

**MONITORING COUNTRY PROGRESS
IN CENTRAL AND EASTERN EUROPE
& EURASIA**

APPENDIX 1: INDICATORS

USAID/E&E/PO
Program Office
Bureau for Europe & Eurasia
U.S. Agency for International Development



August 2006
No. 10

A. Economic Reforms

The economic reform indicators come from the European Bank for Reconstruction and Development's annual *Transition Report* (November), from the Office of the Chief Economist. The EBRD differentiates and defines 5 main thresholds for the nine indicators (below). It's scoring ranges from a "1" to a "4.3"; we've converted the "4.3" to a "5". The disaggregation into first and second stage reforms is our designation.

First Stage Reforms

Small-scale Privatization

- 1 Little progress
- 2 Substantial share privatized
- 3 Comprehensive program almost ready for implementation.
- 4 Complete privatization of small companies with tradable ownership rights
- 5 Standards and performance typical of advanced industrial economies: no state ownership of small enterprises; effective tradability of land

Price Liberalization

- 1 Most prices formally controlled by the government
- 2 Some lifting of price administration; state procurement at non-market prices for the majority of product categories
- 3 Significant progress on price liberalization, but state procurement at non-market prices remains substantial
- 4 Comprehensive price liberalization; state procurement at non-market prices largely phased out; only a small number of administered prices remain
- 5 Standards and performance typical of advanced industrial economies: complete price liberalization with no price control outside housing, transport and natural monopolies

Trade & Foreign Exchange System

- 1 Widespread import and/or export controls or very limited legitimate access to foreign exchange
- 2 Some liberalization of import and/or export controls; almost full current account convertibility in principle, but with a foreign exchange regime that is not fully transparent (possibly with multiple exchange rates)
- 3 Removal of most quantitative and administrative import and export restrictions; almost full current account convertibility
- 4 Removal of all quantitative and administrative import and export restrictions (apart from agriculture) and all significant export tariffs; insignificant direct involvement in exports and imports by ministries and state-owned trading companies; no major non-uniformity of customs duties for non-agricultural goods and services; full current account convertibility
- 5 Standards and performance norms of advanced industrial economies: removal of most tariff barriers; membership in WTO

Second Stage Reforms

Large-scale Privatization

- 1 Little private ownership
- 2 Comprehensive scheme almost ready for implementation; some sales completed
- 3 More than 25 percent of large-scale state-owned enterprise assets in private hands or in the process of being privatized (with the process having reached a stage at which the state has effectively ceded its ownership rights), but possibly with major unresolved issues regarding corporate governance
- 4 More than 50 percent of state-owned enterprise and farm assets in private ownership and significant progress on corporate governance of these enterprises
- 5 Standards and performance typical of advanced industrial economies: more than 75 percent of enterprise assets in private ownership with effective corporate governance

Governance & Enterprise Restructuring

- 1 Soft budget constraints (lax credit and subsidy policies weakening financial discipline at the enterprise level); few other reforms to promote corporate governance
- 2 Moderately tight credit and subsidy policy but weak enforcement of bankruptcy legislation and little action taken to strengthen competition and corporate governance
- 3 Significant and sustained actions to harden budget constraints and to promote corporate governance effectively (e.g., privatization combined with tight credit and subsidy policies and/or enforcement of bankruptcy legislation)
- 4 Substantial improvement in corporate governance and significant new investment at the enterprise level
- 5 Standards and performance typical of advanced industrial economies: effective corporate control exercised through domestic financial institutions and markets, fostering market-driven restructuring

Competition Policy

- 1 No competition legislation and institutions
- 2 Competition policy legislation and institutions set up; some reduction of entry restrictions or enforcement action on dominant firms
- 3 Some enforcement actions to reduce abuse of market power and to promote a competitive environment, including break-ups of dominant conglomerates; substantial reduction of entry restrictions
- 4 Significant enforcement actions to reduce abuse of market power and to promote a competitive environment
- 5 Standards and performance typical of advanced industrial economies: effective enforcement of competition policy; unrestricted entry to most markets

Banking Reform

- 1 Little progress beyond establishment of a two-tier system
- 2 Significant liberalization of interest rates and credit allocation; limited use of directed credit or interest rate ceilings

