians blame the country's Albanian politicians for their refusal to support the new state and to work within its institutions since independence. The country's Albanians locate the conflict in ethnic Macedonians' 10-year-long refusal to recognize minority co-ownership of the new state, including equal participation in all aspects of public life. These positions reflect the two sides of Macedonia's core dispute: ethnic Macedonians feel the country is and should remain a unitary state with recognized minorities; Albanians reject this concept and demand an official binational state. The third common explanation of the war is that a confluence of political, economic, social, and military circumstances, not only in Macedonia but in the region—primarily in Kosovo—created a combustible mix that finally exploded. Undoubtedly, all of these explanations factor into the complex snarl that neither the foreign-led peace agreement nor the constitutional amendments have yet to unravel.

Chapter IV of the Constitution establishes a nine-member Constitutional Court. Parliament appoints Constitutional Court judges to nonrenewable nine-year terms. Cases may be brought directly to this Court or may be heard upon appeal of lower court rulings. The state provides public defenders in theory but rarely in practice, and over the years attempts have been made to remedy this deficiency. In 1995, for example, the OSCE and the American Bar Association's Central and East European Law Initiative (ABA-CEELI) invited lawyers to form a local NGO that would provide pro bono legal services, but the effort failed owing to skepticism and the lack of a volunteer tradition in the country.

Enrollment is quite high in the Law Faculty at Skopje's University of Sts. Cyril and Methodius, although law is not considered an elite profession. Approximately 300 lawyers graduate annually, and most go into private practice. About 1,000 lawyers belong to the Macedonian Bar Association, which grants licenses to practice. Women also study law, but the proportion of female lawyers remains relatively low. Although gender statistics for lawyers are unavailable, the

ABA-CEELI office in Skopje estimates that 70 percent of basic court judges and 25–30 percent of appellate court judges are women. In addition, 6 Supreme Court judges and 1 Constitutional Court judge are women.

The criminal code was reformed in 1996 when Macedonia replaced the old Yugoslav code that had remained in place even after independence. Parliament approved the new Code of Criminal Procedure in 1997. Among its significant provisions are the limitations it sets on “informative talks” (a Yugoslav euphemism for interrogation), which the police still use with impunity.

Although the Constitution guarantees the right to the “inviolability of the home” and legislation passed in 1995 prohibits police from searching homes without court-ordered warrants, people still complain of unauthorized police searches. The police were severely criticized for this following unrest in Gostivar in July 1997, which led to calls for police training in human rights and community policing. Albanians have also long sought greater representation in the police, particularly in localities in which they make up the majority of the population.

The 2001 Framework Accord provides for changes in the ethnolinguistic makeup of the police, and implementation of this provision has begun. Nonetheless, unchecked police power still pervades Macedonian society, and unwarranted arrests and prolonged detentions are just part of the problem. In addition, Macedonian citizens tend to avoid the judicial system because of lengthy delays in the adjudication of cases, a lack of impartial judges, and the appearance of direct political influence on courts. Macedonian citizens also avoid seeking redress in the courts because they see courts as an extension of the police, they know courts have conducted trials with obvious political objectives, and they have little faith in the consistent enforcement of judicial decisions.

Among the specific human rights cited in the Constitution are freedom of religion or conscience, privacy, and speech. The Constitution also lists the right to own and inherit property and “freedom of the market and entrepreneurship.” Reflecting its Yugoslav legacy, Macedonia constitutionally protects minorities in preserving and expressing their cultural, linguistic, and religious identities. Minority rights are also protected in the European Council’s Convention on Minority Rights, which Macedonia has signed. Although antidiscrimination based on gender is guaranteed both constitutionally and legislatively, activists assert that Macedonian women face serious if subtle discrimination in employment, political participation, and education.

As previously mentioned, minority rights have been at the core of most constitutional debates. The government, and the ethnic Macedonian majority generally, maintains that Macedonia’s minorities (that is, Albanians) are the most privileged in the Balkans. They thus interpret demands by minorities for greater rights as a pretext for ulterior political ambitions. Minorities, particularly Albanians, claim their rights exist on paper but are curtailed in practice by a

Macedonian majority that wishes to preserve a unitary state. Despite these disputes, Macedonia remains a country whose communities enjoy wide-ranging rights for cultural, religious, and linguistic self-expression.

Corruption

1999-2000	2001	2002
5.00	5.00	5.50

Macedonia is not mentioned in Transparency International’s latest Global Corruption Report. In fact, according to TI’s local chapter, when Skopje failed to supply the relevant data, TI alerted the government that this would lead to Macedonia’s inclusion on its list of the 10 most corrupt societies. In its 1999 Corruptions Perception Index, the last index in which the country appears, TI ranked Macedonia 3.3 on a scale of 0 to 10, in which 0 equals highly corrupt and 10 equals very clean.

“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. According to the 2001 survey of corruption in southeastern Europe conducted by the Southeast European Legal Development Initiative (SELDI), Macedonians ranked corruption the third most critical issue facing the country. Only unemployment and low income topped corruption. Immediately following corruption are political instability and crime. According to this survey, 69 percent of Macedonians attribute corruption to “fast personal enrichment sought by those in power.” Likewise, 72 percent consider “all or most customs officials” and 61 percent consider “all or most ministers” corrupt. While 60.8 percent hold similar views of members of Parliament, 44.6 percent consider “all or most” political and coalition leaders corrupt.

Macedonia previously prided itself on being relatively free of corruption, in comparison with countries like Bulgaria, Russia, and Albania. In the past several years, however, the country has been rocked by a number of turbulent corruption scandals. 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. Other scandals have involved the diversion of arms and arms procurement funds in the Department of Defense and the Macedonian army, heretofore considered one of the few institutions immune from corruption. During the war in 2001, Minister of Defense Ljuben Paunovski was forced to resign owing to accusations that he arranged for his brother to make defense procurements totaling \$5 million. Also in 2001, the chauffeur for the minister of finance acquired controlling shares in Makedonska Banka, allegedly using his own savings to do so.

The previous SDSM/PDP coalition faced so many accusations of corruption that the VMRO was able to win the 1998 general elections in part with an anticorruption plat-

form. Despite the surge of public outcries that followed the TAT affair and other scandals, no steps have been taken to address the problem. Parliament has yet to adopt anticorruption legislation that was proposed in 1998. Macedonia operates under a Law on National Audit that is applicable to both the executive and the legislative bodies of government. Extortion is a crime under the Macedonian criminal code. Racketeering, however, is not dealt with explicitly. Despite legislation regulating financial disclosure and forbidding conflict of interest, such laws are seldom enforced. In fact, information regarding legal and ethical boundaries between public and private sector activity is not available. As previously mentioned, official reactions to corruption usually reveal political rather than legal motivations.

Corruption can be identified at three levels: in obtaining civil services; in working with service providers; and in dealing with the government. Whereas the first two impact mostly individuals, the third impacts Macedonia in its entirety. Average citizens are likely to pay bribes for services such as phone lines, business licenses, or travel and residency documents. Payments are often scaled to accommodate the individual's financial resources. Such payoffs, given to accelerate rather than accomplish the service requested, may be as insignificant as cigarettes or alcohol offered as a token of appreciation. Since average Macedonian salaries are so low, bribes are seen as supplementary income that would disappear in a better economy. More serious examples of corruption occur at higher levels of civil service, especially in the courts. The popular perception is that court officials can be bought and that more important cases warrant higher prices. A corruptible judicial system seriously obstructs Macedonia's economic development, since foreigners will not invest unless their assets enjoy legal protection.

Few services are immune from some form of payment. Health care is a prime example. Patients pay to get better rooms, to receive personal belongings or food brought by their families, or to get medications covered by insurance but which suddenly have become scarce. In SELDI's 2001 report, 20 percent of respondents stated that "they had been asked for something" by a doctor in order to have a problem remedied.

Recent scandals illustrate the involvement of top government officials in numerous, often corrupt, enterprises. When dealing with lower-level government representatives, wining and dining them is expected, as is expressing one's gratitude once the favor has been extended. The price of gaining access to higher governmental echelons, however, excludes all but major players.

Although no specific information is available, privatization largely has consisted either of insider management buyouts or sales to outsiders at inordinately low prices. In both instances, government officials have benefited substantially. The gray economy also could not exist without official participation. In SELDI's 2001 report, Macedonians rank payoffs to customs officials second, after doctors. Smug-

gling and contraband, though less prominent than during the UN sanctions against Yugoslavia and the Greek embargo against Macedonia, are still active. Even during the war in 2001, outbreaks of violent street crime were often connected to organized crime rather than ethnic conflict.

ECONOMIC LIBERALIZATION & SOCIAL INDICATORS

Privatization				
1997	1998	1999-2000	2001	2002
4.00	4.00	4.00	4.00	4.25
Macroeconomic Policy				
1998	1999-2000	2001	2002	
5.00	4.75	4.75	4.75	
Microeconomic Policy				
1998	1999-2000	2001	2002	
5.00	5.00	5.00	5.00	

When comparing their life in independent Macedonia to life in the former Yugoslavia, Macedonians see a golden cage. That is, they have their own state, but it is poorer than the former Yugoslavia. According to some estimates, in 2000, 20 percent of the population was living below the daily minimum of 170 denars (approximately \$3.00). Macedonia issues passports, but its citizens face visa restrictions, especially when traveling to the West. Despite having institutions of a participatory and representative democracy, Macedonia is still locked in domestic disputes over political legitimacy and regional conflicts over national identity. Although Macedonia declaratively supports a free-market economy, nepotism and corruption still hinder its entry into the world market. And though it subscribes to international conventions on minority rights, Macedonian society has yet to reconcile itself as both pluralistic and integrated. This factor, more than any other, lies at the heart of the dispute that in 2001 escalated into armed conflict.

Macedonia has continually faced economic obstacles. UN sanctions against Serbia during the Bosnian war and the Greek embargo from 1994 to 1996 suffocated Macedonia's economy by restricting the imports of raw materials and exports of finished goods. The economy began improving in mid-1999, when Skopje concluded free trade agreements with most of its contiguous countries. The newest free trade agreement is with Albania and is scheduled for signing in January 2002. A new associative relationship with the EU, as well as Yugoslavia's poor economic health due to the Kosovo war, also dramatically re-oriented Macedonia's economy. In 2001, only 25 percent

of Macedonia's foreign trade went to Yugoslavia (compared to nearly 100 percent prior to 1999) and 55 percent to the EU.

Between 1999 and 2001, Macedonia's economy displayed two contradictory tendencies. The formal economy generally declined as a result of a fall in major exports, a 16 percent annual trade deficit, and an unemployment rate of 50 percent (down from 70 percent during the Kosovo war). In contrast, though, the country also enjoyed greater liquidity, which was evidenced in the average annual sale of 12,000 new cars and 10,000 homes.

The rates of inflation versus growth in gross domestic product reflected these same tendencies. Following the Kosovo war, experts predicted an overall decline in GDP together with growing inflation. By taking advantage of business opportunities associated with the reconstruction of Kosovo, however, Macedonia experienced growth in its GDP both in 1999 and in 2000. The value-added tax that took effect in 2000 also brought significant revenues into state coffers and reduced the scope of the gray economy. Nonetheless, Macedonian citizens engage in nontaxable cash transactions whenever possible. Macedonia's denar is still pegged to the deutsche mark, and thus the Euro, at a fixed rate, and this practice overvalues the denar and overprices Macedonian exports and labor. Significantly, the Macedonian government reduced the number of personal income tax brackets from three (maximum 33 percent) to two (15 and 18 percent). This and the VAT stimulated greater participation in the formal economy and contributed to a national budgetary surplus.

These nascent positive economic trends were reversed, however, by the war in 2001, which has had a dramatic negative effect on Macedonia's economy and social fabric. Foreign trade has dropped 22 percent; exports are down 10 percent; and imports are down 29 percent. Less money is in circulation, and that which is has been restricted. Approximately 120,000 workers from 26,000 companies have had their bank accounts blocked. According to the Payment Traffic Institute, by mid-2001 overdue payments had reached DM 1.2 billion, up DM 200 million from last year and with no end in sight. The government has difficulty collecting VAT and customs duties, which in turn aggravates the overall economic situation. Intended for closure or restructuring, large loss-making companies have been ignored owing to the government's preoccupation with the

war. Although they receive minimal government aid in the form of insurance and pension payments, 7,000 workers in eastern Macedonia have not received a salary for years. Current estimates suggest that 400,000 unemployed people are living below the poverty line. During 2001, unemployed workers blocked roads and demonstrated before local government buildings. Although some pitched tents before Parliament to remind legislators of their situation, no steps have been taken to ameliorate the workers' plight.

In July 2001, the Macedonian Business Association predicted "social war" if the country's economic and military crisis continued unabated. Due to the crisis, the government negotiated with the IMF for a revised GDP growth target of 2.5 percent rather than 6 percent; for an inflation rate of 4.5 percent should war continue to year's end; and for a budget deficit of \$230 million. Government economists claim that the impact of the budget deficit is mitigated by the economy's strong performance in 2000. Though currency reserves are down by \$110 million, this is not enough to jeopardize overall economic stabilization or to cause the devaluation of the denar. However, the business community, bankers, and independent economic analysts dispute the government's views. Among other recommendations, they urge a 15 percent reduction in all budgetary spending to meet existing IMF and World Bank agreements and to prepare for the scheduled donors' conference.

Rather than reduce spending, though, on July 1, 2001, the government, with the IMF's consent, introduced a 0.5 percent war tax on all cash and non-cash transactions. This tax was expected to yield DM 800 million and to reduce the budget deficit from 8 to 6.5 percent. Economic experts, parliamentarians, and citizens, however, see the war tax as a cover for high levels of corruption and the fragile state of Macedonia's economy even before the war. Independent analysts predict the total amount levied will equal only 50 percent of what the economy lost during the first two quarters of 2001 (an estimated DM 400–800 million) and 85 percent of what all companies earned in six months during 2000. They also predict this tax will reinvigorate growth in the gray economy. The public is also concerned that this tax, which was intended to last six months, will remain indefinitely.

Eran Fraenkel is the executive director of Search for Common Ground in Macedonia.

MOLDOVA



Polity: Parliamentary democracy

Economy: Capitalist-statist

Population: 4,300,000

GNI per capita at PPP \$ (2000): 2,230

Capital: Chisinau

Ethnic Groups: Moldovan/Romanian (65 percent), Ukrainian (14 percent), Russian (13 percent), other (8 percent)

Size of private sector as % of GDP (mid-2001): 50

The scores and ratings for this country reflect the consensus of Freedom House, its academic advisors, and the author of this report. The opinions expressed in this report are those of the author.

↓↓ and ↑↑ indicate score changes of .25 or more. ↓ and ↑ indicate changes of less than .25.

NATIONS IN TRANSIT SCORES

	1997	1998	1999-2000	2001	2002
Democratization	3.90	↓ 4.00	↑ 3.88	↓ 3.94	↓↑ 4.19
Rule of Law	na	na	5.00	5.00	↓ 5.13
Economic Liberalization	4.00	↓ 4.17	↑ 4.00	4.00	↓↑ 4.25

KEY ANNUAL INDICATORS

	1995	1996	1997	1998	1999	2000	2001
GDP per capita (\$)	386.7	442.9	507.1	448.6	304.5	327.5	374.0
Real GDP growth (% change)	-1.4	-7.8	1.3	-6.5	-4.4	1.9	5.0
Inflation rate	30.2	23.5	11.8	7.7	39.3	31.3	11.1
Exports (\$ millions)	739.0	823.0	890.0	644.0	469.0	495.0	571.0
Imports (\$ millions)	809.0	1,083.0	1,237.0	1,032.0	597.0	763.0	822.0
Foreign Direct Investment (\$ millions)	73.0	23.0	71.0	88.0	34.0	100.0	60.0
Unemployment rate	1.4	1.8	1.5	1.9	2.3	2.1	na
Life Expectancy (years)	65.7	66.6	66.5	66.5	67.8	67.8	68.0

INTRODUCTION

After ten years of independence, the Republic of Moldova is still searching for its identity and feeling unsure of its fate. The country has faced difficult challenges in transforming itself from a Soviet republic to an independent nation. It was one of the first Soviet republics to have a strong independence movement between 1988 and 1990, but failed to keep up the momentum in its first years of independence. Like the Baltic republics, Moldova was occupied by the Soviet Army in 1940 following the German-Soviet Molotov-Ribbentrop Pact. But unlike the Baltic states, Moldova was not independent between the two world wars; instead, it was part of Romania. More importantly, Western countries were slow to provide strong support for Moldova in the early days of independence. Most of the leaders of independent Moldova were so-called reformists from the Communist Party who lacked the vision or will to build a strong, independent state not oriented toward Russia.

Moldova first drew Western media attention during a short internal conflict in 1992, provoked by ethnic-Russian separatist leaders in an area of eastern Moldova known as Transnistria. In the summer of 1992, separatists backed by the Russian Army overcame the central government's poorly equipped forces in the region. Later, in the mid-1990s, international institutions and donor countries called Moldova a model for other former Soviet republics, especially in land privatization. But the triumph did not last long. By the end of the 1990s, Moldova had been labeled "Europe's poorest country" and was viewed as a source of illegal immigrants, including women trafficked by criminal gangs for sex slavery.

The second major wave of international press stories about Moldova related to the February 2001 parliamentary elections. The Communist Party's landslide victory was a surprise not only for the international community but also for the Communists themselves. They won 71 seats in the 101-seat Parliament. Moldova became the first post-Communist country in which the Communist Party controls both the legislative and executive branches.

During its first decade of independence, Moldova became a democracy with free and fair multiparty elections at the national and local levels. Moldova is the only country in the Commonwealth of Independent States to have a parliamentary rather than a presidential system of government. A 2000 amendment to the Constitution enables the legislature to elect the president and approve the head of government and its members. Because of this change, in 2001 the Communist Party was able to win political power. Although citizens had learned to carry out their civic duties, participated in mass privatization, and handled tough challenges during the transition, the majority considered the economic outcome to be worse than expected—a situation that ultimately led to the Communist victory.

Thus, Moldova's geographic and geopolitical positions and history have been major factors in shaping the country's behavior. Yet despite the hardships caused by civil conflict, limited energy and mineral resources, and foreign economic and political pressure, Moldova has ranked high in Freedom House's annual ratings in comparison to other Soviet republics, save for the Baltic states.

Resistance by two ethnic minorities to central rule has been a significant political challenge. The first and strongest group is the ethnic Russian community in the breakaway Transnistria region on the eastern bank of the Nistru River. The second is the 150,000-strong Gagauz community, a Christian Turkish group, located in a small region by the city Comrat in southern Moldova. In 1994, the Moldovan Parliament granted to the Gagauz minority an administrative territorial unit named Gagauzia. This provided the Gagauz with significant cultural and economic autonomy from the central government. Transnistria remains an unresolved problem for the Moldovan leadership despite many years of negotiations between Chisinau and Tiraspol authorities. The international community's involvement through the OSCE, along with Russia and Ukraine's role as mediators, is important for Moldova's efforts to end the crisis.

The OSCE is playing a crucial role in monitoring the withdrawal of Russian ammunition and troops from Transnistria. At a November 1999 OSCE summit, Russia pledged to remove its military arsenal from eastern Moldova by 2001—in compliance with the provisions of the Treaty on Conventional Armed Forces in Europe—and to withdraw its troops by 2002, unconditionally and under international observation. By the end of 2001, Russia had met its first commitment. However, Moscow is still able to revert to its old position that the evacuation of its troops from Moldova is conditional upon settling the Transnistria problem. Such linkage, dubbed "synchronization," gives Transnistria veto power over any decision and enables Russia, as a mediator with troops, to manipulate the negotiating process into a permanent deadlock. With foreign troops on its territory and a breakaway republic resisting central rule, Moldova has found it impossible to become a fully independent country.

DEMOCRATIZATION

Political Process

1997	1998	1999-2000	2001	2002
3.25	3.50	3.25	3.25	3.50

Political developments in Moldova during the period covered by this report had dramatic consequences for the country. A prolonged struggle between President Petru Lucinschi and Parliament over Moldova's form of government ended when Parliament, fearing Lucinschi's intent

to transform Moldova into a presidential republic, amended the Constitution on July 5, 2000, to change the way the president is elected. Under the change, the president is elected by Parliament rather than through a direct vote. The divided Parliament, however, could not reach a compromise on who should be elected president. The Communists, who had 40 seats in the 101-seat body, insisted on their candidate, party leader Vladimir Voronin. The center-right coalition in Parliament lacked enough votes to elect its candidate, Constitutional Court Chairman Pavel Barbalat, without the support of the Communists. Exercising his constitutional prerogative, President Lucinschi dismissed Parliament after it failed in three attempts to elect a president.

Parliament's dissolution and the subsequent early elections revealed the depth of Moldova's political crisis. The political reforms put in place since independence were aimed more at divvying up power among leading personalities and parties than creating an effective and responsive government. Between 1991 and 1994, Moldova's first president, Mircea Snegur, concentrated power in his own hands. From 1994 to 1999, the Agrarian Party used its parliamentary majority to transfer most power from the president to Parliament. Under the constitutional amendment of July 5, 2000, a single party or coalition could wield considerable power if it gained enough seats to form a government and elect a president.

The early parliamentary elections were scheduled for February 25, 2001. The outgoing Parliament made two major changes to the electoral code. First, the campaign period was shortened to 45 days from 90. Second, the threshold for political parties and blocs to gain seats in Parliament was increased to six percent from four percent. The changes were pushed by the Communist Party, which sought to keep out of Parliament less powerful parties, extra-parliamentary political parties, and sociopolitical organizations that were preparing for the electoral campaign. Many local political analysts predicted before the elections that only four or five parties would pass the six percent threshold. In the end only three gained seats.

In a surprising result, the Moldovan Communist Party (MCP) won 50.07 percent of the vote; the Braghis Alliance (BA), an ad hoc grouping of 17 left-leaning and centrist political organizations that includes the Socialist Party and the War Veterans' Organization, 13.36 percent; and the Christian Democratic Popular Party (CDPP), 8.24 percent. Under the election law, the remaining 28.33 percent of the vote was distributed proportionally among the winners. Between their own votes and these "gift votes," the Communists won 71 seats; the BA, 19; and the CDPP, 11. The Communist Party's absolute majority in the 101-seat Parliament made it the most powerful political entity since Moldova's independence.

The numerous international organizations that observed the elections said the vote was free and fair. Moldovans in Transnistria, however, were not able to participate freely in

the election. Tiraspol separatist leaders opposed Chisinau's proposal to open election stations in the breakaway region. Theoretically, voters from Transnistria who could leave the region could vote elsewhere in the country. However, the country's harsh economic situation and fear of persecution by Transnistrian intelligence bodies meant that few from Transnistria voted.

The turnout was 67.52 percent of registered voters, or 1,606,703 people. According to official figures, 717,597 fewer people voted in the 2001 elections compared with the 1998 vote. This partly confirms unofficial data suggesting that many Moldovans have emigrated in the past three years in search of better jobs. Most have gone to neighboring countries, Russia, and Western Europe. Since many of these emigrants are in their new countries illegally, or would face costly trips to a Moldovan embassy to vote, few Moldovans living abroad cast absentee ballots.

Local and international analysts said that the Communist Party's victory was not only a sign that many Moldovans long for the social benefits, free medical services, and better living conditions of the Soviet era, but also a firm voice against the reformists, who had largely failed to deliver on their promises of the past decade. The Communists' winning message was that the governing parties were unable to deliver economic growth and, as a result of their economic mismanagement, most of the country's population lives in poverty. Most observers believe that the election result was a direct consequence of the failure of the right-wing parties to form an anti-Communist coalition in the outgoing Parliament and later to form an electoral bloc that could defeat the Communists, as was the case in the 1998 parliamentary elections. For its part, the Communist Party was the most organized party, benefiting from its Soviet-era network of branches throughout the country. It conducted an aggressive campaign, with party members and sympathizers visiting nearly every voter and promising them what they needed most.

Besides the Communists, only one other party in the outgoing Parliament, the CDPP, won seats in the new body. The Braghis Alliance was the only outside group to win seats, thanks to the efforts of its leaders in the government. Acting Prime Minister Dumitru Braghis, for example, decreased the arrears in pensions and salaries owed to public employees prior to the vote.

Contrary to the MCP's electoral promises, Communist leader Vladimir Voronin stated immediately after the elections that his party would not revise Moldova's privatization program and would cooperate with the World Bank and the International Monetary Fund. At the same time, he reaffirmed that the MCP's objectives include joining the proposed Russia-Belarus union and reintroducing Russian as an official language in Moldova, along with Romanian. The MCP also said that it would keep its promise to reverse administrative-territorial reforms, reverting to the Soviet system of counties called *raions*.

The Communist Party, though, had to form a government, but Voronin and his team were unprepared to take

on the full responsibility of governing. In the six years after the Communist Party was allowed to reregister (thanks to former President Lucinschi, who had pushed for scrapping the 1991 law that had declared the Communist Party illegal), it was in opposition. During that time, the Communists did not establish a “shadow” government or elaborate alternatives to the government’s policies. At most, the Communists expected to win 50 to 55 seats. The first 50 candidates on the MCP’s electoral list were carefully selected and were mainly former party bosses with experience in the previous Parliament or Soviet governmental bodies. The rest of the list consisted of loyal supporters with little political or managerial experience.

The Communists therefore found themselves in a difficult situation when it came time to select people to work in the executive branch. Their solution was to establish a technocratic government. Voronin’s first surprising move was the appointment of Eugenia Ostapciuc as the speaker of Parliament. It is believed that Voronin chose Ostapciuc for two main reasons. First, the new speaker was not widely known and had little political experience or influence within the MCP. Thus, the Communist leader, who intended to become the country’s third president, wanted to avoid competition between Parliament and the presidency. The candidates for chairperson from the progressive wing of the MCP were Maria Postoico, Andrei Neguta, and Victor Stepaniuc. The conservative faction’s candidates were Vadim Misin and Ivan Calin. By choosing Ostapciuc, Voronin managed to find a compromise candidate and avoid party infighting. Second, the Communists believed that the Western press would temper its increasing criticism of the country’s politics if the chair of the Moldovan legislature were a woman.

The results of the presidential election were predictable. Voronin captured 71 of the 89 votes cast by members of Parliament and was elected Moldova’s third president. On April 7, 2001, the 59-year-old former baker and police general was sworn in. Thus, Moldova became the first former Soviet state to elect a Communist as its leader. The new president kept his post as first secretary of the MCP’s Central Committee, thereby ensuring that no important decision would be made without his knowledge or accord.

On April 11, Voronin nominated Vasile Tarlev as the country’s prime minister. Tarlev, an ethnic Bulgarian, was the manager of the candy manufacturer Bucuria, one of the few profitable state-run enterprises in Moldova. He was also the chairman of the Moldovan Producers’ Association. The new team won the backing of 75 members of Parliament from the Communist Party and the Braghis Alliance. All 11 deputies from the Christian Democratic Popular Party voted against the government, showing their irreconcilable opposition to the ruling Communist Party. Six members of the previous government were included in the Tarlev Government: Deputy Premier and Minister of Economy Andrei Cucu; Minister of Education Ilie Vancea; Minister of Finance Mihail Manoli; Minister of

Energy Ion Lesan; Minister of Labor and Social Protection Valerian Revenco; and Minister of Foreign Affairs Nicolae Cernomaz. The nominal list of the new executive body was passed without debate. The only exception was Victor Topa, the minister of transportation and communications. He was accused by the CDPP of being involved in illegal activities when he headed the State Civil Aviation Administration. Tarlev’s agenda included more state intervention in the economy, the creation of state monopolies in some sectors, the introduction of strict controls over imports and exports, and the granting of preferential loans to exporters as a means of protecting domestic producers. The new government said it would boost economic growth to 5 percent annually, reduce the inflation rate to 10 percent annually, and cut the budget deficit to 1.5 percent of GDP.

Under current legislation, the process of registering a political party or movement is not overly difficult. The main task is to collect 5,000 signatures from the new party or the movement’s supporters. As of October 1, 2001, 31 parties and social-political organizations were registered with the Ministry of Justice. Many hope for the merger of several parties since there is considerable confusion over parties with similar names and political orientations. It is widely believed in Moldova that political movements are not created according to political doctrines, but rather reflect individual politicians’ desires to head political movements. For the time being, the Moldovan electorate votes mainly for the personalities on parties’ lists, not for the parties’ programs.

Members of Parliament are elected via proportional representation, with the entire country considered a single electoral district. Party leaders decide which seats on the electoral list to give to potential candidates, depending on the candidates’ contributions, financial or otherwise. There are conflicting figures on party membership, but ultimately the election results provide the best indicator of party support. Ironically, some parties in the last parliamentary elections received fewer votes than their declared numbers of members.

Financing political campaigns is the main problem each party faces. In most cases, parties look for contributions from local businesspeople. Occasionally, they seek support from abroad. In the end, the party has to pay a price, such as including contributors in the party’s list, nominating them for positions in the new government, and advocating their legislative preferences. In cases of foreign contributions, the winner of elections has to take into account the contributor’s agenda and make appropriate changes in its own political agenda regarding foreign or domestic policy. Given that in Moldova many business activities are underground (the shadow economy is believed to account for more than 50 percent of economic activity) and that some businesspersons are linked to the criminal underground, there is a real danger that legislative and executive bodies may contain special interest lobbyists, therefore paying little heed to the public interest.

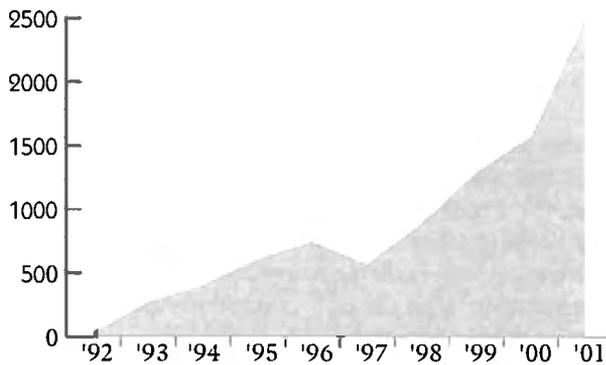
Civil Society

1997	1998	1999-2000	2001	2002
3.75	3.75	3.75	3.57	4.00

NGOs have been active in Moldova since 1989. During the Soviet era, NGOs were considered by authorities to be in opposition to state bodies or implanted by foreign entities. Today, NGOs are an indivisible part of Moldovan civil society and have increasing influence on state institutions. According to data from the Ministry of Justice, the number of registered foundations has grown each year, particularly following the adoption in 1998 of the Regulation on Civil Associations. The following chart demonstrates this trend.

Registered NGOs in Moldova

Total Number by Year



Source: *International Foundation for Electoral Systems and the Ministry of Justice, 2000*

The majority of NGOs focus on arts and culture, sports, education and training, economic development, health care, human rights, and science and technology. More than 50 NGOs focus on women's issues, 24 on disabled people, 64 on youth, 39 on ethnic communities, and 16 on animal protection. Although no NGOs are outwardly based on religion, 74 are identified as charitable and social assistance organizations. The most active among them is the local affiliate of the U.S.-based Little Samaritan group, which promotes Protestant Christianity and provides assistance to orphanages and elder homes. The group's radio network covers most of Moldova.

Despite the large number of organizations and associations (about 2,500 were registered as of mid-2001), experts on Moldovan NGO activity believe that only about 15 to 20 percent are active. The government body in charge of NGO registration occasionally forces groups to reregister, leading to complaints from NGO leaders about bureaucratic and time-consuming procedures.

During the last reregistration period between January 1997 and July 1998, only 47.33 percent of the associations managed to reregister.

The legal framework regulating NGO activity is generally considered adequate. Although the Moldovan Constitution does not specifically articulate the right to establish public associations, organic laws stipulate this right. These include the 1995 Law on Philanthropy and Sponsorship, the 1996 Law on Public Associations, and the 1999 Law on Foundations. The establishment of an appropriate environment for NGO development in Moldova was facilitated by the ratification of international documents. In 1990, the first Moldovan Parliament ratified the Universal Declaration of Human Rights and later the Council of Europe's Convention on Human Rights. Moldovan legislation allows NGOs to go to court to defend their rights, the rights of their members, or the public interest. However, a lack of experience and professionalism prevents NGOs from efficiently using the judicial system to resolve problems with central or local authorities.

NGO activity is dependent on the availability of funds. Financing from the state budget is limited, and foreign donors are the major source of funding. Local business people sporadically sponsor cultural and charitable NGOs in some local communities.

NGOs are not exempt from Moldova's value-added tax. Exceptions are made if there is an intergovernmental agreement on technical assistance and the Ministry of Finance makes a favorable decision in this regard. The same applies for customs duties. Local administrations decide local tax policies regarding NGOs. In order to prevent corruption, once the decision is reached the local administration is not legally allowed to provide exceptions to individual organizations.

Only organizations that are given the status of "public benefit associations and foundations" can receive tax exemptions. The Ministry of Finance determines this status based on a list of public benefit organizations prepared by the Certification Commission, which was created under the supervision of the Ministry of Justice. The criteria for exemption are similar to those for nonprofit organizations in the West.

Although trade unions in Moldova have been established in almost all sectors of the economy and in public institutions, they are far from effective in defending employees' rights. The trade unions resemble their Soviet-era predecessors rather than acting as worker's advocates in the Western sense. In late 2000, the main trade union broke into two separate unions: the Trade Union Confederation of Moldova (TUCM), the direct successor of the previous federation, and Solidaritate (Solidarity), a new organization. The TUCM accounts for about 80 percent of all union members in Moldova, with the rest belonging to Solidarity. TUCM members come from the public sector as well as the agriculture and agricultural processing sectors, radio electronics, medicine, education, and cultural institutions. Solidarity members

are employed in industry, transport, telecommunications, construction, and social services. The TUCM has been a member of the International Labor Organization since 1992 (as a successor to the General Federation of Trade Unions); it has also been affiliated with the International Confederation of Free Unions in Brussels since 1997.

The new owners of previously state-owned land formed the National Association of Farmers to lobby for farmers' rights. Public policy organizations are growing in number and strength. They distribute their message through local mass media as well as conferences and seminars.

The new government has begun to introduce some so-called "corrections" to the educational system, based on the Communists' electoral agenda. First, new books such as *History of Moldova* and *Moldovan Language and Literature* are being prepared to replace texts such as the *History of Romanians* and *Romanian Language and Literature*. It is expected that such changes will ignite protests by teachers and parents. In addition, private education institutions, which exist in greater numbers at the college and university level than at the secondary and high school level, would have more flexibility than public institutions to establish their own curriculums.

The main religion in Moldova is Christian Orthodox. It counts among its followers up to 90 percent of the Moldovan population of 4.2 million. In November 2001, the Communists rejected an initiative of the Christian Democratic Popular Party to introduce religion in schools.

Independent Media

1997	1998	1999-2000	2001	2002
4.00	4.25	4.00	4.25	4.50

Mass media organizations in Moldova are developing, and there are promising signs that they will become influential in the country. The birth of independent media could be linked to the establishment of the first news agencies in 1992 during the period of armed conflict in eastern Moldova. At the time, there was a lack of information in both Moldova and abroad about military operations on the front line. The BASA-Press news agency began as a part of the newspaper *Sfatul Tarii* and received initial financial support from the Soros-Moldova Foundation. Next, journalists of the governmental agency Moldova-Press who differed with their employer about how the news should be presented created the Infotag news agency.

Today, Moldova's media are diverse and generally free. However, the distribution of periodicals is still controlled by the state through the Posta Moldovei Company. Competition has been an important factor in the increasing quality of newspapers, journals, and television and radio news outlets. The media have also faced challenges from foreign print and broadcast media, including the strong presence of Russian newspapers and television and radio stations. In addi-

tion, Moldovans have access to major international television channels and some newspapers from Romania. The Internet is indispensable to many local businesses, public administration entities, and educational institutions.

The main newspapers are *Flux*, *Jurnal de Chisinau*, *Moldova Suverana*, *Comunist*, *Tara*, *Economicheskoe Obozrenie*, *Argumenty I Fakty*, and *Komsomoliskaia Pravda*. The most popular radio stations are Antena C, Hit-FM, Radio Nova, Radio PoliDisc, Radio Contact, and Russkoe Radio. Popular television stations include PRO TV, TVM, ORT, and TVRI.

Infotag, BASA-Press, Flux, and Moldpress are Moldova's leading news agencies. Others include Interlic, Nica-Press, and Deca-Press. News agencies face difficulties in selling their news bulletins abroad. Their main customers are foreign embassies accredited to Moldova, offices of international organizations, and foreign private firms and think tanks. Because of their limited funds, local businesses, print media, and governmental institutions cannot afford to pay for the daily electronic news that news agencies provide. News is posted daily on many Web sites (the most popular is www.ournet.md). The site www.moldova.org offers free e-mail news bulletins.

The most difficult problem the media faces is financing. The Moldovan market is small, and many journals and newspapers require subsidies to survive. The government subsidizes a small number of media entities. These include the newspapers *Nezavisimaa Moldova* and *Moldova Suverana*; the journals *Economy and Reforms*, *Moldova and the World*, and *Welcome*; the news agency Moldpress; and the Teleradio-Moldova radio and television network. Political parties, foreign entities, and local businesses are also major sponsors of the media.

The previous Parliament introduced many legislative amendments to restrict candidates' access to the mass media. The most restrictive rules were imposed on media controlled by the state. At times this led to odd situations, such as when on the eve of the 2001 elections Teleradio-Moldova, obeying the regulations, did not cover parties' press conferences. Parties and electoral blocs used their publications to hide the real amount of money spent on print materials. For example, the Communist Party launched about a dozen new publications that were distributed free of charge throughout the country just before the elections. In order to skirt the legislation, the Communists did not register these papers as new publications, instead calling them supplements to their official newspaper, *The Communist*. The Electoral Code states that in cases of violations of the law, the Audiovisual Coordination Council should withdraw the licenses of media entities and the Central Election Committee must disqualify the candidates from the elections. Despite the fact that violations were quite frequent, there was not a single case of withdrawal of licenses or electoral certificates.

The Constitution of Moldova and organic laws lack express provisions that would guarantee the independence

of the press and audiovisual entities. The Law on Broadcasting Media established the Audiovisual Coordination Council, an independent body that includes experts nominated by Parliament, the president, and the government. The Council oversees the activities of broadcast media. The legislation prohibits libel of public officials or state institutions and stipulates the punishments for such violations. Several cases have been brought against journalists or their employers. The registration procedure for print media is simple and is done through the Ministry of Justice. Registering a broadcast entity is more difficult. The Ministry of Transportation and Communications determines the availability of frequencies and issues licenses.

The Independent Journalism Center of Moldova was established in 1994 with the support of the U.S.-based Eurasia Foundation and the Soros-Moldova Foundation. There are also two other press institutions, the Electronic Press Association and the Journalists' Union of Moldova. In 2001, these three NGOs, in cooperation with the Council of Europe and the European Union, hosted seminars and workshops for journalists and public officials on the role of regulatory bodies in the broadcasting sector and relations between the state and the press in a democratic society.

In Transnistria, freedom of speech and access to information is limited. Local authorities censor local news agencies, newspapers, and television and radio stations. The majority of media are state-owned. If their content does not conform to guidelines set out by the separatist regime, their managers and journalists risk being fired or arrested. The regime in Transnistria prohibits the distribution of national newspapers printed in Chisinau.

Governance and Public Administration

1997	1998	1999-2000	2001	2002
4.25	4.50	4.50	4.50	4.75

The 1994 Constitution provides for the separation of the executive, legislative, and judicial branches of government. The July 2000 constitutional amendment brought about a major change in the balance of power. Elected by Parliament, the president nominates the prime minister based on the distribution of party power in Parliament. Within 15 days of being nominated, the prime minister must seek parliamentary approval of his new cabinet and its agenda. After the February 2001 parliamentary elections, the Communists took control of both the legislative and executive branches. In the new political system, there are few real checks and balances. President Voronin faces little difficulty in implementing his party's agenda. As the head of the executive branch, Voronin has the ability to influence the government and dismiss cabinet members.

The Tarlev government is subordinate to the Parliament and the president, and has little room to maneuver. Members of the new cabinet have to follow the MCP's

agenda even if they are not formally party members. The dismissal of Foreign Minister Nicolae Cernomaz is widely seen as an example of what happens to those who do not follow the rules.

Transnistria is viewed in Chisinau as a part of Moldova, but in fact this eastern territory of the country is run as an independent state. In December 1991, Transnistria staged a referendum and a presidential election simultaneously. The referendum resolved that Transnistria would continue to be part of the Soviet Union, which for many has come to mean being part of a Greater Russia. Igor Smirnov won the presidential election. In 1992, Russia's Fourteenth Army and Transnistrian forces, composed of locals and Cossacks from Russia and Ukraine, defeated Moldovan forces in an operation commanded by General Aleksandr Lebed, later a top Russian politician. This cemented the secession and, with it, the position of the ruling elite in Tiraspol. On December 9, 2001, Smirnov was reelected president of Transnistria with 86 percent of the vote; voter turnout was reportedly 65 percent. The two losing candidates, both ideologically indistinguishable from the victor, claimed fraud. International institutions and Western governments refused to observe the election.

The last census in 1989 found Transnistria's population to be 41 percent Moldovan, 28 percent Ukrainian, and 25.5 percent Russian. There have been no notable inflows or outflows of a particular group since then. Many of the Russians have lived in the region since the Soviet era. The Ukrainians divide approximately equally into two groups: Ukrainian-speaking rural inhabitants, native to the area, and Russified urban residents, resettled there from cities in Ukraine. In theory, Transnistria has three official languages: Russian, Ukrainian, and Moldovan. In practice, the authorities use only Russian as an official language. Moldovan/Romanian and Ukrainian, which are the native languages to three quarters of the population, are completely excluded from government and administration and relegated to marginal roles in other spheres of public life. The media and the educational system are geared toward the linguistic Russification of non-Russians. The Soviet social structure remains a mix of kolkhoz socialism and feudalism, according to the U.S.-based Jamestown Foundation.

Laws guarantee citizens the rights to be involved in public life and to influence the decision-making processes of state institutions. Nevertheless, they are ambiguous and stipulate restrictions on public participation in parliamentary and local council sessions. For example, the 1998 Law on Local Public Administration says that local council sessions are open to the public but also that only persons whose presence is considered necessary may attend. Similarly, the Parliamentary Regulation stipulates that "sessions, as a rule, are open to the public," but in reality the procedure to obtain permission to observe a session is very complicated. Speaker Eugenia Ostapciuc even refused to allow two Spanish legislators to attend a session of the Moldovan Parliament during their work-

ing visit to Moldova in November 2001 at the invitation of the opposition Christian Democratic Popular Party. Ostapciuc said that the Spanish lawmakers had not been officially invited by the Moldovan authorities to visit the country.

Parliament has ratified the UN Convention on Access to Information, Public Participation in Decision-Making and Access to Justice in Environmental Matters. It also has adopted the Law on Access to Information. However, authorities have been slow to implement these documents.

The MCP is bringing back the Soviet-era administrative layout of the country, consisting of 40 local territorial raions that had been replaced early in Moldova's transition by 10 *judete* (counties) and autonomous regions. At the end of December 2001, the Communists, along with the Braghis Alliance, approved a law reestablishing the old territorial-administrative system.

The Communists hope to satisfy some of their voters' desires to live within the borders of their old district. More importantly, the Communists hope to install their own people in local administrative institutions. Currently, prefects, appointed by the previous central government, act alongside local elected officials, most of whom are not MCP members.

In June 2001, Parliament amended the Law on Local Public Governance to remove the authority of judet councils over local budgets. Government officials stated that the change was made because of the "irresponsibility and carelessness of judet councilors," who are elected by local communities. The local councils will now approve annual budgets, but the judet prefects, who are nominated by the central government, will manage these budgets. The CDPP leader Iurie Rosca stated during the parliamentary debates that "these amendments would end the history of local autonomy in Moldova" and would be in violation of the European Charter on local autonomy.

During the past ten years, Moldovan civil society has learned how to influence the decisions of public authorities. NGOs use meetings, pickets, demonstrations, and initiative groups when citizens and public authorities do not reach a consensus or when public opinion is ignored. In 2001, however, only a few public actions took place. First, there was a demonstration immediately after the parliamentary elections involving a group of high school students who protested the Communists' plans to introduce Russian as a second official language, join the Russia-Belarus Union, and ban public school courses on the history of Romanians. In addition, in December 2000 and April 2001 the Reform Party and the National Romanian Party picketed the Russian embassy in Chisinau. The protesters demanded the acceleration of the withdrawal of Russian army munitions and troops in eastern Moldova. In March 2001, medical workers picketed the Balti Judet Council, demanding their unpaid salaries for 2000. The protest ended when the demands were partially satisfied. More protests may lie ahead if the MCP

fails to deliver on promises to boost economic growth and improve living conditions, or if it moves to have Moldova join the Russia-Belarus Union or introduce Russian as an official language.

RULE OF LAW

Constitutional, Legislative, and Judicial Framework

1997	1998	1999-2000	2001	2002
4.25	4.00	4.00	4.00	4.00

During its first decade of independence, Moldova created a judicial system and established a basic legislative framework. Moldova receives aid to reform its judiciary from donor countries and international organizations; the major technical assistance provider in this regard is the United States. The Constitutional Court, the Supreme Court of Justice, the Appeals Court, the Supreme Council of Magistrate, and district courts are increasingly gaining influence in Moldovan society.

The Constitutional Court is actively involved in examining petitions from state and judicial bodies. According to the Constitution, Parliament, the government, and the Supreme Court of the Magistrate each appoint two Constitutional Court judges to six-year terms. Since its establishment in 1995, the Constitutional Court has examined 450 petitions and invalidated 53 laws, 43 governmental decisions, 17 legislative decisions, and 8 presidential decrees. It has adopted 29 decisions on the interpretation of 45 articles of the Constitution and issued 13 initiatives to change the supreme law of the country.

The most recent petitions examined by the Constitutional Court involved Moldova's system of governance. Another important petition examined by the court was a legislative initiative of 34 parliamentarians to amend the Constitution to abolish parliamentary immunity. By implementing the court's affirmative decision, Moldova would join the list of European democracies, such as Austria and Switzerland, in which parliamentary immunity has been canceled. This decision would likely have a significant impact on Moldova's political scene, since it is widely believed that a no-immunity regime would reduce the number of people who are eager to be in Parliament in order to avoid being prosecuted for their illegal activities.

In other recent decisions, the Constitutional Court approved constitutional amendments on the dissolution of courts within the Moldovan judicial system that duplicated the work of district courts; certified the appointment of judges by Parliament; and reduced from five years to four the terms of members of the Supreme Council of Magistrate. However, Pavel Barbalat, whose mandate as the Court's chairman expired in February 2001, has stated that only half of the Constitutional Court's decisions have been enacted.

The Supreme Court of Justice hears appeals of cases where either party to the litigation believes that a lower court decision has violated their constitutional rights and liberties. The Supreme Court periodically adopts interpretations of current legislation by courts. Recent decisions interpreted provisions of the Constitution involving the rights of individuals and treaties, conventions, and international agreements.

The criminal code was amended in 2001 to provide for more severe punishment of human trafficking, a crime that has in recent years been on the rise in Moldova. Until recently, such criminal activity was only punished as forgery. Under the amendments, the penalty for trafficking is 5 to 25 years in prison. It is believed that most of the approximately 700,000 Moldovan citizens employed abroad are women. A great number of them, with an average age of less than 30, practice prostitution in Western European and Balkan countries and are trafficking victims.

The Constitutional Court also stated recently that the rights and obligations of individuals are the same regardless of property ownership and that all are equal under the law. The court made this ruling while examining a petition by a group of parliamentarians challenging the constitutionality of criminal code provisions on abuse of power in the state and private sectors.

Moldovan legislation guarantees human rights for all citizens, but enforcement of the law is still a problem. In a report submitted to Parliament in June 2001, the Center for Human Rights in Chisinau said that most violations involve private property, social security, labor issues, access to information and, in some cases, access to justice. Despite its limited budget and resources, the Center has examined more than 8,000 complaints and opened three regional offices. They are in the Balti judet in the north as well as in the Cahul judet and the Gagauz-Yeri administrative unit, both in the south.

Violations of human rights in Transnistria continue to be a major problem. The judicial system of the unrecognized republic operates outside of Moldovan jurisprudence. The Strasbourg-based European Court for Human Rights (ECHR) highlighted this problem when it examined the case of Ilie Ilascu. In this case, a court in Tiraspol sentenced four members of the Popular Front on charges of murder during the 1992 conflict. In May 2001, Ilie Ilascu, who has been elected twice to the Moldovan Parliament, was released following international pressure. President Voronin stated that the release came as the result of an order from the Kremlin received by Tiraspol's leaders. In return for his release, Ilascu allegedly agreed to withdraw his petition from the ECHR, which had accused Russia of human rights violations in Transnistria in 1991 and 1992. Ilascu, however, did not withdraw his petition. In September 2001, Ilascu, along with 30 European parliamentarians, filed a motion urging the Parliamentary Assembly of the Council of Europe to draft a resolution calling for the release from Transnistrian jails of the other three members of the so-

called "Ilascu group": Andrei Ivantoc, Tudor Petrov-Popa, and Alexandru Lesco.

The separatist regime also restricts freedoms of speech and assembly and has politicized the educational system. The Tiraspol administration prohibits schools from using the Romanian language as a medium of instruction and from writing in Latin script. It has mandated that schools use the Russian alphabet, Soviet-style curriculums, and books remaining from the Soviet era or brought in recently from Moscow.

The ECHR recently ruled against Moldova in a case that was nominally about religion but that had clear political undertones. It involved the refusal of the Moldovan government to register the Basarabian Metropolitan Church (BMC). The BMC is a Christian Orthodox congregation under the leadership of the Romanian Orthodox Church in Bucharest. The government justified its policy on the grounds that Moldova already had one Christian Orthodox entity, the Moldovan Metropolitan Church, which is under the aegis of the Russian Orthodox Church in Moscow. The ECHR took the case after the Moldovan Supreme Court rejected the BMC's appeal.

In October 2001, the court ruled that the government had violated two articles of the European Convention on Human Rights—Article 9 on freedom of religion and Article 13 on the right to an effective remedy—and ordered the Moldovan government to register the BMC. The Church received 27,025 euros (\$24,007) for pecuniary and nonpecuniary damages and for legal expenses. Risking condemnation by Western European countries, Premier Tarlev has refused to comply with the verdict. According to the Moldovan Helsinki Committee for Human Rights, the BMC has about one million members and administers 18 to 20 percent of Moldovan churches.

Corruption

1999-2000	2001	2002
6.00	6.00	6.25

Corruption remains common among state officials, officers in law enforcement agencies, and other public sector employees. A March 2001 report by the Center for Strategic Research and the local affiliate of Transparency International found that two-thirds of Moldovans are prepared to use "unofficial ways" to get what they want when they go to public offices. The report, "Corruption and Quality of Governance," also indicated that 63 percent of poll respondents explicitly said they would pay bribes in order to get what they needed from public officials. Corruption is believed to be worst in customs, revenue services, public schools, and health care, but graft is a problem in almost every part of the public sector.

The report also noted that individuals often pay fees to have criminal cases closed or files disappear. Many believe

that those who are convicted of violating the law can pay illicit “taxes” to reduce their punishments. For example, \$1,000 might purchase a one-year reduction in a jail sentence. Transparency International believes that this explains why 98 percent of prisoners are from rural areas, which are poorer than the cities. The most prominent case in this regard involved the arrest of A. Toderasco, the chief judge of the Soroca Judet court. He was caught taking a 1000 *lei* bribe (around \$78) to free a petty thief without a trial. Similarly, the head of the Balti municipality was caught taking a \$5,500 bribe from a local businessman who wanted to facilitate a transaction. A report funded by the World Bank, the United Nations Development Program, and the U.S. Embassy in Chisinau stated that Moldova is the second most corrupt country among former Soviet republics, after Azerbaijan.

At times, low-level officials make public their findings about corruption, but this happens mostly for politically motivated reasons. Perhaps the most notorious such case involved General Nicolae Alexei, the former head of the Anticorruption and Fight Against Organized Crime Department (ACFOCD) and now a member of Parliament representing the Christian Democratic Popular Party. He filed a lawsuit challenging the legality of the government’s decision to end an ACFOCD investigation into allegations of smuggling involving senior officials. The district court decided in favor of Alexei and the Chisinau Court confirmed the decision. The Supreme Court of Justice is currently hearing an appeal from the Prosecutor General. Meanwhile, Parliament has waived Alexei’s parliamentary immunity. Mihai Plamadeala, a former Minister of Interior and now a member of Parliament from the Braghis Alliance, said that as a result of the decision to remove Alexei’s immunity law enforcement officers would see no reason to fight corruption and organized crime. Plamadeala also said that criminal groups and state institutions are so linked that it is impossible to reveal a crime without “bothering” someone in the highest political echelon.

The underground criminal world carries out some traditional public sector activities. For example, creditors seeking repayment of debts usually do not go to the police or courts, since they would have little chance of getting their money. Instead, they ask one of Moldova’s criminal groups to do it in return for 50 percent of the amount of the debt. According to a report by Transparency International-Moldova, there are some 300 criminal groups in Moldova, most of which belong to one of 35 criminal clans. One such group has a network of more than 1,200 members in almost every village and town. Law enforcement institutions have had little success in trying to fight organized crime. However, one notable success came when in October 2001 the ACFOCD arrested five individuals in Chisinau. Four of the detainees are from the Caucasus and were leaders of criminal communities in Odessa, Ukraine, Georgia, and the Stavropol and Krasnodar regions of Russia. The fifth person is a Moldovan. According to law

enforcement officials, they had met to discuss the “distribution of influence zones.”

The problem of corruption in Moldova has much to do with the smuggling of goods and arms through Transnistria. The enclave is used for smuggling not only by separatists but also by criminals from Ukraine, Russia, and other parts of Moldova. This is one reason why no settlement to the armed conflict has been reached. The Communist leadership deserves much credit for trying to address customs fraud in Transnistria. By withdrawing old customs stamps in September 2001 that were given to Tiraspol in 1998, the Tarlev government has done more in this area than any of its predecessors. Tiraspol, however, continues to use the old, invalid stamps, seals, and forms, and is routing the territory’s trade via Ukraine.

These actions are possible due to the support of the Ukrainian government. In late August of 2001, Voronin met in Ukraine with Ukrainian President Leonid Kuchma and requested the creation of 12 joint Ukrainian-Moldovan customs stations on the Ukrainian side of the border in the Transnistria region. Voronin interpreted Kuchma’s response as positive. On September 1, Moldovan customs employees moved to the designated locations. The same day, however, Kiev expelled the Moldovan employees from the Ukrainian territory. Since then, Moldovan Prime Minister Vasile Tarlev and Deputy Prime Minister Dumitru Todoroglo have headed delegations to Kiev pleading for the creation of joint customs posts. Both delegations returned home empty-handed.

On November 9, Kuchma and Voronin met in the Ukrainian city of Vynnitsya to discuss the problem. Kuchma categorically refused to cooperate. Ukraine says that Transnistria has the right to conduct its own foreign trade under agreements between Chisinau and Tiraspol signed in 1996 and 1997 that were mediated by Russia and Ukraine. The 1996 accord authorizes Transnistria to use Moldovan stamps, seals, and forms, provided that Transnistrian firms using these documents register with the government in Chisinau and pay dues. Transnistria, however, has used the Moldovan documents without requiring its firms to register or pay dues. Having mediated the accords, Ukraine now appears to support this contrary system.

The 1997 understanding is part of the so-called Primakov Memorandum, an informal agreement that carries no legal force and has never been ratified. If implemented, the Primakov Memorandum would create a “common state” of Moldova and Transnistria. However, at the start of his presidency, Voronin abandoned the document. The same is true for the 1996 document. Kiev, however, is now siding with Tiraspol and implicitly with Moscow in arguing that these documents must be adhered to, except for the customs provisions.

The smuggling situation in Transnistria attracted the attention of Interpol when an al-Qaeda cell was tracked down in Bosnia in October 2001 after the September terrorist attacks on the United States. Interpol investigated

the trafficking of nuclear and strategic materials that went to Bosnia through Romania and via Transnistria.

Moldova's recent admission to the World Trade Organization may lead to greater transparency and liberalization, as the government is forced to adhere to the trade body's rules and regulations. At the same time, the Tarlev Government has promised more intervention in the economy, some of which may run counter to the government's international commitments.

Transparency International's 2001 Corruption Perceptions Index ranks Moldova as the 63rd most corrupt country out of 91 surveyed. It received 3.1 points on a 10-point scale, where 0 is the most corrupt. Moldova improved from 74th in 2000, with 2.6 points, and 75th in 1999. Transparency International said that Moldova is the least corrupt among countries of the Commonwealth of Independent States, with Azerbaijan ranking 84th, Ukraine, 83rd, and Russia, 81st. The organization opened its office in Moldova in September 2000.

A poll on corruption released by the Viitorul Foundation in November 2001 shows that 49.8 percent of respondents believe that corruption is widespread in daily life. In addition, 29.2 percent of respondents say they are routinely forced to bribe public officers in order to obtain results, 33.8 percent say they sometimes must pay bribes, and 15.9 say they must bribe officials only in cases where the bureaucracy is particularly rigid and inefficient. Only 20.7 percent of respondents said they never offered bribes.

ECONOMIC LIBERALIZATION & SOCIAL INDICATORS

Privatization				
1997	1998	1999-2000	2001	2002
4.00	4.00	3.50	3.50	4.00
Macroeconomic Policy				
1998	1999-2000	2001	2002	
4.25	4.25	4.25	4.50	
Microeconomic Policy				
1998	1999-2000	2001	2002	
4.25	4.25	4.25	4.25	

The state of the Moldovan economy has considerable influence over political affairs. During the 2001 parliamentary elections, for example, all parties hotly debated the country's economic difficulties. The opposition closely watches the government's economic performance and singles out failures for criticism. About 80 percent of Moldovans live on less than one U.S. dollar per day,

and this staggering level of poverty was one of the major factors behind the Communists' victory in the February parliamentary elections. The MCP's main pledges during the election campaign were to increase salaries and pensions and reduce the price of bread. The electorate was less receptive to the Communists' competitors, who had more sophisticated messages regarding market reforms that would improve the standard of living over time.

The country lacks mineral resources and depends heavily on agriculture. It relies on imported energy, mainly from Russia, and has a history of payment arrears to its major supplier, Russia's Gasprom. Transnistria has 45 percent of Moldova's industrial potential, but since the government does not control it, Chisinau is unable to collect duties on goods manufactured in the territory. Moreover, the Moldovan underground economy is believed to amount to about 50 percent of gross domestic product.

The country's foreign debt stands at \$1.911 billion, or 154 percent of gross domestic product. Moldova must pay about \$180 million in 2002 to service the foreign debt or else reschedule a portion of the debt. In addition, two international rating agencies, Fitch IBCA and Moody's, lowered Moldova's credit ratings in 2001. In June, Fitch IBCA downgraded its ratings for Moldova's long- and short-term foreign currency outlook from B- to CC and from B- to CCC, respectively. In July, Moody's downgraded the rating of Moldova's Eurobond issue to Caa1, its bond rating to Caa1, and its bank deposit rating to Caa2.

In its first decade of independence, Moldova's GDP fell dramatically by 60 percent. Moldova registered economic growth of under 4.5 percent in 2001 compared to an initial forecast of 5 percent. This growth allowed the government to maintain relative economic stability. The agricultural sector registered growth of 1.9 percent while industrial production increased by 14 percent. An unfavorable indicator for the national economy is the fact that only 33 percent of businesses reported profits, amounting to 1.4 billion lei (\$107 million), while 48 percent reported losses, which amounted to 1.6 billion lei (\$123 million).

Inflation in 2001 was estimated at 4.3 percent. Prices for food rose by 3 percent, manufactured goods by 7.4 percent, and services by 4.3 percent. Foreign trade in 2001 came to more than \$1.45 billion, up by 16 percent from the previous year. Exports increased by 24 percent and imports by 12 percent. In addition, although the national currency, the *lei* ("lei" in singular form) is relatively stable, the exchange rate fluctuated during 2001 between 12.93 and 13.09 lei to the dollar. The average salary rose by 29 percent to 491 lei (\$37.8), while real earnings rose by 17 percent. Public employees earn slightly less on average, around 440 lei per month. Salary arrears increased sharply from 2000.

The new Communist government has paid particular attention to social problems and has increased pen-

sions for 444,700 people. As a result, the average monthly pension rose from 75 to 91.76 lei (\$7). Members of Parliament and the government, as well as judges, prosecutors, and ordinary public servants, continue to benefit from special retirement conditions. They receive pensions that are up to 15 times higher than those of ordinary citizens. Budget allocations for social needs have grown by 10 percent and salaries paid to public employees by 41 percent.

The privatization process slowed significantly in 2001. The government collected 23 million lei (\$1.8 million) in privatization proceeds, compared to the 300 million lei (\$23.4 million) forecast in the state budget. Wine and tobacco companies, the state telecommunication monopoly MoldTelecom, and the energy distribution network in northern Moldova are among assets that the government has committed itself to selling off in memorandums with the World Bank and the International Monetary Fund. The government has selected the Austrian bank Raiffeisenbank to be an advisor in the organization of the privatization tender for MoldTelecom. The rest of the companies will be privatized through foreign investment deals instead of international auctions as previously envisioned. In November 2001, Moldovan and Russian officials reached a deal in which Chisinau will use the assets of 19 tobacco-fermentation firms, the largest cigarette plant, and wineries and brandy distilleries to cover debts for imported gas.

The Communist-dominated Parliament reduced income taxes for businesses from 28 to 25 percent. It is likely that in 2002 the government will consider reforming the tax system. The business community complains that current tax policy does not stimulate economic development. Moreover, it is widely believed that high taxes are the main reason the government collects relatively little tax revenue and the underground economy is strong.

Although Moldova has joined the WTO, its trade legislation still must be adapted to meet international regulations. At present, an importer has to present 11 documents at a Moldovan border crossing. In 1998, the Moldovan government enacted a strict resolution aimed at controlling customs costs of some imported goods. This supplement to the customs regulations specifies the indicative prices for a variety of imported goods. If the price of a commodity claimed by the importer is below the listed figure, the importer has to provide additional information to prove the price claimed. The customs tariffs for imported goods are applied according to the Customs Tariff Law and 2001 Budget Law.

Besides tariffs, all imports are assessed a value-added tax (VAT), as well as an excise tax. Importers also must pay a 0.25 percent tax for customs. Customs tariffs are not applied to goods produced in and imported from Romania and members of the Commonwealth of Independent States that have ratified free trade agreements. The VAT generally applies to all goods and services sold in

Moldova, although it is not collected in the breakaway region of Transnistria. Although the Tax Code and the 2001 Budget Law stipulate a number of exceptions, the general VAT rate is 20 percent of an item's sale value. For imported goods, the VAT is generally payable at the border before the goods enter the country.

The banking system was created in the early 1990s. The National Bank of Moldova, the central bank, supervises commercial banks and is independent of the government. The laws on the banking system correspond to international standards. There are currently 20 commercial banks in Moldova. The largest are Agroindbank, Petrol Bank, Banca de Economii, Moldindconbank, Banca Sociala, and Victoriabank. The state holds a majority of shares in only one bank, Banca de Economii. It is expected that the government will accede to IMF and World Bank pressure and sell these shares through an open privatization tender. The international financial institutions view Moldova's financial and exchange rate policies, which are carried out by the National Bank, to be among the few bright spots in the country's macroeconomic performance.

The legal system protects and facilitates the acquisition and disposition of property. Moldova has adopted laws on property and on mortgages, but the system for recording property titles and mortgages is still under development. Moldova has acceded to key international agreements on intellectual property rights and industrial property protection, including the 1967 International Convention on Intellectual Property; the Bern Convention on the Protection of Literary and Artistic Property; the Rome Convention on the Protection of the Rights of Entrepreneurs, Producers of Phonograms, and other Distributing Organizations; and the WIPO Treaty on Copyrights. The country has also adopted local laws and governmental decrees to protect intellectual property, patents, copyrights, trademarks, and trade secrets.

Although many basic policies are in place, there is little active enforcement of laws on the protection of private property and the freedom to engage in entrepreneurial activity. An exception is the recent decision of the Moldovan Supreme Court of Justice in a dispute between the government and the Oil Importers and Transporters Union. The Court approved an October decision of the Appeals Court to suspend the government's decision to ban the transportation of oil imports by truck. The government's move meant that oil imports could be transported by rail only. The Court found the government's decision to violate legislation that guarantees free competition in business.

Moldova's primary export market remains Russia and other CIS countries. Major exports include food products, wine, and tobacco, which together account for 60 percent of total exports. In the first 11 months of 2001, the country's export revenues came to \$524.8 million. According to the country's export strategy for the next

four years, Moldova will focus on increasing exports to Russia, Ukraine, Belarus, Romania, Germany, Italy, and Great Britain. The government intends to develop the agro-industrial, engineering, light industry, and services sectors, especially in areas involving advanced technologies that could boost exports.

The authorities are working to create a positive environment for private investment, but much remains to be done. The European Bank for Reconstruction and Development, which is one of the largest investors with 200 million euros (approximately \$178 million) in 23 projects, said in September that “the investment climate in Moldova is unfavorable and needs improvement.”

In order to attract foreign private investment, the country needs to develop a modern infrastructure and active markets for urban land and real estate. Cumulative direct investment reached only \$420 million in 2001, approximately the amount Estonia typically attracts each year. Observers say that some potential investors may be turned off by the Communist government’s uncertain commitment to reform. The largest shares of investment have come from Russia, Spain, the United States, Germany, France, and Great Britain.

The government’s program on privatization in the energy sector is aimed at ensuring a reliable and competitive energy supply. The government sold three electricity distribution companies to the Spanish firm Union Fenosa and is currently preparing to sell the remaining two electricity distribution companies and other power generation assets. Although not official policy, it is widely known that for strategic sectors of the economy such as energy the government prefers to have experienced foreign investors instead of local investors.

The Washington-based Heritage Foundation and the *Wall Street Journal* placed Moldova 105th out of 155 countries in their 2002 Index of Economic Freedom, which was released in November 2001. Although Moldova falls into the category of “Mostly Unfree,” it is rated higher than other countries in the region such as Romania, Russia, and Ukraine.

Under its work program for 2001 through 2005, called “Economic Recovery—The Country’s Recovery,” the government will continue reforms while emphasizing social needs. Moldova plans to reform the public pension system and gradually raise the retirement age to 65 for men and 60 for women. The legal framework for private pension funds is also being developed. In education, the government intends to complement the introduction of a modern, unified curriculum with a program to reform the structure and management of public education. The authorities are initiating a restructuring of the public health care system, which will involve consolidating existing facilities, introducing an official fee-for-service scheme, and partially privatizing health services. The government acknowledges that the social assistance system is in need of fundamental reform. The United Nations Development

Program’s latest annual report ranked Moldova 98th out of 162 countries in human development.

The World Bank granted \$17.3 million to the Moldovan Health Investment Fund (FIS) for reconstruction and outfitting of health units across the country. FIS will spend a total of \$20 million from the World Bank to complete the project, which also includes the purchase of ambulances and the training of family doctors and medical assistants. In November 2001, the village Cosnita in Chisinau County opened the first health center restructured under the World Bank-funded Health System Reform project. The Health Ministry had reopened 217 public pharmacies by the end of 2001. The Health Ministry also announced plans to rebuild the state-owned network of pharmacies and instructed county health authorities to open drugstores in villages that have hospitals lacking pharmaceutical offices. According to government statistics, the domestic pharmaceutical industry covers only 5 percent of the country’s needs, forcing the rest to be imported.

Moldovan authorities make efforts to ensure that education from the first through ninth grades, which is compulsory, is free of charge. The ministry intends to open more night and vocational schools for youths who are unable to attend regular schools. Education officials say that at least 36 kindergartens have been closed over the last six years because of a lack of funds. Statistics show that only a quarter of children under the age of five attend kindergarten, and only half of 6-year-olds go to kindergarten. The UNICEF office in Moldova has implemented a general education project that is aimed at developing and implementing a new early childhood education model for nursery and kindergarten-age children and at improving teacher and parent training. The intention is to see this new model integrated into Moldova’s National Reform Program.

In a 2001 public opinion poll by the Center for Sociological, Political, and Psychological Analysis and Research, respondents expressed disappointment with the government’s performance regarding living standards (88 percent disappointed), wages (88 percent), and health care (86 percent). Moreover, 77 percent of respondents said they were not happy with their way of life. Most respondents are unhappy with the medical care they receive (89 percent), the money they have (88 percent), and the cleanliness of the community in which they live (73 percent).

Conditions for a restoration of international lending by international agencies include the privatization of the telephone operator MoldTelecom and of the wine and energy sectors. The agencies are also calling for land reform and the adoption of a bankruptcy law. IMF funds worth \$12 million could be dispersed if the changes are implemented. A World Bank decision on a third Structural Adjustment Credit, worth \$30 million to \$40 million, is to be taken at the beginning of 2002.

In a public address on November 5, President Vladimir Voronin promised that the government would fulfill all of the IMF and World Bank conditions. On November 8, however, Parliament unanimously adopted a 36 percent increase in pensions beginning on December 1, a move that will cost the state more than 290 million lei (\$22 million) per year. That same day, the legislature also approved amendments to the law on privatization, allowing the state to seize privatized firms that have become bankrupt or that owe debts to creditors worth more than half of their assets. The state can also seize firms in which

investors do not fulfill the commitments stipulated in their privatization contracts. The privatization amendments are likely to complicate relations with foreign donors. Although foreign currency reserves are large enough, there is great risk that Moldova could default on its foreign debt in 2002.

Vlad Spanu is a former Moldovan diplomat and the founder of the Moldovan Institute for Development and Social Initiatives, a successor to the Viitorul (Future) Foundation. His last diplomatic assignment was as the minister counselor at the Moldovan Embassy in Washington, DC.

POLAND



Polity: Presidential-parliamentary democracy

Economy: Mixed capitalist

Population: 38,600,000

GNI per capita at PPP \$ (2000): 9,000

Capital: Warsaw

Ethnic Groups: Polish (98 percent), German (1 percent), Ukrainian and Byelorussian (1 percent)

Size of private sector as % of GDP (mid-2001): 75

The scores and ratings for this country reflect the consensus of Freedom House, its academic advisors, and the author of this report. The opinions expressed in this report are those of the author.

↘↘ and ↗↗ indicate score changes of .25 or more. ↘ and ↗ indicate changes of less than .25.

NATIONS IN TRANSIT SCORES

	1997	1998	1999-2000	2001	2002
Democratization	1.50	↗ 1.45	↗ 1.44	1.44	↘ 1.50
Rule of Law	na	na	1.88	1.88	1.88
Economic Liberalization	2.00	↗ 1.92	↗↗ 1.67	1.67	↘↘ 1.92

KEY ANNUAL INDICATORS

	1995	1996	1997	1998	1999	2000	2001
GDP per capita (\$)	3,084.8	3,482.7	3,511.2	4,066.1	3,987.2	4,108.3	4,653.5
Real GDP growth (% change)	7.0	6.0	6.8	4.8	4.1	4.0	2.0
Inflation rate	27.8	19.9	14.9	11.8	7.3	10.1	5.6
Exports (\$ millions)	22,878.0	24,453.0	27,229.0	30,122.0	26,347.0	28,277.0	31,500.0
Imports (\$ millions)	24,790.0	32,632.0	38,549.0	43,842.0	40,727.0	41,422.0	44,000.0
Foreign Direct Investment (\$ millions)	1,134.0	2,741.0	3,041.0	4,966.0	6,348.0	9,299.0	7,000.0
Unemployment rate	14.9	13.2	8.6	10.4	13.0	15.1	17.3
Life Expectancy (years)	71.9	72.2	72.6	73.0	73.0	73.3	73.0

INTRODUCTION

Since the end of Communist rule, Poland has transformed itself into a stable democracy with a multiparty political system and free and fair elections. Since 1999, it has met many of the requirements for European Union (EU) membership. These requirements include: democratic politics, the rule of law, respect for human rights, and protection of minority rights. In 2001, Poland worked to fulfill its remaining obligations for accession and ensure that it joins the EU as soon as possible.

Poland has made one of the most successful transitions in Eastern Europe to a free market economy. It has brought inflation down to single digits and completed rapid and extensive privatization programs. However, the public's aspirations at times seemed to grow faster than the government's ability to satisfy them. Poles also responded negatively to four major reforms introduced by the post-Solidarity government of Prime Minister Jerzy Buzek, whose term ended in September 2001. These reforms were motivated by a desire to meet EU requirements. The government's reforms of the health sector received the most public criticism. Prime Minister Buzek's government paid a high price for unpopular reforms and a serious crisis in public spending that came to light in August 2001. His political movement, which won the 1997 elections, failed to win a single seat in the October 2001 parliamentary elections.

The new prime minister, Leszek Miller, inherited a large budget deficit and high unemployment. Taking office on October 19, 2001, Miller announced that during his first 100 days he would stabilize public spending by reducing the 2002 budget to less than 183 billion Polish zloty (PLN), or \$45.3 billion, and the budget deficit to less than 40 billion PLN (\$9.9 billion). He also said he would reduce administrative costs and increase efficiency by cutting red tape, limiting the number of ministries, and freezing wages in the central administration.

Cutting spending, however, resulted in increased unemployment. Moreover, the prime minister still must overcome the skepticism towards the EU of his coalition partner, the Peasant Party (PSL). In 2001, the only real source of optimism for many Poles seemed to come from two significant sporting successes: the rise to fame of ski jumper Adam Malysz and the Polish national soccer team's qualifying for the 2002 World Cup.

DEMOCRATIZATION

Political Process

1997	1998	1999-2000	2001	2002
1.50	1.25	1.25	1.25	1.25

Poland is a parliamentary-presidential democracy with a multiparty political system and free and fair elections. Parliament consists of a 100-seat Senate and a 460-member *Sejm* (lower chamber of Parliament). In March 2001, Parliament introduced a number of significant changes in the electoral law. All 460 members of the Sejm are now elected by proportional representation in multiseat constituencies. The system of counting votes was also changed to favor small- and medium-size political parties over larger ones. In addition, political parties will be financed entirely by taxpayers. They will be subsidized from the national budget in accordance with the number of votes they receive. Political parties will no longer be allowed to engage in any fundraising activities or pursue business activities, such as deriving financial gains from leasing property.

The parliamentary elections held on September 23, 2001, resulted in a landslide victory for a coalition made up of the former Communist Party (SLD) and the social democratic Union of Labor (UP). They won a combined total of 41.04 percent of the vote, beating the newly formed center-right Civic Platform (PO), which received 12.68 percent; Samoobrona (Self Defense Party), 10.20 percent; the right-wing Law and Justice Party (PiS), 9.5 percent; PSL, 8.98 percent, and the anti-EU League of Polish Families (LPR), 7.87 percent. The German-based Opole Silesia (MN) won two seats.

Two political movements failed to clear the thresholds to win seats, set at eight percent for coalitions and five percent for political parties. These were the two constituents of the outgoing government, the Solidarity Electoral Action (AWS) coalition of moderate and center-right forces, which won 5.6 percent of the vote, and the promarket Freedom Union (UW), which took 3.1 percent. Although this failure of a ruling coalition to win seats in Parliament marked a first for Poland's young democracy, many politicians had in fact left the ranks of the ruling parties before the elections. They regrouped and formed the PO and PiS parties.

In the Senate, the SLD-UP captured 75 seats; Bloc Senate 2001 (a coalition of former Solidarity activists) 15; PSL, 4; Samoobrona, 2; and independents, 2. The turnout was a low 46.29 percent.

The elections left the SLD-UP short of an absolute majority in part because of the changes in the electoral law that they themselves had promoted. As in 1993, the two parties formed a majority coalition government with the PSL. Leszek Miller, the leader of the SLD, became prime minister. During the Communist era, Miller had been a member of the Political Bureau of the Communist Party, where he was considered a hardliner. In the government

that held office between 1993 and 1997, he had been the minister of internal affairs and administration. Many credit Miller for the SLD's transformation into a Western European-style social democratic party.

Poland's most recent presidential election took place on October 8, 2000. Pre-election polls showed that incumbent President Aleksander Kwasniewski enjoyed the support of 60 to 70 percent of the public. Therefore, his strongest competitors, Marian Krzaklewski and Andrzej Olechowski, aimed simply to get enough votes to advance to a potential second round in which there would be only two candidates. A second round is mandatory when no candidate receives more than 50 percent of the vote in the first round.

The most dramatic moments in the campaign came at the beginning and 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 (Public Interest Commissioner) challenged their declarations. At the end of the trials in the District Court in Warsaw, the court announced that both Kwasniewski's and Walesa's declarations were indeed accurate. Towards the end of the election campaign, the campaign headquarters of AWS candidate Marian Krzaklewski released to the public a film in which the current president and one of his ministers, not realizing they were on camera, mimicked gestures of the Pope. Many people found the president's behavior offensive.

On October 10, 2000, the State Electoral Council 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 self-styled citizens' candidate, came in second with 17.3 percent of the vote. Krzaklewski received 15.37 percent, while PSL leader Jaroslaw Kalinowski received 5.95 percent. Former president and Solidarity cofounder Lech Walesa received only 1.01 percent of the vote. Voter turnout was 61.12 percent. This will be Kwasniewski's second and therefore last term in office under the Constitution's provision for term limits.

The Communist Party's monopoly on power 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. The so-called Little Constitution of 1992 and the 1997 Constitution, which was ratified by referendum, enshrined political pluralism. Most major parties are active at all levels of government. 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 November 2001 Poland had around 130 registered political parties. This approximate figure reflects the fact that some parties are in the process of completing their registrations.

