

# **EXHIBIT 2**

# Nations in Transit 2001

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

Edited by Adrian Karatnycky, Alexander Motyl, and Amanda Schnetzer



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# Acknowledgments

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

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

▪ NATIONS IN TRANSIT

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

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

## Explanatory Notes

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

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

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

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economic liberalization, and social indicators—and are addressed in the report texts in the following general order:

### **Democratization**

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

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

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

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

### **Rule of Law**

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

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

### **Economic Liberalization and Social Indicators**

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

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

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

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

### **RATINGS METHODOLOGY**

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

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



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

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

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

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

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

## RESEARCH TEAM AND DATA SOURCES

Freedom House developed the initial survey and subsequent editions after consultations with the U.S. Agency for International Development (USAID). The country reports were researched and written by Freedom House staff members, outside consultants, and repre-

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who were recommended by recognized authorities on their respective regions. The research team used a wide variety of sources in writing the reports, including information from nongovernmental organizations, multilateral lending institutions and other international organizations, local newspapers and magazines, and select government data.

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

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

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

- FOREIGN DIRECT INVESTMENT: *Transition Report 2000* (London: European Bank for Reconstruction and Development, 2000) and *Transition Report Update April 2001*. Data for 2000 are estimates.
- GDP GROWTH: *Transition Report 2000* (London: European Bank for Reconstruction and Development, 2000) and *Transition Report Update April 2001*. Data for 2000 are estimates.
- GDP PER CAPITA: *Transition Report 2000* (London: European Bank for Reconstruction and Development, 2000) and *Transition Report Update April 2001*. Data for 2000 are estimates.
- GNP PER CAPITA AT PPP: *World Development Report 2000/2001* (New York: World Bank, Oxford University Press, 2000).
- INFLATION RATE (annual average): *Transition Report 2000* (London: European Bank for Reconstruction and Development, 2000) and *Transition Report Update April 2001*. Data for 2000 are estimates.
- LIFE EXPECTANCY: Data for the period 1994 to 1999 are from the World Bank's *World Development Indicators 2000* and *World Development Indicators 2001*. Data for 2000 are mid-year estimates from the *2000 World Population Data Sheet* (Washington: Population Reference Bureau, 2000).
- POPULATION: *2000 World Population Data Sheet* (Washington: Population Reference Bureau, 2000).
- PRIVATE SECTOR AS % OF GDP: *Transition Report 2000* (London: European Bank for Reconstruction and Development, 2000).
- UNEMPLOYMENT: *Transition Report 2000* (London: European Bank for Reconstruction and Development, 2000) and *Transition Report Update April 2001*. Data for 2000 are estimates. Year 2000 data for Azerbaijan, Georgia, Hungary, Kazakhstan, Kyrgyz Republic, and Moldova are estimates or partial-year figures taken from respective country reports by the Economic Intelligence Unit.

# Nations in Transit: Emerging Dynamics of Change

*Adrian Karatnycky*

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

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

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

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

### THE 2001 SURVEY FINDINGS

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

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

Although the number of consolidated democracies increased in this survey period, the broader findings show that most of the reform momentum occurred in countries that al-

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of reform and political openness are deepening their processes or positive change. (See Table C.) For example, there was significant forward momentum in Bulgaria, Croatia, and Slovakia, whose democratization scores advanced by .25 points or more. Albania, an upper-tier transitional state, registered similar progress. Only one upper-tier transitional country, Macedonia, regressed in its democratization indicators because it confronted the consequences of a massive inflow of refugees from then war-ravaged and ethnically cleansed Kosovo.

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

## TRENDS

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

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

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

Over a five-year period, the consolidated democracies have maintained a high standard of democratic practice, good governance, and respect for basic rights. Among the transitional and autocratic states, Albania, Bulgaria, Croatia, Georgia, Romania, Slovakia, Tajikistan, Bosnia, and Yugoslavia (the latter two have only been rated since 1998) have seen their ratings improve significantly (i.e., by .25 points or more on the 7-point scale); three, Bulgaria, Croatia, and Slovakia, have advanced out of the category. Among the transitional and authoritarian states, significant declines in democratization indicators

Soviet countries advanced similarly and four saw significant declines. In terms of corruption, there are also significant regional differences. The median corruption rating in 2001 for the CEE states stood at 3.75, while the median rating for the 12 non-Baltic former Soviet republics was 6.00.

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

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

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

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

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

## DIFFERING TRAJECTORIES

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

**Legacies:** Historical legacies and widely differing events leading to the collapse of communism are key factors in the divergence of the CEE countries and the countries of the former

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Communist states were not functioning until as late as 1948. This meant that the Communist legacy had a duration of only four decades, rather than the seven-decade Communist legacy of the non-Baltic Soviet states. A historical memory of market systems and private property relations was also part of the legacy of many CEE countries. Moreover, all the CEE countries had been independent states. With the exception of Slovakia, Bosnia, and Croatia (all of which achieved independence in the 1990s), the CEE countries had fully formed institutions of central state government. Likewise, states like the Baltic republics had a legacy of long periods of independence and statehood that were deeply ingrained in the national memory. The differing legacies of statehood also have contributed to differing outcomes.

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

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

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

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

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

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

Of the 12 non-Baltic former Soviet states, only Moldova and Georgia have systems in which the parliament exerts significant power. Moldova was a presidential-parliamentary republic until 2000, when constitutional reforms shifted important powers away from the president and ended direct presidential elections. Moldova is now the only parliamentary democracy in the Commonwealth of Independent States. Georgia's strong presidency is balanced by a parliament that the president cannot himself dissolve, that has broad input into the state budget, and that confirms ministers put forth by the president. The other ten ~~states are in effect presidential systems in which most power is concentrated in the hands of the chief executive.~~ That the concentration of excessive power in the presidency is inimical to democratization appears to be confirmed by the fact that the former Soviet states with the highest overall *Nations in Transit* democratization ratings are Georgia and Moldova, the only two states in which the legislature enjoys significant power. By contrast,

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parliamentary-presidential systems; none has the de jure and de facto concentration of executive power found in the states that emerged from the former USSR.

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



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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

Table A: Nations in Transit 2001 Rating and Score Summary

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

Notes:

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

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

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

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

Table B: Nations in Transit 2001 Political and Economic Classifications

DEMOCRACY RANKINGS			ECONOMY RANKINGS		
	DEM SCORE	ECON SCORE		ECON SCORE	DEM SCORE
<b>CONSOLIDATED DEMOCRACIES</b>			<b>CONSOLIDATED MARKET</b>		
Poland	1.44	1.67	Poland	1.67	1.44
Czech Rep.	1.81	2.00	Hungary	1.92	1.94
Hungary	1.94	1.92	Estonia	1.92	2.00
Slovenia	1.94	2.08	Czech Rep.	2.00	1.81
Latvia	1.94	2.50	Slovenia	2.08	1.94
Lithuania	1.94	2.75	Latvia	2.50	1.94
Estonia	2.00	1.92	Lithuania	2.75	1.94
Slovakia	2.95	3.95	Slovakia	3.95	2.95
Bulgaria	3.06	3.50			
Croatia	3.25	3.58			
<b>TRANSITIONAL GOVERNMENTS</b>			<b>TRANSITIONAL ECONOMIES</b>		
Romania	3.31	4.00	Bulgaria	3.50	3.06
Macedonia	3.75	4.58	Croatia	3.58	3.25
Moldova	3.94	4.00	Armenia	3.58	4.56
Albania	4.13	4.17	Georgia	3.75	4.19
Georgia	4.19	3.75	Romania	4.00	3.31
Ukraine	4.44	4.33	Moldova	4.00	3.94
Armenia	4.56	3.58	Kyrgyz Rep.	4.00	5.13
Russia	4.63	4.17	Albania	4.17	4.13
Yugoslavia	4.63	5.33	Russia	4.17	4.63
Bosnia	4.94	5.50	Ukraine	4.33	4.44
Kyrgyz Rep.	5.13	4.00	Kazakhstan	4.50	5.56
Tajikistan	5.44	5.50	Macedonia	4.58	3.75
Kazakhstan	5.56	4.50	Azerbaijan	4.92	5.56
			Tajikistan	5.50	5.44
<b>CONSOLIDATED AUTOCRACIES</b>			<b>CONSOLIDATED STATIST</b>		
Uzbekistan	6.50	6.17	Uzbekistan	6.17	6.50
Belarus	6.56	6.25	Belarus	6.25	6.56
Turkmenistan	6.94	6.50	Turkmenistan	6.50	6.94