- 3 Substantial progress in establishment of bank solvency and of a framework for prudential supervision and regulation; full interest rate liberalization with little preferential access to cheap refinancing; significant lending to private enterprises and significant presence of private banks
- 4 Significant movement of banking laws and regulations towards BIS standards; well-functioning banking competition and effective prudential supervision; significant term lending to private enterprises; substantial financial deepening
- 5 Standards and performance norms of advanced industrial economies: full convergence of banking laws and regulations with BIS standards; provision of full set of competitive banking services

Non-Bank Financial Institutional Reform

- 1 Little progress
- 2 Formation of securities exchanges, market-makers and brokers; some trading in government paper and/or securities; rudimentary legal and regulatory framework for the issuance and trading of securities
- 3 Substantial issuance of securities by private enterprises; establishment of independent share registries, secure clearance and settlement procedures, and some protection of minority shareholders; emergence of non-bank financial institutions (e.g. investment funds, private insurance and pension funds, leasing companies) and associated regulatory framework
- 4 Securities laws and regulations approaching IOSCO standards; substantial market liquidity and capitalization; well-functioning non-bank financial institutions and effective regulation
- 5 Standards and performance norms of advanced industrial economies: full convergence of securities laws and regulations with IOSCO standards; fully developed non-bank intermediation

Infrastructure. This indicator averages EBRD ratings for reform progress in five infrastructure sectors: telecommunications, railways, electric power, roads, and water & waste water.

(a) Telecommunications

- 1 Little progress in commercialization and regulation, i.e., minimal degree of private sector involvement, strong political interference in management, lack of cost-effective tariff-setting principles and extensive cross-subsidization. Few other institutional reforms to encourage liberalization envisaged, even for mobile phones and value-added services.
- 2 Modest progress in commercialization, i.e., corporatization of the dominant operator and some separation of operation from public sector governance, but tariffs still politically determined.
- 3 Substantial progress in commercialization and regulation. Full separation of telecommunications from postal services, with reduction in the extent of cross subsidization. Some liberalization in the mobile segment and in value-added services.
- 4 Complete commercialization (including the privatization of the dominant operator) and comprehensive regulatory and institutional reforms. Extensive liberalization of entry.
- 5 Implementation of a coherent and effective institutional and regulatory framework (including the operation of an independent regulator) encompassing tariffs, interconnection rules,

licensing, concession fees and spectrum allocation. Existence of a consumer ombudsman function.

(b) Railways

- 1 Monolithic organizational structures. State railways still effectively operated as government departments. Few commercial freedoms to determine prices or investments. No private sector involvement. Cross-subsidization of passenger service public service obligations with freight service revenues.
- 2 Laws distancing rail operations from the state, but weak commercial objectives. No budgetary funding of public service obligations in place. Organizational structures still overly based on geographic/functional areas. Separation of ancillary businesses but little divestment. Minimal encouragement of private sector involvement. Initial business planning, but targets general and tentative.
- 3 Laws passed to restructure the railways and introduce commercial orientation. Separation of freight and passenger marketing groups grafted onto tradition structures. Some divestment of ancillary businesses. Some budgetary compensation for passenger services. Design of business plans with clear investment and rehabilitation targets. Business plans designed, but funding unsecured. Some private sector involvement in rehabilitation and/or maintenance.
- 4 Laws passed to fully commercialize railways. Creation of separate internal profit centers for passenger and freight (actual or imminent). Extensive market freedoms to set tariffs and investments. Medium-term business plans under implementation. Ancillary industries divested. Policy development to promote commercial (including private) rail transport operations.
- 5 Railway law exists allowing for separation of infrastructure from operations, and/or freight from passenger operations, and/or private train operations. Private sector participation in ancillary services and track maintenance. Establishment of rail regulator and/or implementation of access pricing and/or plans for a full divestment and transfer of asset ownership, including infrastructure and rolling stock.

(c) Electric power

- 1 Power sector operated as a government department; political interference in running the industry. Few commercial freedoms or pressures. Average prices below costs, with external and implicit subsidy and cross-subsidy. Very little institutional reform with monolithic structure and no separation of different parts of the business.
- 2 Power company is distance from government. For example, established as a joint-stock company, though there is still political interference. Some attempt to harden budget constraints, but management incentives for efficient performance are weak. Some degree of subsidy and cross-subsidy. Little institutional reform; monolithic structure with no separation of different parts of the business. Minimal private sector involvement.
- 3 Law passed which provides for full-scale restructuring of the industry, including vertical unbundling through accounting separation, setting up of regulator with some distance from the government, plans for tariff reform if effective tariffs are below cost, possibility of private ownership and industry liberalization. Little or no private sector involvement.