Party identification and membership are low in Poland. Only about one percent of respondents to an October 2001

poll acknowledged being members of political parties or associations. Voter turnouts for local and regional elections in October 1998 exceeded 45 percent in *gminas* (townships) and *voivodships* (provinces) and 47 percent in *powiats* (counties). This was 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	2002
1.25	1.25	1.25	1.25	1.25

Poland has approximately 30,000 active NGOs, though many are small and under funded. NGOs include professional, youth, sports, political, ecological, religious, women's, and democracy-building groups. Poland also has public policy think tanks, educational and academic associations, and charitable and cultural organizations.

Although corporate philanthropy is in its infancy, several NGOs work 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 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 Warsaw-based Academy for the Development of Philanthropy (ARF) aims to encourage philanthropy at the local level in order to support community foundations throughout Poland. Through the ARF's initiatives, 12 well-functioning foundations have been established during the past three years.

According to a survey conducted in October 2001 by a leading Polish market research company, SMG/KRC, only 10 percent of adults said they had participated in voluntary work in the past year; 37 percent said they had donated money (\$25 or less in 60 percent of cases) or goods. Some 15 percent said they belonged to voluntary institutions. If given a choice among charities, the largest group of respondents, 20 percent, said they would take up voluntary work in charities that help the poor.

The two largest mass charity events in 2001 were a one-day, annual countryside event organized by Jurek Owsiak's Great Holiday Aid Orchestra, which collected medical equipment for children's hospitals, and an aid drive for flood victims in the summer. However, survey research suggests that participation in philanthropic movements is rare. Poles tend to concentrate their efforts on private and family matters.

According to available data, the largest women's organization of a social and vocational character, with about one million members, is the Rural Housekeeper's Association and Polish Women's League. Poland has an estimated 250 women's NGOs; their membership figures vary. The Information Center for Women's Organizations (OSKA), which is located in Warsaw, carries out various initiatives regard-

ing women's issues. The Center for Women's Rights is also particularly active.

The legal and regulatory environment for NGOs is relatively positive. Most NGOs are considered to be associations or foundations and are registered with a Warsaw court, with the exception of those groups that are associated with the Church or whose activities are determined by international agreements, such as the Red Cross. However, since foundations can register only 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 fairly 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 bases. However, a recent court ruling involving the Foundation for Polish Science pointed to problems for NGOs in the tax code. The Foundation is one of only a few NGOs 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 (for example, buying shares) as nonstatutory and, therefore, taxable. Under this interpretation, it follows that all organizations would have to place their funds in long-term deposits that are less profitable and, in turn, generate less income for statutory activities. As such, organizations would be unable to manage their resources most effectively. A higher court is currently reviewing the Foundation's case.

The financial viability of NGOs is also hampered by 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, revisions to the regulations governing NGO financing by local governments. As a result of these changes, some local NGOs involved in providing social services have suffered temporary, though serious, problems in providing their services. In addition, few businesses make donations to NGOs. In 2001, Parliament failed to pass a much-awaited bill concerning publicly beneficial organizations. The new government promised to pass the law in 2002.

NGOs that have received funding or technical assistance from Western foundations or governments or international organizations tend to have strong organizational capacities. In contrast, small NGOs are typically weak because they rely on volunteers who seldom have time to participate in training sessions. Most Polish NGOs depend on Western and American organizations for a substantial part of their operating budgets, although they are increasingly discovering other sources of revenue and becoming more self-sustaining. The financial situation of the third sector may deteriorate, though, as a result of funding constraints on international aid agencies and programs such as the United Nations Development Program and the European Union's PHARE program.

At the same time, the Polish-American Freedom Foundation, which was launched in 2000 with money provided largely by the Polish-American Entrepreneurship Fund, is expected to see its capital grow within a few years to \$180

million. 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 1997 Constitution (Articles 12 and 57) and other legislation guarantee workers the right to form independent trade unions. By law, 10 workers are necessary to form a local union and 30 to establish a national union. Unions must register with the courts. 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 the mainstream Solidarity union 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, membership figures provided by unions are inflated. The NSZZ had an estimated 600,000 dues-paying members at the end of 2001, while OPZZ claimed about 2.5 million members. The union that is growing most rapidly in influence is Samoobrona (Self Defense), which represents the interests of peasants and is led by the controversial member of Parliament Andrzej Lepper.

According to the Warsaw-based Public Opinion Research Center (CBOS), the total number of union members does not exceed three million. Most union members are skilled, midlevel managers (no actual data), or intelligentsia (9 percent in Solidarity structures and 12 percent in the OPZZ). Only five percent are peasants and just one percent are self-employed. Two-fifths of the employees in state-owned enterprises and almost one-third of the employees paid out of the central budget belong to a union. Fifty-eight percent of the respondents to a recent survey said that employees are left to themselves when it comes to protecting their rights; 63 percent said 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, farmer's associations, and some NGOs are active in the policy making process through direct meetings with government officials, thus providing government agencies with feedback and media access. In general, though, contacts between NGOs and the government are limited because NGOs still do not have formal representation in government. Therefore, they are unable to present the government with recommendations relating to their needs and concerns before laws and regulations are promulgated. They can only react to disadvantageous laws and rules after the government has adopted them.

The Polish educational system is free of political influence. Most schools are state-owned. Only 1.7 percent of

primary students and 7 percent of secondary students study in private schools. The situation is different for tertiary education, where almost one-third of students are in private schools, which are growing rapidly in size.

Independent Media

1997	1998	1999-2000	2001	2002
1 50	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 changes in the press law abolished censorship and loosened government control of the media. A 1992 media law transformed state radio and television stations into joint-stock companies, leading to the growth of private commercial television and radio stations. It stipulated that foreign ownership of individual broadcast companies may not exceed 33 percent. The nine-member National Radio and Television Broadcasting Council (KRRiTV) regulates broadcasting.

Several provisions in the penal code relate to libel and defamation. Article 270 states that anyone who “publicly insults, ridicules, and derides the Polish Nation, the Polish Republic, its political system, or its principal organs is subject to punishment of between six months and eight years imprisonment.” Independent NGOs such as the Press Freedom Monitoring Center (in a report entitled “Law vs. Media”) say this article is undemocratic. They criticize it as a throwback to the Communist-era penal code. That code was used to limit freedom of speech and repress all statements critical of the authorities and their actions. 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 lines 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 the broadsheet *Gazeta Wyborcza*, which has 18 regional supplements and posted an average daily circulation from January to November 2001 of 575,000 copies and sales of 457,000 copies; the tabloid *Super Express*, 440,000 and 337,000; and the broadsheet *Rzeczpospolita*, 263,000 and 200,000, according to the Press Distribution and Control Union (ZkiDP). Each has invested heavily in printing facilities in recent years.

The main media players in Poland are: Agora, a Polish media empire controlled by the founders of *Gazeta Wyborcza* that includes 14 local radio stations, printing presses, and extensive Internet investments; Polskapresse, a part of the German Verlagsgruppe Passau group and a majority share-

holder in ten regional newspapers; and Orkla Media, a Norwegian organization 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 the television advertising market. *Gazeta Wyborcza* receives more than 50 percent of all advertising spending in daily newspapers. It dominates both display and classified advertising. *Rzeczpospolita* and *Super Express* receive 19 percent and 10 percent, respectively. Regional papers receive the remaining portion of daily spending on advertising. Polskapresse and Orkla Media own most of the main regional titles. Both companies have worked hard to make their products appeal to new readers, especially younger Poles, by improving formats and designs and adding supplements.

Local press outlets, however, are finding it increasingly difficult to sustain their activities. This is because the industry is being consolidated into a few large international companies like Polskapresse and Orkla Media and domestic national giants like Agora, meaning that the local advertising market is shrinking.

On the whole, 2001 was a difficult year for both local and national papers. On January 1, 2001, Parliament passed a bill imposing a seven percent value-added tax on all newspapers except specialist titles. This caused the price of newspapers to increase. The recession also created difficulties for the advertising market, and publishers started to look for ways to lower costs. Overall circulation figures declined by about seven percent. The big players also saw their profits decrease. Many laid off staff; Agora, for example, laid off more than 100 workers.

The story of the year, however, was the success of *Newsweek Polska*. Prior to its introduction, the Polish market did not seem to have enough space for a third weekly news and opinion magazine alongside stalwarts *Polityka* and *Wprost*. However, the Polish edition of *Newsweek* now sells around 300,000 copies each week.

KRRiTV, the broadcast regulator, has granted 200 licenses for commercial radio stations and 32 licenses for television stations, including satellite television. The three most popular radio stations are Krakow’s private RMF FM; the public I Program National Station; and Warsaw’s private Radio Zet. Other radio stations include the public III Program National Station and Catholic Radio Maryja.

The two largest private television stations, Polsat and TVN, are rapidly growing 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. Canal+ and Wizja TV are on the verge of merging.

Editorial independence remains a key issue in the Polish media. Although newspapers and magazines reflect the country’s political diversity, the independent media are push-

ing 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 the composition of its governing council. Parliament, the senate, and the president's office nominate politicians for the nine membership slots on this body. The council, in turn, determines top public media appointments.

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 among the private firms Jardpress, Garmond, In Medio, and Rolkon.

There are an estimated five 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—among the highest in Europe—makes it hard for some Poles to access the Internet. The majority of workers use the Internet in their jobs.

The Journalists' Association of the Polish Republic (SDPRP) is the largest organization of its kind in Poland. It has 7,623 members, one-third of whom are women. The second largest group, with 2,400 members, is the Polish Association of Journalists (SDP). None of the journalist associations are particularly active, and very few young journalists join them.

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 Twoj 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 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 trying to counter a legal strategy called "provision against complaint" that is used to obtain court orders against publication of materials that are critical of persons or groups. Often when large corporations learn of a publication's plans to print an article critical of them, they lodge complaints in court. The courts, frequently without even reading the material, generally rule that no articles can be printed about the particular firms or persons.

A recent libel case also gives a somewhat disturbing insight into the status of freedom of expression in Poland. In 1992, a man referred to in news accounts as Michal P. gave an interview to the small tabloid *Angora* in which he slandered the then deputy speaker of the Sejm, Andrzej Kern.

Michal P. was the lawyer in a case concerning the flight from home—or, as the speaker believed, kidnapping—of the speaker's daughter. In 1995, Kern decided to bring charges against the newspaper after the bar's disciplinary committee ruled against Michal P. for slandering Kern. In May 1998, the Lodz regional court ordered *Angora* to print an apology and pay some \$2,200 in compensation to Kern and his family.

Michal P. and the PFMC commenced legal action in order to overturn this ruling. They believed that the newspaper had no right to interfere with Michal P's statements, given that Michal P. was a person of public standing and Kern, the subject of the interview, was a politician who had deliberately provoked public interest in his family matters. The court of appeal upheld the lower court ruling. The judge ruled that there was no reason for such slurs to be published and that an interview does not free a journalist from responsibility for the contents of the article, especially if the journalist has time to verify the contents. Moreover, the judge said, the author of the *Angora* article should have taken extra precautions in such a delicate case. The lawyers have announced that they will appeal to the European Court of Human Rights in Strasbourg.

Freedom House's *Annual Survey of Press Freedom* has rated Poland's press "Free" since 1990.

Governance and Public Administration

1997	1998	1999-2000	2001	2002
1.75	1.75	1.75	1.75	2.00

Parliament, which consists of the Senate and the Sejm (lower house), is the effective rule-making institution in Poland. The 1997 Constitution limited the president's veto power and clearly delineated the separation of powers between the president and Parliament. 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, these new units acquired ownership of local assets and responsibility for their own budgets. Each gmina elects a council that, in turn, appoints executive officials to run the gmina in accordance with a councilor'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 four major restructuring initiatives, went into effect. The reforms introduced three levels of local administration: (1) 64 townships and 2,489 gminas; (2) 208 poviats; (3) 16 voivodships. 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 units of local government. A major reform of the health sector in January 1999 was designed to devolve responsibility for regional hospitals from central authorities to the local level. Poland began a

second stage of transformation in 1999 aimed at administrative and social reforms, including territorial administration, health care, pensions, and education. An analysis of specific reforms reveals that the quality of their preparation and implementation has varied considerably. Poland's first stage of transformation already considerably reformed the regulations and institutions of economic life.

Reform of the health care system has received the worst evaluation and evoked the strongest criticism and resentment from the public. This is mainly because the government reformed only the financial side of health care. Moreover, the government did not sufficiently prepare or educate the public about the reforms and their consequences.

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 SLD took 24 percent of the seats in gminas, 58 percent in poviats, and 78.5 percents in voivodships. In voivodship, poviat, and gmina councils, the AWS holds 40 percent, 30.5 percent, and 13.5 percent of the seats, respectively. The SLD holds 38.5 percent, 27.5 percent, and nearly 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," the body can decide by a majority vote to deliberate in closed session. The texts of laws and bills are published and made 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 of local governments far too limited. The new poviat and voivodship authorities have not been given adequate decision-making powers as a result of their limited revenue management capacities.

In general, however, 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 numerous disputes.

The implementation of administrative reforms followed a seven-year national debate. The key element of reform involved the amounts allocated to central and regional governments from the national budget. Currently, the proportion ranges from 15 percent to 85 percent. The government aims in the coming years 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 the large number of categories of civil servants to

only two: staff employed on the day the new law went into effect and civil service officials. Compared with other government employees, civil service officials receive higher salaries and more favorable employment contracts and enjoy better career prospects. Poland has an estimated 105,000 civil servants at the central level and 180,000 at the local level. State institutions such as the President's Chancellery, Supreme Chamber of Control (NIK), Parliament Chancellery, Ombudsman's Office, and State Labor Inspectorate employ a total of about 20,000 civil servants.

Poland had an estimated 857 civil service officials as of October 1, 2001. A candidate can become a civil service official after successfully completing a qualification procedure established by the Chief of Civil Service, graduating from the National School of Public Administration (KSAP), or being nominated under the old law. Several hundred new officials are expected to join the civil service each year, although the exact number will be determined by the national budget.

The new Civil Service Law stresses competition and merit. All levels of public administration are obliged to inform the Office of Civil Service about vacancies, which are then announced in the government's civil service bulletin. Central government administration is separate from regional administration, and the law on the civil service concerns only the former. Parliament amended the civil service bill in December 2001 to limit its scope. Beginning in 2005, a director of a government office will be able to appoint persons who do not belong to the civil service corps for such posts as the head of a department or of a given section.

RULE OF LAW

Constitutional, Legislative, and Judicial Framework

1997	1998	1999-2000	2001	2002
1.50	1.50	1.50	1.50	1.50

Parliament adopted a new Constitution in April 1997 that was ratified by public referendum the following month. The new Constitution more precisely delineated competencies of key actors 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 what is known as a 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 also widened the prerogatives of the Constitutional Tribunal, which decides whether particular articles of legislation are in accordance with the Constitution. The role of the Constitutional Tribunal is growing systematically, mainly because of a rise in public understanding of its functions and, as a result, an

increase in the number of cases being brought before it. In 2001, the Constitutional Tribunal considered 26 constitutional complaints, issued 47 verdicts in cases of bills that it said did not conform to the Constitution, and answered 13 legal queries at the request of courts.

In June 2000, Parliament elected Leon Kieres, a member of Parliament from the AWS and an administrative law professor, as the president of the National Commemoration Institute. The Institute will provide individuals with 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 the support of a majority of the Sejm. Without a president, the Institute could not commence its activities.

One cause of the delay, until September 2001, was the SLD's fierce opposition to a provision in the law that prohibits the general public from having access to all files. Only individuals who were specifically targeted by 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 approved a new criminal code and code of criminal procedure, capping 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 on a piecemeal basis since 1989. The new criminal procedure code paralleled provisions of the new Constitution that extended the 48-hour "initial arrest", or detention, phase to 72 hours and provided detainees with a limited right to counsel.

Search warrants issued by courts or prosecutors are required for police to enter private residences. In emergency cases, when prosecutors are not immediately available, police may enter residences with the approval of the local police commanders.

Conservative political circles consider the new criminal code to be too liberal toward criminals. A special commission in the Ministry of Justice has nearly completed an amended version of the code. Former Justice Minister Lech Kaczynski, who was in office between June 2000 and August 2001, favored stricter punishments for criminals and, in a short period of time, had gained considerable popularity. However, the liberal circle of lawyers who

created the current code have criticized the minister's position.

In August 2001, Parliament approved amendments to three legal codes that tightened many punishments for the most serious crimes. President Kwasniewski, however, vetoed the bills, claiming that they contained legislative errors. He set up a commission that prepared new bills and referred them to the newly elected Parliament, which has a left-wing majority. At year's end, Parliament had not yet approved the new bills.

Poland's judicial system is still fairly inefficient. This manifests itself in considerable delays in deciding cases brought before the courts. The case of *Olstowski v. Poland* best exemplifies this problem. Poland lost this case in November 2001 before the European Court of Human Rights in Strasbourg. In December 1993, Artur Olstowski was arrested for allegedly robbing and assaulting a businessman. Two bills of indictment were filed over the next ten months. At the time the second indictment was filed, Olstowski applied for release from detention for the first time. Yet the Gdansk Regional Court dismissed his application, as it would for the next 27 months. During this time, Olstowski's lawyer filed many appeals to different courts and applications for his client's release. In March 1997, the Gdansk regional court convicted Olstowski of robbery and sentenced him to eight years imprisonment. In June 1998, the Gdansk court of appeal quashed the judgment and instructed the prosecutors to carry out further investigations. Olstowski himself was released from detention. Prosecutors filed a third bill of indictment in March 1999. Proceedings are still pending. The European Court ruled that Olstowski's right to a trial within a reasonable time had been violated and ordered the Polish government to pay him 20,000 PLN (\$5,000) in compensation.

Poland's court system consists of regional and provincial courts and a supreme court. The 1997 Constitution expanded the competence 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 court judges, and 4 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 minister of justice and the courts themselves. Poland's judiciary is independent, although the role of the justice minister, president, and Parliament in the selection of judges could potentially result in political influence being exerted over judges.

The 1997 Constitution guarantees suspects the right to counsel at all stages of criminal proceedings. Once for-

mal charges have been filed, defendants may study the charges and consult with attorneys, who are provided at public expense, if necessary. The Helsinki Foundation for Human Rights has questioned the implementation of the legal right to counsel, particularly concerning the poor. In many cases, the quality of counsel is questionable.

The Constitution provides for equal rights regardless of gender or ethnic origin. Ethnic Poles make up 98 percent of Poland's population, with small Ukrainian, Belarusian, Slovak, Lithuanian, and German minorities making up the remainder. The electoral law exempts ethnic minority parties from the requirement of winning five percent of the vote nationwide to gain parliamentary representation. Minority groups enjoy cultural autonomy, and many have established their own civic institutions and native language publications. Religious groups have considerable freedom to worship as they choose.

In March 1999, the Sejm rejected a bill equalizing the legal 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). As such, women pay into the retirement system for fewer years. The unemployment rate is higher among women than men. Wages for women are, on average, 20 percent less than for men doing similar jobs. Violence against women in the family and on the streets continues to be a serious problem. Women's organizations criticize authorities for what they say is inappropriate and insensitive treatment of women who are rape victims.

In 2001, women's movements conducted an intensive campaign to boost the number of women in Parliament. The efforts of these groups were responsible in part for the fact that 94 women won seats in the new Sejm, an increase of about 20 percent from the previous term.

In criminal cases, judicial decisions are effectively enforced. In civil cases, though, the length of judicial proceedings often influences their effectiveness. The courts simply are unable to 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. On top of these problems, in August 2001 Parliament approved several bills that eliminated the *kolegia* courts that had handled minor civil offenses such as driving violations. These courts had handed down decisions in about 700,000 cases annually. These cases now go to the already overburdened *sady grodzkie* (municipal courts).

major issue, they have used it mainly as a political weapon. A recent World Bank report suggested that corruption had reached the "highest levels" in Poland and noted the prevalence of legal loopholes that allow bureaucrats to manipulate privatization deals and profit from state contracts. The report led Parliament to pass new laws to reduce corruption. Deputies and senators must now declare their assets, and this information is available on the Internet. Other laws were designed to improve public access to information and increase transparency and accountability in public procurement and state spending. The effectiveness of the new laws is not yet known.

Boding ill for the potential effectiveness of the new laws, however, is the fact that a 1997 bill regulating all economic activity undertaken by government officials is not always respected. A large part of Polish industry is yet to be privatized, meaning that supervisory boards of many companies in which the state is still a shareholder contain ministers and other government officials who have been chosen on the basis of their political allegiances. Another law states that a civil servant who worked in a given sector must wait for one year before taking a job in a private company in this sector. This law, however, is often honored in the breach. Another source of corruption stems from the fact that the government must license all business activity in new technologies. The number of licenses is limited and competition is high, fostering corruption.

Contrary to the situation in other transition countries, excessive bureaucracy or low salaries among low-level civil servants are not viewed as the main reasons for corruption in Poland. The country has carried out reforms that have cut red tape, and civil service salaries tend to be fairly high.

Apart from the World Bank report, two other important reports on corruption in Poland were published in 2000. One was issued by the Supreme Board of Control concerning the spread of corruption in Poland. The second was a joint report of two NGOs, the Institute of Public Affairs and the Stefan Batory Foundation, entitled "Corruption in Everyday Life." The report is part of a program aimed at changing social attitudes towards corruption and creating networks of local groups that could monitor the activities of local authorities. In an effort to reduce corruption, the program plans to sponsor public awareness campaigns and recommend changes in the law to promote transparency and encourage greater public participation in government decision-making. The program also plans to support independent media in their attempts to report on corruption and establish social movements that not only teach citizens how to monitor the actions of authorities but also build public confidence in the authorities. The joint report received extensive media coverage, leading the government to adopt remedial measures.

Among other measures, the government of Jerzy Buzek established an interagency taskforce that prepared a report on actions needed to eliminate sources of corruption. In addition, on the initiative of the World Bank, the govern-

Corruption

1999-2000	2001	2002
2.25	2.25	2.25

Corruption in Poland is still widespread, but the problem has gained considerable public attention over the last few years. Although political parties have made corruption a

ment set up another task force consisting of 32 notables from the worlds of politics, the sciences, the media, labor, and civil society. The aim of this taskforce is to develop an anticorruption strategy for all sectors of public life.

Furthermore, Parliament sponsored a number of relevant legislative initiatives during the period covered by this report. It adopted an amendment to the law on presidential elections stipulating that no more than ten percent of a candidate's campaign budget may come from individual anonymous donations. It also approved a law on the financing of political parties that banned parties from accepting donations from enterprises, set limits on donations and campaign expenditures, and made the state budget the principle source of funding for political organizations. The amended law introduced sanctions for parties that fail to settle campaign accounts correctly.

In an effort to ensure compliance with these laws, NGOs set up an Anticorruption Coalition. The coalition hopes to implement a four-year project of monitoring election campaign contributions. The NGOs that make up this coalition are: the Stefan Batory Foundation; the Polish branch of the Berlin-based Transparency International; the Foundation of Social Communication; and the Helsinki Foundation of Human Rights. This project formally began on May 27, 2001, when the groups began delivering petitions to the principal political powers in Poland. For example, the coalition collected and delivered 43,645 signatures to the presidium of the Parliament. In July, the coalition sent to the electoral committees of political parties standing in the September parliamentary elections a set of questions concerning concrete anticorruption programs. On September 13, 2001, the coalition held a press conference to publicize the answers provided by the party electoral committees.

In another anticorruption initiative, Parliament passed a law on money laundering and bribery in November 2000 that covers both individuals and companies and makes the act of giving bribes as serious a crime as the act of receiving them. This law subjects all transactions of more than 10,000 euros (\$8,900) to scrutiny. On November 1, 2000, in an effort to limit corruption among the police, the government prohibited road patrols from accepting cash payments for fines.

Polish authorities also carried out several high profile investigations into corruption in 2001. The prime minister dismissed his minister of defense after corruption allegations surfaced when the minister's advisor was investigated for corruption. In addition, the minister of transport was accused of laundering money and being unable to state the sources of his income. Moreover, a corrupt judge from Bialystok was banned from his profession and a judge in Torun is being investigated for corruption. In addition to these important investigations, Polish law enforcement had some notable achievements in fighting organized crime in 2000 and 2001. Among other successes, it broke up an international drug smuggling syndicate, arrested members of a leading counterfeiting ring, and seized more than one

million dollars worth of illegal drugs. In September 2001, 300 new officers were added to the police force's organized crime unit.

The press also stepped up its reporting on alleged official corruption. In particular, *Rzeczpospolita*, a leading independent broadsheet, and *Gazeta Wyborcza*, the most widely read Polish broadsheet, brought about many of the high profile investigations with their hard-hitting reporting. *Rzeczpospolita* published a series of articles about alleged corruption among judges and in the highest ranks of government, while *Gazeta Wyborcza* featured a series of reports on corruption in local authorities and the customs administration.

In its 2001 Corruption Perceptions Index, Transparency International ranked Poland 44th out of 91 countries, with the top-ranked country, Finland, being the least corrupt. According to the head of Transparency International's branch in Poland, the level of corruption in the country is stabilizing.

ECONOMIC LIBERALIZATION & SOCIAL INDICATORS

Privatization				
1997	1998	1999-2000	2001	2002
2.25	2.25	2.00	2.00	2.25
Macroeconomic Policy				
1998	1999-2000	2001	2002	
1.75	1.50	1.50	2.00	
Microeconomic Policy				
1998	1999-2000	2001	2002	
1.75	1.50	1.50	1.50	

According to Ministry of Economy data, the private sector's share of gross domestic product (GDP) increased to 61.3 percent in 1999 from 40 percent in 1990, while its share of employment increased to 71.4 percent of the labor force from 49 percent over the same period. The 1990 figures included the historically privately run agricultural sector. The launch of new private ventures, more than privatization, has driven the expansion of Poland's private sector. According to the Central Statistical Office, more than five percent of the labor force is employed in the informal sector.

The privatization process in Poland started with two separate laws passed in 1990: the Office of the Ministry of Ownership Act and the Privatization of State-Owned Enterprises (SOEs) Act. In 1996, a new Law on Commercialization and Privatization of SOEs replaced the latter act. As a first step, state enterprises were turned into for-profit ven-

tures and converted into joint-stock companies. In the second phase, the government adopted various privatization methods, including initial public offerings and sales of enterprises to domestic and foreign investors. A number of enterprises were also liquidated. As of September 30, 2001, out of 8,441 SOEs registered in July 1990, 1,494 had been transformed into joint-stock companies owned by the treasury; 2,062 had been directly privatized, and 1,737 had been liquidated.

In 1998, an ambitious program was launched to privatize by 2001 remaining state assets in telecommunications, banking, insurance, energy, the oil sector, mining, armaments, airlines, and utilities. However, opponents in both the ruling coalition and opposition have slowed implementation of the program.

Nevertheless, the program has succeeded in privatizing the PEKAO SA bank, Bank Zachodni, the main insurance company PZU, the LOT airline, the PKN oil company, and the TPSA telecommunications company. On July 25, 2000, a consortium of France Telecom and Kulczyk Holding agreed to purchase a second portion of TPSA from the Treasury. France Telecom purchased a 25 percent stake, and Kulczyk Holding purchased a 10 percent stake. In October 2001, the consortium agreed to buy a further 12.5 percent of TPSA, with an option to buy an additional 2.5 percent plus one share prior to the expiry of the option at the end of 2002. As of the end of 2001, the Treasury held 22.61 percent of TPSA and the consortium, 47.5 percent. The government is planning to sell the majority of its remaining stake in TPSA by the end of 2002 through a public offering. The previous government planned to finish privatization of the oil sector by the end of September 2001 by selling its remaining stakes in PKN and Gdanska Refinery. However, negotiations over privatization deals took longer than expected. The Treasury now hopes to close the deals by June 2002.

Overall, the privatization process made few real gains in 2001. Because of the parliamentary elections, the government tried to sell as many assets as possible without regard to price, but found little success. The new government is trying to postpone the implementation of, or even change previous decisions on, privatization. The government had hoped to raise 18 billion PLN (\$4.5 billion) in revenues from privatization during 2000, but raised only 6.8 billion PLN (\$1.7 billion). The largest single source of revenue from privatization in the past two years has come from the privatization of Telekomunikacja Polska SA, the sale of which raised 18.6 billion PLN (\$4.3 billion) in 2000 and an additional 3.6 billion PLN (\$860 million) in 2001.

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 control of 4.7 million hectares of land between 1990 and October 2001. During this period, the Agency sold 1.1 million hectares and leased almost 2.5 million hectares. Only 0.7 million hectares have yet to be distributed.

Since the start of Poland's reforms, public support for privatization has declined. In 1992 and in 2000, the public reacted strongly to the high social costs of accelerating the reform process, and support for privatization dipped considerably. In 1990, polls showed that 43 percent of respondents believed that privatization would have a positive impact on the economy. In June 2000, only 25 percent shared this opinion. The main criteria that distinguish supporters from opponents of privatization are education, social status, ability to profit from the development of a market economy, and, to some extent, political orientation.

Supporters of privatization tend to have completed higher education and hold managerial jobs or are entrepreneurs. Opponents of privatization tend to be unemployed or low-paid workers, farmers, and trade union members. 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 concept that refers generally to the notion that the government should provide support to Poles who have not benefited directly from the privatization process. Supporters and opponents of these concepts are divided along ideological lines. The AWS supported both reprivatization and enfranchisement in its platform during the recent parliamentary election campaign.

Since its victory, the AWS has been drafting legislation that reflects both ideas. 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 free of charge to former state farm workers. In mid-2000, both houses of Parliament approved an enfranchisement bill, but the president rejected it. As of October 31, 2001, a reprivatization bill had not been approved.

Poland has experienced remarkable economic growth compared with many other transition countries. This is largely the result of the sound and consistent macroeconomic policies that the central bank and successive governments have implemented. However, GDP grew by only 1.3 percent in the first three quarters of 2001, down from 4.6 percent in the same period in 2000. Poland's unemployment rate rose to 17.4 percent in December 2001, up from 15.1 percent in the same period a year earlier. The government amended the budget several times to allow for higher deficits. Under the latest amendment, the deficit will be 4.5 percent of GDP in 2001, up from 3 percent in 2000.

Since the reform process began in 1990, Poland has introduced a corporate income tax (CIT), personal income tax (PIT), value-added tax (VAT) on goods and services, and an excise tax. There are also minor local taxes. Businesses, economists, and right-wing politicians like Unia Wolnosci have criticized the high rate of the CIT and the sharply progressive PIT. The high tax rates, they argue, have contributed to lower tax compliance and hampered economic development. Opponents of a rapid decrease in the

overall tax burden argue, however, that such a reduction would increase the state budget deficit.

The CIT is currently 28 percent, down from 38 percent in 1998. Dividends are subject to a 20 percent flat withholding rate. The new government that took office in October 2001 proposed many amendments to the personal income tax laws in order to lower the budget deficit for 2002. The opposition and many ordinary Poles criticized the amendments. However, the government succeeded in introducing a new 20 percent flat withholding rate on deposit interest and investments in investment funds made after December 1, 2001.

The PIT is levied at progressive rates of 19 percent, 30 percent, and 40 percent, down from 20 percent, 32 percent, and 44 percent in 1998. The VAT is assessed at a standard rate of 22 percent and reduced rates for specific goods and services. Poland will have to adjust its VAT rates to bring them in line with the EU's VAT directives. The government levies an excise tax, along with the VAT, on certain luxury goods, alcohol, and gasoline.

Reforms of the domestic banking system began in the late 1980s and initially concentrated on breaking up the state banking monopoly. Since the 1989 passage of the Banking Law and Law on the National Bank of Poland (NBP), the NBP's role has been modified and is now similar to that of independent central banks in Western countries. The NBP is largely responsible for monetary policy and banking supervision.

The president of the NBP is nominated by the state president and appointed by Parliament to a six-year term. To help ensure the bank's independence, Parliament's right to recall the NBP president is strictly limited. The Monetary Policy Council (MPC), headed by the president of the NBP, is responsible for drawing up annual monetary policy guidelines. Members of the 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 consistency in implementing monetary policy. Over the past decade, inflation has fallen gradually, from 249 percent in 1990 to 3.6 percent in November 2001. Since 1991, the NBP's principal monetary goals have been to lower inflation gradually and assure free convertibility of the zloty by slowing the growth of the money supply and resisting sharp exchange rate adjustments. Because of slowing economic growth, the MPC cut key interest rates by 750 basic points in 2001. However, Poland still has one of the highest real interest rates in Europe. Therefore, the government is pushing the MPC to cut rates more rapidly. The government has also raised the possibility of curbing somewhat the MPC's independence by increasing its membership. It also has proposed changing the central bank's mandate from fighting inflation to ensuring GDP growth and low unemployment.

In 1989, Poland had only six commercial banks and 1,663 cooperative banks. Today, Poland has more than 80 commercial banks and 1,100 cooperative banks. The largest retail bank is PKOBP, which the government recently transformed into a joint-stock company in the hopes of privatizing the bank by 2003. The Law on the Banking Deposit Guarantee Fund provides deposit insurance to all banks. The fund, which is financed through mandatory bank contributions, provides full coverage on deposits of up to 1,000 euros (\$890) and 90 percent coverage on deposits of between 1,000 and 11,000 euros (\$9,800).

Exchange rate stabilization, which was at the core of the reform program of now former Finance Minister Balcerowicz, 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 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 allows current account transactions to be invoiced in zloties.

In April 2000, the zloty was floated freely. In real terms, the zloty has appreciated five percent to seven 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 \$28.3 billion at the end of October 2001.

The Polish capital market has been maturing, largely because of the establishment of a solid legal framework. The Warsaw Stock Exchange (WSE) was set up in 1991. Poland's independent Securities Commission is considered to be one of the best securities regulators in Central and Eastern Europe. A law on publicly traded securities and an act on investment funds regulate the capital market.

In 1991, the WSE had five publicly traded companies. By the end of November 2001, 230 firms were traded, including national investment funds. In 1996, the government launched a regular over-the-counter (OTC) market. Both the OTC and WSE trade in shares, bonds, futures, and warrants. The first commodity futures exchange, the Warsaw Grain and Feed Commodity Exchange, opened in 1995. In 2000, the Electric Energy Exchange began trading. In 2001, the government amended the laws on securities and investment funds to put them in line with EU laws. In 1991, bank loans were the only source of capital for expanding companies. Today, firms can also raise money by issuing shares, bonds, and commercial paper.

Poland's 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." The Constitution also states that "expropriation is admissible only for public purposes and upon equitable compensation." The Law on Land Management and Expropriation of Real Estate allows the government to con-

fiscate property only for specified purposes such as national security. It also provides for full compensation at market value. The government has not expropriated property since the end of communism.

The government has not fully developed registries for land, companies, and property liens. The government passed the Patent Law Act in 1993 and the Copyright Law in 1994. In 1998, Poland adopted a law protecting intellectual property rights. Although the government has improved its capacity to enforce this 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 90 percent of software in Poland is pirated.

Poland liberalized most prices as part of its 1989 reform program. Housing rents and energy prices are still partially controlled by the state. A 1998 law allows individuals and businesses to change these prices without the government's permission if the changes do not exceed limits established by government-controlled bodies. In 1997, the government allowed businesses to change liquid fuel and gasoline prices without prior approval. A 1997 law established the Energy Regulation Office, which awards licenses to private energy producers and regulates electricity prices. These prices are now set on a national electricity exchange established in mid-2000. Housing rents will be freed from control in 2002.

Polish laws on the creation of new businesses are generally liberal and transparent. An explosion of new businesses during the early transition period, especially small service firms, resulted in a huge growth in the private sector's share of GDP. According to the European Bank for Reconstruction and Development, the private sector's share of GDP was 65 percent in 1999.

Nevertheless, starting and running a business in Poland is complicated by the frequency with which laws on business activity are amended. There are more than 220 such laws, and they have been amended more than 500 times. Consequently, small firms often must obtain professional assistance to help them comply with the laws. Arbitrary judgments in tax administration and arbitrary enforcement of labor, health, and safety regulations are also problems.

In January 1998, the government established a commission of businesspeople and experts to identify particularly onerous regulations, but the results of the commission's work have been negligible. A new commercial code took effect in January 2001. It limits licensing requirements to a narrow group of industries, including the financial sector and armaments production. Although the need to obtain licenses in these areas creates 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. An additional year or two usually passes before judgments are actually rendered. Bankruptcy courts are equally slow. To remedy these

problems, the government is taking steps to increase the number of out-of-court settlements, setting up municipal courts for minor cases, and shifting arbitration on taxes and financial matters from tax administration offices to the courts. Judgments rendered in private arbitration tribunals carry the same binding force as those handed down in public courts.

Poland's 1990 Law on Countering Monopolistic Practices prohibits various forms of anticompetitive behavior. The Office of Competition and Consumer Protection enforces the law in this area. 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 on 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 be eliminated as the privatization process continues.

Poland acceded to the Uruguay Round of the General Agreement on Tariffs and Trade (GATT) in 1995. Poland is also a member of the European Free Trade Association (EFTA) and the Central European Free Trade Agreement (CEFTA), both of which require substantial reductions 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. Import surcharges were eliminated in 1997. Tariffs are scheduled to be cut further over the next several years as a result of multilateral agreements with the EU, EFTA, and CEFTA. Approximately 75 percent of Poland's trade is with members of these three bodies.

In a setback to free trade, however, Poland in 1997 reimposed a previously suspended ten percent tariff on grain and grain products. In addition, in 1999 it introduced quotas on grain that reflect the broader issue of subsidized foodstuffs imported from the EU. At the same time, in September 2000, Poland eliminated customs duties on fuel imported from EU countries. Political considerations generally dictate which sectors enjoy protection. Other factors hindering trade liberalization in certain sectors include certification requirements, product standards, and officials who are overworked because of the explosion of trade and transit activities.

Poland's Foreign Investment Act sets the legal framework for foreign investment. With the exception of sectors defined as strategic, the act does not require foreign-owned companies to have any local participation, ownership, or management. In general, foreigners can fully own new or existing Polish firms and repatriate profits and dividends fully without permits. 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. In addition, 50 percent of the materials and labor in all con-

tracts must be Polish. The cumulative value of foreign direct investment (FDI) grew from just over one million dollars in 1990 to \$49.9 billion in 2000. At \$10.6 billion, FDI reached record levels in 2000.

Poland's energy sector is protected from imports and is among the country's least reformed sectors. The Polish Oil and Gas Company has a monopoly on the import, transmission, storage, and distribution of natural gas. Privatization of the oil and gas sectors was slated for completion by the end of 2001, but this goal was not met. Historically, Poland has imported all of its gas from the Soviet Union or, more recently, the Russian Federation. Total electricity generation in Poland still exceeds the country's increasing domestic consumption. The 1996 Energy Law created an Electricity Regulation Board responsible for licensing and supervising companies and approving rates; levying fines; and arbitrating disputes between users and producers. All relevant state-owned electric companies 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. It purchases electricity from Poland's 36 public power generation companies and sells electricity to 32 local public distribution companies.

Poland had a national workforce of 15.1 million people as of October 2001, down from 17.5 million in 1992. Prior to 1989, unemployment was not officially recognized in Poland for political reasons, and many enterprises had too many workers. The unemployment rate fell from 16.4 percent in 1993 to just over 10 percent at the end of 1998. The unemployment rate was 17.4 percent in December 2001. At present, the minimum wage is 760 PLN (\$190) per month. The average monthly salary in the third quarter of 2001 was 2,047.29 PLN (\$512).

State unemployment benefits are equal to 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 national average, benefits can last for 12 months; they last for six months if the rate is lower. In regions where unemployment is high for structural reasons, unemployed workers can receive benefits for 18 months. At present, the unemployment compensation rate is 476.7 PLN (\$120) per month for persons who have been in the workforce for between 5 and 20 years; 381.4 PLN for persons who have worked less than 5 years, and 572.1 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 and pension institutions; and the third, a voluntary capitalized fund that includes employee pension schemes and

individual pension insurance policies. As of January 1, 1999, all workers 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 aims to reduce state budgetary liabilities to the social security system and provide more liquidity in domestic markets as a result of the ensuing increased flow of cash 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 extrabudgetary 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, 2001, the minimum pension, family, or disability benefit was 530.26 PLN (\$130) per month. The average pension in the first six months of 2000 was 1082.16 (\$270) per month. The state currently grants retirement privileges to certain groups like miners, teachers, servicemen, and those who work in hazardous industries. Although the pension system reform plan phases out privileges for most of these groups, the government plans to maintain specialized benefits for the disabled and their families. In 2000, total benefit payments (excluding those to farmers) and maintenance costs amounted to 12.4 percent of GDP. Farmers are entitled to benefits after reaching the retirement age and transferring their ownership rights to their farms.

Educational reforms in 1999 made school attendance mandatory for children between the ages of 7 and 16. Overall, though, education is still obligatory until 18 years of age, and attendance at a three-year gymnasium is obligatory after the completion of six years of primary school. 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 8.2 per 1,000 in 2000. There are no differences between urban and rural infant mortality rates. Life expectancy has increased steadily for both men and women. For men, life expectancy rose to 69.7 years in 2000 from 67.4 years in 1993; for women, life expectancy rose to 78 years from 76 years during the same period. The ratio of doctors to the general population has increased slightly, to 2.2 per 1,000 in 2000 from 2.0 per 1,000 in 1993. The number of hospital beds decreased to 191,000 in 2000 from 214,864 in 1993.

Janusz Durlík is the deputy director of the Public Opinion Research Center (CBOS) in Warsaw, Poland.

ROMANIA



Polity: Presidential-parliamentary democracy
Economy: Capitalist-statist (transitional)
Population: 22,400,000
GNI per capita at PPP \$ (2000): 6,360
Capital: Bucharest
Ethnic Groups: Romanian (90 percent),
 Hungarian (7 percent),
 other, including German and Roma (3 percent)
Size of private sector as % of GDP (mid-2001): 65

The scores and ratings for this country reflect the consensus of Freedom House, its academic advisors, and the author of this report. The opinions expressed in this report are those of the author.

↓↓ and ↑↑ indicate score changes of .25 or more. ↓ and ↑ indicate changes of less than .25.

NATIONS IN TRANSIT SCORES

	1997	1998	1999-2000	2001	2002
Democratization	3.95	↑ 3.85	↑↑ 3.19	↓ 3.31	3.31
Rule of Law	na	na	4.25	↓ 4.38	↓ 4.50
Economic Liberalization	4.63	↑ 4.50	↑↑ 4.17	↑ 4.00	↑ 3.92

KEY ANNUAL INDICATORS

	1995	1996	1997	1998	1999	2000	2001
GDP per capita (\$)	1,564.2	1,562.9	1,564.8	1,858.9	1,563.4	1,644.4	1,743.3
Real GDP growth (% change)	7.1	3.9	-6.1	-5.4	-3.2	1.6	4.0
Inflation rate	32.3	38.8	154.8	59.1	45.8	45.7	34.2
Exports (\$ millions)	7,910.0	8,061.0	8,431.0	8,302.0	8,503.0	10,366.0	11,560.0
Imports (\$ millions)	9,487.0	10,555.0	10,411.0	10,927.0	9,595.0	12,050.0	14,450.0
Foreign Direct Investment (\$ millions)	417.0	415.0	1,267.0	2,079.0	1,025.0	1,009.0	900.0
Unemployment rate	9.5	6.6	8.9	10.3	11.8	10.5	8.6
Life Expectancy (years)	69.5	69.1	69.0	69.3	69.8	69.9	71.0

INTRODUCTION

In 2001, after much stagnation and confusion, Romania made the most out of a situation that had seemed nearly hopeless the year before. When the incumbent President Emil Constantinescu refused to seek reelection at the end of 2000 and the ruling coalition fielded no fewer than four different presidential candidates, it became clear that the political bickering and infighting among democratic forces would severely curtail their power. What was less obvious, however, was the extent to which voters would penalize these forces by throwing the ruling Christian Democratic Peasant Party (PNTCD) out of Parliament. Consequently, the last round of the presidential election pitted a former Communist and an ultranationalist against each other. Given the circumstances, it is fortunate that the former Communist won.

As a result, 11 years after the fall of Nicolae Ceausescu, Romania is again governed by some of the very same players—initially of suspect democratic credentials—who took power following the December 1989 revolution. Ion Iliescu, reelected for the third time in 2000, first became president in 1990; Adrian Nastase, the current prime minister, was foreign affairs minister between 1990 and 1992. In addition, Defense Minister Ioan Mircea Pascu, Minister of Public Administration Octavian Cozminca, President of the Senate Nicolae Vacaroiu, and many others held positions in the first or second Iliescu governments between 1990 and 1996.

However, times have changed, and some of the players seem to have changed their ways. For instance, the reconciliation between President Iliescu and the former king, who in 1990 was thrown out of the country at gunpoint, took everybody by surprise. Some call it masterful theatrics, others a stroke of political genius. Either way, some observers remain skeptical about the depth and sincerity of the democratic conversion and the efficacy of democratic give-and-take in a country that now has only a feeble opposition.

To be sure, there are bright faces in the government and eager professionals in the president's office. Also, one hopes that the political veterans who head the two chambers of Parliament grew wise during their four years as the opposition. As in many other Eastern European countries, a leftist party has returned to power and is now responsible for consolidating the country's democratic institutions and for pushing toward rapid integration into Euro-Atlantic structures, namely the European Union and NATO.

Given the international situation after September 11, 2001, and in light of the achievement of some long overdue domestic reforms, it is likely that Romania will join NATO sooner or later. More problematic, however, remains Romania's integration into competitive European and global economic structures. Part of the problem rests precisely in the ideological pedigree of some members of the current

leadership, for whom economic liberalism seems a constraint of international politics rather than a necessity born out of the conviction that free, competitive markets are desirable engines for growth and human development. In spite of an important economic comeback, Romania remains a laggard in terms of liberalization, privatization, and economic restructuring. Almost 40 percent of the economy is still in state hands, and about 25 percent of the industrial sector is owned by five so-called investment funds that sometimes manage assets based on political clientelism rather than economic efficiency.

The true test for Romania's new leadership will be its ability to relinquish the economic privileges of the state and thus cut deeply into the political support it receives from the country's current political elite. That is, the government's liberal and democratic credentials will be tested on the basis of genuine acceptance of fair and open competition over favoritism and political clientelism.

DEMOCRATIZATION

Political Process

1997	1998	1999-2000	2001	2002
3.25	3.25	2.75	3.00	3.00

In 2001, two key political events changed Romania's domestic picture and international standing. The first was a domestic phenomenon: all the main political parties with the exception of the ultranationalists and the Hungarian Party, changed their leaderships. Today, a new generation of younger politicians is in command. From the political Left to the Right, these parties include the Social Democratic Party (PSD), the Democratic Party (PD), the National Liberal Party (PNL), and the PNTCD (the former ruling party). The second event was an international breakthrough. For the first time ever, Romania held the chairmanship of a key international organization: the OSCE. Coincidentally, the president of the OSCE's Parliamentary Assembly is also a former Romanian foreign affairs minister.

As the European Union has noted, Romania's political system is relatively stable. Yet stability comes not from a balance of political forces, but from a tendency to confuse the interests of the ruling party with those of the state. The fact that now, as before 1996, the ruling party is the heir of the former Communist Party occasionally keeps Romania stuck in old "command and control" solutions that have been proven unworkable elsewhere. The ruling establishment still appears to consider statism, centralism, and political clientelism as the most expedient means of achieving its goals. In short, the Romanian political system tends to be inclined more toward a dominant-power model than toward a consolidated democratic one.

Unlike other former Communist countries in which political change occurred peacefully a decade ago, in Ro-

mania the fall of Nicolae Ceausescu was violent. Since then, violence has been used on several occasions as a political tool, including in 1990, 1991, 1992, and 1992 during the rampages of the Jiu miners on the capital, Bucharest. In addition, the 2000 presidential elections brought to the forefront of the political scene a fanatical ultranationalist leader, Corneliu Vadim Tudor, a former Ceausescu sycophant whose proposed political program was based on "machine-gun order and justice." Tudor advanced to the presidential runoff, and his party is now the second largest in Parliament.

Also contributing to potential instability in Romania is the country's precarious economic situation and the crisis in its banking system. The fall of the FNI Investment Fund in 2000 wiped out about 3,500 billion lei in savings, or about \$1.5 billion. The fact that the state-owned savings bank was involved in guaranteeing the Fund made people particularly angry and distrustful toward the state and resulted in repeated protests around the country and a lawsuit brought by about 32,000 people against FNI.

Nevertheless, the Romanian political system is surprisingly stable. One mark of this stability is the fact that since enactment of the new Constitution in December 1991, the country has held three series of presidential, parliamentary, and local elections. In two of these, in 1996 and 2000, power changed hands from the incumbents to the opposition. Another factor of stability has been the inclusion of the country's Hungarian minority in the government. In 1996, the PNTCD invited the Democratic Union of Hungarians in Romania (UDMR) to join the ruling coalition. In 2000, the PSD courted the Hungarian minority while at the same time it waged a diplomatic war with Hungary over the minority's access to various employment, health, and educational benefits in Hungary.

Consensus over foreign policy and economic policy also adds to stability. There is widely shared agreement among political parties across the spectrum on the desirability of rapid integration with NATO and the EU. In addition, parties of both the Right and the Left support economic growth and liberalization.

Finally, and perhaps most subtly, stability is also contingent on who is in power and on the means deemed acceptable to achieve political ends. In 2001, the PSD returned to power after spending four years in the opposition. After the bickering and infighting of the former Democratic Convention (the center-right coalition that held power between 1996 and 2000), the hierarchical discipline of the PSD has brought relative orderliness to the administration of government. However, such stability is misleading, for it resulted in the concentration of power in the hands of a single dominant party rather than a balance of power between the government and the opposition.

Although the PSD does not hold an absolute majority in Parliament, it controls much of the state apparatus and administration, both in the central ministries and at the local level. And its power is growing. For example, a study

released by the Institute for Public Policy in Bucharest, in the fall of 2001, documented the PSD's magnetic effect as the party in power: 22 percent of all mayors elected in the summer of 2000 have switched their political affiliation, and of these, 82 percent have opted for the PSD. As a result, the PSD has increased its hold on local power from 35.5 percent of elected mayors in 2000 to 50 percent by the end of 2001.

Previously, the PSD was known as the Party of Social Democracy of Romania (PDSR). The PDSR changed its name in summer 2001 following its merger with the tiny Social Democratic Party of Romania. The merger was motivated by the PDSR's desire to be admitted into the Socialist International, in which the smaller party was a member. Owing to its Communist legacy and checkered democratic record, the PDSR had been refused membership repeatedly since 1990. The trick paid off, and the PSD now enjoys its new status as a member with consultative rights in the Socialist International.

Romania's political shake-up was also confirmed at the national level during the parliamentary and presidential elections of 2000. Although they were marked by relatively low voter turnout (slightly over 55 percent), the parliamentary elections of 2000 resulted in a complete redistribution of power when the ruling National Peasant Party lost control of both the Camera Deputatilor (Chamber of Deputies) and the Senat (Senate). Its former coalition partners also scored poorly. In the voting for seats in the Chamber of Deputies, the PDSR (now the PSD) took 44.9 percent of the vote; the ultranationalist Greater Romanian Party (PRM), 24.3 percent; the PD, 8.9 percent; the PNL, 8.7 percent; and the UDMR, 7.8 percent. The remaining 18 seats (5.2 percent) were distributed among the non-Hungarian minorities that receive 1 seat in Parliament regardless of their population size. The total number of deputies in the Chamber of Deputies is 345. In the Senate, the situation was similar. The PDSR took 46.4 percent of the body's 140 seats; the PRM, 26.4 percent; the PD, 9.29 percent; the PNL, 9.29 percent; and the UDMR, 8.59 percent. There is no difference between the competencies of the two chambers—a subject that is discussed repeatedly with regard to plans to modify the Constitution.

The Organization for Security and Cooperation in Europe deemed the 2000 parliamentary elections "transparent, free, fair, and equal." However, the OSCE did comment on the absence of a permanent electoral commission and suggested that regulations on domestic observers be liberalized.

Following the 2000 parliamentary elections, the PDSR formed a minority government led by Adrian Nastase. Nastase was chosen to head the PDSR following Ion Iliescu's election to the presidency the same year, because Romanian law prevents a sitting president from having a party affiliation. Hence Iliescu, who founded the party, had to relinquish his post. Nastase was foreign affairs minister between June 28, 1990, and October 16, 1992. This is the

first time since 1991 that Romania has had a political rather than a technocratic prime minister.

Romania's presidency is held by Ion Iliescu, leader of the group that took power in 1989 following the execution of Nicolae Ceausescu. Iliescu is a former Communist Party leader who fell out of Ceausescu's favor in the early 1970s and became a symbol of sorts for communism's "silent majority"—true believers who were frustrated by the abuses of the country's two dictators, Ceausescu and his wife, Elena. Although Iliescu had won the presidential elections of 1990 and 1992 and the new Constitution specifically limits the number of presidential mandates to two, Iliescu argued that he had exercised only one mandate since the adoption of the Constitution in 1991. Thus, he was able to run again in 2000 unchallenged by the Constitutional Court.

The 2000 presidential elections were a moment of relative drama in Romanian politics. In the summer of 2000, incumbent President Emil Constantinescu decided not to seek reelection. Although he had received international recognition for aligning with NATO forces during the Kosovo conflict of 1999, Constantinescu's standing in domestic polls was poor and the coalition that had brought him to power in 1996 unraveled when the Liberals decided to field their own presidential candidate. With Constantinescu out of the race, the incumbent democratic coalition fielded no fewer than four different presidential candidates, each garnering 11 percent or less of the vote.

In the first round, Ion Iliescu received 36.35 percent of the vote, and the ultranationalist Corneliu Vadim Tudor came in second with 28.34. Theodor Stolojan, a former prime minister who represented the Liberals, came in third with 11.78 percent; and Mugur Isarescu, the incumbent prime minister, came in fourth with 9.53 percent. With the exception of the Hungarian minority candidate, who received 6.22 percent of the vote, all other candidates scored under 3 percent. Since no candidate received more than 50 percent of the vote, Iliescu and Tudor advanced to a second round. Iliescu defeated Tudor 66.7 percent to 33.2 percent. Voter turnout was 57.5 percent, and the OSCE deemed the elections free and fair.

The general trend in voter turnout over the last decade has been downward. In national elections, turnout was 86.2 percent in 1990, 76.1 percent in 1992, and 70 percent in 1996. For municipal elections, turnout was 72 percent in 1992 and 46 percent in 2000. There are no figures on female voter participation, and less than 10 percent of all members of Parliament are women. However, for the first time in 11 years, the government has five women ministers.

Although Romania's electoral system is multiparty based, there is only a handful of viable parties. Their number shrank recently when Parliament set a 5 percent minimum threshold for representation. For the 2000 elections, the number of parties registered for the competition was 80, and only 5 made it past the threshold. To register, a party must have no fewer than 10,000 founding members, with at least 300 in each of a minimum of 15 (out of 40) counties.

It is difficult to get exact figures on party membership. The parties themselves inflate their figures, and there is no independent viable statistic. According to some data, the PD has 130,000 members; the PNL 134,000; the UDMR, 530,000; and the PSD, 684,000.

One of the most organized and disciplined parties is the UDMR. The UDMR represents the Hungarian ethnic minority, which accounts for about 10 percent of Romania's population. The party regularly receives around 7 percent of the votes, whether in parliamentary or presidential elections. It advocates local autonomy and decentralization. In 2000, it obtained passage of a law that allows administrative authorities to speak Hungarian in those localities in which the ethnic minority exceeds 20 percent of the population.

In addition to the Hungarian minority, which is by far the largest, other ethnic groups are represented in Parliament. These include Armenians, Germans, Italians, Greeks, Macedonians, and Poles. Each group receives an automatic seat in the Chamber of Deputies.

In November 2001, the Pro Democracy Association launched a project to change the country's electoral code. The proposed code seeks to increase public participation in political life and improve the relationship between elected officials and voters by replacing the party list system with a direct voting system. At present, only the president and local mayors are elected this way. Under the proposed code, two-thirds of all members of Parliament would be elected in direct voting. The system would also be applied for elections of local and district counselors. By law, the Pro Democracy Association's initiative needs 250,000 signatures for Parliament to consider it. If it ultimately proves successful, it would be the first civic initiative to be transformed into law. It would not only help improve the transparency and accountability of the electoral system, it would also give a boost to democratic forces and civil society.

The 2000 elections left Romania's democratic and centrist forces divided between two equally weak parties: the PNL and the DP. The fact that the two parties are archenemies, in terms of both ideology and personalities, further obscures their voices in Parliament. This is a worrisome situation, especially since the largest party in opposition is the ultranationalist and undemocratic PRM.

As a result, Romania is in some ways closer to a de facto electoral authoritarian regime than to a balanced pluralist system. This is not because the government keeps the opposition out of the political game, but because the opposition is too weak to have an effective voice. Ironically, the prime minister, aware of the danger of being perceived as a de facto authoritarian, complains loudly about the opposition's weakness. This leaves a great burden on the shoulders of civil society to carve a space for open dialogue and extraparliamentary policy debate. However, in spite of a relative increase in the number of organizations, the voice itself of civil society is increasingly atomized and feeble.

Civil Society

1997	1998	1999-2000	2001	2002
3.75	3.75	3.00	3.00	3.00

The most recent data available from the National Institute for Statistics indicates that the number of NGOs in Romania is approximately 25,226. However, most analysts believe that the number of truly active NGOs is around 10 percent of that figure. In 2001, an active coalition of 7 or 8 leading NGOs supported the adoption of a Freedom of Information Law and gave prompt reactions every time the ruling party tried to introduce limitations. This kind of direct—and growing—civic participation in the legislative process is one of the most remarkable developments of the post-Ceausescu period.

Romanian civil society was quite vibrant in the early 1990s when groups of writers, artists, and musicians engaged the public in spirited debates about policy and kept checks on governmental actions. Due to their support, the Democratic Convention won the 1996 parliamentary elections, and many civil society representatives were offered positions in the administration. However, only a handful accepted. The rest soon became the government's most vehement critics because they were frustrated by the slow pace of reform and by the Democratic Convention's seeming inability to exercise control over the state apparatus.

Romanian nonprofit organizations are predominantly urban. In addition, the southeastern portion of the country exhibits the lowest levels of civic life. Out of the estimated 25,000 organizations, almost 2,000 are mutual credit associations, a little more than 1,900 are labor unions, and about 120 are employers' associations.

To encourage the emergence of new voluntary associations, Parliament adopted the Law on Nonprofits in 2001. This law, which replaces one dating to 1924, defines volunteering and establishes a policy framework for companies that use volunteers. Nevertheless, volunteerism in Romania remains relatively weak. A 1996 estimate shows that only 6 percent of the total adult population belong to an association (excluding labor unions).

Women are not particularly active in creating their own associations. Only about 70 officially registered NGOs focus on gender-related issues. Feminists believe this number is low because institutionalization of the country's women's movement has been rushed and imposed from the outside. "We do not have a movement based on the experiences and the problems of women in Romania; we have abruptly institutionalized strategies primarily for intervention rather than for emancipation," explains the head of the largest feminist association in the country. Most gender-based associations group women on the basis of professional affiliation: women doctors, managers, university graduates, and the like. However, these organizations are somewhat cut off from the larger political debate and do not necessarily seek to change gender-related legisla-

tion or to suggest policies or strategies that empower women.

Unlike women, the main ethnic minorities are relatively well organized and effective. According to the latest census, minorities represent about 12 percent of the population, a drop from the 29 percent they represented in the 1930s before the Communist takeover. The country's main minorities are the Hungarian and the Roma, followed by relatively small numbers of Germans, Ukrainians, Russians, Jews, Turks, Tartars, Czechs, Poles, Greeks, Albanians, and Italians. Today, there are 18 officially recognized minorities in Romania. Each, except for the Hungarians, is represented with one seat in Parliament.

Romania's Hungarian minority is represented by the UDMR, an umbrella organization that is part political party, part cultural association, and part social service provider. Between 1996 and 2000, the UDMR belonged to the ruling coalition known as the Democratic Convention. This provided the minority with a stronger voice than ever before and allowed for the passage of legislation that puts Romania among the countries with the best legal protections of minority rights. One such example is the right to use one's mother tongue in dealing with local administrations. Also, after fierce political debates over a state-financed Hungarian university, Romania accepted the establishment of the private Hungarian Language University, which receives state support from Hungary. The university offered its first classes in October 2001.

The Hungarian University of Transylvania is a private, independent, nondenominational institution situated in four cities in Transylvania: Cluj, Oradea, Miercurea-Ciuc, and Targu-Mures. Even though it caters to Romania's approximately two million ethnic Hungarians, it is open to students of any nationality who meet its admissions requirements. In addition to the \$7 million provided annually by the Hungarian Parliament, the university receives funding from the Sapientia Foundation, which, in turn, receives money from the four Hungarian historical churches of Transylvania: the Roman Catholic, the Calvinist Reformed, the Evangelical, and the Unitarian.

Romania's other sizable minority, the Roma, is not represented in Parliament by a particular party. However, the year 2001 marked a watershed for Roma civil society groups when several of them struck an informal alliance with the PSD and, together with constant international pressure, helped ensure that the Roma cause will finally receive substantial governmental and international funding. In May 2001, a number of Roma organizations established the Roma Framework, a federation that seeks to monitor the implementation of the Strategy for the Improvement of the Roma Situation, which the government adopted on April 25, 2001. Twenty-five of the most effective Roma organizations from around the country have so far joined the group.

Also in 2001, the Health and Family Ministry signed an agreement with the Roma Party, the country's main Roma

association, on the provision of special health and social integration services to this minority community. The Roma Party intends to collect the equivalent of 7 percent of the minimal wage from each member of the Roma community and then to distribute the funds through the Public Health Departments to the 15 counties in which most of the nation's Roma community lives. Roma organizations have also received substantial funding from the European Union through mechanisms such as the Partnership Fund for the Roma, which was endowed with 2 million euro in 2001. Among the partnership's projects was the launch of a Roma news agency in October 2001.

Romanian civil society also includes religious organizations. Since Romania has no law on religions, many groups such as the Baptists, Presbyterians, and Jehovah's Witnesses obtain legal status in the country as associations. According to a 1999 study published on the occasion of Pope John-Paul II's visit to Romania, there are more than 700 associations and foundations of a religious nature in the country. Of these, about half are affiliated with the nation's 15 recognized religions and cults besides the official state church, the Orthodox Church. In Communist times, decisions regarding the organization of the Orthodox Church were subject to the approval of the state. Now, the patriarch and his collegium make decisions independently.

Most churches in Romania organize charitable activities. Even though charity and social work are not a prominent part of the Orthodox tradition, the Romanian Orthodox Church has established a foundation, Diaconia, that is responsible for social programs. Another group, Caritas, is the most active organization working on behalf of the Roman and Greek Catholic Churches.

The registration and activity of NGOs is governed by Ordinance 26/2000, which was signed into law in 2001. The new law simplifies the registration procedure for associations, while toughening provisions for the registration of foundations. Previously, using a law dating from 1924, it was relatively easy to register a not-for-profit entity as a foundation and to use its tax-exempt status to shield commercial interests. As a result, between 1990 and 2000, hundreds of foundations were registered for no other purpose than the importation of tax-exempt cars. The new law aims to curb this practice. Although NGOs may compete for government contracts and procurements, several issues remain to be clarified under Ordinance 26/2000.

NGOs remain exempt from customs taxes and the 19 percent value-added tax. They may engage in commercial activities if they fold their profits back into the organization. NGO income is taxed at the same rate as income generated by for-profit corporations. Law 204/2001 establishes low deduction rates for charitable contributions: 10 percent maximum off the taxable base for sponsorship of cultural, artistic, social, humanitarian, and environmental programs; 8 percent maximum off the taxable base for education, human rights, research, and sports (except soccer); and 5 percent maximum for social and community programs,

professional associations, and soccer. This law is the result of the lobbying and advocacy efforts of NGOs.

Romanian NGOs have benefited from extensive access to foreign training and expertise. In turn, several Romanian organizations now specialize in providing training to other domestic groups in everything from proposal writing to fund-raising to accounting and communication. There is ample documentation in Romanian, including an electronic newsletter about the field.

For many Romanian NGOs, 2001 proved to be a difficult year as funding through major grant programs shrank. Some NGOs had to cease their activity altogether. Others experienced major upheavals and personnel reshuffling. In general, grant money is the primary source of funding for Romanian NGOs. Local support is an increasing revenue source, having gone from 2 percent to 13 percent in just one year owing to an influx of EU funds for capacity building in local administrations. The EU remains a key donor to Romanian NGOs, while American and other Western bilateral funds are drying up. Organizations such as the Open Society Foundation have shifted their strategy away from grant making and toward operational programs, thus obliterating a vast source of domestic funding. Due to the unhealthy economic situation, the trend is worsened by a decrease in corporate funding and in membership fees. Chart 1 below indicates the portion of NGOs using funds from various sources.

Chart 1. NGO Funding Sources

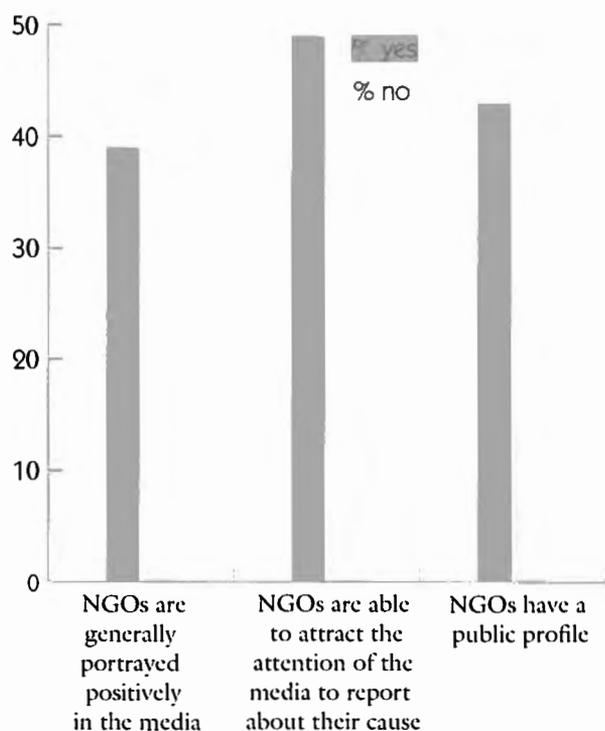


Source: Foundation for the Development of Civil Society-Romania. Percentage of 764 NGOs surveyed.

Ironically, the decrease in grant funds has also had a positive effect by forcing NGOs to think more creatively about fund-raising. New events such as celebrity auctions, corporate runs, and television fund drives have been tested recently. A group of lawyers from the Romanian Helsinki Committee has also drafted a law to regulate charitable fund-raising activities and will present it for discussion to government officials and members of Parliament in 2002.

Even though NGOs have a relatively high media profile, the perception of their usefulness is mixed. Both state officials and the general public have mixed feelings, owing to the number of corruption cases associated with NGOs in the last decade. In 2001, though, NGOs received positive media coverage for their involvement in key public interest issues such as domestic violence and corruption. The chart below, from the Civil Society Foundation, provides an overall summary of public perceptions of NGOs.

Chart 2. Public Perceptions of NGOs



Source: Foundation for the Development of Civil Society-Romania.

The organizations in Romania that pride themselves most on providing beneficial services are trade unions. Before 1989, all Romanian workers automatically belonged to a union. Although the proportion belonging to unions in 2001 remained high at about 59 percent, the number has been decreasing annually as state enterprises have been closed. There are no reliable figures on private sector unionization, but there are a number of professional and business associations, including about 20 associations that group the interests of management.

Unions in Romania are organized at three levels: by company, by branch, and at the national level. There are about 15 national trade union confederations, but only 5 are officially recognized by both the government and management as interlocutors. These are the National Syndicate Confederation (CNSRL-Fratia), which represents 48 federations primarily in the mining sector; the National Union Bloc (BNS), which groups 39 federations in the service, automotive, and agricultural sectors; the Alfa Workers Confederation, which has 29 federations in electronics and industry; the Democratic Confederation of Syndicates, which groups 22 federations primarily in education and culture; and the Meridian Confederation, which represents 27 federations in heavy industry.

Article 37 of the Constitution and a law adopted in 1991 stipulate that trade unions are free to function without political interference and that any such interference is illegal. However, before the 2000 elections, the two main unions, BNS and CNSRL-Fratia, actually sought political influence by trading votes in exchange for representation on the PDSR's lists. Thus, the former head of CNSRL-Fratia, Miron Mitrea, is now the minister of transport, and many union heads are now parliamentarians. Most, if not all, were elected on the ruling party's lists.

The Romanian Constitution guarantees the usual civil and political liberties, including the right to freedom of association, assembly, and expression. Military personnel, members of the police force, and magistrates are forbidden from organizing or entering into politics. In 2000, for instance, an association set up by the military was deemed illegal and was subsequently dismantled.

The most vigorous participants in the public sphere are labor unions, but they limit their activities primarily to street protests. Street protests are the method of choice for the general public as well. On the political and policy scene, the most active actors—other than political parties—remain NGOs. An increasing number of think tanks are doing research and policy analysis, but for the moment they have a better audience abroad than in the domestic policy-making process.

Romania's education system is free of political propaganda and is effective at training students in math and science. The system performs less well in the humanities and the social sciences, where mind-sets are hardest to change. There are an increasing number of private educational establishments, especially in higher education, but their accreditation is problematic.

Independent Media

1997	1998	1999-2000	2001	2002
4.25	4.00	3.50	3.50	3.50

The battle for an independent media was one of the most powerful rallying cries of civil society in the early 1990s, when the only news available was provided by state radio

and television and the government's democratic credentials were highly doubtful. And precisely because of domestic and international pressure, Romania's audiovisual media were, paradoxically, among the first in the former Communist bloc to liberalize. The media scene thus became competitive early on, at first only in the provinces. By 1995, though, the country's two main private broadcasters were beginning to challenge state-run television at the national level as well. ProTV was financed by foreign and repatriated Romanian interests. Antena 1 had more obscure funding because its founder had been in charge of Nicolae Ceausescu's foreign trade accounts prior to 1989. The competition between the two broadcasters quickly improved production standards, but for a long time their editorial slant remained skewed toward their respective political and financial interests.

By 2001, Romania's media scene was much more complex. The main television station is still state-owned Romanian Television (TVR), which broadcasts on three channels: TVR1, TVR2, and TVR International. TVR also has regional stations in Timisoara, Cluj, Craiova, and Iasi. The country's other television stations are private. ProTV and Antena 1 are now carried on cable and reach about 50 percent of the population. Smaller broadcasters such as Prima, Tele 7 ABC, and B 1 TV broadcast primarily in Bucharest.

Romania's private radio market is smaller but no less competitive. State-owned radio broadcasts on five different stations. The main state channel, Radio Romania Actualitati, reaches almost 95 percent of the population. There are also several private FM stations with national reach, including Radio Contact, Europa FM, Pro-FM, Uniplus, Delta, and Radio 21. Together, they reach 27.86 percent of the public, and competition is fierce. For instance, Europa FM, a Hachette-Lagardere French investment, has national coverage and competes both with public radio and with the network of local radio stations that have limited reach in various urban areas.

The government keeps a tight rein on state television and radio, both of which have excellent penetration in the countryside. In spite of boasting a financially successful record and positive results overall, the general director of state-run Romanian Radio was removed in 2001 by the governmental majority in Parliament primarily because he was a holdover from the previous administration.

The state no longer funds any print media. *Vocca Romaniei*, a propaganda weekly funded by the government, was discontinued in 1996. However, the state finances the Romanian Cultural Foundation (FCR), which publishes books and monthlies for international distribution. The FCR also publishes a major domestic political weekly called *Dilema*.

With the exception of state-run radio and television and the funding extended to FCR, the rest of Romania's media is in private hands. The country's main dailies are *Adevarul* (circulation 171,000 per day) and *Evenimentul Zilei* (135,000 per day). The others, such as *Romania Libera*,

Ziua, *Jurnalul National*, and *Libertatea*, have a daily circulation of less than 100,000 each. In total, Romania's 15 national dailies have a cumulative circulation of 1.5 million, which represents a decrease of 15 percent compared to the figures for 2000.

Studies show that the total number of persons who read newspapers has decreased from 6.25 million (28.4 percent of the total population) in 1999 to 5.51 million (25 percent) in the second quarter of 2001. Part of the reason is economic: in times of crisis, newspapers are a luxury. Also, the larger penetration of cable and national private channels in the provinces diminishes the appeal of the printed press.

Romanian media outlets are organized on a commercial basis. However, they are not necessarily totally independent or editorially unbiased. The shrinking advertising market and huge unpaid debts to state tax authorities have had an adverse impact on editorial independence. The best example is ProTV, formerly one of Romania's most liberal-minded broadcasters. In 2001, a personal disagreement between the station's owner and a presidential adviser turned into a political fight. As a consequence, ProTV's \$23 million debt in unpaid taxes was made public and there were rumors that the station was slated for closure. Although the broadcaster survived, its criticism of the government disappeared. Likewise, the owner of Antena 1 is the head of a small party that now belongs to the government. As a result, the station now abstains from criticizing the government.

Most media outlets are owned by large corporations that do not want to cross swords with the state. The written press are feisty but sometimes prone to political vendettas. Unbiased opinions or dispassionate accounts of mere facts are rare—journalists and newspaper directors are passionate about their points of view and hence rather prone to political ax grinding. But even so, the media have successfully performed their watchdog role, unearthing countless corruption scandals and exposing abuse.

Newspapers have been distributed through alternative private channels since 1990. The state-owned distributor RODIPET handles only 30–35 percent of the market. As of 2001, two representatives of the publishers' association—of whom one, however, is also a presidential adviser—sit on RODIPET's board of directors.

The Audio-Visual Council should be the main regulatory body for television and radio. However, since the 2000 elections, it has become an increasingly hollow institution. For instance, in November 2001, the government arbitrarily decided to strip the council of its prerogative to grant frequency licenses and shifted that responsibility to the Communications Ministry, thereby obliterating the Audio Visual Council's key function. Apparently, the move was made without prior consultation with council members. As a consequence, key high-power frequencies will now be licensed by a politically appointed minister rather than by an independent public authority.

Romania's Constitution guarantees press freedom and the right to free expression. Aided by international press organizations, the country's media outlets have resisted governmental attempts to introduce a press law. However, more problematic is the persistence in the penal code of punishments for libel in general (Article 205), for "the distribution of false information" (Article 206), and, most worrisome, for libel of public officials (Article 238). The punishment for libel is two years in prison. For distributing "false information," the penalty is five years, and for libeling public officials, it's six months to five years. The Romanian Helsinki Committee has proposed the adoption of the German model, which punishes only libel committed in bad faith, but arbitrariness can still creep all too easily into the definition of "bad faith." Also, journalists are demanding the abrogation of Article 238 (libel of public officials) on the grounds that it is unconstitutional. The Constitution stipulates that all citizens are equal before the law (Article 16). On October 23, 2001, Parliament adopted the Law on Public Information, which should help give the press and the public more access to nonclassified information.

Romania's main journalistic association, the Romanian Press Club, is in fact a publishers' association (most newspaper directors and publishers are also editors in chief). This group is run by an enormously powerful directorate that functions much like a cartel, attempting to fix both market and editorial positions. Its members are a close-knit and relatively closed group of the most entrepreneurial and influential newspaper directors in the country. The exact number of women who are part of the club is not known. There are few other media associations. Some, such as the Romanian Journalists Society, have survived since the pre-1989 days. Others, such as the post-1989 independent Association of Romanian Journalists, have disappeared altogether.

The independent Journalism Center dispenses training and defends press freedoms alongside local associations. The center is part of a regional initiative supported by American funds.

Figures for the penetration of the Internet are not always reliable. Some estimates, such as those from the research institute HVB Romania, consider the number as high as 1.9 million (8.5 percent of the population). Other estimates, such as those of Roland Berger Strategy Consultants, put the number at under 750,000 (about 3.34 percent). There are no legal restrictions to Internet access. The emerging information technology and communications sector holds great promise for the country's future economic development, especially since Romanian universities produce skilled computer programmers, most of whom currently emigrate owing to the lack of domestic opportunities. Telecommunications access is still limited and expensive, and certain legal constraints make it difficult to leverage the Internet for electronic commerce or electronic business applications. In 2001, though, Parliament adopted the Law on the Electronic Signature.

The most worrisome aspect of Romania's media sector is its poor financial viability. The current level of advertising spending is only \$7 per capita (or between six and eight times less than that in the Czech Republic, Hungary, or Poland). In addition, the proliferation of the media means that all outlets cannot be financially viable. Therefore, many have been forced to survive through unorthodox means such as being sponsored by business moguls who are generally associated with political parties, or by accepting gifts in exchange for positive coverage, or by being dependent on advertising from state-run companies. In fact, many business owners consider the media not as a potentially profitable business in its own right, but as a means to gain political influence, which, in turn, can be traded for financial gain. This explains the persistence of a large number of financially unprofitable media outlets.

Governance and Public Administration

1997	1998	1999-2000	2001	2002
4.25	4.00	3.50	3.75	3.75

The Romanian Constitution enshrines the principles of separation of powers and government accountability. Although the current prime minister thinks that the separation of powers is an "obsolete concept" and has sought "more collaboration than competition" among state powers, the relationships between legislative and executive authorities can still be defined as a system of checks and balances. That is because the prime minister must still request from Parliament a vote of confidence for his cabinet and his government's program and because Parliament can still withdraw its support and dismiss the government.

Romania has a bicameral Parliament, and each chamber has equal status and identical legislative functions. This creates delays and redundancies because both chambers must approve all laws. Part of the debate on modifying the Constitution is about this particular issue.

Article 58(1) of the Constitution states that "Parliament is the supreme representative body and the sole legislative authority of the country." However, the proposal of legislative initiatives is the prerogative of the government, parliamentary deputies and senators, and even citizens. All legislative initiatives must be registered with Parliament so that they can be debated in commissions and then in the plenum.