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

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

NOTES: DATA SORTED BY 2001 DEMOCRATIZATION SCORE  
 ↓↓ AND ↑↑ INDICATE CHANGES IN SCORES OF .25 OR MORE

Table D: Regional Trends in Reform

	1999-				1999-				1999-	
	1997	1998	2000	2001	1997	1998	2000	2001	2000	2001
	DEM score				ECON score				CORRUPTION	
CENTRAL AND EASTERN EUROPE										
Albania	4.55	4.75	4.38	4.13	4.00	4.50	4.50	4.17	6.00	5.50
Bosnia	na	5.35	5.13	4.94	na	5.67	5.58	5.50	6.00	5.75
Bulgaria	3.90	3.55	3.31	3.06	5.38	4.08	3.75	3.50	4.75	4.75
Croatia	4.20	4.25	4.19	3.25	3.88	3.83	3.67	3.58	5.25	4.50
Czech Rep.	1.50	1.50	1.75	1.81	1.88	2.00	1.92	2.00	3.25	3.75
Estonia	2.10	2.05	2.06	2.00	2.13	2.00	1.92	1.92	3.25	2.75
Hungary	1.50	1.50	1.75	1.94	1.63	1.67	1.75	1.92	2.50	3.00
Latvia	2.15	2.15	2.06	1.94	2.50	2.50	2.50	2.50	3.50	3.50
Lithuania	2.15	1.95	2.00	1.94	2.50	2.58	2.83	2.75	3.75	3.75
Macedonia	3.90	3.95	3.44	3.75	4.50	4.67	4.58	4.58	5.00	5.00
Poland	1.50	1.45	1.44	1.44	0.00	1.00	1.67	1.67	0.00	0.00
Slovenia	2.00	1.95	1.94	1.94	2.38	2.17	2.08	2.08	2.00	2.00
Yugoslavia	na	4.90	5.50	4.63	na	4.83	5.33	5.33	6.25	6.25
<b>Median</b>	<b>2.15</b>	<b>3.55</b>	<b>2.50</b>	<b>2.25</b>	<b>2.50</b>	<b>3.58</b>	<b>3.25</b>	<b>3.25</b>	<b>3.75</b>	<b>3.75</b>
<b>Average</b>	<b>2.86</b>	<b>3.12</b>	<b>2.98</b>	<b>2.82</b>	<b>3.14</b>	<b>3.37</b>	<b>3.30</b>	<b>3.25</b>	<b>4.12</b>	<b>4.07</b>
FORMER SOVIET UNION (EXCLUDING BALTICS)										
Armenia	4.70	4.80	4.50	4.56	4.00	4.08	3.58	3.58	5.75	5.75
Azerbaijan	5.60	5.55	5.50	5.56	5.13	5.00	5.00	4.92	6.00	6.25
Belarus	5.90	6.20	6.44	6.56	6.00	6.95	6.95	6.25	5.25	5.25
Georgia	4.70	4.55	4.00	4.19	4.13	4.00	3.67	3.75	5.00	5.25
Kazakhstan	5.30	5.35	5.38	5.56	4.38	4.50	4.50	4.50	6.00	6.25
Kyrgyz Rep.	4.65	4.70	4.88	5.13	3.75	3.75	3.83	4.00	6.00	6.00
Moldova	3.90	4.00	3.88	3.94	4.00	4.17	4.00	4.00	6.00	6.00
Russia	3.80	4.10	4.25	4.63	3.50	3.92	4.33	4.17	6.25	6.25
Tajikistan	6.20	5.95	5.69	5.44	6.13	6.13	6.00	5.50	6.00	6.00
Turkmenistan	6.90	6.90	6.94	6.94	6.38	6.42	6.42	6.50	6.00	6.25
Ukraine	4.00	4.25	4.31	4.44	4.25	4.75	4.58	4.33	6.00	6.00
Uzbekistan	6.35	6.45	6.44	6.50	6.25	6.25	6.25	6.17	6.00	6.00

Table E: Major Transition Indicators

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

\* SIGNIFICANT IRREGULARITIES  
 \*\* AS OF 2000



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

	SCORE 2001	1998	1999	2000	AVERAGE 1998-2000	PER CAP 2000 (\$)	2000 (\$ MILL)	PER CAP 2000 (\$)	2000 (\$)
<b>CONSOLIDATED DEMOCRACIES</b>									
Poland	1.44	4.8	4.1	4.1	4.3	4,108	29,052	240	751
Czech Rep.	1.81	-2.2	-0.8	3.1	0.0	4,797	21,673	434	2,102
Hungary	1.94	4.9	4.5	5.2	4.9	4,734	19,420	164	1,935
Latvia	1.94	3.9	1.1	6.6	3.9	3,019	2,430	139	1,027
Lithuania	1.94	5.1	-4.2	2.9	1.3	3,045	2,367	96	642
Slovenia	1.94	3.8	5.0	4.7	4.5	9,320	1,534	67	768
Estonia	2.00	4.7	-1.1	6.4	3.3	3,409	1,926	168	1,337
Slovakia	2.25	4.1	1.9	2.2	2.7	3,742	3,611	278	669
Bulgaria	3.06	3.5	2.4	5.0	3.6	1,484	3,307	120	407
Average	2.05	0.5	0.4	3.6	1.9	4,911	4,085	167	907
<b>CONSOLIDATED AUTOCRACIES</b>									
Romania	3.31	-5.4	-3.2	1.6	-2.3	1,596	6,768	45	303
Macedonia	3.75	2.9	2.7	5.1	3.6	1,685	437	85	219
Moldova	3.94	-6.5	-4.4	0.0	-3.6	326	438	23	102
Albania	4.13	8.0	7.3	7.8	7.7	1,195	546	27	161
Georgia	4.19	2.9	3.0	2.0	2.6	555	687	19	128
Ukraine	4.44	-1.9	-0.4	6.0	1.2	640	3,345	12	67
Armenia	4.56	7.2	3.3	6.0	5.5	504	605	39	159
Russia	4.63	-4.6	3.5	7.7	2.2	1,697	12,344	14	85
Yugoslavia	4.63	1.9	-19.0	10.7	-9.1	1,225	118	11	13
Bosnia	4.94	13.0	9.0	10.0	10.7	972	307	27	71
Kyrgyz Rep.	5.13	2.1	3.7	5.1	3.6	275	458	9	97
Tajikistan	5.44	5.3	3.7	8.3	5.8	158	144	4	23
Azerbaijan	5.56	10.0	7.4	10.5	9.3	507	4,092	61	502
Kazakhstan	5.56	-1.9	1.7	9.6	3.1	1,225	8,499	77	571
Average					3.4	897		32	179

NOTE: DATA SORTED BY 2001 DEMOCRATIZATION SCORE

Table G: Corruption and Gross Domestic Product (GDP)

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

NOTE: DATA SORTED BY 2001 CORRUPTION RATING



Table H: Economic Liberalization, GDP, and Inflation

	ECON SCORE 2001	GDP GROWTH (%)				GDP PER CAP 2000 (\$)	INFLATION RATE (%)			
		1998	1999	2000	AVERAGE		1998	1999	2000	AVERAGE
					1998-2000					1998-2000
<b>CONSOLIDATED MARKET</b>										
Poland	1.67	4.8	4.1	4.1	4.3	4,108	11.8	7.3	10.1	9.7
Estonia	1.92	4.7	-1.1	6.4	3.3	3,409	8.2	3.3	4.0	5.2
Hungary	1.92	4.9	4.5	5.2	4.9	4,734	14.3	10.1	9.8	11.4
Czech Rep.	2.00	-2.2	-0.8	3.1	0.0	4,797	10.7	2.1	3.9	5.6
Slovenia	2.08	3.8	5.0	4.7	4.5	9,320	8.0	6.1	8.9	7.7
Latvia	2.50	3.9	1.1	6.6	3.9	3,019	4.7	2.4	2.8	3.3
Lithuania	2.75	5.1	-4.2	2.9	1.3	3,045	5.1	0.8	1.0	2.3
Slovakia	3.25	4.1	1.9	2.2	2.7	3,742	6.7	10.6	12.0	9.8
<b>AVERAGE</b>				<b>4.4</b>	<b>3.1</b>	<b>4,522</b>			<b>6.6</b>	<b>6.9</b>
<b>TRANSITIONAL ECONOMIES</b>										
Bulgaria	3.50	3.5	2.4	5.0	3.6	1,484	22.2	0.7	9.9	10.9
Armenia	3.58	7.2	3.3	6.0	5.5	504	8.7	0.6	-0.8	2.8
Croatia	3.58	2.5	-0.4	3.6	1.9	4,211	5.7	4.2	6.2	5.4
Georgia	3.75	2.9	3.0	2.0	2.6	555	3.6	19.2	4.1	9.0
Kyrgyz Rep.	4.00	2.1	3.7	5.1	3.6	275	12.0	35.8	18.7	22.2
Moldova	4.00	-6.5	-4.4	0.0	-3.6	326	7.7	39.3	31.3	26.1
Romania	4.00	-5.4	-3.2	1.6	-2.3	1,596	59.1	45.8	45.7	50.2
Albania	4.17	8.0	7.3	7.8	7.7	1,195	20.6	0.4	0.4	7.1
Russia	4.17	-4.6	3.5	7.7	2.2	1,697	27.6	86.1	20.8	44.8
Ukraine	4.33	-1.9	-0.4	6.0	1.2	640	10.5	22.7	28.2	20.5
Kazakhstan	4.50	-1.9	1.7	9.6	3.1	1,925	7.3	8.3	13.2	9.6
<b>Other Countries</b>										
Bosnia	5.50	13.0	9.0	10.0	10.7	972	5.1	-0.3	1.9	2.2
Tajikistan	5.50	5.3	3.7	8.3	5.8	158	43.2	27.6	34	34.9
<b>AVERAGE</b>				<b>6.2</b>	<b>3.3</b>	<b>1,141</b>			<b>17.8</b>	<b>18.0</b>
<b>Other Countries</b>										
Turkmenistan	6.50	5.0	16.0	17.6	12.9	415	16.8	24.2	8.3	16.4
<b>AVERAGE</b>				<b>8.3</b>	<b>7.4</b>	<b>606</b>			<b>75.7</b>	<b>75.8</b>