- 4 Law for industry restructuring passed and implemented providing for: separation of the industry into generation, transmission and distribution; setting up of a regulator, with rules for setting cost-reflective tariffs formulated and implemented. Arrangements for network access (negotiated access, single buyer model) developed. Substantial private sector involvement in distribution and/or generation.
- 5 Business separated vertically into generation, transmission and distribution. Existence of an independent regulator with full power to set cost-reflective tariffs. Large-scale private sector involvement. Institutional development covering arrangements for network access and full competition in generation.

(d) Roads

- 1 There is minimal degree of decentralization, and no commercialization has taken place. All regulatory, road management and resource allocation functions are centralized at ministerial level. New investments and road maintenance financing are dependent on central budget allocations. Road user charges are based on criteria other than relative costs imposed on the network and road use. Road construction and maintenance are undertaken by public construction units. There is no private sector participation. No public consultation or accountability take place in the preparation of road projects.
- 2 There is a moderate degree of decentralization, and initial steps have been taken in commercialization. A road/highways agency has been created. Initial steps have been undertaken in resource allocation and public procurement methods. Road user charges are based on vehicle and fuel taxes but are only indirectly related to road use. A road fund has been established but it is dependent on central budget allocations. Road construction and maintenance is undertaken primarily by corporatized public entities, with some private sector participation. There is minimal public consultation/participation and accountability in the preparation of road projects.
- 3 There is a fairly large degree of decentralization and commercialization. Regulation, resource allocation, and administrative functions have been clearly separated from maintenance and operations of the public road network. Road user charges are based on vehicle and fuel taxes and fairly directly related to road use. A law has been passed allowing for the provision and operation of public roads by private companies under negotiated commercial contracts. There is private sector participation either in road maintenance works allocated via competitive tendering or through a concession to finance, operate and maintain at least a section of the highway network. There is limited public consultation and/or participation and accountability in the preparation of road projects.

- 4 There is a large degree of decentralization of road administration, decision-making, resource allocation and management according to government responsibility and functional road classification. A transparent methodology is used to allocate road expenditures. A track record has been established in implementing competitive procurement rules for road design, construction, maintenance and operations. There is large-scale private sector participation in construction, operations and maintenance directly and through public-private partnership arrangements. There is substantial public consultation and/or participation and accountability in the preparation of road projects.
- 5 A fully decentralized road administration has been established, with decision-making, resource allocation and management across road networks and different levels of government. Commercialized road maintenance operations are undertaken through open and competitive tendering by private construction companies. Legislation has been passed allowing for road user charges to fully reflect costs of road use and associated factors, such as congestion, accidents and pollution. There is widespread private sector participation in all aspects of road provision directly and through public-private partnership arrangements. Full public consultation is undertaken in the approval process for new road projects.

(e) *Water and Waste water*

- (1) There is a minimal degree of decentralization, and no commercialization has taken place. Water and waste-water services are operated as a vertically integrated natural monopoly by a government ministry through national or regional subsidiaries or by municipal departments. There is no, or little, financial autonomy and/or management capacity at municipal level. Heavily subsidized tariffs still exist, along with a high degree of cross-subsidization.
- (2) There is a moderate degree of decentralization, and initial steps have been taken in commercialization. Water and waste-water services are provided by municipally owned companies, which operate as joint-stock companies. There is some degree of financial autonomy at the municipal level but heavy reliance on central government for grants and income transfers. Partial cost recovery is achieved through tariffs, and initial steps have been taken to reduce cross-subsidies. General public guidelines exist regarding tariff-setting and service quality but these are both still under ministerial control. There is some private sector participation through service or management contracts or competition to provide ancillary services.
- (3) A fairly large degree of decentralization and commercialization has taken place. Water and waste-water utilities operate with managerial and accounting independence from municipalities, using international accounting standards and management information systems. A municipal finance law has been approved. Cost recovery is fully operated through tariffs and there is a minimum level of cross-subsidies. A semi-autonomous regulatory agency has been established to advise on tariffs and service quality but without the power to set either. More detailed rules have been drawn up in contract documents, specifying tariff review formulae and performance standards. There is private sector participation through performance standards. There is private sector participation through the full concession of a major service in at least one city.