The Constitution allows for the delegation of lawmaking authority to the government. For example, under a special law, the government may adopt specific kinds of ordinances during parliamentary recesses. In addition, the government may adopt emergency ordinances that enter into force immediately and need only retrospective approval by Parliament.

Romania's legislative process, combined with the government's rush to implement reforms, has proved a

rather lethal combination for parliamentary authority. The previous government legislated effectively through simple and emergency ordinances in 507 cases. Only 475 normative acts followed their natural course through Parliament. It is interesting to note that this kind of information is not available for the current government. The figures for 2001 were not disclosed, and the only promise given was that they would be published in 2004 at the end of Parliament's current mandate.

The forms of parliamentary control are simple and censorship motions, questions and interpellations, and any other forms of information that Parliament is free to request. Between 1996 and 2000, there were 9 simple motions and 4 censorship motions, all of them rejected. There were also between 470 and 730 questions and interpellations per year. The Constitution requires Parliament to open its sessions to the public. However, there is no mechanism for public hearings.

At the national level, the acts of Parliament, the presidency, or the government must be published in the *Monitorul Oficial* as a prerequisite of their validity. Moreover, the *Monitorul Oficial* publishes transcriptions of non-classified debates from both chambers of Parliament. Even though a Ministry of Public Information was created after the 2000 elections, the European Commission continues to deem the amount of information available from the government and from public administrations as inadequate, especially information pertaining to social issues.

A new Law on Local Public Administration went into force in May 2001. Proposed by the previous administration and mandated by EU accession negotiations, which require decentralization, the current law represents a considerable improvement over the old law. The most significant change is the provision in Article 17 that allows the use of ethnic minority languages for administrative purposes in localities where at least 20 percent of the population belong to the same ethnic group.

The new law also increases the responsibilities and authority of local councils and mayors. Local administrations have their own budgets and enjoy the right to impose and collect local taxes. Local budgets include also capital revenues, proceeds from the state budget, and transfers from the state budget. However, in practice, the financial relationship between central and local levels of government remains unclear, and delays in financial transfers from the central government have caused problems.

The legal framework for decentralizing power to local government is largely complete. In each *judet* (county), the government appoints a prefect who represents the decentralized public services of the ministries and other central authorities. At present, the government aims to raise public awareness and to fully involve local collectivities in managing local and regional problems.

Romania met the short-term EU accession requirements on its civil service administrative capacity when it passed the Law on Civil Service in 1999. The legal status of civil

servants is now essentially in line with European practices. However, the current government has repeatedly violated a key provision of the new law regarding the political neutrality of public administrations. By using a loophole in the law, it has fired large numbers of staff in key ministries, government agencies, and the presidential administration and replaced them with politically obedient personnel. The law effectively prevents layoffs on political grounds—for instance, after elections—precisely to avoid changes that are disruptive to the creation of a competent and politically neutral civil corps and in order to break the pattern of harmful political obedience within the administration. That is, under the law, layoffs are permitted only when an institution is dismantled. So after the 2000 elections, key governmental bodies were dismantled and immediately reinstated under a different name in order to allow for the firing of staff who were suspected of political disloyalty. For instance, the body formerly known as the Romanian Presidency is now called the Presidential Administration Office and is allegedly a new institution.

RULE OF LAW

Constitutional, Legislative, and Judicial Framework

1997	1998	1999-2000	2001	2002
4.25	4.25	4.25	4.25	4.25

The Romanian Constitution was adopted in 1991. In the last two years, its revision has been the object of some political debate, especially during the 2000 electoral campaign. The debates intensified at the end of 2001. First, the PNL has demanded that a formal guarantee rather than mere “protection” of property rights be enshrined in Article 41 of the Constitution. Second, several parties agree that the attributes and responsibilities of the two chambers of Parliament should be reviewed in order to avoid backlogs and duplications. Third, an increasing number of voices have proposed that the president be elected by Parliament rather than by popular vote. A fourth point that has little resonance inside Romania but is advocated by millions of Romanians abroad is the abrogation of Article 16(3) of the Constitution, which bars persons with dual citizenship from employment in public administration and from holding elected office. This policy deprives the state apparatus of the potential contribution of qualified Romanians trained abroad.

All parties, with the exception of the PRM, agree on the need for constitutional reform and have decided in principle that a distinct parliamentary committee should be formed to deal with the issue. The stated intent is to finish the reform process by the end of the legislative mandate in 2004. Constitutional reform requires the approval of two-thirds of Parliament and a national referendum.

Romania's Constitution is interpreted and enforced by a Constitutional Court of eleven judges. Of these, two are named by the president, three by the Chamber of Deputies, three by the Senate, and three by the government for a term of nine years. At the request of a certain number of parliamentarians, the Court can determine the constitutionality of new legislation. If legislation is deemed unconstitutional, it must be abrogated. However, Parliament can override the Court's decision with a two-thirds majority vote. In 2001, there was one key instance in which the opposition asked the Constitutional Court to rule on proposed legislation. The case involved a controversial bill that would have given inordinate powers to the secret services, the successor to Ceausescu's political police. The Court rejected the proposed legislation but did so on procedural rather than substantive grounds.

After the adoption of a new criminal code in 1996, several of the law's articles were deemed abusive of human rights. In 1997, the Parliamentary Assembly of the Council of Europe asked Romania to abrogate Article 200 on making homosexuality a crime, Article 205 on libel, Article 206 on calumny, Article 238 on insulting public officials, and Article 239(1) on abusive language. The only action Romania has taken thus far, under heavy international pressure, is the abrogation in 2001 of Article 200. The Chamber of Deputies has reduced the sentences for violating the other articles, but in the absence of agreement on the part of the Senate, the constitutional provisions themselves cannot be modified.

Under the Constitution, "a person's freedom and security are inviolable." Searches, detentions, and arrests are also very strictly regulated. For instance, the law says that a person cannot be held more than 24 hours without the issuance of a proper warrant by a prosecutor. The warrant's duration is between 5 and 30 days and can be prolonged only by a court. On occasion, though, abuses of these provisions are still reported. International human rights associations such as the Romanian Helsinki Committee have documented detentions without warrants and beatings of detainees.

Although human rights include property rights, these are only "protected," not guaranteed, under the Constitution. There is considerable evidence that the PSD and especially President Ion Iliescu do not wish to extend property rights any further. In fact, the president has repeatedly noted his disdain of private property. He even went so far in 2001 as to call it "a whim."

The state occasionally fails to enforce sentences in which owners receive their property back after a lawsuit. Another problem is associated with the recent passage of Law 10/2001 on the "restitution of property abusively confiscated by the Communists," which enshrines the sale of such property by the state to tenants in the early 1990s. The original owners can no longer sue the state for the improper sale but, instead, will have to accept compensation by the state, most likely in the form of shares in bankrupt state-owned enterprises.

Romania's Constitution guarantees freedom of religion. Yet property rights issues also weigh on the restitution of church property. The Communist Party had confiscated the belongings of the Greek Catholic Church as well as those of other religious groups, and such cases have not been resolved to this day.

Article 6 of the Constitution recognizes and guarantees minority rights, including those of religious minorities. Although this provision recognizes the rights of minorities "to develop a specific ethnic, cultural, linguistic, and religious identity," it also seeks to ensure equality and nondiscrimination among Romanian citizens, thereby introducing potential arbitrariness in the provision. In addition, since the European accession process demands better integration of the Roma minority, in 2001 the government passed an emergency ordinance on improving the group's situation. At year's end, the first steps had been taken to implement the ordinance, including the creation of a monitoring committee and the naming of Roma advisers in county prefectures. The government has also legislated the creation of a National Council for the Elimination of Discrimination. To date, though, the council remains a well-intentioned idea that has not yet materialized.

Romania has more than 3,000 judges. Of all these, 25 magistrates and 8 prosecutors are, as of this writing, being tried in criminal cases. In addition, although the justice minister has tried to distance herself from politics, the public still considers the justice system partisan and corrupt. Judges and policemen, for instance, are among the "most distrusted," according to public opinion polls. There have also been many recent allegations of judges and police officers being bribed; however, there is little evidence to confirm such charges.

The political independence and neutrality of the justice system is not always obvious. Since judges and prosecutors are considered magistrates, it is difficult to establish a clear dividing line between judicial and executive powers. As a result, there are several ways in which political interference can creep into the system, including in the very process of selecting magistrates, who are named by the Justice Ministry and by the Magistrates' Council rather than by a completely independent body. Political interference also occurs through political discourse. That is, politicians make public statements that have a tendency to get implemented as court decisions. Such was the case with a recent political statement about the desirability of favoring tenants in cases of property restitution. Once mentioned, the idea quickly became quasi court policy.

Another famous case of interference was the decision at the beginning of 2001 to reopen the trial of two generals who were involved in the December 1989 shootings of civilians during the Romanian revolution. The two had been tried and found guilty in 2000 under the previous administration yet were freed for the duration of an extraordinary appeals procedure that the new prosecutor-general initiated after the 2000 elections. The prosecutor

reopened the case just after both the president and the prime minister publicly described the original sentencing as “unfair.” Even more simply, interference in the justice system can be overt, such as the case of the recent letter sent to the minister of justice in which a prefect recommended a certain candidate for the presidency of a county tribunal. The minister did not follow suit.

The state does provide public defenders and free interpreting services when needed. In 2001, a new system was set up that in effect privatizes the judicial enforcement function. With the adoption of a new law in May 2001, 351 former state employees became independent judicial executors. It is unclear whether these new private entities will be able to hold the state accountable for the enforcement of judicial decisions.

Corruption

1999-2000	2001	2002
4.25	4.50	4.75

The Romanian Constitution states that membership in the government is incompatible with membership in any other state office except Parliament. Likewise, the 2001 Law on Reorganizing the Government also prevents cabinet members from holding positions in the private sector. Nevertheless, such provisions are rarely enforced.

The political system’s endemic lack of transparency makes it difficult to ascertain whether public officials have improper ties to private business. However, the press has recently exposed several high-ranking government officials as having personally benefited from the public policies they implement. For example, the secretary of state in the Transportation Ministry has ties to a construction company that has received important procurement contracts from the city in which his brother serves as mayor. Also, several business and corruption scandals shroud the current president of the Senate—a former prime minister, whose involvement in private business remains. More generally, concomitant involvement in public as well as in private business remains a thorny issue. One statistic is telling: In 2001, Romania’s parliamentarians collectively held more private corporations than there were actual members of the legislature. Many of these firms receive preferential treatment in bidding for public contracts.

One of the difficulties with prosecuting corruption stems from legal ambiguity. Legally, “conflict of interest” remains an elusive offense. “Conflict of interest” is not clearly regulated in a single law but, rather, is the subject of multiple pieces of legislation. Also, terms and legal concepts differ between Western countries and a country like Romania, where the notion of “conflict of interest” does not exist *per se* and is often replaced with the much narrower notion of “incompatibility.” Unfortunately, “incompatibility” has a much narrower mean-

ing and doesn’t address obvious problems such as nepotism and cronyism.

This, however, points to a larger problem of political culture. In a country where, before 1989, allegedly everyone held only one common interest, it was unconceivable to regulate conflict between public and private interests, since the latter, in theory, did not exist. As a consequence, Romania’s political culture still suffers from a lack of realism. For instance, at the University of Pitesti, no student in a recent graduating class of the School of Public Administration could give a clear, crisp definition of “corruption.” Everyone knew that “corruption means doing something wrong or against the law,” but not a single one could articulate the idea that it involves using public office for personal gain. This is partly explained by the Communist-era mind-set, which found it acceptable for public officials to use their positions for private ends.

Romanian law sanctions corruption with imprisonment. It also asks public officials, including the managers of state-owned enterprises and public utilities, to file statements about their financial situation at the beginning and at the end of their mandates. But since these statements are not made public they have practically no effect. In addition, no case has been prosecuted based on these declarations.

On paper, there are conflict of interest (“incompatibility”) rules for the following categories of officials: the president of Romania, members of Parliament, magistrates (judges and prosecutors), government ministers, secretaries of state (deputy ministers), and elected local officials. The financial disclosure requirements apply to these categories as well as to persons who hold management positions in the central bank, public utilities, and state-owned enterprises and to appointed public officials at central and local levels.

According to Transparency International, “the overwhelming part of corruption cases brought into the Romanian courts of law in the last ten years have concerned low-level civil servants.” Cases of racketeering are, in theory, judged according to the criminal code, yet the offense is not spelled out as a distinct crime. Even the term is not translatable in Romanian—though the practice clearly exists. A new National Department for Combating Corruption and Organized Crime (DCCOC) in the General Prosecutor’s Office was established in 2000 at the initiative of former President Emil Constantinescu. This office is attached directly to the Supreme Court of Justice. Its aim is to centralize the information received from institutions involved in anticorruption cases. Regional Departments for Combating Corruption and Organized Crime are attached at the local level to county appeals courts. There are opposing opinions on the adequacy of the existing legal framework: one deems it sufficient but considers lack of enforcement as the main problem, the other claims that the legal framework is obsolete and should be changed.

The Romanian Court of Audit (CAR) is the highest audit authority. It performs public sector external audits, including reviews of the legislative and executive branches of government. The CAR is mandated by Parliament and consists of 25 auditors who are appointed for six years. A special government ordinance establishes that in public institutions there should be 1 internal auditor for every 25 staffers. Even though Romania has taken key steps to comply with international standards, the legislation is not yet entirely compatible with that of Western countries.

Recently, the Romanian government adopted the country's first comprehensive anticorruption strategy that addresses both prevention and law enforcement. The program is being coordinated by the National Committee for the Prevention of Criminality, which was established in July 2001. However, this committee is an ad hoc interministerial body and has no independent institutional authority. Since the committee has failed to meet regularly thus far, its effectiveness is still unclear.

According to Transparency International, "No leading government official at the national level has been investigated and prosecuted in the past year. Only a small number of officials at the local level have been prosecuted." However, in 2001, an unusual number of cases were brought against magistrates. Even though there is considerable distrust about the motives behind this increase in prosecutions, the government has pledged that the fight against corruption will not be used as a political instrument. However, at least one recent case appears to be a political act of retaliation. The head of the Central Anticorruption Agency who investigated President Iliescu in 1992 was removed from office and expelled by the Justice Ministry in 2001.

Romania is plagued by an extremely heavy and cumbersome bureaucracy, and this in part explains the high incidence of corruption. In addition to increasing opportunities for bribe taking, bureaucratic complexity is responsible for a high level of arbitrariness in administrative decision making, which sometimes gets mistaken for petty corruption. Also, excessive regulations, administrative controls, and inspections are stifling the activities of the private sector. Even though the registration procedures were simplified in 2001, small and medium-size enterprises (SMEs) still have to comply with numerous registration and approval procedures. The cost of compliance is enormous. According to a May 2000 report by the U.S. Agency for International Development and the Center for Institutional Reform and the Informal Sector, during 1999, "a typical firm in Romania was required to obtain between 23 and 29 different approvals, authorizations, licenses, permits, etc. These approvals cost between 49 and 102 employee days. After completing each application, the typical firm waited between 34 and 101 days for the relevant approval. Once established, a typical firm was inspected between 11 and 23 times. Time spent preparing the documents requested by inspectors

amounted to between 14 and 39 days. Time spent waiting for relevant certifications after inspections were complete amounted to between 13 and 20 days."

In 2001, the government issued an emergency ordinance on consolidating the registration process for businesses within a single bureau. However, the effectiveness of the measure remains unclear since it only merges the locations for obtaining permits rather than reducing the actual number of authorizations needed. On the positive side, the time frame for receiving replies to applications is now set at a maximum of 20 days.

In 2000, the World Bank completed a survey about practices and corruption perceptions that showed that 42 percent of all households and 28 percent of all companies had to pay bribes or gifts to public officials; 38 percent of the public officials interviewed reported that they had received gifts or bribes. Most households pay bribes to health care officials and public utilities representatives, while corporations primarily bribe customs officials and export/import licensing authorities.

According to Transparency International (TI), "In comparison with other Stability Pact Anti-Corruption Initiative (SPAI) countries, the Romanian public tends to be less accepting of the existence of corruption in society. Romanian involvement in corrupt practices, on the other hand, is viewed as higher than average in comparison to other SPAI countries, while the public is generally more pessimistic than most of its neighbors." TI also deems Romanian public education efforts on corruption as insufficient. A handful of NGOs currently fill the gap by initiating civic education programs about integrity and corruption issues. Transparency International is also making available to the public its *Legal Anti-Corruption Measures in the Romanian Public Sector* report.

Transparency International ranked Romania 69th out of 91 countries in its 2001 Corruption Perception Index. Romania was ranked 68th in 2000, 63rd in 1999, and 61st in 1998. This downward trend shows that despite attempts to create and apply effective anticorruption programs, little progress has been reported. The 2001 scores of Romania's neighbors are: Hungary 31, Bulgaria 47, Moldova 63, and Ukraine 83 (out of 91 countries).

Corruption is probably the most significant political issue currently under active public debate. The American ambassador to Romania has stated that the Romanian government's failure to embark on a real and politically neutral anticorruption campaign may seriously harm the country's chances of joining NATO at the end of 2002. Officials of the European Union have sent the same kinds of signals.

ECONOMIC LIBERALIZATION & SOCIAL INDICATORS

Privatization

1997	1998	1999-2000	2001	2002
4.50	4.50	4.00	3.75	3.75

Macroeconomic Policy

1998	1999-2000	2001	2002
4.50	4.00	3.75	3.75

Microeconomic Policy

1998	1999-2000	2001	2002
4.50	4.50	4.50	4.25

The Romanian transition has been at its most erratic in the economic domain. Eleven years of zigzagging policies and a general reluctance to implement reforms out of a fear of their political costs have not been without consequence: in spite of some hopeful signs, Romania is last in line for accession to the European Union. The year 2001, though, was marked by substantial growth—4.9 percent—possibly the highest in the region. This economic upturn began in 2000 after the previous government paid over \$2 billion in debt and started encouraging exports. The increase in exports (9.8 percent year-on-year) was also responsible for much of the growth in 2001. Nevertheless, Romania has a persistent trade deficit, which in 2001 reached \$4.166 billion owing to an even more rapid increase in imports to \$15.552 billion.

During the period covered by this report, inflation dropped from a high of 44.9 percent in 2000 to 30.3 percent. In mid-2001, the external debt was \$10.7 billion, \$1.8 billion higher than a year ago. At the same time, foreign exchange reserves increased from \$2.1 billion in 2000 to \$3.6 billion in August 2001.

Much of the economic improvement since 2000 has been based on increased exports and progress in restructuring and privatization. These changes will increase medium- and long-term economic competitiveness. Confidence in the economic upturn even led Standard & Poor's to upgrade its ratings for Romania and change its outlook to "positive."

A total of 7,485 state companies have been privatized in the last 11 years, and only 600 remain on the lists of the Authority for the Administration of State Assets. However, the remaining companies are the least profitable of the lot. They persistently produce large arrears and create the biggest drain on the state budget. In 2001, 127 companies were privatized, netting 9,822 billion lei (approximately \$337,897), which represents one-third of the social capital available at the beginning of the year and a 1.56 percent increase vis-à-vis the previous year. Among the privatizations

in 2001 were Banca Agricola, SIDEX Galti, Rafo Onesti, Hidromecanica Brasov, Argesana Pitesti, and Navigatia Fluviala Romana. At the end of 2001, the privatization agency was left with 19,927 billion lei in assets (\$685,530). The last "crown jewels" are Banca Comerciala Romana (BCR), ALRO Slatina, and ALPROM Slatina.

International organizations and the European Union have considerably helped the government pursue an accelerated pace in privatization and economic restructuring. The EU has initiated the RICOP program for the preparedness of companies in view of privatization. Likewise, the World Bank's Private Sector Adjustment Loan Agreement has helped the government restructure 62 large state-owned companies and 1,500 small and medium ones. PSAL also helped the government liquidate the bankrupt Bancorex, which had made numerous unprofitable loans based on political rather than economic criteria. A PSAL II Agreement is under negotiation. Although a second IMF line of credit has been postponed, one hopes this will not affect the signing of PSAL II, which reaches 300 million euro and includes the privatization of 20 companies.

Over the years, some privatization deals have been suspected of involving corruption, primarily because of their lack of transparency. These allegations have also been used as opportunities to score political points on both sides of the political aisle. More worrisome, however, is the fact that in 2001 the government canceled a privatization deal for TEPRO Iasi, which had been bought by a Czech company. The government is also in arbitration court over the privatization of the Resita Steel factory, which was bought by Noble Ventures, an American concern. The government has justified its decisions to rescind privatization contracts on the basis of the alleged failure of foreign investors to honor contractual obligations. To address the problem, the state authority in charge of privatizations has added a new monitoring department to ensure compliance with contractual obligations.

For the last 11 years, the Romanian economy has followed a boom-bust pattern. Interestingly, it has been an anticyclical pattern, so that when the world economy has been in recession, the Romanian economy has followed an upward trend. For the moment, Romania has retained a growth trend that began in 2000. With a 4.9 percent increase in GDP, the economy shows one of the highest growth rates in the region.

Bank assets represent only 29 percent of Romania's GDP, compared with an average of 68 percent in the rest of Eastern Europe. Although only 50 percent of bank assets are in private hands, this rate is expected to reach 80 percent after the privatization of the Commercial Bank of Romania (BCR). The bank, Romania's largest, will be privatized in 2002. The state owns 70 percent of BCR, and the rest belongs to the five state-owned, but theoretically independent, investment funds. BCR's profits were \$146 million in 2001. The state intends to sell only a 51 percent share.

In 2001, a set of new laws was adopted to modify the statutes of both the National Bank of Romania (BNR) and the country's commercial banks. In addition, a Law on the Bankruptcy of Banks was adopted. Together, these laws will help BNR more effectively control banking activity and make it much more difficult for banks to avoid bankruptcy. Among other things, the laws provide a workable definition of default: the impossibility to pay a liquid debt in a maximum of 7 working days.

After almost a year of negotiations, the government signed a new standby agreement with the IMF in October 2001. The agreement, for \$380 million, is valid for 18 months. As part of the agreement, the government pledged to continue privatizations (including that of the BCR), to eliminate subsidies for electricity (which will increase by 3.6 percent each month in the winter), to reduce the number of civil servants and other public administration staff, and to establish a 3.5 percent ceiling on the budget deficit. The IMF agreement will help the government obtain almost \$1 billion in loans, a considerably larger amount than the approximately \$600 million it received between 1998 and 2000. Predictions for 2002 are for growth of around 5 percent, inflation of 22 percent, and a deficit of 3 percent.

In spite of the current economic growth, there are a few areas of concern, such as growing arrears. The unpaid debts of public companies now amount to a staggering 50 percent of GDP. Also, at a 30.3 percent annual rate, inflation remains exceptionally high. Finally, the current account deficit is growing and is expected to reach \$4.4 billion—an amount that will put pressure on the national currency, the leu, and provoke an increase in inflation. Last but not least, foreign direct investment in Romania remains low, in spite of FDI growth in 2001 of 21 percent. The leu itself remains relatively steady owing to the influx of \$600 million per year from the EU and to the contribution of almost \$1 billion a year from Romanians working abroad.

The Romanian Constitution “protects” but does not guarantee property rights. This ambiguity has resulted in considerable political debate over the last decade. Romania's new restitution law, adopted in 2001, is probably the latest example. Rather than returning property to former owners, the law in effect enshrines the state's illicit sale of property to tenants in the early 1990s. In fact, the law essentially makes it legal for the people now in power to have sold property to themselves when they were in power the first time. In addition, the compensation the law provides when property cannot be given back in kind is at the mercy of local administrations that are cash poor and cannot afford to pay market rates. Thus, the law allows the state to offer shares in state-owned properties as compensation. The problem is that the only properties left are bankrupt. To make matters worse, in Bucharest, the mayor (elected) and the prefect (named by the government) are at odds on matters of restitution. The mayor applies the law and restitutes available buildings, while the prefect suspends the mayor's decisions.

On the other hand, an encouraging sign of economic

liberalization has been the suspension of subsidies for heat, electricity, and other utilities. That's the good news. The bad news is that the 3.5 percent increase per month is more than many Romanians can afford.

An increase in FDI is the panacea everyone hopes for. Fluctuations in FDI are the result of an unsettled macroeconomic climate, an unstable legislative environment, and relatively high inflation. But a large share of responsibility for the low level of investment in general—and FDI in particular—is borne by Romania's all too controlling state. For a business to open, it must complete 83 pages of forms. As mentioned in a previous section of this report, the consolidated registration office set up by the SME Ministry is a step in the right direction. However, the quantity of paperwork is not affected by this measure. Another measure destined for SMEs is the newly introduced turnover tax, which simplifies matters on the one hand but, on the other, penalizes enterprises that are operating at a loss.

To improve Romania's attractiveness to foreign investors, the government opened a new department in 2001 to deal with those planning to invest \$10 million or more. Some have criticized the move as increasing arbitrariness. Other measures meant to draw investment are more closely related to the newly signed IMF memorandum, which among other things demands uniformity in dealing with tax and customs duties and suggests a limit on items that are exempt from VAT. Excise taxes will be brought in line with European Union levels. To further reduce the pressure on the current account deficit, some of the privileges recently granted to SMEs may be taken back. Remaining subsidies, especially on energy prices, will also be liberalized. The EU accession negotiations include the privatization of utilities. Thermal power production units will be privatized in an accelerated rhythm of two per year so that by 2004, 25–30 percent will have been privatized. At the same time, the state-owned oil company PETROM has been listed on the stock exchange in an attempt to inject market discipline and transfer shares into private hands.

In addition to focusing on attracting investments, the government is keen on preventing the brain drain of Romania's youth—a problem that is especially manifest in the high-tech industry. Along with a new legislative package on the regulation of e-commerce, the government decreed a tax exemption on wages for programmers in the information technology and communications sector, as well as for some other occupations.

Romania's economic hardships have primarily affected the working class and pensioners. Average wages remain among the lowest in Europe, at \$151 per month. The net average is \$104 per month, which represents an increase of \$10 over 2000. GDP per capita is \$1,633, or \$5,928 at purchasing power parity. This represents 26 percent of the purchasing power parity in Germany and about half that in neighboring Hungary and the Czech Republic. In Romania, a country that was once known for its resources, real poverty (defined by the World Bank as “people living on

less than 1 dollar a day”) has become a serious problem that affects 41 percent of the population. This has natural repercussions on health and other human development indicators. Life expectancy is only 67.03 years for men and 74.20 for women, and infant mortality is among the highest in Europe at 18.6 per 1,000. The birthrate is equally low, reaching 10.4 per 1,000 in 2000. General mortality has improved slightly, going from 11.8 per 1,000 in 1999 to 11.4 per 1,000 in 2000 and 2001. These factors, including a high rate of emigration, have led to a decrease in the total population from 23 million in 1989 to 22.4 million in 2001.

Reforms in the health care field began several years ago with the Law on Health Insurance. Every employee now pays 7 percent and every employer matches with another 7 percent contribution for health benefits. This law, in effect since 1998, has raised available funds for health care to a total of 5 percent of GDP (4 percent public expenditures and 1 percent private). However, the implementation of the law remains problematic: hospitals cannot pay their bills, and pharmacies are having difficulty honoring prescriptions for medications for which they should be reimbursed. The financial flows from the Ministry of Finance, which collects the funds, to the county insurance company offices, which distribute them, are not yet functioning efficiently and are creating blockages in the system.

Romania’s pension system is also awaiting thorough reform, and experts consider the pay-as-you-go formula a “time bomb.” Romania has more pensioners than working

people at a ratio of roughly six to four. A low retirement age, early retirement, and abuses of disability pensions are but some of the reasons for the current problem. Although the last administration contemplated the introduction of a new private pension system, those plans were tabled after the 2000 elections. Since then, the new administration has been unwilling to tackle the issue in light of the disastrous crash of the FNI investment fund. However, on April 1, 2001, a new Law on Pensions was adopted. It raises the retirement age from 57 to 60 for women and from 60 to 65 for men and tries to curb many of the abuses.

A number of observers believe the new pension law is too timid. In contrast, workers did not welcome the move at all, and tensions finally erupted in protest in November 2001. The public sector’s health care and education personnel led demonstrations that were impressive not so much for their intensity as for their broad base of support. Protest organizers charged that the government had broken pledges it made to trade unions at the beginning of its mandate. Indeed, the submitted state budget was austere and, together with reform of the pension system, contributed to restricting extra benefits that had been lavishly available in the past.

Sandra Pralong is president of the Synergy Group, a research and communication consulting firm in Bucharest. This report was prepared with the assistance of Mircea Apostol; data were gathered by Adrian Baboi, Ramona Lupu, and Mihai Tudoroiu.

RUSSIA



Polity: Presidential-parliamentary democracy

Economy: Capitalist-statist (transitional)

Population: 145,400,000

GNI per capita at PPP \$ (2000): 8,010

Capital: Moscow

Ethnic Groups: Russian (82 percent), Tatar (4 percent), Ukrainian (3 percent), other (11 percent)

Size of private sector as % of GDP (mid-2001): 70

The scores and ratings for this country reflect the consensus of Freedom House, its academic advisors, and the author of this report. The opinions expressed in this report are those of the author.

↓↓ and ↑↑ indicate score changes of .25 or more. ↓ and ↑ indicate changes of less than .25.

NATIONS IN TRANSIT SCORES

	1997	1998	1999-2000	2001	2002
Democratization	3.80	↓↓ 4.10	↓↓ 4.25	4.63	↓ 4.81
Rule of Law	na	na	5.25	↓ 5.38	5.38
Economic Liberalization	3.50	↓↓ 3.92	↓↓ 4.33	↓ 4.17	↑↑ 3.92

KEY ANNUAL INDICATORS

	1995	1996	1997	1998	1999	2000	2001
GDP per capita (\$)	2,276.9	2,828.8	2,902.7	1,878.6	1,330.0	1,784.0	2,137.2
Real GDP growth (% change)	-4.1	3.5	0.9	-4.9	5.4	8.3	5.5
Inflation rate	197.7	47.8	14.7	27.6	86.1	20.8	21.4
Exports (\$ millions)	82,913.0	90,564.0	89,008.0	74,883.0	75,306.0	105,565.0	102,000.0
Imports (\$ millions)	62,188.0	67,630.0	71,645.0	57,783.0	39,460.0	44,862.0	51,600.0
Foreign Direct Investment (\$ millions)	1,663.0	1,665.0	4,036.0	1,734.0	746.0	-346.0	2,000.0
Unemployment rate	8.5	9.6	10.8	11.9	12.6	10.5	9.0
Life Expectancy (years)	64.8	66.0	66.7	67.0	66.0	65.3	66.0

INTRODUCTION

At the 10-year mark of communism's fall, Russia trails a number of its former socialist comrades in terms of democratization and the introduction of a market economy. The Russian Federation is an electoral democracy in which the citizenry possesses formal political rights, such as the right to vote and to compete in regular competitive elections, but civil liberties are less secure. Although widespread election fraud is not the norm, elite manipulation and irregularities abound, especially in the provinces. According to polling done in September 2001, only 14 percent of Russians think that Russia is a democratic state, whereas 60 percent believe their votes will not change anything.

Unlike in its Eastern European counterparts, there has been no real test of democracy in Russia during a governmental transition. That is, Boris Yeltsin yielded power to his handpicked successor, Vladimir Putin, in a legal, though dubious, scenario that disadvantaged an already fractured reformist elite. Owing to Putin's strong stand against so-called Chechen terrorism and a media that has been severely stripped of its independent voice, the antidemocratic tendencies of this former spy chief have yet to hurt him politically. Even though a recent critique of polling methods used in calculating Putin's approval ratings cast some doubt on the high figures that regime supporters routinely quote, no opposition figure stands ready to challenge him.

Coming to grips with the Putin factor is crucial for understanding the nature and dynamics of the Russian political system. This enigmatic leader still defies precise description because, like his predecessors, he exhibits both reformist and autocratic tendencies. In 2001, for example, Putin at times seemed more open to the domestic and foreign press. He held larger press conferences and even allowed some of them to be broadcast live. However, when met with greater criticism in the media, Putin also orchestrated legal maneuvers to squelch what little remained of an independent press. Well-known political analysts such as Lilia Shevtsova emphasize that these paradoxical traits have created both opportunities and pitfalls. Putin's rise to power was seen as a symbol of continuity with the Yeltsin regime. Yet paradoxically, Putin has had to dismantle Yeltsin's system, and his cold-blooded pragmatism has enabled him to take difficult steps such as pushing through the land code on the domestic front and suddenly shifting to a pro-American stance in foreign policy in the wake of September 11, 2001.

For many Russians, Putin's matter-of-fact approach is a stabilizing political force and a substantial improvement over the political turbulence that was characteristic of the Gorbachev and Yeltsin eras. Russia's legislature and judiciary exert little control over the executive, and its substantial Communist opposition has yet to successfully transform the social and economic deprivation of the post-Communist era into political capital. Some observers of Russia ar-

gue that Putin-style stability comes at the expense of true political competition, and they describe the country's current political system as "managed democracy."

Real power in Russia, then, is found not in competing branches of government or in the interplay of political parties, but, rather, in the favor bestowed upon those groups close to the executive. Here to some extent Putin shares Yeltsin's predilection for balancing the factions of Russia's political and economic elite by playing them off each other. One important group comprises leftovers from the Yeltsin-era elite, the most prominent members of which are Prime Minister Mikhail Kasyanov, Chief of Presidential Staff Alexander Voloshin, and Voloshin's aides, Vladislav Surkov and Igor Shuvalov. Another powerful faction is made up of the so-called *siloviki* (hard men), whom Putin brought to Moscow from St. Petersburg. Included in this group are Nikolai Patrushev, head of the Federal Security Service (FSB); Vladimir Ustinov, prosecutor-general; and Sergei Pugachev, president of Mezhprombank. Although he first served under Boris Yeltsin, Sergei Stepashin, the head of the Audit Chamber, is also considered part of this group.

At the end of 2001, some analysts of Russia witnessed what they feel was the initial phase of battle between Yeltsin's old guard and Putin's St. Petersburgers. In what appeared to signal another purge of Yeltsin holdovers, legal proceedings were launched against the prominent media tycoon and oligarch Boris Berezovsky and Railways Minister Nikolai Aksenenko. Likewise, announcements by a pro-Kremlin television network that Voloshin had been fired caused confusion regarding his status. At the end of the year, Voloshin remained in office, though still under investigation. To many observers, these steps looked more like a struggle among political clans than an alleged anti-corruption campaign, with the new St. Petersburg clan struggling to take property away from the groups that had prospered under Yeltsin. In response to similar events, Boris Berezovsky published a letter in *Nezavisimaya Gazeta* in which he lamented that Putin's "dictatorship of law" is turning into a "law of dictatorship." The missive also called upon Voloshin, Kasyanov, Unified Energy Systems chairman Anatolii Chubais, and all those who were considered part of Yeltsin's political family to quit their positions and create a liberal opposition.

For most Russians, politics has become boring as forces that should constitute an opposition have gradually been tamed or co-opted by the Putin regime. The Federation Council has been muted, and the State Duma remains controlled by forces that are sympathetic to (or controlled by) the president. As a result, virtually nothing stands in the way of Putin's initiatives. In part, this consolidation of power has taken place because Russia lacks a developed party system. Although some party formation and consolidation took place at the federal level in 2001, political parties remain the Achilles' heel of Russia's democratization efforts as poorly developed, leader-centric bodies.

Corruption is also rife since the notion of “conflict of interest” has not been widely assimilated. Politicians often combine executive power with a direct or indirect interest in businesses that are affected by that power, and governors and regional oligarchs continue to abuse the electoral process for their personal gain. Although President Putin campaigned in 2000 on reining in the regions, scarcely a year later, the federal government’s ability to influence the actions of regional governments has not improved. Hence the struggle for the center to extend greater control over the provincial periphery—a centerpiece of Putin’s initial presidential plan—proceeds sluggishly in the guise of legal victories that have not been translated into the significant shift of power that Putin promised.

Russia’s domestic political scene has provided Putin enough political cover to take more risks in the international arena, including entertaining closer relations with NATO. On December 6, 2001, at a joint session of foreign ministers from Russia and NATO’s 19 member states, the creation of the NATO–Russia Permanent Joint Council was announced. Although this pro-Western shift did not prevent the United States from abrogating the ABM treaty, it remains unclear whether Russia’s support for America’s war on terrorism will pay important dividends. According to Putin, “The overwhelming majority of Russians want to live in conditions governed by effectively functioning democratic institutions...want to live in social market conditions...and want to be able to enjoy all the benefits that normal modern democratic society offers.” There is some hope, then, that Russia’s greater opening to the West will encourage a more generous environment for economic concessions (such as rescheduling debt payments or gaining entry into the WTO) that have the potential to aid Russia’s domestic economic reform. It is doubtful, though, that Russia’s overtures to the West will also further the cause of democratization, particularly since the West now seems prepared to accommodate Russia’s brutal campaign in Chechnya. Although NATO secretary-general Lord Robertson said during a November 2001 visit to Moscow that NATO’s position vis-à-vis Chechnya has not changed, it is clear that Western criticism of Russia’s own so-called war on terrorism has been seriously toned down. As Robertson was quoted as saying, “We understand even more graphically what Russia has had to experience from terrorism emanating from Chechnya because of what happened in New York and Washington.”

Indeed, America’s war in Afghanistan has provided Russia an opportunity to recast its two-year military campaign in the mainly Muslim republic of Chechnya as a battle against militants supported by the Taliban and Osama bin Laden’s al-Qaeda network. Moscow’s actions to win over foreign opinion regarding its suppression of Chechen rebels have been more effective than those to bring the conflict to an end. Human rights activists continue to raise concerns about arbitrary detentions, attacks upon civilians, and disappearances of indigenous people, and a number of organi-

zations provide regular updates on human rights in the region via the Internet.

In October 2001, humanitarian organizations signed accords with the Chechen administration on cooperation in providing assistance. And in December, after a three-day trip to the region, a Council of Europe delegation reported that Russian officials had failed to show improvement in investigating Russia’s alleged human rights violations. The humanitarian situation in Chechnya had actually worsened, and conditions in the Znamenskoye refugee camp in northern Chechnya were described as “grotesque.”

In the aftermath of September 11, 46.5 percent of Russians continued to support Moscow’s approach in Chechnya. While Western media focused upon the daily destruction of Chechnya and Russian human rights abuses, the Russian media have emphasized the hostage industry, organized criminality, the invasions of Dagestan, and the deadly activities of al-Qaeda and other radical Islamists. Perhaps this is why the Russian public views the Chechen campaign in a different light from the West. As Anatol Lieven has pointed out, the radical Islamic threat in Russia has been curbed, Chechen-based kidnapping and banditry substantially reduced, and Russia’s military prestige somewhat restored from its low standing during the Yeltsin era. However, the situation is far from resolved. Russian forces have lost a reported 3,433 troops and another 10,160 have been wounded since the second Chechen conflict began in August 1999, and independent observers estimate that 40 to 45 Russian troops are killed there each month. When 2001 ended, Russia remained mired in a brutal partisan struggle with no end in sight.

Russia’s economic picture for 2001 was also a mixed bag. Because oil prices were high for much of the year, Russia was able to accomplish more than expected, particularly in terms of debt reduction. It is unclear, though, just how adversely the Russian economy will be affected by the drastic drop of oil prices that took place at the end of the year. The long-term economic consequences of Prime Minister Kasyanov’s decision to cut oil exports in compliance with OPEC requests are difficult to predict. Similarly, the efficacy of Moscow’s plans to continue allowing the ruble to float on currency exchanges might be affected by recent shifts in the global economy. However, despite a late-year dampening of enthusiasm about the Russian economy, Finance Minister Aleksei Kudrin was still predicting a budget surplus of 2.5 percent for 2001, up from 1.1 percent in 2000. Moreover, with Russia now a crucial ally in the U.S. war against terrorism, the likelihood has increased that the Jackson-Vanik amendment, which has blocked most favored nation trade status for Russia, will be dropped. Another encouraging sign is that Russia might soon go into the black with the IMF.

On August 1, President Putin celebrated the 10th anniversary of the Moscow Central Stock Exchange, but overall the past decade has been disappointing in terms of Russia’s transition to a market economy. Russia’s economy lags behind those of other transition countries, the captive of a

politically potent oligarchy that has impeded significant and transparent economic reform. Successive economic policies have been characterized by varying degrees of political commitment to reform, including often contradictory measures. Ongoing problems include inadequately developed legal and financial systems, wage arrears, a seriously flawed banking system, widespread corruption throughout virtually all sectors of the economy, and a large informal economy. Interior Ministry officials maintain that in Moscow markets alone illegal turnover, none of which is taxed, amounts to \$5.6 billion a year and employs some 245,000 people. And Economic Development and Trade Minister German Gref announced in September 2001 that capital flight out of Russia would total \$20–\$25 billion for the year, owing mainly to a poor investment climate.

Key developments in 2001 include the long-awaited passage of a land code, fledgling attempts to address issues of bureaucratic malfeasance and an ineffective judicial system, and further reform of Parliament's upper house. In addition, the eviction of regional governors from the Federation Council, together with the presence of a loyal majority in the State Duma that has been bolstered by the new political coalition Unity and Fatherland, has provided greater opportunity for Putin to push through legislation deemed vital for Russia's democratic consolidation. In addition to the new land code, changes in the tax codes, a new criminal procedural code, and a new draft labor code show movement in a positive direction. Whether these reform efforts will prove to be serious or merely window dressing remains to be seen, particularly when one takes into consideration the effects of another year of attacks upon independent media outlets under the thinly veiled cover of legal and business maneuverings.

DEMOCRATIZATION

Political Process

1997	1998	1999-2000	2001	2002
3.50	3.50	4.00	4.25	4.50

A lingering result of the 1993 Constitution, the political landscape of the Russian Federation is dominated by the executive. The fact that opposition forces continue to abide by this set of rules is a key factor in explaining the stability—not to be confused with democratic consolidation—that now characterizes the Russian political process. Gone are the days of confrontation that once escalated into an armed assault upon the legislature. Instead, the evolving rules of Russia's political game now work to contain the system-threatening confrontations that were characteristic of the Yeltsin era.

Throughout the post-Communist period, these rules have greatly benefited three groups: the executive branch, the oligarchs (at the federal, regional, and local levels), and

regional political elites. Born of Boris Yeltsin's sometimes desperate maneuvering to remain in power, accommodations made by the executive to the other two sets of actors continue to strongly condition (that is, limit) economic and political developments in the country. Therefore, any meaningful evaluation of Putin's rule must take into account his ability to bring these two forces to heel.

Despite some doubts about actual vote counts, Putin's resounding first-round victory in the March 2000 presidential poll precluded a runoff. Russia's Central Election Commission reported that Putin received 52.94 percent of the vote and that voter turnout was 68.6 percent. Nearly 1,000 international observers from 56 countries and 82 international organizations, including the OSCE, the European Parliament, and the U.S. Agency for International Development, monitored the presidential election. Bjorn van der Esch, head of the mission sent by the Council of Europe's Parliamentary Assembly, noted that the election took place very openly and quietly and was conducted according to internationally recognized standards.

In the State Duma (federal legislative) elections, voters cast two votes: one for a candidate in their local electoral district (there are 225 of these mandates) and one for a political party or alliance (225 additional seats divided up among those parties/alliances achieving 5 percent of the vote). Of the 26 parties that participated in the last legislative elections of December 1999, 6 passed the electoral threshold and garnered 81.37 percent of the party list vote (the corresponding figures for the 1995 elections were 4 parties and 50.49 percent).

Although participation in the latest presidential and parliamentary elections topped 60 percent, membership in political parties remains low. Larger parties such as the Communist Party of the Russian Federation (CPRF), Yabloko, and the Liberal Democratic Party are national parties. The CPRF is the largest, claiming hundreds of thousands of members. Other parties range from a few hundred members to several thousand. Personalities play a major role, and many parties are formed around a single individual or group of individuals. Article 3 of the Constitution provides for free elections, and Article 13 guarantees a multiparty system. Election rules differ among the regions and are subject to revision. In July 2001, for example, deputies in the Primorskii *krai* removed the 25 percent turnout requirement for municipal elections to be declared valid. They made the change because some municipalities have been without organs of self-rule for long periods of time.

The internal workings of the State Duma continue to evolve, with 2001 seeing an increase in the number of interfactional deputies associations. In contrast with committees or commissions, these groups have no official legal status. They do, however, play a kind of unofficial lobbying role—most often for specific industries and/or regions. Among the most active associations is Energy Russia, which former Prime Minister Viktor Chernomyrdin founded when he was still a Duma deputy.

According to the OSCE, electoral offenses persist in Russia because of a lack of discipline and ethics among participants in Russian elections. The situation is then exacerbated by the civil code's failure to provide sufficient and timely penalties. Members of Russian organized crime groups flock to become candidates for elections in order to protect themselves from prosecution. In the Russian Far East, for example, almost 30 percent of those seeking elected office in some regions are members of known organized criminal gangs. Although a number of members of the State Duma have been exposed for involvement in criminal gangs, only two have had their immunity lifted in the last 10 years.

Another problem is that women still have a fairly limited role in the political process. A look at the fortunes of the party Women of Russia (WOR) is instructive. After polling a surprising 8 percent in the 1993 State Duma elections, the party has since been in decline. To begin with, other parties, particularly the Communists, targeted women voters more strongly in subsequent election cycles and thereby sapped WOR's electoral strength. Also, different blocs have emerged within the WOR ranks, such as the Russian Party in Defense of Women and Ella Pamfilova's party, For Civic Dignity. In all, just 34 women (7.7 percent) were elected to the State Duma in 1999, down from 11 percent in the previous Duma. Consequently, women are likely to continue to play only a small role in the legislature.

The year witnessed significant developments regarding elections and parliamentary structures. While there was talk of amending the Constitution to extend the four-year presidential term, Putin stated that he does not favor changing it. In June, though, the State Duma passed a Kremlin-backed bill on political parties, which specifies that to gain the status of a political party an organization must have more than 10,000 members, branches in at least 50 percent of the federation units, and a minimum of 100 members in each branch. If a group does not meet these criteria, the Supreme Court can abolish it. The bill also calls for state financing of parties that receive more than 3 percent of the vote in the preceding election, limits private contributions to political parties to 3,000 rubles (approximately \$100) a year per individual, and bans contributions by foreigners and international organizations.

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 Justice Ministry has refused to register several parties and movements whose activities allegedly violate this basic tenet. In July 2001, the Justice Ministry added to the complexity of party registration when it announced that all political parties, political organizations, and political movements would be required to reregister as political parties within two years in order to be eligible to participate in elections. As of midyear, Russia had 59

political parties, 35 political organizations, and 104 political movements, all of which must now reregister.

According to human rights activist Sergei Kovalev, the new Law on Political Parties and the reform of the Federation Council create barriers for regional parties to compete in national, regional, and municipal elections. Moreover, by making membership in the Federation Council an appointed office, the law serves to disenfranchise citizens from the regions. From the government's side, the intention of this law is to reduce the number of entities vying for office.

A small number of new parties emerged during 2001, including Freedom and People's Power and the ethnically oriented Eurasian Party of Russia (EPR). The EPR has branches of no fewer than 5,000 members in 70 regions of Russia. In the words of its leader, State Duma deputy Abdul-Vakhed Niyazov, the EPR "unites Russian Orthodoxy, Islam, and a devotion to the Fatherland." At the same time, several political movements were busy transforming themselves into actual parties. The Union of Right Forces (SPS) melded into an official party; the pro-Kremlin People's Deputy Group became the People's Party; the CPRF and its allies held an inaugural congress of a new Russian patriots' group; and the Development of Entrepreneurship social-political group transformed itself into a political party.

The biggest splash came from the launch of a new political coalition, Unity and Fatherland, which combines the Unity, All Russia, and Fatherland political parties. Even while orchestrating this merger, which includes Russia's second and third largest vote getters, President Putin has avoided direct association with the new party, asserting that "it still has to earn the right to be called a party of power." Perhaps this reflects Putin's ability to control the political process. That is, even though he does not belong to a party, Putin easily commands a majority in the State Duma. In light of the political declawing of the Federation Council, little now stands in his way. And since benevolent authoritarianism never maintains its benevolence for long, the long-term implications for democracy of Putin's so-called superpresidentialism are disconcerting.

Finally, one cannot speak of political processes in Russia without discussing Putin's relations with the country's new tycoons, or oligarchs. Although this association has been contentious at times, it has not been as destabilizing as it could have been. Putin decided early in his presidency to allow most of the oligarchs to retain the wealth they grabbed from the state in fixed privatization deals in the 1990s. Instead, he has focused on getting them to increase the amount of taxes they pay and decrease their interference in the government.

Having spent the past decade appropriating and dividing up Russia's wealth (especially its abundant minerals and fossil fuels), the oligarchs represent a powerful force. Some, most notably Boris Berezovsky and Vladimir Gusinsky, have been squeezed by the Putin regime for mixing business and politics and at times directly confronting the government. Now these two former heavyweights are under indictment

and have chosen to leave the country. This does not mean, though, that Putin has declared war on the oligarchy per se. Indeed, younger, lower-profile tycoons, who have concentrated their efforts mainly in the energy sector, enjoy friendlier relations with the regime. These include Vagit Alekperov (LUKoil, age 51), Vladimir Bogdanov (Surgut, 50), Roman Abramovich (Sibneft, 36), Mikhail Khodorkovsky (Yukos, 38), and Mikhail Fridman (TNK and Alfa Group, 37), all of whom rose to power by establishing control over Russia's oil companies through insider privatization and taking advantage of the country's weak legal system to consolidate their ownership and emerge as unquestioned majority shareholders. Under Putin's new rules, they have agreed to pay more taxes, to consolidate offshore business interests, and to invest more in oil production and refinement. The hope remains that as the oligarchs become secure, long-term owners, they will switch from asset stripping to investment.

Civil Society

1997	1998	1999-2000	2001	2002
3.75	4.00	3.75	4.00	4.00

When communism fell in Russia, the absence of a developed civil society was cited as perhaps the greatest obstacle to democratization. The good news is that Russia's nongovernmental sector has developed substantially over the past decade. However, it still has not reached Western levels and standards.

In September 2001, the Kremlin launched a new Internet portal, *hartia.ru*, that is intended to promote government sponsorship of civil society institutions. The next month, an article in *Izvestiya* argued that human rights groups in Russia were being forced into a position of either cooperating with the regime or giving up any chance of exerting influence. The most significant event occurred in November, though, when the government organized an event called Civic Forum in an effort to manage the 300,000 nongovernmental organizations that are registered with the Justice Ministry. Meeting for two days in the Kremlin State Palace in Moscow, Civic Forum gathered together 5,000 activists from NGOs across Russia. President Putin addressed the gathering on its first day and assured delegates that civil society could not be formed at the initiative of the government. Discussion groups were organized along 21 different themes, such as education, military reform, and Chechnya. Yabloko leader Grigorii Yavlinsky called the meetings a public relations affair and asked what kind of dialogue could possibly take place among 5,000 people who have widely diverse interests.

Some observers of Russian politics view events like Civic Forum as an attempt by the government to create surrogate, parallel structures that can compete with independent social organizations. In contrast, Gleb Pavlovskii, a Krem-

lin adviser and president of the Foundation for Efficient Politics, claimed that the 21 agreements signed at Civic Forum between NGOs and government officials represent a new foundation for future cooperation between the state and society. Hyperbole aside, Civic Forum might signal the government's recognition that NGOs can be a safe and useful partner in some areas. Thus far, though, the government has made little effort to include NGOs in the policy-making process. Although there has been some engagement in locales like Nizhnii Novgorod and Yekaterinberg, most regional and municipal governments have yet to enact laws or put mechanisms in place that enable them to interact with NGOs on a broader scale.

The Russian NGO community now comprises a diverse array of organizations that deal with issues ranging from health care and community services to the environment and human rights. Yevgenii Vodopyanov, vice president of the Union of Charitable Organizations of Russia, puts the number of social and nonprofit organizations in the country at more than 70,000. Estimates suggest that some 2.5 million Russians are involved in these groups, which provide assistance to approximately 30 million people. For example, a research study by the group A Chance for Hope showed that every third woman in Khabarovsk is subject to physical violence in the home. Consequently, the organization has decided to open a center and establish a hot line in Khabarovsk for women who suffer from domestic violence.

Although there is a significant amount of volunteerism in Russia, there is less philanthropy. Most grassroots philanthropic groups that are not directly connected with the state lack substantial resources. Some larger charitable groups do receive domestic support.

Article 30 of the Russian Constitution guarantees nongovernmental associations the freedom to choose their activities. Individuals have the right to participate in and form associations, including trade unions, in order to protect their interests. The civil code of the Russian Federation, the Law on Public Associations, the Law on Charitable Organizations and Charitable Activity, and the Law on Nonprofit Organizations all contain other provisions on organizations and associations.

Under Article 51 of the civil code, for example, a legal entity must be registered with the federal Ministry of Justice. An organization should submit its legal papers to the registering agency within three months of its founding assembly or general meeting of its members. The Ministry of Justice must then consider the applications within one month and make a decision either to issue a state registration certificate or to deny registration. In the case of a rejected application, which an organization can appeal in court, the Ministry of Justice also must supply a written explanation. Regional and local public associations register through local Justice Ministries. Inter-regional groups register in the locality in which their permanent governing body is based.

Article 52 of the 1995 federal Law on Public Associations required all public associations that had registered

before May 25 of that year to renew their registration by June 30, 1999. Public associations that failed to reregister would be subject to liquidation. Although reregistration was initially fairly easy, over time regional authorities began to abuse the process to force groups to change 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. Human rights groups and environmental organizations have been among the most vulnerable. These include the public foundation Glasnost, the Union of Soldiers' Mothers Committees of Russia, and the nongovernmental Disability Center for the Social Rehabilitation of Children.

Although there have been positive developments in the NGO sector, more time is needed for it to become sustainable. NGO organizational capacity in management, governance, and planning skills remains uneven. Some organizations are advanced in these areas, but many are just beginning to address such issues. Without adequate skills and information, though, organizations will find it difficult to survive on their own over the longer term.

Organizations that receive Western funding generally try to emulate the administrative practices of Western NGOs and do so with varied success. Groups that do not have direct or indirect access to Western funding generally are poorly managed and, in many cases, have no desire to emulate international standards. Russian NGOs as a whole began discussing matters such as the proper role and functions of a board of directors only a few years ago. The core of experienced trainers and practitioners is growing, though their ability and willingness to act as mentors varies widely. Some do work quite effectively; others use their connections simply to increase their own status. Meanwhile, the Russian public remains mostly distrustful of NGOs.

Russia's current economic climate hampers the financial viability of most NGOs. In addition, although Russia's tax laws provide donors some exemptions for charitable contributions, they also place overall limits on contributions. As a result, very few NGOs can sustain their activities with local sources. One organization that is not strapped for cash, though, appears to be the International Foundation for Civil Liberties, which the self-exiled Russian businessman Boris Berezovsky established in December 2000. Berezovsky allegedly donated \$1 million to the group to provide legal assistance to draftee soldiers.

A disturbing note has been the inability of activists to get the government to address Russia's deteriorating environmental situation. According to the UN Development Program's 2000 *Human Development Report*, "Trends in Russia's economic development have an antiecolological edge and, if allowed to continue, are bound to make the country's future development unsustainable and to contribute to the ongoing destabilization of the Earth's biosphere." The dissolution of the country's principal environmental bodies, the State Environment Committee and the State Forestry Committee, in May 2000, has only worsened the situation.

And the Natural Resources Ministry has been a poor substitute, "with neither the means nor the objectivity to analyze industrial contracts and monitor some 300,000 businesses a year." The ministry's other activities, such as issuing licenses for oil drilling and mining precious materials, make it an inappropriate choice for ecological protection. According to Yevgenii Usov, the spokesman for Greenpeace Rossii, his organization's greatest achievement in 2001 was the addition of Lake Baikal to the World Wildlife Fund's ecological heritage protection list; its greatest defeat was the adoption of legislation that allows the import of nuclear waste into Russia. The first site for the storage of depleted nuclear fuel imported from abroad was scheduled to open in late December 2001, despite the protests of NGOs and general public opposition to the plan.

One area that has rebounded in the last decade is religion. A country that was once aggressively nonreligious is now looking increasingly to religion to instill values. According to the *Russia Journal*, in the past decade Russia has become home again to 18,000 parishes, 460 monasteries, 5 theological academies, 23 seminaries, 21 theological schools, and 2 Orthodox universities. Fifty percent of Russia's population now considers itself Orthodox, the largest congregation of any Eastern Christian denomination. In 2001, for the first time in years, the Orthodox Church and the state moved closer together, in part out of concern that young people have lost traditional values. According to Deputy Education Minister Yury Kovrizhkin, 60 percent of Russians are convinced that religion is necessary for preserving national self-awareness. In contrast, only 17 percent of young people believe in a higher power. Kovrizhkin's suggestions for addressing this problem include, according to the newspaper *Argumenty I Fakty*, "opening Orthodox day care centers, kindergartens, schools, gymnasiums, Christian patriotic and Christian sports clubs under the patronage of local authorities." Last, the renewed interest in religion has not been lost on politicians, who are trying to win the church over to their side in order to look more attractive to the public.

In terms of labor organization, Article 30 of the Constitution guarantees the right "to create trade unions to protect one's interests." Although approximately 60 percent of Russian workers belong to a trade union, this represents a sharp decline from membership levels in the Soviet era. This is the result both of the proliferation of nonunionized jobs in the private sector and of the inability of unions to fulfill the same wide variety of functions. Most workers belong to unions that are affiliated with 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 the country. The FNPR officially maintains that over 90 percent of all workers belong to its constituent movements, but public opinion data and surveys of enterprises suggest substantially lower figures. Since many FNPR officials have long-standing ties to enterprise managers, this

put newer independent unions, which tend to be small and faction-ridden, at a disadvantage.

In the past, the number of workers involved with protest movements has been fairly low. However, Parliament's consideration of a new labor code sparked protests in cities across the country in 2001. In November, before the code's passage on December 21, as many as 1 million people participated in protests organized by the FNPR. Likewise, in June, more than 300,000 people took part in similar protests across Russia to call for the payment of wage arrears and an increase in the minimum wage. In response to the protests, Parliament approved several amendments to the labor code. One requires a worker's monthly earnings be no less than the subsistence minimum, which will be phased in over a two-year period. Other amendments ban forced labor and establish a 40-hour workweek. Also in 2001, Russia opened its first labor arbitration court for resolving disputes between workers and employers.

Independent Media

1997	1998	1999-2000	2001	2002
3.75	4.25	4.75	5.25	5.50

Freedom House's *Annual Survey of Press Freedom* has consistently rated Russia "Partly Free" since 1992. However, constant assaults upon the independent press seriously erode even this meager standard. Russian media outlets that offer alternative viewpoints and analysis find themselves facing substantial legal and financial obstacles. Journalists and media owners who are critical of the Putin regime also come under intense scrutiny, including audits, complicated legal battles, and occasionally even beatings and arrests. State officials have even taken their attempts to control media outlets to new levels by forcing the cancellation of critical programs and attempting to wrest ownership of media outlets by coercive measures.

Nevertheless, Russians are great consumers of the media. Approximately 97 percent of all Russian households have televisions, and 24 percent have two or more sets. Three television stations reach a national audience. The government stations Russian Public Television (ORT) and Russian Television (RTR) reach 99 percent and 96 percent, respectively, of the total viewing audience; the privately owned NTV reaches 72 percent. According to an October 2001 survey, 21.7 percent of viewers in Moscow watch ORT, while 17.1 percent watch TV-6. RTR (15 percent), NTV (14.7 percent), and TV Center (6.4 percent) round out the top stations. Nationwide, ORT generally leads in rating categories. Only RTR and Channel 5 in St. Petersburg remain wholly state owned.

On July 6, 2001, the State Duma approved a bill that prohibits foreigners to own a controlling interest in national television stations. At year's end, though, it amended the Law on Mass Media to allow companies that were regis-

tered prior to August 2000 to have more than 50 percent foreign ownership.

The Russian Military News Agency merged with Interfax in 2001 to create a broader base for disseminating information about the Russian and CIS armed forces, including military actions, exercises, reform, weapons testing, and arms sales. The objective of the merger was to "cover as systematically, objectively, and professionally as possible the development of the Armed Forces, Interior Ministry, Federal Security Service, Federal Border Service, and other security and special services within the military-industrial complex." Whether this is really an effort to control information dissemination more effectively remains to be seen.

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 the principal controller of the media. Today, a handful of Russia's most powerful financiers are in command of many of the most important national newspapers. However, most media outlets that are technically private, especially in the provinces, rely on some form of state sponsorship or patronage in the guise of reduced prices or tax benefits. This situation might not last much longer, though. If Putin succeeds in eliminating this support, Russian newspapers could cost 40–45 percent more after January 1, 2002.

For private newspapers, distribution is a very rough business that requires payoffs and security precautions. Private distributors have sprung up throughout Russia, but the former state-owned monopoly Rospechat remains dominant. Due to the absence of support from the central authorities, Russia's local and regional press outlets have fallen upon hard times. In addition, worsening economic conditions have caused many Russians to stop buying newspapers and magazines; they watch television instead.

So that television does not lose its appeal, the State Duma approved a bill on November 13, 2001, that limits TV and radio advertising during educational, religious, and children's programs. Advertisements may not last longer than 20 percent of total airtime, and the interval between each commercial should be at least 15 minutes. In a positive development, officials of the Russian Advertising Council announced that spending on advertising rose 45 percent between 1999 and 2000, topping \$1 billion. According to polls, only 30 percent of Russians like advertising, and most are unwilling to admit that it has any positive effect on them. Unfortunately, little advertising revenue reaches regional media outlets. That market grew by only 2 percent between 1999 and 2000.

Increasingly controlled by big financial groups, media outlets reflect their political biases and the battles of the business concerns that control them. Financial interests rather than journalistic principles often dictate coverage, and since most major media outlets receive some measure of government subsidy or have private owners with political connections, editorial independence is easily threatened. This

may be achieved, for example, by denying independent media outlets access to printing presses or paper supplies while subsidizing publications that toe the official line.

On August 13, 2001, President Putin signed a decree that reestablishes federal government control over all of Russia's broadcasting and relay stations for television and radio signals by consolidating them under the management of a single government corporation. According to the decree, a new corporation, Russian Television and Radio Broadcasting Network, will assume control over the federal signal distribution center in Moscow as well as its regional subsidiaries. The decree also empowers the government to cancel any agreements or deals that would result in the "illegal estrangement of technical means and objects from federal ownership."

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. Throughout the 1990s, Russian oligarchs invested in the media in order to advance their political and financial agendas. However, the current situation is somewhat different. Despite the high-profile government victories over media tycoons Vladimir Gusinsky and Boris Berezovsky, there seems to be a tacit agreement between the Kremlin and big business that while nationwide channels must remain under Kremlin control, regional outlets may enjoy some level of business involvement.

Accreditation procedures and technical regulations have also been used to circumscribe press freedom. On October 30, 2001, in Yakutsk, local communications authorities suspended broadcasts of the independent station Viktoriya, claiming that it lacked proper technical documents. Since then, the Media Ministry has been trying to pull the station's broadcasting license permanently. Likewise, by midyear law enforcement officials in Irkutsk had confiscated copies of the newspaper *Vostochnosibirskic Vesti* for the 19th time. Rather than demonstrating loyalty to Irkutsk governor Boris Govorin, the newspaper endeavors to report objectively on the local situation and publishes articles that are critical of local bureaucrats. In mid-December, police seized the entire print run (10,000 copies) of an issue of *Pravda Osetii* that was devoted to criticism of North Ossetia's leadership, including the republic's president, Aleksandr Dzasokhov, who is standing for reelection in January 2002.

One exception to this trend seems to be Tomsk's TV-2 station. The station is a rarity in the regions because it often outdraws the national stations and has even managed to become profitable. More typically, though, the politicization of the media and internecine squabbling among elites are reflected in the press and have contributed to a loss of respect and influence. In addition, the Russian command in Chechnya has imposed new and more restrictive rules on journalists working in the war zone, prompting protests by the Union of Journalists of Russia.

During a campaign against NTV in 2001, Gazprom and Kremlin officials steadfastly maintained that the mo-

tives for their actions were not political but economic. LUKoil executives made the same claims in their own attempt to shut down TV-6. In reality, though, LUKoil decided to put the independent-minded network out of business because it was unable to control personnel decisions. Both Gazprom and LUKoil denied they were acting on instructions from the Putin administration. Tellingly, the civil code article stating that a company is eligible for liquidation if it suffers losses for two consecutive years has been applied to only two Russian media companies, Media-MOST (the parent company of NTV) and TV-6. According to Yevgenii Kiselev, the general director of TV-6, "half of Russia could be liquidated" if that portion of the civil code were applied across the board.

In May 2001, Vladimir Gusinsky attempted to save Ekho Moskv by transferring his 14 percent share of the radio station to its team of journalists. However, in July, the Russian Federation prosecutor-general and the Federal Security Service froze the share transfer. Although Gazprom has since promised that the station will remain objective and independent, there is no reason to think that this case will differ from previous takeovers of formerly independent media outlets.

On a brighter note, former *Itogi* editor Sergei Parkhomenko and former *Segodnya* editor Mikhail Berger plan to launch new publications, *Ezhendelnyi Zhurnal* and *Delovaya Khronika*, respectively, both of which have been registered at the Justice Ministry. Both Parkhomenko and Berger left their former publications after Gazprom-Media assumed control of them. Meanwhile, the new management of NTV is trying to launch its own version of programs made popular by former NTV veterans such as Yevgenii Kiselev and Svetlana Sorokina.

Electronic communications are fast becoming an important element in Russian society. The number of Russians going on-line doubled between the start of 2000 and the start of 2001 to 12.8 million. The government hopes to increase this figure to 25 million by 2010. There are dozens of Russian-language news sites, as well as over 180 sites representing the country's political parties and movements. President Putin has also ordered all government agencies to launch Web sites on the Internet and update them on a daily basis.

A December 2000 poll by the Public Opinion Foundation of more 66,000 people in 115 cities found that 55 percent of Russians know little or nothing about the Internet, though millions have Internet access at work, at home, or through a friend. Irina Khakamada, a leading member of the SPS, complained in July 2001 that with less than 2 percent of Russia's schools connected to the Internet, "Russia is the only country in the world where the number of computers in schools is falling." At present, there are less than two computers for every 1,000 schoolchildren. Meanwhile, e-commerce in Russia has slowed, with 30 to 40 new Internet sites offering goods and services appearing each month, compared to a growth rate of 150 such sites during 2000.

The increased use of the Internet has not been lost on Russia's security organs. 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 flow of information is unclear, but many environmental and other political activists have become concerned and now eschew e-mail for sensitive communications in favor of faxes and, harking back to the Soviet tradition, reserve crucial communication for face-to-face meetings.

The main professional organization for media professionals is the Union of Journalists of Russia. Igor Yakovenko, general-secretary of the union, has been an outspoken critic of what he calls a multiyear trend of "government newspapers being converted in the expansion of state organs." He has further lamented that "journalists are becoming government bureaucrats." The government has attempted to undermine the union with the creation of Media Union, but this Kremlin creation has not fooled anyone. Delegates representing 80 countries at the International Federation of Journalists congress in 2001 condemned Media Union as simply an effort by President Putin to silence his critics and generally to put pressure on the free press in Russia. However, unlike in Soviet times, such unions have so little impact that few journalists or officials take them seriously.

There are a number of organizations in Russia, many at the regional level, that aim to defend journalistic freedom and integrity. Perhaps the most prestigious is the Glasnost Foundation, whose activities frequently meet with government interference. Often, court rulings on libel and defamation have been used to curtail journalists' freedom to criticize public figures. Libel is a criminal offense under the 1992 Law on 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 to their advantage, but only in very rare cases is actual libel punished through the courts; the government prefers other forms of intimidation and coercion.

Unfortunately, the Russian public generally views its journalists as front men for the media tycoons who looted the country's assets and built vast fortunes and patronage networks in the 1990s. Moreover, business firms and other self-interested parties can procure almost any story they want on Russian television by resorting to bribes. In the past, RTR had the reputation of being the most corrupt station in this regard, but now TV-6 and TV-Center have equally poor reputations.

According to Aleksei Pankin, editor of the media magazine *Sreda*, the shock over the September 11 terrorist attacks on the United States served as a wake-up call for the Russian media, forcing them to examine themselves and become more professional. Although journalists in Rostov-na-Donu issued an appeal to their colleagues across the country to live up to the highest journalistic standards, it is not clear that many journalists have heeded Pankin's call.

There are, of course, many sincere, independent, hardworking journalists in Russia, but their efforts have been overshadowed and undermined by the manipulation of freedom of expression by both the government and its political rivals. Oleg Poptsov, president of TV-Tsentr, has identified several disturbing trends that seem to best sum up the problems of the Russian media. First, the cohesiveness of the Russian media as a professional community has been destroyed over the last two years. Moreover, mass media outlets have lost their purpose as a means of expressing public opinion and instead have become overcommercialized. Finally, society itself has become deintellectualized.

Governance and Public Administration

1997	1998	1999-2000	2001	2002
4.00	4.50	4.50	5.00	5.25

The Russian Federation is a multiethnic state divided into a complex federal system that comprises 89 component parts: 21 non-Russian republics, 1 autonomous oblast, 10 autonomous *okrug*s (districts), 55 predominantly Russian oblasts (which includes 6 *krais*, or territories), and 2 cities (Moscow and St. Petersburg) with special representative status. Although these regions are equal in status under Article 5 of the Constitution, this is not the case in practice. The respective powers of the federal government and the regions are laid out in Articles 71–73 of the Constitution, but these provisions carry less weight than the series of bilateral power-sharing treaties signed by the Russian Federation with many of its 89 components.

Highly publicized administrative changes in 2000, including the introduction of the State Council, the creation of seven federal superdistricts, and reform of the Federation Council, have not had the impact on center-periphery relations that the federal executive expected and regional elites feared. The State Council gives regional governors direct access to Putin once every three months, but the body's policy impact has been minimal thus far. Although Putin has yet to use his real powers to fire governors and disband legislatures, his implicit power has pushed regional elites to adopt a lower profile vis-à-vis the center. The utility of the seven "superdistricts," the heads of which are presidential appointees, is more difficult to assess because the federal ministries do not appear interested in coordinating their activities with them. Clearly, the presidential representatives have been unsuccessful in their tacit mission to alter the makeup of the regional elite by manipulating resources and elections. Meanwhile, the process of harmonizing federal and regional laws picked up steam when a number of entities renounced power-sharing treaties or special exemptions. But there is still a long way to go. At midyear 2001, some 42 power-sharing agreements between Moscow and the regions and more

than 260 additional accords based on these agreements, many of which contain provisions at odds with federal law, remained in effect.

In 2000, Putin seemingly enjoyed a victory over regional governors when he gained their grudging acquiescence to the reorganization of the legislature's upper chamber, the Federation Council. Under the changes, governors are no longer directly involved with budget making or in passing federal legislation. In addition, members of the council are being replaced by two permanent representatives—one named by each region's legislature and another appointed by its executive branch. By law, the new composition of the council must be complete by January 1, 2002, and, in fact, more than 100 of the 178 members had already signed up for a pro-Kremlin federation group by late 2001.

There have been unintended consequences of this law, however. Governors now devote more energy to lobbying the State Duma on budgetary issues. Another result is that the Federation Council's new representatives, at the behest either of the Kremlin or of strong regional leaders, are predominantly Moscow lobbyists who are better at using the federal system to get resources to their region than many of the governors were. Today, President Putin's decision to divide Russia's 89 regions into 7 larger administration districts and his reform of the Federation Council remain works in progress.

In July, the State Duma gave the president the power to hire and fire the chiefs of regional Interior Ministry bodies. The federal interior minister must consult with the region's leader before making his recommendations to the president. The impetus for the bill was sharp criticism of the work of Regional Departments for Combatting Organized Crime (RUBOP). According to Interior Minister Boris Gryzlov, since RUBOP and other specialized units had failed to fulfill their task, they were ordered abolished. The dissolution of the Ministry of Federation Affairs, Nationalities, and Migration Policy also raised some concern, particularly outside of Moscow. Its area of jurisdiction will be divided among the Ministry of Internal Affairs, the Ministry of Economic Development, the Foreign Ministry, and a new ministry. The appointment of Vladimir Zorin as minister without portfolio in charge of coordinating government institutions that carry responsibility for nationalities issues reflects the center's continuing efforts to tighten control over areas such as migration. However, some observers argue that Zorin's powers might be limited since responsibility for nationalities issues will be spread across three different ministries.

There are an estimated 1.34 million government workers in Russia. In order to address concern about bureaucratization, President Putin formed a commission headed by Prime Minister Mikhail Kasyanov to oversee the reform of government service. On December 20, 2001, legislators approved a new administrative code. If

Putin signs it, it will take effect on July 1, 2002.

The bureaucratic structures in Russia's regions also complicate matters. Each has its own legislature, and many of their laws conflict with federal legislation. Despite the Kremlin's efforts to enforce term limitations, a number of governors have sought third terms by manipulating legal loopholes and sparking contradictory court rulings about their candidacies. On this score, the State Duma failed twice in November 2001 to muster the 300 votes needed to override the veto of a bill that would have reduced the number of governors who could stand for election more than twice. As a result, 69 of 89 governors could now seek third terms.

Republic presidents and *krai* and oblast governors are popularly elected. Electoral laws vary from region to region, and the elections themselves are problematic affairs. Governors select one half of the members of local election commissions; regional legislatures select the other half. In many cases, regional leaders have significant influence over local legislatures and often are able to dictate how elections are run. Irregularities, campaign violations, and low voter turnout frequently undermine the results. In some regions, opposition candidates have severely constrained access to the media, and the harassment or intimidation of journalists who are unsympathetic to incumbents is commonplace.

The Central Election Committee hopes to introduce legislation that would give it the right to nominate two candidates to the staff of regional election commissions as well as the chairmen of the commissions. Local legislatures and governors currently select regional election commissions. In addition, negative campaigning and dirty tricks are ubiquitous during elections. For example, so-called black newspapers often appear in mailboxes a few months prior to the official start of an election race and are difficult to combat. According to an article in *Rossiiskaya Gazeta*, these publications generally fall into three categories: those that "besmirch the honor and dignity" of candidates, those that glorify the candidates supported by Putin, and those that purport to be "letters from readers."

The effectiveness of local and municipal governments is undermined by a shortage of competent full-time civil servants. Governments in cities and rural districts are responsible for their own budgets and raise some revenue from taxes on municipally owned business. Compared with the authorities at the republic and oblast levels, though, municipal governments are very weak, and less than a quarter of their revenues come from sources they control. Although Prime Minister Kasyanov has talked of a more even distribution of budget revenues, 60 percent still flow to the federal center. He has also acknowledged that at least 20 regions in Russia have insufficient resources for paying the wages of state workers and that resolving the problem will require raising assistance to the regions by 16 billion rubles (\$543.6 million).

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, though the underlying paucity of funds undermines such legislative measures. By offloading programs with large financial liabilities to the subnational levels of government, the federal government has placed both local governments and the citizenry in an untenable situation. For example, Moscow city officials worry that reforms ending federal housing subsidies will place incredible burdens on them. At mid-year 2001, the city budget was paying out 360 million rubles (\$12 million) annually to subsidize housing. When the subsidies end, the city will be responsible for paying some 17.5 billion rubles every year for the 950,000 Muscovites who will qualify for subsidies. Similarly, in July 2001, debates within Kamchatka's legislative assembly focused on decisions to cut funding for the oblast's 25 social programs so that it could afford to buy enough fuel for winter.

National political parties have yet 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. More than three-fourths of winning candidates in regional legislatures are not even affiliated with national parties, despite recent efforts by some national parties to forge new regional groupings. A crucial factor inhibiting provincial party development is that very few regional or local legislatures have adopted electoral systems based on proportional representation.

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 local and provincial elections is growing. For example, in October 2001, by-elections for State Duma seats in Arkhangelsk and St. Petersburg were declared invalid because voter turnout fell below the 25 percent threshold. Similarly, Primorskii's December 2001 ballot for its legislature was declared invalid owing to insufficient voter turnout: only 13 of the *krai's* 39 districts surpassed the 25 percent threshold.

In sum, Putin's attempts to subordinate the periphery to executive authority have had only limited effect thus far, and his long-term impact on Russia's governors remains unclear. He has had more success in taming central bodies. The State Duma, the bane of Yeltsin's existence, has become a fairly quiescent body, and although Federation Council representatives might lobby more effectively, they appear to be less interested in confronting the president. As a result, Putin now has free rein to push through legislation. How he uses his newfound influence will determine the future of Russia's fledgling democracy.

RULE OF LAW

Constitutional, Legislative, and Judicial Framework

1997	1998	1999-2000	2001	2002
4.00	4.25	4.25	4.50	4.75

On November 1, 2001, President Vladimir Putin told a meeting of international jurists that a decade of activity by Russia's Constitutional Court had revealed the development of a democratic, law-based state that protects human rights and civil liberties. For the first time, he maintained, a body had emerged in Russia that limits legislative and executive powers.

Russian voters approved the current Constitution by referendum on December 12, 1993, and Article 1 defines the country as "a democratic, federative, rule-of-law state with a republican form of government." The Constitution also 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. Presidential decrees and directives, like other laws, may be appealed to the Constitutional Court. In assessing the role of the Constitutional Court over the past decade, its chairman, Marat Baglai, called it "a judicial organ that does not allow state power to go beyond the borders of the constitutional framework" and which serves as "an effective mechanism for the defense of the rights and freedoms of citizens."

Since it was founded, the Court has received more than 105,000 appeals from citizens and government agencies, held public hearings on 188 cases, and considered the constitutionality of 195 pieces of federal and regional legislation. The biggest problem the Court faces, according to its chairman, is its lack of power to enforce its decisions on its own. Indeed, the ability of the judiciary to interpret and enforce the Constitution is weak, since the powers of the Constitutional Court are restricted. 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.