NOTE: DATA SORTED BY 2001 ECONOMIC LIBERALIZATION SCORE



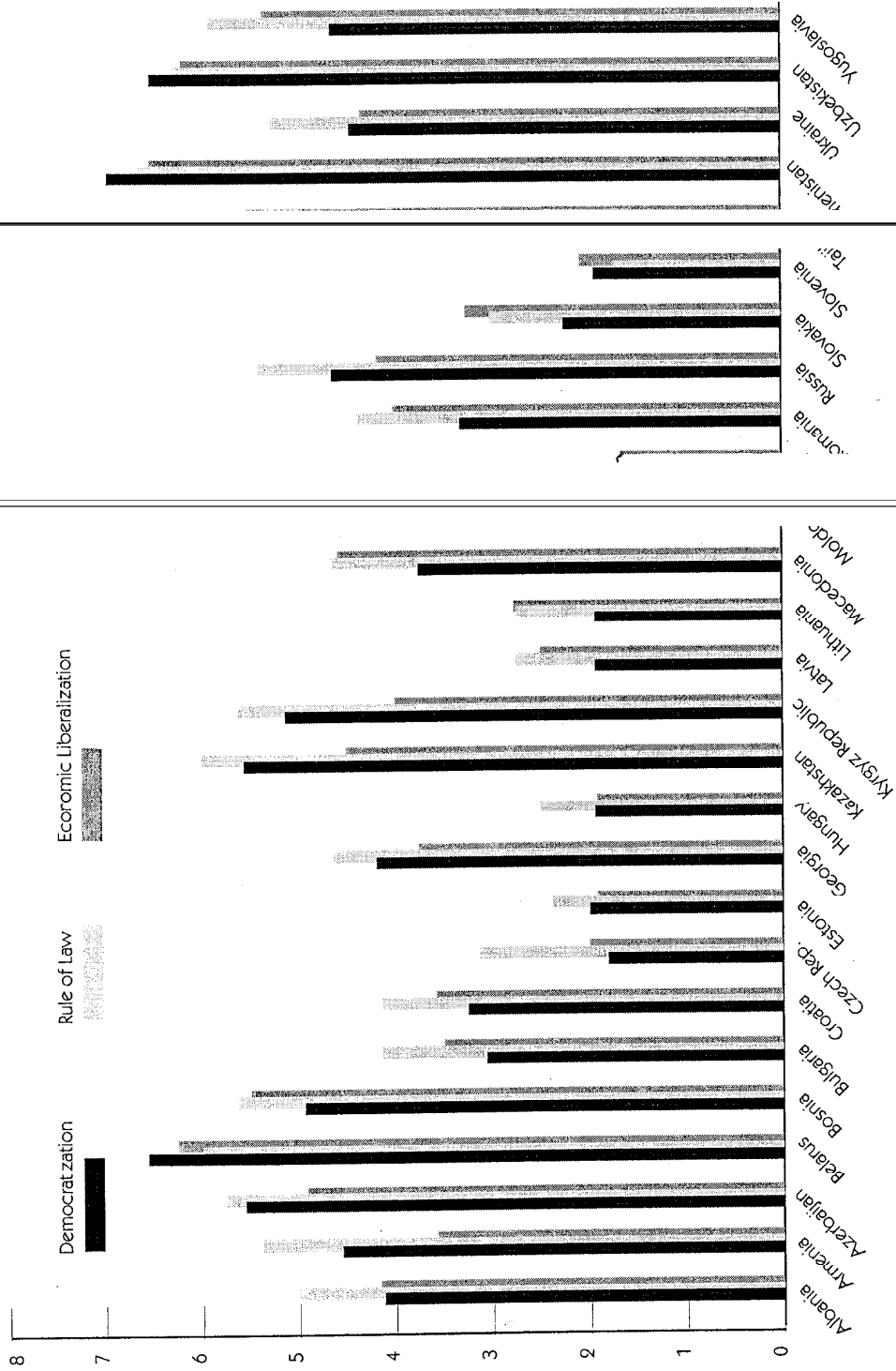
Table I: Democratization and Polity Classifications

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



▪ NATIONS IN TRANSIT

Figure 1: Nations in Transit 2001 Scores



the lowest level of democratic development. The

the highest level and 7 represent

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

Chart 2: Democratization and Economic Liberalization, NIT 2001

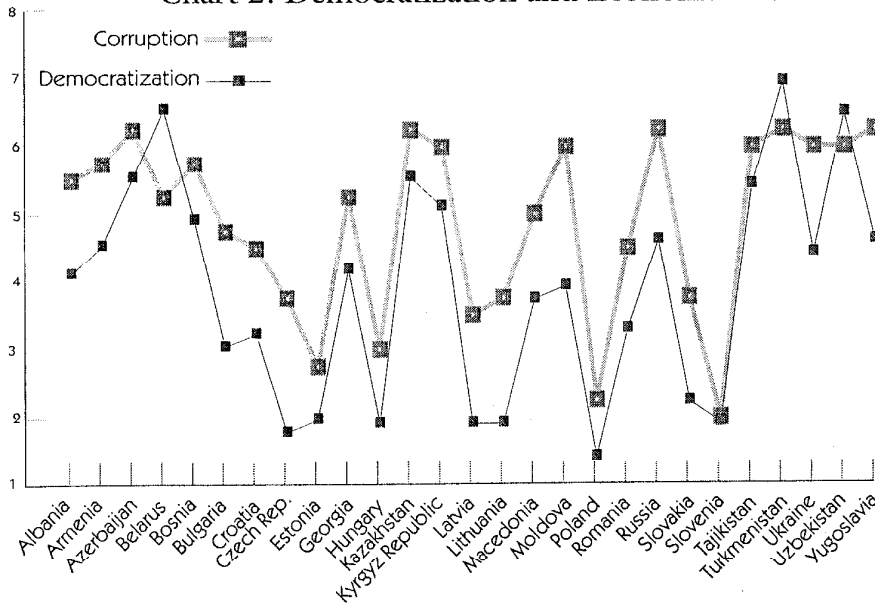
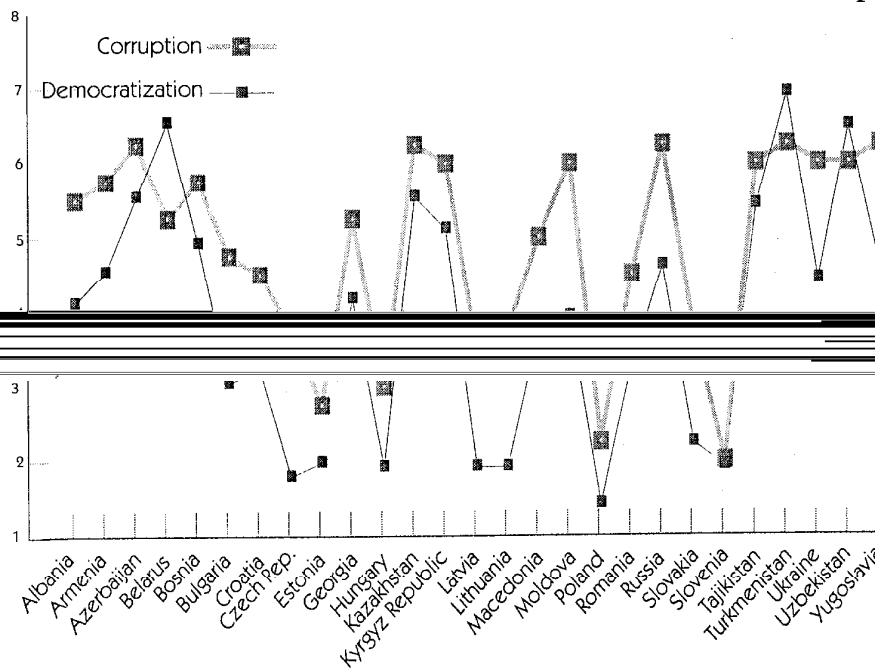


Chart 3: Democratization and Corruption, NIT 2001



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



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

*Alexander J. Motyl*

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

## DEMOCRACY, DESPOTISM, OR SOMETHING IN BETWEEN

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

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

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

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

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

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

TABLE 1: CUMULATIVE SCORES, 1997–2001

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

▪ NATIONS IN TRANSIT

MIDDLE: MOVING DOWNWARDS

Ukraine	35	36	36	33
Russia	36	34	32	30
Kyrgyzstan	38	36	35	34
<i>Mean</i>	36	35	34	32

LEAST ADVANCED (DESPOTIC STATES)

Yugoslavia	40	44	39	—
Kazakhstan	42	41	40	40
Azerbaijan	42	43	43	43
Tajikistan	44	47	48	49
Uzbekistan	51	51	51	51
Belarus	52	51	50	48
Turkmenistan	54	54	54	53
<i>Mean</i>	46	47	46	47

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

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

### LEGACIES OF COMMUNIST RULE

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



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

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

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central European development. Seen in this light, the “Big Bang” introduced by Prime Minister long movement away from communism.