- (4) A large degree of decentralization and commercialization has taken place. Water and waste-water utilities are managerially independent, with cash flows—net of municipal budget transfers—that ensure financial viability. A municipal finance law has been implemented, providing municipalities with the opportunity to raise finance. Full cost recovery exists and there are no cross-subsidies. A semi-autonomous regulatory agency has the power to advise and enforce tariffs and service quality. There is substantial private sector participation through build-operate-transfer concessions, management contracts or asset sales to service parts of the network or entire networks. A concession of major services has taken place in a city other than the country's capital.
- (5) Water and waste-water utilities are fully decentralized and commercialized. Large municipalities enjoy financial autonomy and demonstrate the capability to raise finance. Full cost recovery has been achieved and there are no cross-subsidies. A fully autonomous regulator exists with complete authority to review and enforce tariff levels and performance quality standards. There is widespread private sector participation via service management/lease contracts, with high-powered performance incentives and/or full concessions and/or divestiture of water and waste-water services in major urban areas.

B. Democratization: Political Rights and Civil Liberties¹

Freedom House annually rates political rights and civil liberties separately on a seven-category scale, 1 representing the most free and 7 the least free. Each country is awarded from 0 to 4 raw points for each of 10 questions grouped into three subcategories in a political rights checklist, and for each of 15 questions grouped into four subcategories in a civil liberties checklist.

<u>Political Rights category number</u>	<u>Raw points</u>
1	36-40
2	30-35
3	24-29
4	18-23
5	12-17
6	6-11
7	0-5

<u>Civil Liberties category number</u>	<u>Raw points</u>
1	53-60
2	44-52
3	35-43
4	26-34
5	17-25
6	8-16
7	0-7

Political Rights checklist

A. Electoral Process

1. Is the head of state and/or head of government or other chief authority elected through free and fair elections?
2. Are the legislative representatives elected through free and fair elections?
3. Are there fair electoral laws, equal campaigning opportunities, fair polling and honest tabulation of ballots?

B. Political Pluralism and Participation

1. Do the people have the right to organize in different political parties or other competitive political groupings of their choice, and is the system open to the rise and fall of these competing parties or groupings?

¹ Drawn from Freedom House's annual report, *Freedom in the World*.

2. Is there a significant opposition vote, de facto opposition power, and a realistic possibility for the opposition to increase its support or gain power through elections?
3. Are the people's political choices free from domination by the military, foreign powers, totalitarian parties, religious hierarchies, economic oligarchies or any other powerful group?
4. Do cultural, ethnic, religious and other minority groups have reasonable self-determination, self-government, autonomy or participation through informal consensus in the decision-making process?

C. Functioning of Government

1. Do freely elected representative determine the policies of the government?
2. Is the government free from pervasive corruption?
3. Is the government accountable to the electorate between elections, and does it operate with openness and transparency?

Additional discretionary political rights questions:

1. For traditional monarchies that have no parties or electoral process, does the system provide for consultation with the people, encourage discussion of policy, and allow the right to petition the ruler?
2. Is the government or occupying power deliberately changing the ethnic composition of a country or territory so as to destroy a culture or tip the political balance in favor of another group?

Civil Liberties checklist

A. Freedom of Expression and Belief

1. Are there free and independent media and other forms of cultural expression? (Note: In cases where the media are state-controlled but offer pluralistic points of view, the survey gives the system credit).
2. Are there free religious institutions, and is there free private and public religious expression?
3. Is there academic freedom, and is the educational system free of extensive political indoctrination?
4. Is there open and free private discussion?

B. Associational and Organization Rights

1. Is there freedom of assembly, demonstration, and open public discussion?
2. Is there freedom of political or quasi-political organization? (Note: This includes political parties, civic associations, ad hoc groups and so forth.)
3. Are there free trade unions and peasant organizations or equivalents, and is there effective collective bargaining? Are there free professional and other private organizations?

C. Rule of Law

1. Is there an independent judiciary?
2. Does the rule of law prevail in civil and criminal matters? Are police under direct civilian control?
3. Is there protection from police terror, unjustified imprisonment, exile or torture, whether by groups that support or oppose the system? Is there freedom from war and insurgencies?
4. Is the population treated equally under the law?