In general, court rulings do not constitute a source of legislation under the Russian legal system. For example, Mayor Yurii Luzhkov of Moscow has been able to ignore numerous rulings by the Constitutional Court that say his administration is violating constitutional guarantees of freedom of movement by retaining the notorious Soviet-era *propiska*, or system of residence permits. While the *propiska* appears to Western audiences as a clear violation of fundamental constitutional law, 68 percent of Russians believe that citizens of the Russian Federation should have to register at their place of residence; only 23 percent think the system should be abolished.

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 judicial protection and affirms the individual’s right, “if all available means of legal protection inside the state have been exhausted,” to appeal to international bodies. Article 15 states that generally recognized principles and norms of international law, and the international treaties to which Russia is a party, are constituent parts of its legal system and take primacy over domestic laws. In 1998, for example, Russia ratified the European Convention on Human Rights, which gives Russian citizens the right to file appeals with the European Court of Human Rights in Strasbourg. However, according to a recent report by the International Helsinki Federation, Russian authorities pursue a policy of deliberate harassment and intimidation ranging from arbitrary identity checks to eviction, illegal detention, torture, and murder.

In 2001, the legislature passed a bill that stipulates 65 as the retirement age for judges, 70 for those on the Constitutional Court. Generally speaking, although constitutional issues took a backseat to reform of Russia’s legal codes in 2001, the Constitutional Court did strike down some provisions in federal legislation that it said violated the rights of persons accused of crimes by restricting their ability to meet with their lawyers. The Court also ruled that the state can reverse privatizations if participants have not complied with the terms of the agreement.

The Russian Supreme Court was also active in 2001. In a decision that might have significant impact, it struck down sections of a 1996 Defense Ministry secrecy decree that has been used to prosecute researchers for spying. In another case, the Supreme Court ruled that some of the provisions of the Defense Ministry’s classification system are not in conformity with the law. In doing so, it struck down provisions that prosecutors have used against former Russian naval officer and environmentalist Aleksandr Nikitin and in a number of other current cases. Perhaps the Court’s most important finding was its decision that the military cannot classify information about activities that adversely affect people and the environment. On the negative side of the ledger was its decision to reject an appeal against the Federal Security Service’s use of anonymous denunciations. The Court found the FSB’s use of such denunciations appropriate and therefore not a violation of the Constitution. The group For Human Rights plans to appeal the Russian Court’s decision to the European Court of Human Rights.

Although Russia has a human rights ombudsman, the office has no power to make or change law. The ombudsman can, however, propose changes to laws he or she considers unjust. In 2001, Russia’s current ombudsman, Oleg Mironov, said that the human rights of Russians are violated across the entire spectrum of rights as stipulated in international agreements. He added, though, that the great-

est number of complaints reaching his office (40 percent) involve violations of rights within the criminal justice system. His office’s annual report revealed that more Russians are turning to the ombudsman to solve their problems. In 1998, 6,978 people appealed to his office; in 2000, the number of appeals totaled 24,985.

Article 21 of the Constitution prohibits torture, violence, and “other brutal or humiliating treatment or punishment.” However, lengthy periods of pretrial detention, harsh prison conditions, arbitrary arrest and detention, and the violent hazing of army recruits remain serious concerns. Although the law requires court consideration to begin within 14 days after a judge designates the location of a trial, congestion in the court system frequently leads to prolonged postponements. At the close of 2000, Human Rights Watch released a report detailing the cycle of prolonged detention, torture, and extortion faced by thousands of Chechens whom Russian forces have detained. The situation there only worsened in 2001.

Amendments to the constitutional Law on the Legal System of Russia and Law on the Constitutional Court of Russia and to the federal Law on the Status of Judges in Russia were passed in late November 2001. Under the new legislation, the tenure in office of all presiding judges and their deputies, except at the Constitutional Court level, is six years. The same person cannot be appointed as the presiding judge or deputy presiding judge at the same court more than two times in a row. Immunity for judges has also been reduced. In addition, by 2003, all of Russia’s 89 regions will be able to hold jury trials for serious crimes, and by 2004, the right to issue arrest and search warrants will transfer from prosecutors to the courts.

Nevertheless, some fundamental flaws in Russia’s judicial system remain in place. For instance, Russia has no tradition of habeas corpus, and arbitrary arrest and detention remain significant problems. Likewise, “qualifications collegia” will still appoint and dismiss judges, even though this system has been subject to abuse.

In October 2001, Russia witnessed the passage and signing into law of a new land code that allows the purchase and sale of approximately 3 percent of the country’s land area. The civil code was also amended to address legal problems related to inheritance rights. These changes, according to President Putin, represent “a watershed on the road to a legislative framework for private property.” In early 2002, the State Duma will examine four laws on intellectual property that would amend Russian laws on patents and trademarks.

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.” Women face both domestic violence and discrimination in the workplace. The number of Russian women who die from domestic violence each year is incredibly high: 12,000 to 16,000. Because of

the many obstacles to accurate reporting, the total is likely much higher. In addition, Russian women are barred from more than 500 professions such as coal mining or senior positions in the Russian navy.

Frequent reports of discrimination against people from the north and south Caucasus, Roma, darker-skinned persons in general, and other non-Russians continue to plague Russia. On October 30, 2001, for example, hundreds of skinheads wearing insignia of the fascist Russian National Unity Party and wielding metal bars went on a rampage in a Moscow market. Yelling racist slogans and targeting dark-skinned persons, they killed 2 people and injured 22 others. When police arrived, some of the attackers escaped and continued on to the Kakhovskaya metro station, where they killed 1 person and injured another 12.

Although modified by President Putin, the 1997 Law on Freedom of Conscience discriminates against all but a handful of religions. For instance, Moscow prosecutors continually fight legal battles to deny registration to the Jehovah's Witnesses, claiming that the distribution of Jehovah's Witnesses literature sparks conflicts with people of other faiths. The law requires religious groups to reregister with the government or face being banned and losing their rights, and over the last several years, more than 2,000 congregations (of the 16,000 that were previously registered) have lost their legal status. Meanwhile, a group of journalists belonging to the Media Union has established the Guild of Journalists Covering Religion to promote professional standards in covering religious questions and to protect journalists from arbitrary actions by religious groups or the state.

Judicial independence in Russia is seriously threatened by a chronic lack of funding. Local courts have problems meeting their salary obligations, buying equipment, paying telephone bills, and undertaking building repairs. This makes them easy targets for bribery and corruption. Some SPS deputies in the State Duma have called for extensive reform of current methods for financing the courts. However, the cost of serious legal reform is a barrier to change. According to the Russian Federation Supreme Court, an estimated \$1.5 billion is needed over the next five years.

In September 2001, Dmitrii Kozak, the deputy chief of President Putin's staff, announced that Russia will not use any foreign assistance to finance judicial reform. Kozak suggested instead that the 2002 budget would hold more for the judicial branch and make it possible to raise the salaries of judges, repair existing buildings, build new ones, and buy housing for judges. Priority should go, he suggested, to improving "working conditions for district courts and judges, who handle most cases but work in the worst conditions." In 2002, district judges will have assistants assigned to them, and in the future, judges at other levels may get assistants as well.

Article 48 of the Constitution guarantees individuals the right to qualified legal assistance and states that legal aid should be rendered free of charge. 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, defendants receive little in the way of useful legal assistance because funds are lacking to pay for trial attorneys and because many public defenders are poorly trained. There are now 42,000 lawyers, 145 lawyers' collegia, and about 5,000 legal consultation offices. Russian lawyers annually deal with some 5.5 million queries from citizens, of which 54 percent are handled pro bono.

Prison conditions remain extremely harsh, because, like most services in the country, the system lacks proper funding. Overcrowding is a particularly serious problem, and some prisoners are even forced to sleep in shifts because there are not enough beds. This is blamed on a surge in the number of crimes being investigated and the acute shortage of judges to hear the trials. Bail is rare. According to the Justice Ministry, the Russian prison population in 2001 included 744,000 convicts and 216,700 inmates whose cases were under investigation. Included in this figure were 19,000 minors and 50,000 women. The Russian penitentiary system also includes 660,300 people who have been convicted but released on probation.

Activists assert that the most serious human rights violations in Russia tend to take place not in prison but in the first few hours after a suspect is detained. In 2001, leading human rights activists accused Moscow judges of failing to protect constitutional and human rights and to address the inhumane conditions of detention facilities. This came in the wake of several prison deaths caused by high summer temperatures. According to Justice Minister Yurii Chaika, though, the government had allocated \$12 million for the reconstruction of prisons and interrogation facilities in 2000 alone.

Corruption

1999-2000	2001	2002
6.25	6.25	6.00

The concept of conflict of interest is not widely assimilated in Russia, and the boundaries between public and private sector activity are tenuous at best. Instead, politicians often combine executive power with a direct or indirect interest in businesses that are affected by that power. For example, Media Minister Mikhail Lesin is widely known as "the minister of his own business affairs" because he uses his office to enrich his own companies. Lesin is one of the founders of Video International, which today has a veritable monopoly on the sale of television advertising in Russia. Another example concerns the Federal Securities Commission, which in September 2001 presented a draft corporate governance code that is intended to bring Russian business into compliance with international standards. The code was prepared by Igor Kostikov, the head of the commission. According to experts from the Association for Protection of Minority

Shareholders, though, Kostikov added many loopholes that suit his own business interests. Kostikov is the head of both the Russian securities market and his own investment company, which controls up to 40 percent of the municipal bonds market in Russia. Surprisingly, there are no provisions in the code to ban such conflicts of interest.

Corruption and extortion pervade everyday life in Russia. Businesspeople routinely pay bribes in order to conduct their affairs, and government officials routinely accept and even demand them. Prosecutor-General Vladimir Ustinov has said that bribes and other forms of corruption now threaten Russian security at least as much as terrorism. Ustinov's office alone has levied charges of misappropriation of funds against 14 parliamentarians at the federal and regional levels, 302 bankers, and 21 state officials. In addition, a recent probe into the way in which Russian officials have handled loans from the IMF found widespread corruption, much of which involved the 53-person Federal Center of Project Financing. This office does not have any rules for keeping track of how the loans, all of which passed through its hands, have been distributed.

Ordinary people going about their everyday business are also often required to pay bribes—for example, to get a bed for a hospital operation, to obtain a passport, or to register one's place of residency. Recent surveys show that 75 percent of all Russian officials take bribes, but only 0.4 percent of them are punished in any way. According to supplementary findings, bribing all those willing to take money requires \$49 million a month. Azalea Dolgova, head of the Russian Association of Criminology, gave the following figures from a survey of businessmen in Moscow, Volgograd, Voronezh, and Vladivostok: Tax inspectors typically demand 25 percent of a business's tax payment, while customs officials demand 20 percent of total customs duties.

It is common knowledge that the salaries of low-ranking officials are pitifully small and often in arrears. Among police officers, low salaries and wage arrears have fostered corruption and prompted many of the best officers to move into private employment as security guards. In late November 2001, Deputy Interior Minister Yevgenii Solovev announced that more than 10,000 officers had been put on trial since the beginning of the year, 2,700 of whom had been sued for corruption. He was quoted as saying that "criminals now consider acquiring protection from the Interior Ministry as often as from the criminal world."

The government has taken some steps to counteract the high levels of illegal activity in Russia. Sergei Stepashin, head of the Audit Chamber, told the State Duma Budget Committee in June that his agency had identified the misuse of some \$2.2 billion in budgeted funds in 2000. Up to that point, his agency had succeeded in returning to the budget 4.2 billion rubles (\$140 million) and had launched some 20 criminal investigations. Antimonopoly officials in Stavropol charged local oil companies, including the branches of national firms, with price fixing. The low-level fine of \$3,000 that was imposed, however, is hardly a disin-

centive to such activities. The Federal Tax Police announced in October 2001 that it had audited 23,300 tax returns during the first nine months of the year and had uncovered violations in 19,500 of them. In another positive step, LUKoil, Russia's top oil company, announced realistic profit figures, the highest ever declared publicly by a Russian company, of \$3.31 billion for the year 2000. Another major oil company, Rosneft, followed suit by declaring a \$1 billion profit for the year 2000.

Sophisticated political-criminal organizations, often staffed by police and former security professionals, have largely replaced the old Soviet underworld. Since Mafia organizations have close relations with officials at many levels of the Russian government, money laundering is a serious problem. The chief of the United Nations Office of Drug Control and Crime Prevention told an international conference in June 2001 that up to \$100 billion had been laundered in or through Russia during a recent 12-month period.

However, the Bloomberg Agency stated that despite these staggering figures, there is recognition that Russia is working hard to combat money laundering. The group may even consider dropping it from the list of countries it considers to be world centers of such activity. At the end of October 2001, Deputy Tax Minister Viktor Zubkov was named to head the newly created Financial Monitoring Committee (FMC), which will enforce compliance with a new Law on Money Laundering. Working under the Finance Ministry, the FMC will employ 300 people in Moscow and 100 throughout the regions. It is scheduled to begin activities in February 2002.

ECONOMIC LIBERALIZATION & SOCIAL INDICATORS

Privatization				
1997	1998	1999-2000	2001	2002
3.00	3.25	3.75	3.75	3.50
Macroeconomic Policy				
1998	1999-2000		2001	2002
4.25	4.75		4.25	3.75
Microeconomic Policy				
1998	1999-2000		2001	2002
4.25	4.50		4.50	4.50

The period of wild capitalism that has prevailed in post-Communist Russia may finally be drawing to an end. The redistribution of property through controversial, and blatantly unfair, privatization deals has ended, and the country is now poised to enter a stage of economic development in

which respecting minor shareholders' rights and maintaining transparency standards are deemed to be useful. Russia can even boast that it now is home to 5 of the world's 1,000 largest banks. The Russian economy has also benefited from the 1998 devaluation of the ruble and, until quite recently, high oil prices. Further, 2001 represents the third straight year of GDP growth, and consumption has reached the pre-economic reform level of 1990.

However, Russia now faces declining revenues due to a drop in world oil prices. This, in turn, could cause future economic difficulties, especially in 2003, when foreign debt payments will be at their highest. Finance Minister Aleksei Kudrin maintains that Russia can still avoid borrowing from the IMF in 2002 and has predicted that oil prices will fall between \$16.50 and \$18.50 per barrel. The 2002 budget is calculated on the basis of oil at \$18 per barrel, a figure that now seems increasingly unlikely.

Russia's trade surplus totaled \$44 billion for the first 10 months of 2001, with exports more than double imports. Trade turnover reached \$129.4 billion, a rise of 7.2 percent over the same period in 2000, with imports increasing 19.6 percent to \$42.7 billion. Exports were up by 2 percent to \$86.7 billion. And, according to the Property Ministry, the Russian government earned 19.51 billion rubles (\$620 million) from the sale of government property during the first 8 months of 2001, some 49.3 percent more than expected.

The end of 2001 found the central bank spending \$800 million to prop up the ruble. Currency dealers estimate that central bank intervention will keep the currency relatively stable. Although some are concerned about a possible repeat of the economic crisis of 1998, the country's current surplus should provide a sufficient cushion. In fact, central bank reserves edged up to \$38.5 billion in November 2001, despite the interventions. A successful intervention strategy does not necessarily mean that the central bank is an effective institution, particularly since it remains, according to a Radio Free Europe/Radio Liberty report, "an independent, absolutely opaque, and uncontrolled administrative-financial system." In terms of emitting credits for government use, the central bank does not print money for off-budget expenditures, but it does buy bonds.

Serious problems still exist in Russia's banking sector. To begin with, the central bank regulates the industry even though it is a profit-seeking entity itself. The value of this system for the central bank and its managers is clear; the value for society is dubious. The decommercialization of the central bank is thus an important, unfulfilled goal. In addition, according to Alfa Bank CEO Pyotr Aven, "The more than 1,000 financial institutions that call themselves banks" are "doing nothing more than cash transactions that are often money laundering." In December 2001, Finance Minister Kudrin announced that half of Russian commercial banks must either increase their capital and restructure or face liquidation by 2004. He also stated that

as of 2007, the minimum level of capitalization for individual banks should be 5 million euros (\$4.51 million).

Many once skeptical foreign analysts now believe that President Putin might be the right man to pull Russia out of its economic morass. Presidential economic adviser Andrei Illarionov was able to announce in November 2001 that Russia had reduced its foreign debt by \$19 billion between the end of 1998 and the middle of the year. As a result, it now owes approximately \$137 billion. While the situation is not ideal, it is a vast improvement over previous years. Finance Minister Aleksei Kudrin reported in June 2001 that the government had already introduced 17 of the more than 40 basic international accounting standards, thus making Russia a more attractive place for investments. The remaining standards should be introduced before the end of 2003. New legal codes on taxation, land, and inheritance rights have also been signed into law. Combined with the late-2001 reforms of the judicial system, Russia appears to be taking some of the constructive, pro-business steps that Boris Yeltsin was either unable, or unwilling, to embrace.

Other positive changes include the introduction of a 13 percent flat income tax, the lowest in Europe, in 2001. The corporate tax was lowered from 35 percent to 24 percent. In November, the government announced that it was also considering lowering the value-added tax from 20 percent to 16–17 percent. The 13 percent flat rate for personal income tax and simplified procedures introduced at the start of the year have led once again to increasing tax revenues. In the first nine months of 2001, the Russian Federal Tax Service collected 83 billion rubles (about \$2.8 billion) for the state budget, even though approximately 40 percent of the Russian economy operates on an unregistered basis. According to the service's director, the ranks of the tax police will increase from 40,000 to 53,000 people in 2002. A report released in October 2001 revealed that authorities in Moscow were attempting to locate some 50,000 companies that have paid no taxes or declared no income.

Due to Russia's progress on tax collection, extremely high world oil prices, and relatively effective exchange rate policies, the country's macroeconomic picture for 2001 looks positive. At least this is the case for many large enterprises. Small and medium-size businesses have been less fortunate. The State Statistics Committee reported that while small businesses constitute nearly two-thirds of the total number of businesses, they employ only 10.2 percent of the workforce, have 2 percent of the capital assets, and account for only 4.6 percent of total investments. Moreover, one in five small businesses are on the brink of bankruptcy. Perhaps some relief is in sight, however. The Finance Ministry announced in mid-December that the government is planning to annul the highway use tax in 2003 and to cancel the 5 percent sales tax in 2004. In addition, plans are in the works to cut rates for the top tier of the social security tax.

Russia also looks ripe for the arrival of foreign investors. Exxon Mobil has announced, for example, that it will start a project to explore oil fields in Russia's Far East and

invest an initial \$12 billion. The German trading giant Metro opened two centers in Moscow in November, with plans to increase that number over the next year. Planned total turnover is \$480 million. Moreover, the Swedish furniture retailer Ikea easily surpassed its goal of one million customers, with the number reportedly closer to three million. Ikea plans to open four more stores in Moscow and St. Petersburg. The situation looks bright enough that Washington now supports Russia's accession to the World Trade Organization and has promised to expedite a response to Moscow's request for certification as a full market economy. While the West appears happy with developments in Russia, and even seems willing to overlook the brutal policies of Russian forces in Chechnya, the picture for most Russian citizens is mixed. (The eight Russians who made *Forbes* magazine's 2001 list of dollar billionaires are notable exceptions.) The Economic Development and Trade Ministry announced at the end of October 2001 that inflation was 18 percent. Meanwhile, Prime Minister Kasyanov claimed that real incomes had increased only 6 percent. On a positive note, wage arrears are showing some signs of abating. Total wage indebtedness in Russia declined to \$1.1 billion as of August 2001. While not a cause for joy, this is a marked improvement from the past.

Overall, Russia moved up to 55th place from 62nd place on the United Nations 2001 Index of Human Potential, which includes per capita income, quality of education and health care systems, and average life span. The percentage of Russians earning more than \$100 a month rose from 15.9 percent in 2000 to 30.8 percent in 2001. At the same time, income polarization declined slightly, with the incomes of the highest-paid 10 percent now totaling 33.5 percent of all wages and salaries, down 0.8 percent from 2000. Meanwhile, incomes of the bottom 10 percent in the income pyramid continue to total 2.4 percent of all wages and salaries.

In the second quarter of 2001, the number of Russians with incomes below the poverty line fell to 42 million. Nevertheless, even conservative estimates suggest that 30 percent of the population is living in poverty. The All-Russian Center on Standards of Living, a division of the Labor Ministry, puts the level even higher at 45 percent and claims that living standards will not reach the pre-August 1998 crisis level for another five or six years.

Mikhail Zurabov, the head of the Pension Fund, announced that as of January 1, 2002, more than 10 million senior citizens would receive a noticeable addition to their pensions. While still averaging a paltry 1,020 rubles (\$34) a month, pensions bought 20.3 percent more in real terms in 2001 than they did the previous year. To alleviate the extraordinary pressure on the Russian pension system, the

government is considering shifting to a three-pillar system that consists of a state-funded element, a pay-as-you-go pension linked to past earnings, and a completely voluntary and privately run component.

Free, high-quality education has been a point of pride for Russians, but with the collapse of the Communist state, few resources have been devoted to it. Although President Putin has called for modernizing Russian schools, introducing new technology, and expanding local and regional involvement in the process, it remains unclear that the appropriate funding will materialize. Calls for increased spending come mainly from the regions, whose leaders have suggested that the financing of education should be increased by 25 percent a year in the federal budget and that in total, education spending should account for 4.5 percent of GDP.

In terms of health and demography, there is little positive news. According to the British medical journal *The Lancet*, 16 million Russians are infected with tuberculosis. Likewise, according to Vadim Pokrovskii, director of the Russian Federal Center for Prevention and Combating AIDS, between January 1987 and November 2001, 163,000 HIV cases were registered in Russia; of these, 2,252 were children. The center acknowledges that reported figures are extremely low and suggests that the actual number of HIV cases is 10 to 20 times higher. The HIV crisis has been exacerbated by a rapid increase in drug use.

In addition, Russia's Oncology Research Institute has announced that the incidence of cancer in Russia climbed from 1,150 per 100,000 in 1991 to 1,500 in 2000 owing to increased levels of smoking and the reluctance of people to see doctors during the early stages of the disease. There has also been a significant rise in cases of serious viral respiratory illnesses. Child mortality is two to three times higher in Russia than in Western European countries, and Russian mortality figures overall are at the highest levels since World War II, at 15.3 per 1,000 population. At the same time, fertility rates have fallen by a factor of two since 1987, with the average woman now bearing only 1.17 children, far below the population replacement level of 2.15. Russia also has a rapidly aging population, with 12.5 percent of its people now 65 or older. However, not many men make it that far. An October 2001 report in *Nezavisimaya Gazeta* put the average life expectancy for Russian men at only 55.5 years. Finally, the State Statistics Committee now projects that by 2016, the population of Russia will drop from just under 145 million to 134.4 million.

Troy McGrath is an assistant professor at Hartwick College. He is the editor of Analysis of Current Events, a publication of the Association for the Study of Nationalities.

SLOVAKIA



Polity: Parliamentary democracy

Economy: Mixed capitalist

Population: 5,400,000

GNI per capita at PPP \$ (2000): 11,040

Capital: Bratislava

Ethnic Groups: Slovak (86 percent),
Hungarian (11 percent), Roma (2 percent),
other, including Czech (1 percent)

Size of private sector as % of GDP (mid-2001): 80

The scores and ratings for this country reflect the consensus of Freedom House, its academic advisors, and the author of this report. The opinions expressed in this report are those of the author.

↓↓ and ↑↑ indicate score changes of .25 or more. ↓ and ↑ indicate changes of less than .25.

NATIONS IN TRANSIT SCORES

	1997	1998	1999-2000	2001	2002
Democratization	3.80	↑ 3.65	↑↑ 2.50	↑↑ 2.25	↑↑ 1.94
Rule of Law	na	na	3.13	↑ 3.00	↑↑ 2.63
Economic Liberalization	3.38	↓ 3.58	↑↑ 3.25	3.25	↑↑ 2.33

KEY ANNUAL INDICATORS

	1995	1996	1997	1998	1999	2000	2001
GDP per capita (\$)	3,422.7	3,679.3	3,802.3	3,969.8	3,650.2	3,556.1	3,667.7
Real GDP growth (% change)	6.7	6.2	6.2	4.1	1.9	2.2	3.0
Inflation rate	9.9	5.8	6.1	6.7	10.6	12.0	7.4
Exports (\$ millions)	8,579.0	8,831.0	9,639.0	10,667.0	10,197.0	11,870.0	12,750.0
Imports (\$ millions)	8,807.0	11,124.0	11,720.0	12,959.0	11,301.0	12,786.0	14,100.0
Foreign Direct Investment (\$ millions)	194.0	199.0	84.0	374.0	701.0	2,058.0	2,000.0
Unemployment rate	13.1	12.8	12.5	15.6	19.2	17.9	19.8
Life Expectancy (years)	72.3	72.7	72.7	72.6	72.9	73.1	73.0

INTRODUCTION

In 2001, the Slovak Republic continued its trend of the past few years toward greater democratization. Positive signs included: political stability; functioning political institutions; reasonably cooperative relations between the supreme organs of state power; respect for the rule of law; and the adoption and implementation of legislative measures designed to strengthen the country's democratic foundations.

The government strove to maintain transparent and balanced relations with civil society, organized religion, and ethnic minorities. It also carried out important reformist measures in the field of socioeconomic development. On the other hand, ideological differences within the ruling coalition prevented the government from carrying out some reformist measures in the manner originally intended. In a key development, the government amended the Constitution to eliminate several systemic flaws and deficiencies in the hope of reducing the risk of the country experiencing a constitutional crisis.

The ruling coalition has not tried to restrict the opposition's activities. Disagreements between the government and opposition stemmed mostly from ideological differences. The political battles between the two camps did not exceed the framework set by the Constitution.

Created in response to citizens' disenchantment with economic and social conditions, some new political parties have significantly increased their electoral potential. With parliamentary elections scheduled for the fall of 2002, the parties in the ruling coalition have signaled that they will scale back the implementation of unpopular reform measures.

Nevertheless, the government could point to successes in its constitutional reforms, privatization, and the restructuring of Slovakia's banking sector. Moreover, the government made considerable progress in its accession talks with the European Union. The Slovak Republic has managed to meet the basic requirements for closing 22 chapters of its accession agreement with the EU and has a realistic prospect of closing most of the outstanding 9 chapters before the end of the current government's term in office in October 2002.

Factors that enhance stability in Slovakia's political system include the existence of democratic institutions, the government's efforts to model laws and institutions on their EU counterparts, and the commitment of the dominant political forces to liberal democracy. A potential source of instability is the relatively high electoral support of political parties with an authoritarian bent.

DEMOCRATIZATION

Political Process

1997	1998	1999-2000	2001	2002
3.75	3.50	2.50	2.25	1.75

The Slovak Republic is a parliamentary democracy with a multiparty system. Since the 1998 parliamentary elections, the country has enjoyed political stability, as key institutions have functioned reasonably well and the rule of law has become more firmly entrenched.

The period between 1994 and 1998, when the country was governed by a coalition comprising the Movement for a Democratic Slovakia (HZDS), the Association of Slovak Workers (ZRS), and the Slovak National Party (SNS), was marked by sharp political confrontation, conflicts between the president and prime minister, and a weakening of institutions. The ruling nationalist and authoritarian political forces often attempted to restrict the space for free political competition through discriminatory legislative and administrative measures. Because of an absence of a political consensus between the chief political forces, Parliament was unable to elect a new Slovak president in 1997 and 1998; consequently, the highest political post in the country was void from March 1998 to May 1999.

The situation changed dramatically following the 1998 parliamentary elections. Following the vote, four opposition political forces—the Slovak Democratic Coalition (SDK), the Party of the Democratic Left (SDL), the Party of Hungarian Coalition (SMK), and the Party of Civil Understanding (SOP)—formed a new government. Enjoying the three-fifths majority needed to pass constitutional legislation, including amendments to the Constitution, the new ruling coalition immediately began enacting progressive legislation.

In 1999, Parliament passed a law providing for direct presidential elections, leading to the first direct presidential balloting in May 1999. In February 2001, Parliament amended the Constitution to lay the groundwork for increased protection of human rights. In July, the legislature approved a law paving the way for the country to hold its first-ever elections for regional assemblies and governors on December 1, 2001.

The ruling coalition's stability was first put to the test in late 2000, when the opposition initiated a referendum on early elections. Held in November 2000, the referendum was declared null and void by the Central Referendum Committee after less than 20 percent of eligible voters participated. By ignoring the referendum, the majority of voters essentially signaled their support for the government.

Slovakia held its most recent parliamentary elections in September 1998. The OSCE observer mission said the elections were free and were held under a solid legal framework. Overall, six parties won seats: the HZDS won 27 percent of the vote and 43 seats; SDK, 26.3 percent and

42; SDL, 14.7 percent and 23; SMK, 9.1 percent and 15; SNS, 9.0 percent and 14; and SOP, 8.1 percent and 13.

Despite some political realignment in Parliament, the ruling coalition has maintained its comfortable majority. Besides its main constituent parties, the ruling coalition also incorporates several smaller parties that are offshoots of the SDK, which split into several parties. These parties include the Christian Democratic Movement (KDH), the Democratic Party (DS), the Social Democratic Party of Slovakia (SDSS), the Green Party of Slovakia (SZS), the Civic Conservative Party (OKS), and the Liberal Democratic Union (LDU). Prime Minister Mikulas Dzurinda represents the SDKU, an SDK offshoot. Three women hold posts in the 20-member cabinet.

Despite some ideological differences, the parties in the ruling coalition share a general commitment to promoting liberal democracy, keeping right-wing parties like the HZDS out of power, and meeting the requirements for Slovakia's accession to NATO and the EU. Moreover, Prime Minister Dzurinda has shown skill in negotiating compromises among the coalition partners on policy issues.

The presidential elections held in May 1999 were free and fair. In a second round run-off, Rudolf Schuster, the candidate of the ruling coalition, beat Vladimir Meciar. A total of ten candidates ran in the first round. To compete in a presidential election, a candidate must either gain the formal support of 15 parliamentary deputies or get the signatures of 15,000 eligible voters. For the most part, the registration requirements are not onerous, but candidates backed by parliamentary parties find it easier to meet the requirements and generally stand better chances of getting elected.

Compared to neighboring countries, voter turnout in parliamentary elections is extraordinarily high in Slovakia. In 1990, the electoral turnout was 95.4 percent; in 1992, 84.4 percent; in 1994, 75.7 percent; and in 1998, 84.2 percent. The turnout for Slovakia's first direct presidential election in 1999 was 73.9 percent in the first round and 75.5 percent in the second round. Participation in municipal elections has been lower. The turnout was 63.8 percent in 1990; 52.4 percent in 1994; and 53.8 percent in 1998.

The lower turnout for municipal elections reflects the fact that political parties generally are not particularly active at the local level and the tendency of voters to have low expectations for the role of local government in administering public affairs and solving social problems. Only 26 percent of voters participated in the first elections for regional assemblies and governors in December 2001. Men and women vote in roughly equal numbers at all levels.

Slovakia uses proportional balloting for parliamentary elections. In order to obtain a seat in Parliament, a party must exceed a five-percent threshold. Coalitions of two or three parties must pass a seven-percent threshold and those with four or more parties a ten-percent threshold. Most parties currently in Parliament have countrywide networks

and structures and hold seats in most local and regional self-government organs.

The main opposition political force, the HZDS, enjoys the greatest electoral support among Slovak parties. The movement continues to be led by Vladimir Meciar, a charismatic but authoritarian leader. In opposition, the HZDS has tried to obstruct and inhibit a number of legislative changes designed to improve Slovakia's chances of joining NATO and the EU. These changes include constitutional amendments, public administration reform, progressive legislation on the use of minority languages, and ratification of the European Charter on Minority or Regional Languages.

Two new parties have realistic chances to obtain seats in the 2002 parliamentary elections. The Direction (*Smer*) party, founded in 1999 by Robert Fico, former SDL vice-chairman, describes itself as "a pragmatic, non-ideological party." It often uses leftist and nationalist rhetoric to appeal to voters. Another candidate for seats is the liberal Alliance of a New Citizen (Aliancia Noveho Obcana, ANO), which was established in 2001 by Pavol Rusko, the co-owner of TV Markiza, the country's largest private television station.

The requirements for party registration are not particularly burdensome. Under the Act on Political Parties, a party seeking registration must submit to the Ministry of Interior a petition signed by at least 1,000 citizens. If a political party wants to run in parliamentary elections, it must submit either a petition signed by at least 10,000 citizens or a list of the names of at least 10,000 party members. Parties with at least eight deputies in Parliament are exempt from the requirements.

As of November 30, 2001, Slovakia had nearly 110 registered political parties. Since 1990, the government has not outlawed any parties. The law allows the government to outlaw parties that violate the law or have set themselves up in an undemocratic manner.

Most Slovak political parties have tried to build mass membership bases. The HZDS has approximately 40,000 members, by far the highest membership, while most other major parties have memberships of between 5,000 and 25,000. An estimated five percent of Slovaks belong to political parties.

The Hungarian minority tends to be active in politics. The Hungarian Coalition Party (SMK), which represents ethnic Hungarians, is a member of the ruling coalition. It holds three cabinet seats and several important parliamentary posts, including parliamentary vice chairman.

In contrast, the Romany ethnic minority is far more politically fragmented. Slovakia has nearly 20 Romany parties, none of which hold seats in Parliament. In an attempt to overcome this political disunity, several of the more influential Romany parties formed the Romany Coalition Party (Strana romskej koalície, SRK) in October 2001 to contest the 2002 parliamentary elections. Neither the Ruthenian nor the Ukrainian minorities have formed their own political parties.

Civil Society

1997	1998	1999-2000	2001	2002
3.25	3.00	2.25	2.00	1.75

Most experts on civil society in Central Europe consider Slovakia's NGOs to be among the region's most dynamic. Since the Meciar government lost power in 1998, Slovak NGOs have found it far easier to operate. Several Slovak NGOs specializing in democracy promotion have helped their counterparts in Croatia, Serbia, and Belarus outline and organize strategies for promoting democracy.

As of April 2001, 16,849 civil society organizations were registered with the Ministry of Interior. These included 15,984 (94.9 percent) civil associations such as societies, clubs, associations, movements, trade unions, local affiliates of international NGOs, and sports clubs; 479 (2.8 percent) foundations; 281 (1.7 percent) non-investment funds, and 103 (0.6 percent) nonprofit organizations. Although opinion polls show that participation in voluntary activities is increasing, more people donate money than volunteer time. According to the private sociological agency FOCUS, 16 percent of Slovaks were members of at least one NGO in 2001.

The decade following the 1989 Velvet Revolution saw the emergence of more than 90 women's organizations and associations. Some are affiliated with political parties, but many are independent.

Most ethnic groups are well represented in civil society. The Romany community is an exception; there are only 125 Romany groups out of 16,849 civil society organizations. Religious associations play the most significant and perceptible role in charitable activities. All major religions in Slovakia (Roman and Greek Catholic, Lutheran, Orthodox, and Calvinist) are highly involved in charitable and state-organized social security activities, especially in the fields of social support and social assistance services.

The basic legislative framework for NGO activities is provided by the Slovak Constitution, which guarantees freedom of expression (Article 29), freedom of assembly (Article 28), and freedom of association (Article 29 and 37). Several laws regulate NGO activities. The registration process for NGOs is simple and straightforward.

Slovak tax laws treat NGOs favorably; in several fields, tax laws are less complicated for NGOs than for businesses. Slovakia's tax regime for NGOs is also more favorable than that in many other Central European countries. Slovak NGOs are exempt from paying gift and corporate income taxes.

Slovakia's NGOs have well-developed infrastructures and training and research bases. Doubts regarding the third sector's long-term sustainability that emerged after the 1998 parliamentary elections have proven false. Although many top civil society leaders joined the government, NGOs played an even greater role in setting public policy. For example, the Gremium of the Third Sector (G3S), a voluntary body of elected NGO leaders, developed productive working re-

lationships with the central government, local self-governments, the business sector, and international organizations. Along with various service organizations, the G3S provides Slovakia's third sector with information on NGO matters in the Slovak language.

Several NGO consultants and trainers help less established civil society organizations both in Slovakia and in less developed post-Communist countries. In a continuing problem, however, executive officials in many NGOs hold seats on their organization's governing boards.

Financial assistance from Western countries has been instrumental in the development of a viable civil society in Slovakia. Few Slovak NGOs receive public funds. In 2001, in anticipation of diminishing foreign assistance in the coming years, the G3S prepared a new legislative framework for foundations. In addition, Slovak civil society leaders began negotiations with the government over a plan to give NGOs a \$31 million endowment from privatization revenues.

NGOs are subject to taxes only on "income generated by activities pursued for profit or income generated by activities the pursuit of which can produce a profit." This income is taxed only if it exceeds 100,000 *corona* (\$2,000). The law exempts NGOs from paying taxes on income generated by their principal activities, donations, membership fees, yields from parish collections, and lotteries held for publicly beneficial purposes. Unlike civil society associations, foundations are not allowed to pursue business activities except for leasing their properties and holding public collections, lotteries, and cultural, educational, social, or sporting events.

The current administration of Mikulas Dzurinda has maintained good working relations with NGOs, capitalizing on NGO expertise and encouraging NGOs to participate in implementing legislative, political, and social reforms. Various NGOs cooperate with the government and international organizations on policy issues. Among the most active in this area are think tanks such as the Institute for Public Affairs, the Slovak Foreign Policy Association, MESA 10, the Institute for Economic and Social Reforms, and the SPACE Foundation.

Churches and religious associations operate freely in Slovakia. The Constitution and several laws guarantee religious freedom. Slovakia has 14 registered churches and religious associations, including 13 Christian denominations and a Jewish community. The government allocates state funds to churches, subsidizing clergymen's salaries. Overall, dozens of religious associations operate in various spheres of public life, particularly education, culture, social work, charity, tourism, and sports.

Media coverage of the third sector is generally positive. It focuses mainly on NGOs involved in social support and assistance services, such as helping hospitals, health care and social assistance institutions, and assisting needy people. The media also often quote research and experts from independent think tanks. Surveys show that most Slovaks have a positive image of NGOs.

Slovak trade unions are free. The Confederation of Trade Unions (KOZ), by far the most significant trade union association in the country, has seen its membership shrink from 2.4 million workers in 1990 to 700,000 in 2000. Farmer's groups and trade associations tend to be small.

Slovakia's education system is free of political influence. A pressing issue shared with other Central European countries is the need to rid school textbooks of bias against ethnic groups and myths about national identity rooted in ethnic prejudices.

Independent Media

1997	1998	1999-2000	2001	2002
4.25	4.00	2.25	2.00	2.00

All major Slovak media are in private hands. The only exceptions are the TASR press agency, Slovak Television (STV), and Slovak Radio (SRo). The latter two are controlled by the STV Council and the SRo Council, respectively. The members of each council are appointed by Parliament.

In an important step toward obtaining accurate circulation figures for print media, the Audit Bureau of Circulation began operating in 2000. Its goal is to provide objective information on the circulation bases of Slovak periodicals.

The country's television market is dominated by the private TV Markiza. Its co-owner and former director, Pavol Rusko, entered politics in 2001 as the chairman of the new Alliance of a New Citizen party. The station with the next highest ratings is the public STV. The private TV Luna went off the air in September 2001 after failing to resolve long-standing financial problems.

The public STV and Slovak Radio are also suffering from financial difficulties and are becoming increasingly dependent on Parliament for support. In the fall of 2001, Parliament postponed the adoption of laws on STV and Slovak Radio that would have placed these stations on firmer financial footings. The bill also would have increased the

stations' independence by putting more NGO and business leaders on the STV Council and the SRo Council. Slovak Radio continues to be the most popular radio station.

Private media in Slovakia are generally financially self-sustaining, but they face the problem of operating in a small market. Print media also suffer from the fact that most advertisers focus their advertising strategies on the television market. Some 85 percent of television advertising, however, goes to one station, TV Markiza.

The print media market has been going through a period of consolidation, with a few publishing houses holding most titles. Foreign investors focus mostly on lifestyle weeklies and monthlies that are commercially viable. The only exception is the German publishing house Verlagsgruppe Passau GmbH, which has become the dominant player on the regional print media market. The distribution of periodicals is fully privatized.

The Constitution guarantees freedom of speech. In 2001, Parliament approved the first reading of a new press law. The bill requires public officials to provide certain information to journalists and sets out sanctions for failure to fulfill this requirement. However, the bill includes some terms that are incompatible with existing legislation. A law on free access to information that took effect in January 2001 is aimed at facilitating journalists' work and enabling ordinary citizens to obtain information from the government.

Slovak law criminalizes defamation of the state, Parliament, the cabinet, the president, and the Constitutional Court. In 2001, President Rudolf Schuster's office filed defamation charges against a journalist, Ales Kratky, over his commentary on a speech Schuster made in Parliament. The case is pending. In the fall of 2001, a group of parliamentary deputies proposed to amend the criminal statute to delete the defamation provisions. The measure was rejected by one vote.

The largest professional organization of Slovak journalists is the Slovak Syndicate of Journalists, whose membership of 2,640 includes up to 80 percent of the

Table 1. Average Sales of Nationwide Dailies, 2001

Title	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep
Novy cas	156,591	159,525	149,871	150,704	128,351	140,847	136,227	135,976	na
Pravda	65,377	64,028	63,713	65,040	62,493	62,634	63,033	61,886	63,178
Sme	46,964	48,058	50,265	54,946	53,803	52,409	51,189	53,057	60,037
Uj Szo	29,839	29,641	29,596	29,463	28,163	28,313	28,240	28,301	28,748
Praca	26,186	26,192	26,264	27,351	na	na	na	na	na
Hospodarske Noviny	24,044	23,306	23,090	22,950	22,463	22,437	22,150	22,110	22,509
Rolnicke Noviny	6,801	6,636	6,664	6,598	6,562	6,668	6,551	6,608	6,557

Source: Audit Bureau of Circulation of the Slovak Republic

country's reporters and editors. Women make up 37.6 percent of the Syndicate's membership. Other key media-related trade organizations include the Union of Slovak Television Creators, the Association of Periodical Press Publishers, and the Association of Independent Radio and Television Stations (ANRTS). In October 2001, the Slovak Syndicate of Journalists and the Association of Periodical Press Publishers established the Press Council of the Slovak Republic, a self-regulatory body for journalists. The ANRTS participated in the preparation of a law on broadcasting and retransmission that Parliament adopted in 2000.

Experts estimated in 2001 that approximately 20 percent to 25 percent of the Slovak population uses the Internet regularly and about 30 percent have used it at least once. Most Slovaks who use the Internet do so from work; only a small number access the Internet from home. The main reason that more Slovaks do not access the Internet from home is the high price of local telephone connections. Adjusting for local purchasing power, Slovakia has the most expensive Internet access charges among OECD member states. This situation could change, however, when Slovak Telecom loses its monopoly in the local telecoms market some time after January 2003.

Freedom House's annual *Survey of Press Freedom* rated Slovakia as "Partly Free" from 1993 to 1998 and "Free" from 1999 to 2001.

Governance and Public Administration

1997	1998	1999-2000	2001	2002
3.75	3.75	3.00	2.75	2.25

Slovakia's supreme legislative body is the National Council of the Slovak Republic, or Parliament. The cabinet is the supreme executive body. The president is the head of state and is directly elected for five years. Parliament has supervisory powers over the cabinet and the entire executive body. Parliamentary rules require that parties be represented in committees in proportion to their numerical strength. In contrast to the previous ruling coalition headed by Vladimir Meciar, the current government of Mikulas Dzurinda strictly observes this principle.

The Constitution provides for a system of checks and balances at the national level. These provisions include: the cabinet's right to initiate legislative proposals; the cabinet's power to link parliamentary votes on legislative proposals to votes of confidence in the cabinet; the president's power to veto laws; Parliament's power to override a presidential veto with an absolute majority of all deputies (76 out of 150); the president's power to ask the Constitutional Court to decide whether a law is constitutional and the Court's power of judicial review; the president's power to dissolve Parliament in certain situations; the right of citizens to remove the president in a referendum in certain situations;

and Parliament's power to ask individual cabinet members to report on their activities.

Parliament's 150 deputies are directly elected for four-year terms. One measure of Parliament's effectiveness as a legislative body is the fact that in 2000 and 2001 the Slovak Republic passed the first stage of closure for 22 of 31 chapters of the *acquis communautaire*, the document setting out the terms of the country's accession to the EU. For each chapter, preliminary closure required Parliament to change several laws to make them compatible with EU norms.

For a bill to become a law, it must pass a reading in three consecutive sittings of Parliament. The decisive vote takes place after the third reading. Each bill must be discussed by all parliamentary committees, each of which recommends whether the bill should be passed or rejected. During their deliberations, committees often hear expert testimony about the proposed legislation.

A 1996 parliamentary standing order enables the legislature to approve laws in a so-called accelerated procedure in which all three readings take place during a single plenary session. This procedure gives the cabinet the possibility of speeding up the legislative process in "emergency" cases. The ruling coalition and the opposition still have equal opportunities to participate in Parliament's deliberations and voting. In 1998 and 1999, Parliament approved 54 percent of all new laws using the accelerated legislative procedure. In 2000 and 2001, it used this procedure in only eight percent of cases. The vast majority of legislation required by the EU accession process was approved under the normal legislative procedure.

Parliament's plenary sessions are open to the public and broadcast on a nationwide channel of the public Slovak Television network, usually late at night. Closed plenary sessions are held only when Parliament discusses certain national security issues such as annual reports on the activities of the Slovak Intelligence Service. Stenographic records of Parliament's deliberations are available to the public. Parliament's Web site contains an overview of the assembly's legislative activities as well as a list of all passed and rejected bills and detailed records of all votes.

The 2000 Act on Free Access to Information made it much easier for journalists and ordinary Slovaks to obtain government information. The law requires all officials of the central administration and self-government organs to provide citizens with certain types of information and specifies procedural rules for this information to be produced.

The Slovak Republic has a dual system of public administration consisting of the central administration and elected self-governments bodies. The system of public administration is based on the principle of subsidiarity, the idea that government functions should be carried out at the lowest possible levels. Slovakia has three levels of elected legislative bodies: national, regional, and local or municipal.

The regional legislative bodies were created under a February 2001 constitutional amendment that laid the groundwork for a regional level of government. In July 2001,

Parliament passed a law creating eight self-governing regional territorial units and a law on elections for regional governors and assemblies. The creation of self-governed regions was the cornerstone of a process of public administration reform. It created more favorable conditions for modernizing and decentralizing public administration as well as for boosting the country's regional development and integration with EU members.

In September and October 2001, Parliament adopted a law transferring certain powers from the central government to regional self-government bodies and several amendments and laws related to the financing of these self-government organs. In December 2001, Slovakia held elections for eight regional gubernatorial posts and 401 seats in regional assemblies.

The new law on the transfer of powers envisages the central government gradually delegating more than 300 powers and competencies to regional and local governments between 2001 and 2004. Most of the delegated powers are in the fields of education, social assistance, health care, culture, transportation, environmental protection, and regional economic development.

One of the main objectives of Slovakia's ongoing public administration reforms is to loosen the central government's control over the country's taxation and public expenditure systems. Prior to the onset of the reforms, the central government collected 94 percent of all tax revenues and disbursed 80 percent of all public expenditures. The government plans to reduce its share of tax revenue intake to 54 percent of the total tax revenue intake.

The government currently subsidizes local governments through the Ministry of Finance according to the size of the municipality and its socioeconomic situation. The government provided 11.68 billion SKK (\$250 million) in subsidies in 2001, up slightly from 10.40 billion SKK (\$223 million) in 2000. The proposed state budget for 2002 envisages a further increase in subsidies. At current subsidy levels, local governments can exercise basic powers and perform basic functions but are unable to implement development programs. In connection to transferring powers to self-government organs, the central government should in 2002 transfer an additional 12.1 billion SKK (\$259 million) to the budgets of regional and local self-governments, including 3.9 billion SKK (\$84 million) for municipal budgets. A total of 161,000 government employees, including 109,000 teachers, will be transferred to local governments from the central government.

In 2001, there were no reports of government representatives exerting political pressure on civil and public servants.

RULE OF LAW

Constitutional, Legislative, and Judicial Framework

1997	1998	1999-2000	2001	2002
4.00	4.00	2.50	2.25	2.00

The Constitution of the Slovak Republic was adopted in September 1992, several months before the dissolution of the former Czechoslovak Federation. Since then, the Constitution has been amended three times. Amendments in 1998 authorized the transfer of certain presidential powers to the chairman of Parliament during periods in which the presidency is vacant. In 1999, Parliament amended the Constitution to provide for direct presidential elections. In February 2001, Parliament amended the Constitution for a third time to provide for the creation of regional self-governmental bodies (assemblies).

The latter amendment to the Constitution also stipulates that legally binding EU regulations have precedence over domestic legislation. Moreover, it provides that international treaties regarding human rights have precedence over Slovak laws. This means that Slovak judges adjudicating human rights matters will be bound not only by the Slovak Constitution and domestic laws but also by applicable treaties.

The 2001 amendment also significantly strengthened the powers of the Slovak Supreme Bureau of Supervision, an independent body that supervises the management of central and local government institutions. Moreover, the amendment made it harder for parliamentary deputies to be removed for lawful acts committed while carrying out official duties. This latter provision was inspired by the treatment of Frantisek Gaulieder, an HZDS member who was kicked out of Parliament in 1996 by the HZDS-led majority after he criticized HZDS policies.

The wide-ranging 2001 amendment also altered the powers of the president. The amendment revokes the president's power to grant an amnesty to a convict before a court has issued a verdict on the case. At the same time, it gives the president the right to ask the Constitutional Court whether a question in a referendum is constitutional. The amendment also requires Parliament to muster a majority of all deputies to override a presidential veto; previously, Parliament needed only a majority of deputies actually present at a session.

The amendment grants the president the power to appoint judges on the recommendation of the Judicial Council of the Slovak Republic, a newly established organ of judicial administration. Previously, Parliament appointed judges. In addition, it increased the number of constitutional justices from 10 to 13 in order to accelerate the Court's adjudication procedures. It also extended their terms of office from 7 to 12 years in an attempt to enhance the Court's independence.

Parliament in December 2001 passed a law creating a human rights ombudsman. The election of the first ombudsman by Parliament will be held in March 2002.

Between November 2000 and December 2001, Parliament made three important changes to Slovakia's penal legislation. An amendment to the criminal procedures code in November 2000 created the position of substitute solicitor in order to accelerate court proceedings. An amendment to the criminal statute in June 2001 defined new criminal offenses relating to money laundering, racial and sexual violence, carrying a concealed weapon, protection of secret matters, protection of the country's cultural heritage, and corruption. In November 2001, Parliament amended the criminal statute to make it a criminal offense to deny that the Holocaust took place. Parliament also passed a law in 2001 providing for the independence of state prosecutors.

An accused person can only be detained and arrested if a judge has issued a written warrant for his or her arrest. A judge must hear the arrested person's plea within 48 hours of detention and then must decide whether to bring charges or release the suspect. Press reports in 2001 detailed allegations of abuse of suspects by police officers. In such cases, the Ministry of the Interior launched internal investigations, and, in some cases, discharged the officers or brought criminal charges.

The Slovak Constitution, domestic laws, and international documents that are part of the country's legal order provide a sufficient framework for the implementation and protection of human rights, including the right of property ownership. The 1991 Bill of Fundamental Rights and Freedoms is based on international human rights documents and was incorporated into the Slovak Constitution.

Slovakia has ratified all 18 human rights conventions and protocols that were stipulated by the EU as conditions for membership. In June 2001, Parliament ratified the European Charter of Minority or Regional Languages, which set out an improved framework for the right of the country's ethnic minorities to use their native languages.

The issue of ethnic minority rights is extremely sensitive in Slovakia, where almost 15 percent of the population is composed of ethnic minorities. The status of ethnic Hungarians, who make up nearly 10 percent of Slovakia's population and whose treatment in past years complicated relations with Hungary, has improved in recent years. This is due in part to government initiatives between 1999 and 2001 including the adoption of the law on the use of minority languages; the restoration of the practice of handing out bilingual report cards at primary schools; the country's ratification of the European Charter of Minority or Regional Languages; and the provision of state subsidies for cultural activities of ethnic minorities.

Slovakia's Roma tend to have low social status, limited education, and poor living standards. The government has created a special post called the Government's Plenipotentiary for Solving Problems of the Romany Ethnic Minority. The position is currently held by Klara Orgovanova, a Ro-

many civil rights activist. The office is expected to cooperate with Romany NGOs in the fields of education and social assistance.

In 2001, a team of legal experts under the direction of Pal Csaky, the vice premier for human and minority rights, continued drafting a bill on equal treatment that is supposed to provide official definitions of direct and indirect discrimination and harassment. The government also continued drafting a bill on establishing a Center for Equal Treatment in order to comply with EU directives. The cabinet will most likely discuss both bills in 2002.

NGOs were very active in this drafting process, suggesting concrete proposals for language in the bills. Acting on the cabinet's initiative, Parliament in June 2001 adopted an amendment to the criminal statute that defined a "racially motivated criminal offense" and introduced stricter penalties for perpetrating such an offense. In 2001, various racist and nationalist groups in Slovakia, spearheaded by the fascist skinhead movement, carried out a number of violent assaults against Roma. The police, however, began clamping down on racist groups with greater rigor and conducted several preventive operations.

The Slovak legal order embodies the principle of equality for men and women, but Slovakia has no specific law on gender rights. NGOs are striving to increase the public's sensitivity to gender issues. They focus on highlighting deficiencies in the actual implementation of the principle of equality. These deficiencies include employment discrimination against women who are pregnant, have small children, or are elderly, as well the continuing problem of domestic violence.

In June 2001, the cabinet submitted to Parliament a bill on the financial security of churches and religious associations. The law stipulates the maximum number of clergymen from each religious denomination whose salaries may be financed by the state. The number for each church is in proportion to its number of adherents as indicated in the latest census. Parliament is scheduled to approve the law in April 2002.

In July 2001, a group of 11 registered churches and religious associations submitted to the cabinet a proposal to conclude an agreement between the government and registered churches. During the second half of 2001, the cabinet and church representatives held several rounds of talks regarding the content of the proposed agreement. It is widely expected that an agreement between the Slovak government and registered churches will be concluded in 2002.

International institutions including the EU say that Slovakia's judiciary is reasonably independent. In 2001, there were no allegations of the cabinet or other executive organs attempting to pressure courts. Similarly, justices have not complained of being pressured. In addition, the government respected verdicts issued by Slovakia's Constitutional Court.

The Slovak Constitution guarantees the right of citizens to full protection under the law. The state is obliged to provide an attorney to any criminal suspect who can-

not afford one. The efficiency of the Slovak judiciary is reduced by the fact that many courts continue to be overwhelmed by huge case backlogs. The Ministry of Justice, whose role it is to provide logistical support to the judicial system, is cooperating with international institutions in an attempt to modernize the courts and upgrade their equipment.

Corruption

1999-2000	2001	2002
3.75	3.75	3.25

The legal framework on conflicts of interest for public officials is set out by a 1995 law. The law bans the Slovak president, parliamentary deputies, cabinet members, justices of the Slovak Constitutional Court, and other senior state officials from pursuing any business activities, acting as paid intermediaries between the government or corporations with government investment and private firms, or receiving income from either side jobs or contracted business relationships that exceed the minimum wage.

Under this law, all elected officials and senior civil servants must submit annual declarations of their incomes. (According to the Judicial Codex, judges have the same obligation.) However, these declarations are submitted exclusively to the parliamentary committee on the prevention of conflicts of interest. The information is not available to the general public, which makes it harder for watchdog groups and ordinary Slovaks to monitor the law's implementation. In 2001, Parliament created a special group of deputies whose main task is to draft three new laws that tackle the issue of conflicts of interest. The first deals with protecting the public interest in relation to activities of public officials; the second focuses specifically on elected officials and certain civil servants; the third relates to officials of regional and local self-governments. Parliament is likely to discuss these laws in February 2002.

All institutions that are financed with public funds are subject to the supervisory authority of the Supreme Bureau of Supervision. The chairperson of the bureau is elected by Parliament. The prime minister's office also has certain supervisory powers. The criminal statute contains provisions against racketeering. In 2001, police continued to actively combat this relatively widespread criminal activity.

Slovakia's criminal statute punishes both active and passive forms of bribery. (An active form of bribery is taking the money; a passive form is giving the money.) The 2000 Act on Protection Against Legalization of Income Generated by Criminal Activity, which took effect in January 2001, is an important anticorruption tool because it toughens the penalties for money laundering. In June 2001, Parliament amended the criminal statute to define more precisely certain criminal offenses related to corruption and tighten punishments for these acts.

Slovakia's Act on Free Access to Information took effect in January 2001. The law makes it easier for citizens to gain access to information related to government performance and activities. Under this law, for example, the public is entitled to have access to the results of inspections conducted by the Supreme Bureau of Supervision. During the year, however, several municipal councils such as those in Presov and Velky Krtis adopted administrative measures designed to limit implementation of the law.

In 2001, the cabinet began to implement recommendations stemming from an audit of state agencies by an NGO expert at the request of Ivan Miklos, the vice premier of the economy. The implementation of the audit's recommendations has enhanced government transparency. For example, institutions that are financed through the state budget published their annual reports for 2000 in April 2001.

In 2001, the government also continued to implement its National Program of the Fight Against Corruption, which the cabinet adopted in 2000. Under this program, the cabinet established the Executive Committee for the Fight Against Corruption, and several individual ministries adopted their own action plans. The most serious problem related to implementation of the program is the lack of specificity in many of the tasks stipulated in ministries' action plans and the difference between fulfilling formally defined tasks that produce statistical evidence of improvement and producing real improvements on the ground.

In August 2001, the cabinet discussed an official Report on Fulfillment of the Action Plans of the Fight Against Corruption. The report observed that 52 percent of all stipulated tasks had been fulfilled; however, owing to the aforementioned formal character of the ministries' action plans, the actual rate of the program's implementation was lower. The overall objective of the program is to reduce the likelihood of corruption by implementing new legislation and administrative measures, identifying the most infected areas, involving a broader spectrum of public actors in the fight against corruption, and increasing public resistance against corruption.

Another effort to increase government transparency was a 2000 amendment to the Act on Political Parties that outlawed anonymous financial donations to political parties and made parties' annual financial reports available to the public. An April 2001 amendment to the act introduced compulsory audits of the financial records of all political parties. The auditors are assigned to particular political parties through the drawing of lots by the Slovak Chamber of Auditors.

In an attempt to better police the public procurement process, Parliament approved an amendment to the law in November 2001 that will subject all public procurements to regulation. Previously, the law regulated only public procurements worth more than 500,000 SKK (\$10,700).

Parliament has also tightened measures to fight corruption in the judiciary. The 2000 Judicial Code requires judges to submit annual declarations of their properties. In

addition, the Ministry of Justice has approved a project that will introduce computerized case management in regional courts of general jurisdiction. The new system will assign cases to judges by random computer selection.

In July 2001, Parliament adopted two laws on preventing corruption in the civil service. The laws delineated precisely the process of selecting, appointing, supervising, and remunerating civil servants. They also introduced a category of civil servants with special financial and executive powers to which stricter rules will apply. The laws also provide for the creation of a Civil Service Bureau whose main task will be to elaborate a code of ethics for state employees. The laws will take effect in April 2002.

In December 2001, Parliament adopted a law creating the position of a public defender of human rights. Acting on initiatives from citizens, the ombudsman has the authority to monitor the performance of government agencies and their employees' conduct and is entitled to intervene in agency procedures. When acting on citizens' complaints, the ombudsman is entitled to request that public agencies produce necessary documentation, files, and dossiers as well as provide explanations regarding the administrative procedures used in the matters in question.

Since the 1998 parliamentary elections, the transparency of the privatization process has increased considerably, mainly due to the fact that the cabinet adopted public tender as the primary privatization method. In 2001, the Slovak branch of Transparency International elaborated the Privatization Information Minimum, which the cabinet incorporated into all action plans dealing with the fight against corruption. This measure defines a set of necessary conditions and arrangements for transparent privatization. The availability on the Internet of information from the Companies' Register, the central database of registered trade companies, has also helped increase transparency in economic affairs.

In 2001, legal initiatives against corruption encountered difficulties stemming both from bureaucratic resistance and deeply rooted stereotypes about the willingness of ordinary people to accept corrupt behavior; that is, their preparedness to give money illegally to officials in exchange for benefits. Another complicating factor involves the regulation of the method by which civil servants make policy decisions. These regulations, experts say, do not eliminate civil servants' voluntarism in deciding on public matters, fail to define precise decision-making criteria for policy choices, and do not force public officials to justify their decisions.

In 2001, several senior public officials faced accusations and suspicions that they were abusing their positions for financial gain. In perhaps the most notorious case, reports alleged that Roland Toth, the director of the government's foreign assistance department, had manipulated public tenders for projects financed by the EU's Phare program. As a result of these allegations, both Toth and Pavol Hamzik, the vice premier of European integration, were removed from their posts. Although an inspection conducted by the

Supreme Bureau of Supervision did not confirm the allegations and failed to establish any evidence suggesting criminal wrongdoing, it found that procedures for selecting eligible candidates for receiving Phare funds were not transparent and created the risk of abuse. In December 2001, the cabinet approved measures designed to enhance the transparency of the procedures used to disburse EU funds.

In January 2001, Defense Minister Pavol Kanis resigned because he could not satisfactorily explain where he had earned the money for the construction of his mansion. In June 2001, Minister of Economy Lubomir Harach fired Albin Sladovnik, a director of the Slovak Trade Inspection (SOI) office, after an investigation found that Sladovnik had violated the law by keeping his position on the supervisory board of a company that was subject to the SOI's supervision. Pavol Kinceš, general director of Slovensky Plynarensky Priemysel (SPP), a state-run gas transit and storage utility, resigned in July 2001 after the media reported that he had unlawfully transferred to his ownership an apartment that belonged to the SPP.

In 2001, police continued to investigate several cases of alleged corruption in the privatization process during the administration of President Meciar, who was in office from 1994 to 1998. Police also investigated several cases of alleged corruption under the current administration; however, these cases are not connected with the privatization process. In 2001, there were no reports of the government or individual politicians attempting to influence these cases.

According to the Slovak Police Force, there were 68 cases of alleged bribery of public officials in 2000; police cleared the accused in 64 of these cases. Similarly, police cleared the suspects in 34 out of 40 reported cases of bribe taking and 43 of 49 cases of malpractice. The low number of reported corruption cases in Slovakia testifies to the relatively low efficiency of law enforcement organs. Furthermore, police usually go after alleged perpetrators in low-level corruption cases, while not pursuing cases involving senior public officials.

Prior to recent reforms, public administration in Slovakia was highly centralized. This often made decision-making processes subjective and increased the opportunities for corruption on the part of government officials. The nontransparent system of procuring and providing many goods and services along with the widespread official practice of stipulating the applicable prices on the basis of subjective decisions created a fertile breeding ground not only for the inefficient allocation of public funds but also for corruption and clientelism.

The laws on public administration reform adopted in 2001 may come to be seen as major landmarks in the fight against corruption. They transferred important powers and competencies from the central government to elected local and regional bodies, which can more easily be monitored by citizens. In 2001, the average gross monthly wage of civil servants was 14,641 SKK (\$314). The overall average monthly wage was 12,064 SKK (\$259).

Opinion polls conducted in Slovakia over the past several years have uniformly indicated that citizens perceive corruption to be widespread, particularly in health care, the judiciary, customs offices, the police force, and certain ministries. Citizens' views on corruption reflect in part the policies of whatever administration is in office. For example, the widespread corruption allegations surrounding the Meciar administration's privatization program led many citizens to say that corruption was ubiquitous. In polls taken during the current Dzurinda administration, the areas that survey respondents cite as most corrupt tend to be those like health care and education where radical reforms have not been carried out.

Although opinion polls confirm that citizens continue to view corruption as widespread, there have been certain positive trends in this respect since 1998. For instance, according to recent polls conducted by the government's Statistical Office, citizens say they do not have to bribe officials as frequently as they did in 1998. The percentage of respondents saying they had paid bribes declined to 27.4 percent in 2000 from 33 percent in 1998. According to opinion polls conducted between 1998 and 2001, about 15 percent of Slovaks perceive corruption as an acute problem, but an even greater number perceive low living standards, high unemployment, or criminality as more pressing issues. In 2001, the Ministry of Education, in cooperation with Transparency International's Slovakia branch, launched a project to introduce into the school curriculum units on transparency in public affairs and the fight against corruption.

In 2001, government institutions in cooperation with NGOs held a number of conferences, seminars, and other events that focused on the campaign against corruption. Transparency International's Slovakia branch also launched a broad television and radio educational campaign promoting the necessity of adopting appropriate tools for combating corruption. Both public and private

media rigorously cover the government's anticorruption campaign.

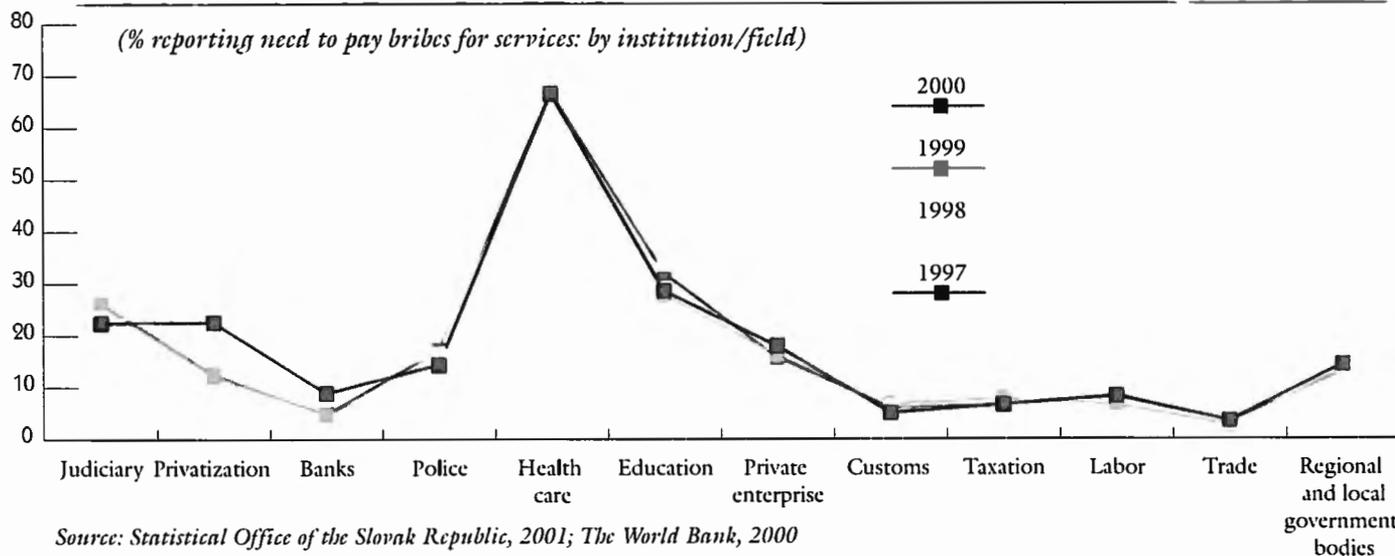
Transparency International's 2001 Corruption Perceptions Index ranked Slovakia 51st out of 91 countries surveyed with a score of 3.7 out of 10, with 10 representing the lowest level of perceived corruption. The top-ranked and least corrupt country, Finland, received a 9.9. In 2000, Transparency International ranked Slovakia 52nd with a score of 3.5.

ECONOMIC LIBERALIZATION & SOCIAL INDICATORS

Privatization				
1997	1998	1999-2000	2001	2002
3.25	3.25	3.00	3.00	2.00
Macroeconomic Policy				
1998	1999-2000	2001	2002	
3.75	3.25	3.25	2.50	
Microeconomic Policy				
1998	1999-2000	2001	2002	
3.75	3.50	3.50	2.50	

In 2000, Slovakia was one of only five out of 27 post-Communist countries whose GDP was higher than it was in 1989. Slovakia's GDP in 2000 was 887.2 billion SKK (\$19.2 billion), which was about 103 percent of the 1989 level. GDP grew by 2.9 percent in the first half of 2001 after growing by 2.2 percent in 2000. Slovakia's per capita GDP, adjusted

Chart 1. Public Perceptions of the Prevalence of Corruption



Source: Statistical Office of the Slovak Republic, 2001; The World Bank, 2000

for purchasing power parity, was \$11,490 in 2001, which was 48 percent of the average per capita GDP of member countries of the OECD.

The Slovak government's economic policies in 2000 and 2001 focused on three main areas: continuing to restore macroeconomic stability, restructuring the corporate and banking sectors, and reducing barriers to competition in the private sector and cracking down on abuses of monopolistic power. However, nearly all economic policy measures focused exclusively on the revenue side of public finances, with virtually no reforms of the expenditure side. The government has carried out few reforms of the education, health care, and pension systems. Reforms in these areas are needed to improve the efficiency of public spending.

In its *Regular Report on Slovakia's Progress Towards Accession*, published in October 2001, the European Commission noted that Slovakia has a functioning market economy, stating that if "[Slovakia] makes further substantial efforts in medium-term fiscal consolidation and in developing and fully implementing the announced structural reform program, it should be able to cope with the competitive pressure and market forces within the Union in the near term." At the same time, however, it pointed out that, "the better use and retraining of human capital resources remain urgent priorities for fully exploiting and extending Slovakia's growth potential." The European Commission also expressed apprehension over the government's proposed 2001 budget, which, it said, could threaten the country's already fragile macroeconomic stability.

In 2001, a delegation from the IMF said that Slovakia had achieved respectable results in terms of economic indicators since independence and that the IMF considers the country's economic outlook to be promising. The officials warned, however, of the risk in postponing reforms in several areas, including fiscal consolidation. In 2001, the World Bank extended a \$200 million loan to Slovakia to help the country carry out reforms in areas such as banking and enterprise restructuring.

Slovakia's dominant scheme for privatization has been direct sales to strategic foreign investors. Economists generally praise this privatization method, but some have also pointed out that by using this method Slovakia has missed out on the opportunity to further develop its capital markets.

The government has made considerable progress in the privatization of the country's banking sector. The government spent 105 billion SKK (\$2.2 billion) to restructure the three largest state-owned banks (Slovenska Sporitelna, Vseobecna Uverova Banka, and Investicna a Rozvojova Banka). The subsequent sale of the banks to foreign investors helped the government recoup about 40 percent of this sum.

The government has also made progress in its plan to fully or partially privatize the country's natural monopolies in the energy industry. It is ready to sell off a 49 percent stake in Slovensky Plynarensky Priemysel (SPP), a gas transit and storage utility that plays a key role in transporting

Russian gas to Western Europe. In December 2001, the government agreed to sell to the Russian company Yukos a 49 percent stake in Transpetrol, the utility that operates Slovakia's network of oil pipelines. The government also launched the process of privatizing Slovenske Elektrarne (SE), a state-run utility that operates all of the country's power stations. To this end, Parliament adopted the Act on Regulation in Network Industries, which sets out the legal framework for privatization of the energy sector.

The private sector produces approximately 85 percent of Slovakia's GDP and employs 68.2 percent of all workers in the formal sector. EUROSTAT estimates that the underground economy amounts to 15 percent of the country's GDP.

In the first half of 2001, the country's banking sector produced a profit of almost 9 billion SKK (\$186 million), compared with a loss of 613 million SKK (\$13.3 million) in the same period in 2000. Slovakia has 21 commercial banks (two of which are in the process of merging), two state-run finance houses, and two banks that the government has placed under the administration of the National Bank of Slovakia (NBS), the central bank. It is estimated that when Slovakia's banking privatization is completed, foreign investors will control approximately 90 percent of the banks' total capital.

By amending the Act on the National Bank of Slovakia in 2001, Parliament further strengthened the central bank's independence and spelled out more precisely its mandate and competencies. The amendment forbids the government from financing the public deficit using NBS funds, formally increases the central bank's independence, and shifts the main objective of its monetary policy from restoring monetary stability to sustaining it. In 2001, the Slovak crown was relatively stable against the euro.

Slovakia's capital market continues to suffer from what is commonly known as "capital undernourishment." Low capital share and liquidity, mainly on the stock exchange, is reflected in the shortage of desirable stocks and often by the companies' poor performance. The main causes are the lack of protection for minority shareholders, legislation that allows nontransparent business conduct, and poor corporate governance and shareholder relations.

The overall volume of trades largely depends on the volume of trading in government bonds, which represent more than 90 percent of all trades on the exchange. Some experts say that competition between Slovakia's two securities markets, the Bratislava Stock Exchange and the RM-System, works to the disadvantage of Slovakia's small capital market by keeping both major players weak.

In August 2001, the cabinet approved the new draft bill on securities that is widely considered to be the crucial legal rule for regulating the capital market in Slovakia. The main objective of the law is to create a standard, internationally accepted legislative environment for the country's capital market that complies with requirements of OECD and EU membership.

In the fall of 2001, the government reduced the corporate income tax rate from 29 percent to 25 percent and individual income tax rates from 12 percent to 10 percent in the lowest income category and from 42 percent to 38 percent in the highest bracket. The rates for people in the middle brackets were not reduced.

As part of its continuing efforts to restore macroeconomic stability, the cabinet in January 2001 adopted a package of measures that focused primarily on eliminating economic distortions caused by regulated prices of natural monopolies. The reforms, however, caused a further increase in these prices. The cabinet realized that jacking up regulated prices would not by itself prevent future distortions. Therefore, it established an independent body to regulate prices in the so-called network industries. The Office for the Regulation of Network Industries will begin regulating prices in 2003.

In February 2001, Parliament passed a law aimed at promoting a competitive economic environment. In 2001, the government also substantially amended the commercial code to harmonize it with EU regulations and guidelines and the OECD's Principles of Corporate Governance. The amendment aims to improve transparency in corporate governance. In a continuing problem, Slovakia's inefficient court system poses an obstacle to the speedy resolution of commercial disputes.

In 2000, foreign direct investment (FDI) in Slovakia reached a record high of \$2.032 billion, nearly as much as the total for the previous nine years. However, most investment was for the purchase of shares of privatized firms rather than new companies and factories. This so-called "greenfield investment" in new companies tends to have a greater potential to create jobs. According to NBS data, FDI inflow in the first half of 2001 reached \$570 million.

After the cabinet in September 2000 outlined the basic framework for restructuring and transforming the country's energy sector, it embarked on the process of restructuring and privatizing Slovenske Elektrarne (SE), the monopoly operator of all of Slovakia's power stations. However, the process slowed in 2001, and privatization of a 45 percent stake in SE was postponed until after July 1, 2002.

The cabinet also approved a plan to liberalize the domestic electricity market, but it failed to meet its deadline of July 1, 2001, to liberalize the market to provide energy to large companies. The main reason was that the distribution companies feared they would suffer heavy financial losses as a result of the stiffened competition.

If the cabinet meets a new deadline of January 1, 2002, to liberalize the market for large- as well as most medium-size consumers, Slovakia will have liberalized nearly 32 percent of its domestic electricity market. The government hopes to fully liberalize the electricity market by the end of 2004.

Slovakia's unemployment rate continued to be high in 2001, reaching 19.2 percent in the middle of the year. However, the unemployment rate began to be driven less by a decline in the overall number of employed people and more

by growth in the labor force. At the beginning of 2001, Slovakia's private sector recorded its fastest growth in the number of newly employed people since 1997. Unemployment benefits in 2001 amounted to 28.8 percent of the average monthly wage.

Slovakia's pension system is not sustainable in the long term because of current demographic trends, in particular the growing number of recipients of retirement benefits. Moreover, the value of the benefits is increasing. At the same time, the average value of retirement benefits as a percentage of the average wage (44.1 percent in 2000) in Slovakia continues to be low compared to Western countries. Experts say the existing pension system is flawed because of its pay-as-you-go system of financing. Pension system reforms that are being prepared by the cabinet do not tackle this problem; instead, they envisage that the running system of financing will continue to be predominant even after 2025.

In 2000, the average gross monthly wage reached 11,430 SKK (\$247), down by 4.9 percent in real terms compared to the previous year. In the second quarter of 2001, the average wage reached 12,064 SKK (\$259). Because of moderate growth in consumer prices in 2001, real wages recorded year-on-year growth of 0.3 percent in the first half of the year after declining for one and a half years. In the first quarter of 2001, the highest average wages were in banking and insurance, where typical wages were 1.8 times the national average. The lowest average wages were in the civil service, social welfare, health care, education, and agriculture, where typical wages were only seventh-tenths of the national average.

Although the Slovak Constitution guarantees free medical care to all citizens, the exercise of this right appears to be unsustainable in the long term given the existing way that the health system is financed and its generally poor financial condition. The most serious problem facing the country's health service is its ballooning debt, which in the first half of 2001 amounted to 24 billion SKK (\$496 million), or approximately one-third of the total health budget. According to data provided by the Ministry of Health Care, health care spending in 2000 amounted to 56.9 billion SKK (\$1.2 billion), or 6.4 percent of GDP. However, private analysts said that spending on health care equaled 73.6 billion SKK (\$1.6 billion), or 8.3 percent of GDP, when items like informal payments for medical services are taken into account. Analysts estimated that these informal payments amount to 12 billion SKK (\$260 million).

Grigorij Mescznikov is the president of the Institute for Public Affairs (IVO) and the author of numerous publications on Slovakia's political development. He is also a coeditor of IVO's Global Report on the State of Society in Slovakia. Mr. Mescznikov was assisted in the preparation of this report by his colleagues at IVO Miroslav Kollar, also a coeditor of the Global Report; Michal Vasecka, who writes about ethnic minorities and civil society; and Jozef Majchrak, who has authored studies on criminality and corruption in Slovakia.