Those countries that were most totalitarian and most imperial joined the third category, and those that were moderately totalitarian and imperial belonged to the second. ~~Like the second category countries, the polities in the third had almost no democratic~~

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governments, and elites. Both sets of countries therefore faced the immense, and perhaps impossible, task of constructing democracy, the market, rule of law, and civil society simultaneously under conditions of economic collapse and widespread popular immiseration. The third-category polities even lacked the skilled elites to contemplate such a heady task. Not surprisingly perhaps, the least advanced countries generally developed highly personalized dictatorships—Alyaksandr Lukashenka of Belarus, Saparmurat Niyazov of Turkmenistan, Heidar Aliiev of Azerbaijan, Nursultan Nazarbaev of Kazakhstan, and Islam Karimov of Uzbekistan come immediately to mind—resting on administrative control of much, if not all, of the economy. The middle countries adopted the veneer of formal democracy and the market, on the one hand, and bureaucratic authoritarian regimes with official and unofficial elites engaged in untrammelled rent seeking and theft, on the other.

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

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

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

### BIPOLARITY AMONG THE MIDDLE COUNTRIES

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

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

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

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

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

### VULNERABLE TO CHANGE

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

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

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

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

Third, if parasitic authoritarian systems manage to improve the living standards for key sectors of the population while refraining from opening their political systems, they may become prone to pressure from below by a middle class emboldened to engage in opposition.

Fourth, if the modernization thesis, this view holds that political structures at

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suasiveness of this view. Ironically, this argument leads us, counter-intuitively, to expect post-Communist regimes to become much more vulnerable to instability when life gets better; that is, when the autonomous, resource-endowed organizations characteristic of civil society and a middle class will have emerged and, precisely because of their autonomy and resource endowments, will be in the position to engage in effective opposition.

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

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

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

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

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

### CHOOSING POLITICAL ENGAGEMENT

The above analysis has several implications for Western policy toward the post-Communist

First, while the EU has no intention of expanding to most of the second- and

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1999—it is important that the door not be closed completely. Notwithstanding the obstacles represented by the EU's notoriously bureaucratic rigidities, the decisions adopted at the December 2000 EU summit in Nice point to a way of addressing this problem. Since groups of EU members will effectively be able to pursue varying degrees of institutional cooperation, over time the EU may develop into an institution consisting of concentric

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

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

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

# Thieves in Power: The New Challenge of Corruption

*Stephen Handelman*

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

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

Whatever gratitude Stankevich may have felt was soured by the scene that greeted him when he arrived. In an interview with the Russian newspaper *Novaya Gazeta*, Stankevich compared his friend's funeral with the funeral of Andrei Sakharov in 1989. On that cold December day eleven years earlier, Stankevich and other reformers led Sakharov's coffin on a silent march through Moscow, past a crowd of tens of thousands, in an event that was as much a celebration of the possibilities of the still-to-be-born New Russia as it was a wake for

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neral, Stankevich recalled. Most of the guests—"the cream of Russia's business world"—came to network. "Cell phones were ringing all over the place," he complained. The eulogies, it turned out, were background music for the more pressing private affairs of Russia's political and commercial elite.

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

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

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

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



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

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

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

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

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

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

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

### NO ONE IS IMMUNE

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

At the beginning of the 1990s, it was assumed that the countries with the strongest traditions of leaning toward a market economy and democratic institutions would be the least affected by corruption. At one level, this remains true. Poland, the Czech Republic, Hungary, Slovenia, and Estonia continue to get the best Freedom House scores on a com-

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disappearing" from state coffers, President Vaclav Havel said last year. Havel said he was "becoming really very concerned" about the apparent reluctance by his government to do anything about the growing level of corruption. "The state shows a strange inability to clear up these cases and find the perpetrators," he said. One reason may be the cooption of senior officials by criminal networks in neighboring countries. According to a report by the Czech counterintelligence service, foreign crime cartels, including Russian-based ones, are now active in the country. The inability or unwillingness to control national borders has left Hungary vulnerable to the same dark influences. That nation, which until recently was considered relatively transparent and free of the most egregious forms of state corruption, has become a base for powerful Russian gangs (with prominent political backers at home) that have established branches for laundering money and other criminal operations with the tacit help of local officials.

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

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

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

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

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

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

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

### THE POLITICS OF PROSECUTIONS

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

### WESTERN POLICY ON THE THIEVES IN POWER

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

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

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

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

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

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

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

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



# UKRAINE



**Polity:** Presidential-parliamentary democracy  
**Economy:** Mixed capitalist (transitional)  
**Population:** 49,500,000  
**GNP per capita at PPP \$ (1999):** 3,142  
**Capital:** Kiev  
**Ethnic Groups:** Ukrainian (73 percent),  
 Russian 22 percent, Jewish 1 percent, other 4 percent  
**Size of private sector as % of GDP (mid-2000):** 60

## NATIONS IN TRANSIT SCORES

	1997	1998	1999-2000	2001
Democratization	4.00	↓ 4.25	↓ 4.31	↓ 4.44

## KEY ANNUAL INDICATORS

Real GDP growth (% change)	-23.0	-12.2	-10.0	-3.0	-1.9	-0.4	6.0
Inflation rate	891.0	377.0	80.0	15.9	10.5	22.7	28.2
Exports (\$ millions)	13,894.0	14,244.0	15,547.0	15,418.0	13,699.0	12,463.0	15,722.0
Imports (\$ millions)	16,469.0	16,946.0	19,843.0	19,623.0	16,283.0	12,945.0	14,943.0
Foreign-Direct Investment (\$ millions)	151.0	257.0	526.0	581.0	747.0	489.0	594.0
Unemployment rate	0.3	0.5	1.3	2.3	3.7	4.3	4.2
Life Expectancy (years)	67.9	67.1	67.4	67.4	67.2	67.3	68.0

## INTRODUCTION

Ukraine became an independent republic in 1991. Since then it has developed into a presidential-parliamentary electoral democracy that holds multiparty elections. Despite reports of irregularities, international observers deemed the 1994 presidential and parliamentary elections and the 1998 parliamentary vote as generally free and fair. At the same time, Ukraine's government restricts some civil liberties, first and foremost freedom of the press. The judiciary is inefficient, overburdened, and subject to political interference. Corruption continues to be a serious issue.

The fall 1999 presidential election was the determining factor in Ukrainian politics during the period covered by this report. Incumbent President Leonid Kuchma soundly defeated Communist Party leader Petro Symonenko in a runoff, but the election was marred by multiple irregularities. Analysts deemed it the least democratic since independence. On December 22, 1999, President Kuchma proposed Viktor Yushchenko, the pro-market head of the National Bank of Ukraine, as prime minister. The *Verkhovna Rada* (parliament) approved the selection. In January 2000, for the first time since independence, an anti-Communist pro-presidential majority replaced parliament's leftist leadership. On April 16, 2000, Ukraine held a referendum to give the president broader authority.

Throughout most of the 1990s, Ukraine was slow to implement economic reforms. Limited progress was achieved in privatization, the liberalization of prices, and the reduction of trade barriers and subsidies. Widespread resistance within the parliament and the government itself slowed, or even blocked, reform efforts. Many industrial enterprises reduced or ceased production. Wage arrears remain a problem.

Put simply, democracy in Ukraine remains unconsolidated. In the period covered by this report, President Leonid Kuchma's policies drifted in the direction of authoritarianism. At the same time, the government led by Viktor Yushchenko (whose personal integrity and adherence to the principles of democracy and market economics are well-known) managed to ensure macroeconomic growth and keep inflation moderate. In fact, in 2000 gross domestic product (GDP) increased for the first time since independence. A positive shift in the economy could make the resolution of social problems more feasible and, in turn, could increase popular support for democratic reforms. Still, the country's economic situation remains problematic, especially in the energy sector. And the Yushchenko government is under attack by the oligarchs, i.e., leaders of the new politico-economic holdings whose power depends on the shadow economy and protection from the president.

Prime Minister Yushchenko is working with the new parliamentary majority to elaborate and adopt legislation that is necessary for economic, judicial, and political reforms. However, the success of these reform efforts will largely depend on the attitude of the president, who can dismiss the prime minister at will. Presently, Kuchma is trying to

maintain a balance between political groups that support Yushchenko and groups that want to replace him in the spring of 2001. The success or failure of the current government will be an important indicator of the future of democracy in Ukraine.