D. Personal Autonomy and Individual Rights

1. Is there personal autonomy? Does the state control travel, choice of residence, or choice of employment? Is there freedom from indoctrination and excessive dependency on the state?
2. Do citizens have the right to own property and establish private businesses? Is private business activity unduly influenced by government officials, the security forces, or organized crime?
3. Are there personal social freedoms, including gender equality, choice of marriage partners, and size of family?
4. Is there equality of opportunity and the absence of economic exploitation?

Political Rights

- 1 Generally speaking, places rated 1 come closest to the ideals suggested by the checklist questions, beginning with free and fair elections. Those elected rule. There are competitive parties or other competitive political groupings, and the opposition has an important role and power. These entities have self-determination or an extremely high degree of autonomy. Usually, those rated 1 have self-determination for minority groups or their participation in government through informal consensus. With the exception of such entities as tiny island countries, these countries and territories have decentralized political power and free sub-national elections.
- 2 Such factors as gross political corruption, violence, political discrimination against minorities, and foreign or military influence on politics may be present, and weaken the quality of democracy.
- 3 , 4, and 5. The same factors that weaken freedom in category 2 may also undermine political rights in categories 3, 4, and 5. Other damaging conditions may be at work as well, including civil war, very strong military involvement in politics, lingering royal power, unfair elections and one-party dominance. However, states and territories in these categories may still have some elements of political rights such as the freedom to organize nongovernmental parties and quasi-political groups, reasonably free referenda, or other significant means of popular influence on government.
- 6 Typically, such states have systems ruled by military juntas, one-party dictatorships, religious hierarchies and autocrats. These regimes may allow only some minimal manifestation of political rights such as competitive local elections or some degree of representation or autonomy for minorities. Category 6 also contains some countries in the early or aborted

stages of democratic transition. A few states in Category 6 are traditional monarchies that mitigate their relative lack of political rights through the use of consultation with their subjects, toleration of political discussion, and acceptance of petitions from the ruled.

- 7 This includes places where political rights are absent or virtually nonexistent due to the extremely oppressive nature of the regime or extreme oppression in combination with civil war. A country or territory may also join this category when extreme violence and warlordism dominate the people in the absence of an authoritative, functioning central government.

Civil Liberties

- 1 This includes countries and territories that generally have the highest levels of freedoms and opportunities for the individual. Places in this category may still have problems in civil liberties, but they lose partial credit in only a limited number of areas.
- 2 Places in this category, while not as free as those in 1, are still relatively high on the scale. These countries have deficiencies in several aspects of civil liberties, but still receive most available credit.
- 3 , 4, and 5. Places in these categories range from ones that receive at least partial credit on virtually all checklist questions to those that have a mixture of good civil liberties scores in some areas and zero or partial credit in others. As one moves down the scale below category 2, the level of oppression increases, especially in the areas of censorship, political terror and the prevention of free association. There are also many cases in which groups opposed to the state carry out political terror that undermines other freedoms. That means that a poor rating for a country is not necessarily a comment on the intentions of the government. The rating may simply reflect the real restrictions on liberty which can be caused by non-governmental terror.
- 6 Typically, at category 6 in civil liberties, countries and territories have few partial rights. For example, a country might have some religious freedom, some personal social freedoms, some highly restricted private business activity, and relatively free private discussion. In general, people in these states and territories experience severely restricted expression and association. There are almost always political prisoners and other manifestations of political terror.
- 7 At category 7, countries and territories have virtually no freedom. An overwhelming and justified fear of repression characterizes the society.

C. Democratization Disaggregated²

Freedom House measures progress towards democratic freedoms by assessing a series of questions in seven categories: (1) electoral process; (2) civil society; (3) independent media; (4) national democratic governance; (5) local democratic governance; (6) rule of law; and (7) corruption. Progress towards each category is rated on a seven-category scale, 1 representing the most advanced and 7 the least advanced. In this MCP report and in the MCP system, these scores are reversed and re-scaled to range from 1 to 5, with 5 being the most advanced.