SLOVENIA



Polity: Parliamentary democracy

Economy: Mixed capitalist

Population: 2,000,000

GNI per capita at PPP \$ (2000): 17,310

Capital: Ljubljana

Ethnic Groups: Slovene (88 percent), Croat (3 percent), Serb (2 percent), Bosniak (1 percent), other (6 percent)

Size of private sector as % of GDP (mid-2001): 65

The scores and ratings for this country reflect the consensus of Freedom House, its academic advisors, and the author of this report. The opinions expressed in this report are those of the author.

↕↕ and ↗↗ indicate score changes of .25 or more. ↘ and ↗ indicate changes of less than .25.

NATIONS IN TRANSIT SCORES

	1997	1998	1999-2000	2001	2002
Democratization	2.00	↗ 1.95	↗ 1.94	1.94	↗ 1.81
Rule of Law	na	na	1.75	1.75	↘ 1.88
Economic Liberalization	2.38	↗ 2.17	↗ 2.08	2.08	↘ 2.17

KEY ANNUAL INDICATORS

	1995	1996	1997	1998	1999	2000	2001
GDP per capita (\$)	9,417.6	9,438.8	9,102.9	9,792.5	10,050.2	9,073.0	9,416.2
Real GDP growth (% change)	4.1	3.5	4.6	3.8	5.2	4.6	2.2
Inflation rate	13.5	9.9	8.4	8.0	6.1	8.9	8.6
Exports (\$ millions)	8,350.0	8,353.0	8,408.0	9,091.0	8,623.0	8,808.0	9,160.0
Imports (\$ millions)	9,303.0	9,178.0	9,184.0	9,880.0	9,868.0	9,947.0	10,046.0
Foreign Direct Investment (\$ millions)	183.0	188.0	340.0	250.0	144.0	110.0	385.0
Unemployment rate	7.4	7.3	7.1	7.6	7.4	7.2	5.9
Life Expectancy (years)	73.4	74.4	74.7	74.8	74.9	75.3	76.0

INTRODUCTION

Slovenia's transition to a democratic political system and market economy began slowly in the late 1980s and intensified when the country declared independence in June 1991 from the Socialist Federal Republic of Yugoslavia (SFRJ). For the last decade, Slovenia has been a constitutional democracy that is characterized by free and fair elections, a Parliament with full legislative power, and an independent judiciary. The country's political system is stable, and the fact that the current government enjoys a comfortable majority only further enhances political stability. The country possesses few outstanding disputes with other states, and its minorities are generally satisfied.

Although the overall social situation in Slovenia is stable as well, civil society has stagnated somewhat. Levels of membership in nongovernmental organizations remain below global and European averages. However, progress made on this front in 2001 was some of the most encouraging news of the year. Several new NGOs made front-page news throughout the year, and support structures for NGOs increased. A renewed and more vibrant civil society will help maintain stability and could help push it to greater levels.

Another major source of the country's stability has been its economy. Growth has been steady since 1993, and independent observers consistently rank it the strongest economy in Eastern and Central Europe. The World Bank declared Slovenia "fully developed" in 2000.

The work Slovenia has completed to fulfill the requirements of membership in the European Union is perhaps the most significant factor contributing to the country's stability. By the end of 2001, Slovenia had closed 26 of its 29 chapters on accession. That is, it had harmonized 26 thematic groups of legislation with EU law. Slovenia is the most prepared candidate for EU membership, and it has virtually assured itself a place in the first wave of expansion. When it completes the remaining chapters, Slovenia will be on an equal footing with Western Europe, and its transition to democracy and a market economy will essentially be complete.

Despite all of its accomplishments over the last decade, Slovenia does have its flaws. Some of the biggest problems Slovenia confronted during the period covered by this report concerned the independent media. Although the situation is only beginning to attract concern internationally, domestic outcry has been steady and significant. Other shortcomings include the failure to reform the civil service, controversies over corruption, and an increase in police brutality.

DEMOCRATIZATION

Political Process

1997	1998	1999-2000	2001	2002
2.00	2.00	2.00	1.75	1.75

Since 1991, when Slovenia gained its independence from the SFRJ, Slovenia has had a remarkably stable political system. Elections occur regularly and without significant irregularities. Transfers of power consistently take place without incident.

Slovenia held its first direct, multiparty parliamentary elections in 1990, when it was still a part of the SFRJ. Reformed in 1992, Slovenia's parliamentary system resembles Western models. Parliament is composed of two bodies, the National Council and the National Assembly. The 40-member National Council has limited powers: it may advise the National Assembly, call a referendum, or call a parliamentary inquiry. The council has no legislative authority. The 90-member National Assembly is the sole legislative body. It also has electoral and enforcement functions. This system has been described as "incomplete bicameral." Parliament passed an election law in 2000 that introduced a modified proportional system and raised the threshold for gaining seats in the National Assembly from 3.2 to 4.0 percent. The law is consistent with European standards.

The most recent elections to the National Council took place in November 1996. Special bodies that are designed to give civil society a voice in Parliament elect the council's membership. Municipal administrations elect 22 members. Economic groups elect the other 18. Or, more specifically, of these 18 members, nonprofit organizations elect 6; employers, 4; employees, 4; and farmers, small businesses, and professionals, 4. The next election will take place in 2002.

The first postindependence elections to the National Assembly took place in December 1992. The party Liberal Democracy of Slovenia (LDS), which is led by reformed Communists, won the highest percentage of the vote. Although it is the president's responsibility to nominate a candidate for the post of prime minister, thus far the leader of the party that wins the parliamentary election has always filled the position. Parliament confirms the prime minister, who in turn forms the government. In early 1993, LDS leader Janez Drnovsek became the country's first prime minister.

In the 1996 general elections, a deadlock emerged when the left-leaning and right-leaning parties each won half of the assembly's 90 seats. However, since the LDS had won the highest percentage of the vote, it set out to form a government. After three months of maneuvering, a grand coalition composed of the LDS, the center-right Slovene People's Party (SLS), and the Democratic Party of Pensioners (DeSUS) took power.

When the governing coalition collapsed in April 2000, early elections were anticipated. However, at that time the

SLS merged with the Slovenian Christian Democrats (SKD), and the newly created SLS+SKD was able to form a new government, with Andrej Bajuk as prime minister. It did so, though, in the face of considerable resistance. It took three attempts and almost a full month to gain parliamentary approval for Bajuk. It then took two more tries and another two weeks to gain approval for Bajuk's ministerial nominees. The fact that the entire process proceeded according to prescribed processes indicates real stability. When Bajuk finally completed the formation of his government in June 2000, the transfer of power took place properly.

On October 15, 2000, Slovenia held its third parliamentary elections. Eight parties received a mandate: the LDS, the SLS+SKD (formed in April 2000), the Social Democratic Party of Slovenia (SDS), the United List of Social Democrats (ZLSD), the DeSUS, the Slovene National Party (SNS), the Slovene Youth Party (SMS), and the New Slovenia-Christian People's Party (NSi).

Parliamentary Election Results, 1996 and 2000

PARTY	2000 %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	88²	88²

¹ In the 1996 election, the SLS and the SKD ran as two parties. The SLS won 19 seats, the SKD 10.

² The remaining 2 seats are reserved for, respectively, one representative of the Italian national minority and one representative of the Hungarian national minority.

In November, Janez Drnovsek again became prime minister. Exactly one month after the election, the heads of the LDS, the ZLSD, the SLS+SKD, and the DeSUS signed a coalition agreement. This coalition holds 58 of the assembly's 90 seats. Although the SMS did not formally join the coalition, it signed an agreement in which it offered the coalition its support. At present, there are 14 ministers serving as heads of ministries and 1 minister without portfolio. Three of the ministers are women. Including the prime minister, the government comprises 16 posts and is representative of the coalition.

Relations between the government and the opposition are active. The SDS and the NSi, which are informally referred to as Coalition Slovenia, lead the opposition. In the National Assembly, Coalition Slovenia has been critical of the government and has tried to enhance the

opposition's role. At times, the two parties have resorted to obstructionism, though on the whole they have proven to be effective.

Slovenia held its first presidential election in December 1992. Milan Kucan, the head of the Communist Party since 1986, proved victorious in a vote that was considered free and fair. In November 1997, voters reelected Kucan with 65 percent of the vote. The second-place candidate, Speaker of Parliament Janez Podobnik, received only 18.4 percent. Six other candidates divided the remaining votes.

The Law on the Election of the President of the Republic requires a prospective presidential candidate to secure one of the following: nominations from at least 10 members of the National Assembly; the backing of a party that has at least 3 members in Parliament or enjoys the support of 3,000 voters; or the backing of a group of at least 5,000 voters. The next presidential election will take place in 2002. Kucan is not eligible to run for a third term. Several politicians, including Prime Minister Drnovsek, have announced their intentions to run.

In 1992, voter turnout in independent Slovenia's first general election was 80 percent. Turnout has declined ever since, particularly in urban areas. 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 of voter participation: in 1994, 60 percent in the first round and 50 percent in the second; in 1998, 55 percent. Special elections in Ljubljana in 2001 had a turnout rate of only 36 percent. The State Election Commission does not collect data on female voter participation.

A wide range of parties has existed since 1989. Although only 1.5 million people in Slovenia are eligible to vote, 34 parties are currently registered. Independent candidates and candidates with multiple party affiliations also participate in elections. They generally have much more success in local elections than in national ones. No political parties have been banned or declared illegal.

To form a party, 200 adult citizens must sign a petition and submit it for entry into a register at the Ministry of Internal Affairs. Parties that maintain their headquarters abroad are banned, as are contributions from foreign sources. Parties that hold seats in Parliament receive roughly 60 percent of their funding from the legislature itself. These parties must provide financial reports to the National Assembly and to the court of audit, which monitors their budgets.

Membership figures of political parties are not widely circulated. However, membership levels have declined steadily in the past 10 years. The same has been true of participation in nongovernmental organizations and trade unions.

The Constitution guarantees minorities participation in Parliament by reserving one seat each for the country's Italian and Hungarian communities. There are no significant minority-based political parties or movements. The number of women in Parliament increased from 7 in 1996 to 12 in 2000.

Civil Society

1997	1998	1999-2000	2001	2002
2.00	2.00	1.75	1.75	1.50

Slovenia's NGO sector enjoyed a promising start in the late 1980s, when the Communist Party embraced political and social pluralism. However, over the last 10 years, it has lost much of its influence and has fallen into sharp decline. The most significant civil society movement of the 1980s was the Committee for the Defense of Human Rights, which citizens organized in 1988 to protest the highly politicized trial of Slovene journalists who had been accused of possessing classified military documents. Less than a year later, more than 100 grassroots organizations and 10 alternative political parties were thought to have formed. When Slovenia's political space opened, many of the nation's early NGO leaders entered politics. Their departure left a vacuum in civil society.

In 2001, there were hopeful signs of a renaissance in civil society. In February, a dynamic group called the Office of Intervention burst onto the scene by organizing two rallies to show solidarity with refugees and to protest general intolerance in society. The Office of Intervention was founded in 2000 to deal with intolerance against refugees, but throughout 2001 it widened its focus to include all forms of intolerance. In the summer, the Movement for the People emerged in Maribor. This group led the outcry over the government's decision to locate the headquarters of the new Slovene Electric Holding in Ljubljana instead of Maribor.

Perhaps the most significant development in 2001 was the founding by 27 NGOs of the Center for Non-Governmental Organizations of Slovenia (CNVOS). More than 40 NGOs are now active in the project, the mission of which is to help develop and strengthen the NGO sector by improving legal, tax-related, and human resources conditions. The center will act as an intermediary between the government and the NGO sector and give NGOs a greater say in the preparation of legislation and government policies. The governmental Service for European Affairs provides CNVOS with partial funding.

There are more than 15,000 NGOs in Slovenia today. They focus on a wide spectrum of concerns, including the environment, gay and lesbian issues, religion, minority issues, sexual harassment, drug use, and suicide. NGOs also work to increase levels of technical competence in business and public policy and to provide training for university faculty and media professionals. Most NGOs have weak organizational structures, small memberships, and very few, if any, paid staff members. More experienced NGOs guide and provide assistance to other groups on a limited basis. Information about NGO management issues is widely available in the Slovene language.

A survey conducted in 1992, one year after independence, found that Slovenia had the lowest levels of membership in NGOs in Central and Eastern Europe. A follow-up survey in 1999 showed that membership in most voluntary

organizations had doubled or tripled but was still well below the European average from 1992. The United Nations Development Programme estimates that today, levels of membership in voluntary organizations in Slovenia are among the lowest of all developed countries. Only participation in volunteer fire brigades may be considered above global and European averages. According to a recent UNDP report, Slovenia "closely resembles" Romania, Bulgaria, and Hungary in terms of membership and work in voluntary organizations.

A 1995 law regulates the activities of associations, foundations, and other nonprofit organizations. NGOs generally lack financial resources and depend on external sources of funding to conduct programs. Although they may earn income, NGOs may not be founded for the sole purpose of making a profit. 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 regrating organizations.

Numerous NGOs address women's issues. Slovenia also has various crisis and help lines for women who are victims of violence. A network of NGOs that operates under the name Autonomous Women's Groups cooperates with international and foreign organizations on the promotion of women's issues. Major political parties have women's groups within them. There are also professional groups for women such as the Women's Section of the Managers' Association and the Slovene Policewomen's Network.

Many minority groups, including the Italians, Hungarians, Serbs, Bosnians, and Albanians, have formed their own civic and cultural organizations. The Roma have been particularly successful in this regard. Most religious groups are quite small and do not possess sufficient resources to engage in extensive charitable work. The Roman Catholic Church is by far the largest, most influential, and most active religious group in the country. The significantly smaller Evangelical Church holds a special place owing to its historical role as guardian of the Slovene national identity.

Trade unions play a larger role in public life in Slovenia than in other southeast European countries. The Constitution protects the right to unionize, bargain collectively, and strike. According to the European Commission, approximately 50 percent of workers belong to trade unions. For a total national workforce of about 850,400, there are approximately 30 unions. The country's 2 leading unions have constituent branches throughout the country. There are also several unions for government administrative workers and a number of small-business associations.

The Union of Workers in State Organs and Organs of Local Communities has approximately 13,500 members, or about 45 percent of all state and local administrative workers. The Police Union, with 4,000 to 5,000 members, represents only public servants in the Ministry of the

Interior. Most farmers are represented by their political parties. Although individual union members hold positions in the legislature, unions themselves are independent of the government.

The country's 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 established a council for determining wage and social policies. According to the Chamber of Crafts of Slovenia, Slovenia's small manufacturing and skilled trades sector employs almost 130,000, or nearly 20 percent of the workforce. At the beginning of 1998, membership in the Chamber of Crafts was approximately 51,400. However, trade unions have also experienced declining membership. Between 1992 and 1999, membership in trade unions fell by approximately 12 percent. That trend continued through 2001.

The public and the government see the nonprofit sector in a positive light. Media coverage of NGO events and activities is frequent and generally accurate and fair. Interest groups and other associations are not consulted during the preparliamentary stages of the legislative process. However, every piece of legislation must be submitted to the National Council, which often consults with NGOs on draft laws. In recent years, informal consultations with various interest groups have taken place during the preparation of major pieces of legislation.

The Law on Referenda and Popular Initiatives, which entered into force in July 2001, states that the results of referenda must become law within one year of the referendum. It also raises the number of signatures required to propose a referendum from 200 to 1,000. The Speaker of Parliament must receive those 1,000 signatures within seven days of the passage of a law. Upon receipt, supporters of a referendum have 30 days to collect the 40,000 signatures needed to hold it. Formerly, the 30-day period started on the day the law was passed. The intention of the new law is to lessen the abuse of referenda as a means of obstructing the work of the government.

Overall, Slovenia's educational system is free of propaganda and political influence. There are 814 primary schools in Slovenia, 146 secondary schools, and 69 institutions of higher education, including 2 universities. Plans for a third university in the coastal Primorska region proceeded over the course of 2001. Plans for a fourth university in Novo Mesto in the Dolenjska region lack support.

In June, university students protested in Ljubljana and Maribor over two major issues: a proposed increase in the cost of education and a proposal to eliminate the tax-free status of student income and financial aid. Virtually simultaneously with the demonstrations, the government established two councils to deal with the students' problems. The first council will formulate a strategy for developing educational standards and improving higher education in the country. The second council will oversee the comple-

tion of 4,000 new student housing units, the construction of which began in 1998. Later in the year, the government increased the plan to 4,500 units.

Independent Media

1997	1998	1999-2000	2001	2002
1.75	1.75	1.75	1.75	1.75

True freedom of the press in Slovenia can be traced to the 1980s. The weekly magazine *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 Communist regime. *Mladina* and its journalists, along with the journal *Nova Revija* and the alternative radio station *Radio Student*, played a major role in opening up the political and social space in Slovenia. By the 1990s, however, the quality of the media had started to slip.

There are three serious dailies in Slovenia: *Delo* (circulation 93,000; readership 220,000), *Vecer* (78,000; 197,000), and *Dnevnik* (71,000; 150,000). However, the tabloid-style *Slovenske Novice* (96,000; 302,000) is the most popular daily by far. Together, these four papers control some 90 percent of the total market. Additionally, there are two specialized dailies: the sports paper *Ekipa* (18,000; 42,000) and, as of February 2001, *Finance* (9,000; 52,000). There are also about five regional, two national, and three local nondailies that have a total circulation of about 330,000.

The Italian and Hungarian minorities enjoy state-supported radio and print media. Both the Bosnian and the Albanian communities publish newsletters in their languages. In late 2000, a Serbian group began publishing a bilingual journal with financial assistance from the Ministry of Culture. The country's Roma minority has two local radio programs and a news bulletin.

The national press agency, *Slovenska Tiskovna Agencija* (Slovene Press Agency, or STA), was founded in 1991. STA offers regular materials in Slovene as well as additional materials in English. It is a member of the European Association of Press Agencies.

The national *Radio-Televizija Slovenija* (Slovenia Radio-Television, or RTVS), which broadcasts over 3 radio stations and 2 television channels, is Slovenia's leading provider of audiovisual media. At the national level, there are 4 commercial television stations: *Gajba TV*, *Kanal A*, *POP TV*, and *TV3*. There are also about 42 private stations at the local level. Of the country's approximately 68 private radio stations, *Radio Maribor* and *Radio Student* are among the most popular.

The Slovene Journalist Society was established in 1944. Today, around 95 percent of all journalists belong to it, but data on membership are not readily available. Overall, the society is not considered politically influential. Although there are trade unions for most media professionals, there are none for private television professionals.

Three groups offer assistance to the media: the Coordinating Center for Independent Media, the International Federation of Journalists Balkan Coordinating Center for Independent Media, and the Union of Slovene Journalists. The Open Society Institute closed its office in Slovenia in 2000.

Article 39 of the Constitution guarantees freedom of the press by securing 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, which is the result of more than 40 years of authoritarian Communist rule. At least 14 articles in the penal code address the issue of libel.

After almost two years of deliberations, Parliament passed a new Law on Media in April 2001. Compared to its predecessor of 1994, the new law increases the responsibility of media to the state and strengthens the state’s influence on state-run media programming, questions of ownership, and internal organization. It contains special provisions on regulating the use of the Slovene language in the media and on preventing and punishing the promotion of intolerance through the media. The law also contains a controversial provision on the creation of the Fund for Audio Visual Materials; provides guidelines for government support of media activities; and removes ownership restrictions on media enterprises. There are no provisions on regulation of the Internet. Neither the government nor media professionals are satisfied with the law. Nonetheless, it accomplishes the goal of fully harmonizing Slovenia’s media legislation with that of the European Union.

As of 1997, all media, with the exception of RTVS, had been privatized. One of the country’s three publishing houses has entered the stock market. Independent vendors control distribution. A small domestic market and a lack of diversified funding contribute to intense competition among media outlets.

Previously state-owned operations tend to have greater capital assets. Four of the current daily newspapers were established before independence, and most attempts to found new dailies have failed. *Slovenec* began publication in June 1991 but folded in November 1996; *Republika* published from 1992 until 1996; and *Jutranjik* lasted only for the month of June 1998. Only *Slovenske novice* and *Finance* have successfully entered the market. Even well-funded papers lack the diversified financial base needed to insulate them from sudden fiscal difficulties. Foreign investment in the media is rare, especially in the print media. At present, the state provides no subsidies to stimulate plurality in the media.

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

lack proper reporting skills, and about economic competition that gives rise to sensationalism. Nonetheless, Slovene 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 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 or publication has no detrimental consequences for the state.

Two events in 2001 raised serious concerns about freedom of the press in Slovenia. First, a court ruled that authorities had committed a human rights violation when they attempted to establish RTVS reporter Tomaz Ranc’s sources by acquiring a list of phone numbers that Ranc had called in late 1998. At the same time, the ruling itself could suggest something positive about the preservation of journalists’ rights because, according to the magazine *Mladina*, it is the first official record of violations of the human rights of journalists in Slovenia. Second, *Vecer* correspondent Miro Petek was brutally attacked on February 28, 2001. The attack took place in front of his home and left him in critical condition. Police have found no suspects. Late in 2001, a parliamentary commission began investigating the work of the police and the possibility of involvement by public officials in the affair. In January 2002, the International Federation of Journalists will begin an independent investigation.

Freedom House’s Annual Survey of Press Freedom rated Slovenia “Partly Free” in 1994 and 1995. It has rated the country as “Free” since 1996. In November 2000, the International Press Institute reported that of the 55 member states of the Organization for Security and Cooperation in Europe, only 11—including Slovenia—did not violate press freedom in 1999 and 2000.

The Internet is increasingly making headway into Slovenia. According to Research on Internet in Slovenia (RIS), as of October 2001, 25,000 people were using the Internet daily; an additional 450,000 were using it monthly; and 660,000 had used it at least once. Researchers predict that by July 2002, some 960,000 people will have used the Internet at least once. By the same date, there could be 540,000 regular users.

According to RIS, all high schools and 99 percent of elementary schools had Internet access in 2001. The results of a study conducted in 2000 by the Faculty for Social Studies in Ljubljana revealed that more than 47 percent of the 519 students surveyed have access to the Internet at home. This figure is well over the European average. In Finland and Switzerland, for example, the figure is only 9 percent; in the United Kingdom, 7 percent; in Denmark, 3 percent;

and in Spain, 2 percent. One-quarter of students under the age of 14 use the Internet, and the figure rises with age.

Approximately 40 percent of regular Internet users live in Ljubljana; an additional 26 percent live in Maribor. To spread Internet access more evenly across the country, the Ministry of Information Society began establishing so-called e-schools in late 2001. In addition to training and educational programs, these schools offer free Internet access to the general public.

Governance and Public Administration

1997	1998	1999-2000	2001	2002
2.50	2.50	2.25	2.50	2.25

Slovenia has legislative, executive, and judicial branches of government. Although Parliament is composed of two houses, real legislative power is reserved for the lower house, the National Assembly. The Office of the President of the Republic of Slovenia heads the executive branch. The Constitutional Court and other courts form the judicial branch.

The legislature is effective and possesses sufficient resources to carry out its mandates. However, 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.

Executive and legislative bodies operate with a level of transparency that is comparable to international standards. State and local laws, acts, and other regulations are published in the *Official Gazette of the Republic of Slovenia*, which is available in electronic and print formats and in Slovene and other languages. The *Gazette* also includes public tenders, public advertisements, judicial decisions, and international agreements or contracts that the government has signed or ratified. The government also regularly publishes economic statistics in accordance with the regulations of the Organization for Economic Cooperation and Development.

According to the 2000 annual report of the Ombudsman for Human Rights (OHR), Article 39 of the Constitution guarantees access to nonsensitive information, but additional legislation is needed to execute the provision. The report states that pending legislation on classified information and personal data is insufficient and ultimately will establish a legal basis upon which to refuse access to information.

Since Slovenia has only two million inhabitants, regional governments do not exist. As part of its EU membership plan, though, the government must formulate a regional structure in order to receive funds for regional

development. Initially, the government wanted a bipartite structure that would consist of the metropolitan area of Ljubljana and the rest of the country. The plan came under fire domestically and was refused by Brussels.

For official statistics and regional development projects, the country uses 12 "statistical regions." Regional development policies require these regions to establish agencies that will prepare regional development programs. These programs should be formulated in the context of a national program, but the government has not yet adopted one. Since the government's budget for the years 2002 and 2003 does not explicitly earmark funds for regional development, it is unclear how these projects will be funded.

Slovenia's current system of local government came into force in January 1995. There are 192 municipalities, including 11 urban municipalities. By 2002, the total number of municipalities could be 200. Municipalities may join and form provinces or other larger self-governing communities on the basis of referenda, though to date none have done this. Municipalities have authority over town planning, trade and industry, housing, utilities, sewage, trash collection and disposal, roads, transport, ports, education, social services, health care, fire and civil protection, parks, cultural institutions, and tourism. Cities and towns that have the status of "urban municipality" may also be required to carry out certain tasks that fall under the jurisdiction of the state but are related to their own development.

Even though a significant level of authority has been devolved to municipalities, Maribor mayor Boris Sovic has emerged as a sharp critic of what he sees as the government's centralizing policies. For example, Maribor had lobbied to become the seat of a newly created Holding of Slovene Electric Producers. Although circumstances would have allowed this, the department ultimately was established in Ljubljana in the summer of 2001. The government does seem resistant to establishing important offices outside the capital, but smaller, less important bureaus have headquarters around the country, including in Maribor.

In March 2001, Anton Kokalj, the president of the Union of Slovene Towns, also spoke out against centralism. Criticizing a draft law on civil servants that would give the government influence over local governmental staffing and would limit the authority of mayors and municipal authorities, Kokalj warned that centralizing forces would only get stronger in the future. That same month, Boris Sovic said that centralizing tendencies were also apparent in the national budget. Although the share of gross domestic product for the government's budget rose from 25.2 percent in 2000 to 26.2 percent in 2001, the share for local budgets fell from 5.29 percent to 5.12 percent. When factors such as inflation are figured in, the reality is much worse, he said.

The government acknowledged the problem of centralization in September 2001, when Prime Minister Drnovsek visited Maribor. Drnovsek met with Sovic and

representatives of local NGOs. The prime minister said his visit was intended to demonstrate his commitment to resolving the issues of decentralization and regional development, but Sovic remained unconvinced. Upon his return to the capital, Drnovsek presented Maribor's position to Parliament and asked it to draw up a list of state institutions that rationally could be moved out of Ljubljana.

The 1994 Law on Local Government took the responsibility for state and local tasks away from local governments. Local units that are linked to the national ministries now administer state tasks, and the officials in charge of these units are nominated by the central government. Local tasks are carried out through the municipalities, the leaders of which are employees of the local government. The Constitutional Court settles disputes over jurisdiction.

Municipal councillors 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.

In a 2001 report, the Council of Europe criticized municipalities' lack of fiscal independence and called for increased cooperation between the Ministries of Finance and Internal Affairs on the issue. By law, municipalities should be self-financed through local taxes, duties, and revenues from municipal property. Taxes generally account for 46 percent of local revenues, and economically underdeveloped municipalities may receive additional funding from the state. However, according to the Council of Europe, only 25 percent of municipalities are actually self-financed. The rest receive state subsidies, which limit their constitutionally guaranteed autonomy and drain the national budget.

Slovenia made little progress in 2001 in reforming its civil service. Although Parliament passed a new Code of Conduct for Civil Servants in January 2001, a proper civil service act is still under preparation. New laws on the wage system in the public sector, an order on hours of operation and working hours in the state administration, and an order on the criteria for dismissal from a position in the public sector were all passed in March. Amendments to the Law on Local Self-Administration, which will make local civil servants part of the national civil service, have also been proposed. Among other things, this would raise salaries and lower the chance of corruption.

The Law on Public Servants and the Law on Wage Ratio in Public Institutions, Government Bodies, and Local Community Bodies, both of which were passed in the mid-1990s, contain some civil service regulations. Still, the European Commission continues to criticize the need for civil service reform. Regulation of the civil service is of great importance in Slovenia, since the majority of complaints addressed to the Ombudsman for Human Rights are related to poor government administration.

RULE OF LAW

Constitutional, Legislative, and Judicial Framework

1997	1998	1999-2000	2001	2002
1.75	1.50	1.50	1.50	1.75

The Slovene Constitution has been in force since December 1991. Since then, it has been altered only twice. Article 68 was amended in 1997 to allow foreigners to own property, and Article 80 was amended in 2000 to reflect changes to electoral procedure. The EU requires amendments to several other articles as part of the accession process. Among the articles that Parliament must change are those dealing with the formation and composition of the government, regionalism and local self-government, appointments and elections of judges, the composition of the Judicial Council, referenda, and sovereignty. Parliament must amend Article 68 again in order to abolish the principle of reciprocity. At present, a citizen of an EU country may purchase land in Slovenia only if a Slovene has the same right to purchase land in the EU country. With the amendment, all EU citizens will have the right to own land in Slovenia regardless of whether Slovenes may own land in the EU's individual member states. Parliament established a constitutional commission in mid-2001 to prepare the amendments.

The highest judicial authority in the country is the Constitutional Court. It consists of nine judges, whom the National Assembly appoints for a single nine-year term upon presidential recommendation. 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.

One of the Constitutional Court's most interesting rulings in 2001 was its decision that the Municipal Council of Novo Mesto must make a place for a representative of the Roma community. This seat will be filled at the next municipal election. In 1997, Novo Mesto refused the request of a local Roma activist to run as a Roma municipal councillor, since the city's statute did not allow this. The activist, on the basis of Article 39 of the Law on Local Self-Administration, took the case to the Constitutional Court in 1998. In March 2001, the Court ruled that the Law on Local Self-Administration is unconstitutional because it is incomplete and open to misinterpretation. It also ruled that Parliament must align the law with the Constitution within one year. Further, the Court ruled that the statute of Novo Mesto is incompatible with the Law on Local Self-Administration and gave the Municipal Council six months to re-

visé it. These rulings will affect all of Slovenia, not just Novo Mesto. Currently, the Municipal Council of Musk Sobota is the only council in the country that has a representative of the Roma community on it.

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, who are elected by their peers, and five presidential nominees, who are elected by the state assembly.

The Constitution guarantees the right of a defendant to an attorney, and this right is respected in practice. Overall, Slovene judges rule fairly and impartially, and judicial decisions are effectively enforced. Courts authorize searches and issue warrants. Although the judiciary is linked to the Ministry of Justice, international observers report that the judiciary operates as an independent branch of government and is not linked to any executive body. According to the European Commission, the main problem facing the 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 no such treatment has been reported. Human rights organizations have not 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 regarding the use of special investigation methods entered into force in January 1999.

Persons who are held in custody for the alleged commission of a crime must be advised of the reasons for their detention in writing, and in their own language, within 24 hours. Detention may last up to six months before charges are brought. Slovenia's judicial system is overburdened, and in some instances criminal cases take 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.

Section II of the Constitution explicitly addresses human rights. 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 that are 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 66–79 of the Constitution. However, the property rights of foreigners are limited. According to the European Commission, progress in denationalizing property has been

slow. A special office was established in March 1999 to act as a coordinating body, but its mandate is not clear. A land registry also exists, but it is not computerized. As of September 2001, the state had received 35,880 denationalization applications, of which 23,224 (or 65 percent) have been completed without difficulty. In total, some 33,000 cases have already been finalized. The government expects to complete the denationalization process by 2003.

The Constitution also mandates 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. In June 2001, the Office of the Ombudsman for Human Rights issued its sixth annual report, which showed no serious or systematic human rights violations. Among the problems it points out, though, are the often excessive length of time required to resolve administrative and judicial matters; the slow pace of passing laws that are important to the protection of human rights and amending laws that are inconsistent with the Constitution; failure to respect legal deadlines; delays in adopting nonstatutory regulations; and the failure to implement laws that are already in force. In 2000, the OHR opened 3,059 cases. Of these, 32.4 percent involved court and police procedures and 17.5 percent concerned administrative affairs. These figures were down 10 percent from 1999. In 2001, Amnesty International put Slovenia on its list of human rights abuses for the first time. The organization cited a rise in 2000 in the number of recorded cases of police brutality.

Though commonly seen as ethnically homogeneous, Slovenia's population does have diversity. Article 64 of the Constitution grants the country's 3,063 Italians and 8,499 Hungarians the right to education, media, and legal defense in their own languages. These two communities also receive 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 status or exercise of the specific rights of their group. The Italian and Hungarian communities also have the right to promote their ties with Italy and Hungary.

Official figures show that there are 2,282 Roma in Slovenia. Some estimates put their actual number between 7,000 and 10,000. Slovenia has not passed a general protection law for the Roma community, but Article 65 of the Constitution, the 1993 Law on Local Self-Government, the Law on Local Elections, and education regulations do offer it protection. According to some NGOs, the community's situation varies around the country. In the northeastern Prekmurje region, the situation is exemplary. However, in the southeastern Dolenjska region, Roma are considerably worse off.

Since Slovenia's independence, the Austrian government has pressured the Slovene government to recognize a German-speaking minority that numbers 546 people. However, inquiries into the state of this group have shown that it is

scattered throughout the country and does not form a majority in any settlement. The Slovene government has refused to grant special rights to such a small group, but it did satisfy Austria in 2001 by signing a cultural agreement that regulates the group's position.

International observers praise the protection that the government has given these groups. However, much larger groups enjoy no special status. Some 47,097 Serbs live in the country and are officially considered part of a nonautochthonous, or nonindigenous, minority. However, Serbs have lived in the Bela Krajina region since at least 1530. Certain Croatian communities on the border between Slovenia and Croatia can also claim autochthonous status, though this is officially unrecognized. Of the 53,688 Croats in Slovenia, 18,657 live on the border; 14,580 Slovenes live on the Croatian side.

Corruption

1999-2000	2001	2002
2.00	2.00	2.00

International agencies, including the European Commission, the Council of Europe, and Transparency International, consistently rate Slovenia among the least corrupt countries in the region. A December 2000 report by the Council of Europe's Group of States Against Corruption (GRECO) stated that "corruption is not, in general, perceived as being a major threat to society." However, the report did note a serious need for an anticorruption program and stronger legislation. Anecdotal evidence suggests that bribe requests are not standard practice in the attainment of services. However, accusations of insider deals and a lack of transparency have surrounded the privatization process. Since the privatization process is far from complete, there are still opportunities for corruption to grow.

In 1999, Transparency International ranked Slovenia 26th out of 99 countries in its Corruption Perceptions Index, thus making it the least corrupt in the region. The following year, it fell behind Estonia, to 28th. For 2001, Slovenia ranked 34th, behind both Estonia (28th) and Hungary (31st).

The Slovene legal system does not define the term *corruption*. However, existing legislation does cover seven offenses that Council of Europe instruments consider as "corruption." The criminal code penalizes criminal offenses against the economy. Bribery in commercial enterprises is defined in Articles 247 and 248; bribery of officials is included in Articles 267 and 268. Initiatives to combat corruption have been a part of 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 Law on Workers in State Organs (LWSO) contains mechanisms for preventing conflicts of interest between officials and private businesses. For example, Article 27 of the LWSO prohibits senior officials from performing the same or similar types of jobs for private businesses and companies that they perform within the government administration. Lower-level officials may work for private businesses and companies on a contractual basis, but only if they obtain explicit authorization from the heads of their administrative units. Inspectors may not perform jobs outside the administration 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 officials are subject to financial disclosure.

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. In May 1999, Slovenia signed the Council of Europe's Criminal Law Convention on Corruption, and in February 2000 Parliament ratified it. In September 2001, Slovenia ratified the OECD Convention on Combating Bribery of Public Officials in International Business Transactions after having joined the working group in January 2001.

The country's first major corruption scandal hit the front pages in November 2000, when State Secretary of the Ministry of the Economy Boris Sustar, his wife, and two others were arrested. In spring 2001, a court sentenced Sustar to three years in prison and fined him SIT 7 million (\$30,000) for accepting a bribe. In November 2001, Sustar held a press conference with Helsinki Monitor and alleged that his arrest and conviction were politically motivated.

Sustar maintains that he fell out of favor with his party, the LDS, when the short-lived Bajuk government permitted him to remain at the ministry. LDS leaders distanced themselves from him and then, Sustar alleges, sacrificed him to higher interests: the need to prosecute a high-profile corruption case to prove the government's commitment to fighting corruption. Sustar maintains that bribery between corpora-

tions and the government is common, even among some prominent politicians. Helsinki Monitor is investigating.

Both in absolute terms and as a percentage of total crimes, the number of corruption cases is low. According to the governmental Office of Statistics, authorities received reports of 35 alleged cases of corruption in 1995, but there were only 15 convictions. The proportions for 1996 (19 convictions, 32 reports) and 1997 (13 convictions, 19 reports) were aggressive, but successive years have been far less impressive. The ratio was 16 to 33 in 1998, 15 to 56 in 1999, and 9 to 42 in 2000.

The government has argued that corruption is not widespread for many reasons, one of which is the country's small size. Also, the fact that the gross base pay of civil servants is comparable to that of workers in the private sector also lessens the potential for 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 depending 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, may also be included in a civil servant's pay.

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, unofficial surveys show that the public perceives significantly more corruption than official statistics present. In a poll taken by *Delo-Stik* in March 2001, nearly half of the 711 respondents felt that corruption was too widespread. Almost 60 percent said that they believed the country is too tolerant of bribes. Sixty-four percent said they had been in situations in which they thought a bribe would have helped them, and 29 percent said they had been in situations in which they felt a bribe was expected. Only 14 percent had actually tried more than once to pay a bribe.

GRECO has offered two possible explanations for the discrepancy between official statistics on corruption and public perceptions of it: many incidents of corruption may go undiscovered or unreported, or offenders may be convicted on charges other than corruption. A report from the European Union/Council of Europe Corruption and Organized Crime in States in Transition (OCTOPUS) project agrees that many corruption cases related to privatization have been concealed under criminal charges of abuse of position and fraudulent contracts because corruption is difficult to prove.

In response to the GRECO report, the government established the Office for the Prevention of Corruption in July 2001. The office is expected to begin work in early 2002. Its major tasks will be to formulate a definition of corruption, to define a systematic approach to dealing with the problem, and to propose additional legislation. The bureau's first task will be to devise an anticorruption strat-

egy. There are no anticorruption public education efforts taking place at this time.

ECONOMIC LIBERALIZATION & SOCIAL INDICATORS

Privatization				
1997	1998	1999-2000	2001	2002
2.75	2.50	2.25	2.25	2.50
Macroeconomic Policy				
1998	1999-2000	2001	2002	
2.00	2.00	2.00	2.00	
Microeconomic Policy				
1998	1999-2000	2001	2002	
2.00	2.00	2.00	2.00	

For many years, the Slovene economy has been one of the strongest in the region. Building on the strong manufacturing and export base that was created in the 1980s, Slovenia has increased its gross domestic product steadily since the end of the economic disruption that immediately followed independence. In the early 1990s, the government undertook policies independent of external recommendations. Since then, the country has enjoyed much success. Economic reforms have proceeded 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.

According to the European Bank for Reconstruction and Development, Slovenia's macroeconomic reform is among the best in the region. Steady economic growth has been recorded since 1993. There also has been substantial progress in reducing inflation and in keeping fiscal spending and the current account in balance. By 1999, Slovenia's GDP per capita at purchasing power parity had reached 71 percent of the EU average.

After exhibiting strong GDP growth rates in 1999 and 2000, the economy was hit by international conditions in 2001. The predicted growth rate of 4.4 percent was scaled back to 3.7 percent. Growth rates were 4.25 percent in 2000 and 5.0 percent in 1999. The trend is expected to continue into 2002, with predictions falling from 4.2 to 3.6 percent. However, the 2001 and 2002 predictions are still higher than those of EU member states.

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 still remains stable.

Continuing a trend from 1999 and 2000, the tolar's value fell by 4 percent in 2001. The Institute for Macroeconomic Analysis and Research gives several reasons why. These include the introduction of foreign currency accounts for legal entities and private individuals in September 2000; large demand for foreign currency that resulted from a deficit in the current accounts of the balance of payments; and the strength of other currencies like the U.S. dollar.

In 2000, the average exchange rate of the tolar depreciated by 3.4 percent; in 1999, it depreciated by 0.7 percent. The tolar is expected to strengthen in 2002, and the country anticipates joining the European Monetary Union by 2007.

In 2001, inflation was pinned at 7.5 percent after a rising trend throughout 1999 and 2000. High oil prices in 2000, higher inflation rates in the country's main trading partners, and the relative strength of the U.S. dollar all contributed to this trend. The weakening of the SIT further compounded the problem. In 2000, inflation was 8.9 percent due to external factors such as high oil prices and a strong U.S. dollar, which pushed up import prices. The Ministry of Finance reported that the general government deficit for 2000 was 1.36 percent of GDP—a figure it is planning to reduce gradually in the next four-year term. The EBRD predicts a deficit of 1 percent in 2001.

Unemployment has remained steady for several years. In 1993 and 1994, the EBRD recorded it at 9.1 percent, but since 1995 it has remained under 8.0 percent. The EBRD predicts the final rate for 2001 will be the lowest yet, at 7 percent, and well below the EU average.

Based on national and Eurostat statistics, the number of Slovenes living below the poverty line in 1997–1998 was considerably lower than that for most EU states: 11.3 percent in Slovenia; 22 percent in Portugal; 21 percent in Greece; 19 percent in Italy; and 18 percent in Spain. Even Denmark, Luxembourg, and the Netherlands, at 12 percent, had a higher number of people living in poverty than did Slovenia.

Levels of foreign direct investment improved slightly in 2001. The Bank of Slovenia reports that from January to August 2001, the country received \$199.8 million, up from \$181 million in 2000 and \$144 million in 1999. This indicates a partial recovery, following a decline that began in 1998. That year, the level of FDI fell to \$250 million, after hitting a peak of \$340 million in 1997. The recovery is attributable in part to the National Scheme for Attracting Foreign Direct Investment, which the government adopted in 2000. The EBRD measures cumulative foreign direct investment from 1988 to 1999 at approximately \$1.4 billion, the sixth highest in the region per capita. Projections by the Economist Intelligence Unit expect a modest inflow of \$590 million for the period 2001–2005.

The Law on Foreign Investment protects foreign companies' rights. Foreign companies can repatriate profits and take on every form of organization allowed by law. Nevertheless, foreign companies operate under strong restrictions.

In addition to experiencing 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.

Although foreign companies may establish branch offices and legal entities in Slovenia, they may not establish representative offices. Foreign investors are also restricted in their ability to obtain 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 weeks but can take up to six months. New rules liberalizing foreign ownership of property were introduced in February 1999.

Since Slovene companies were "socially owned" rather than state owned during the Communist period, the privatization process has been more decentralized than in other post-Communist countries. That is, since Slovene companies formally had no legal owners, staff worker councils nominated managers, though often with direct or indirect influence by the state. Individual companies also had a high degree of autonomy, thus giving them much more latitude to make privatization decisions relative to central authorities.

By 1998, when the large-scale privatization process came to an end, 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 published a list of properties earmarked to cover the gap in November. The paperwork on eliminating the gap should be complete in early 2002.

Some banks, utilities, and other large firms are still state owned. However, the government announced plans for the privatization of the two largest banks, the New Ljubljana Bank and the New Credit Bank of Maribor, in 2001. The biggest setback in 2001 was the failure to begin privatizing Telekom Slovenije. Up to 25 percent of the state's 66.52 percent share was scheduled for sale, but the government decided to wait owing to international economic factors. This is representative of the country's overall attitude toward privatization. Since the economy is strong and the government is not desperate for foreign money, it is content to wait until state-owned industries can be sold for the best price.

With regard to social indicators, Slovenia ranks 29 out of the 174 countries rated in the UNDP's latest Human Development Index. This puts the country in the top echelon, just behind Portugal and well ahead of the rest of Central and Eastern Europe, for the third year in a row.

The index is based on health, education, and standard of living statistics.

The UNDP has also compared the 12 statistical regions in the country, and its findings have revealed a high degree of polarization. Residents of the eastern regions of Slovenia are generally less satisfied with their standard of living than residents of other parts of the country. Furthermore, the suicide rate in the eastern regions is considerably higher than the national average, which is chronically high at roughly 30 per 100,000 inhabitants annually. This suicide rate virtually matches the United Kingdom's total mortality rate by murder, suicide, accidents, and all other external factors.

The UNDP has also noted another social ill, intolerance, and has placed Slovenia among the countries that have the highest levels of ethnocentrism and xenophobia. The 2000–2001 Human Development Report, Slovenia, states,

“Even though according to the latest surveys (from 1999), all types of intolerance are decreasing, Slovenia remains one of the distinctly intolerant countries. Intolerance is—more than through (racist) groups—evident through the underground roots in the Slovenian mentality, public, media, and through the so-called drinking discourse.”

While explicitly prohibited by the Constitution, the most common manifestations of intolerance are subtle ones such as bias and discrimination. More radical manifestations, such as hate crimes, are far from unknown. The publication of hate speech by politicians and professionals is common. Among the groups most affected by intolerance are Roma and homosexuals.

Brian J. Pozun is a regular contributor on Slovenian and Balkan affairs to Central Europe Review (www.ce-review.org) and Ljubljana Life.

TAJIKISTAN



Polity: Presidential

Economy: Mixed statist

Population: 6,200,000

GNI per capita at PPP \$ (2000): 1,090

Capital: Dushanbe

Ethnic Groups: Tajik (65 percent), Uzbek (25 percent), Russian (4 percent), other (6 percent)

Size of private sector as % of GDP (mid-2001): 45

The scores and ratings for this country reflect the consensus of Freedom House, its academic advisors, and the author of this report. The opinions expressed in this report are those of the author.

↕↕ and ↗↗ indicate score changes of .25 or more. ↘ and ↗ indicate changes of less than .25.

NATIONS IN TRANSIT SCORES

	1997	1998	1999-2000	2001	2002
Democratization	6.20	↗↗ 5.95	↗↗ 5.69	↗↗ 5.44	↘ 5.50
Rule of Law	na	na	5.88	5.88	5.88
Economic Liberalization	6.13	6.13	↗ 6.00	↗↗ 5.50	↗ 5.42

KEY ANNUAL INDICATORS

	1995	1996	1997	1998	1999	2000	2001
GDP per capita (\$)	105.9	177.0	186.6	216.3	177.4	159.8	161.3
Real GDP growth (% change)	-12.5	-4.4	1.7	5.3	3.7	8.3	6.0
Inflation rate	609.0	418.0	88.0	43.2	27.6	32.9	39.4
Exports (\$ millions)	779.0	770.0	746.0	586.0	666.0	790.0	877.0
Imports (\$ millions)	838.0	786.0	806.0	725.0	693.0	836.0	925.0
Foreign Direct Investment (\$ millions)	10.0	18.0	18.0	25.0	21.0	22.0	22.0
Unemployment rate	2.0	2.6	2.8	2.9	2.8	2.5	2.5
Life Expectancy (years)	68.3	68.4	68.4	na	na	68.8	68.0

INTRODUCTION

Tajikistan is one of the five Central Asian republics of the former Soviet Union. Since gaining independence in 1991, the country has experienced an exceptionally difficult adjustment period. Economic dislocation and a brutal civil war, in particular, have taken their toll on the well-being of the population. Likewise, a decade into independence, a large democratic deficit remains. Tajikistan's ruling elite, much of it remnants of the Soviet *nomenklatura* (state bureaucracy), have simply failed to allow significant individual and political freedoms to take hold and flourish.

Since 1997, the year the warring factions, the government, and the United Tajik Opposition (UTO) signed a peace accord, there have been some signs of improvement. For example, after half a dozen years of negative growth rates, the macroeconomy began to register positive growth in 1997. In 2001, the economy was projected to grow by 7 percent. Nevertheless, the size of the economy is still approximately half what it was in 1991, and average citizens remain in dire need. Per capita GDP is only around \$160 per year, and the average household, comprising 8.2 members, is estimated to have a monthly income of merely \$70. To make matters worse, for the past three years, the country has been affected by a regional drought, the worst in its 76-year history. This has significantly reduced rain-fed agricultural output and negatively affected the welfare of the population, more than half of which is rural.

Much of Tajikistan's woes are the result of the bloody civil war that peaked in violence between 1992 and 1993. During that period, as much as 1 percent of the population, or 50,000 people, perished. Another 10 percent, or half a million people, became refugees or forced migrants inside and outside of the country. To a large extent, the roots of the conflict lay in the manner in which Tajikistan came into being as a Soviet nation and later declared independence. As a result of Josef Stalin's cartographic whim, for example, the shape of Tajikistan has been compared to the shape of nations in postcolonial Africa. That is, in addition to assigning Tajikistan an impossible terrain and a disparate population, the Soviet regime deliberately left the region's great historical centers out of its boundaries. Without what have been described as its "two sacred cultural centers" of Samarghand and Bukhara—both now a part of neighboring Uzbekistan—Tajikistan has been compared to a France without Paris. Ironically, though, it was centripetal, rather than centrifugal, forces of nationalism that led to independence. When Russia itself sought to break away from the Soviet Union, Tajikistan and most of the other former Soviet republics found themselves independent by default.

Over the last decade, it has become clear that Soviet communism did not fully transform traditional Central Asian societies. Indeed, the nationalism, religion, and culture of these nations have proven to be resilient phenomena. As scholar S.

Enders Winbush wrote even before the dissolution of the USSR, "[c]ommon sense suggests that fourteen centuries of brilliant Irano-Turkic-Islamic culture cannot be quickly swept away by sixty-eight years of Russian-dominated Marxist-Leninist pseudoculture." At the same time, though, Tajikistan's current dilemmas of socioeconomic deprivation and democratic deficit are outgrowths of the same era, and only with Western and international economic and political engagement will they be significantly alleviated.

The events of September 11, 2001, combined with a U.S. recession, have had a short- to medium-term negative economic impact worldwide. Yet their long-term effects on Afghanistan and by default Tajikistan could be positive. If peace were to reign in Afghanistan after nearly a quarter century of war, there could be a spillover effect on neighboring countries like Tajikistan. Afghanistan may well cease to be a training ground and refuge for the Islamic Movement of Uzbekistan (IMU), an armed fundamentalist group that has hoped to topple Uzbekistan's Karimov dictatorship and that has used Afghanistan and eastern Tajikistan as its base. The IMU's young leader, Jumaboi Namangani, was killed in Afghanistan in November 2001. Namangani's death, however, will only curb the IMU and anti-Karimov activity in the short term.

A lasting peace in Afghanistan and the West's economic assistance to that country can do much good. The drug trade, for example, could be curbed. Although drug trafficking has had some positive economic benefits for Tajikistan, it has also encouraged corruption and Mafia-style criminal activity, both of which have negatively affected the lives of the Tajik people and helped to discourage significant foreign investment. Overall, the international attention to Afghanistan has familiarized many in the economically developed nations with Afghanistan's northern neighbors, including Tajikistan. All said, Tajikistan's ability to attract increased humanitarian and financial assistance in the post-September 11 environment will depend in large part on the Tajik government's willingness to cooperate openly with international bodies, to curb corruption, and to promote democratic principles for the sake of its citizens.

DEMOCRATIZATION

Political Process

1997	1998	1999-2000	2001	2002
6.00	5.75	5.50	5.25	5.25

Despite controversial election victories in 1994 and 1999, President Emomali Rahmonov has managed to hold on to power in Tajikistan. When his current term ends in 2006, he will be obliged by law to step down. A former *kolkhoz* (agricultural cooperative) leader during the Soviet era, President Rahmonov was first appointed head of state in November 1992. That year, the former Communists and their

Popular Front supporters toppled the short-lived, opposition-dominated government that had declared independence as the Soviet Union was collapsing. Despite ending the civil war, consolidating power, and making some progress in achieving macroeconomic stability, Rahmonov's tenure has been marked with sporadic armed fighting, assassinations, hostage takings, corruption, continued economic woes, heavy censorship of the media, and the inability of the central government to control the country's outlying regions.

The 1999 presidential elections, which the government claims enjoyed voter turnout of 93 percent, had major shortcomings. Among other things, government authorities prevented nearly every candidate other than President Rahmonov from running. According to Human Rights Watch, during the campaign the government also imposed major restrictions on freedom of association, freedom of expression, and the activities of opposition voices. Likewise, through enforced government-inspired technicalities, parties such as the Agrarian Party, the National Unity Party, the Party of Justice and Progress, and the Party of Economic and Political Revival were either banned or barred from presenting candidates. Harassment of candidates and party members was also prevalent. In one case, for example, government bullies reportedly beat a presidential candidate.

In protest against the government's interference in opposition party activities, two presidential candidates boycotted the election. The Supreme Court denied registration to two other candidates, Saifiddin Turaev from the Party of Justice and Sultan Kuvvatov from the Democratic Party, on the grounds that they allegedly failed to gather the signatures of 5 percent of the electorate to secure a nomination. The candidates rightly claimed, however, that authorities in various parts of the country had obstructed their efforts to collect sufficient signatures. To prevent the elections from being a complete farce, the government allowed the Islamic Renaissance Party (IRP) candidate, Davlat Usmon, to be listed in the ballot only days before the voting.

In the 2000 parliamentary elections, the pro-government People's Democratic Party (PDP) won 65 percent of the vote, followed by the Communist Party with 23 percent and the IRP with 7 percent. Following the elections, which the government claims enjoyed 87 percent voter turnout, Tajikistan's unicameral people's representative body was replaced with a 63-member bicameral legislature that consists of the Council of Representatives (lower house) and the National Council (upper house). The PDP now controls both houses.

An obvious shortcoming of the elections and the existing makeup of the government is the virtual exclusion from representation in Parliament or government of the Uzbek and Pamiri ethnic and cultural groups. Instead, many important government positions have been allotted to persons of Kulob or Kulobi descent—that is, persons from President Rahmonov's home region. Still, the Moscow Peace Accord of 1997, the government's willingness to include some opposition figures in the government, and the fact

that elections have even taken place have given the country some semblance of democratic practice. This has been sufficient to satisfy much of the international community, as well as many in Tajikistan who are happy to see that the former warring factions are finally battling one another through the ballot rather than the bullet. Furthermore, the new Parliament is considered a better representative of the people than the Soviet-style rubber stamp system was.

At the same time, though, the occurrence of crime and violence—much of it at the hands of government armed forces—has not subsided significantly. According to Human Rights Watch, for example, armed militias of the government Ministries of Interior, Defense, and Emergency Situations are known to have been behind kidnappings, extortion, beatings, and in some cases unlawful killings of civilians. Likewise, during 2001, there were several assassinations and attempted assassinations of government officials.

In February 2001, a bomb exploded in the car carrying the mayor of Dushanbe, Ahmadsaid Ubaidullaev, and resulted in the death of the deputy security minister, Shamsullo Jabirov. Three months later, unidentified gunmen assassinated the chairman of the State Committee on Radio and Television; and in June, the chairman of the district of Gharm, Sergei Davlatov, was shot dead along with his bodyguard and driver. Finally, in September, Tajikistan's minister of information was murdered near his residence in Dushanbe. Although the government has vowed to catch and punish the perpetrators of these and similar crimes, it has seldom actually identified and prosecuted the killers.

Civil Society

1997	1998	1999-2000	2001	2002
5.50	5.25	5.25	5.00	5.00

Until the collapse of communism, the idea that organizations could function independently of the state was altogether foreign. Since then, foreign aid organizations and international donors have been trying to foster indigenous activism and to promote the formation of nongovernmental organizations. They have also funded the activities of many new groups.

Some form of traditional civil society, primarily in rural areas, has always existed in Central Asia, including in Tajikistan. Communities have historically been self-organized through influential *mahalla* (neighborhood) councils that enjoy the support of local religious centers and mosques. However, in Soviet times, the state systematically attempted to destroy or replace such traditional mechanisms with state bodies. As a result, when social and political tensions in Tajikistan grew in the early 1990s, these traditional networks, though they still existed, were unable to mediate the conflicts. Likewise, due to the same weakened and fragmented nature of civil society, the pub-

lic was not able to significantly influence the terms and conditions of the 1997 Moscow Peace Accord between the government and the UTO.

Today, the central government invites some local opinion into administrative infrastructures through the network of *jamoats*, self-governing district councils. Although the impact of civil society on national reconciliation is still small, it is growing. The role of religion in civil society is also minimal. The one exception is the Badakhshan province, whose inhabitants are nearly all followers of His Highness the Aga Khan, the imam (leader) of the Shia Ismaili Muslims. The Aga Khan Foundation, which is headquartered in Geneva, has instilled in the population of Badakhshan a strong appreciation for civil society and has been influential in the development of a variety of impressive socioeconomic development projects and educational institutions. In other regions of the country, such as the IRP-dominated Gharm and Quarateguine Valleys, Islamic mosques and institutions have some, if limited, influence on civil society.

Although NGOs are a relatively new phenomenon in Tajikistan, the Ministry of Justice has registered hundreds of groups during the last decade. Already, these groups have had some influence on the formation of law. In 1997, for example, NGOs submitted to the Tajik Parliament their version of the Law of Social Associations. While registering an NGO can be a harrowing and expensive task, groups that do not officially register are not necessarily illegal.

Various international donors and international NGOs (INGOs) maintain a presence in Tajikistan and provide seed money for indigenous organizations and their initiatives. These include the Counterpart Consortium, the Eurasia Foundation, and the Open Society Institute. NGOs and INGOs play a significant role in promoting confidence-building measures. Some engage in conflict resolution work at the community level by sponsoring training workshops and discussion-based activities for representatives of local village and elders' councils, different ethnic and regional groups, and local governmental officials. The Counterpart Consortium, for example, holds "training of trainers" workshops for Tajik NGO directors and staff, who in turn are encouraged to train others in their community on issues related to civil society, elections, and democracy. Major international bodies and financial institutions, including the United Nations, the European Union, the United States Agency for International Development, and the World Bank, have been anxious to channel portions of their grants and loans to Tajikistan through NGOs.

Although Tajik women are not widely represented in government structures, they have had some success as leaders in civil society. More than one-third of all Tajik NGOs, for example, are headed by women. The Tajik civil war, according to some, was caused mainly by economic decline and low living standards, especially in rural areas where women do not traditionally work for money outside the home and therefore are dependent on the wages of adult males. To make matters worse, the war caused the death of many male heads

of household and therefore increased pressure on women to provide for themselves and their dependents.

Despite some progress in recent years, the status of women in Tajik society remains extremely low. Likewise, their capacity for conflict prevention is underutilized. It has even been suggested that the participation of women in political, economic, and social life could help consolidate the peace process. For this to happen, however, the traditional patriarchal mentality will have to change.

Some NGOs and international organizations are trying to affect such societal norms and to empower women. The United Nations Development Program, for example, has funded the creation of a locally staffed organization called Women in Development (WID). Since 1999, the NGOs Women's Voices, Orzu (Hope), and Oshtii Milly (National Reconciliation) have worked with the OSCE to arrange seminars on human rights, gender, culture, and the role of political parties and local governments in democratizing society. Another group, Open Asia, has held a series of seminars on violence against women in Tajikistan, sponsored a roundtable discussion on women and elections, and developed three training modules on human rights. And yet another NGO, Tradition and Modernity, has conducted workshops on methods of advocacy for heads of women's and human rights groups. Other NGOs have begun lobbying the government in favor of women's rights. The reintroduction of quotas for female representation in elected bodies is one example of their successful lobbying efforts. The government has also adopted the National Plan of Action to Increase the Status and Role of Women 1998–2005. Aside from women's NGOs, environmental groups have also begun to form and participate in Tajikistan's civil society.

The expansion of civil society groups, however, has not been problem free. The international community has assumed that indigenous and international NGOs are more efficient and less corrupt than governmental organizations and ministries. The Tajik experience has shown, however, that some governmental organizations can be more efficient and corruption free than their nongovernmental and even international counterparts. In one clear example, the World Bank channeled loans through the Tajikistan Social Investment Fund (TaSIF), a governmental body the World Bank created, and through several INGOs and domestic NGOs. The preliminary results of this experiment appear to indicate that the millions of dollars distributed through TaSIF were spent in a far more efficient, transparent, and egalitarian fashion than the funds that were channeled to at least one U.S.-based INGO that specializes in rendering aid to children.

Few international organizations and donors are comprehensively addressing the important issue of rebuilding Tajikistan's social fabric in the wake of the civil war. However, one group that is actively doing so is the Belgium-based International Crisis Group (ICG), which has its Central Asian regional office in Osh, Kyrgyzstan. The ICG has been researching the means of achieving social harmony

and preventing conflicts in and around the densely populated and ethnically mixed Ferghana Valley, an agricultural and mineral-rich region that is divided among the independent countries of Tajikistan, Kyrgyzstan, and Uzbekistan. According to the ICG, sufficient domestic authority does not exist, and the gap between rich and poor is growing.

The move away from centrally planned economies in Central and Eastern Europe and the former Soviet Union has in many instances led to immense poverty, the enrichment of a small class of urban elites, and the emergence of an oligarchically run state. These conditions, in turn, have contributed to rising social tensions. As a result, the ICG has recommended that foreign donors address the plight of the rural poor when assessing Tajikistan's humanitarian and development needs. Furthermore, there is a gap in coordination between the country's Western-influenced NGO sector and its traditional civic networks such as the *mahalla* groups. The effectiveness of future conflict resolution projects is likely to be contingent upon the effective integration of these two components of civil society.

Independent Media

1997	1998	1999-2000	2001	2002
6.25	6.00	5.75	5.50	5.75

Journalism in Tajikistan is a dangerous profession, especially for the brave souls who dare to investigate power struggles in the political and military elite or drug and weapons trafficking by the criminal Mafia and government officials. From 1993 and 1999, major opposition parties and their newspapers were banned in Tajikistan. Although most opposition parties are now legal, the formal dissemination of their platforms through the media is severely restricted.

The general absence of law and order in Tajikistan has forced most journalists to practice sorts of self-censorship. In addition, the government continues to exercise a variety of tactics to limit political content in all media. Among other things, it has managed to pass several laws that are detrimental to journalism. Article 135(2) of Tajikistan's penal code stipulates that "the distribution of clearly false information defaming a person's honor, dignity, or reputation" is punishable by up to two years in jail. Article 137 calls for a punishment of up to five years in prison for insulting or defaming the president. The government's typical methods of controlling nonstate media include holding so-called guidance sessions for journalists, having state-run printers refuse to print newspapers that authorities believe contain controversial material, and forcing independent media outlets to meet burdensome and nearly impossible licensing procedures. Local law enforcement agencies are also known to harass journalists by using violence or threatening their lives.

According to the Washington-based Committee to Protect Journalists (CPJ), Tajikistan and Russia concurrently held the position of the third most dangerous spots on earth

for journalists during the 10-year period 1988–1997. Only Algeria and Colombia rated worse. During that period, 29 journalists were murdered in each of the two former Soviet countries. Other sources put the total number of journalists murdered in Tajikistan since 1992 at more than 60. The last victim in Tajikistan during that period was Victor Nikulin, an ethnic Russian and Tajik citizen who was a correspondent for Russian Public Television; Nikulin was murdered in his office after having received several threatening phone calls.

Since then, the government's repression of the media has not abated. Unfortunately, according to Human Rights Watch, the investigation of few, if any, such cases have ever resulted in prosecution or identification of the guilty. In the year 2000 alone, the following cases were reported:

- In Dushanbe, armed men in military uniforms assaulted and badly beat Saifaddin Dostiev, a correspondent for the Tajik-language service of Radio Free Europe/Radio Liberty.
- Nematullo Nurullo, a journalist for the paper *Jumhuriyat*, was reportedly assaulted by two Dushanbe policemen and received serious injuries, including a concussion and hearing loss in one ear.
- The weekly newspaper *Najot*, a pro-IRP publication, was temporarily banned from sale. The paper's editor, Muhiddin Idizod, had been beaten on the street earlier in the year.
- Umed Mamadpanoev, an employee of the state radio station Gosteleradio, in the Badakhshan province, disappeared after the Tajik KGB interrogated him in connection with a program he had recently produced on the appalling living conditions and deaths of Pamiri (Badakhshani) soldiers in the Tajik army. It later emerged that Mamadpanoev himself was forcefully conscripted into the army in retaliation for his broadcast.

In addition, in 2001, Saifullo Rahimov, president of Tajikistan's State Committee on Radio and Television, was murdered near his home in Dushanbe in what appears to have been a political killing. Also, Dodojon Atavullaev, editor of the opposition newspaper *Cheroghi Ruz*, which is published in Moscow, was arrested by Russian authorities at the urging of the Tajik government. Atavullaev apparently irked Tajik authorities with public claims that they are involved in drug trafficking. Although Tajikistan had hoped for Atavullaev's extradition, a Russian court ordered his release. He then moved to and applied for political asylum in Germany.

Independent television stations continue to experience administrative and legal harassment. In Dushanbe, only one independent newspaper with significant political coverage,

Biznes i Politika, is in print. However, even its coverage is largely pro-government. The sole nongovernmental radio station, which functions in the northern Soghd region, is thought to have obtained its broadcasting license in exchange for its pro-government, nationalistic, anti-Uzbek, and anti-Uzbekistan stance. The station, for example, does not broadcast any Uzbek music in a region where the Uzbek minority and culture are ubiquitously present. Furthermore, opposition political figures enjoy virtually no access to state media outlets.

There are no daily newspapers in the country. Metropolitan papers publish only once a week, and any news that does get published is to a large extent controlled by the government. According to a Human Rights Watch report, the Tajik government has used the media as an “uninterrupted laudatory publicity campaign” for President Rahmonov and pro-government officials. During the 1999 and 2000 election campaigns, as much as 40 percent of all state television airtime was devoted to the pro-government PDP. Opposition candidates and parties received minuscule amounts of airtime. Independent media that veer from the government’s official line are forced out of existence. One example is *Jumbish*, a Dushanbe-based newspaper that published the views of the UTO and other opposition parties during the 1999 presidential campaign. Using threats and other forms of harassment, including prohibiting the paper to print at its regular state printing press, government officials forced *Jumbish* to cease publishing.

As a result of this stifling atmosphere for the media, a large percentage of the public tune in to Russian radio and television broadcasts as a source of world news and news on Tajikistan. On a positive note, though, the Ministry of Communications allowed the launch of the country’s first Internet service provider in January 1999. As such, Tajikistan was one of the last countries on earth to connect to the Internet. Since then, although use of the Internet has expanded slowly, many regions of the country are now connected to the World Wide Web. While access is expensive for ordinary Tajiks, there are now four Internet service providers, or ISPs, in the country and several Internet cafés. So far, there is no specific legislation on the books that pertains to controls or limitations on Internet usage.

Governance and Public Administration

1997	1998	1999-2000	2001	2002
7.00	6.75	6.25	6.00	6.00

Although realpolitik, or political realism, dominates governance in Tajikistan and the Central Asian region, Tajikistan’s 1994 Constitution does include guidelines for a political system that is characterized by pluralism and an American-style separation of legislative, executive, and judicial powers. Parliament can technically override presidential decrees by a two-thirds majority.

The 1999 plebiscite on constitutional amendments, approved by 72 percent of voters, created a seven-year presidential term and formed a bicameral legislative system. The pro-government PDP dominates both houses of Parliament. Kulobis, people from President Rahmonov’s home region, dominate the government’s appointed seats. However, as part of preelections and peace accord negotiations with the UTO leadership, the president promised to include opposition figures in 30 percent of major government posts. The appointments of Haj-Akbar Turajonzoda (the former vice president of UTO) to the post of deputy prime minister and of Mirzo Ziyov (the former head of the UTO’s armed forces) to the position of minister of emergency situations were part of that deal.

Oqil Oqilov, the current prime minister, is not a Kulobi. Instead, like his predecessor Yahyo Azimov, he is a native of the northern Soghd region, where entrepreneurship and business-mindedness are regional norms. Oqilov is considered a competent technocrat who has wide-ranging business and political contacts. His appointment was significant because it may have prevented further antigovernment discord among the residents of the northern Soghd province. However, the continuing ban on the activities of the National Revival Party, a popular political movement in Soghd, is disturbing but not surprising. The movement supports Abdumalik Abdullojonov, a northern politician, businessman, and political opponent who lives in exile.

Tajikistan is divided administratively into oblasts (provinces) and *raions* (districts). Badakhshan, Soghd, and Khatlon are the main provinces. The Regions of Republican Subordination (that is, regions surrounding the capital) constitute their own de facto province. In all, there are 52 districts scattered throughout the provinces, in addition to 5 municipalities (Dushanbe, Nurek, Kofarnihon, Rogun, and Tursonzoda) that govern the industrial centers of the capital and its surrounding regions. Parliament has power over the regions and can contest the decisions of local legislatures. It can even disband such bodies if it determines that they have violated laws.

Under the Constitution, the president has the power to appoint and dismiss the regional heads of government, subject to approval by provincial legislatures. The central government determines the budgets of municipal and district governments, most of which continue to operate at a deficit. In the past, all locally collected revenues were turned over to the national government, which in turn allocated funds to the regions. Under the 1996 tax code, however, regional governments may retain a set portion of local revenues as they are collected.

To govern and maintain power, President Rahmonov relies on the militia and armed forces of the Ministries of Interior, Defense, and, to a lesser extent, Emergency Situations. The heads of these forces are former Popular Front regional leaders, at least one of whom is infamous for his involvement in criminal activity and his soldiers’ reputations as thugs. The president also relies on the 201st divi-

sion of the Russian army and its thousands of soldiers, many of whom are guarding the border with Afghanistan.

Aside from the vicinity of the capital and much of the Khatlon province, the government has a difficult time exerting its power and authority over the country's regions, especially areas that are opposition strongholds such as the Gharm Valley, the region of Kofarnihon to the east of Dushanbe, and the Badakhshan province. Incidences of armed invasion, hostage taking, and rebellion in 1998 and 2001, however, have forced the former UTO and government forces to fight side by side (now having merged into one army) in order to secure troubled regions, eliminate rebellious forces, and exert more central government authority.

Despite constitutional requirements on the transparency and availability of information to the public, the national legislature often drafts and discusses laws behind closed doors. Furthermore, entry and advancement into the civil service is dominated by goodly amounts of cronyism and nepotism. That is, even though the political systems of former Soviet states have changed, the elites running the show have generally remained the same in most countries. This is distinctively so in Central Asia, where the former Communist state bureaucracies are now portrayed as champions of the free-market system. In Tajikistan as well, there has been little change in the composition of the ruling elite and clan structure.

In the first few years after independence, Tajikistan and other Central Asian countries experienced declines in the power of their executives. In time, though, legal steps were taken to increase presidential power as a counterbalance to the perceived loss of control over socioeconomic development. As in much of the former Soviet Union, an emphasis on monoethnicity, or the rights of the titular majority population over all minorities, has characterized institutional changes during Tajikistan's so-called democratic transition. This, in turn, has led to the emigration of the majority of ethnic Russians, many of whom were the country's leading technical experts.

According to Tony Verheijen, Sergei Sirotkin, and Anastazia Kozakova of the UNDP, the functioning of Tajikistan's institutional structures and system of public administration can be understood only in the context of underlying traditional and informal practices such as regionalism and clan politics. For example, local strongmen who tax the country's cotton, metals, and narcotics trade run large parts of the country. In addition, political conditions of instability have kept the government from focusing sufficiently on capacity building. At the World Bank's insistence, the country adopted a Civil Service Law and created a special Public Administration Reform Unit in 1999. The World Bank has also imposed an "institutional building technical assistance project" that to date has cost the country an estimated \$10 million. However, most of this money has been spent on foreign consultants, computer equipment, and development tours of the West for the ruling elite, with the goal being maximum privatization of state properties and government services.

RULE OF LAW

Constitutional, Legislative, and Judicial Framework

1997	1998	1999-2000	2001	2002
6.25	6.00	5.75	5.75	5.75

The Constitution of the Republic of Tajikistan dates to 1994, when an alleged 90 percent of voters approved it by referendum. The referendum took place, however, in the midst of a civil war and during a ban on many opposition political parties. Members of the opposition, many of whom operated under the umbrella of the UTO, did not approve of the referendum or the resulting Constitution. They also claimed that the referendum itself was neither free nor fair.

The 1994 Constitution divides political power among the legislative, executive, and judicial branches of government. However, it reserves relatively strong presidential powers. The president has the obligation and power to make appointments to government seats and to choose the chairman of the central bank, the state prosecutor, the head of the Constitutional Court, and the heads of regional administrations.

The Constitution protects a variety of individual liberties, including freedoms of privacy, assembly, speech, press, association, and religion. It also bans discrimination on the basis of nationality, race, gender, and religion. The government, however, frequently breaks the letter and spirit of the law by arbitrarily arresting its own citizens, imprisoning and torturing some, and restricting the reach of opposition voices through illegal bans on independent newspapers, journals, and television and radio stations.

During the civil war, there were thousands of extrajudicial killings, the majority of which can be attributed to government forces and their armed militant allies. Opposition forces and regional strongmen were responsible for some as well. Many victims were killed simply because of their ethnoregional origin. Some were prisoners of war. Still others were murdered to settle old scores. Although much of the horror of the civil war ended with the signing of the 1997 Moscow Peace Accord, the government continues to violate human rights in a variety of ways, including by imprisoning political activists and suspected Islamists. Furthermore, remnants of the now disbanded opposition UTO army have periodically taken hostages as bargaining chips for personal and political demands. Two such incidences occurred in June 2001 when soldiers subordinate to the Ministry of Emergency Affairs took a dozen local and several foreign hostages. Mirzo Ziyo, the minister of emergency affairs, intervened and secured their eventual release.

In all fairness, the government has formally merged the former UTO forces with the country's regular armed forces, and in most cases the unification of former enemies-in-arms has been successful. Signs of cooperation existed

even prior to the consolidation of the armies. In 1998, for example, government troops and UTO fighters successfully fought side by side against the invading army of former Colonel Khudoyberdiev in the northern Soghd region.

Nevertheless, lawlessness and instability still wreak deadly havoc. In 2001, several political killings took place. Between February and September, the deputy security minister, the chairman of the State Committee on Radio and Television, the chairman of the Gharm district, and the minister of information were all assassinated by unknown assailants. These killings follow a pattern of similar assassinations. In 2000, Tolib Boboev, a prominent member of the banned Popular Unity Party, was killed. In 1999, Safarali Kenjaev, the leader of the Socialist Party and chairman of the government's Human Rights Commission, was also assassinated. Few of these killings have been attributed to a particular group. Nor has much progress been made in the identification, arrest, and trial of those responsible.

Since independence, numerous local reporters have also been arrested or killed under mysterious circumstances. In addition, foreign correspondents have to endure threatening conditions when reporting from Tajikistan. In a 1999 report by the Committee to Protect Journalists, for example, a reporter for the British Broadcasting Corporation and the *Guardian* newspaper claimed that she carried less clout and was in more danger as a foreign correspondent in Tajikistan than during the civil wars in Liberia and Sierra Leone.

In a report released in October 2001, Human Rights Watch describes Tajikistan as a country marred by fraudulent elections, censorship of the media, and religious persecution. And according to the OSCE, the lack of sufficient separation of powers among the legislative, executive, and judicial branches of government and the absence of media independence have had negative consequences on the political and economic well-being of the country. Although the Constitution allows for an independent judiciary, in practice the judiciary and judges are not independent of the executive branch. The president has the power to dismiss judges and prosecutors, who are often pressured, intimidated, and bribed by corrupt paramilitary groups and government armed forces. The basic rule of law is also weak, and there are long delays in the commencement of trials. The Constitution entitles persons accused of crimes to the services of a public prosecutor, but in practice there are delays in the appointment of lawyers to defendants, and the quality of the legal counsel is not adequate.

Tajikistan's criminal code is a flawed holdover from the Soviet era. The only significant change to it since independence has been the introduction of harsher penalties for crimes such as rape, theft, and drug possession or use. However, the code still more or less treats all arrested persons as guilty. That is, one's innocence is not always presumed. The criminal code also places few checks and balances on the activities of the police and prosecutors. In

spite of the government's admission that some members of its security forces regularly violate the law and that these forces have been infiltrated by criminal elements, it has taken few concrete actions to prevent further abuses. In addition, although by law the police need the permission of the prosecutor to search personal premises and homes of people, in practice they are known to routinely undertake arbitrary searches and arrests. The government also uses the power of the police to arrest and harass members of opposition political parties. A favorite tactic of the police is to frame persons who espouse undesired political ideas by accusing them of possessing and smuggling narcotics. A case in point was the detention and death of Abdulhafiz Abdullojonov, who was arrested on trumped-up charges of narcotics possession and was either executed or died of cancer in prison in 1999. He was the brother of Abdumalik Abdullojonov, the exiled opposition leader.

Although the government has made some progress in halting the ill treatment of prisoners, detainees still live in conditions that are considered among the worst in the world. Many face illness, hunger, maltreatment, and potential death while in the custody of the country's extremely underbudgeted, overcrowded, and unsanitary prison system. These problems are due in part to the fact that Tajik prisons are self-funded. This policy is also a holdover of the Communist era, when prisons grew their own food and produced limited goods for the Soviet economy. Even though the practice of growing food in the prisons has been resumed, the abusive conditions have not fully subsided. And despite repeated requests, the government has prohibited routine visits to its prisons by the International Committee of the Red Cross.

Tajik law forbids discrimination based on ethnicity and language. It does, however, establish Tajik (or Tajiki) as the official state language and designate Russian as the language of interethnic communication. Official government documents must be made available to all interested parties in the country's three dominant languages: Tajik, Uzbek, and Russian. In practice, though, there is widespread discrimination against non-Tajiks, and few Slavs and Russians remain as state employees. The number of ethnic Russians is continually decreasing, and those who remain work in one capacity or another as contractors with the Russian armed forces that are stationed in Tajikistan. Others, especially in Khojand, are small-scale merchants.

Anti-Uzbek sentiment is also pervasive, and the government condones much of it. Although a quarter of the population can be categorized as Uzbek, there is no programming in the Uzbek language on the main government television station. In addition, the playing of Uzbek music is virtually forbidden on both radio and television. In some regions of the country, especially in those adjacent to Uzbekistan, one can encounter Uzbek villages in which no one speaks Tajik and households regularly tune in to the radio and television programming of Uzbekistan. One positive point is that schooling (for children) in the

Uzbek language seems to remain available in Tajikistan. Similar schooling in the Tajik language is banned in Uzbekistan.