## DEMOCRATIZATION

### Political Process

1997	1998	1999-2000	2001
3.25	3.50	3.50	4.00

The political process in Ukraine has been marked by two contradictory trends. As a result of President Kuchma's reelection in 1999, an anti-Communist majority has taken control of parliament and approved the reform-minded Viktor Yushchenko as prime minister. However, the crack-down on the opposition that took place during the presidential campaign has continued. This was especially evidenced by the April 2000 referendum on constitutional amendments that would strengthen the president's powers and introduce a kind of "soft" authoritarianism. The amendments are now pending before parliament.

The political preferences of Ukraine's electorate are comparatively settled. Yet, in the periods between elections, the decision-making process is more like an undercover fight than a public debate. Political forces are constantly realigning, and political leaders are switching their allegiances. Reshuffling in the executive branch is frequent as well. Since 1994, Ukraine has changed prime ministers five times.

The most recent elections to Ukraine's 450-seat unicameral parliament were held on March 29, 1998. The introduction of a proportional-majoritarian system stimulated the alignment of parliament along party lines. Winners in single-member districts now fill 225 seats, and candidates on party lists occupy the other 225 seats. Thirty parties or blocks qualified to participate in the election, but only eight met the four percent threshold to secure seats. More than 75 percent of the elected deputies were affiliated with parties.

During the 1999 presidential campaign, President Kuchma preferred to split parties and balance between them so that factions were constantly realigning. This process has been even more active since his reelection. In January 2000, the parliament split into two rival bodies that held separate sessions. Ultimately, the pro-presidential majority proved victorious, and parliament's leftist leadership was forced out. The new majority includes 11 out of 13 factions and excludes the Communists and the socialists.

Parliament can influence the government by rejecting a candidate for the post of prime minister or by rebuffing the government's program. Since parties have no significant say in the government's formation, though, the 1998 parliamentary election did not result in serious cabinet changes. The Yushchenko government, which was formed



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in early 2000, enjoys the support of a pro-presidential majority but does not reflect the current composition of parliament. It is dominated by non-party politicians as well. The influence of political parties at the local level is even less. After the 1998 elections, party members accounted for only 7.6 percent of local deputies. However, among the heads of *rayon* and *oblast* radas (district and regional councils) this figure increases to 19.6 percent.

The 1998 elections were followed by approximately 90 lawsuits challenging the actions of local election authorities. Local authorities denied many opposition candidates the possibility of indoor meetings. Government-controlled media were very biased. And military officers often "helped" the soldiers fill out their ballots "properly." Likewise, the Central Electoral Commission counted the votes for party lists for three days and made corrections for a month. These actions aroused suspicions of foul play. Nevertheless, official observers from the Parliamentary Assembly of the Council of Europe reported that the violations did not affect the election results significantly. These elections and the first post-Communist elections in 1994 were considered generally free and fair.

The next parliamentary elections are scheduled for March 2002. A new draft of the electoral law, which has passed its first reading, introduces a fully proportional system of representation. This model favors large parties, principally the left-of-center ones, and raises the possibility that the oligarchs could try to reinstate a majoritarian system. Thus, it is highly likely that the existing mixed system ultimately will be preserved. If the constitution is amended according to the April 2000 referendum results, the total

number introduced. It is still unclear, though, when the second chamber will be introduced (the president's legislative proposals for constitutional amendments omit this question) and how it will be formed.

The last presidential election took place in fall 1999. The first round was held on October 31 and the second round on November 14. By law, a presidential candidate must be at least 35 years old, speak Ukrainian, and have lived in Ukraine for at least 10 years. Candidates also must collect at least 1 million signatures from voters, with a minimum of 30,000 signatures from 16 of Ukraine's 24 oblasts. Fifteen candidates delivered their signature lists on time for the 1999 election, but the election commission only certified nine. When the other six candidates appealed to the supreme court and won, the election commission was forced to register them. Perhaps, this reflected the presidential administration's strategy of splitting the opposition camp.

In the first round of voting, President Kuchma received 36.49 percent of the vote, and Communist Party candidate Petro Symonenko took 22.24 percent. Other candidates performed as follows: Oleksandr Moroz (Socialist Party), 11.29 percent; Natalia Vitrenko (Progressive Socialist Party), 10.97 percent; and Yevhen Marchuk (an independent candidate), 8.13 percent. Kuchma defeated communist

hardliner Symonenko in the second round with 56.25 percent of the vote.

Observers deemed the election as far from fair. According to the Organization for Security and Cooperation in Europe (OSCE), there was clear evidence that public officials systematically campaigned for Kuchma, that media were biased toward Kuchma, and that election procedures were not followed according to the law. Students and workers at state-owned enterprises were forced to attend pro-Kuchma rallies. Observers also recorded cases of voters casting multiple ballots. However, these violations did not affect the final outcome.

Even worse violations were reported during the April 2000 referendum. To ensure a vote in favor of expanding the president's authority, the executive branch put extreme pressure on every government agency, including the electoral commission. And it succeeded. According to international observers, the referendum was neither free nor democratic, apart from having a very weak legal basis.

Voter turnout in Ukraine at the national level has declined from 84.9 percent in the December 1991 referendum and presidential election to 63.8 percent in the 1998 parliamentary elections and to 70.2 and 74.9 percent in the first and second rounds of the 1999 presidential election. According to exit polls conducted by the Kyiv International Institute of Sociology, female participation in rounds one and two of the 1999 election was 50.6 and 51.2 percent, respectively. Overall, women account for 54.9 percent of the electorate. For the April 2000 referendum, voter participation rose to 81.2 percent. However, these data cannot be considered reliable because of obvious election violations. Only 54.3 percent cast their votes before April 16.

Since recent local elections have coincided with parliamentary elections, voter turnout is the same. However, in several mayoral elections in 1999 and 2000, turnout rarely exceeded 50 percent.

There are no onerous barriers to the registration of a political party. As a result, by fall 2000, there were 105 legally registered parties. However, most of them only exist on paper. In March 2000, parliament adopted a law on political parties that, if signed by the president, could make conditions for registration more stringent.

Only two Ukrainian parties have ever been banned. In 1991, the Communist Party of Ukraine was declared illegal in the wake of the August coup d'etat attempt. However, a new independent Communist Party was legalized in 1993. In 1995, the Ministry of Justice annulled the registration of the extreme right Ukrainian National Assembly-Ukrainian National Self-Defense (UNA-UNSO), but it was renewed when the UNA split from the UNSO (its paramilitary wing).

According to party estimates, almost two million Ukrainians (or four percent of the population) belong to parties. But this figure does not seem to be reliable because the number of persons who actually pay dues is much smaller. Only a handful of parties are mass membership based. These include the Communist Party (about 140,000 members),

the Socialist Party (about 28,000 members), and Rukh (60,000 before its split in 1999). The Social Democratic Party (United), the Agrarian Party, and the Peasants Party claim more than 100,000 members each, but these figures are doubtful.

Statistics on female membership are scarce, but, according to estimates, women comprise a minority of party members. For example, women account for 21 percent of the Communist Party's membership. The United Nations Development Programme (UNDP) has reported that the number of women in parliament rose from 4.2 percent in 1994 to 8.2 percent in 1998 (approaching the global average of 10 percent) and that the number of women in local radas has risen from 30 to 38 percent. Women account for more than 60 percent of civil servants.

Ethnic and religious minorities do not rely heavily on their own parties. Most Russians support all-Ukrainian leftist or centrist parties. As a result, three openly pro-Russian parties with slogans of "Slavic unity" did not overcome the four percent threshold in the 1998 parliamentary elections. On the eve of that election, the pro-Russian Verkhovna Rada of Crimea omitted a 1994 provision granting Crimean Tatars a quota for representation in that body. In the 1998 national elections, Crimean Tatars supported Rukh. Their leader, Mustafa Cemiloglu, was elected to parliament on Rukh's party list. Representatives of ethnic minorities are often elected in majoritarian districts. Ethnic minorities are active in parliament and in the presidential entourage.

#### Civil Society

1997	1998	1999-2000	2001
4.00	4.25	4.00	3.75

Civil society in Ukraine is still mostly atomized, and the activity of NGOs is overregulated. Nevertheless, the number of NGOs has grown quickly. The Law On Associations of Citizens was adopted in June 1999, and the draft of the Law "On Non-Profit Organizations" passed its first reading in October 2000.

According to a study by the Innovation and Development Center (IDC), at the beginning of 2000 there were approximately 28,000 NGOs in Ukraine. Of these, 95 percent were local NGOs; 4 percent, national; and 1 percent, international. Average annual growth between 1995 and 1999 was very rapid. Most Ukrainian NGOs are advocacy groups for women, children, families with many children, the poor, the disabled, and human rights. NGOs are the most developed in the Kiev, Lviv, Kharkiv, Donetsk oblasts. In small towns and villages, NGOs that operate well are an exception.