Electoral process

- (1) Is the authority of government based upon universal and equal suffrage and the will of the people as expressed by regular, free, and fair elections conducted by secret ballot?
- (2) Are there fair electoral laws, equal campaigning opportunities, fair polling, and honest tabulation of ballots?
- (3) Is the electoral system free of significant barriers to political organization and registration?
- (4) Is the electoral system multiparty based, with viable political parties, including an opposition party, functioning at all levels of government?
- (5) Is the public engaged in the political life of the country, as evidenced by membership in political parties, voter turnout for elections, or other factors?
- (6) Do ethnic and other minority groups have sufficient openings to participate in the political process?
- (7) Is there opportunity for the effective rotation of power among a range of different political parties representing competing interests and policy options?
- (8) Are the people's choices free from domination by the specific interest of power groups (the military, foreign powers, totalitarian parties, regional hierarchies, and/or economic oligarchies)?
- (9) Were the most recent national legislative elections judged free and fair by domestic and international election-monitoring organizations?
- (10) Were the most recent presidential elections judged free and fair by domestic and international election-monitoring organizations?

Civil Society

- (1) Does the state protect the rights of the independent civic sector?
- (2) Is the civil society vibrant? (Consider growth in the number of charitable, nonprofit, and nongovernmental organizations; improvements in the quality of performance of civil society groups; locally led efforts to increase philanthropy and volunteerism; the public's active participation in private voluntary activity; the presence of effective civic and cultural organizations for women and ethnic groups; the participation of religious groups in charitable activity; or other factors)
- (3) Is society free of excessive influence from extremist and intolerant nongovernmental institutions and organizations (such as racists, groups advocating violence or terrorism, xenophobes, private militias and vigilante groups, or other groups whose actions threaten

² Drawn from Freedom House, *Nations in Transit*

political and social stability and the transition to democracy)?

- (4) Is the legal and regulatory environment for civil society groups free of excessive state pressures and bureaucracy (consider ease of registration, legal rights, government regulation, fund-raising, taxation, procurement, and access-to-information issues)?
- (5) Do civil society groups have sufficient organizational capacity to sustain their work (that is, management structures with clearly delineated authority and responsibility; a core of experienced practitioners, trainers, and the like; access to information on NGO management issues in the native language; and so forth)?
- (6) Are civil society groups financially viable, with adequate conditions and opportunities for raising funds that sustain their work (for example, sufficient organizational capacity to raise funds; option of nonprofit tax status; freedom to raise funds from domestic or foreign sources; legal or tax environment that encourages private sector support; ability to compete for government procurement opportunities; ability to earn income or collect cost recovery fees)?
- (7) Is the government receptive to policy advocacy by interest groups, public policy research groups, and other nonprofit organizations? Do government officials engage civil society groups by inviting them to testify, comment on, and influence pending policies or legislation?
- (8) Are the media receptive to civil society groups as independent and reliable sources of information and commentary? Are they positive contributors to the country's civic life?
- (9) Does the state respect the right to form and join free trade unions?
- (10) Is the education system free of political influence and propaganda?

Independent Media

- (1) Are there legal protections for press freedoms?
- (2) Are journalists, especially investigative reporters, protected from victimization by powerful state or nonstate actors?
- (3) Does the state oppose onerous libel laws and other excessive legal penalties for "irresponsible" journalism?
- (4) Are the media's editorial independence and new-gathering functions free of interference from the government or private owners?
- (5) Does the public enjoy a diverse selection of print and electronic sources of information that represent a range of political viewpoints?
- (6) Are the majority of print and electronic media privately owned and free of excessive ownership concentration?
- (7) Is the private media's financial viability subject only to market forces (that is, is it free of political or other influences)?
- (8) Is the distribution of newspapers privately controlled?
- (9) Are journalists and media outlets able to form their own viable professional associations?
- (10) Does society enjoy free access to the Internet?

National Democratic Governance

- (1) Is the governmental system democratic?
- (2) Is the country's governmental system stable?

- (3) Is the legislature independent, effective, and accountable to the public?
- (4) Is the executive branch independent, effective, and accountable to the public?

Local Democratic Governance

- (1) Are the principles of local democratic government enshrined in law and respected in practice?
- (2) Are citizens able to choose local leaders in free and fair elections?
- (3) Are citizens ensured meaningful participation in local government decision-making?
- (4) Do democratically elected local authorities exercise their powers freely and autonomously?
- (5) Do democratically elected local authorities have the resources and capacity needed to fulfill their responsibilities?
- (6) Do democratically elected local authorities operate with transparency and accountability to citizens?