During Tajikistan's civil war many ethnoregional minorities, perceived as having sided with the losing opposition, were forced to abandon their homes and villages. As a result, thousands of people, primarily of Gharmi regional origin, living in the Qurghonteppa region of Khatlon province fled to northern Afghanistan, Badakhshan, the CIS, or other parts of Tajikistan. Following the adoption of the 1997 peace accord, nearly all Gharmi refugees returned from Afghanistan. Many others returned from internal exile, and some returned from Russia. These returnees still face occasional incidences of physical harm and regular discrimination. Some, such as the majority of ethnic Kyrgyz households that fled to Kyrgyzstan during the civil war, decided to remain in their new host country. Many are now legal Kyrgyz citizens.

Religious minorities in Tajikistan also face discrimination and occasional persecution. Prior to independence there were between 15,000 and 20,000 Jews in the country. Most were of Bukharan ancestry and could trace their roots in the region to the 14th century, and for many, Tajik (or Persian) was their native tongue. Soon after independence, nearly all Jews emigrated. There are now settlements of Tajik Jews living in Israel and New York. Although some anti-Semitic sentiment may remain in the country, the presence of the Open Society Institute of Tajikistan, which funds the educational and artistic endeavors of all qualified persons regardless of their ethnicity and religion, has helped to significantly reduce attitudes of anti-Semitism, especially among the country's younger and educated generation.

Other religions, including the various Christian denominations, the Baha'is, and the Zoroastrians, have faced some persecution in the form of physical harm. In October 1999, for example, Abdullah Mugharrabi, an 88-year-old Iranian Baha'i and a resident of Dushanbe, was shot to death in his home in what appeared to be an assassination. In 2000, three churches affiliated with the Russian Orthodox Church, the Christian Korean Mission, and the Seventh-Day Adventists were firebombed—two on New Year's Eve. Seven worshipers were killed at the Korean Mission Church. In addition, in May 2001, unknown assailants murdered the leader of Tajikistan's small Zoroastrian religious minority, Rudaki Behnadi.

In all likelihood, these attacks were not of the government's doing. Nevertheless, there are signs that the government, with the tacit approval of Russia and now Western powers, is persecuting devout Muslims who may or may not sympathize with fundamentalist Islam. According to the International Crisis Group, the current U.S.-led war against terrorism could prove counterproductive to the rule of law in Central Asia, including in Tajikistan, if the price of securing cooperation from the region's governments is Western tolerance of authoritarianism.

Corruption

1999-2000	2001	2002
6.00	6.00	6.00

A decade after independence, corruption, crime, and weak security continue to hinder Tajikistan's transition from communism. Bribes, some in the forms of unreasonable fees, have become an ingrained part of nearly all transactions with the government and government-provided services. It is widely understood that with sufficient funds one can obtain a variety of favors from government officials. One can accelerate the acquisition of legal documents, for example, by paying bribes. Indeed, without the payment, it would be virtually impossible to obtain such services. Likewise, with bribes one can obtain a passport in a year, three months, or a week or two, depending on the size of the payment.

Tajikistan's road police are among the most corrupt, and all indigenous vehicle owners are expected to bribe them on a regular basis. The arbitrary stopping of cars by the road police and checkpoints manned by the troops from the Ministry of the Interior are part of the continuing plot to extort money from drivers and passengers. These practices, of course, violate the right to freedom of movement of the country's citizenry and hinder economic activity.

Many locals are also forced to pay bribes before leaving the country. Airport security officials, for example, are known to extort bribes by confronting individuals who are leaving on educational tours and accusing them of taking stolen property or narcotics with them. Officials may be making even more money from extortion of the poor. In 2000, the local press reported that police in Dushanbe frequently harass small street vendors and newspaper sellers, many of whom are children and pensioners. The police accuse them of not paying taxes and threaten to arrest them if regular bribes are not forthcoming. Store vendors can also expect to pay less in taxes if they bribe the tax police. In addition, they expect to pay regular protection money to local representatives of the Mafia. On a bigger scale, foreign buyers of Tajik cotton fiber are known to have paid bribes to government officials.

Most government officials retain strong ties to the business community and expect to make more money from business deals related to their work than from their official salary. Although allegations of government corruption have yielded few investigations, the president has periodically fired or replaced officials owing to rumored or proven corruption. Save for occasional sackings and the introduction of new anticorruption legislation, however, the government has mostly failed to utilize formal legal means and standards to seriously combat official corruption. There is virtually no legal framework or enforcement of existing laws on conflict of interest and financial disclosure. Furthermore, there are no laws on racketeering, and as of 2001 the country had yet to sign the OSCE's Convention on Combating Bribery.

Due to ingrained patronage and cronyism, land reform and privatization have generally favored local and national elites. Despite the sale of some government assets to private investors in recent years, it goes without saying that corruption and favoritism have played some role in the privatization process. To acquire lifelong leases on agricultural plots, for example, farmers must have some existing capital with which to pay the variety of fees and bribes needed to secure their legal deeds. Opposition groups have criticized the national and local governments for allowing nepotism and corruption to control assets and for unfairly and illegally distributing land rights. One incident baffled even the head of state, who, in a televised speech in 1997, complained that a district chief had allocated 1,000 hectares of *dehqan* (peasant) farmland to a relative who did not even live in the same district in which the land was located.

In recent years, Central Asia has become the new Golden Crescent, surpassing Myanmar as the world's major exporter of narcotics. Despite the president's declaration of war on crime and drug trafficking in April 2000, the lucrative drug trade has exacerbated corruption among Tajik officials, and drug trafficking has become a major component of Tajikistan's unofficial economy. The country's proximity to Afghanistan and its relatively porous borders have made it a desirable route for the smuggling of Afghan opium and heroin. Nearly all of the drugs smuggled through Tajikistan wind up in Russia and eventually Western Europe. In one incidence in 2000, large amounts of drugs were found at the home of the official Tajik representative to Kazakhstan. In another case, in 1999, a military helicopter was used to transfer opium and heroin from the vicinity of Dushanbe to the northern part of the country. In an effort to curb the drug trade, the United Nations International Drug Control Program has allocated funds for equipping and training Tajik officials.

ECONOMIC LIBERALIZATION & SOCIAL INDICATORS

Privatization				
1997	1998	1999-2000	2001	2002
6.25	6.25	6.00	5.75	5.50
Macroeconomic Policy				
1998	1999-2000	2001	2002	
6.00	6.00	5.50	5.50	
Microeconomic Policy				
1998	1999-2000	2001	2002	
5.75	6.00	5.25	5.25	

The primary objective of Tajikistan's post-Soviet strategy of economic reform, which began in 1992, is the transformation of the central command system into a market economy. Even though the civil war temporarily halted the implementation of many laws that were designed to facilitate the transition, additional policies on privatization were formulated in 1995 and 1996. Today, in keeping with the advice of the IMF and the World Bank, government policy aims to deepen economic reform and to promote macroeconomic stabilization and continued growth.

Under a three-stage program, the government plans continued agricultural reforms, more privatization of state-owned enterprises, institutional changes to modernize the financial sector, monetary reform, and better taxation. All things being equal, this ambitious agenda has a chance of success only if long-term stability can be ensured. Problems associated with asset valuation and transparency continue to burden the privatization process, much of which has benefited influential business and political figures who received preferential treatment and were awarded lucrative state assets at rock-bottom prices. Some auctions have been rigged, and there have been cases in which independent bidders have been threatened by force not to participate or to buy items. Nevertheless, the private sector now accounts for approximately 40 percent of gross domestic product, and the privatization of state assets has helped offset the budget deficit. According to the EBRD's *Transition Report 2001*, cumulative privatization revenues accounted for 5.4 percent of GDP in 2000.

In April 2000, the State Property Committee held a Dutch auction and sold the controlling shares of 18 of the country's 19 remaining state-owned cotton-ginning plants for a total of \$10.5 million in revenue—much less than was anticipated. By the end of 2000, the government had virtually completed the small-scale privatization process; more than 6,100 assets had either been sold or incorporated as joint stock companies. The privatization of medium and large properties, however, has proven more problematic. According to the EBRD's 2001 investment profile of Tajikistan, only 29 percent of the country's 733 designated medium and large assets have been sold. In the first six months of 2001, nearly \$3 million of funds were raised for the treasury, and a total of 237 small, medium-size, and large items and enterprises were sold, 88 percent having been paid for in full.

Privatization in the form of land reform has had some positive effects on the agricultural sector as well. Agriculture plays a significant role in Tajikistan's economy, and its share of GDP was about 17 percent in 2000. By 2001, the agricultural sector employed nearly 70 percent of the nation's workforce. In addition to a rise in the number of subsistence farmers, the government's land reform program has encouraged an increase in the amount of land devoted to grain production. The amount of land plowed in grain was estimated to have reached 400,000 hectares in 1997, 60 percent higher than in 1991. Between 1995 and 1999, the

government privatized nearly 120 *sovkhos* (government cooperatives) and *kolkhos* (agricultural cooperatives). This resulted in leases of individual plots of land on a short-term basis, the formation of joint stock farms, and the creation of peasant farms with lifelong inheritable leases. The government also granted thousands of mainly rural households temporary use of small plots on 75,000 hectares of so-called presidential lands. Despite the variety of quasi-private and private uses of land, the Constitution still stipulates that the state owns all land.

With a per capita income in 2000 of \$158, Tajikistan ranked 178th in the world and below many impoverished nations in sub-Saharan Africa. The population is estimated to have reached 6.5 million by the close of 2001, with a growth rate of 1.6 percent—an amount lower than in the 1980s. The average life expectancy in Tajikistan is 64.2 years. With a total landmass of 141,000 km², Tajikistan has a seemingly moderate population density of 45 people per km², less than about one-eighth the population density of Holland or one-seventh that of Japan. However, owing to its overtly mountainous topography—covering 93 percent of its territory—the arable landmass of Tajikistan is comparatively low.

During the last decade, the diet of the average Tajik household has experienced a significant shift toward cheaper and less nutritional foods. Whereas in the past the cost of a 50-kilogram sack of flour took up a minimal portion (about 5 percent) of the average household's monthly income, the same sack of flour is now barely affordable. A 1998 survey found that for the majority of households in Tajikistan, the four most important food items, in order of importance, are flour, cooking oil, sugar, and rice. The survey also found that since 1991, the consumption of meat had decreased by 71 percent and the consumption of wheat flour and bread had increased by 29 percent. As a coping mechanism, more than one-third of all households in the country mix their wheat flour with cheaper and less nutritious barley, corn, or bran flours. In 2001, the United Nations estimated that as much as 40 percent of the population had no access to safe drinking water. Sixty percent of rural populations were thought to be using "unprotected sources, such as open drains and irrigation canals." The health of the population appears to be deteriorating, and cases of tuberculosis, malaria, and other diseases are on the rise, especially in the southern Khatlon province.

Government figures for unemployment are around 3 percent. The actual unemployment rate, however, is probably much higher and has been estimated at between 15 and 20 percent. Government unemployment figures regularly underestimate the extent of hidden unemployment. They do not reflect the thousands of underemployed persons and the many who do not report their status to state labor offices owing to the paltry nature of unemployment benefits. Since the median age in Tajikistan is relatively low and the economy remains weak, unemployment will continue to be a problem. Furthermore, the ongoing drought

and the rough road to economic transition have brought forth certain social hardships. Throughout the country, many households have sold their life's possessions just to eat. Accurate data on suicide rates and divorce are not available, but due to the traditional nature of Tajik society, both rates are thought to be lower than in the West. Crime and prostitution are also on the rise.

Wages in Tajikistan continue to be among the lowest in the CIS. The average salary during the first seven months of 2001 was the equivalent of a mere \$8.70 per month. The minimum wage, though it had increased threefold as of January 2001, is still the equivalent of only \$1.30 per month; the minimum pension is even lower. The government's habit of continually running up wage arrears is only compounding the problem. By February 2001, accumulated outstanding wage arrears totaled \$12 million.

Fiscal policy in Tajikistan has undergone a significant transformation since 1995, having been especially weak and imbalanced prior to that date owing to chronic revenue shortfalls. With its 1996 reform package, the government attempted to consolidate fiscal management, overhaul the tax system, regulate government expenditures, and switch to noninflationary means of financing the budget deficit. High marginal taxes on cotton and aluminum were replaced with lower presumptive taxes (later replaced with sales taxes), and extrabudgetary claims on cotton and aluminum export earnings were eliminated. Grain subsidies, which accounted for 14 percent of GDP in 1995, were replaced with a cash compensation scheme that focuses on the very poor.

Similar to many other transition economies, however, arrears in wage, pension, and other payments did occur. By 1996, the government had resolved to adhere to an IMF-recommended fiscal program. As a result, between 1996 and 1998, the budget outturn was on or near plan, with deficits as low as 3.3 percent of GDP. In the first half of 2001, the government posted a budget deficit equivalent to 1.5 percent of GDP. Total revenue during this period was equivalent to about \$77 million, or 12 percent over the target for the period.

The government continues to depend on considerable IMF and World Bank lending for deficit financing. In June 2001, the World Bank approved a new structural adjustment credit support program that is meant to assist the government in combating poverty. The next month, the IMF positively assessed the government's compliance with the terms of its three-year (1998–2001) economic program and the government's efforts to reduce monetary growth and the fiscal deficit. At about the same time, the IMF agreed to the release of an \$8 million tranche of credit under its poverty reduction and growth facility, with the promise of similar funds to follow. The international financial institutions have some influence on the government's decisions on issues such as continued privatization and adherence to tight fiscal and monetary policies. Despite their substantial leverage, however, they have imposed almost no conditions on the government for political reform.

Inflation has decreased continuously since 1995, when the year-end rate stood at more than 2,100 percent. With the exception of 1997, when monetary loosening over the first half of the year sparked rapid currency depreciation and year-end inflation of 164 percent, there has been a general trend toward lower inflation. Factors such as the ongoing drought caused a shortage in food commodities in 2000 and were among the culprits behind a 61 percent inflation rate for that year. Inflation in the first seven months of 2001 was 8.2 percent, with the months of June and July having been deflationary, with rates of -0.8 percent and -0.2 percent, respectively. Despite the move toward lower annual inflation, especially following tighter monetary policy since the end of 2000, high food prices are still exerting inflationary pressures. The IMF forecast a GDP growth of 7 percent for 2001 and an annual inflation rate of no more than 14 percent.

The banking system consists of the National Bank of Tajikistan (NBT) and 17 commercial banks. The activities of the commercial banks have been largely limited to channeling credit from the NBT. To compensate for the effects of high inflation and depreciation, the minimum capital requirement for commercial banks was raised to \$1 million in 2000. The four largest banks, Agroinvest, Orion, Vneshekonom, and Savings Bank, are all successors to Soviet-era financial institutions and account for 70 percent of total deposits and 75 percent of all commercial loans. On paper, most banks have been transformed into joint stock companies and hence nominally privatized, yet the state still controls them closely.

An indication of no confidence in the financial systems of Tajikistan and the existence of a shadow economy of the country can be found in the ratio of noncash balances held in the form of savings by banks and other financial institutions. As a rule of thumb, the higher the currency-deposit ratio, the less confidence there is in the banking system. Private saving constitutes an estimated 7–10 percent of GDP, yet only about 0.2 percent of GDP is deposited with banks. Furthermore, banks have not been forthcoming with credit plans, especially for small and medium-size businesses.

A 1998 survey of bazaars found that less than half of all micro- and small businesses had borrowed money, none having done so from banks. Many reported that they borrowed the start-up money from family and friends. Those who borrowed from professional or informal lenders reported an average annual payback interest rate of about 130 percent. One successful loan program is the Aga Khan Foundation's Enterprise Support Facility, which is now active in the Badakhshan province and Gharm-Quarateguine region. As of mid-2000, it was estimated that the foundation had issued nearly 1,000 low-interest loans of between \$50 and \$5,000 to small businesses; the rate of repayment was 95 percent. Since May 1998, as part of an effort to reform the banking sector, the IMF and the World Bank have assisted the three largest banks via an operational restructuring program aimed at improving liquidity and sol-

veny, attracting private capital, collecting overdue loans, improving management, and reducing costs.

For three years after independence, Tajikistan continued to use the old Soviet ruble. It did so even after Russia had issued its new currency in 1994. Only in May 1995 did the country introduce its own Tajik ruble, with one unit initially equivalent to 100 Russian rubles. Although the Tajik ruble saw occasional periods of stability between 1995 and 2000, on the whole it depreciated. As the country was approaching its 10th year of independence, the government replaced the statue of Ferdawsi, a cultural avatar in the center of Dushanbe, with that of King Somoni, a political avatar whose dynasty ruled over much of Central Asia in the 9th and 10th centuries. In December 2000, the government introduced a new currency, the somoni (S), to replace the depreciated Tajik ruble. By the end of 2001, the exchange rate stood at around S2.4 for \$1. Despite the central bank's efforts to promote the use of the new currency throughout the country, most large business transactions are conducted in dollars or, as in the Soghd province, in Russian rubles and Uzbek sum.

During the Soviet era, Tajikistan received budgetary transfers from Moscow equivalent to 23 percent of the republic's GDP. This was the highest percent received by any Soviet republic. Tajikistan also had the highest inter-republic trade deficit and the lowest GDP among the Soviet republics. Links with Moscow remain strong, and today Tajikistan conducts nearly one-quarter of all its trade with Russia. In 2000, Tajikistan's foreign trade turnover increased by 8 percent to almost \$1.5 billion. Trade with the CIS—mostly with Russia and Uzbekistan—amounted to about \$1 billion, or 65 percent of total trade.

Tajikistan's principal imports are electricity, petroleum, natural gas, grain, and aluminum oxide. In 2000, rising commodity prices on cotton and aluminum boosted export revenues to nearly \$800 million, as much as 20 percent higher than a year earlier. Import expenditure, meanwhile, had risen about the same to approximately \$840 million and had resulted in a trade deficit of close to \$50 million. Much of the trade deficit was due to increased imports of alumina (the raw compound needed for aluminum production) (38 percent increase), electricity (15 percent), and natural gas (62 percent). Uzbekistan could significantly affect Tajik imports and exports if it reopened all modes of transportation to Tajikistan and removed the deadly mines buried near the borders. To date, these mines have taken the lives of many innocent Tajiks and Uzbeks.

However, the environment needed to increase foreign direct investment is not yet fully in place in Tajikistan. According to the EBRD, cumulative net total FDI between 1993 and 2001 is an estimated \$211 million. Investment in the mining sector, especially in the Zerafshan Gold Company, is thought to constitute the largest inflow of FDI. The Canadian-listed and British-owned Nelson Gold Corporation is registered as the primary investor in this joint venture between the government of Tajikistan and the World Bank.

Tajikistan has run trade and current account deficits financed through external borrowing and arrears accumulation since the early years of independence. In effect, these trade deficits replaced the subsidies Tajikistan received during the Soviet period. The rising debt problem, however, has required cuts in nonessential imports and increases in export earnings. A World Bank report on Tajikistan concludes that economic revival and the combating of poverty depends heavily on continuing reforms in favor of the free-market system combined with external debt relief. Tajikistan's foreign debt stock has grown steadily since independence, and it is estimated to total about \$1.2 billion, or more than 100 percent of GDP. Tajikistan owes its foreign debt to bilateral partners (42 percent), multilateral agencies (30 percent), and commercial creditors (27 percent). The largest bilateral creditors are Russia (nearly \$300 million) and Uzbekistan (nearly \$150 million). The largest multilateral creditors are the World Bank (exceeding \$150 million), the IMF (exceeding \$110 million), and the EU (exceeding \$75 million).

Tajikistan's civil war seriously affected the education system. Many schools were damaged or fully destroyed. A 1998 household survey found that the overall level of non-attendance for school-age children was approximately 15 percent. Literacy and education levels, especially in rural areas and among females, are lower than generally presumed. Households have identified the major problems associated with sending their children to school as lack of clothing and shoes, unavailability of books, shortage of qualified teachers, and absence of school heating. Even though nine years of schooling are compulsory in Tajikistan, thousands of children and youths leave school to work as farm laborers or street vendors. The work of NGOs has shown that the availability of school feeding programs substantially increases school attendance by both students and teachers.

Some private schools and colleges have appeared. The Aga Khan University, for example, was founded in Khorog, the capital of the Badakhshan province. Another institution of higher learning is the Slavonic University in Dushanbe, which is funded by the Russian government. The nongovernmental Turkish organization Gewlen also operates seven Turkish lycées.

According to an analysis by the International Crisis Group, Tajikistan continues to face four major challenges: establishing a viable political system, combating crime, violence, and drug trafficking; promoting friendly relations with neighboring states (especially Uzbekistan); and reversing economic decline. The government has made progress in economic reform through continued—albeit imperfect—privatization and sound macroeconomic policy. However, ongoing economic stagnation—much of it due to natural and external factors outside the government's control—has indirectly stifled the democratization process as well.

In addition, the UN World Food Program has claimed that as many as a million people face potential starvation if sufficient aid does not arrive in Tajikistan by early 2002. According to the WFP, nearly 70,000 metric tons of wheat flour (worth about \$36 million) are needed in the first six months of 2002 alone to combat hunger among the most vulnerable households. As many as 9,000 households, mainly in the Khatlon province, have already benefited from the WFP's food-for-work program, wherein households receive corn and wheat seeds for plowing modest-size plots of land. They also get limited amounts of wheat flour. In practice, though, this program is thought to affect less than 10 percent of the population that has been severely affected by the drought. The coping mechanisms that have cushioned Tajik households in economically vulnerable post-independence times, according to experts, are quickly becoming less effective owing to the enormity of the drought. Water- and malnutrition-related diseases such as typhoid, diarrhea, and malaria are said to be on the rise. There is hope, however, that—pending political stability—most of the \$430 million pledged at a May 2001 donors' conference in Tokyo will be forthcoming.

Payam Foroughi is a doctoral candidate in international relations at the University of Utah in Salt Lake City. His research involves issues of social and economic development, ethnicity, nationalism, and conflict resolution in the former Soviet Union. Mr. Foroughi has been a contractor and consultant with the Economist Group, the U.S. Peace Corps, the United Nations, and other organizations involving foreign aid.

TURKMENISTAN



Polity: Presidential

Economy: Statist

Population: 5,500,000

GNI per capita at PPP \$ (2000): 3,800

Capital: Ashgabat

Ethnic Groups: Turkmen (77 percent), Uzbek (9 percent), Russian (7 percent), Kazakh (2 percent), other (5 percent)

Size of private sector as % of GDP (mid-2001): 25

The scores and ratings for this country reflect the consensus of Freedom House, its academic advisors, and the author of this report. The opinions expressed in this report are those of the author.

↓↓ and ↑↑ indicate score changes of .25 or more. ↓ and ↑ indicate changes of less than .25.

NATIONS IN TRANSIT SCORES

	1997	1998	1999-2000	2001	2002
Democratization	6.90	6.90	↓ 6.94	6.94	6.94
Rule of Law	na	na	6.38	↓↓ 6.63	6.63
Economic Liberalization	6.38	↓ 6.42	6.42	↓ 6.50	6.50

KEY ANNUAL INDICATORS

	1995	1996	1997	1998	1999	2000	2001
GDP per capita (\$)	591.9	464.1	495.1	509.9	452.5	552.5	642.0
Real GDP growth (% change)	-7.2	-6.7	-11.3	5.0	16.0	17.6	10.0
Inflation rate	1,005.3	992.4	83.7	16.8	24.2	8.3	11.2
Exports (\$ millions)	2,084.0	1,692.0	774.0	614.0	1,162.0	2,508.0	2,700.0
Imports (\$ millions)	1,644.0	1,388.0	1,005.0	1,137.0	1,328.0	1,742.0	2,300.0
Foreign Direct Investment (\$ millions)	233.0	108.0	108.0	62.0	89.0	131.0	150.0
Unemployment rate	na						
Life Expectancy (years)	65.7	na	65.7	na	na	66.3	67.0

INTRODUCTION

Turkmenistan has been called “the North Korea of Central Asia.” Opponents of the regime claim that the entire state structure serves only to glorify the country’s leader, President Saparmurat Niyazov, by expending significant resources on the reinforcement of Niyazov’s image as the all-powerful, unchallengeable father of his nation and people. Although the United Nations officially recognized Turkmenistan as a neutral country in December 1995, the state’s foreign policy appears more isolationist than nonaligned.

President Niyazov has ruled the independent state of Turkmenistan since 1991, the year the Soviet Union collapsed. He first came to power, though, in 1985, to replace the corrupt Communist Party leader of the Soviet Socialist Republic of Turkmenia. In the years since independence, he has headed the most Stalinist state of the former Soviet republics and has encouraged the development of a “cult of personality,” as it is often described. In February 2001, Niyazov promised to step down as president in 2008 or 2010, saying on the eve of his 61st birthday that “a man older than 70 should not be the country’s president.”

Countless articles about Turkmenistan in the Western press start by mentioning that Niyazov is called “Turkmenbashi”—a title Parliament bestowed on him that means “the leader of the Turkmen.” There is a city named Turkmenbashi, which sits on the Turkmenbashi Bay of the Caspian Sea; an oil refinery named after Turkmenbashi; and a number of factories, state farms, and locally made products that invoke the Turkmenbashi moniker. The nation’s monuments to Niyazov include the Arch of Neutrality in the capital, Ashgabat, which is crowned with a golden statue of Niyazov that revolves to keep the leader facing the path of the sun. The national holiday Flag Day falls on Niyazov’s birthday, February 19.

How Niyazov manages to keep such a tight grip on power is a matter of much speculation. One could assume, for example, that he has a loyal inner circle that consists either of a few trusted people who help manage the country’s affairs or, more likely, of a group of yes-men who are quick to agree with any idea Niyazov puts forward. The latter would be something akin to Stalin’s Soviet Union, Mao’s China, or Kim Il Sung’s North Korea. The fact that government officials at all levels are regularly shuffled in and out of office makes it impossible for the president, at this time, to identify individuals within the government who might serve as his confidants or actually become guiding forces behind the political scene.

Niyazov’s past may provide some insight into the eccentric manner in which he governs the country. Born in 1940, Niyazov was only a child when his father was killed during World War II. He was then orphaned in 1948 when a devastating earthquake leveled Ashgabat and killed his mother and two younger brothers. Niyazov grew up in a

state orphanage and, as a result, appears to have no strong loyalties to a clan or childhood friends.

An engineer by training, Niyazov was a loyal Communist Party member in the USSR. When he was named party chief in Turkmenia in 1985, he was only 45 years old. It is unlikely, especially given his educational background, that Niyazov was ever meant to be more than a party boss who carried out, rather than created, state policy. To some degree, Niyazov’s erratic style of rule may also be influenced by his poor health. In the first half of the 1990s, he received medical treatment in the United States for phlebitis. In the late 1990s, he underwent multiple bypass heart surgery. He is also known to suffer from respiratory problems.

Nearly every foreign news article on Turkmenistan documents the country’s poor record on tolerating dissent. The executive branch of government dominates the state, and the legislative and judicial branches appear to have little, if any, real power. The Security and Interior Ministries back the president and play an important role in bolstering a one-party political system in which there is no room for active opposition political parties and movements.

Although the Constitution guarantees certain basic rights, citizens of Turkmenistan enjoy no freedom of speech or the press and have little ability to obtain objective information from sources outside the state. Likewise, religious freedom organizations have decried the absence of religious liberties. Most opposition political figures departed the country in the first years after independence. Those who remained were either jailed or placed under house arrest.

Just as in the Soviet era, the state controls all sectors of production in Turkmenistan. Accurate economic figures are difficult to obtain, and data provided by the Turkmen government seem inflated. In 2001, for example, the government reported a “record” grain harvest, even though every neighboring country suffered from a second consecutive year of drought.

Since the country has one of the largest reserves of natural gas in the world and a sizable amount of oil, it should, at least on paper, be a wealthy nation. Niyazov even boasted after independence that Turkmenistan would become a “second Kuwait.” However, Turkmenistan is handicapped by a shortage of reliable export routes. The government’s repressive policies and its unpredictability in dealing with foreign businesses have also kept investments and potential investors from flocking to Turkmenistan as they have to Kazakhstan and even to Turkmenistan’s Caspian rival, Azerbaijan.

From the top down, the Turkmen government is rife with corruption. In 2001, for example, the European Bank for Reconstruction and Development issued an open letter in which it questioned the \$1.7 billion so-called foreign exchange fund that comes directly under Niyazov’s control and does not form part of the state budget. However, in 2001, Niyazov also followed a well-developed pattern when he dismissed several top officials for corruption and nepotism and called on government officials and the people of

Turkmenistan to be vigilant and relentless in seeking out and reporting corruption.

Niyazov's eccentric behavior appeared to become more manifest in 2001. In April, he ordered the closing of the ballet and opera theater in Ashgabat because they promoted "alien" art forms that communicate nothing to Turkmenistan's citizens through their "unnatural feelings and indiscreet dances." In May, he complained at a gathering of the World Humanitarian Turkmen Association, an organization representing Turkmen societies from more than 20 countries, about the praise and attention lavished on him by the country's people and press. Yet the gathering later conferred the title of "Beik President," or great president, on him.

In October, just before the celebration of Turkmenistan's 10th anniversary of independence, Niyazov unveiled his book, *Rukhmame*, a spiritual guide for proper behavior and morality among Turkmenistan's citizens. Although Turkmen government officials and the state-owned media said the book belonged on the shelf next to the Koran or the Bible, the outside world has largely ignored it. Publication of the book is the most visible sign to date that the president considers himself something more than a mere mortal.

Although there has been no official announcement, observers of Turkmenistan expect that the principles expressed in *Rukhmame* will be enforced as a parallel legal code. The country's Constitution is laid out according to Western ideas, but *Rukhmame* has been advertised as the Turkmen people's own path to a brighter future.

During the period covered by this report, the country witnessed the biggest defection from the government's ranks in the last decade when Boris Shikhmuradov, Turkmenistan's ambassador to China, announced that he was an opponent in exile to Niyazov and the Turkmen government. Having also served as foreign minister, deputy prime minister, and special presidential representative on Caspian resource affairs, Shikhmuradov is, in addition to Niyazov, one of the only people in Turkmenistan whom the outside world has ever heard of. All told, Shikhmuradov had stood at the pinnacle of Turkmenistan's government for nearly 10 years, far longer than any other official. Although other officials have left the country and declared their opposition to Niyazov, Shikhmuradov's views will surely carry more weight abroad. He simply has more experience in the international community and is a relatively well-known figure among diplomats.

Most important, in 2001, the events surrounding the international campaign against terrorism seriously tested Turkmenistan's policy of neutrality. The Niyazov regime found itself in a difficult position when Turkmenistan's Central Asian neighbors sided with the U.S.-led coalition that was targeting al-Qaeda bases and the Taliban military in Afghanistan. These countries—Uzbekistan, Tajikistan, and Kyrgyzstan being foremost among them—are potentially the greatest benefactors of Turkmenistan's dreams of oil and gas wealth. Yet they have not remained neutral in the campaign, and some have even allowed the U.S. military, and others, to use the airbases on their territories.

In contrast, Turkmenistan had maintained good relations with the Taliban and in the past had even been a venue for Afghan peace talks. Although the Turkmen government tried to maintain its neutrality in the wake of September 11, U.S. President George Bush made clear early in the war against terrorism that "you are either with us or you are against us." In response, Turkmenistan granted use of its airspace for planes carrying humanitarian cargo and allowed some shipments of aid to cross its border into Afghanistan. Nonetheless, questions soon arose about just how close the Turkmen regime was to the Taliban and al-Qaeda.

The London-based newspaper *Al-Hayah* reported in October 2001, for example, that the Al-Zawahiri group had been in contact with officials in the Turkmen government. Ayman Al-Zawahiri is one of Osama bin Laden's most trusted confidants, and he has been accused in Egypt of helping to plot the assassination of President Anwar Sadat in 1981. *Al-Hayah* cited "a Russian expert working in Central Asia" who said that "a group led by Ayman Al-Zawahiri is moving toward Central Asia through Turkmenistan, which used to have close ties with the Taliban and where a number of its leaders are said to have 'interests' with Al-Zawahiri's group." Other sources noted that bin Laden himself may have planned to flee Afghanistan for Turkmenistan and then to move on from there for other destinations. This, the sources claimed, was a feasible plan, given the ties between the Turkmen government and bin Laden's Taliban hosts. Although Turkmenistan's Foreign Ministry was asked to respond to these claims, no official was willing to comment.

DEMOCRATIZATION

Political Process

1997	1998	1999-2000	2001	2002
7.00	7.00	7.00	7.00	7.00

In December 1999, Turkmenistan's Halk Maslahaty (People's Assembly) named Niyazov "president for life." The move followed a January 1994 national referendum that resulted in the extension of Niyazov's term in office by eight years, thus bypassing elections scheduled for 1997. The presidents in neighboring Uzbekistan and Kazakhstan used the same tactic to lengthen their terms in office the following year.

According to Turkmen election officials, 99.9 percent of voters approved the extension of Niyazov's term. Two years earlier, when Niyazov ran for president unopposed, they claimed that he received 99.5 percent of all votes cast. On both occasions, election officials said that more than 99 percent of eligible voters had taken part in the polls. Similarly, Niyazov ran unopposed in the Turkmen SSR's republican elections in October 1990, when he switched his title from first party secretary to president.

When Niyazov announced in February 2001 that he would step down by 2010, the statement elicited more curi-

osity than credibility. Although he has pledged to hold multiparty parliamentary elections in the past, he has yet to fulfill the promise. At the time of the last elections, he simply stated that the Turkmen people were not ready for political plurality. Still, Niyazov has promised that the presidency will not go to his heir, only adding to the list of people he believes should not succeed him in the nation's highest post. He has also stated that no one from the Yomut, one of the five great Turkmen tribes, should ever become president. He made this statement even though most of the leaders of Turkmenistan's oil sector are Yomut and on their traditional lands rests most of the country's oil.

In response to Niyazov's announcement of his intent to eventually step down, Istvan Venczel, the OSCE's chief representative in Turkmenistan, commented that it was at least encouraging that Turkmenbashi was even talking about elections. "He is reconfirming a commitment for a democratic transition, and he spoke not only about the presidency but about a multiparty system. At least he is speaking about a commitment that Turkmenistan, like all members of the OSCE, has agreed to." However, Venczel's seeming optimism could easily be curbed if one recalls that Niyazov also once stated that the Turkmen are among the world's oldest democratic peoples. In fact, no evidence exists to show that Turkmen tribes have ever held anything resembling a democratic election.

Turkmenistan's unicameral Parliament, the Majlis, has 50 seats. Although Niyazov promised in 1999 to cede more power to Parliament, it remains a "rubber stamping" body to this day. The last parliamentary elections took place on December 12, 1999. The Democratic Party of Turkmenistan (DPT), which is led by President Niyazov and is the successor to the Communist Party of the Turkmen Soviet Socialist Republic, was the only political party to participate. It is also the only party that is officially registered with the Ministry of Justice. Just over 100 candidates competed for the 50 seats in Parliament. (Only 51 ran in the election of 1994.) Although some candidates declared themselves to be independent, they were all in fact connected to the DPT. Niyazov was rumored to have personally chosen all the candidates and to have decided who would be the winners.

In the two weeks before the election, the Turkmen Service of Radio Liberty conducted a poll on the streets of Ashgabat. Less than 10 percent of the respondents could name one of the candidates running in their district. A little more than half knew when the election was scheduled to take place. Election officials claimed a 99 percent-plus turnout at the polls. However, Radio Liberty and other Western media reported that low turnout during the early part of the day forced election officials to canvass houses, hospitals, and public facilities in order to track down eligible voters and take their completed ballots.

Although there were some election observers from CIS countries, no international organization or Western government officially monitored the 1999 election. Representatives of the Ashgabat office of the OSCE noted that part of the

problem was the wording that the Turkmen government used. Instead of specifically inviting individual organizations to monitor the election, the Turkmen government said it would welcome "anyone" who wanted to send monitors. The OSCE said it needed a clear invitation before it could send any observers, but neither election officials nor the Turkmen government ever made such a specific offer. It was clear, though, that they were aware of the OSCE's regulations.

Similarly, the OSCE did not send monitors to Kazakhstan's presidential election in January 1999 or to Uzbekistan's parliamentary elections, which took place the week before the Turkmen vote. In all three instances, the OSCE declared that the election had fallen far short of democratic standards. The Turkmen government offered what has become its common response to outside criticism: The country is following a unique path toward reform and democracy that takes into consideration the culture and tradition of the Turkmen people. Exactly how culture and tradition affect Turkmenistan's ability to hold elections or justify its failure to meet international electoral standards has never been clear.

Immediately after the 1999 election, the new Parliament voted to amend the Constitution so that Niyazov could remain president for life. It then approved the decision of the People's Council to make Niyazov just that. These events clearly demonstrated how empty Niyazov's promise of granting the new Parliament more power really was.

Even though the People's Council has been described as a group of "tribal elders," its membership includes regional representatives who are anything but elderly. This assembly usually meets annually toward year's end, unless important matters arise at an earlier date that need its official sanction. When the People's Council named Niyazov president for life, it presented him with a white *khalat* (a long coat or robe) and a palm staff, both traditional signs of Islam's prophet Mohammad. As the crowd applauded, Niyazov wept and said that he was deeply moved by how much the people loved him.

Despite the guarantees of Article 28 of the Constitution, no one attempted to form a political party or movement during the period covered by this report. There are unregistered opposition political parties, of which Agzybirlik is the best known. Agzybirlik attempted to register in the last days of the Soviet Union, but its application was denied. A subsequent attempt to register with the Justice Ministry after Turkmenistan became an independent nation also proved unsuccessful, but it did attract the government's attention to the party early on. Most of Agzybirlik's members fled the country in the first few years after independence. However, Nurberdi Nurmamedov, the co-chairman of the party, stayed.

Since only a handful of active political opponents remain inside Turkmenistan, the government permits Nurmamedov's activities. However, with the media firmly in the state's hands, Nurmamedov has few vehicles through which he can promote his party's views. After giving interviews to Radio Liberty's Turkmen Service in 1999 in which he was critical of the Turkmen government,

Nurmamedov soon found himself under investigation by the state prosecutor. In February 2000, at a closed trial, he was found guilty of “hooliganism with intent to commit murder.” Although his alleged victim, a longtime neighbor, said that Nurmamedov had never threatened him, the testimony was stricken from the court record and played no role in the verdict. Nurmamedov was sentenced to five years in jail but was freed in December 2000 under a general amnesty along with more than 11,000 other prisoners. In what can only be described as a shameful mockery of justice, Nurmamedov had to repent on state television, swear an oath of allegiance to the Turkmen president, and vow to redeem himself through work for the homeland. Early in 2001, Amnesty International reported that Nurmamedov was under police surveillance.

The most recent attempt to form an opposition political party or movement failed. In the spring of 1999, Pirimguly Tangrikuliev announced his intention to form a political party or to run in the parliamentary election as an independent. That summer, he was charged with embezzlement of state property. No one has attempted to form another political party or movement since then. Although the next parliamentary elections will take place in three years, members of the opposition have little reason to try to form parties, especially in light of the response Tangrikuliev received.

Pirimguly Tangrikuliev planned to run for Parliament in December 1999 and made his intentions clear more than half a year in advance. He was jailed in the summer of 1999 for embezzling state property. Turkmenistan’s state prosecutor pointed out that Tangrikuliev’s crime was especially heinous since he was a doctor who had overcharged patients for medicine, even medicine given to him by the Turkmen government as part of the national health care program.

There are earlier examples of opposition figures running afoul of the law, but they all fit the same pattern. Like Nurmamedov and Tangrikuliev, none were tried for political activities. Instead, they were tried on criminal charges in closed courtrooms. No one has ever been acquitted, no matter how farfetched the charges. Further, the media attacks them, often quoting President Niyazov himself, in order to humiliate them publicly and leave the impression that they are immoral and untrustworthy individuals.

Civil Society

1997	1998	1999-2000	2001	2002
7.00	7.00	7.00	7.00	7.00

Article 28 of the Constitution states, “Citizens have the right to form political parties and other social associations that operate within the framework of the Constitution and laws.” However, there are no officially registered political parties in the country except President Niyazov’s DPT. Attempts to register or form alternative parties and movements

have brought swift and severe reaction from the government. Although nongovernmental organizations do not officially exist, the government allows some groups to function if they avoid issues that could be considered as conflicting with the views and policies of the state. Most organizations confine their efforts to matters such as ecology, women’s rights, and youth issues.

With international assistance, Turkmenistan drafted and adopted a progressive new civil code in 1998. The law was set to take effect in 1999 and was supposed to override related provisions in the 1992 Law on Public Associations. According to the International Center for Not-for-Profit Law, “If applied, provisions of the civil code affecting NGOs will be the most progressive in Central Asia.” These progressive provisions include relaxed requirements for the registration of NGOs and even a clause that officially grants registration to applicants that do not receive a response from the government within a specified period of time. The only trouble is that the code has never been put into practice, and the Law on Public Associations has never been amended to conform to the new code. In fact, according to an article in the summer 2000 edition of the *Harvard Asia Quarterly*, “Representatives from the Ministry of Justice have acknowledged that they will not implement these reforms, and have claimed that their Ministry is obliged only to follow the ambiguous provisions of the 1992 law.... It is assumed that the reluctance is based on the Ministry’s desire to maintain its traditional extensive control over NGOs.”

There are institutions whose names suggest that they are NGOs. One such group is the Institute for Democracy and Human Rights, which was established in October 1996 and operates under the guidance of President Niyazov. The institute is credited with pushing through some limited reforms in the penal system such as decreasing sentences for some crimes and, notably, the abolishment of the death penalty. However, Niyazov dismissed the institute’s director, Yelbars Kepbanov, in July 2001 for “serious shortcomings in his work” or, more likely, for being too effective.

The Constitution guarantees the right to work and choose one’s profession. It even contains provisions on the rights of workers to “rest and leisure,...work weeks of limited duration,...paid annual vacation,” and “weekly days off,” but it contains no references to workers’ associations or collective bargaining. In addition, according to the U.S. State Department’s 2001 *Country Reports on Human Rights Practices*, there simply are no independent trade unions in Turkmenistan. Instead, the report cites the Colleagues Union as “the only legal central trade union federation [that is] permitted” and notes that Turkmen law “neither prohibits nor permits strikes.... Strikes are extremely rare.” The Colleagues Union claims to have 1.3 million members.

In the United Nations Development Program’s 2001 *Human Development Report*, Turkmenistan ranked 83rd out of 162 nations on the “status of fundamental labor rights conventions.” However, this ranking only indicates the ratification of leading international conventions on freedom of

association and collective bargaining, elimination of forced and compulsory labor, elimination of discrimination in employment and occupation, and abolition of child labor. The ranking contains no indication of actual implementation of these conventions.

The Turkmen are by tradition Sunni Muslims, and the majority of the population identifies with this sect of Islam both ethnically and religiously. Sunni Islam and the Russian Orthodox Church are the only registered religions in the country. However, since many of the Slavic peoples who lived in Turkmenistan during the Soviet period have emigrated, the number of Russian Orthodox practitioners has dwindled. There are several smaller, unregistered religious communities, including Roman Catholics, Pentecostals, Jehovah's Witnesses, Seventh-Day Adventists, Baptists, Baha'is, and Hare Krishnas.

Although Turkmenistan's Constitution guarantees religious freedom, smaller religious groups have found it difficult to meet registration requirements and, therefore, to operate unfettered. According to the U.S. Department of State's *International Religious Freedom Report* for 2001, "Some observers have speculated that official restrictions on religious freedom...reflect the government's concern that liberal religious policies could lead to political dissent, including in particular the introduction of Islamic extremist movements in the country. The Government appears to view participation in nontraditional religions as a threat to the stability and the neutrality of the State." As a result, their role in broader civil society is somewhat limited.

Freedom of association is also limited in other ways. For example, citizens are discouraged from socializing with foreigners. In 2000, President Niyazov ordered the monitoring of foreigners in Turkmenistan, and in January 2001, he announced on state television that an additional 1,000 people would be added to the Committee for National Security (KNS), the successor to the Soviet-era KGB. The broadcast then showed Niyazov telling KNS officials that "[l]ast year alone 988,000 people visited Turkmenistan from abroad. If some of them came with good intentions, then some of them didn't."

Although Article 25 of the Constitution states that "[m]en and women upon reaching the age of marriage have the right to mutually consent to enter into marriage and form a family," the president signed a resolution June 2001 that requires foreigners to pay the state \$50,000 to marry a citizen of Turkmenistan. They must also show proof of residence in the country for at least one year and ownership of his or her own living space. Critics have noted that the fee for marrying a Turkmen citizen is far greater than the financial means of citizens in neighboring countries. Likewise, few foreigners live in Turkmenistan for an entire year, and far fewer own property there, choosing instead to rent temporary living quarters. The government, however, claims that the payment is necessary to protect women from being tricked into abusive relationships or trapped in the human trafficking trade. The resolution specifically states that the

money is for the protection of "young women who either fall into rich Asians' harems, or suffer materially at the hands of wandering adventurers posing as rich foreign businessmen." It also provides financial guarantees for woman who are suddenly divorced abroad and left with children.

Education, another important component of civil society, is fraught with political influence and propaganda in Turkmenistan. At a session of the Cabinet of Ministers in September 2000, for example, Niyazov ordered the revision of school textbooks to portray the contributions of the Turkmen people to world civilization in a more favorable light. At one point, he claimed the Turkmen people had existed for 6,000 years on their present territory. History books outside Turkmenistan do not support this last claim. It would be difficult for anyone in Turkmenistan to prove Niyazov wrong, though, because the state library in Ashgabat is reportedly being closed down and the three million books in its collection are slated for storage. Turkmenistan closed its Academy of Science a few years ago.

In April 2001, the Moscow-based Information Center for Human Rights in Central Asia said it had received reports that in Turkmenistan's Dashoguz region, elementary school officials were requiring girls to wear traditional Turkmen attire to attend classes. School officials called parents to a meeting and informed them of the new mandatory dress code. Any girl who did not wear traditional Turkmen clothing could not stay in school. However, 30 percent of the region is ethnic Uzbek or another non-Turkmen group.

Independent Media

1997	1998	1999-2000	2001	2002
7.00	7.00	7.00	7.00	7.00

In 1998, the Committee to Protect Journalists named President Niyazov an "Enemy of the Press." Since then, little has changed to warrant a reevaluation of the title. Despite constitutional guarantees for a free media, there is no such thing in Turkmenistan. All newspapers, magazines, and television and radio stations are state owned and heavily censored.

Newspapers are a clear example of how much the media serves the state, particularly the president. Each day, a prayer appears on the front page of every newspaper, praising Niyazov and asking that terrible punishment come unto those who betray or disappoint him and Turkmenistan. Every newspaper also displays a picture of Niyazov on the front page and devotes coverage to the president carrying out his duties. These stories dominate the news in Turkmenistan to such an extent that important world affairs often are not even mentioned—or if they are, they certainly never appear on the front page of the paper. The president's activities receive wide coverage on television and radio as well.

So omnipresent is Niyazov in the media that jokes about it have emerged among Turkmenistan's people. As one ex-

ample, Niyazov appears on the country's television stations so frequently that it is now common for people to say "Change the Niyazov" instead of "Change the channel." If one does not wish to see Niyazov meeting with the farmers on one channel, it is possible to see him with factory workers or government officials on another station.

One Russian television channel rebroadcasts some of its programs in Turkmenistan after a 24-hour delay that allows censors to examine and properly edit their content. Radio Liberty also broadcasts to Turkmenistan, but figures for listenership are impossible to come by because the Turkmen government discourages its citizens from tuning in to programs. However, letters sent to the Turkmen Service at Radio Liberty do prove that people are listening. On several occasions, the government has warned Radio Liberty's sole correspondent in Turkmenistan to halt his activities. Radio Meshed from Iran also broadcasts into Turkmenistan, but since the Iranian government exerts its own censorship on programming, none of the material poses a danger to the Turkmen government.

In the past, customs officials seized newspapers and magazines from visitors to Turkmenistan. This practice was simply an added precaution against the dissemination of uncensored information in the country. Anecdotal evidence suggests that the policy has been loosened and that foreign newspapers are now available in the lobbies of some of Ashgabat's finer hotels.

Legislation passed in May 2000 revoked the licenses of five private Internet service providers. The Ministry of Communications now remains the only service provider in the country. Although the government blocks much of what is available on the Internet, it is unclear, in any case, how many people in the country even have access to computers and the Internet.

News from outside Turkmenistan receives very little coverage in the domestic media. For example, in October 2001, when the U.S.-led coalition began its attacks in neighboring Afghanistan, the Turkmen media did not report the action for days. However, the events were of direct interest to the Turkmen people because the government had given the United States permission to fly planes delivering humanitarian aid through Turkmen airspace. Some of that aid was even distributed from Turkmenistan into Afghanistan, but at first that too went unreported in the Turkmen media. Its selective coverage seems particularly strange, given that its involvement in the events in Afghanistan provided a great opportunity for the Turkmen government to demonstrate that it was a key player in the biggest event in the world. Yet the media still withheld the story until the government approved a proper means of disseminating the information.

That Niyazov personally exerts great influence over the media was clearly demonstrated by the June 2001 firing of Akmurad Mukhadov, chairman of the cabinet's Coordinating Council for Culture and the Press. Niyazov commented that the "low professional level of mass media workers" was

responsible for "lots of boring programs." By August, a new 6-part television series called *Turkmenbashi the Patron* was ready for screening. The author of the series is Kakamurad Ballyev, deputy director of the state news agency. The series itself was a continuation of the 19-part series *Turkmenbashi—My Leader*, which ran on Turkmen state television in 1999 and 2000 and was produced to mark the 10th anniversary of Turkmenistan's independence.

Governance and Public Administration

1997	1998	1999-2000	2001	2002
6.75	6.75	6.75	6.75	6.75

Article 4 of the Constitution states that "the government is based on the principle of separation of powers into legislative, executive, and judicial powers that function independently, checking and balancing each other." In practice, though, the executive branch garners all, or certainly most, of the power in Turkmenistan and clearly overshadows the legislative branch. Although it would be naive to suppose that President Niyazov proposes all legislation, he certainly must clear all bills before Parliament can approve them.

As such, Parliament is no more than a rubber stamp body. A photograph that appeared in the now banned opposition publication *Dayanch* provides a good illustration of this. In 1992, *Dayanch* ran a picture of Parliament voting to have a statue of Niyazov put up in the capital. The picture showed deputies all raising their hands, and the caption below read, "Once again, a unanimous decision." Voting on laws is always unanimous, and there appears to be little, if any, debate among deputies on any given topic. Once Niyazov sanctions a measure, Parliament has little choice but to approve it.

Parliament's ingratiating tendencies can also be seen in the constant motions to award the president honors and medals for his service to the country. Likewise, Parliament was completely compliant in amending the Constitution to allow Niyazov an unlimited term in office shortly after the body was elected in 1999. Niyazov often rules by decree, mitigating any need for parliamentary debate or approval.

Both regional and local administrations work very poorly, and officials are chosen more on the basis of their devotion to the state than on their ability to care for the needs of their constituents. There would seem to be no other explanation for the behavior of these officials, who are quietly fulfilling orders to close down medical centers and schools—part of the backbone of strong communities.

Regional heads are often fired for incompetence or corruption. In fairness, though, their only crimes often seem to be an inability to fulfill unrealistic targets set by the government. The roots of dubious economic figures are found at this level, as officials understand that failure to meet government quotas will result in their dismissal. This practice is a clear holdover of the Soviet era.

Local leaders are no better. For it is at this level of government that the glorification of the president, or the cult of personality, initiated. It began with hanging the president's portrait in offices and soon included naming state farms, factories, and other industries after Niyazov. Local officials compete against one another in this regard and are always trying to be first or best at showing their devotion to the state and the president.

At both the regional and local levels there are problems with nepotism. Tribal and clan ties remain strong and at times seem to supersede directives of the state. In such cases, though, officials must exercise caution to avoid public exposure. Generally speaking, the needs of the individual receive little attention from those charged with being their advocates.

In August 2001, President Niyazov announced the launch of an experiment in local self-government in the Ashgabat region. According to a report by the Russian news agency Interfax, authorities in the region will be able to pass local laws and regulations, introduce taxes, and build roads, and they will answer directly to the president. In making the announcement, Niyazov noted that "today nobody pays any attention to the role of self-government.... This is an experiment, and if it produces positive results in a year, it will be spread to other regions of the republic as well."

RULE OF LAW

Constitutional, Legislative, and Judicial Framework

1997	1998	1999-2000	2001	2002
6.75	6.75	6.75	7.00	7.00

Turkmenistan's Constitution, as it appears on paper, is a democratic document. Although it provides for basic political rights and civil liberties, the government fails to respect these rights in practice. In this regard, the Turkmen Constitution can be compared to that of the former Soviet Union or present-day China.

In May 1992, the now former Supreme Soviet approved a postindependence 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, Parliament approved a new criminal code that contained few true reforms. 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 over-

crowding or lack of medical attention. Prison officials allegedly request bribes to process the release of prisoners under general amnesties. 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 offenses.

Turkmenistan's Constitution formally guarantees a range of personal liberties. These include freedom of speech (Article 26), religion (Article 11), movement and choice of one's place of residency (Article 24), and association (Article 27). It also preserves the right to form political parties and other social organizations (Article 28) and guarantees citizens the right to own private property (Article 9), including the "means of production," land, intellectual property, and other material and intellectual "items of value."

Article 18 states that men and women have equal civil rights, and 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 all these rights and freedoms on the vaguely defined stipulation that they do not "violate . . . social order, or harm national security." Despite all these guarantees, state agents violate human rights with impunity.

The KNB and the criminal police, a separate entity supervised by 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. Authorities still do not permit peaceful opposition demonstrations, and the government requires citizens to carry internal passports that record their place of residence.

In addition, according to a new report by Human Rights Watch, "several people were denied permission to travel abroad on political or religious grounds" in 2001. The report goes on to note that "the government gave few visas to foreigners, and in numerous cases KNB agents warned individuals not to issue invitations to their friends and relatives abroad." However, in a hopeful sign at the end of 2001, the government announced that citizens would no longer be required to obtain exit visas to leave the country. This policy will apply to everyone except those "who have access to state secrets" and are therefore subject to restrictions on leaving the country. The OSCE chairman in office, Romanian Foreign Minister Mircea Geoana, said in a press release that he was optimistic about the move and believed the authorities would make sure that all Turkmen people benefit from it.

There is no state religion in this predominantly Sunni Muslim country. Article 11 of the Constitution "guarantees freedom of religion and faith and equality of religions and faiths before the law." The article goes on to say that "everyone has the right independently to determine her or his religious preference, to practice any religion alone or in

association with others, to practice no religion, to express and disseminate beliefs related to religious preference, and to participate in the performance of religious cults, rituals and ceremonies.” However, 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 locale. Consequently, Catholics, Seventh-Day Adventists, Lutherans, Baptists, Baha’is, and other groups have ambiguous legal status.

The Keston Institute, the U.K.-based organization that monitors religious freedom in the former Soviet Union, noted numerous rights violations in Turkmenistan during the period covered by this report. It documented raids on churches and religious study meetings, the detention and torture of Christian religious leaders, and at least one order to confiscate a church’s property. In addition, Amnesty International reported that 18-year-old Dmitry Melnichenko of the Evangelical Baptist Church was detained and tortured after refusing to serve in the country’s military on the grounds of conscientious objection. According to the organization, “at least six Jehovah’s Witnesses...are currently in prison” for the same thing.

Muslims have not escaped rights violations either. In June 2001, for example, in Turkmenistan’s northern Dashoguz region, President Niyazov ordered the country’s only *madrassa*, or Islamic training school, closed. The state-owned newspaper *Neitralny Turkmenistan* cited Niyazov as saying, “We don’t have anything against spiritual education. We are against education that confuses our children. There is no place in our country for such schools.” Yagshimurad Atamuradov, chairman of Turkmenistan’s religious council, said no more students would be admitted to the *madrassa* and that those students already attending would have to finish their training at a theological institute in Ashgabat.

In addition, the country’s highest Islamic scholar, Hoja Ahmed Orazgylych, was released from detention in March 2001 after having been detained on charges of unspecified economic crimes a year earlier. More likely he was detained for criticizing Niyazov, who in 1999 invited Turkmen children to circle a Christmas tree and recite a prayer to the president that appeared on the front page of every newspaper in the country. Orazgylych had been the official translator of the Koran from Arabic into Turkmen, and all versions of his translation were ordered destroyed. He was ordered into internal exile upon his release.

In August 2001, the U.S. Commission on International Religious Freedom recommended that the U.S. State Department declare Turkmenistan to be among the world’s

10 worst religious freedom violators. However, when the State Department released its list in October, Turkmenistan was not on it. Many speculated this was due to Turkmenistan’s limited cooperation in the U.S.-led coalition against international terrorism. Turkmenistan gave permission for U.S. planes carrying humanitarian cargo to use its airspace and allowed UN relief agencies to ship aid across its border into Afghanistan.

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 under-represented 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.

Turkmenistan’s court system is divided into three levels. At the highest level, the Supreme Court comprises 22 members, including a president and associate judges, and is separated 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 appeals 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.

Article 102 of the Constitution states that “judges of all courts are appointed by the President for terms of five years.” The president may reappoint judges indefinitely. Article 101 states that “judges are subordinate only to the law, and are controlled only by their convictions.” 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.

Article 42 of the Constitution protects citizens from having to give testimony against themselves or close relatives, and Article 105 mandates that all trials must be open to the public. 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. The court appoints a lawyer to defendants who cannot afford to pay for one, but public defenders generally see their clients only at trial.

Article 105 of the Constitution says that “[i]n all courts trials are open.” Closed trials “are only allowed when anticipated by law and with adherence to all rules of legal procedure.” What, then, to make of Nurberdi Nurmamedov, Pirminguly Tangrikuliev, and Ahmed Orazgylych—three men who were all tried behind closed doors on criminal charges, criticized by President Niyazov in the state media in the days leading up to their trials, and ultimately convicted? Few defendants ever enjoy due process rights.

Turkmenistan’s 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 general practice of discrimination against women in employment opportunities, it is likely that women are under-represented in the legal profession and the judiciary.

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	2002
6.00	6.25	6.25

Although the level of corruption in Turkmenistan is difficult to gauge, it is impossible to call it anything other than extreme. Corruption is the leading cause of dismissal in the Turkmen government. In 2001, the frequency of dismissals for corruption, and the sorts of corruption cited, indicated the situation may have grown out of control.

On January 17, 2001, for example, Niyazov sacked Nurmurad Gullmuradov, the head of the national road system. Niyazov said that “at the same time Gullmuradov was not building roads, he managed to build himself a 64-room house in the mountains.” He then declared in mid-April that “[h]onest people will be enlisted for senior posts, people who know their jobs well and who can behave simply and without any excessive sumptuousness in their personal life.”

Midyear, General Annamurad Soltanov was stripped of his rank and dismissed from the armed forces for illegal arms sales back in 1993 and 1994. Before the year was through, another, more highly placed official was also implicated in the case. Deputy Prime Minister Rejep Saparov was fired

for using his influence to make his brother the head of Ashgabat’s Tekin Market. Niyazov stripped the brother of his doctoral degree. Niyazov also lashed out at the president of the Daikhan Bank for having acquired four houses. The banker gave the houses to the state when his ill-gotten gains were discovered. Niyazov said that “one must accept such presents from thieves.”

Dismissals continued for the remainder of the year. Central bank chief Seyidbai Gandymov was fined one month’s wages by Niyazov in early August for nepotism, and others were fired either for poor performance in their duties or for drunkenness and drug addiction. In October, even the seemingly faithful Boris Shikhmuradov was named as a participant in General Soltanov’s illegal arms sales. Shikhmuradov was named deputy prime minister in 1992, foreign minister in 1993, and special presidential envoy on Caspian resource affairs in 2000; even when he started to fall from favor in early 2001, Niyazov named him Turkmenistan’s ambassador to China.

Niyazov recalled all the country’s ambassadors to Ashgabat for the 10th anniversary of independence in late October. When they arrived home, Niyazov dismissed several of them, including Shikhmuradov, who did not return. Shikhmuradov went to Moscow instead and initially was reported to be receiving medical treatment. On November 1, Shikhmuradov released a statement from Moscow declaring himself to be an opponent of the Turkmen regime.

Shikhmuradov’s statement claimed that under Niyazov’s regime, “the national property of the state disappears” and that Niyazov is directly involved in “drug trafficking, corruption...and the persecution of people for their religious and national differences.” Arguably, Shikhmuradov’s claims reflected the fact not only that he was from that moment on an opponent of the Turkmen government, but that he knew charges against him would soon follow. And they did. On November 2, 2001, the Turkmen State Prosecutor’s Office formally charged Shikhmuradov with complicity in illegal arms sales, which, according to the prosecutor, amounted to some \$30 million. Although the sum is enormous by the standards of the average citizen in Turkmenistan, it seems small when one considers the amount of money someone in Shikhmuradov’s position would be in a position to take. In any case, the amount certainly was not near the \$1.7 billion the EBRD believes Niyazov is keeping.

Also in November, Niyazov visited the Interior Ministry and fired Colonel Gurbangeldy Gandymov, chief of the ministry’s investigative department, and his deputy, Lieutenant Colonel Khovly Allaberenov. Niyazov said, “For a certain fee, the officers covered up crimes, illegally closed criminal cases, reducing the perpetrators to the status of witnesses, and at the same time, illegally persecuted and intimidated certain innocent people” (Interfax, November 14, 2001).

Concerning the allegations that Turkmen officials have been involved in narcotics trafficking, it is worth consider-

ing that Turkmenistan has a lengthy border with Afghanistan. The latter country was reported by UN drug agencies to be the producer of three-quarters of the world's heroin. Turkmenistan consistently reports significantly smaller hauls of narcotics than its neighbors Uzbekistan and Tajikistan. It would be speculation to accuse the Turkmen government, or any of its officials, of involvement in the trade. However, one must note that Turkmenistan enjoyed better relations with the Taliban government during the Islamic militia's time in power than any other country, save Pakistan, Saudi Arabia, and the United Arab Emirates, all of which officially recognized the Taliban regime.

ECONOMIC LIBERALIZATION & SOCIAL INDICATORS

Privatization

1997	1998	1999-2000	2001	2002
6.75	6.75	6.75	6.75	6.75

Macroeconomic Policy

1998	1999-2000	2001	2002
6.25	6.25	6.25	6.25

Microeconomic Policy

1998	1999-2000	2001	2002
6.25	6.25	6.50	6.50

At the close of 2001, President Niyazov declared to the nation that Turkmenistan was one of the world's leaders in economic growth. He noted that GDP rose 17 percent in 2000 and said that per capita production had risen from \$1,075 in 1995 to \$2,300 in 1999. "Our main task now," Niyazov continued, "is to raise [per capita production] to \$12,000 by the year 2010—then Turkmenistan will be the richest state." At midyear, Niyazov had reported that domestic production was up 15 percent, that growth in industrial production had exceeded 20 percent, and that foreign trade was more than \$2 billion.

The International Monetary Fund describes Turkmenistan as "largely desert country with nomadic cattle raising, intensive agriculture in irrigated oases, and huge gas and oil resources. One-half of its irrigated land is planted in cotton, making it the world's tenth largest producer. It also possesses the world's fifth largest reserves of natural gas and substantial oil resources."

Turkmenistan certainly is rich in hydrocarbon resources but suffers from a lack of export routes. There are only two functioning pipelines, one developed in Soviet times that goes to Russia via Kazakhstan and another, more recent pipeline built mostly by Iran and carrying gas there.

The pipeline to Russia was built into the Soviet Union's unified energy grid. It was meant to help supply not only parts of Turkmenistan, but also the European part of the Soviet Union. The bulk of the gas went to Russia, Ukraine, and the Caucasus. This is still true today, though not because the Turkmen government wishes it so. Oil, too, has been a problem for Turkmenistan, and the government is anxious to develop fields in the Caspian Sea. However, it has fallen into conflict with Azerbaijan over ownership of several fields.

Another problem stems from the absence of consensus among the five littoral Caspian states about whether the Caspian Sea is, in fact, a sea or a lake. If it is a sea, then territorial waters should be created. If it is a lake, then all the sea's resources should be divided up equally. Iran, in particular, is against defining the Caspian as a sea, because then a mere 13 percent of the Caspian's resources would belong to it. When compared to Kazakhstan, for instance, where the Kashagan oil field is located, Iran would especially be a loser. Kashagan is being hailed as the largest oil deposit to be found since World War II, and its volume approaches that of Saudi Arabia.

The Turkmen government's obsession with exporting its gas and oil is illustrated by the EBRD's loans for various projects. On the list of projects the EBRD has supported, for example, is the rehabilitation of the port facilities in Turkmenbashi City, the main port for oil exports. The EBRD has offered the central bank of Turkmenistan \$35 million for small and medium-size enterprises, with the warning that it place priority on diversifying the country's economy and promoting nonenergy exports. The EBRD's goal for the country is to achieve sustained economic growth and higher living standards.

Reported agriculture figures lack credibility. Turkmenistan's neighbors Iran, Uzbekistan, and Afghanistan have all suffered severe droughts for at least the last two years, and all three countries have asked for humanitarian aid from the United Nations. But not Turkmenistan, which continues to claim record grain and cotton harvests. In 1999, for example, a year in which Niyazov claimed a record grain harvest, export figures from Kazakhstan show grain being sent to Turkmenistan. In addition, shortages of bread have been reported in the capital.

In fairness, the Turkmen government has purchased hundreds of millions of dollars in tractors and farm equipment from companies in the United States. However, efforts to reclaim desert areas have been minimal, and the idea of building a large artificial lake outside Ashgabat promises to bring more trouble than benefit. In theory, the lake would supply the area, one of the richest agricultural regions in the desert state, with enough water to boost agricultural output. However, one American expert who took part in devising the plan in the early 1990s pointed out that the project will simply redirect already scarce supplies of water to new areas, not provide an entirely new source of water.

Turkmenistan's currency, the manat, is officially set at 5,400 to the U.S. dollar. The black market rate, much closer to the real value, is around 20,000 to the U.S. dollar. The average wage is about \$20 at the official rate and obviously much lower at the black market rate. Unemployment figures are unknown. And although the government supplies free gas, water, and electricity to the population, there are reports that in Ashgabat all of these items are rationed. In areas outside the capital, the situation is probably worse.

Elementary and intermediary levels of education receive little funding in Turkmenistan, and in late 2000, Niyazov announced that 5,000 jobs in the education sector would be eliminated before year's end. Another 10,000 cuts would be made in the health sector, and additional cuts were slated in both sectors in 2001. In addition, all hospitals smaller than regional medical centers were or-

dered closed. Instead, Niyazov suggested resorting to traditional remedies "like tea" to treat ailments.

If there is a bright side to Turkmenistan's economy, it is that the international coalition's efforts in neighboring Afghanistan have brought new attention to Turkmenistan and new promises of assistance. Despite the EBRD's criticism of both Turkmenistan and Niyazov, the organization's chief went to Turkmenistan in November 2001, prompted no doubt by the country's role in facilitating the transport of humanitarian aid into Afghanistan.

Bruce Pannier is a correspondent for Radio Free Europe/Radio Liberty in Prague. He lived in Central Asia from 1992 to 1993 and has been a frequent visitor to the region since then. He greatly acknowledges the assistance of RFE/RL's Turkmen Service in preparing this report.

UKRAINE



Polity: Presidential-parliamentary democracy

Economy: Capitalist-statist

Population: 49,100,000

GNI per capita at PPP \$ (2000): 3,700

Capital: Kiev

Ethnic Groups: Ukrainian (73 percent), Russian (22 percent), other (5 percent)

Size of private sector as % of GDP (mid-2001): 60

The scores and ratings for this country reflect the consensus of Freedom House, its academic advisors, and the author of this report. The opinions expressed in this report are those of the author.

↓↓ and ↑↑ indicate score changes of .25 or more. ↓ and ↑ indicate changes of less than .25.

NATIONS IN TRANSIT SCORES

	1997	1998	1999-2000	2001	2002
Democratization	4.00	↓↓ 4.25	↓ 4.31	↓ 4.44	↓↓ 4.69
Rule of Law	na	na	5.25	5.25	↓ 5.38
Economic Liberalization	4.25	↓↓ 4.75	↑ 4.58	↑↑ 4.33	↓ 4.42

KEY ANNUAL INDICATORS

	1995	1996	1997	1998	1999	2000	2001
GDP per capita (\$)	720.1	872.2	992.9	834.8	635.6	634.1	781.3
Real GDP growth (% change)	-12.2	-10.0	-3.0	-1.9	-0.2	5.8	7.0
Inflation rate	377.0	80.0	15.9	10.5	22.7	28.2	12.5
Exports (\$ millions)	14,244.0	15,547.0	15,418.0	13,699.0	12,463.0	15,722.0	16,879.0
Imports (\$ millions)	16,946.0	19,843.0	19,623.0	16,283.0	12,945.0	14,943.0	16,237.0
Foreign Direct Investment (\$ millions)	263.0	531.0	581.0	744.0	479.0	587.0	795.0
Unemployment rate	0.3	1.3	2.3	3.7	4.3	4.2	3.7
Life Expectancy (years)	67.1	67.3	67.3	68.2	68.2	68.3	68.0

INTRODUCTION

More than a decade has passed since Ukraine became an independent republic. Since then, the country has established the basic framework of a presidential-parliamentary democracy and made important progress in implementing it. Among the country's achievements in this regard are the introduction of a system of democratic elections, the adoption of a democratic constitution, and the liberalization of a large portion of the country's former command economy.

Nevertheless, considerable work remains to be done to consolidate the institutions of a stable, democratic society in which basic human, political, and economic rights are fully respected and vigorously safeguarded. As a 2001 report by the European Commission noted, "Some solid foundation are in place [in Ukraine], including political stability, peaceful and constructive foreign policies, and a democratic constitution. However, the freedom of the press and the independence of the judicial system remain weak and curtailed by competing political elite interests."

For the most part, Ukrainian voters can change their government democratically through elections to the presidency and the Verkhovna Rada (Parliament). However, international institutions such as the OSCE often characterize Ukrainian elections as free but not necessarily fair. That is, although elections are frequently marred by irregularities such as intimidation of independent media, harassment of candidates and their supporters, and illegal campaigning by state officials, they are still considered to reflect the general will of the electorate.

This basic characterization generally held true for national elections in 1994, 1998, and 1999. Although the 1999 presidential election was particularly flawed, international observers essentially looked the other way because incumbent President Leonid Kuchma soundly defeated Communist Party leader Petro Symonenko and proclaimed his desire to be a "new president" who would accelerate reforms. However, during 1999 and 2000 the presidential administration restricted some civil liberties, first and foremost freedom of the press. In addition, although Kuchma received public support in 2000 in a national referendum on strengthening his powers, domestic and international observers reported numerous irregularities in the process.

Over the last decade, Ukraine has produced a mixed record on respecting human rights. Although the Constitution provides guarantees for basic rights, the government has come under international scrutiny at various times during the last ten years for failing to protect freedom of expression, freedom of association, and other civil liberties—particularly during election seasons. In particular, the recent "tapegate" crisis, which involved the dissemination in 2000 of audio recordings that document President Kuchma's alleged role in ordering the harass-

ment of the opposition and the kidnapping and murder of journalist Heorhiy Gongadze, continues to hurt Ukraine's credibility.

Despite these negative trends and sometimes persistent legal constraints, it is important to note that Ukraine has an increasingly vibrant civil society. As a report by the CIVICUS Index on Civil Society Project noted in 2001, "it is unreasonable to declare civil society in Ukraine as a strong and influential public actor ... [nevertheless] civil society has taken root ... and the basic foundations for a positive development of civil society exist in Ukraine, if the existing potential of civic activism of Ukrainians is utilized through raising citizen's awareness about the importance and functions of civil society." Indeed, Ukrainian society shows increasing signs of taking on a greater role in the country's political life. During the period covered by this report, for example, several opposition parties united in a broad Forum of National Salvation and held a number of public protests under the slogan "Ukraine Without Kuchma." Thousands of supporters of Prime Minister Viktor Yushchenko, whom Parliament ousted in a no-confidence vote, also organized rallies to protest the decision and renewed calls for President Kuchma's impeachment in connection with the Gongadze case.

Although the Gongadze case and others remain unresolved, Ukraine still has a growing array of independent media. In 2001, the government began exercising less control over the media's coverage of political affairs. In addition, under a new criminal law that took effect in 2001, libel no longer carries criminal charges.

Throughout most of the 1990s, Ukraine was slow to implement economic reforms and the country's economic performance suffered as a result. However, since 2000 favorable external market conditions and the policies of Prime Ministers Viktor Yushchenko and Anatoliy Kinakh have resulted in positive changes. In particular, the country has posted positive economic growth since 2000, after years of negative decline. Even though Yushchenko was dismissed in 2001 by Communists in Parliament who opposed his reformist economic agenda and centrist parties whose oligarchical backers were threatened by his steps towards transparency, Anatoliy Kinakh has tried to carry out his predecessor's economic reform program. In addition, in the summer and fall of 2001, Parliament adopted important economic and judicial reform legislation. The continued success of these reform efforts will largely depend on the president and the results of the parliamentary elections in March 2002.

DEMOCRATIZATION

Political Process

1997	1998	1999-2000	2001	2002
3.25	3.50	3.50	4.00	4.50

Although Ukraine has been experiencing a gradual strengthening of Parliament and the opposition, the president remains the key figure in decision making and policy making. This is true because the president's constitutional powers allow him to exercise both formal and informal influence over key political actors. The former includes the power to dismiss government members and veto parliamentary legislation. The latter includes the ability to regulate the amount of influence over the political decision making process that various economic and political groups enjoy. Specifically, President Kuchma can prevent any group from acquiring too much influence by dismissing its representatives from positions that allow access to him. The unusual dynamic between Parliament and the President manifested itself in myriad ways in 2001—a year that in many respects was particularly trying for Ukrainian politics.

The disappearance and apparent killing of journalist Heorhiy Gongadze in September 2000 set the tone for the months that followed. First, these events ominously suggested that some Ukrainian politicians are prepared to use brutal means to prevent undesired criticism. In addition, the slow pace of the government's investigation into the case suggested its commitment to resolving such cases was less than genuine. Indeed, the investigation into the Gongadze case went nowhere until former presidential security officer Mykola Melnychenko released allegedly secretly recorded tapes that could be interpreted as the president and members of his entourage discussing Gongadze's kidnapping and their plans for the unlawful treatment of the opposition, judges, and members of the press.

After the disclosure of the tapes by Socialist Party head Oleksandr Moroz in late November 2000, the opposition, ranging from the far right to the center left, united in a loose coalition called the Forum of National Salvation. The coalition organized a series of demonstrations that included the erection of tent camps in the main squares of major cities.

In late January 2001, Kuchma dismissed Vice Prime Minister Yulia Tymoshenko, who had been involved in a series of clashes with Ukraine's political and business establishment after her business partner, former Premier Pavlo Lazarenko, was accused of corruption. After Prime Minister Yushchenko invited her into the government in December 1999, Tymoshenko designed a workable scheme to collect revenues from energy companies that provoked attacks from oligarchs who are close to the president. Tymoshenko then turned to opposition par-

ties for protection. Having become an "opposition oligarch," she faced fresh pressure from the establishment. Although Tymoshenko was arrested on corruption charges in 2001, two separate courts ordered her release.

On March 9, 2001, police suppressed an antigovernment rally, detained some protesters, and demolished the "camp cities" on the main streets of Kyiv and several oblast (regional) centers. The movement against Kuchma soon lost momentum and largely failed to consolidate the political will of the regime's opponents. On April 26, 2001, Parliament's Communist faction and those parties close to major business tycoons united in opposition to Yushchenko. President Kuchma publicly opposed Parliament's no-confidence vote, but there was speculation that he was involved. Yushchenko was soon replaced by presidential loyalist Anatoly Kinakh, and his dismissal reignited public outcry against the regime. The demonstrations between January and April 2001 sent the oligarchs the message that they would increasingly face pressure for restraints on their influence and suggested that Ukraine's opposition had indeed grown stronger.

Following his dismissal, most observers of Ukraine expected Yushchenko to become the leader of the opposition. However, it appears that he chose not to oppose the Kuchma administration directly because of the possibility that he would be subject to overwhelming pressure, including being denied access to the media. In the 2002 parliamentary elections, his electoral bloc, Our Ukraine, will compete with the Social-Democrats (united) (SDPU (u)) bloc and the For the United Ukraine bloc, which are comprised of pro-Kuchma oligarchic forces.

The most recent elections to Ukraine's 450-seat, unicameral Parliament took place on March 29, 1998. The introduction of a proportional-majoritarian system increased the number of elected deputies who are affiliated with political parties. Parliament has 225 single-member districts and 225 seats filled by party lists in proportional balloting. Thirty parties and blocs qualified to participate in the elections, but only eight met the 4-percent threshold to secure seats. More than 75 percent of the elected deputies were affiliated with parties.

The 1998 elections were followed by approximately 90 lawsuits challenging the actions of local election authorities who had denied many opposition candidates the right to hold indoor meetings. Government-controlled media were significantly biased. Arousing suspicions of foul play, the Central Electoral Commission counted the votes for party-list seats for three days and made corrections for a month. Nevertheless, international observers concluded that the violations had not affected the election results significantly. The next parliamentary elections are scheduled for March 31, 2002. The campaign officially started on December 31, 2001.