Thirty-eight ethnic groups have created their own civic and cultural NGOs. Of these, 25 operate at the national level. There are also several associations of ethnic NGOs. The most active ethnic organizations are those of the

Crimean Tatars, Jews, and Roma. Some receive aid from international organizations (e.g., the International Renaissance Foundation supports a Roma cultural development program).

The number of regional organizations for women is around 300. Of these, approximately 30 are all-Ukrainian and have an umbrella structure called the National Council of Women of Ukraine. Major women's organizations include the Union of Ukrainian Women, Women's Community (Zhinocha Hromada), the Union of Women of Ukraine, La Strada Ukraine, the Organization of Soldier's Mothers of Ukraine, and the Olena Teliha Ukrainian Women's Society.

The following laws currently regulate NGO activities: the Law On Associations of Citizens (June 1999), the Law On Charity and Charitable Organizations (1997), and the Law On Youth and Children Non-Governmental Organizations (1998). Resolutions of the Cabinet of Ministers and more than 350 resolutions and instructions concerning taxation also regulate NGOs.

Registration of an NGO is rather onerous. An organization must submit to local authorities or the Ministry of Justice an application, two copies of regulations documents, minutes of a foundation meeting, information about the founders and the administration of the future NGO, information about branches of the organization, and a receipt for payment of the registration fee. Registration must be completed within two months. Then, within a month, the NGO must also register with the Department of Statistics, the State Taxation Administration, the Ministry of Interior (the department which authorizes the making of the organization's seal), the State Employment Fund, the Social Insurance Fund, and the Pension Fund. It also must open a bank account. Another means of registering is by declarative or de facto legitimization. To do so, an NGO must send a letter to an authority saying that the organization is already in operation. As a rule, local NGOs or local branches of national NGOs register this way.

The organizational capacity of Ukrainian NGOs has improved noticeably, but it is still a widespread practice for NGO leaders to combine intellectual leadership with practical office management. The management structures of many NGOs outside Kiev and other regional centers do not clearly delineate the authority and responsibilities of every member and/or employee. Quite often, a Ukrainian NGO consists of a leader and a group of his or her friends and relatives. While an increasing number of NGOs have independent supervisory boards with formalized internal procedures and rules, such NGOs still remain in the minority. Ukrainian-language and some Russian-language materials are published by resource and research centers in Ukraine. IDC publishes a magazine for NGOs called *Perekhrestia* (Crossroads), and Freedom House publishes *NUO Novyny* (NGO News). Some materials are translated from English, and most materials are distributed free of charge. A dozen foreign assistance programs and joint Ukrainian-Western projects provide experienced trainers for NGOs.

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Most NGOs rely on donations and grants from foreign and domestic sources. Although an increasing number of NGOs has benefited from the growing interest of corporations, individuals, and society groups, only about one-fifth enjoys the philanthropy of local donors. In general, philanthropy and volunteerism are insufficiently developed and are usually connected to elections or publicity campaigns. Moreover, philanthropy is still mostly unofficial because of red tape and inadequate taxation. Companies prefer one-time donations, and few make long-term commitments.

Tax-exempt status exists for a limited number of organizations, including veterans' groups, Chernobyl-related organizations, and some organizations for children and the disabled. Registered nonprofit groups enjoy partial taxation benefits such as exemption from paying value-added taxes and capital-gain taxes. NGOs are obliged to disclose their revenue sources, and most do so when they acknowledge support for particular activities in their reports to donors. However, double bookkeeping is common.

Government procurement opportunities for private nonprofit service providers are virtually nonexistent. NGOs may not earn income or collect cost-recovery fees that would be tax-exempt, even if the money were spent on nonprofit activities or maintaining the NGO. Instead, an NGO may be the founder or cofounder of a commercial entity that donates part of its profit to the NGO. In such cases, any income (cost recovery fees included) is taxed as regular corporate income.

On February 12, 2000, President Kuchma issued a regulation On Stimulating Charitable Activity through tax exemptions. However, an amendment to the Cabinet of Ministers' decree On Income Tax on Citizens that parliament adopted on March 2, 2000, states that charitable aid must be considered income and taxed as income. On the other hand, the Ministry for Labor and Social Policy recently created a draft law on charity that will provide economic stimuli for charity.

Both the public and the policy-making community have shown an increasing awareness of the role of NGOs. Several NGOs, including IDC, the Pylyp Orlyk Institute for Democracy, and the Institute of Civil Society, offer expert analysis and create draft laws on NGO problems. Local authorities have started to show an interest in NGOs activities aimed at helping the poor, children, or the disabled. Some governmental institutions such as the Ministry of Labor and Social Policy are willing to cooperate with NGOs, while many other ministries do not pay significant attention to them. However, the role of NGOs is gaining in importance, especially when there are personal connections between NGO leaders and government officials. Former politicians and senior civil servants run some important NGOs.

The media's attitude toward NGOs is generally positive. According to an IDC poll conducted in fall 1999, the charitable activity of NGOs is the most popular subject for

journalists. Yet, NGOs are still terra incognita for the majority of Ukrainians. According to the magazine *Perekhrestia*, 59 percent of people asked to name an NGO could not name a single one. Only 8.5 percent did not trust NGOs.

Legal forms of interest group participation in politics include political parties, business groups, NGOs, and trade unions. Pensioners and groups that address veterans' issues, Chernobyl, and the environment often seek to influence policy making through public protests. Some interest groups (pensioners, women, and trade unions) have created their own parties, but they do not enjoy significant support and mainly are used by the executive branch to split the opposition. Much more effective are private businesses and directors of state-owned enterprises who lobby their parliamentary deputies and political parties.

The Federation of Trade Unions (FTU) is a successor to the former Soviet state-sponsored trade unions. As of January 1, 2000, it claimed membership of 15.6 million workers. In 1998, the number was 16.5 million. Several important branch trade unions have seceded from the FTU. According to unofficial estimates, the FTU's actual membership is much lower. In general, the number of unionized workers in Ukraine has declined because of the development of the private sector, the closing down of enterprises, and disappointment with trade-union activity among 50 to 60 percent of the country's 23 million economically active persons. The National Confederation of Trade Unions, which has a stated membership of 3 million, is in decline and has not passed the requirements for reregistering. In addition to the FTU, Ukraine's largest trade union federations are the Solidarity Federation of Trade Unions of Ukraine, the Confederation of Free Trade Unions of Ukraine, the Federation of Trade Unions "Our Right", and the Association of Solidarity of Workers (VOST). Their total membership, however, hardly exceeds 1 million. On October 18, 2000, the constitutional court deemed several provisions of the Law On Trade Unions, Their Rights, and Guarantees of Activity (September 1999) as unconstitutional and, thus, eased the reregistration requirements for trade unions.

There are approximately 100 regional and 30 national associations for small businesses. The most influential group is the Union of Small, Medium and Privatized Enterprises. Yuri Yekhanurov, its former leader, was appointed to the post of first deputy prime minister early in 2000. Small businesses also have several rather strong trade unions such as the Federation of Trade Unions of Cooperatives and Other Forms of Entrepreneurship. However, according to the U.S. Agency for International Development (USAID), only 10 percent of all persons engaged in small businesses actively participate in these associations.

During the period covered by this report, the number of individual farms increased steadily, reaching 36,000 by January 2000 and 41,000 by July 2000. There are farmers' associations in every oblast and in most rayons. At the national level, there is the Association of Farmers and Private

Land Owners. According to expert estimates, around 10 percent of farmers pay dues to this association and around 30 percent actively participate in it.

#### Independent Media

1997	1998	1999-2000	2001
4.50	4.75	5.00	5.25

In 1999, the New York-based Committee to Protect Journalists included President Kuchma of Ukraine on its list of the world's ten worst enemies of the press. During the presi-

situation in Ukraine has been marked by the government's crackdown on freedom of the press. Opposition newspapers have been harassed or suspended, and television broadcasts have been censored.

According to official figures, by July 2000 there were more than 8,000 printed media in Ukraine, although only about 2,600 are published regularly. As much as 70 percent of Ukraine's print media is privately owned. However, the true owners of private newspapers prefer to hide their names from the public. That is why most nongovernmental media claim to have been founded and to be owned by their editorial staff.

The most influential private media include the newspapers *Zerkalo Nedeli/Dzerkalo Tyzhnia* (with a declared circulation of 48,000 copies), *Kijevskiy Telegraf* (50,000), *Biznes* (60,000), *Den'* (62,500), *Sil's'ki Visti* (500,000), *Fakty* (1,000,000), *Segodnya* (122,000), *Kijevskije Vedomosti* (80,000), and *Vechernije Vesti* (480,000). Influential private electronic media include the television channels Inter, Studio 1+1, STB, and ICTV, which have signals covering most of the country, and the FM-radio stations Radio Roks, Radio Kontinent, Gala Radio, and Radio Kijevskije Vedomosti. Ukrainian versions of Russia-based newspapers include *Moskovskiy Komsomolets-Diorama Plus* (410,000), *Izvestiya-Ukraina* (232,000), *Komsomolskaya Pravda v U* (130,000), *Argumenty i Fakty v Ukraine* (110,000), and *Stolichnyje Novosti* (70,000). Among news agencies, the private ones, including Interfax-Ukraina and UNIAN, are dominant. The official DINAU news agency looks like a mere Soviet relic.