Rule of Law

- (1) Is there an effective system of checks and balances among legislative, executive, and judicial authorities?
- (2) Is the legislature the effective rule-making institution?
- (3) Does the constitutional framework provide for human rights (including freedom of expression, religious freedom, freedom of association, and business and property rights), and does the state protect those rights in practice?
- (4) Is there independence and impartiality in the interpretation and enforcement of the constitution?
- (5) Is there equality before the law?
- (6) Has there been effective reform of the criminal code/criminal law? (Consider presumption of innocence until proven guilty, access to a fair and public hearing, introduction of jury trials, access to independent counsel/public defender, independence of prosecutors, and so forth.)
- (7) Are suspects and prisoners protected in practice against arbitrary arrest, detention without trial, searches without warrants, torture and abuse, and excessive delays in the criminal justice system?
- (8) Are judges appointed in a fair and unbiased manner, and do they have adequate legal training before assuming the bench?
- (9) Do judges rule fairly and impartially, and are courts free of political control and influence?
- (10) Do legislative, executive, and other governmental authorities comply with judicial decisions, and are judicial decisions effectively enforced?

Corruption

- (1) Has the government implemented effective anticorruption initiatives?
- (2) Is the government free from excessive bureaucratic regulations, registration requirements, and other controls that increase opportunities for corruption?
- (3) Are there significant limitations on the participation of government officials in economic life?
- (4) Are there adequate laws requiring financial disclosure and disallowing conflict of interest?

- (5) Does the state enforce an effective legislative or administrative process—particularly one that is free of prejudice against one’s political opponents—to prevent, investigate, and prosecute the corruption of government officials and civil servants?
- (6) Do executive and legislative bodies operate under effective audit and investigative rules that are free of political influence?
- (7) Do whistle-blowers, anticorruption activists, investigators, and journalists enjoy legal protections that make them feel secure about reporting cases of bribery and corruption?
- (8) Are allegations of corruption given wide and extensive airing in the media?
- (9) Does the public display a high intolerance for official corruption?

Democratization Ratings Guidelines

Rating

- 1** Policy criteria: existence of policies that adhere to basic human rights standards, democratic norms, and the rule of law; Practice criteria: existence of best practices that adhere to basic human rights standards, democratic norms, and the rule of law.
- 2** Policy criteria: existence of policies that adhere to basic human rights standards, democratic norms, and the rule of law; Practice criteria: existence of most practices that adhere to basic human rights standards, democratic norms, and the rule of law
- 3** Policy criteria: existence of many policies that adhere to basic human rights standards, democratic norms, and the rule of law; Practice criteria: existence of many practices that adhere to basic human rights standards, democratic norms, and the rule of law
- 4** Policy criteria: existence of many policies that adhere to basic human rights standards, democratic norms, and the rule of law; Practice criteria: existence of some practices that adhere to basic human rights standards, democratic norms, and the rule of law
- 5** Policy criteria: existence of many policies that adhere to basic human rights standards, democratic norms, and the rule of law; Practice criteria: absence of many practices that adhere to basic human rights standards, democratic norms, and the rule of law
- 6** Policy criteria: existence of some policies that adhere to basic human rights standards, democratic norms, and the rule of law; Practice criteria: absence of most practices that adhere to basic human rights standards, democratic norms, and the rule of law
- 7** Policy criteria: absence of policies that adhere to basic human rights standards, democratic norms, and the rule of law; Practice criteria: absence of practices that adhere to basic human rights standards, democratic norms and the rule of law.

Conversion scales for economic performance and human capital indices:

The economic performance and human capital indices are derived by converting “raw scores” (such as percentages and growth rates) into scores which range from “1” to “5”. The conversion scales are as follows:

Economic performance.