There are more than 15 parliamentary factions, with the actual number and composition changing frequently as business tycoons or high-ranking officials strive to cre-

ate factions loyal to them. After the 1999 presidential election, many hoped that Ukraine would have a more structured legislature. However, in January 2000 Parliament split into two rival groups that held separate sessions. Ultimately, the pro-presidential majority proved victorious, and Parliament's left-wing leadership was forced out. In 2001, the majority succeeded in passing a number of long-awaited codes and laws, but the sackings of Yushchenko in April and Vice Speaker Viktor Medvedchuk in December resulted in the breakup of this somewhat reform-oriented majority.

Political decision making in Ukraine is often conducted behind closed doors rather than through open political debate. Political forces are constantly realigning, and executive branch reshuffles are frequent. Since 1994, Ukraine has had six prime ministers.

Parliament can influence the government by rejecting a candidate for the post of prime minister, rejecting the government's general strategy, or voting down the government in a no-confidence vote. Since parties had no significant say in the government's formation, the 1998 parliamentary elections did not result in any major cabinet changes. The Yushchenko government, which was formed in early 2000, enjoyed the support of a pro-Kuchma parliamentary majority, as does the current Kinakh government. Although most of the ruling parties are represented in the government, Ukrainian governments tend to be less political coalitions than "technocrat" panels because the president and his entourage choose the cabinet members.

Political parties have even less influence at the local level. According to a survey by the East-West institute in October 2001, parties tend to have only 5,000 to 10,000 supporters at the *oblast* (regional) level and often are not represented in government at the *rayon* (district) or local levels. After the 1998 elections, party members accounted for only 8 percent of local, rayon, and oblast deputies. However, among the heads of rayon and oblast councils this figure increased to 20 percent. On December 13, 2001, Parliament passed a bill on local elections that provides for a majoritarian electoral system for local and mayoral elections and an equal mix of majoritarian and proportional voting for rayon and oblast elections. The overall effect of the law probably would have been to increase the role of parties. However, on January 5, 2002, President Kuchma vetoed it.

The last presidential election took place in the fall of 1999. By law, a presidential candidate must be at least 35 years old, speak Ukrainian, and have lived in Ukraine for at least ten years. Candidates also must collect at least one million signatures from voters, including a minimum of 30,000 signatures from at least 16 of Ukraine's 24 oblasts as well as Crimea, Kyiv, and Sevastopol. Fifteen candidates delivered their signature lists ahead of the deadline, but the Central Electoral Commission certified only nine. After the other six candidates successfully appealed to the Supreme Court, the Central Electoral Commission was forced to register them.

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. Among other candidates, Oleksandr Moroz of the Socialist Party won 11.29 percent; Natalia Vitrenko of the Progressive Socialist Party, 10.97 percent; and independent Yevhen Marchuk, 8.13 percent. Kuchma defeated Symonenko in the second round with 56.25 percent of the vote.

Observers said the election was free but far from fair. According to the OSCE, public officials systematically campaigned for Kuchma and media were biased toward the president. Observers also recorded cases of voters casting multiple ballots. However, opinion polls suggested that these latter violations did not significantly affect the final outcome.

Voter turnout in Ukraine at the national level declined from 84.9 percent in the 1991 presidential election and referendum on independence to 63.8 percent in the 1998 parliamentary elections, before rising somewhat to 70.2 percent and 74.9 percent in the first and second rounds, respectively, of the 1999 presidential election. According to exit polls conducted by the Kyiv International Institute of Sociology, participation by women in the first and second rounds of the 1999 election was 50.6 percent and 51.2 percent, respectively. Women make up 54.9 percent of the electorate.

Official voter participation was 81.2 percent in the April 2000 referendum. However, this figure is not reliable because of obvious electoral violations during the referendum process. The law on referenda is outdated, and 54 percent of the voting was conducted during a week-long period prior to the official polling date of April 16. Since recent local elections have coincided with parliamentary elections, voter turnout is the same for both types of balloting. However, in several mayoral elections in 1999 and 2000, turnout rarely exceeded 50 percent.

Parliament adopted a new electoral law on October 18, 2001. Though imperfect, the Law on Elections of People's Deputies of Ukraine was a considerable step toward improved electoral legislation. According to analysis by the OSCE, the law "marks substantial improvements compared to previous legislation and provides extensive safeguards to meet Ukraine's commitments on democratic elections." The OSCE's report specifically notes that many of its recommendations "such as equal and unimpeded access to the media, formation of election commissions, transparency measures and appeals/complaints procedures, were included." A draft version of the law would have implemented a proportional representation electoral system. President Kuchma, however, vetoed five draft versions of the proposed law until Parliament finally agreed to keep the existing mixed system.

Under the new law, candidates for Parliament can nominate themselves or be nominated by parties. Parties must be registered at least one year before the election date. Only parties that won seats in previous elections or have factions in Parliament can participate on district electoral commissions, with representatives of other parties selected by lot.

The law also maintains the existing 4-percent threshold for securing party list seats. In addition, the law requires deposits of 255,000 hryvnias (\$50,000) for parties and 1,020 hryvnias (\$200) for individual candidates. Parliament also relented to the president's insistence that the campaign period be reduced to 90 days from 170 days. Nevertheless, informal campaigning for the 2002 elections began in September 2001. On December 13, 2001, Parliament passed a law providing for compulsory televised debates among the candidates and parties contesting presidential and parliamentary elections. However, President Kuchma vetoed it on January 5, 2002.

The 1992 Law on Associations of Citizens requires parties wishing to register to have a minimum of three members in at least 14 oblast-level organizations. The April 2001 Law on Political Parties makes the party registration process somewhat more difficult. Parties seeking to register must obtain the signatures of at least 10,000 Ukrainian citizens in at least two-thirds of the rayons and oblasts. They also must pay a fee of 1,700 hryvnias (\$320). Parties will have to reregister within a year of the 2002 parliamentary elections. As of September 30, 2001, Ukraine had 126 legally registered parties, but most only exist on paper.

Only two Ukrainian parties have ever been banned. In 1991, the Communist Party of Ukraine (CPU), which was considered an integral part of the Communist Party of the Soviet Union (CPSU), was declared illegal in the wake of the August coup attempt in Moscow. However, in 1993 the government legalized a new, independent Communist Party. On December 27, 2001, the Constitutional Court ruled that the banned CPU was not the successor to the CPSU. However, even though its banning in 1991 was unconstitutional, the CPU cannot claim the CPSU's assets. In 1995, the Ministry of Justice annulled the registration of the far-right Ukrainian National Assembly-Ukrainian National Self-Defense (UNA-UNSO) party. The party's registration was renewed when the UNA split from the UNSO, its paramilitary wing.

According to party estimates, about two million Ukrainians, or 4 percent of the population, belong to political parties. However, the number of members who actually pay dues is probably much smaller. Only a handful of parties are mass membership based and have clear ideologies. These include the Communist Party (with about 140,000 members), the Socialist Party (60,000), the Ukrainian People's Rukh (40,000), and the People's Rukh of Ukraine (30,000). The pro-Kuchma Party of Regions claims to have 400,000 members; the SDPU (u), 300,000; and the Agrarian Party, more than 200,000; however, these figures are somewhat doubtful.

Ethnic and religious minorities tend to support mainstream rather than ethnic parties. Most ethnic Russian voters, for example, support mainstream leftist or centrist parties. In the 1998 elections, three openly pro-Russian parties with slogans appealing for "Slavic unity" failed to overcome the 4-percent threshold needed to gain seats.

During election campaigns, some centrist politicians, especially in eastern Ukraine, try to exploit the issue of the "rights of Russian-speakers." On the eve of the 1998 election, the pro-Russian Verkhovna Rada of Crimea repealed a 1994 provision granting Crimean Tatars a quota for representation in that body. The Tatars are an ethnic minority of 270,000 to 400,000 people. In the 1998 national elections, most Crimean Tatar voters supported Rukh. Their leader, Mustafa Jemiloglu (or Jemilev), was elected to Parliament on the Rukh party list.

Representatives of ethnic minorities are often elected in majoritarian districts. Businessmen of ethnic Russian and Jewish descent are active in Parliament and the presidential administration, but they tend to promote their own business interests more than the interests of their ethnic or religious groups. The UNDP's *Human Development Report 2001* reports that women hold 7.8 percent of all seats in Parliament. Women also account for 38 percent of all legislators and more than 60 percent of civil servants, but mostly among lower- and middle-ranking officials.

Civil Society

1997	1998	1999-2000	2001	2002
4.00	4.25	4.00	3.75	3.75

Civil society in Ukraine is still in the process of consolidation, and the government generally overregulates the activities of NGOs. Still, the number of NGOs has grown significantly in recent years. As of the end of 2001, there were approximately 35,000 NGOs in Ukraine, up from 30,000 in 2000 and only 4,000 in 1995. Included among these are human rights groups, faith-based organizations, public policy institutes, business and professional associations, women's groups, environmental groups, sport clubs, and ethnic-based organizations.

A report in 2001 by the CIVICUS Index on Civil Society Project noted a number of challenges for the development of Ukrainian civil society. These are: 1) "the poor, uneven distribution of [civil society organizations, CSOs] throughout all regions of Ukraine", 2) "the poor financial sustainability of CSOs", and 3) "the relatively low levels of CSO membership and volunteering among the general public." Nevertheless, the report authors concluded that Ukrainian civil society is relatively healthy. They also acknowledged that they "are aware of the crisis of the political, social and economic system in Ukraine. The findings on the relative health of civil society against this background impress heavily with their optimistic attitudes and are a source of certain positive sentiments."

NGO activity is regulated by the 1992 Law on Associations of Citizens, the 1997 Law On Charity and Charitable Organizations, and the 1998 Law On Youth and Children Nongovernmental Organizations. NGOs are also regulated by executive branch resolutions, including more than 350

resolutions concerning taxation. A draft Law on Nonprofit Organizations passed its first reading in October 2000, but since then it has not been taken up by Parliament, which has been more preoccupied with economic laws, state budgets, and legal codes.

Some 95 percent of NGOs are local; 4 percent, national; and 1 percent, international. Most Ukrainian NGOs work in health care, sport, or advocacy for veterans and the disabled or are professional or youth associations. NGOs are the most developed in Kyiv, Lviv, Kharkiv, Donetsk, Dnipropetrovsk, Mykolaiv, and Zakarpattia oblasts and Crimea. According to the Innovation and Development Center, in 22 oblasts the number of NGOs per 10,000 persons is similar to that in 35 U.S. states. However, in small towns and villages, NGOs that function efficiently tend to be the exception.

About 40 ethnic groups have created their own civic and cultural NGOs. Of these, approximately 30 operate at the national level. There are also several associations of ethnic NGOs. The most active ethnic organizations are those set up by Crimean Tatars, Jews, Russians, Hungarians, Poles, and Romanians. Some receive aid from foreign organizations. For example, the International Renaissance Foundation, a branch of the Soros Foundation, supports Roma cultural development programs.

Ukraine has more than 700 women's organizations. Of these, nearly 40 are national in their reach and have international contacts. The National Council of Women of Ukraine acts as an umbrella organization for Ukrainian women's groups. 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.

At the beginning of 2001, Ukraine had almost 25,000 religious organizations representing about 80 churches and sects. An average of 1,500 such organizations are created each year. About 10,000 temples representing a range of denominations are operational. Some two-thirds of Ukrainians say they are religious believers; of these, most are Christian. Of Ukraine's three Orthodox churches, which together claim the adherence of 60 to 70 percent of all believers, only one recognizes the jurisdiction of the Moscow Patriarchy of the Orthodox Church.

Followers of the Protestant and Ukrainian Greek Catholic Churches each make up around 15 percent of the population. There are also significant Catholic and Jewish communities in many areas and a sizable Muslim community in Crimea. Religious groups in Ukraine carry out charitable activities such as helping orphans and the poor and putting up social welfare buildings and Sunday schools. However, interconfessional struggles among Ukraine's Orthodox churches impede many social projects.

Charitable activity in Ukraine is regulated by the 1997 Law on Charity and Charitable Organizations and several government instructions that regulate economic aspects of

this activity. Charities are eligible for tax exemptions. In practice, though, they generally do not receive exemptions because of juridical deficiencies in the law and the broad power of the state tax administration to deny exemptions. Current legislation does not clearly distinguish between NGOs, political parties, and trade unions in terms of the regulation of activities and taxation. The draft Law on Nonprofit Organizations provides the government with excessive powers to regulate NGOs. Likewise, a draft tax code does not clearly grant specific tax exemptions to NGOs.

To register, an NGO must submit to local authorities or the Ministry of Justice an application; two copies of regulations documents; minutes of an organizational meeting; information about the group's founders, administration, and branches, if any; and a receipt for payment of the registration fee. Registration fees range from \$10 or \$20 for local organizations to \$500 for international groups. Registration must be completed within two months.

Within a month after registering with the Ministry of Justice, an NGO must also sign up with the Department of Statistics, the State Tax Administration, the Ministry of Interior, 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 this, an NGO must send a letter to a public authority stating that the organization is already in operation. Most local NGOs or local branches of national NGOs register this way, but the process deprives them of the right to open their own bank accounts.

The organizational capacity of Ukrainian NGOs has improved considerably in recent years, but most NGO leaders still provide both intellectual capital and practical management skills to their groups. The management structures of many NGOs outside Kyiv and other regional centers do not clearly delineate the responsibilities of each employee. 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 and generally are distributed free of charge. A dozen foreign assistance programs and joint Ukrainian-Western projects provide experienced trainers for NGOs. According to a report by the U.S. Agency for International Development, "[f]ew NGOs without international donor funding have full-time professional staff. Few have boards of directors that provide oversight or direction to the organization. Highly centralized and personalized leadership structures are common."

According to the Ministry of Statistics, the revenues of civic associations consist of donations (roughly 33 percent), sponsorships (20 percent), profits from commercial activities (15 percent), dues (15 percent), and state subsidies (15 percent). Most donations to NGOs are from foreign sources, but some groups do receive corporate donations. According to the same report by USAID, "[m]ost organizations, particularly those involved in

policy development of advocacy, are heavily dependent on foreign funding.”

Indeed, according to a December 2001 publication of the World Bank’s Ukraine Country Office, “almost 95% of NGO activities are funded by international grants. The rest of the potential sources of financing are either not provided by law or restricted by it.” Specifically, the publication notes the following limitations on other sources of NGO funding. First, only individual donations to charities and religious groups—not NGOs—are tax deductible. Second, so-called legal entities can only write off 4 percent of their profit for donations. Third, the law does not allow NGOs to receive funding through state orders. And lastly, although NGOs may earn income for “activities specified in their statutes...tax bodies frequently refuse to recognize several activities as non-commercial. The fact that an NGO is receiving payment could make it lose its not-for-profit status.”

In general, philanthropy and volunteerism are insufficiently developed and are usually connected to elections or public awareness campaigns. According to a poll of 150 Ukrainian and international companies conducted by the Kyiv-Mohyla Business School, 30 percent of corporate donations go to public schools, hospitals, and children’s homes; 16 percent to associations such as veteran’s unions; 13 percent to the arts and culture; 13 percent to concrete projects of NGOs; 9 percent to churches; and 7 percent to academic institutions. The poll also found that most corporate philanthropy is still off the record owing to red tape and inadequate tax laws. In addition, while two-thirds of the corporate respondents said they are not against corporate philanthropy in principle, only one-third said they view sponsorship as an integral part of their corporate strategy; only 15 percent said they view sponsorship as unconnected to their commercial and advertising aims.

A limited number of NGOs enjoy tax-exempt status. These include veteran’s groups, Chernobyl-related organizations, and certain organizations for children and the disabled. Most registered NGOs enjoy partial tax benefits such as an exemption from paying value-added and profit taxes.

NGOs are obliged to disclose their revenue sources. Most do so when they acknowledge support for particular activities in their reports to donors. However, double book-keeping is common as a means of avoiding taxes. As the World Bank publication implied, government procurement opportunities for private nonprofit service providers are virtually nonexistent, and NGOs are severely limited in their ability to earn income or collect cost-recovery fees that would be tax-exempt, even if they spent the money on nonprofit activities or general maintenance of the organization. An NGO can be the founder or cofounder of a commercial entity that donates part of its profits to the NGO. In such cases, any income, including cost recovery fees, is taxed as regular corporate income.

Dozens of leading public policy research institutes such as the Ukrainian Center for Political and Economic Stud-

ies, named after O. Razumkov, and the East-West Institute are increasingly influencing policy and decision-making processes. At times, there are personal connections between NGO leaders and government officials. Former politicians and senior civil servants run some important NGOs. A number of leading groups cooperate with parliamentary committees and the executive and their representatives are invited to participate in the drafting of laws. Some government institutions such as the Ministry of Labor and Social Policy and the Ministry of Foreign Affairs cooperate freely with NGOs. However, authorities sometimes use NGOs to legitimize their own decisions. Pro-government NGOs are sometimes supported through executive structures or even the state budget.

The press’s attitude toward NGOs is generally positive, especially when covering their charitable activities. According to a poll of Kyiv residents who attended the May 2000 “day of civic organizations,” only 8 percent were not there to support the work of NGOs; 21 percent were positive about volunteering; 20 percent were ready to provide consultations in their fields of expertise; and 31 percent were prepared to give material and financial support.

In 2001, many Ukrainian NGO Web sites appeared on the Internet. A project to create a public policy Internet portal has been launched with the support of the International Renaissance Foundation and the UNDP. Local authorities have also started to show interest in NGO activities aimed at helping the poor, children, or the disabled.

At the beginning of 2001, Ukraine had 5 national trade union confederations, 74 national trade unions, and 161 regional trade unions. These groups had a total of about 17.5 million members out of 28 million economically active persons, down by 9 million members from 1990. Some 90 percent of unionized workers formally belong to the Federation of Trade Unions (FTU), which is a successor to the former Soviet state-sponsored trade unions. However, according to expert estimates, the FTU’s actual membership is much lower. Around 8 percent of workers belong to independent trade union confederations like the Solidarity Federation of Trade Unions of Ukraine, the Confederation of Free Trade Unions of Ukraine, the “Our Right” Federation of Trade Unions, and the Association of Solidarity of Workers. Around 3 percent of workers are members of other independent trade unions. The number of unionized workers in Ukraine has declined to about 50 or 60 percent of all workers because of the growth of the private sector, the closing down of enterprises, and a general disillusionment with the benefits of union membership.

Ukraine has more than 400 regional and 20 national associations for small businesses, as well as several branch associations. These groups have an umbrella structure called the Coordinating and Expert Center. Many other small businesses belong to the Federation of Trade Unions of Cooperatives and Other Forms of Entrepreneurship. However, according to USAID, only 10 percent of small businesses actively participate in these associations.

During the period covered by this report, the number of individual farms increased steadily to 42,000; the number was 36,000 in January 2000. At the national level, the Association of Farmers and Private Land Owners counts among its members around 70 percent of Ukrainian farmers. It has offices in every oblast and rayon. According to its estimates, about 20 percent of farmers regularly participate in its activities and 30 percent pay dues. The Union of Private Land Owners provides consulting services to 10 percent or 15 percent of landowners.

Legal forms of interest group participation in politics include the activities of political parties, business groups, NGOs, and trade unions. Groups that address social and environmental issues often seek to influence policy through public protests. Some interest groups, including pensioners, women, and workers, have created their own parties, but these parties 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. Parliament has yet to take conclusive action on a draft law on lobbying activities that has been before it since 1999.

By law, Ukraine's education system is free of political propaganda. However, conflicts do rise on occasion. In 2001, for example, the SDPU (u) lobbied to introduce "the lessons of football" in secondary schools, 90 percent of which are public. One of the party's leaders is the president of the Dynamo-Kyiv football club, and the minister for education and science is a member of the SDPU (u). In higher education institutions, around 30 percent of which are private, lecturers are generally free to express their views. At the same time, though, universities usually discourage students from taking part in opposition rallies and encourage them to take part in pro-government events.

Independent Media

1997	1998	1999-2000	2001	2002
4.50	4.75	5.00	5.25	5.50

According to official figures, Ukraine has more than 8,000 periodicals; however, only about 2,600 are published regularly. Although up to 70 percent of Ukraine's print media outlets are privately owned, the true owners often prefer to hide their names from the public. Instead, the paper will claim to be owned by its editorial staff.

The most influential private media include the newspapers *Zerkalo Nedeli/Dzerkalo Tyzhnia* (with a declared circulation of 42,000 copies); *Kijevskiy Telegraf* (49,000); *Biznes* (70,000); *Den'* (50,000); *Sil's'ki Visti* (500,000); *Fakty* (830,000); *Segodnya* (150,000); *Kijevskije Vedomosti* (150,000); *Ukraina Moloda* (104,000); *Vechernije Vesti* (400,000) and *Halyc'ki Kontrakty* (44,000). Among magazines, *Kompanyon* has a declared circulation of around

30,000, and *Polityka i Kultura*, 20,000. The main state newspapers include *Holos Ukrainy*, with a declared circulation of 150,000, and *Uriadovyi Kurier*, 120,000.

Ukrainian versions of Russia-based newspapers include *Moskovskiy Komsomolets-Diorama Plus* (with a declared circulation of about 400,000); *Izvestiya-Ukraina* (230,000); *Komsomolskaya Pravda v Ukraine* (100,000); *Argumenty i Fakty v Ukraine* (100,000); *Stolichnyje Novosti* (70,000); and *Delovaya Nedelia* (50,000).

Influential private electronic media include the television channels Studio 1+1, Inter, STB, New Channel, and ICTV, which have signals covering most of the country, and the FM radio stations Dovira, Gala Radio, Lux, Niko FM, Radio Kijevskije Vedomosti, Radio Kontinent, and Radio Roks. Foreign broadcasts in Ukrainian by the BBC, the Voice of America, Radio Svoboda, and Deutsche Welle can be freely received throughout the country. Among news agencies, the private Interfax-Ukraina and UNIAN are dominant. The official UkrInform news agency resembles its Soviet-era counterparts.

Major newspapers and magazines, especially those founded in the early 1990s, tend to be published in the state-owned Ukrpresa publishing house. Some newspapers and magazines now utilize the comprehensive services of private companies for everything from printing to distribution. However, the biggest share of the distribution market still belongs to government institutions like Ukrposhta, post offices, and kiosks.

The media's news-gathering function is deeply affected by oligarchs who control major private outlets. Moreover, the authorities still try to use publishing houses as a means of restricting the opposition press. In December 2001, on the eve of the 2002 parliamentary election campaign, Ukrpresa refused to continue publishing *Vechernije Vesti* and *Slovo Batkivshchyny*. Both are major newspapers controlled by Tymoshenko that have a combined circulation of around 1.5 million. *Vechernije Vesti* resumed publishing in Lviv. Nevertheless, some newspapers seized on the opportunity provided by internal government struggles over the "tapeagate" scandal and provided relatively balanced coverage of the events.

Generally, Ukrainian legislation provides for freedom of the press. The major laws regarding the media are the Law on Information (1992), the Law on Information Agencies (1995), the Law on Television and Radio (1993), the Law on Printed Media (1997), the Law on State Support to the Media and Social Protection of Journalists (1997), and the Law on State Secrets (1999). However, the laws do not clearly distinguish between protections for private citizens as opposed to politicians. In recent years, many media outlets have been sued by politicians who demand huge sums as compensation for "moral damages" allegedly caused by critical articles. On May 25, 2001, the Supreme Court decreed that criticism of facts and opinions is not grounds for moral damage compensation. However, the law is still vague regarding "insults" for which journalists can be sued.

Parliament, preoccupied with other issues, has not taken up several draft laws on the protection of journalists that have been submitted to it.

According to the Institute of Mass Information, Ukraine had 73 known major violations of press freedom in 2001. These included 5 murders of journalists and 26 felony offenses. The most notorious case was the murder of opposition journalist Gongadze in September 2000 in which high-level authorities were allegedly involved. In another high profile case, on July 3, 2001, several assailants beat to death Ihor Aleksandrov, the director general of the TOR television station in the Donetsk region who had exposed corrupt links between politicians, police, business, and organized crime. In November 2001, the Ministry of Interior issued a regulation allowing journalists to possess and use gum-bullet guns, provided that they have special permits from the police.

Although the official post-Soviet Association of Journalists of Ukraine is not fully independent, it is becoming more assertive in defending journalists' rights. It reportedly has more than 12,000 members, of whom about one-third are women. Ukraine also has several Western-supported media organizations, including the Institute of Mass Information, the IREX-supported Pro-Media Center, the Committee to Protect Journalists, the Equal Access Committee, the Ukrainian Media Club, and the Freedom of Speech Center. Many of these groups will participate in the monitoring of the 2002 elections.

Roughly 1 to 2 percent of Ukrainians have regular access to the Internet; the figure rises to 4 percent if those who surf the Internet occasionally are included. These figures are low owing to poor communication networks, a lack of computers, and high Internet access fees. Nevertheless, Ukraine has several influential independent Internet media including *Forum*, *Korrespondent.net*, *Uatoday*, and the opposition *Ukrains'ka Pravda*.

In November 2001, the Council for National Security and Defense of Ukraine put forward proposals to regulate the Internet by introducing licensing for Web sites and granting security services access to the archives of Internet service providers. It is unlikely, though, that these steps will be taken given their high transaction costs and active opposition from the Internet community. The Russian government withdrew similar proposals in 2000 amid uproar by Internet users.

Freedom House's *Annual Survey of Press Freedom* has rated Ukraine's media as "Partly Free" since 1992.

Governance and Public Administration

1997	1998	1999-2000	2001	2002
4.50	4.75	4.75	4.75	5.00

In January 2000, President Kuchma called for a national referendum on constitutional amendments to increase his powers. He proposed six questions: 1) Should the president be able to dissolve Parliament, if voters express no con-

fidence in the body in a national referendum? 2) Should the president be able to dissolve Parliament for failure to form a majority in a month or to adopt a state budget in three months? 3) Should the immunity of parliamentary deputies be limited? 4) Should the number of parliamentary deputies be reduced from 450 to 300? 5) Should Parliament have two chambers? And 6) Should Ukraine be able to adopt a constitution by national referendum? The Constitutional Court threw out questions 1 and 6, and voters considered the rest in a referendum that April. The official outcome of the referendum demonstrated overwhelming support for the President. Although the Constitutional Court stipulated that the results should be implemented through the proper parliamentary procedures, this has yet to occur. However, presidential power has been increased by the introduction of state secretaries who are appointed by the president and carry out tasks previously reserved for deputy ministers.

Parliament's budgetary support is adequate, as the cabinet cannot circumvent mandatory budget payments. However, Parliament at times has not been an effective rule-making institution. Owing to the absence of a durable working majority, Parliament for years failed to pass several vital laws. In November and December of 2001, though, it managed to pass family, civil, commercial, and customs codes. In addition, Parliament passed the tax code in its second reading in November. Together with land, budget, and criminal codes passed earlier in the year, the new legislation provides a long-awaited legal basis for more effectively implementing many provisions of the 1996 Constitution and modernizing Ukraine's economy.

Parliament's success was due in part to the increasing maturity of its working committees. The 1995 Law On Parliamentary Committees grants standing parliamentary committees the rights to hold special hearings, gain access to information held by the executive, and launch investigations. However, these prerogatives are seriously circumvented by a lack of outlets for the committees to implement their findings. The Prosecutor's Office, the Ministry of the Interior, and other executive bodies routinely ignore the findings of parliamentary committees. Moreover, Parliament itself has yet to pass a law on investigative parliamentary commissions, whose existence is authorized by the Constitution.

Neither executive nor legislative organs of power operate with full transparency and openness. At times it is impossible for citizens to obtain data regarding public spending and information on draft bills. NGOs have been trying to generate more transparency in this area by publicizing bills, but the government has never created mechanisms to freely disseminate such information. The Internet sites of key agencies are only now being established, and draft legislation appeared on the Internet only recently. Draft (and even acting) bylaws often are still difficult to locate.

According to the Constitution and the Law On Local Self-Governance in Ukraine, local *radas* (councils) address local issues such as the establishment and control of communal enterprises and organizations, the assessment of lo-

cal 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 units. Communities may call referendums on local issues. Parliament may terminate the powers of a local council if it decides that the council's actions contradict Ukrainian law.

The deputies of subnational governments are chosen in direct elections that are generally free and held under majoritarian balloting. Representatives of the media have reported that electoral campaigns have increasingly been subject to interference by government representatives who are loyal to the president and by businesses, many of which are controlled by influential local and state politicians.

The leaders of the Autonomous Republic of Crimea enjoy more powers than the leaders of Ukraine's other regions. The Crimean council of ministers manages the region's budget, which the Crimean parliament approves, with a substantial degree of autonomy from central authorities. A constitutional provision granting the Crimean parliament the right to appoint and dismiss the head of the Crimean council of ministers, with the consent of the president, led to a recent standoff in which the regional government of Serhiy Kunitsyn remained in office despite losing three votes of confidence in the Crimean parliament. President Kuchma eventually dismissed the council of ministers in May 2001.

Article 143 of the Constitution and the Law On Local Self-Governance in Ukraine are aimed at decentralizing substantial power to subnational bodies and providing sufficient financing to local governments. The June 2001 budget code creates a coherent scheme for distributing tax and duties revenues among the state, oblast, and rayon levels, thus providing a more objective, formula-based method of revenue distribution.

Local and regional administrations are also increasingly gaining control over their budgets. The share of total government outlays going to local budgets increased to 39.5 percent in the 2002 draft budget from 36.9 percent in the 2001 budget. However, the old scheme of budget transfers from the state to local governments is still in place. It often is characterized by payment delays, corruption, and limitations on local government authority.

According to the Law on State Service, adopted in 1993 and amended in 1995 and 1996, civil servants are subordinate 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 enforcement mechanism. The law also gives civil servants the right to acquire information about citizens and legal entities from a variety of sources and grants them a number of socioeconomic benefits.

The pace of civil service reform has been slow, and the government made little progress in this area in 2001. The government elaborated the idea of carrying out compre-

hensive administrative reforms in 1997 but still has not taken key steps including redistributing functions among agencies and cutting red tape. Moreover, the bureaucracy continues to grow in size. The number of civil servants increased to around 300,000 in 2001 from 176,800 in 1996.

RULE OF LAW

Constitutional, Legislative, and Judicial Framework

1997	1998	1999-2000	2001	2002
3.75	4.00	4.50	4.50	4.75

The Constitution's transitional provisions period expired on June 28, 2001—the date by which the government needed to make constitutional changes to the functions and powers of several institutions, including the prosecutor general's office and the Supreme Court. In early July 2001, President Kuchma signed a package of five laws that implemented the so-called small judicial reform. The laws, particularly those relating to appellate courts, changed the procedures for arrests and searches. The new criminal code and criminal procedures code also strengthened the previous stipulation that the state must provide public defenders in criminal cases for defendants who cannot afford counsel and must do so once a person has been arrested. Moreover, courts, rather than prosecutors, must issue search and arrest warrants.

In December 2001, Parliament also approved the first reading of a framework document on judicial reform, the Law On the Judicial System, which includes 87 percent of the suggestions in this area made by the Council of Europe. The draft law provides for the implementation of the constitutional requirement that separate courts exist for criminal, civil, administrative, and other types of cases. However, Parliament still must agree on the specifics of which cases should be assigned to which types of courts. Parliament is also scheduled to review the Law On Administrative Courts. President Kuchma did not sign one law that was part of the small judicial reform package: the Law on the Public Prosecutor's Office. The Constitutional Court struck down a provision in the law authorizing Parliament to appoint, fire, and generally control the prosecutor general.

The 2002 state budget authorizes expenditures of 36 million hryvnias (\$7 million) for judicial reform, up from 25 million hryvnias (\$5 million) in 2001. However, even this increased amount is not sufficient to carry out effective reforms.

The Constitutional Court was quite active during the past two years in interpreting and protecting the Constitution. It prohibited the same person from being both the head of an oblast administration and the head of an oblast rada. This ruling forced 11 officials who held both positions to resign from one of their posts. On November 20,

2001, the court ended the Soviet-era *propiska* system, which required citizens to register for permanent residence permits. In 1997, Parliament abolished the penalty for not having a permit, but the *propiska* system continued to exist and was at times used as a pretext for discrimination, particularly in employment.

Chapter II of the Constitution contains broad guarantees of human rights and civil liberties, including political, religious, and minority rights. Article 41 guarantees the right to own property, and Article 42 guarantees the right to engage in free enterprise and provides for the protection of fair competition in business. In 1997, Parliament ratified the European Convention on Human Rights. The same year, it passed the Law on the Authorized Representative of the Verkhovna Rada for Human Rights that created the office of the ombudsman. The ombudsman's duty is to handle complaints from ordinary citizens and Members of Parliament about human rights abuses and to enforce human rights provisions and norms. Nina Karpachova, Ukraine's first ombudsman, was quite active in 2000 and 2001, responding to human rights matters including the Gongadze and Tymoshenko cases and the problem of trafficking of women. Previously, her activity had been limited.

On September 1, 2001, the new criminal code and criminal procedures code took effect. The previous respective codes dated back to the 1960s. A major aspect of the new laws was the elimination of Soviet-era offenses such as "speculation" and disseminating "anti-Soviet propaganda." However, some procedures that could lead to abuses of official power remain. For example, a prosecutor, after having received a case from an investigator, can decide that the case is in unsatisfactory condition and can return it for additional investigation, thus prolonging the detention of the accused.

The European Court on Human Rights has declared admissible the complaints of Ukrainian inmates regarding torture and inhumane treatment. In several cases, torture has resulted in death. A major cause of the poor conditions in prisons, including extreme overcrowding, is the fact that the prison system lacks sufficient resources. In part due to overcrowding, many inmates suffer from tuberculosis. The lack of resources is also a principal reason why many prisoners are amnestied. People who are sentenced to terms of less than three years' imprisonment are often freed by courts before they begin to serve their sentences or on the eve of national holidays.

The Constitution prohibits discrimination or privileges based on race, religion, political views, gender, ethnic or social origin, language, or other grounds. The Soviet-era designation of ethnicity in passports was eliminated when new Ukrainian passports were introduced in the mid-1990s. In areas where a minority ethnic group constitutes the majority of the population, its language may be used along with Ukrainian in state and public offices and institutions. Russian speakers criticized the Constitutional Court's 1999

ruling declaring the Ukrainian language a compulsory means of communication for public officials both on the national and the local level. However, in many cities, particularly in eastern Ukraine, Ukrainian speakers still face pressure from living in a largely Russified environment.

Owing to Ukraine's economic difficulties, the government's outlays for the specific needs of ethnic minorities, including the return and resettlement of some 300,000 Crimean Tatars, are decreasing. Many Crimean Tatars live in dismal conditions, often in overpopulated rural areas where it is difficult for individuals to obtain their own plots of land. Religious groups generally operate freely in Ukraine. However, relations between some religious groups are tense. This is especially true of the Orthodox churches that are under the Moscow and Kyiv Patriarchies, respectively. All religious groups must register with the state.

The Constitution and the 1992 Law On the Status of Judges stipulate that judges must be impartial. The courts, however, are funded through the Ministry of Justice. Article 128 of the Constitution stipulates that the president initially appoint judges for five-year terms. After that, with the exception of individuals on the Constitutional Court, Parliament endorses judges for life terms. They are immune from prosecution. A judge can be arrested only with the permission of Parliament. In October 1999, Parliament ended judges' immunity from administrative prosecution.

The law calls for punishment of those attempting to influence or limit the independence of the judiciary. However, courts and prosecutors' offices, overburdened and lacking sufficient funding and staff, remain vulnerable to pressure by the executive, usually in the form of personal requests or orders from high-ranking officials. The Constitutional Court came under pressure from President Kuchma in 2000 when it was considering draft laws on the implementation of a referendum's results.

Judicial personnel matters are decided by the Supreme Council of Justice, which was established in 1998. Initially, the council acted comparatively independently, but in the summer of 2001 it opened an investigation into the professional adequacy of Anatoliy Zamkovenko, the judge from the Pechersk district court of Kyiv who acquitted former vice premier Tymoshenko. Zamkovenko has filed a protest with the Supreme Court, the head of which, Vitaliy Boiko, is known for his independence and adherence to the law.

The 1998 Law On State Executive Service introduced executive bodies in the Ministry of Justice that are responsible for enforcing judicial decisions. Generally, though, the enforcement of judicial decisions is effective only in criminal cases. In civil cases, judicial enforcement is far from efficient, mainly due to the absence of a tradition of respecting private property, the country's inadequate legal framework, and the large number of cases in which economic interests are affected, such as when the government and private firms fail to pay wages on time.

Corruption

1999-2000	2001	2002
6.00	6.00	6.00

Corruption is widespread in Ukraine. Owing to the Soviet legacy, economic and social activities are tightly regulated, administrative controls and judicial review are weak, and salaries for public officials are low (\$20 to \$100 monthly, depending on rank, with the average salary seldom exceeding \$60).

Since 1994, Parliament, the government, and the presidential administration have devised numerous anticorruption initiatives. There are more than 50 legal acts devoted to fighting corruption, including the 1995 Law on Fighting Corruption. The provisions of these acts are generally not observed, however, and investigations into corruption by top officials that are conducted by special parliamentary commissions, journalists, or even the Audit Chamber tend to go nowhere. Prosecutions mainly involve low-ranking politicians.

Several recent corruption scandals have implicated those who stand at the top of the political system. Former Prime Minister Pavlo Lazarenko has been accused of corruption and money laundering in Ukraine, Switzerland, and the United States. Parliamentarian Viktor Zherdysky is being sought by German prosecutors for attempts to fraudulently withdraw funds from a German bank that were intended for Ostarbeiters (Ukrainians who were transferred to Germany during World War II and forced to work for the Nazis).

Bank Slovyanskyi and its managers, who are affiliated with Lazarenko, have also been accused of corruption. The state tax authorities closed down the bank even though there was relatively little evidence of wrongdoing. The case was handed to a court in November 2001 and promises to take considerable time to resolve since key members of Kuchma's staff are allegedly connected to the bank's operations.

The case against former Vice Premier Tymoshenko suggested that authorities frequently use corruption allegations for politically motivated reasons. Similarly, the government accused the National Bank of Ukraine (NBU) of misallocating and misusing funds during the time that former Premier Yushchenko was head of the NBU. The International Monetary Fund audited the NBU and found only minor violations, after which the IMF renewed lending to Ukraine in December 2000.

Ukraine's 1993 Law on the Civil Service specifies a code of conduct 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 allows civil servants to engage in "creative activities" such as research, consulting, and lecturing. Top officials must formally resign positions as

heads of companies when they take office, but in practice they often use their public positions to promote their corporate interests.

By law, presidential candidates and applicants for positions in the civil service must disclose their incomes. In general, such declarations tend to understate earnings and property by reporting official salaries, which are relatively low. The average annual income of presidential candidates, according to their declarations, was 13,000 hryvnias (\$2,320). President Kuchma declared an income of 19,213 hryvnias (\$3,843), and only one of the candidates, businessman Oleksandr Rzhavsky, declared a large income of 1,357,727 hryvnias (\$242,451).

Under the Constitution, Parliament's Audit Chamber monitors budgetary spending on behalf of the entire body. However, its effectiveness is limited by the 1996 Law on the Auditing Chamber, which only gives the chamber the power to inform law enforcement agencies about wrongdoings.

One of the main reasons for the proliferation of corruption in Ukraine is excessive regulation in the economic and social spheres. More than 100 local and state authorities have the right to inspect enterprises and other legal entities. Some 60 different authorities have the right to seize bank accounts, revoke licenses, or impose similar punitive actions. Foreign investment is regulated by more than 130 normative acts. A survey by the World Bank and the European Bank for Reconstruction and Development found that one-third of Ukrainian businesses surveyed had admitted making illegal payments to influence public institutions.

In 1998, President Kuchma issued a decree on the deregulation of business activity that was intended to curb the ability of many government agencies to inspect enterprises. However, the decree's provisions are vague, and judicial review and enforcement of it by the relevant authorities are weak. Another reason for excessive corruption is that senior officials often appoint their subordinate employees on the basis of personal or family loyalties or geographic or professional ties.

Ordinary citizens often must pay bribes to receive or accelerate the provision of services such as installing telephone lines or obtaining any kind of license. They also pay bribes to gain admission to state-run universities. According to a survey by the Kyiv International Institute of Sociology, about 70 percent of Ukrainians accept the need to give and take bribes. According to the respondents, the most corrupt areas are medical institutions (48.9 percent), traffic police (22.7 percent), institutions of higher education (19 percent), institutions of local self-government (16.5 percent), and secondary educational institutions (14.3 percent).

Often people pay bribes because they do not know their rights. Although "Introduction to Law" is a compulsory subject in schools and universities and several NGOs issue booklets that describe basic rights and ways

to legally defend them, Ukraine has no truly effective anticorruption education program. In its 2001 Corruption Perceptions Index, Transparency International ranked Ukraine 83rd out of 91 countries and gave it a score of 2.1, where a 10 represents the lowest level of corruption. This marked a slight improvement in Ukraine's rating of 87th out of 91 countries in 2000, with a score of 1.5.

ECONOMIC LIBERALIZATION & SOCIAL INDICATORS

Privatization				
1997	1998	1999-2000	2001	2002
4.25	4.50	4.50	4.25	4.25
Macroeconomic Policy				
1998	1999-2000	2001	2002	
4.50	4.50	4.25	4.50	
Microeconomic Policy				
1998	1999-2000	2001	2002	
5.25	4.75	4.50	4.50	

Positive dynamics that began in 2000 are still in place. For the first nine months of 2001, Ukrainian gross domestic product grew by 9.3 percent compared to the same period in 2000. Wage arrears have been greatly reduced. In October 2001, Parliament adopted a new land code that sets out the legal framework for private land ownership. These successes are often ascribed to favorable external market conditions (exports account for about a quarter of Ukraine's GDP) and the economic policies of Premiers Yushchenko and Kinakh. These policies have reduced arbitrary administrative interference in the economy, provided for stable payment schemes in the energy sector, and cut inflation to 4 percent annually under Kinakh. However, the tax system remains inadequate and stimulates the existence of a large shadow economy. Likewise, oligarchic clans heavily influence the Ukrainian economy. The future of economic reform will depend in part on the constellation of political forces that emerges following the March 2002 parliamentary elections.

According to the State Statistics Committee, about 70 percent of GDP is produced by the private sector and about two-thirds of economic assets are privately owned. However, according to the World Bank, the informal sector of the Ukrainian economy is equal to 60 or 70 percent of GDP. The government and Parliament are considering measures to reduce the size of the informal sector, including cutting taxes and liberalizing regulations on economic activities. Managers spend up to 30 percent of their time dealing with red tape.

The tenth year of Ukraine's independence was supposed to be the second year of large-scale privatization. Budget revenues from privatization in 2001 were expected to reach 5.9 billion hryvnias (\$1.13 billion). However, the State Statistics Committee said in October 2001 that in the first nine months of the year the State Property Fund received only 30 percent of this sum. This low figure can be explained in part by a moratorium that the government imposed on the privatization of several *oblenergos* (oblast energy distributing companies) and also by the fact that the government postponed until 2002 the privatization of the major assets of Ukrtelecom, the state telecommunications company.

Many planned privatizations did not take place because of the absence of buyers, as was the case with the Nikopol Pipe Plant and the Makeevka Machinery Plant. After nearly every privatization of a key enterprise that does take place, the buyers sue the State Property Fund for unlawful actions during the privatization process. This was the case with the Zaporizhya Aluminium Combine, Baltsem, Rivneazot, and the Hartsyzky Pipe Plant. The bases for the suits are unequal access to information for competitors, arbitrary treatment of competitors, and unfair procedures of the contest. Problems in the sphere of privatization are caused by the strength of lobbying groups and the corresponding vulnerability of the State Property Fund; vague criteria for the valuation of assets; the State Property Fund's lack of transparency; and fallout from previous privatization scandals, which scares potential investors both from Ukraine and abroad.

The Cabinet of Ministers predicts that the state will receive 5.8 billion hryvnias (\$1.1 billion) from privatization in 2002. The government can reach this sum if it successfully privatizes Ukrtelecom, several *oblenergos*, and a number of enterprises that were not privatized in 2001.

Although Parliament adopted in the summer of 2001 several documents on the regulation of local, profit, and value-added taxes, the tax system remains inefficient. The major problems plaguing the tax system are high compliance costs, high tax rates combined with short taxation periods, and ad hoc bylaws that make taxation still more complicated and unpredictable. Owing to these factors, the tax administration, which answers directly to the president, has become a means of exerting political pressure. It is capable of harassing any legal or physical person for an alleged violation of one of more than 500 tax laws or bylaws.

The tax code, which passed its first reading in Parliament in July 2000 and its second in December 2001, still has many drawbacks, especially concerning taxation of small businesses and the administration of taxes. Nevertheless, the code cuts the value-added tax from 20 percent to 17 percent and the profit tax from 30 percent to 25 percent. It also reduces the number of taxes, especially redundant local taxes. Final adoption of the code is likely to take place after the 2002 parliamentary elections.

In November 2001, Parliament approved the first reading of a law that would allow the tax administration to check the origin of the income of any public official who purchases luxury goods worth more than 11,800 hryvnias (\$2,270). The Cabinet of Ministers also proposes to check the origin of the income of any citizen who makes purchases worth more than 10,000 hryvnias (\$1,900). Along with fighting underground incomes, the proposed law may be used as a tool to compromise political opponents.

Similar logic pertains to the Law on Fighting Money Laundering, which passed its first reading in November 2001 following pressure by the intergovernmental Financial Action Task Force on Money Laundering. The law stipulates that any sum of money greater than 20,000 euros, or cash transaction greater than 10,000 euros, must be investigated for possible money laundering.

Ukraine's banking system has two tiers. The independent National Bank of Ukraine is the central bank, functioning according to the 1999 Law On the National Bank of Ukraine. The 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 policies and could undermine the NBU's independence. In August 2001, the NBU reported that its total assets were 47 billion hryvnias (or more than \$8.5 billion).

Commercial banks are considered to be weak and subject to influence by political actors. By official count, Ukraine had 191 commercial banks as of September 2001, 31 of which had foreign capital. The capital of major Ukrainian banks totals only slightly more than \$1 billion, and the population's trust in the banking system remains low. This trend has been aggravated by the bankruptcy of one of the biggest state-owned banks, Ukraine Bank, which failed because of its investments in projects that were not economically viable but were favored by government officials or industrial or agrarian lobbyists.

High interest rates, ranging from 12 percent to 20 percent annually on hard currency loans and 30 percent to 35 percent annually on hryvnia loans, prohibit wide employment of bank credit. On February 21, 2000, the government floated the currency. As a result, the hryvnia was devalued, but it stabilized by May 2000 and stayed stable through the end of 2001. As of November 2001, the exchange rate was hryvnias 5.25/\$1.

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 makes up one-fifth of its total foreign debt. In 1999, the IMF suspended disbursement of funds under Ukraine's Extended Fund Facility (EFF) program. After a series of negotiations between the IMF and the Yushchenko and Kinakh governments, in September 2001 the IMF agreed to complete the EFF program on the condition that the Ukrainian government would raise energy prices for consumers.

The government has achieved some successes in its microeconomic policies. The government, for example, introduced international accounting standards in 2001. At the same time, though, tax administration has excessive powers over businesses and enterprises, including the right to seize the bank accounts of firms that are in debt. In recent years, this mechanism has been used to collect 30 percent of all tax revenues.

On June 28, 1999, President Kuchma issued a decree allowing small businesses to pay fixed taxes of \$4 to \$40 per month, depending on the type of business, instead of all other taxes. Many businesses signed up for this tax scheme, which resulted in an increase in local government revenues since the new tax was earmarked for local bodies.

The government did not introduce any significant price liberalizations in 2000 and 2001. However, most consumer prices are already liberalized (with some exceptions such as energy prices). The government continues to subsidize rents and utilities for people with low incomes who apply for these subsidies.

According to the Ministry of Economics, Ukraine's trade increased by 12.4 percent in the first half of 2001 compared to the first half of 2000. Investments in key assets amounted to 17.5 billion hryvnias (\$3.4 billion) in the first nine months of 2001, a 25.4 percent increase over the same period a year earlier. Cumulative foreign direct investment reached a modest \$4.1 billion in 2001, up from \$3.6 billion in July 2000. The main obstacle to greater investment is the Ukrainian tax system.

Since many *oblenergos* have been privatized, Ukraine's energy sector is becoming increasingly developed, reliable, and predictable. Although the country's energy sector remains highly dependent on Russia, it underwent significant changes in 2001. In August, Ukraine and Russia signed an agreement on the reintegration of their energy systems. Under the agreement, eastern regions of Ukraine will receive electricity from Russia at low prices. The two countries also settled the longstanding issue of Ukraine's gas debts to Russia. The countries agreed on the interest rate at which Ukraine will repay its debt within 12 years. Further cooperation in the energy field was also assured.

In terms of judicial protection of private property, court procedures remain fair but slow. Trials are open to the public, although there are no aggregate statistics on court decisions. Bankruptcy procedures are inefficient as a means of enforcing property rights because the process is usually slow and effective indexation against inflation is absent.

There were some positive developments in 2001 concerning the protection of intellectual property rights. In July, Parliament adopted important changes to the Law on Author's Rights and Related Rights. In September, Ukraine joined the UN Treaty of Intellectual Property on Author's Rights. Nevertheless, protection of intellectual property rights remains weak. Under U.S. pressure, Ukraine attempted in November 2001 to adopt a law protecting the property rights of audio and video producers. However,

the Law on Peculiarities of Production, Export, and Import of Discs for Laser Reading Systems was adopted in its first reading and then rejected in its second. The Cabinet of Ministers put forward another bill that similarly was adopted in its first reading and rejected in its second.

In turn, the United States imposed sanctions worth \$75 million and threatened to increase the impact of the sanctions to \$400 million. Local experts are concerned, however, that compliance with the U.S. demands will undermine a key component of Ukraine's technology sector: CD production. Moreover, the experiences of several Central European countries suggest that strict licensing and expensive permits do little to curb piracy. Meanwhile, the Ukrainian government is trying to curb piracy through the use of administrative procedures, having introduced in December 2001 licensing for the production and sale of CDs.

In the first six months of 2001, Ukraine's population fell by 206,600 people, or 0.4 percent. The Demographic Department of the Secretariat of the United Nations predicts that Ukraine's population will fall by six million people over the next 15 years. A major reason for the decline is Ukraine's falling birthrate. However, for the first time since independence, birthrates were positive in 2001 in Kyiv and several major industrial regions. The life expectancy in Ukraine is 63.0 years for men and 73.7 for women. In terms of per capita health care expenditures, Ukraine ranks 111th out of 191 countries and eighth among the member countries of the Commonwealth of Independent States.

In the first seven months of 2001, real wages in Ukraine grew by 16.7 percent compared with the same period in the previous year. The average real wage is about \$60 per month. According to official statistics, arrears for wages and other social payments (including pensions and scholarships) fell by 2 billion hryvnyas (\$380 million) in 2001 to equal 2.9 billion hryvnyas (\$545 million) in early 2002. Of these, wage debts in the state sector equal about 1 billion hryvnyas (\$190 million).

The official unemployment rate declined to 3.7 percent in September 2001 from 4.2 percent a year earlier,

according to the Ministry of Social Policy and Labor. However, local job centers say that the true unemployment rate is around 11 percent and, if those who have given up looking for work are included, the figure rises to about 25 percent of the population. Women make up around 64 percent of the unemployed, and those under 28 years old, 24 percent.

During the past seven years, the number of pensioners has increased by 1.5 million people to 14.5 million. Only 28 million people are of working age. In 2001, the government paid its pension arrears from previous years and the average real pension grew by 3.3 percent. Nevertheless, 85 percent of pensioners have incomes that are below the poverty level. The average pension payment in August 2001 was only 106 hryvnyas (\$20) per month.

Many pensioners must work in order to survive. There is no connection between the pension benefit and either length of employment or payments into the system. Only salary for the last two years of employment is taken into consideration. At the same time, the Pension Fund takes 32 percent of the salary payments of enterprises, which in turn slows the development of Ukrainian industry. In addition, the Pension Fund assesses duties on salaries, purchases of foreign currency and mobile phones, real estate transactions, and other items.

In 2000 and 2001, President Kuchma, Parliament, and the Cabinet of Ministers attempted to reform the inefficient pension system. Two draft laws, the Law on the State System of Pension Insurance and the Law on the Non-State System of Pension Insurance, that passed their first readings in Parliament in November would create a three-level pension system (solidary, accumulative, and accumulative-voluntary) and raise the retirement age to 65 years for men and 60 years for women.

The principal authors of this report are Olexiy Haran', the director of the School for Policy Analysis, University of Kyiv-Mohyla Academy, and Rostyslav Pavlenko, the executive director. They were assisted in the preparation of this report by Artem Bidenko, Serhiy Kyseliov, and Olena Viter.

UZBEKISTAN



Polity: Presidential (dominant party)

Economy: Statist

Population: 25,100,000

GNI per capita at PPP \$ (2000): 2,360

Capital: Tashkent

Ethnic Groups: Uzbek (80 percent), Russian (6 percent), Tajik (5 percent), Kazakh (3 percent), other (6 percent)

Size of private sector as % of GDP (mid-2001): 45

The scores and ratings for this country reflect the consensus of Freedom House, its academic advisors, and the author of this report. The opinions expressed in this report are those of the author.

↓↓ and ↑↑ indicate score changes of .25 or more. ↓ and ↑ indicate changes of less than .25.

NATIONS IN TRANSIT SCORES

	1997	1998	1999-2000	2001	2002
Democratization	6.35	↓ 6.45	↑ 6.44	↓ 6.50	↓ 6.56
Rule of Law	na	na	6.25	6.25	6.25
Economic Liberalization	6.25	6.25	6.25	↑ 6.17	↑ 6.00

KEY ANNUAL INDICATORS

	1995	1996	1997	1998	1999	2000	2001
GDP per capita (\$)	404.4	541.0	457.1	447.7	338.2	264.3	237.4
Real GDP growth (% change)	-0.9	1.6	2.5	4.4	4.1	4.0	3.0
Inflation rate	304.6	54.0	58.9	17.8	29.1	24.2	25.9
Exports (\$ millions)	3,475.0	3,534.0	3,695.0	2,888.0	2,790.0	2,935.0	2,800.0
Imports (\$ millions)	3,238.0	4,240.0	3,767.0	2,717.0	2,587.0	2,441.0	2,300.0
Foreign Direct Investment (\$ millions)	-24.0	90.0	167.0	140.0	121.0	73.0	71.0
Unemployment rate	0.4	0.4	0.4	0.5	0.5	0.6	na
Life Expectancy (years)	69.2	na	69.2	na	na	69.7	70.0

INTRODUCTION

During Uzbekistan's first decade of independence, the government articulated its principal goals as promoting social justice, achieving political stability, and establishing secular rule in accordance with international standards. The Uzbek government committed itself to promoting the growth of a market economy and made rhetorical commitments to principles of democracy and public sector accountability. Rhetorical commitments notwithstanding, the early years of independence witnessed the emergence of a distinctive Uzbek style of rule, drawing partially on Soviet-era practices, partially on development models borrowed from the successful Asian Tigers, and partially on the personalistic politics of Uzbekistan's political leader, Islam Karimov. Uzbekistan's economic strategy championed stability over market forces and placed state institutions at the hub of financial, commercial, and industrial management. Uzbekistan's political strategy championed public order over popular participation and ultimately led to the elaboration of a highly authoritarian political community.

In dealing with the traumatic economic dislocations of the first decade of post-Communist rule, Uzbekistan adopted policies of widespread government subsidies and excessive government regulation that succeeded in maintaining the urban Soviet-era social safety net but did so at the expense of choking out many free market forces. In confronting political challenges, the government moved decisively and sometimes ruthlessly to neutralize what it viewed as opposition. Uzbekistan's government soon gained a reputation as a severe and often heavy-handed protector of public order.

Initially, the government's cultural policy was relatively liberal. Almost immediately after independence, it made efforts to restore indigenous cultural traditions and to make Uzbek the official language of government and commerce. Many mosques (places of worship) and *madrassas* (religious schools) that had been closed or destroyed during the Soviet period were allowed to reopen. During the early 1990s, the Uzbek government even allowed the construction of hundreds of new mosques and *madrassas* throughout the country. President Karimov made significant concessions to what were perceived as regional differences by allowing greater local autonomy at the level of the *hokim* (provincial governor).

Likewise, in the early stages of post-Communist transition, government industrial policy succeeded in limiting unemployment, albeit at the expense of factory efficiency. The government's agricultural policy dismantled the Soviet-era farm monopoly through privatization but retained stringent state control over pricing and marketing of key agricultural products such as cotton. The government's protectionist monetary controls discouraged capital flight but also hobbled foreign investment and discouraged entrepreneurial activity. And the government's efforts to increase

the discretion of the *hokims* led to fears in Tashkent that regionally based clans were wresting control from Tashkent and threatening one another.

As government economic controls proliferated, the potential for corruption grew, and many enterprises found that influence over government regulators was a more important ingredient of business success than enterprise efficiency. Uzbekistan's economic strategy left many citizens, particularly those in rural areas, in increasingly difficult economic circumstances. Economic distress, coupled with income disparities by region, clan, and social position, led to criticism of Karimov's "Uzbek path." As criticism grew, the government expanded its control over the media and eventually created a situation that some observers have described as being more tightly controlled than during the Soviet period.

Toward the mid-1990s, a significant political opposition had emerged, fueled by popular dissatisfaction with stagnating incomes, excessive government intervention in the economy, and the dearth of opportunities for meaningful participation in public affairs. As the government consolidated political control with heavy-handed methods, political opponents either left the country or went underground. They viewed President Karimov, a first secretary in the Communist Party during the Soviet period, as a holdover from a period of foreign occupation. Many underground opponents were drawn to Islam as a natural counterforce to the government's secularism. When the government began to fear that its opponents were attempting to shield themselves by cloaking their opposition in the garb of Islam, it began a series of campaigns to isolate and neutralize opponents of the regime by branding them as criminals and "Wahhabists"—that is, Islamic political fanatics.

By the late 1990s, small but resourceful and ruthless groups of revolutionaries had taken up arms in opposition to the government. Carrying forth the banner of a revolutionary Islamic ideology imported from the Afghan and Chechnya conflicts, the rebels invoked the idea of *jihad* and proclaimed the cause of establishing a Central Asian caliphate reaching from China's Xinjiang in the east to Chechnya in the west. The insurgents drew heavily for financial support from Afghanistan, the Middle East, and the lucrative Central Asian opium trade. Basing their operations in Afghanistan and remote areas along Uzbekistan's borders with Tajikistan and Kyrgyzstan, the rebels began open efforts to overthrow the Uzbek government. Following a series of bombings in the Uzbek capital city of Tashkent in February 1999, the government accused the most visible group of opponents, who had adopted the name the Islamic Movement of Uzbekistan (IMU), of an attempted coup. It then intensified efforts to apprehend all rebels, extremists, and terrorists. Following armed incursions by insurgents in summer 1999 and summer 2000, the Uzbek government redoubled its efforts to contain political opposition and drew together the criminal justice system, the military, and the security services in launching a broad assault against domestic opponents.

The government counterinsurgency campaign cast a wide net and ensnared the regime's legitimate and illegitimate opponents alike, and international human rights organizations reported numerous cases of civil rights violations. Although the government would not offer authoritative figures on the number of individuals caught in the antiterrorist dragnet, third parties have given an indication of the scale of the detentions. Uzbek human rights activists estimated the number to be as high as 7,600. Journalists estimated the number to be as high as 6,000. The U.S. State Department estimated that by the end of 2000, well over 5,000 persons were in prison as a result of the crackdown.

During the first part of 2001, the Uzbek government came under growing criticism from domestic and foreign human rights organizations for its treatment of dissidents and opponents. They argued that Uzbek citizens were prevented from exercising their right to change their government peacefully and alleged that the government was aware of, and may have even sanctioned, extrajudicial executions of detainees. As the criticism mounted, major international financial institutions also applied increasing pressure on the country to adopt reforms that would spur trade and investment and reduce the effects of the restrictive state economic bureaucracy. The Uzbek government proceeded cautiously, though, continuing to fear a loss of political control. By mid-2001, the conflicts between the government and the opposition had become the most significant feature in Uzbekistan's political and economic life.

Even as the Karimov government came under increasing criticism for its human rights record in the late 1990s, major international organizations and leading foreign governments were seeking to enlist its support for efforts to isolate and neutralize threats of political instability that were emerging from Afghanistan. The U.S. and Russian governments jointly sponsored United Nations Security Council Resolution 1267 in October 1999 and Resolution 1333 in December 2000, both of which imposed economic sanctions on Afghanistan. The resolutions demanded that the country's Taliban government take steps to curtail the opium trade, close Afghanistan's terrorist training camps, and turn over suspected terrorist Osama bin Laden for trial. By autumn 2001, a truly complex situation had emerged. The Uzbek government, appealing for greater international cooperation in the struggle against terrorism, was receiving increasing support from foreign governments and international organizations.

The September 2001 terrorist attack on the United States transformed the situation. Uzbekistan, situated due north of Afghanistan, was seen by leading international organizations and foreign governments as a country whose record on governance and human rights should be viewed within the full spectrum of diplomatic values. In his national address on September 20, U.S. President George W. Bush expressly identified Uzbekistan's IMU as contributing to Osama bin Laden's al-Qaeda terror network. For its part, Uzbekistan pledged support for the antiterror coal-

ition and announced that it would permit the use of its Khanabad airbase as a staging ground for allied military operations in northern Afghanistan. The swift military success of the antiterrorist campaign in displacing Taliban fighters had immediate implications for Uzbekistan. First, many IMU fighters were killed or taken as prisoners of war, and Uzbekistan's organized political opposition was therefore virtually eliminated. Second, Uzbekistan came to be seen as a major staging area for the massive postconflict reconstruction efforts planned for Afghanistan.

Skeptical observers feared that the Uzbek government would be emboldened by the new situation to demonstrate even less respect for political rights and civil liberties. And fearing that the international community would turn a blind eye to the problem, critics warned that the antiterror campaign was cloaking human rights abuses. They also pointed out that the U.S. State Department's annual *Report on International Religious Freedom*, which was released on October 26, 2001, referred to the Uzbek government's "harsh campaign against unauthorized Islamic groups it suspected of anti-state sentiments or activities." However, the report stopped short of identifying Uzbekistan as a country of "particular concern" with respect to religious freedoms—a category that would set aside Uzbekistan as subject to sanctions.

Critics also saw ominous signs in the fact that the Uzbekistan government pressured the Czech Republic to arrest Muhammed Salih, a prominent Uzbek dissident, on an Interpol extradition warrant as Salih entered a Prague airport in November 2001. Salih, who had unsuccessfully challenged Karimov in Uzbekistan's 1991 presidential election, had been subject to such political persecution in Uzbekistan that he fled the country in 1993 and eventually found political asylum in Norway. In 1999, Salih was accused by Uzbek authorities of playing a role in the bombings in Tashkent. In 2000, an Uzbek court tried Salih in absentia and found him guilty of the charges. Salih has denied any connection to the Tashkent events. On December 14, 2001, Czech authorities decided not to recognize the extradition warrant and released Salih from custody, but only after a significant lobbying effort by international human rights organizations.

Some observers saw the events of 2001 in Central Asia as a new opportunity for Uzbekistan to recommit itself to the goals of post-Communist reform. As a *Los Angeles Times* editorial observed in December, "Karimov is more secure now and should allow a free press, legitimate opposition political parties and the unrestricted operation of human rights groups." But there were also signs that the lessons drawn by Uzbekistan's leadership might be just the opposite. Uzbekistan's critics noted, for example, that Uzbekistan's legislature voted overwhelmingly in December in favor of holding a referendum in January 2002 to determine whether to extend Karimov's term in office from 2005 until 2007 for the purpose of "extending democracy."

Critics of the Uzbek government also viewed the counterinsurgency measures as adding to the potential for

greater militancy and instability. Excessive measures, warned the International Crisis Group, were likely to increase the “potential for civil unrest as driven by the twin prongs of severe political repression and economic despair.” Another observer, Professor Charles Fairbanks of Johns Hopkins University, noted that a campaign against its citizens might make the government’s “own nightmares come true by identifying Islam with political dissidence, thereby channeling antigovernment feeling into politicized Islam.” Likewise, as a *New York Times* editorial opined as early as August 2001, “Uzbekistan is leading a region-wide crackdown on all forms of Islam that are not state controlled—repression that is driving entire villages into opposition and forcing religion underground. An Islamic guerrilla movement seeks to establish an Islamic state in Uzbekistan, but its 1,000 or so fighters are mainly active when the snows blocking the mountain passes between Kyrgyzstan and Uzbekistan melt each August. Far more dangerous is the crushing response of Islam Karimov, Uzbekistan’s authoritarian president.”

DEMOCRATIZATION

Political Process

1997	1998	1999-2000	2001	2002
6.25	6.50	6.50	6.75	6.75

The electoral process in Uzbekistan is carefully controlled and guided by the government. The country’s most recent elections to the 250-seat unicameral Oliy Majlis (Supreme Council) took place on December 5, 1999. Proponents of genuinely opposing political agendas played no role. The Supreme Council is not considered a professional assembly. It is convened only four times a year for brief periods to pass legislation that has been prepared by parliamentary committees or by agencies of the executive branch.

The 1999 elections were governed by the Law on Parliamentary Elections, which was adopted on December 28, 1993, and amended on December 26, 1997, and again on August 19, 1999. The right to nominate candidates was reserved to registered political parties, the provincial legislative councils, and the Parliament of Karakalpakstan. Political parties were required to satisfy the additional condition that they had registered with the Ministry of Justice no less than six months prior to the election and had collected 50,000 signatures in support of the party’s participation in the election.

The 1997 law also extended the nomination right to citizens who organize in groups of 100 or more from a single electoral district to nominate a candidate. In addition, in response to criticism that the top-down nomination process stifled initiative, a Center for Support of Independent Candidates was registered as an NGO with the goal of assisting independent candidates with the formation of citizen initiative groups, the registration process,

and the campaign. 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 *bokims*, must relinquish their official positions to take a seat in the Supreme Council.

An election is considered valid if more than 50 percent of the electorate participate and if the winning candidate receives a clear majority of the vote in his or her constituency. Otherwise, a runoff election must be held. For the 1999 elections, a total of 12,692,202 voters were registered to take part. Turnout on election day was 12,061,266, or slightly 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. In 66 constituencies, no candidate was elected during the first round. Runoff elections in those constituencies took place on December 19, 1999.

International organizations and observers found the 1999 parliamentary elections to be seriously flawed. The Ministry of Justice limited freedom of association by denying registration to nongovernmental organizations and political parties that criticized state authorities or state policy. Freedom of assembly was limited by a Soviet-era decree that permits only indoor public meetings and demonstrations, and then only with the prior consent of authorities. The electronic and printed media were subject to censorship and to obstacles in securing licenses and registration. The next parliamentary elections are scheduled for December 2004.

Uzbekistan’s first postindependence presidential elections took place on December 29, 1991, when Islam Karimov defeated Muhammed Salih of the opposition party Erk by a margin of 86 to 14 percent. Restrictions on preelection rallies, the dissemination of information, and media attention for Salih’s campaign raised questions about the fairness of the election. The country’s postindependence Constitution, which was ratified in December 1992, limits presidents to two consecutive terms. 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 with 99 percent of the vote in favor of the extension. The Supreme Council rejected Karimov’s suggestion that the extension be considered his second term. As a consequence, Karimov was eligible to run for reelection in 2000.

There is even speculation that technically the 2000 presidential election could be considered Karimov’s first term, given that the 1991 election occurred before the adoption of the current Constitution. This interpretation would allow Karimov to stand for reelection in a second term in 2005. The extension of Karimov’s term in another referendum, which is scheduled for early 2002, would push this second election date to 2007.

Uzbekistan’s last presidential election was held on January 9, 2000. The total number of registered voters was 12,746,903. The total number voting was 12,123,199, or

95.10 percent of electorate. Karimov received 11,147,621 votes, or 91.90 percent. Karimov's opponent, Abdulhafiz Dzhahalov, won 501,161 votes, or 4.17 percent. Leading international organizations refused to send observers, and the elections were widely regarded as neither free nor fair and as a travesty of democratic process.

As the numbers suggest, voter turnout in Uzbekistan elections is exceptionally high. However, this high rate reflects not the nation's commitment to the political process, but, rather, the ceremonial qualities of its elections. That is, elections are seen not as a plebiscite on public policy choice, but as an opportunity to demonstrate patriotism. Manipulation, coercion, falsification, and other factors also suggest that the figures are inflated.

The basic regulatory instruments that set the ground rules of political competition include the Law on Elections to the Supreme Council, the Law on the Central Election Commission, the Law on Political Parties, and the various laws regulating the mass media. The key is the nomination process, which the government carefully monitors and controls through the activity of the electoral commissions. The Central Election Commission (CEC) is a 14-member board established by Parliament on the advice of the president. It is responsible for oversight of the nomination process, campaigns, and the organization of the election. Campaign financing is also under its purview.

The People's Democratic Party (HDP), the successor to the Communist Party, is the dominant party. It explicitly supports the president and the government. Other political parties include the Fatherland Progress Party (WTP), the Adolat Social Democratic Party, the Democratic National Rebirth Party, and the Self-Sacrificers Party. In 1996, Karimov withdrew from the National Democratic Party of Uzbekistan, claiming that the president should be above partisan politics.

The Ministry of Justice has not allowed the Islamic Renaissance Party and Adolat (not to be confused with the Adolat Social Democratic Party) to register on the grounds that they do not comply with the constitutional mandate on the separation of church and state or with the September 16, 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. The parties Birlik and Erk have active information programs in exile.

Provisions regulating the registration of political parties severely limit the development of new groups. The guidelines for registering candidates favor self-recruitment and government manipulation. All told, Uzbekistan's election administration fails to guarantee true independence and impartiality. The Law on Elections to the Supreme Council establishes unequal conditions for the nomination of candidates, in effect creating three classes of candidates with different requirements. Candidates not nominated by legislative bodies face difficulties in collecting the required number of signatures unless they have the support of local authorities.

They also encounter significant difficulties during the signature verification phase.

Executive power, in particular through its local branches, unduly interferes with election processes. The *hokims*, having both legislative and executive powers, and the *hokimiats* (executive apparatus) at regional, district, and city levels exercise determinative influence on the electoral process, including by playing a key role in the nomination of candidates and the conduct of the elections. Candidates face further impediments from the *hokimiats* and election commissions during the campaign period. Some candidates are even pressured by *hokimiats* to withdraw from the election in favor of other candidates.

Party membership in Uzbekistan is difficult to gauge, especially if one is trying to include membership in unregistered parties. The HDP claims membership between 300,000 and 400,000 and the WTP at least 35,000 members. These numbers are quite possibly inflated. Membership in most political organizations 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	2002
6.50	6.50	6.50	6.50	6.75

Civil society in Uzbekistan lags far behind the standards for countries in similar stages of economic development. A "citizen-subject" orientation rather than a "citizen-participant" orientation combines with the Soviet-era tradition of a single hierarchical social structure to make independent citizen initiative a foreign concept. Government-approved NGOs are often indistinguishable from government-organized NGOs. And the Ministry of Justice, in particular, 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, a number of NGOs formed around social and political issues. However, the government perceived the social movement Birlik, the Committee to Save the Aral Sea, and Samarkand (an organization to assist ethnic Tajiks) as possessing political rather than social goals and denied them registration. The Human Rights Society of Uzbekistan and the Independent Human Rights Organization of Uzbekistan have attempted unsuccessfully to register.

According to the Uzbekistan Ministry of Justice, in 2000 there were 2,300 registered NGOs in the country. These groups represent a spectrum of activities ranging from governance (such as election monitoring) to advocacy (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, especially since struc-

tural change in government processes has been top-down in origin and orientation.

There are three main types of civic organizations in Uzbekistan. The first category includes indigenous civic organizations that play a public service role and are 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 Nuroniy. There are also specialized organizations that focus on key environmental or social issues. These organizations often are organized at the government’s initiative and receive special privileges.

The second category consists of so-called implementing NGOs that are sponsored by foreign donors and carry out the work of identifying and providing financial and technical support for indigenous citizen initiatives. Implementing organizations include the Counterpart Consortium, the National Democratic Institute for International Affairs, the Initiative for Social Action and Renewal in Eurasia, the American Bar Association’s Central and East European Legal Initiative, and the International Foundation for Electoral Systems. Each of these organizations has provided support for the development of indigenous NGOs in Uzbekistan in different ways and to varying degrees. However, they are unlikely to develop local financial sustainability on the basis of revenues raised in the region. Consequently, when donor government assistance comes to an end, support for indigenous NGOs in Central Asia can be expected to diminish.

The third category consists of organizations that are directly engaged in the promotion of group or public interests by providing goods and services to their clients. Their activity during the period covered by this report 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 wide 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 under-represented portions of the population, and environmental activists.

Zakat, or assistance to the needy, is a key tenet of the Islamic faith. The Moslem world has developed many mechanisms for distributing largesse, including in Uzbekistan. Islamic religious philanthropy has supported projects ranging from the construction and maintenance of mosques and *madrassas* to regional road construction. However, the true scope and scale of Islamic religious assistance is difficult to assess due to the fact that many of the financial transfers are informal and not transparent.

In response to their desire to diminish the cultural and political influence of Russia following their withdrawal from the USSR, the governments of Central Asia were initially anxious to attract direct financial support from the Moslem world and to encourage the revitalization of the cultural

institutions of Islam. Hundreds of mosques were constructed in a short period of time with donated funds. In time, the tensions between church and state grew in Uzbekistan as religious activism took on a political hue, and the government grew increasingly suspicious of the influence of informal Islamic investment. There are now reports that in the last few years, the Uzbekistan government has closed as many as 900 mosques.

Overall, indigenous NGOs reported marked improvement in their relations with the government in recent years. Groups that have succeeded in registering often acknowledge that the effort was a learning process both for them and for the government officials who initially sought to restrain their activity. Taxation remains the most problematic side of civic activity. Tax avoidance, if not evasion, is commonly viewed as one of the primary motivations for individuals to engage in local NGOs.

The NGO registration process is complicated and intimidating. There is a widespread assumption within the Ministry of Justice and the State Tax Service that not-for-profit enterprises are merely fronts for tax evasion. There is also 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 for the eventual decline of foreign donor assistance. However, there have been few creative attempts to confront this eventuality. Proposals for the establishment of externally funded NGO support centers have been met with caution owing to concerns about the interference of the government (or other actors) once foreigners withdraw from their management structures.

Trade unions exist in Uzbekistan as an instrument of management rather than as a vehicle for 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 the promotion of group interests.

Independent Media

1997	1998	1999-2000	2001	2002
6.50	6.50	6.50	6.75	6.75

The Uzbek government exerts direct control over the country’s print and electronic media and restricts citizens’ access to foreign media. The scope of governmental control has stifled public criticism of authorities and engendered self-censorship. A 1999 decree requires all Internet service providers to route connections through a government server. The government maintains that the primary purpose of this measure is to prevent access to information that the government considers harmful. However, private

Internet providers have still increased in number by taking advantage of the technological ease with which they can circumvent the law. A recent Law on Media, adopted by the Uzbek Parliament in late 2000, established new definitions for terrorist activity and streamlined the bureaucratic and legislative system that would be enforced in the event of a national emergency. The law restricts and sanctions media coverage of antiterrorist and counterinsurgent activities by the police.

Uzbekistan is a challenging political environment for the media. Government-sponsored media outlets dominate the delivery of information areas, and government censorship, both active and passive, confronts independent journalists and media managers on a daily basis. This creates an atmosphere that chills the free expression of views and opinions and limits access to information. Majid Abduraimov, an Uzbek reporter who is known for his anticorruption writing, was arrested in June 2001 for allegedly corrupt practices. Likewise, an Uzbek newspaper editor who is noted for his willingness to challenge government censorship was fired the following month.

The constraints on a free press begin with the highly bureaucratic annual reregistration process. In late 1999, Uzbekistan'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, citing their commitment to producing balanced reportage that meets international standards. Government officials argued that the stations were not cooperative during the annual reregistration process. Media rights organizations have charged that such closures and manipulation of the registration process have had a chilling effect on independent broadcasters in an already difficult environment. On June 28, 2001, the Uzbek Inter-Agency Coordinating Committee denied a broadcasting license renewal to ALC, an Urgench-based private television company that was shut down in the run-up to parliamentary and presidential elections in Uzbekistan in late 2000.

Uzbekistan has numerous media outlets. According to the Uzbekistan Ministry of Justice, the country has 477 newspapers, 136 journals, 4 information agencies, 25 television studios, and 2 radio studios. The nation's leading newspapers include *Tashkentskaya Pravda*, *Pravda Vostoka*, *Vremya I My*, *Toshkent Okshomi*, *Khalk Suzi*, and *Business Vestnik Vostoka*.

The regulatory structure for the media comprises a number of agencies and committees that are subordinate to the Cabinet of Ministers. The Uzbek Agency for the Post and Telecommunication oversees telecommunications. The government recently established the Republic Radio and TV Industry Corporation (RTRC), which provides technical broadcasting services on contract to the state UzTeleRadio Company. UzTeleRadio generates about 80 percent of RTRC's revenues. All programming is taped, because the government prohibits live broadcasts. Uzbekistan has an equally challenging economic environ-

ment for private media outlets. Low advertising income results in unfair competition because the private organizations struggle to maintain the technical standards of the government organizations.

Uzbekistan's newspaper distribution system remains under government control. There are several minor independent papers, particularly in Tashkent, that have limited circulation and are available at some kiosks. These tend to be business-oriented papers. On occasion, illegal papers published by opposition groups in exile, usually in Moscow or Istanbul, find their way into the country. Empowered by a decree of the Cabinet of Ministers entitled Preservation and Security of Independent Radio Broadcast Stations, the State Communication Inspection Committee carries out annual checks of media organizations.