The August 1998 Russian financial crisis greatly reduced the size of the advertising market. Today, most print media covering sociopolitical issues have to sell their publications very cheaply simply to hold on in the market. Newspaper-printing houses are state-owned. Newspapers are distributed by the state postal service Ukrposhta, state-owned kiosks, or private services. Some dailies also have a broad network of private citizens to sell their publications on the street.

The media's ability to gather news has been affected deeply by interference from oligarchs who control almost all major private media in Ukraine. Likewise, the media are subject to presidential pressure and are reluctant to criticize

the executive branch. Ukraine does not have an opposition television channel or an opposition newspaper with mass circulation. *Zerkalo Nedeli* is analytical and objective, but it is not oppositional. The audience of the oppositional *Sil's'ki*, *Komunist*, and *Tovarysh* is limited to the left and rural electorate. And the privately owned oppositional *Hrani* (circulation 30,000) is not subscription based and cannot be bought in kiosks; it is distributed on the street as a leaflet. It is no surprise, then, that according to a March 2000 survey by the Gfk-USM company (March 2000), BBC radio and the U.S.-sponsored Radio Svoboda have the highest credibility rating among all Ukrainian media. Both can be heard throughout the country.

and Radio Broadcasting, and the 1992 Law on Information provide for freedom of the press. However, these laws do not distinguish clearly between the right to privacy of ordinary individuals and that of politicians. As a result, politicians have sued the media extensively and demanded huge sums of money as compensation for "moral damage." Recently, Ukrainian journalists led a series of efforts to force parliament to limit damages to one percent of a newspaper's annual income. However, the legislation failed to pass through the pro-Kuchma legislature.

During the 1999 presidential campaign, tax police, fire brigades, and printing houses harassed media that were critical of Kuchma. In June 1999, Crimean authorities stopped broadcasts at four independent Crimean television companies. In July 1999, one of STB's leading journalists, Mariana Chorna, committed suicide in response to pressure being placed on the channel. And in August and September 1999, local tax officials froze STB's bank accounts and forced the channel to change its owner and its editorial policy. Live broadcasts of parliamentary session were halted in May 1999.

The crackdown on press freedom in Ukraine has continued since Kuchma's reelection. In September 2000, *Svoboda* was forced to suspend printing after it published articles that were highly critical of top government officials. The opposition *Sil's'ki Visti* was forced to pay an enormous tax fine and to suspend printing as well. On September 16, 2000, Heorhiy Gongadze, a well-known investigative journalist with the Internet newspaper *Ukrainska Pravda*, disappeared.

The journalistic community in Ukraine has disintegrated, and professional associations no longer play a significant role. The official post-Soviet Association of Journalists of Ukraine (AJU) is not fully independent. The AJU's official membership is 12,000 persons, about one-third of which are women. Women account for 10 to 15 percent of membership in the Guild of Chief Editors of Ukrainian Mass Media. There are also a number of Western-sponsored press organizations, including the Committee to Protect Journalists, the Ukrainian Media Club, and the Freedom of Speech Center. In general, these organizations do not affect the policy-making process significantly.

While the number of Internet users in Ukraine is on the rise, less than one percent of the population has regular





access to the Web. This is due more to poor communication networks, a lack of computers, and high service fees (up to \$0.70 per hour) than to political restrictions. Several influential and independent Internet media outlets have been created recently. These include Korrespondent.net, Ukrainska Pravda, Uatoday, and Part.org.ua.

Since 1997, government authorities have tried several times to seize control over the World Wide Web. On June 27, 1999, for example, President Kuchma signed a decree On Licensing for Several Types of Business Activity, which can make the receipt of a license to provide Internet service contingent on installing equipment that traces transmissions. Although parliament vetoed the decree, Internet service providers still fear government efforts to control the industry.

In Freedom House's *Survey of Press Freedom*, Ukraine has been rated "Partly Free" since 1992.

#### Governance and Public Administration

1997	1998	1999-2000	2001
4.50	4.75	4.75	4.75

During the campaigns for the 1999 presidential election and the April 2000 referendum, President Kuchma's administration used its power to limit the autonomy of other government bodies. However, Kuchma's actions did not violate the constitutional framework outright.

On January 13, 2000, members of parliament formed a working majority that occasionally supports economic reform measures. The status and competence of the Cabinet of Ministers remain unclear because the president repeatedly has vetoed a relevant law. As a result, the government is not responsible to parliament, and parliament has no leverage in the formation of the government. The president can fire the prime minister at any time.

If the April 2000 referendum results are implemented in law, the president will have the right to dissolve the lower chamber if it fails to "create a working majority" within a month or to pass a budget within three months. The definition of a "working majority" is still unclear.

Neither executive nor legislative bodies operate with full openness and transparency. Detailed data about the spending of public funds and state procurement are unavailable. Since existing legislation is vague about what constitutes a state or a military secret, officials broadly adhere to the practice of withholding information from the public. Experts and journalists use their personal connections with members of parliament and government officials to obtain draft legislation. Some NGOs have tried to publicize the texts of bills and laws.

Local radas strictly address local issues such as the establishment and control of communal enterprises and organizations, the introduction of local taxes and duties, the development and implementation of social and cultural projects, and the management of communal property. They

adopt and manage budgets for their territorial unit. Communities may call referendums on local issues and start local initiatives within their authority. Local and regional radas adopt programs for social, economic, and cultural development. They also adopt and control local and regional budgets. Parliament may terminate the powers of a local council if it decides that the council's actions contradict Ukrainian law.

The deputies of subnational levels of government are elected in direct elections that are generally free, but the media has reported an increase in interference from local state administrations and in illicit financial donations from businesses. Since heads of local state administrations are appointed and fired by the president, their loyalties are to the president's administration and not to the government. Several heads of local and regional state administrations were replaced after the 1999 presidential elections for failing to secure a majority of votes for Kuchma.

The Autonomous Republic of Crimea has its own constitution. The Crimean Council of Ministers operates a budget approved by the Crimean parliament, which has a substantial amount of independence from central authorities. However, Article 136 of the Ukrainian constitution contains an ambiguous provision that the head of the Crimean Council of Ministers must be appointed and dismissed by the Crimean parliament with the consent of the President of Ukraine. As a result, the pro-presidential government of Serhiy Kunitsyn remains in office, despite a no-confidence vote solicited by Communist Leonid Hrach, the head of the Verkhovna Rada of Crimea, on May 24, 2000.

Article 143 of the 1996 constitution and the 1997 Law On Local Self-Governance in Ukraine are aimed at decentralizing substantial power to subnational bodies and providing sufficient financing to local governments. However, this can happen only if budgetary functions are returned to district and regional governments. While several regional reform plans have been drafted, none have been endorsed officially.

Likewise, local and regional administrations have lost control of their budgets. The share of the state budget in the so-called consolidated budget increased from about 50 percent in the mid-1990s to more than 70 percent in 2000. This is mainly due to the centralization of taxes on personal incomes and enterprise profits. A draft budgetary code passed in its second reading in July 2000. However, according to estimates by the Ministry of Finance, even in the new consolidated budget the share of the state budget will equal 73 percent. Local and regional needs will be financed through budget transfers to regional administrations, which in turn will distribute them to lower administrative levels. This practice has been deemed inefficient because it can lead to payment delays, create opportunities for corruption, and limit the authority of local governments.

According to the Law on State Service, adopted in 1993 and amended in 1995 and 1996, civil servants are subordinated to the General Department of Civil Service of the Cabinet of Ministers. Local civil servants are nominally employees

of local governments. The law prohibits civil servants from misusing their authority but provides for no mechanism for enforcement. The law also gives civil servants the right to acquire information from a variety of sources and grants them a number of socioeconomic benefits.

Civil service reform is one of the most hotly debated issues by governmental officials and the media. In 1998, a special task force for administrative reform was created with former President Leonid Kravchuk as its head. To date, though, reforms mainly have concerned a decrease in the number of public officials and restructuring of the central executive organs. The most fundamental problems—redistributing functions and deregulating the economy—have seen no improvement. The number of civil servants as of 2000 was about 250,200. There were 176,800 in 1996 and 250,500 in 1997.

## RULE OF LAW

### Constitutional, Legislative, and Judicial Framework

1997	1998	1999-2000	2001
3.75	4.00	4.50	4.50

After his reelection, President Kuchma ordered a “nation-wide referendum on the people’s initiative” on six basic questions aimed at substantially expanding the president’s powers. The Parliamentary Assembly of the Council of Europe (PACE) harshly criticized the referendum, and the constitutional court deemed unconstitutional two proposals concerning the president’s power to dissolve parliament and the adoption of constitutional amendments by national referendum. On April 16, 2000, voters approved four other proposals concerning (1) the president’s right to dismiss parliament if it fails to form a majority or to approve a state

Reform of the criminal justice system continues slowly. The 1996 constitution calls for reform of the court system by 2001, but parliament has failed to pass two draft laws on the judiciary. In August 2000, President Kuchma founded a Council on Reform of the Judiciary to accelerate the process of drafting necessary bills.