- (1) *Private sector share in GDP* (in % in 2005; EBRD): “0.5”: 25% of GDP or less; “1”: 30-40%; 1.5: 45%; 2: 50%; 2.5: 55%; 3: 60%; 3.5: 65%; 4: 70%; 4.5: 75%; 5: 80% or greater.
- (2) *Employment in SME sector as % of total employment* (2001 or latest year available; UNECE, SME Database). 0.5: 25% or less; 1: >26-35%; 1.5: >36-40%; 2: >41-45%; 2.5: >46-50%; 3: >51-55%; 3.5: >56-60%; 4: >61-65%; 4.5: >66-75%; 5: greater than 75% of total employment.
- (3) *Export sector as percent of GDP* (2004; calculated from World Bank, *World Development Indicators*). 0.5: 5% or less; 1: greater than 5% to 8%; 1.5: >8-11%; 2: >11-14%; 2.5: >14-17%; 3: >17-20%; 3.5: >20-23%; 4: >23-26%; 4.5: >26-29%; 5: greater than 29% of PPP GDP.
- (4) *2005 GDP as % of 1989 GDP* (EBRD). 0.5: 50% or less; 1: greater than 50% to 60%; 1.5: >60-70%; 2: >70-80%; 2.5: >80-90%; 3: >90-100%; 3.5: >100-110%; 4: >110-120%; 4.5: >120-130%; 5: greater than 130% of 1989 GDP.
- (5) *3 year average annual inflation rate* (2003-2005; EBRD). 0.5: >30%; 1: >26-30%; 1.5: >22-26%; 2: >18-22%; 2.5: >14-18%; 3: >10-14%; 3.5: >7-10%; 4: >5-7%; 4.5: >3-5%; 5: 3% inflation rate or less.
- (6) *Foreign direct investment* (per capita, cumulative, 1989-2005, net in \$; EBRD). 0.5: \$100 or less; 1: >\$100-200; 1.5: >\$200-400; 2: >\$400-600; 2.5: >\$600-800; 3: >\$800-1,000; 3.5: >\$1,000-1,200; 4: >\$1,200-1,500; 4.5: >\$1,500-2,000; 5: >\$2,000.
- (7) *external debt as % of GDP* (2004; EBRD). 0.5: >95%; 1: >85% to 95%; 1.5: >75-85%; 2: >65-75%; 2.5: >55-65%; 3: >45-55%; 3.5: >35-45%; 4: >25-35%; 4.5: >10-25%; 5: 10% or less.

Human capital.

- (1) *per capita income* (gross national income, 2005, purchasing power parity, World Bank, *World Development Indicators*). 0.5: \$1,000 or less; 1: >\$1,000 to \$3,000; 1.5: >\$3,000-5,000; 2: >\$5,000-7,000; 2.5 >\$7,000-9,000; 3: >\$9,000-11,000; 3.5: >\$11,000-13,000; 4: >\$13,000-15,000; 4.5: >\$15,000-17,000; 5: >\$17,000 per capita.
- (2) *secondary school enrollment* (2003 or latest year available; gross; general secondary plus vocational/technical secondary; UNICEF, *TransMONEE Database*). 0.5: 31% or less; 1: greater than 31% to 39%; 1.5: >39-47%; 2: >47-55%; 2.5: >55-63%; 3: >63-71%; 3.5: >71-79%; 4: >79-87%; 4.5: >87-95%; 5: greater than 95% enrollment.

(3) public expenditure on education as % of GDP (2004, World Bank, *World Development Indicators*). 0.5: 2% or less; 1: >2% to 2.5%; 1.5: >2.5-3%; 2: >3-3.5%; 2.5: >3.5-4%; 3: >4-4.5%; 3.5: >4.5-5%; 4: >5-5.5%; 4.5: >5.5-6%; 5: greater than 6% of GDP.

(4) life expectancy (years, 2004, World Bank, *World Development Indicators*). 0.5: less than 62.5 years; 1: 64 years to <65.5; 1.5: 65.5 to <67; 2: 67 to <68.5; 2.5: 68.5 to <70; 3: 70 to <71.5; 3.5: 71.5 to <73; 4: 73 to <74.5; 4.5: 74.5 to <76; 5: 76 years or greater.

(5) under five years mortality rate (per thousand live births, 2004, World Bank, *World Development Indicators*). 0.5: greater than 93 deaths; 1: >82 to 93; 1.5: >71-82; 2: >60-71; 2.5: >49-60; 3: >38-49; 3.5: >27-38; 4: >16-27; 4.5: >5-16; 5: 5 deaths or less.

(6) public expenditure on health as % of GDP (2003, World Bank, *World Development Indicators*). 0.5: 2% or less; 1: >2% to 2.5%; 1.5: >2.5-3%; 2: >3-3.5%; 2.5: >3.5-4%; 3: >4-4.5%; 3.5: >4.5-5%; 4: >5-5.5%; 4.5: >5.5-6%; 5: greater than 6% of GDP.