Enshrined in the 1997 Law on Media, libel and public defamation of the president are subject to financial penalty and possible imprisonment. The law also specifies the responsibilities and obligations of journalists. The Uzbek government has criticized foreign journalists, principally Russia-based journalists, for reporting libelous stories, and it has either pressured them to leave the country or prohibited the distribution of their papers. This has especially been the case for journalists from *Nezavisimaya Gazeta*, *Izvestiia*, and Interfax.

Laws and guarantees do not protect the independence of the media but, rather, have the effect of using media as an instrument of state policy. Political pressures and controls over the media are considered pervasive. Economic conditions reinforce the media's dependence upon the state, and repressive state actions, including the use of physical violence, have been reported. Freedom House's 2001 *Annual Survey of Press Freedom* placed Uzbekistan's treatment of the media in the "Most Repressive" category.

Governance and Public Administration

1997	1998	1999-2000	2001	2002
6.00	6.25	6.25	6.00	6.00

Uzbekistan's Constitution divides power among three branches of government. The president directs the executive branch. The Supreme Council, as legislature, is a non-professional body that does not seriously manage the affairs of state. Legislative drafting takes place outside the deliberative process and is exclusively under the control of the executive branch. Uzbekistan's judiciary consists of a three-tiered system that includes the Constitutional Court, the Supreme Court, and the commercial court. The Constitutional Court has a mandate to exercise judicial review, but it does not do so in practice. The Constitution provides for civilian control over the military and vests this power 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 Secre-

tary Mirakbar Rakhmankulov explained that the appointment sought to “establish civilian control over military structures within the state.”

The president’s executive powers are extensive. Among these are the right to form a government; direct the government; appoint and dismiss the prime minister and cabinet ministers; appoint and recall diplomats; establish and dissolve ministries; appoint and dismiss the procurator-general and his deputies; nominate appointees to the Constitutional Court, the Supreme Court, and the board of the central bank; appoint and dismiss judges of regional, district, city, and arbitration courts; appoint and dismiss *hokims* (the highest executive officers in the provincial regions) for violations of the law; suspend or repeal the acts of *hokims*; sign all laws of the Supreme Council or return them for reconsideration; declare states of emergency; serve as commander in chief of the armed forces; declare war; award orders and medals; rule on matters of citizenship; issue amnesties and pardons; and appoint and dismiss heads of the national security service. The president enjoys “personal immunity” from prosecution. Parliamentary deputies also enjoy immunity but are subject to parliamentary sanctions. No such restriction is placed on the president’s immunity. After state service, the president becomes a lifetime member of the Constitutional Court.

Uzbekistan’s three-tiered judicial system is subordinated to the Ministry of Justice. The court system is funded from the state budget. In order to avoid partisanship, no judge may belong to a political party. The procurator’s office represents the prosecutorial arm of the justice system and is responsible for enforcing public observance of the laws. Procurators are appointed by the president and are restricted from any political or party activity during their period of service. There are local and neighborhood conflict resolution committees called Mahalla, which reportedly function effectively at the local level, particularly in rural areas.

Chapter 17 of the Uzbek Constitution outlines the powers of the Supreme Council, calling it the political authority of the country. The Supreme Council is charged with initiating and passing legislation as well as executing policies through committee work. It meets on a regular basis—four times a year plus special sessions—and has both public and closed sessions. Since the president holds similar authority, the actual powers of the legislature are put to question. In addition, the legislature spends most of its sessions discussing and passing presidential proposals and decrees, again suggesting that it is not the legitimate rule-making body of Uzbekistan.

In terms of territorial organizations, Uzbekistan has a centralized political system of government in which ultimate authority rests at the national level. Within this system, there are 12 *veliyats* (provinces), 1 autonomous region (the Autonomous Republic of Karakalpakstan), and 1 city government (in the capital city of Tashkent). The president has the power to appoint and dismiss *hokims*. All policies made and enforced at the *veliyat* level must comply with

national laws. This also holds true for policies made and enforced in Karakalpakstan. *Hokims* serve at the pleasure of the president. In turn, 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 owing to poor harvest figures from their respective *veliyats*. Subnational political institutions below the *veliyat* level are considered not part of the government as such, but as a sphere of so-called local control.

The most important administrative change in recent years was the revitalization of an ancient institution, the Mahalla, following an April 1999 decree by President Karimov. According to Uzbek legislation and tradition, the Mahalla are mechanisms of local self-rule and are not considered part of the government. In 1999, the Uzbekistan government shifted greater emphasis to local public order activities by adopting a community-based approach to law and order. The plan’s novelty lies in its 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, a public health inspector, and a Good Samaritan. In a short period of time, these organizations have obtained a level of autonomy that has not been known for many years.

The public financial system is unitary. *Veliyat* and municipalities are responsible for the collection of government revenue (taxes and other mandatory payments), but expenditure decisions are made at the national level. Very few categories of legitimate subnational revenues are available to local officials for policy programming. On the other hand, local officials wield exceptional interference powers. That is, lower-level bureaucrats, firms, and private parties that do not see eye to eye with local political officials find it difficult to acquire the necessary government approvals, licenses, or permits to carry out their activities. Official government positions are highly sought after. Institutions such as the Academy of Public Administration provide professional training in the theory and practice of government. However, government officials are still not selected on a meritocratic basis.

RULE OF LAW

Constitutional, Legislative, and Judicial Framework

1997	1998	1999-2000	2001	2002
6.50	6.50	6.50	6.50	6.50

The preamble of Uzbekistan’s Constitution, which was adopted on 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 freedom of speech, assembly, and religion, as

well as the right to express one's national heritage. According to a poll conducted in 2000 by Izhtimoiy Fikr, a government-sponsored public opinion center, on the topic "Uzbekistan—Our Common Home," 87 percent of the population believe that the rights and freedoms of Uzbek citizens are protected regardless of their nationality or religion. Every second respondent thought that the individual's rights were fully observed. Less than 5 percent of the respondents reported that their constitutional rights and freedoms were not observed. However, opinion polling of this kind must be viewed with a skeptical eye. In closed societies such as Uzbekistan, people are prone to self-censorship.

Uzbekistan's judiciary consists of the Constitutional Court, the Supreme Court, and the Supreme Economic Court of the Republic of Uzbekistan, in addition to the Supreme Court and the arbitration court of the Autonomous 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 whose judges are appointed for terms of five years.

In theory, the judiciary is independent; in practice, however, its capacity to function as an independent branch of government is limited. Although the Constitution describes the legislature as the highest organ of power, in fact the country has a unitary "presidential form of government." The branches of government are neither coequal nor balanced, and 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.

According to Chapter 22, Article 116, of the Constitution, all defendants are entitled to legal assistance. A number of opposition figures, including Shukhrullo Mirsaidov, the former vice president of Uzbekistan, have been convicted of crimes. Although many of President Karimov's opponents have received amnesties, their criminal records remain, technically disallowing their possible candidacies for high public office. A new law regulating the courts was passed in 2000.

Uzbekistan's current criminal code was adopted in 1994 and initially included 13 articles that envisage capital punishment. In 1998, 5 of these articles were removed. In October 2001, the government announced that it had amended the criminal code again to narrow the range of crimes punishable by the death penalty from eight to four. The death penalty now applies only to first-degree murder and terrorism. The government also announced a reduction in prison terms and an increase in the number of offenses punishable by fines rather than prison sentences.

The government enforces criminal law energetically. At the same time, President Karimov has sought to present himself as a gracious and forgiving leader by issuing amnesties to prisoners on a periodic basis. For instance, prior to his June 1996 visit to the United States, he released more than 80 prisoners, including 2 political prisoners. In August 2001, more than 400 Uzbek women whose relatives

have been convicted of belonging to the outlawed Islamic organization Hizb-ut-Tahrir appealed to the president to include their relatives in a forthcoming amnesty. At a session of the Supreme Council in August 2001, President Karimov urged parliamentarians to pass an amnesty in commemoration of the 10th anniversary of Uzbekistan's declaration of independence. Most female convicts, invalids, persons suffering from serious diseases, men over age 55, foreign nationals, and persons who were minors at the time of their sentencing will be eligible for release, with the exception of those convicted of murder, terrorism, drug trafficking, or crimes against the Constitution. The amnesty was announced on August 22, and approximately 1,000 people are expected to qualify.

Search warrants are authorized and issued by provincial or local militia. There have been no successful challenges to the legality of such warrants. 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 abuse remains a chronic problem in Uzbekistan's prisons.

Chapters 7–10 of the Constitution list a wide range of freedoms, including the right to assembly, free speech, religion, due process, ownership of property, and gender and ethnic equality. However, Chapter 11 provides that individual rights shall be interpreted within the context of the greater interests of the state. Chapter 12 also guarantees the right to engage in business and commercial activity and protects private property rights. Economic rights, as outlined in the Constitution, are of particular importance because the government continues to entice foreign investment to Uzbekistan.

In November 2000, the U.S. House of Representatives expressed concern over human rights violations and the use of terrorism in Uzbekistan as a pretext for political repression. It urged the Uzbek government, which was "engaged in military campaigns against violent insurgents...to observe international law regulating such actions, to keep civilians and other noncombatants from harm, and not to use such campaigns to justify further crackdowns on political opposition or violations of human rights commitments." Throughout 2001, the government committed serious civil rights abuses. Testimony indicates that security forces tortured, beat, and harassed suspects. They also arbitrarily arrested or detained pious Muslims and other citizens on false charges, frequently planting narcotics, weapons, or forbidden literature on them.

On February 28, 2001, the well-known writer Emin Usman died in an Uzbek detention cell. Upon learning of the death in July 2001 of Shovruk Ruzimuradov, another detained human rights activist and former member of the Uzbek Parliament, a U.S. State Department spokesperson expressed "deep concern about the violation of international conventions outlawing torture and extra-judicial execution." In June 2001, the International Helsinki Federation pub-

lished a report that noted a serious escalation of violations of basic human rights in three Central Asian states: Kazakhstan, Kyrgyzstan, and Uzbekistan.

Corruption

1999-2000	2001	2002
6.00	6.00	6.00

There is separation of public and private roles in Uzbekistan, but the lines tend to be drawn on an ad hoc basis. The president withdrew from party participation, citing the need to maintain a separation of powers and noting that it would be inappropriate for a sitting president to also influence party competition. Other major officials may not play a role in politics, either, and lobbying is considered illegal. However, these superficial rules do not relate well to a political culture that rests, above all, on personal interactions.

Since medieval times, government positions have been sold, rather than earned, in certain parts of Central Asia. Although it might seem backward that a person has to pay in order to receive a job, in fact this could be economically rational. Many government positions carry high prestige, and public officials can earn incomes with which to pay their superiors by levying “extra” taxes, fines, and service fees. In Central Asian cities, this has always been considered a standard practice. The practice is alive and well today and constitutes a drain on the efficiency and equity of government. As one observer has noted, “At almost every level of government, ‘extra’ rates and tariffs are set for otherwise free services, and no query can be resolved without under-the-table cash. The mechanisms that were created to cope with corruption do not punish the wrongdoers but only serve to eliminate the undesirables.”

The Uzbek government has undertaken a number of initiatives to respond to negative reporting on the prevalence of official corruption. In September 2000, it announced an analysis of investigations concerning 11,430 cases of customs violations by businesspeople. This number included 9,300 cases of organizations and 176 cases of individual officials who had committed violations. Of these cases, 1,319 involved smuggling or drug trafficking. A customs whistle-blower hot line was established in 2000.

The bureaucratic burden of maintaining strict currency controls can be expensive and 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 avoiding or 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. This, in turn, can bring about pressures for severe import restrictions and, eventually, the collapse of the free trade

policy. Transparency International’s 2001 Corruption Perceptions Index measures the perceptions of corruption according to businesspeople, risk analysts, and the general public. The values on the index range between 10 (highly clean) and 0 (highly corrupt). Uzbekistan, with a score of 2.7, ranked 74th out of 91 countries in the index.

ECONOMIC LIBERALIZATION & SOCIAL INDICATORS

Privatization

1997	1998	1999-2000	2001	2002
6.25	6.25	6.25	6.00	6.00

Macroeconomic Policy

1998	1999-2000	2001	2002
6.25	6.25	6.25	6.00

Microeconomic Policy

1998	1999-2000	2001	2002
6.25	6.25	6.25	6.00

Since gaining independence in 1991, Uzbekistan has adopted an economic policy characterized by a reliance on administrative measures and extensive government regulation. In 1999, buoyed by an upturn in foreign exchange from exports of its 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. Uzbekistan’s foreign debt amounted to over \$4.5 billion in 1999. Currency restrictions had the effect of reducing exports, discouraging foreign direct investment, and leading the government to borrow heavily. During 2000 and early 2001, inflation and the true devaluation of the som, Uzbekistan’s national currency, continued to erode citizens’ real earnings. Uzbekistan ranked 99th out of the 162 countries rated in the United Nations Development Program’s 2001 Human Development Index.

Major international financial institutions have encouraged Uzbekistan to reduce government subsidies in agriculture, improve its currency arrangements and banking system, and improve its climate for foreign investment and savings. However, the government has been hesitant to abandon many of the existing subsidies. The government monopsony on agricultural purchases for cotton has been limited in law but continues to be powerful in practice. In 2001, the Uzbek Ministry of Agriculture and Water Resources planned for the purchase of 2.3 million tons of grain. Farmers unwilling to sell at state prices were informed that

they would face mandatory sanctions. Uzbekistan's most successful joint venture, Daewoo's Uzbek subsidiary, UzDaewoo, employs about 3,000 workers in its car factory in the eastern Fergana valley. The plant produces 60,000 cars a year and is Uzbekistan's most prized foreign investment project.

Privatization legislation was passed during the Soviet period, but it was not widely implemented in Uzbekistan. After independence, the Uzbek government established a basic framework for private property rights and private commercial activity. The State Property Committee (SPC) was created by presidential decree in February 1994 and was given responsibility for maintaining state property, developing a legal framework for privatization, managing the state's shares in joint equity stock companies, and deciding on the forms of denationalization and privatization. SPC regulations 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, 100 percent of the shares of which are owned by the government, is considered a privatized company. In addition, since privatization has not had a substantial effect on actual management or financial practice in many enterprises, estimates of the portion of property in private hands may be somewhat misleading.

Uzbekistan's national tax system is centrally administered but implemented locally at the *veliyat* level. The Supreme Council adopted the nation's tax code in April 1997, and the law took effect on January 1, 1998. Banking reform originated with the creation in July 1995 of the Banking Association of Uzbekistan (BAU), a self-regulating organization for the banking sector. 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 less than 2 percent of bank deposits. This reflects 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 banks to process transactions in both cash and noncash forms and to give cash to depositors on demand.

Uzbekistan left the ruble zone in 1993 when it introduced a temporary currency, the som coupon. The Uzbek som, valued at four to the U.S. dollar, was officially introduced as a tradable, though not fully convertible, currency in 1994. In 1996, in connection with a shortfall in foreign reserves, the 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 buy consumer goods, particularly luxury items. However, in prac-

tice 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 acted periodically to make the system even 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 nonlicensed firms and individuals were required to buy at a commercial rate. This gave government-preferred firms a great advantage, making windfall profits possible on currency transactions alone. A black market rate for the som quickly emerged. Although the black market, or "curb," rate varied, at some points it was four times the official rate.

International donor organizations urged Uzbekistan to rethink its currency policies. The International Monetary Fund, which Uzbekistan joined in 1992, 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 government of Uzbekistan on repeated occasions to abandon the artificial exchange rate.

In 1999, Karimov announced that the som would be fully convertible as of January 1, 2000. In 2000, the government then devalued the official exchange rate for government transactions by about 50 percent, set the Uzbek som at 231 to the U.S. dollar, and established a system for regular weekly modifications of official and commercial exchange rates based on market factors. On November 1, 2001, the government devalued the official exchange rate for all fiscal transactions in an effort to fully free the som. The official rate was set at 680 som to the U.S. dollar. International financial institutions immediately praised the Uzbek government for this step to ease the country's monetary policy.

The Uzbek Republican Stock Exchange was established in March 1994 by a presidential decree. Other stock markets include the Tashkent, Bukhara, Namangan, Samarkand, and Ferghana exchanges. These markets provide a platform for trade in commodities and financial instruments. The Uzbekistan Center for Regulation of the Securities Market oversees public trading and reviews prospectuses from firms that want to make public offerings. The legal framework provides for trade in joint stock company securities, government bonds, corporate bonds, and promissory notes. As of May 2000, the volume of trading on the Uzbek Republican Stock Exchange and the regional exchanges totaled 26.4 billion Uzbek som (\$114.2 million after devaluation), compared with 8.1 billion Uzbek

som (\$35 million) during the first six months of 1999. However, these figures are misleading because most of the contracts were prearranged by government transactions and did not truly represent free market forces. In reality, the volume of trade is low and most securities are illiquid. The Uzbek government plans to boost trade volumes and liquidity by improving 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 was to implement the Law on Competition and Restriction of Monopoly Activity in Commodity Markets,

which was designed to promote a healthy competitive environment, create favorable legal and economic conditions for competition, prevent efforts to monopolize the domestic market, improve antimonopoly legislation, and protect consumers' rights. The committee was also charged with monitoring consumer goods prices and cooperating with consumer protection organizations in the prevention of artificial price growth and the 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.

Gregory Gleason is a professor of political science and public administration at the University of New Mexico.

YUGOSLAVIA



Polity: Parliamentary democracy

Economy: Mixed statist (transitional)

Population: 10,700,000

GNI per capita at PPP \$ (2000): na

Capital: Belgrade

Ethnic Groups: Serb (63 percent), Albanian (17 percent), Montenegrin (5 percent), Hungarian (3 percent), other (12 percent)

Size of private sector as % of GDP (mid-2001): 40

The scores and ratings for this country reflect the consensus of Freedom House, its academic advisors, and the author of this report. The opinions expressed in this report are those of the author.

↕↕ and ↗↗ indicate score changes of .25 or more. ↘ and ↙ indicate changes of less than .25.

NATIONS IN TRANSIT SCORES

	1997	1998	1999-2000	2001	2002
Democratization	na	4.90	↘↘ 5.50	↗↗ 4.63	↗↗ 3.63
Rule of Law	na	na	6.00	↗ 5.88	↗↗ 4.75
Economic Liberalization	na	4.83	↘↘ 5.33	5.33	↗↗ 5.00

KEY ANNUAL INDICATORS

	1995	1996	1997	1998	1999	2000	2001
GDP per capita (\$)	na	1,366.6	1,562.3	1,308.3	1,213.3	941.8	1,229.5
Real GDP growth (% change)	6.1	7.8	10.1	1.9	-15.7	5.0	5.0
Inflation rate	78.6	94.3	21.3	29.5	37.1	60.4	93.6
Exports (\$ millions)	1,531.0	1,842.0	2,447.0	3,033.0	1,677.0	1,923.0	2,064.0
Imports (\$ millions)	2,666.0	4,102.0	4,799.0	4,849.0	3,296.0	3,772.0	4,506.0
Foreign Direct Investment (\$ millions)	na	0.0	740.0	113.0	112.0	25.0	200.0
Unemployment rate	24.6	25.8	25.8	25.1	26.5	27.3	na
Life Expectancy (years)	72.0	72.0	72.1	72.2	na	72.5	72.0

INTRODUCTION

The overthrow of Slobodan Milosevic in October 2000 finally allowed the Federal Republic of Yugoslavia (FRY) to embark on a much delayed process of political and economic reform.* After the former Yugoslav republics of Serbia (including its two autonomous provinces of Kosovo and Vojvodina) and Montenegro declared the creation of the FRY in April 1992, they spent much of the 1990s confronting war, internal rebellions, international isolation, economic sanctions, and domestic political repression. Between 1992 and 1999, the FRY slowly disintegrated into three distinctly different political spaces: Serbia, Montenegro, and Kosovo.

In Serbia, Milosevic made desperate attempts to stay in power as his regime grew increasingly weak. He stole elections; imposed draconian policies on the media; purged what remained of an independent judiciary; oversaw physical attacks, kidnappings, and assassinations of opposition figures and potential regime opponents; tampered with the Constitution; and directed large-scale human rights abuses against the Albanian population in Kosovo. An anti-Milosevic coalition of leaders came to power in Montenegro in 1997 and began asserting its independence from Belgrade. Likewise, in Kosovo the Albanian population developed parallel political and social institutions and essentially removed itself from the political, social, and economic life of the FRY. This process was completed in June 1999, when a NATO bombing campaign against Yugoslavia ended with the creation of a United Nations–led international protectorate in Kosovo. Thus, since 2001, the Yugoslav federation has existed in name only.

All of these problems only exacerbated the difficult position of the Yugoslav economy. In the 1980s, Yugoslavia's socialist economic model was already showing signs of failure, and attempts to reform it proved largely unsuccessful. The economy suffered further in the 1990s from the cumulative effects of the legacy of a centrally controlled economy, the loss of major trading partners and markets, UN-imposed sanctions for the FRY's involvement in the Bosnian war, and the damage inflicted by NATO's bombing campaign in 1999. In response, the Milosevic regime employed increasingly corrupt forms of economic management to deal with the crisis. Cronyism, the issuance of phony state bonds, pyramid lending schemes, and smuggling through organized crime syndicates became the norm. A decline in living standards of more than two-thirds and the influx of approximately 700,000 refugees and displaced persons from the wars in Croatia, Bosnia-Herzegovina, and Kosovo only exacerbated the FRY's problems.

*Unless specifically noted, references in this report to the FRY or Yugoslavia refer only to Serbia, Montenegro, and the Serbian province of Vojvodina.

Milosevic's overthrow on October 5, 2000, brought to power the Democratic Opposition of Serbia (DOS), a fractious 18-party coalition that is led by Vojislav Kostunica, the FRY's federal president, and Zoran Djindjic, the Serbian prime minister. Despite personal and party rivalries within the coalition, the DOS has made significant progress in ending the country's international isolation and beginning the process of economic and political reform. Major international organizations such as the United Nations, the Organization for Security and Cooperation in Europe, the International Monetary Fund, and the World Bank have readmitted the FRY, and the FRY itself has reestablished normal diplomatic relations with its neighbors. In June 2001, for example, the FRY successfully concluded an agreement with the other Yugoslav successor states on the division of the former Yugoslavia's assets. The Paris Club of government lenders has agreed to write off some 66 percent of the FRY's outstanding debts, and all international economic sanctions against it have been lifted. In addition, despite considerable controversy and soul-searching, the FRY has begun the process of cooperating with the International Criminal Tribunal for the Former Yugoslavia (ICTFY), and in June 2001 its efforts culminated in the extradition of Slobodan Milosevic to The Hague. Serious efforts are also under way to secure a place for the FRY in NATO's Partnership for Peace program.

Unfortunately, the FRY has not matched its foreign policy successes with similar achievements on the domestic front, where the problems are immeasurably more complicated. The major problem it faces is defining the future of relations between Serbia and Montenegro. Ironically, pro-independence forces in Montenegro, led by President Milo Djukanovic, redoubled their moves toward secession *after* Milosevic's downfall, and throughout 2001 they refused to negotiate seriously with the new leadership in Belgrade. At the same time, though, these forces also suffered two serious setbacks in 2001. First, parliamentary elections in April failed to produce a clear majority in favor of independence. Second, the EU sent a strong signal to the pro-independence bloc in November when it called for a "democratic Montenegro in a democratic Yugoslavia." Nevertheless, the problems between Montenegro and Serbia still seem manageable in comparison with the problems between Belgrade and the Serbian province of Kosovo.

Although many observers had hoped for more significant political and economic reforms in 2001, the new regime still made considerable progress. Within days of taking power, the DOS government opened police files, ended the economic blockade of Montenegro, and eliminated harsh restrictions on the independent media. Likewise, it introduced important changes in the country's fiscal system and taxation policy, established a tight monetary policy that has kept the Yugoslav dinar (YUD) relatively stable, and even came close to balancing the state budget.

The international community is now driven by concern over the domino effect that a Montenegrin declaration of

independence could have in the region. That is, if Montenegro votes to leave the federation, Kosovo might be compelled to cut ties with Belgrade as well. This, in turn, could accelerate efforts to create a Greater Kosovo that incorporates parts of neighboring Macedonia and increase centrifugal pressures within Bosnia-Herzegovina, thus ensuring many more years of instability in the southern and western Balkans. Montenegro is scheduled to hold a referendum on independence sometime in 2002.

DEMOCRATIZATION

Political Process

1998	1999-2000	2001	2002
5.00	5.50	4.75	3.75

During most of the 1990s, the FRY's political system was characterized at once by a superficial adherence to minimal standards of the rule of law and by Slobodan Milosevic's arbitrary whims. Since Milosevic was never strong enough to impose an outright dictatorship on the country, he often concealed his violations of the FRY Constitution and other legal norms with legislative tricks, manipulation of the media, and selective intimidation of his opponents. Using both formal and informal mechanisms, he also concentrated more power under him than any other ruler in Eastern Europe, with the possible exception of Belarus's Alyaksandr Lukashenka. Although the new authorities in the FRY are by no means political innocents, they have already dispersed much of the power that Milosevic spent years concentrating under him and thereby reduced the ability of government leaders to use force and violence to achieve their goals. Instead, they appear to be genuinely committed to resolving political and social issues nonviolently and to upholding the rule of law.

Throughout its existence, the FRY has been an unstable political entity. During the Milosevic years, several factors contributed to this instability. These included involvement in the series of wars in Croatia, Bosnia, and Kosovo; tension between Belgrade and Montenegro over the question of Montenegrin independence; rebellion in Kosovo and Serbia's southern Presevo Valley; the regime's refusal to allow normal transfers of power through free and fair elections; the catastrophic economic situation; and the large number of politically motivated assassinations in recent years.

Since coming to power in October 2000, however, the DOS government has made considerable progress in reducing these levels of instability and uncertainty. It has restored normal diplomatic relations with all of its neighbors and secured the country's readmission into most international organizations. The economic sanctions have also been lifted. The dispute with Montenegro over the future of the Yugoslav federation, although still far from resolved, no longer threatens to turn violent. Increasing respect for the

democratic process was exhibited during the December 2000 Serbian parliamentary elections, in which international observers noted considerable improvement over previous elections and a clear commitment to the 1990 OSCE Copenhagen Document for democratic elections. In the Presevo Valley, negotiations in 2001 on the creation of multiethnic police forces, the withdrawal of military units, the disarmament of the rebels, and increased levels of self-government for Albanian-populated municipalities restored a measure of calm to this section of southern Serbia. However, few observers believe the problems between the local Albanian population and the Serbian government have been permanently resolved.

Despite all of this progress, significant problems threatening stability remain. The DOS coalition itself, which comprises 18 political parties and 1 independent trade union, is notoriously fractious. In 2001, for example, it threatened to fall apart on several occasions, most notably in June and July over Milosevic's extradition to The Hague tribunal and in August during the Gavrilovic affair, which involved the murder of a former police official hours after he left President Vojislav Kostunica's office. The officer reportedly had delivered information on the involvement of high-level officials in organized crime. Montenegro also continues to suffer from political violence, as was evident in the January 2001 killing of a leading security official.

In addition, Serbian premier Zoran Djindjic has begun forming unofficial, parallel power structures to make up for weaknesses in areas controlled by Kostunica. The move is dangerous and reminiscent of the ways in which Milosevic bypassed legal institutions. The FRY's economy also remains in difficult straits and has engendered significant social tensions. The official unemployment rate hovers at 30 percent; it is nearly 40 percent in Montenegro. Approximately 700,000 refugees and displaced persons from Bosnia, Croatia, and Kosovo still remain in the FRY.

The most recent legislative elections for the bicameral Yugoslav Federal Assembly occurred on September 24, 2000. In the Council of Republics, the Federal Assembly's 40-seat upper house, Montenegro and Serbia enjoy equal representation. Representatives in the council are popularly elected. Delegates to the 138-member Council of Citizens are elected according to a complex formula that allocates 108 delegates to Serbia and 30 to Montenegro. Fifty-four delegates in Serbia and 24 in Montenegro are popularly elected. The remaining seats are filled according to constituent majorities. Members of both chambers serve four-year terms.

Pro-Milosevic parties controlled the Federal Assembly that was elected in November 1996. For the 2000 elections, DOS had to campaign under very unfavorable circumstances. Although the regime refused to give the opposition access to the nation's most important media and subjected DOS to frequent harassment by state security organs, the coalition still scored a significant victory against pro-regime parties. In the current Federal Assembly, DOS, together with a reformed

Table 1. FRY Federal Assembly Elections, September 2000: 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: Official Web site of the FRY, www.gov.yu

Table 2. FRY Federal Assembly Elections, September 2000: 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: Official Web site of the FRY, www.gov.yu

Table 3. Serbian Assembly Elections, December 2000

Party/Coalition	Mandates
Christian Democratic Party of Serbia	7
Civic Alliance of Serbia	9
Coalition Vojvodina	4
Democratic Alliance of Vojvodina Hungarians	1
Democratic Alternative	6
Democratic Center	4
Democratic Party	44
Democratic Party of Sandzak	2
Democratic Party of Serbia	45
League of Vojvodina Social-Democrats	6
New Democracy	9
New Serbia	8
Party of Serbian Progress	2
Vojvodina Reform Democratic Party	4
Serbian Radical Party	23
Serbian Resistance Movement—Democratic Movement	1
Serbian Unity Party	10
Social Democracy Party	9
Social Democratic Union	4
Socialist Party of Serbia	37
Alliance of Vojvodina Hungarians	6
Association of Free and Independent Trade Unions	1
Peasant's Party of Serbia	1
League for Sumadija	1
Movement for a Democratic Serbia	5
United Pensioner's Party	1

Source: www.parlament.sr.gov.yu

Socijalisticka Narodna Partija (Socialist People's Party, or SNP), enjoys a strong majority.

Serbia and Montenegro each have popularly elected, unicameral assemblies whose delegates serve four-year terms. Voters elect delegates to the 250-seat Skupstina Srbije (Serbian Assembly) according to a system of proportional representation. The latest elections for the Serbian Assembly took place in December 2000 and returned a large majority in favor of the DOS coalition.

The National Assembly of Montenegro consists of 78 directly elected delegates. In its most recent elections, which took place in April 2001, Djukanovic's pro-independence coalition "Victory is with Montenegro" did not fare as well as expected. It gained 42 percent of the vote, while the coalition "Together for Yugoslavia" took 40 percent. The outcome cast considerable doubt on the strength of the secessionist movement within that republic.

In Kosovo, pursuant to UN Security Council Resolution 1244, international authorities have been trying to devolve a measure of self-governance from international bodies to local institutions. The most important move toward this goal came during the November 2001 elections for a provincial assembly in Kosovo. According to the Constitutional Framework for Provisional Self-Government, to which international authorities and local Albanian officials agreed

Table 4. National Assembly of Montenegro Elections, April 2001

Party/Coalition	Mandates
Democratic Party of Socialists—CG	30
Socialist People's Party	19
People's Party	11
Social-Democratic Party	6
Liberal Union	6
Serbian People's Party	3
Club of Albanian Parties	2

Source: www.skupstina.cg.yu

Table 5. Parliament of Kosovo Elections, November 2001

Party/Coalition	Mandates
Democratic Alliance of Kosovo (LDK)	47
Democratic Party of Kosovo (PDK)	26
Return Coalition	22
Alliance for the Future of Kosovo (AAK)	8

Source: OSCE Kosovo Web site, available at www.osce.org/kosovo
(Note: only parties winning more than four seats are listed)

on May 17, 2001, the new Parliament of Kosovo is a unicameral, 120-seat chamber. The framework reserves 20 seats for ethnic minorities and distributes the remaining 100 seats according to a system of proportional representation. Of the 26 political parties that competed in the November 2001 elections, 14 won seats in Parliament.

At each level of government in the FRY, the government comprises political parties that have gained enough votes for representation in the respective governmental institutions. One exception to this rule is Group 17 (G17), an organization of independent economists. Many of G17's members have been appointed to key roles in both the federal Yugoslav and republican Serbian governments.

The first popular elections for the FRY presidency took place on September 24, 2000. In earlier years, the federal president was elected by the Federal Assembly and required the approval of a majority of both Serbian and Montenegrin delegates. In July 2000, however, pro-Milosevic parties pushed constitutional changes through the Federal Assembly that called for direct, popular elections of the federal president. 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 constitutional lawyer and leader of the small *Demokratska Stranka Srbije* (Democratic Party of Serbia, or 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 of the popular vote (or 2,470,304 votes) in the September elections. Milosevic won only 37.1 percent, or 1,826,788 votes.

According to the FRY Constitution, the Yugoslav presidency is a largely ceremonial post. However, Milosevic's control over the Socialist Party of Serbia and various state security organs made him by far the most powerful man in the country. Kostunica, however, is the leader of an unwieldy 18-party coalition and finds himself in a much weaker position to exert practical political power in the country. He also must deal with Montenegro, which is demanding a considerable redefinition of the federal state. Nevertheless, Kostunica currently enjoys tremendous political and moral prestige within Yugoslavia and internationally. He will probably be able to exert more influence in the foreseeable future than his official powers would suggest.

Slobodan Milosevic won the first multiparty popular elections to the Serbian presidency in December 1990; he was reelected in December 1992. In the December 1997 elections for the same office, Milan Milutinovic of the SPS defeated SRS leader Vojislav Seselj after four rounds of voting and amid widespread rumors of ballot stuffing to assure a 50 percent turnout. Although the ICTY indicted Milutinovic for war crimes in May 1999, he will remain in office through the expiry of his term in December 2002.

The president of Montenegro is popularly elected to a five-year term. Milo Djukanovic, the former Montenegrin

prime minister who broke with Milosevic and his Montenegrin loyalists during the Serbian opposition protests in 1996 and 1997, was elected president of Montenegro in multiparty elections in October 1997. The next elections for the Montenegrin presidency are due in the second half of 2002.

According to the Constitutional Framework for Kosovo, the president of the province is elected by the parliament. As of the end of 2001, disputes that arose among Albanian parties after Kosovo's November elections kept the assumed favorite, Ibrahim Rugova, from being elected.

Given Milosevic's repressive policies, international observers deemed the elections held in Yugoslavia between 1992 and 2000 as neither free nor fair. As the OSCE noted in its report on the Serbian presidential and parliamentary elections of 1997, the "overall election process in the Republic of Serbia is fundamentally flawed." Likewise, throughout the 1990s, the U.S. State Department claimed that in the FRY, "citizens cannot exercise the right to change their government." The Milosevic regime routinely denied opposition parties access to state-owned media and frequently manipulated the electoral process. Although elections in Montenegro since 1998 have generally been fairer, there have been numerous complaints about the pro-government orientation of the state-owned media's coverage of electoral activities.

Municipal elections in Kosovo in October 2000 were marred by significant violence and intimidation of parties that ran against the Democratic Party of Kosovo, the party of former Kosovo Liberation Army (KLA) leader Hashim Thaci. Serb voters also boycotted the election. International monitors concluded that the November 2001 municipal elections exhibited significant improvement both in the levels of violence in the province and in the conduct of the voting itself. Thanks to last minute negotiations between the United Nations Interim Administration Mission in Kosovo (UNMIK) and FRY officials, Kosovo Serbs refrained from boycotting the polls.

Signature and registration requirements for presidential candidates at the federal and republican levels are broadly considered to be in line with international standards. Candidates for the Serbian presidency, whether nominated by political parties or by groups of citizens, must be supported by at least 10,000 voter signatures. Candidates for the presidency of Montenegro must gather the signatures of at least 2,000 registered voters.

High voter turnout has generally reflected the importance of recent elections. In the September 2000 elections to the federal presidency and to Federal Assembly, 71.55 percent of registered voters cast ballots. In Montenegro, however, the Djukanovic government boycotted these elections, and only 24 percent of the electorate turned out. For Montenegro's April 2001 parliamentary elections, approximately 82 percent of the electorate turned out. The municipal elections in Kosovo in October 2000 drew 80 percent of eligible voters. Voter turnout for the November 2001 parliamentary elections in Kosovo was 64.3 percent.

There are no restrictions on women's participation in politics, and women are active in political organizations. Nevertheless, they are under-represented in party and governmental offices. During the period of nationalist mobilization in the 1990s, women withdrew from active participation in politics in significant numbers. For instance, in the federal and municipal elections of 1996, 60 percent of women decided not to vote. Of the 178 candidates elected to the Federal Assembly in 1996, only 1 was female. In the current Yugoslav federal government, women hold none of the 16 cabinet-level positions; in the Serbian Assembly, they make up approximately 11 percent of the 250 delegates. Women hold only 3 of the 23 positions in the Serbian government.

In Montenegro, women account for 51 percent of the electorate. Although Montenegro's main political parties agreed in February 2001 to increase female participation in the next Parliament by 30 percent, most failed to meet their respective goals. Today, women account for less than 10 percent of the delegates in Montenegro's Parliament. In Kosovo's elections in November 2001, 34 women were elected to the provincial Parliament. They now make up almost 30 percent of that body.

Article 41 of the FRY Constitution guarantees citizens freedom of political association, and at the federal, republican, and municipal levels, numerous parties compete in elections and participate in government. The threshold for legislative representation is 5 percent of the votes cast. Article 42 of the FRY Constitution outlaws any political parties or organizations that advocate the violent overthrow of the constitutional order. In 1997, Serbian officials prevented a party representing Muslims in the Sandzak region from forming an electoral coalition with the Kosovo-based Democratic Reform Party of Muslims.

Most political parties in Yugoslavia can attribute their popularity more to the charisma of their leaders than to political platforms or ideals. Added to this is the peculiar habit of the Balkan peasantry to vote for *whatever* party is in power. In part, this explains why Milosevic was able to win votes in election after election despite a series of foreign and domestic disasters. It also explains the volatility of Serbian and Yugoslav politics. In June 2000, for example, Vojislav Kostunica's DSS scarcely managed to gain a 7 percent approval rating in public opinion polls. Yet by the summer of 2001, the DSS had become the most popular party in Serbia, and public opinion polls showed the party winning more than 40 percent of the votes cast in a potential election. Kostunica's newly established charisma as the man in power largely accounted for this dramatic change.

Exact figures on political party membership are difficult to obtain because many parties are reluctant to release such data. At present, the two most important political parties in Serbia are Kostunica's DSS and Djindjic's Democratic Party (DS). The DSS is a center-right party that follows the legal traditions of Serbia's constitutional monarchy of the 19th and early 20th centuries and has a strong sense of national interests. The DS portrays itself as a more modern,

slightly center-left European party. Public opinion polls in November 2001 showed that the DSS enjoyed the confidence of some 22–23 percent of the population, while the DS carried the support of 17–18 percent. Many observers believe Serbia is slowly evolving into a two-party system that revolves around these two parties. Of the remaining 16 political parties in the DOS coalition, the only one that appears to have a serious chance of playing an important, independent role in Serbian and Yugoslav politics is the Civil Alliance, which is led by Yugoslav foreign minister Goran Svilanovic.

Reliable figures on participation in Montenegrin political parties are also unavailable. Of Montenegro's approximately 450,000 registered voters, however, it is generally assumed that most Montenegrins who identify themselves as Serbs, or favor close ties with Serbia, vote for the pro-Yugoslavia SNP. Milo Djukanovic's electoral support, on the other hand, can be attributed to votes that his "Victory is with Montenegro" coalition received from Albanians and Croats in Montenegro, as well as from the Orthodox population that has traditionally favored Montenegrin independence.

Ethnic minorities in the FRY have typically 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 (SVM), which represents Hungarians in Vojvodina, and various parties that represent ethnic Muslims in the Sandzak. Both the SVM and the main Muslim-Sandzak Party joined the DOS coalition for the September 2000 elections and today are members of the Serbian and federal Yugoslav governments. Sandzak-Bosniac parties have emerged as strong supporters of maintaining a united Yugoslav federation, fearing that Montenegrin independence would split their community across two independent states.

Civil Society

1998	1999-2000	2001	2002
5.00	5.25	4.00	3.00

A plethora of nongovernmental organizations has operated in the FRY since 1992. Current estimates put the number of registered NGOs at approximately 2,000. Of these, about 500 are thought to be active, and their work has varied over time according to the country's most pressing needs. In the aftermath of the NATO bombing campaign in 1999, for example, most NGOs focused their efforts on humanitarian assistance, psychological services for displaced persons from Kosovo, and educational activities for displaced children. When federal elections were announced for fall 2000, most NGOs shifted their focus to organizing local and national campaigns to mobilize voters. Nevertheless, the region's dire economic situation has made it impracticable, if not impossible, for people to engage in significant levels of volunteerism.

Many observers of Yugoslavia believe that NGOs made a decisive contribution to the overthrow of Slobodan Milosevic. Currently, the most influential NGOs in Serbia are involved in civic education, economic development, and human rights activities. Especially prominent are Otpor (Resistance), the students' group that played a large role in mobilizing youth opposition to the Milosevic regime, and G17. G17's members include Miroljub Labus, the vice premier of the federal government, and Mladjan Dinkic, the governor of the National Bank of Yugoslavia.

In Montenegro, there are an estimated 800 registered NGOs. Since 1998, the atmosphere in which NGOs have operated in Montenegro has been significantly better than in Serbia, in part because Montenegrin NGOs helped draft NGO legislation for the republic in 1998. The most prominent NGOs in Montenegro tend to be think tanks and policy advocates that are involved in human rights, women's issues, consumer protection issues, and community development. Fewer than 100 of the more than 400 local NGOs registered in Kosovo are believed to be truly active. These active groups were formed mainly in response to the availability of donor funding after 1999.

Throughout the region, churches and religious organizations play a prominent role in organizing philanthropic activities. The Serbian Orthodox Church, which has emerged as one of the most trusted institutions in Serbia, actively provides charitable assistance to refugees and the poor. However, the Serbian Orthodox Church is not limited to its role as a charitable or spiritual institution in Serbian society. In recent years, it has taken on an increasingly important role in the country's political life. Although a handful of the church's hierarchs supported the Milosevic regime, the majority of church leaders were among the most prominent of Milosevic's critics and opponents for much of the last decade. Milosevic's overthrow in October 2000 could scarcely have been accomplished without the support that political leaders like Vojislav Kostunica received from Serbian Patriarch Pavle. The Serbian Orthodox Church's support of Serbs in Croatia and Bosnia-Herzegovina during their recent wars has been more controversial.

As in much of the Balkans, one's ethnic identity in Serbia is closely interwoven with religious affiliation. Consequently, more than 90 percent of all individuals who describe themselves as Serbs also claim to be Orthodox Christians—even though many are lapsed believers or atheists. As evidence, recent data show that 67.6 percent of the Yugoslav population identifies itself as Serbian or Montenegrin. Nearly the same percentage considers itself Orthodox. Although levels of church attendance are not substantial, there are indications that the country is experiencing a renewed interest in religion.

Several women's rights groups are also active in Serbia. Among the most prominent are the Belgrade-based groups Women in Black, Krajina and Tara, Tera, and Woman. Two Pristina-based groups, the League of Albanian Women and Mikya, are also notable.

The legal and regulatory environment for NGOs in Serbia has improved drastically since the DOS came to power, and the country's new authorities consider the drafting of new NGO legislation a priority. In Montenegro, Parliament passed a new law on NGOs in 1999, thereby replacing the earlier Law on Citizen's Organizations. The new legislation, which was written with the help of the Center for Democracy and Human Rights in Podgorica and reviewed by other NGOs in Montenegro, simplified registration procedures, detailed taxation benefits, and granted foreign and domestic NGOs equal status. In Kosovo, the UNMIK has created a legal environment that is very favorable for NGOs. In Kosovo and Montenegro, the registration process for NGOs is simple and swift.

In Serbia, NGOs receive almost no tax exemptions. In Montenegro, a separate tax law allows corporations to donate up to 3 percent of their total income to public benefit organizations (PBOs), as well as to sporting and religious organizations. Individuals may donate up to 10 percent of their taxable income to these groups. In Kosovo, PBOs must submit an annual report with programmatic and financial information in exchange for exemptions on customs duties and excise and sales taxes on imported goods.

In an effort to improve the legal and regulatory environment for NGOs, organizations in Montenegro such as the Center for Democracy and Human Rights and the International Center for Not-for-Profit Law provide legal advice to the government on current legislation. In Kosovo, the international community is establishing a local organization that will focus on legal issues and offer a course on NGO law at Pristina University Law School.

In Montenegro, most NGOs have little organizational capacity. Poorly defined missions, limited staffing, equipment shortages, and a lack of effort in building larger or broader constituencies are frequently cited problems. Similar issues affect NGOs in Serbia. In Kosovo, there is a wide gap between the organizational capacity of older, more established NGOs and groups that have sprung up since 1999. Of the hundreds of NGOs that are created in response to announcements of grant programs, most quickly cease to function when the money runs out. Older NGOs have more permanent and more qualified staff, but even they still have problems retaining their best employees. Since most NGOs are dominated by one or at most a few dynamic leaders, internal management structures are considered weak. In all three areas, however, there is a core of experienced local practitioners and trainers, and information is available in local languages for purposes of training and instruction.

As should be expected, the FRY's poor economic condition affects the viability of NGOs significantly. The depressed state of the region's economies means that most NGOs will remain dependent on the international donor community for the foreseeable future; in Montenegro, for instance, it is estimated that only some 15–20 percent of the NGOs currently registered could survive without international support. Most NGOs operate on shoestring bud-

gets throughout Serbia, Montenegro, and Kosovo, make do from grant to grant, and depend upon volunteer support for much of their activity. Activists generally lack fundraising skills. Some NGOs in the past have received in-kind support (for instance, the use of office space) from reform-minded municipal authorities in cities and towns previously run by the opposition. Another way for NGOs to raise funds is by charging for services and engaging in other revenue-raising activities, although it is difficult for NGOs to earn income from their products or services because their customers or beneficiaries cannot afford to pay.

NGOs in the region have suffered because they participate in nontraditional forms of social activism. Consequently, the local population in Serbia, and to some extent in Montenegro, has often viewed NGO activists as mercenaries who work for foreign interests. In Serbia, the post-Milosevic era has witnessed a sea change in the attitude of government officials toward NGOs. However, nongovernmental groups have yet to build strong ties with the business community, and society at large still does not understand their role. For their own part, personnel in local NGOs often lack basic skills in lobbying or promoting their activities.

Both independent and official media now present NGOs in a positive light. In Montenegro, as noted above, the Djukanovic government has generally been supportive of NGO activity, and this has been reflected in media coverage there as well. The Montenegrin government has also encouraged the involvement of NGOs in the policy formulation process. In addition, international organizations such as the OSCE and UNMIK have been very supportive of the NGO community in Kosovo and have on numerous occasions solicited the advice of local groups in developing new policies. The NGO sector in Kosovo has also benefited from the Albanian population's extensive involvement in civil society initiatives since the early 1990s.

The FRY's trade union movement, which was relatively weak during the 1990s, has assumed increased importance since the independent United Branch of Independent Labor Unions (Nezavisnost) became an unofficial 19th member of the DOS coalition in 2000. Apart from military or police personnel, Article 41 of the FRY Constitution guarantees workers the right to form free trade unions. In Serbia proper, out of a total estimated labor force of 2.3 million, the formerly government-controlled Alliance of Independent Labor Unions has an estimated membership of 1 million. Nezavisnost, which comprises 13 different unions spanning economic sectors from health care to mining, claims the membership of 180,000 workers. Other unions are smaller and more sector-specific. The Union of Bank Employees, for example, claims only 12,000 members. Numerous smaller unions representing groups like transportation workers, educational employees, journalists, and retirees are very active, at least judging by their proclivity to strike. The Confederation of Independent Trade Unions of Kosovo, which was formed in 1990, represents 24 unions with some 250,000 workers.

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 official governmental and independent trade unions. During the Milosevic era, the government highly favored the Trade Union Confederation of Serbia (SSS) and allowed it to inherit all property that belonged to trade unions during the Communist period. It often allowed the SSS to distribute scarce consumer goods and considered the group its official interlocutor in labor negotiations. Labor activists claim that the Milosevic regime turned down approximately 300 requests to officially register other unions.

Articles 39 and 41 of the FRY Constitution grant citizens the right to assemble and form political parties and other organizations. The Yugoslav Chamber of Commerce and Industry, women's groups, and many other interest groups represent the country's ethnic constituencies, especially Hungarians, Muslims, and Roma. Public policy institutes such as G17 Plus, the network of experts that grew out of G17 and aims to "facilitate the promotion and implementation of ideas of a modern market economy, open and democratic society and the rule of law" in Serbia, often play a very visible role in policy making. This group has been so influential that it is now considering transforming itself into a political party. A prominent organization in Montenegro that is engaged in policy formulation is the Center for Democracy and Human Rights.

Independent Media

1998	1999-2000	2001	2002
4.50	5.75	4.50	3.50

In the past decade, there has been tremendous growth in the number of media outlets in the FRY. Somewhat ironically, much of this growth occurred during the Milosevic years. Although the regime kept strict control over the main media outlets in the country, it did not expend a similar amount of effort on smaller media outlets of limited reach.

As of 2001, there were more than 600 radio and 300 television stations in the country and hundreds of daily and weekly newspapers, tabloids, and magazines in a variety of languages. The vast majority of these are privately owned. Since current regulations make it easy to conceal the real owners of media outlets, it is difficult to identify the connections between them and various political factions. Given the condition of the country's economy, free electronic media have become the main source of public information throughout the country. Print, satellite, and Internet services are too expensive for most individuals. With a signal that reaches most of the country, the largest and most influential electronic media outlet in Yugoslavia remains the state-run broadcaster Radio Television Serbia (RTS). When Milosevic was in power, RTS's editorial policy was strictly pro-government. In the run-up to the September 2000 elec-

tions, for instance, RTS news programs devoted 9.5 hours to activities of the Socialist Party of Serbia/Yugoslav United Left coalition only 21 minutes to those of DOS.

The Belgrade-based paper *Politika* is the largest print daily in Yugoslavia and one of the most respected daily papers in the Balkans. It has an estimated circulation of 60,000 to 80,000. When Milosevic gained control of *Politika* in the late 1980s, it became the semiofficial mouthpiece for his regime and remained so until October 2000, when *Politika's* editorial staff rebelled against management and demanded a complete overhaul of its leadership. Other important dailies include *Danas* and the tabloid *Blic*. The Belgrade-based news weeklies *Vreme*, which portrays itself as having a civic, non-nationalist editorial policy, and *NIN*, with a more traditionally Serbian or patriotic editorial stance, are popular throughout the country. So too is *Nedeljni Telegram*, a more sensationalistic tabloid-style weekly.

Apart from RTS, the most highly watched stations include BK Television and TV Pink. BK Television is run by the Karic brothers, who own what might be the largest business empire in the country. TV Pink, primarily an entertainment channel, was close to the Milosevic regime. Since October 2000, though, both stations have changed their editorial positions. Radio B92, perhaps the most important radio station in the country, became internationally renowned for its anti-Milosevic position and activities, including the creation of a network of 24 opposition radio stations throughout Serbia, Vojvodina, and Montenegro. All told, the network's program reaches 70 percent of Serbia's population. Another prominent Belgrade radio station is Radio Index.

Apart from government harassment, the main problem facing independent media in the FRY over the past decade has been the necessity of making a profit. With the exception of BK Television and TV Pink, practically none of Serbia's independent media outlets are financially viable, and most, such as *Vreme* and Radio B-92, depend on foreign donations to survive. Few radio and television stations are expected to survive the transition to a market economy. In addition, most media outlets lack experience and skill in selling advertising. For example, the *Media Sustainability Index 2001*, a publication of the Washington-based International Research and Exchanges Board, found that over 50 percent of the estimated \$15 million spent on advertising in Serbia has gone to just two television stations.

Newspapers and other print media are disseminated through a somewhat chaotic network that involves 1 state-owned distribution system and more than 200 private distributors. Some independent experts are calling for more government regulation of this process. In larger cities and towns, readers can easily obtain publications that represent both pro- and antigovernment viewpoints, even at state-owned kiosks. Damage to telecommunications systems and other forms of infrastructure that occurred during the NATO bombing campaign of 1999 made it even more difficult for independent media outlets to gather news and information and to distribute print publications.

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. During the Milosevic era, independent and alternative media frequently suffered from numerous forms of legalistic and bureaucratic harassment. In particular, the infamous 1998 Law on Public Media gave the government a variety of weapons, including extensive libel provisions, with which to attack independent media.

Until October 2000, state-owned outlets towed a strictly pro-Milosevic line. Even since the change of government that year, many journalists who work for state-owned media companies have continued, out of habit, to support the authorities' official positions. In contrast, private and independent media had and continue to have more or less independent editorial policies. Some outlets are now highly critical of the new government.

Nevertheless, the DOS government has rescinded the 1998 Law on Public Media and drafted several important pieces of legislation that are intended to more clearly protect freedom of the press, including a new Telecommunications Act, a Broadcast Act, and the Public Information Act. As of December 2001, though, factional disagreements had prevented the Serbian Assembly from passing these laws. Although libel laws remain in the criminal code, media analysts support efforts to place such laws within the context of civil code violations. In June 2001, the new government took an important step when it reimbursed several independent media outlets for the huge fines that the former Milosevic regime had forced them to pay.

The main journalists' organizations in Serbia include the Independent Association of Journalists (NUNS), which was founded in 1994 and now boasts a membership base of 2,100. The president of NUNS is a highly regarded female journalist from Belgrade. Other important journalists' groups are the Association of Independent Electronic Media, the Association of Independent Print Media, and LOCAL PRESS, an organization of independent magazines.

Montenegro and all the provinces have their own state television services, each of which is slated to become a public service broadcaster. Montenegro has 5 daily newspapers, several weeklies, and some 30 radio and television stations, the majority of which are privately owned. The most important newspapers are the pro-government *Pobjeda* and *Vijesti* and the pro-opposition *Dan*. The most prominent Montenegrin news weekly is the Podgorica-based and privately owned *Monitor*. The most important television station is the state-run TV Crna Gora, whose signal covers the entire republic. Montena TV is another popular station. The most important radio stations include Radio Montena, Antenna M, and Radio Niksic. Media outlets from Serbia proper also attract large audiences from among some segments of the population.

Few privately owned media outlets in Montenegro are financially viable. Poor financial management, unfair competition from state-run media, and limited advertis-

ing possibilities all make it difficult to turn a profit. The main newspaper distribution firm in Montenegro is a state-run enterprise that dispenses newspapers and magazines to some 500 kiosks republic-wide. BegaPress, a private distributor that takes care of about 150 of these kiosks, is considered more efficient because it pays its customers on time and gives kiosks a higher profit margin than the state-run distributor.

The media in Montenegro enjoy considerable editorial independence under the 1998 Montenegrin Public Information Law, which guarantees free speech, access to information, and the right to establish media enterprises. It also stipulates that editorial policy is completely at the discretion of the publishers or owners of these enterprises. Nevertheless, the government, political parties, powerful businesses, and other types of organizations have numerous ways of influencing both state-run and independent media. These include releasing privileged information to more cooperative media enterprises and providing indirect state subsidies to independent media.

In Montenegro, there is also a range of topics that journalists have been reluctant to cover: corruption of state officials, smuggling, mismanagement, and abuse of power. Concerns over personal safety also often result in a certain degree of self-censorship. Over the past several years, state-run media in Montenegro have assumed an increasingly blatant pro-Djukanovic, pro-independence editorial position. This was especially clear during the April 2001 parliamentary election campaign, when pro-Djukanovic dailies such as *Vijesti* and *Pobjeda* were found to have "gravely violated journalism ethics." Similar problems were found with state-run electronic media.

Laws pertaining to libel are still on the books, and the Djukanovic regime has made extensive use of them of late. In May 2001, for example, the editor in chief of the daily *Dan* was sentenced to three months in prison for republishing a series of exposés on Djukanovic's involvement in organized crime and cigarette smuggling. The piece was originally published in a Croatian news weekly. Among the major journalists' organizations in Montenegro are the Association of Young Journalists, the Montenegro Media Institute, and the Union of Independent Media of Montenegro. Information on the number of women in these organizations is unavailable.

The Internet has become very popular in the FRY over the last decade. According to the International Telecommunication Union, there were 14.13 Internet hosts per 10,000 inhabitants and 400,000 Internet users overall in Yugoslavia in 2000. Although official statistics claim that only 80,000 people have access to the Internet, many individuals use the Internet outside the home, including at academic and governmental institutions or at business enterprises. Belgrade, Novi Sad, Podgorica, and other larger towns and cities also have numerous cybercafés. Limited access to the Internet is more the result of a lack of computers than of government restrictions.

Ethnic minorities in the FRY are generally considered to have adequate media in their native languages. The Hungarian-language daily *Magyar Szó*, for example, has a circulation of 26,000. In both Kosovo and Vojvodina, where the editorial slant traditionally was pro-Milosevic, RTS broadcasts in Albanian and Magyar, respectively.

Kosovo has approximately 93 television and radio stations, most of which are privately owned. The most important of these is Radio-Television Kosova (RTK), the public broadcaster in the province, which holds one television license and two radio licenses. Other important television and radio stations that hold licenses to broadcast province-wide include Radio-Television Pristina, KohaVision, and Radio Dukagjini. The main print media in the province include *Koha Ditore*, an Albanian-language newsmagazine that is edited by the well-known Albanian activist Veton Surroi, and *Koha Sot*, whose editorial line tends to fall between the more militant *Koha Ditore* and pro-Rugova elements in the Albanian population. *Koha Sot*, which began publishing in 1998, has an estimated circulation of 35,000. Kosovo currently has another 4 dailies and 11 other periodicals. Although RTS's signal reaches many parts of the province, there are no Kosovo-based television stations for the Serb population. However, a small number of Serbian-language news and information programs are produced in Kosovo.

With so many media outlets for a population of only about two million, most of the existing media in Kosovo are not considered viable in the long term and will probably go out of existence when foreign donations dry up. Local journalists have little knowledge of business management, and consequently sales and advertising are hardly developed. There is considerable competition for what little advertising revenue is available. Of Kosovo's 17 print publications, only 2 (*Koha Sot* and *Koha Ditore*) are considered self-sustainable without foreign donations.

Distribution is another problem for Kosovo media. More than 20 percent of the population are believed to be unable to receive a television or radio signal. For print media, only private distribution systems are available, and these are generally considered unreliable.

Under the current UN administration of Kosovo, UNMIK and the OSCE control much of the media environment in the province. Although most media outlets are editorially independent, journalists feel that they must support a political party or a viewpoint rather than offer unbiased news. Added to this is the fear many Kosovo journalists and editors have about investigating issues such as the widespread, endemic nature of organized crime in the province. Although various OSCE and UNMIK proclamations, including the May 2001 Constitutional Framework for Provisional Self-Government, guarantee legal protection for press freedom, many local Albanian journalists frequently express their dissatisfaction with the handling of Kosovo's media situation by these international organizations.

Kosovo does not enjoy a tradition of independent journalists' organizations, and only one private broadcaster's

association has come into existence since 1999. The OSCE has encouraged the formation of a body that is informally known as the journalists' association, which serves as an interlocutor between international organizations and local media personnel. No information on the number of women involved in these efforts is available.

Koha Ditore established Kosovo's first e-mail system, Zananet, in 1994. By March 1999, there were four Internet service providers in Kosovo: Pronet (owned and managed by Albanians), Eunet, Co.yu, and the PTT. Radio 21, an independent Albanian radio station based in Pristina, also broadcasts its reports via the Web. Currently, Internet access and usage in Kosovo is considered significantly limited.

Governance and Public Administration

1998	1999-2000	2001	2001
5.00	5.50	5.25	4.25

The FRY has an extensive set of constitutional and institutional checks and balances. Prior to October 2000, though, Milosevic's control of key governmental organs and the SPS allowed him to subordinate many of the legal barriers to his personal rule within Serbia. At the same time, the FRY's federal system allowed the Djukanovic regime in Montenegro to achieve a large degree of independence from Belgrade.

Yugoslavia's system of checks and balances comes in two forms: the division of powers between the federal government in Belgrade and the republican governments of Montenegro and Serbia, and the division of authority among different governmental institutions at both the federal and the republican levels. According to the FRY Constitution, the federal government is responsible for maintaining a common market and foreign and defense policies. In reality, however, since 1997 the Djukanovic regime has been running its own affairs, including adopting the German *deutsche mark* as an official currency in 2000 (and the scheduled adoption of the *euro* in January 2002) and keeping Montenegro largely out of the Kosovo conflict in 1999. Over the past several years, Montenegro has also stopped contributing to the federal budget.

At both the federal and the republican levels, there is a formal division of powers among executive, legislative, and judicial branches of government. A legacy of the past 50-plus years of communism and the Milosevic regime, however, is the accumulation of powers by the executive. Charismatic authority, centralized party discipline, and an unwillingness to compromise with the political opposition provided leaders like Tito, Milosevic, and Djukanovic with powers far in excess of their constitutional prerogatives. Since Milosevic's removal from power, Serbian premier Zoran Djindjic has been setting up extraconstitutional parallel institutions of power to bypass normal channels of parliamentary procedure.

Given these realities, legislative bodies in the FRY have not been effective rule-making institutions over the past decade. The parliamentary systems in both Serbia (under Milosevic) and Montenegro (under Djukanovic) have generally assured that the legislatures provide rubber stamp approval of executive decisions. There are indications, however, that with Milosevic's overthrow, the federal and Serbian legislatures will assume a more prominent role in formulating and enacting legislation. Federal president Vojislav Kostunica's dedication to "constitutional legalism" suggests he will be more respectful of the Federal Assembly's authority. He does not, in any case, have the power to rule as autocratically as Milosevic did. Similarly, in Serbia, the inability of any single political party to dominate political life suggests that parliamentary deliberations will find a much more lively and meaningful place in the policy-making process.

Another legacy of the Communist and Milosevic eras is that legislatures do not have established traditions of regulatory and investigative authority over executive actions. Here again, however, Milosevic's overthrow has opened up possibilities for much more legislative freedom. During the period covered by this report, legislative committees in the Federal Assembly oversaw government policy toward Kosovo or investigated crimes and corruption involving the previous regime.

The United Nations Interim Administration Mission in Kosovo has almost unlimited authority to govern the province on the basis of UN Security Council Resolution 1244, which made Kosovo an international protectorate in 1999. Most executive authority in Kosovo is vested in the special representative of the UN secretary-general, a post held throughout 2001 by Hans Haekkerup, a Danish diplomat. The UNMIK special representative, however, must formulate policies that take into consideration the interests of a variety of other parties, including the FRY, neighboring countries, the EU, the United States, and Russia.

In May 2001, international officials and representatives of local Albanian parties agreed to the Constitutional Framework for Local Self-Government. (Serb political bodies refused to participate in the process because they believed it would lead to the province's independence.) The constitutional framework established the Parliament of Kosovo, which has the power to elect a president for the province. Several other important powers, such as those pertaining to the security environment and judicial review, remain the prerogatives of the special representative, who also has the right to overturn parliamentary decisions that fail to comply with Resolution 1244. This includes, for instance, any possible declaration of independence for Kosovo by Parliament. Kosovo elected a Parliament in November 2001, but at year's end there has been no evidence of how it will function.

Since the collapse of the Milosevic regime, the Yugoslav Federal Assembly has operated with considerable openness

and transparency. Parliamentary proceedings are frequently televised live and draw large audiences. Draft legislation is published in newspapers, and government officials make frequent appearances on TV talk shows to lobby for new policies. A new Freedom of Information Act has been drafted, but the Federal Assembly has yet to enact it.

The constitutional and legislative environment regulating subnational levels of government in the FRY can be most succinctly described as conflictual. This is true because Montenegrin authorities refuse to recognize the legitimacy of federal institutions. The FRY's federal structure devolves substantial power to subnational levels of government, primarily to the republics and, to a lesser extent, to Serbia's two autonomous provinces, Vojvodina and Kosovo. The republics enjoy all authority and residual powers that the Constitution does not specifically grant to the federal government. The republics themselves, however, are highly centralized. For instance, their Education Ministries design school curricula and textbooks, which then must be implemented throughout the republic. Similarly, prices for various utilities are determined at the republic level, not at the federal or municipality level. Most important, control over police forces is the responsibility of the republics, and in both Serbia and Montenegro control over these institutions is highly centralized.

According to the Yugoslav Constitution, municipalities enjoy the right to local self-government (Article 6). In reality, however, after opposition forces came to power in most of Serbia's major urban areas in 1997, Milosevic sought to curb the authority of local officeholders. His SPS cadres had already essentially emptied municipal coffers before the opposition could take power. The regime then resorted to punishing 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 7 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 Assembly passed a new, 226-article law on local government that brought all local government financing under central control. The new law even allowed the central government to dismiss local administrations and rule by decree in some cases (for instance, when feuding opposition parties could not form a municipal government within 60 days after elections). Reform of the administrative organization of the country, which is under way, is expected to give substantive powers and responsibilities back to local governments.

Although municipal governments do raise some revenues autonomously (for example, through turnover taxes from the sale of property, the issuance of various types of personal identification, the sale of vehicle license plates, and the price of public transportation), most rely on supplemental funding from the central government. As one World

Bank specialist on Yugoslavia noted in 1999, "It is hard even to say what local government is when all of the money goes to the central government."

Civil servants in the FRY are on the whole competent and professional, but they have suffered from the general economic deterioration of the past decade, which has affected the governmental bureaucracy's ability to modernize. Another element of this problem is the fact that the Milosevic regime was adept at co-opting members of the civil service by destroying any alternatives to its rule. The general economic malaise of the country has also made it fairly common for civil servants to engage in bribe taking. The new authorities have yet to embark upon any meaningful reform of the civil service.

RULE OF LAW

Constitutional, Legislative, and Judicial Framework

1998	1999-2000	2001	2002
5.00	5.75	5.50	4.25

The fall of Milosevic allowed the FRY to begin the process of serious constitutional reform, especially regarding relations between Serbia and Montenegro. In December 2000, the Djukanovic leadership released a new version of a draft proposal on the relationship between the two republics that, among other things, called for a union of two independent, internationally recognized states. Montenegro would enjoy parity representation in common governmental bodies (despite being only 1/17th the size of Serbia), decisions would be made on a consensual basis, leading governmental posts would rotate on a semiregular basis between Serbia and Montenegro, and the two republics would maintain their own military forces. Even though the proposal relegates a common foreign policy to the authority of the joint state, it still calls on each republic to maintain its own diplomatic representation abroad and to formulate its own independent foreign policies.

In January 2001, on behalf of the Yugoslav federal government, President Kostunica replied with his proposal for a "functional federation" of the two republics. Under his plan, the federal government would be responsible for ensuring basic human rights and freedoms and have the authority to oversee national defense, foreign affairs, monetary policy, the customs service, and traffic and communications. Repeated attempts during the year to find a compromise between these two positions came to naught. Consequently, the two sides agreed that the decision over whether to continue in a joint state would be put to a popular referendum in Montenegro at some point in 2002. However, even here there is much disagreement over specific issues such as the wording of the referendum and the required level of voter turnout.

be used either to buy shares in specific enterprises or to buy shares in several licensed and privately managed privatization funds, which will in turn use the vouchers to buy shares on behalf of their investors.

The state of economic reform in Kosovo is more nebulous. Absent an agreement on whether Kosovo will remain a part of the FRY or become independent, it is extremely difficult to resolve a host of problems over ownership of many of its socially owned enterprises. This, in turn, reduces the willingness of international investors to pour money into the province. A major component of Kosovo's new Constitutional Framework for Provisional Self-Government involves turning over a large share of the economic administration of the province from UNMIK to local authorities.

Although Kosovo has a vibrant private sector, most of its private economic activity is small scale, involves some form of smuggling or other illegal activity, and is largely invisible to government oversight. Of Kosovo's nearly 350 socially owned enterprises, 25–50 percent are believed to be unviable. UNMIK is in the process of drawing up a basic package of laws to further the privatization process, including laws on contracts, foreign investment, and banking. The package will also include legislation on bankruptcy and the protection of competition. Much of this effort, however, rests on the establishment of a credible independent judiciary in the province.

Kosovo is estimated to have experienced significant economic growth in 2001, albeit based on the fact that it started from a very low base level. Real GDP growth was estimated to be in the double digits, and the agricultural harvest was expected to be 20–30 percent higher than 2000 levels. At the same time, however, much of the growth in Kosovo is due to the large international presence in the province and international aid; in 2000, for instance, international transfers to Kosovo amounted to 51 percent of estimated GDP, while in 2001 it amounted to 44 percent.

Banking reform in the FRY emerged as one of the most painful reform issues of 2001. The FRY's banks are overburdened with bad debts that were accumulated during the Milosevic era. Nineteen banks were forced to close in 2001 owing to insolvency, including four of the largest banks in Serbia, whose bad debts totaled \$3.75 billion. An estimated 8,000 bank employees lost their jobs in these closings. Nevertheless, confidence in the banking system is slowly being restored, as is evident by the fact that hard currency savings rose by some \$264 million during the year. Confidence in the dinar is also relatively strong thanks to the government's new policy of internal convertibility. The black market currency dealers who were once so ubiquitous on city streets in the 1990s have largely disappeared. Throughout 2001, the Federal Assembly worked on a series of draft laws and regulations that are intended to bring banking supervision in the FRY in line with international practice.

Reform of the taxation system has been a major success of the new government. A package of 11 new taxation laws, which the Serbian Assembly passed in April and May 2001,

are intended to simplify the tax structure and broaden the tax base to improve tax administration and enable a gradual reduction in the tax burden. Information campaigns to increase public awareness of the changes have also been formulated. In addition, the Serbian Assembly passed a law on extra profit earned during the Milosevic years. Although politically controversial, the law is popular with average citizens. However, critics have charged that firms that earned enormous sums of money during the Milosevic years but are now closely tied to the new Serbian authorities have managed to avoid heavy fines.

Budget reform in 2001 is another of the new government's great successes. This is especially laudable since hidden budget deficits in 2000 reached up to 13 percent of GDP. For 2001, the state budget was essentially balanced. Foreign credits, improved revenue collection, low expenditures, and prioritized governmental spending all contributed to the balanced budget. The dinar remained relatively stable during the new government's first year in office, hovering around seventy to the dollar for most of 2001. Foreign currency reserves increased by approximately 150 percent in 2001; they rose from \$385 million in October 2000 to approximately \$1 billion by September 2001.

In Kosovo, tax compliance remains weak. Of the total revenues collected in 2000 and 2001, 80 percent were received at the border through customs taxes and duties, primarily as import fees on oil. Plans are under way to introduce a tax on wages and profits in 2002 and an income tax in 2003. Most of the revenue for government institutions and services comes from foreign donations.

Price liberalization enacted in October 2000 resulted in a quick rise in inflation from 5.5 percent in the third quarter of 2000 to 26 percent in October. It then fell to approximately 10 percent in December. The annual rate of inflation for 2000 reached 115 percent. The annual rate of inflation through October 2001 was 65.5 percent. Despite the success in bringing down inflation, price liberalization resulted in a significant drop in living standards in 2001 as wages failed to keep pace with the rise in the cost of living. The price of electricity in Serbia more than doubled between October 2000 and April 2001, and a further 15 percent increase was imposed in October 2001. Similarly, the prices of gasoline, pharmaceuticals, tobacco, and alcohol were raised in July, and the price of bread was raised in August. Montenegro made similar adjustments during the year. Meanwhile, real net wages increased by only 37.8 percent from October 2000 to October 2001.

The new government has also made significant progress in liberalizing the FRY's international trade regime. In their first day in office, DOS authorities eliminated the tax on entering and exiting the country. A new, comprehensive Foreign Investment Law is being introduced, and the former Concession Law is being revised to facilitate foreign investment in the oil, gas, and mining infrastructure sectors in an environment of maximum legal clarity and security. In July 2001, the FRY took a major step toward increasing trade

with neighboring countries when it signed a Memorandum of Understanding with other southeastern European countries on reductions in trade barriers. The new authorities are also trying to increase the prominence of the FRY's Investment and Trade Promotion Agency.

Set against the tremendous rise in popular expectations after October 2000 for a better life, high unemployment rates, weak economic growth, rising prices, and the slow pace at which international aid has arrived all contributed to a rise in social tensions in 2001. Unemployment in particular is expected to worsen over the next one or two years as unprofitable enterprises begin to shut down. The young have suffered the highest rates of unemployment in recent years, and a study completed in 2001 showed that 57 percent of young people aged 15 to 24 were unemployed. Another major demographic group that has swelled the ranks of the unemployed consists of refugees from the wars in Croatia, Bosnia, and Kosovo.

The unemployment rate in Montenegro during the first quarter of 2001 was 39 percent, while in Serbia it was 28 percent. Out of a total population of 10,867,000 in Serbia and Montenegro, there were 6,699,000 people in the potential labor force, of whom 3,582,979 were employed. In the general population, 2,845,000 pensioners, students, dependents, and others qualified as economically inactive. In 1999, Kosovo had a potential labor force of some 1,330,000 people, 65 percent of whom were economically inactive or unemployed.

Unemployment benefits in the FRY are roughly equivalent to the minimum wage. The minimum wage, however, is insufficient to cover minimal expenses for workers and their families. In 2001, the annual cost of food and utilities for a family of four was estimated at \$1,568. At the same time, the FRY's pay-as-you-go pension system has been in crisis for several years. Shortfalls in the pension system amounted to approximately \$300 million per month (33 percent of payouts) in 2001 and are expected to rise in 2002. As part of an effort to reform the pension system and encourage greater compliance, the mandatory contribution rate (shared equally by employers and employees) was reduced from 32 percent to 19.6 percent in June 2001. Other anticipated reforms include tightening the procedures for qualifying for disability pensions, increasing both the minimum and the mandatory retirement age, and changing the system for calculating pensions. The UNMIK plans to introduce a social security system in Kosovo in 2002.

As of April 2000, average salaries in the FRY varied significantly by republic. In Montenegro, the average salary stood at DM 185, while in Serbia the average salary was only DM 88. However, average prices were also significantly higher in Montenegro. Wage arrearages are a major problem in the economy, especially for workers employed in the public sector. A study completed in 2000 showed that 42.7 percent of workers claimed they were receiving their sala-

ries late. One of the ways in which the Milosevic regime ameliorated public dissatisfaction with such a situation was to be lax in the collection of utility payments. Barter is another way in which individuals make do. Many individuals in the FRY also have strong ties to the countryside and are able to obtain basic foodstuffs from relatives or friends in their native villages.

Private sector wages, along with money earned in the shadow economy, are generally higher than public sector wages. A survey completed in 2000 showed that one-fifth of unemployed workers in the social sector and one-fourth of the employed work in some area of the shadow market and earn an average wage of approximately \$1 per hour—double that of someone who works in the social sector and pays taxes. Up to one million people, or 30 percent of the potential workforce, are believed to be working in the black or gray market.

Although women are officially entitled to equal pay for equal work, traditional patriarchal and societal attitudes often prevent women from reaching higher levels of management. Moreover, in broader terms, women's economic position in society has diminished during the transition from socialism to something resembling a market economy. For instance, women have often been the first to be laid off when firms run into economic difficulties.

The FRY's educational system has also suffered considerably over the past decade. While state support for education has dwindled in recent years, the educational system has also had to bear the brunt of coping with the influx of tens of thousands of refugee children. The educational system in Kosovo has been especially disrupted over the past decade. The current student-teacher ratio in the province is 17.5 to 1 for primary education, 15 to 1 for secondary education, and 14 to 1 for higher education. However, despite these relatively good numbers, there is believed to be a deficit of teachers who have important language, computer, and other skills. Persistent attacks on non-Albanian ethnic minorities require Serbs, Roma, Bosniacs, and other children to be schooled in separate areas.

The current curriculum in Kosovo was developed in the 1990s, when Albanians set up a parallel school system. International officials believe this curriculum is inadequate and needs to be revised as soon as possible. A new Department of Education has been set up in Kosovo to oversee education reform. Many of Kosovo's 1,000 primary schools, 66 secondary schools, and the University of Pristina sustained significant damage to their infrastructure during the recent years of conflict.

Gordon N. Bardos is the assistant director of the Harriman Institute at Columbia University. He has published widely on the problems of nationalism and ethnic conflict in southeastern Europe, and is a frequent commentator on Balkan developments for American and European media.

nations in transit 2002

How are democracy and market reforms faring in Central and Eastern Europe and the former Soviet Union? Is civil society expanding or shrinking? Are the media free or fettered by official constraints? To what degree are nations governed by the rule of law? Are human rights respected? Do taxation and trade policies, property rights reforms, banking laws, privatization, and macroeconomic policies encourage or encumber private sector development and economic growth?

In *Nations in Transit 2002*, Freedom House asked leading regional specialists and in-house experts to answer a checklist of more than 70 indicators for 27 post-Communist countries in ten key areas: political process; civil society; independent media; governance and public administration; constitutional, legislative and judicial framework; corruption; privatization; macroeconomic policy; microeconomic policy; and social sector indicators. The survey was reviewed by an oversight board of leading U.S. scholars and experts from Central and Eastern Europe and the former Soviet Union.

The results are incisive, authoritative, and comprehensive country-by-country reports that assess the progress of each country in ridding itself of a repressive political system and an inefficient statist economy. As an added dimension, Freedom House—which for nearly 25 years has rated global political rights and civil liberties in its benchmark *Freedom in the World* surveys—has developed a rating system that allows for a comparative analysis of reforms in the countries covered by the survey.

Nations in Transit 2002 is an invaluable resource and reference tool for governmental and nongovernmental institutions, schools and universities, and anyone else interested in better understanding the political, economic, and legal structures and institutions that form the infrastructure on which the transition to open societies and free markets depends.

An essential tool for those concerned with the future of democratizing East Central Europe and the newly independent states of the Soviet Union....comprehensive and reliable.

Zbigniew Brzezinski, Center for Strategic and International Studies

I have long admired Freedom House and relied on Freedom House publications for a large variety of important information....Freedom House has demonstrated through decades since its founding a most extraordinary, consistent clear-headed commitment to democratic politics of free societies.

Jeane Kirkpatrick, American Enterprise Institute



Printed in the U.S.A.
ISBN: 0-7658-0976-1