The current criminal code and criminal procedural code were adopted in 1960, but they have been amended substantially since independence. Probably the most crucial amendment to the criminal code was parliament’s February 2000 decision to replace capital punishment with life imprisonment following the constitutional court’s December 1999 ruling. In January 2000, parliament amended the criminal procedural code to provide legal protection for witnesses in criminal cases. In March 2000, criminal responsibility for violating the copyright law on audio and video recordings was introduced. Lawmakers have been in the process of drafting a new criminal code for more than five years. Finally, in September 2000, the new draft criminal code, which the government and parliamentary experts developed jointly, passed its second reading in the Verkhovna Rada.

Chapter II of the constitution guarantees broad human rights and civil liberties, including political liberties and religious and minority rights. Article 41 defines private property rights, and Article 42 guarantees the right to engage in free enterprise. It also provides protection for fair competition in business. Human rights include the de facto right to own a business and private property, but the mechanisms for protecting this right are ill defined. In July 1997, the Verkhovna Rada ratified the European Convention on Human Rights. In December 1997, parliament passed the Law On the Authorized Representative of the Verkhovna Rada for Human Rights that introduced the office of the ombudsman. The ombudsman’s duty is to react to complaints of human rights abuse and to use his or her initiative to enforce human rights provisions and norms. However, the ombudsman has not been very active lately. For example,

the number of parliamentary deputies from 450 to 300, and (4) the formation of a bicameral parliament. The president included the first three proposals in a draft bill that the constitutional court approved in July 2000. When 150 lawmakers drafted their own version of the bill, which would water down Kuchma’s proposals and give more power to parliament, the court ruled it out. President Kuchma is putting enormous pressure on parliament to approve his bill.

The constitutional court issued several other important rulings during the period covered by this report. In June 2000, it deemed constitutional acts passed in February by the anti-Communist majority of then-split Verkhovna Rada. In December 1999, the court confirmed the status of Ukrainian as the state language and ruled that the death penalty was unconstitutional. The latter ruling came just before PACE was going to consider suspending Ukraine’s membership in the Council of Europe.

venes the right to freedom of movement.

According to the 1991 Law On the Procuracy, a prosecutor must issue an arrest warrant if a person’s detention exceeds three days. Citizens may appeal their arrest either to the court or to the prosecutor; they must be released if charges are not brought within 48 hours. The prosecutor authorizes searches. Judges must initiate trials within three weeks after charges are filed. However, a shortage of judges and delays in the court system has repeatedly led to violations of this law. In some cases, for example, suspects have been detained for months. And while suspects are entitled to free public defenders in criminal cases, the role of public defenders in trials is sometimes little more than pro forma.

The European Court on Human Rights has consistently declared as admissible the complaints of Ukrainian inmates about torture and inhuman treatment. In several cases, torture has resulted in death, according to a February 2000

report by the Bureau of Democracy, Human Rights, and Labor of the U.S. Department of State. Prisons are overcrowded and lack funds, and conditions in them are at odds with internationally recognized norms. Many inmates suffer from tuberculosis.

Article 24 of the constitution prohibits discrimination or privileges based on race, gender, ethnic and social origin, language, and political, religious, or other views. Ethnic minority rights are guarantees under Articles 10 and 11 of the constitution and the 1992 Law on National Minorities. This law calls for respect of ethnic minorities' traditions, religions, and languages, and guarantees support for the development of ethnic identity and self-expression. Representatives of ethnic minorities can be elected or appointed to all levels of government, and passports no longer mention one's ethnicity. In places where an ethnic minority constitutes the majority of the population, its language may be used, along with Ukrainian, in public offices and institutions. However, the constitutional court's December 1999 ruling that the use of the Ukrainian language is compulsory for public officials at the national and the local level has raised criticism from Russian-speakers. In reality, though, many Ukrainians (especially in the eastern part of the country) still live in a Russified environment. Because of Ukraine's economic difficulties, public funds for the needs of ethnic minorities, including the return and resettlement of some 300,000 Crimean Tatars, are decreasing.

The Constitution and the 1992 Law On the Status of Judges guarantee the impartiality of judges, even though the courts are funded through the Ministry of Justice. Article 128 of the constitution stipulates that the president makes the first appointment of a professional judge to a five-year term. In all other cases (except for appointments to the constitutional court), judges are endorsed by the Verkhovna Rada for life terms and are immune from prosecution. A judge can be arrested only with the permission of parliament. In October 1999, parliament stripped judges of immunity from administrative prosecution. The law also specifies liabilities for attempts to influence or limit judicial independence. And, yet, courts and prosecutors' offices remain vulnerable to pressure by the executive because they are overburdened and lack sufficient funding and staff.

Pressure on the judicial branch usually takes the form of personal requests or orders from high-ranking officials. During the 1999 presidential election, for example, the courts did not register many suits filed against President Kuchma and his supporters. Even the constitutional court was under pressure from Kuchma. Likewise, the Supreme Council of Justice, established in January 1998 to ensure fairness and professionalism in the judiciary, did not effectively perform its duties.

The March 1998 Law On State Executive Service introduced executive bodies in the Ministry of Justice to enforce judicial decisions. However, enforcement of judicial decisions is only effective in criminal cases. When it comes to civil cases in which private economic interests are involved,

judicial enforcement leaves a lot to be desired. This is largely because of the absence of a tradition of respecting private property, an inadequate legal framework, and a multitude of cases in which social rights are affected (i.e., when the government and enterprises fail to pay wages).

### Corruption

1999-2000	2001
6.00	6.00

Corruption in Ukraine is widespread. Economic and social activities are too tightly regulated, administrative control and judicial review are weak, and salaries for public officials are low. The roots of Ukrainian corruption are similar to other post-Communist countries. That is, wealth is concentrated in the hands of a small elite whose livelihood depends on its relations with patrons in government. Corruption has implicated people at the very top of the system and is an outgrowth of the struggle for control over key economic sectors. The energy sector has been the most lucrative (or at least the most discussed) in terms of corruption. Most of Ukraine's gas and oil come from Russia and, therefore, are subject to both political pressure and economic cronyism.

In August 2000, a major scandal erupted when two key officials at Unified Energy Systems (UES), Ukraine's principal energy importer, were arrested on charges of embezzlement and fraud. One of the officials, Oleksandr Tymoshenko, is married to Deputy Prime Minister Yuliya Tymoshenko. The second official, Valeriy Falkovich, was the deputy head of UES. Mrs. Tymoshenko, who was the head of UES at the time of the alleged fraud, claims that she was instrumental in reducing kickbacks and under-the-table payoffs. The current charges, she claims, are the result of a political campaign against her.

A second major scandal also has illuminated the murky connections between politics and the black market. This case involves former Premier Pavlo Lazarenko, who was indicted in June 2000 for transferring \$114 million to U.S. banks and brokerages. Lazarenko was jailed in San Francisco while awaiting the resolution of a Swiss extradition request. In the Swiss case, Lazarenko allegedly funneled more than \$170 million obtained in kickbacks into Swiss banks. All told, Lazarenko supposedly made as much as \$880 million from his tenure in office.

On June 29, the Geneva police court handed him an 18-month suspended sentence and confiscated \$6.6 million from his Swiss bank accounts. Lazarenko insisted that he wasn't acting alone and suggested that other top politicians were the corrupt ones. Lazarenko also has been accused of arranging at least three murders, including that of Yevhen Scherban, a prominent member of the Ukrainian legislature. Lazarenko continues to deny all charges, but President Kuchma wants Lazarenko to face trial in Ukraine.

In the process of defending himself, Lazarenko pointed to another questionable episode. He has claimed that in 1998 and 1999 officials in the Kuchma government diverted IMF funds to speculative government bonds. An audit produced no evidence for the charge, but the event strained relationships with Washington. Lazarenko's successor, Viktor Yushchenko, had to cancel a trip to Washington when he learned that President Clinton would not see him until Ukraine's government was "cleaned up." A parallel investigation was launched into suspected abuses of office by Viktor Yushchenko when he was the head of Ukraine's Central Bank.

What the foregoing shows is that corruption has been tied inextricably with political partisanship and has paved the way for a general atmosphere of corruption at all levels of government. Likewise, investigating corruption can be dangerous. Heorhiy Gongadze, a prominent investigative journalist, disappeared in September 2000 after publishing a dossier that linked Oleksandr Volkov, one of Ukraine's leading oligarchs, to organized crime. And there is little prospect that things will improve, primarily because Russia is focusing its attention on Ukraine's state energy and manufacturing sector. Several leading Russian entrepreneurs hope to reap the same windfall profits from Ukrainian privatization that they earned in Russia during the 1990s, and several mergers are underway. These include Lukoil's attempt to take over the Odessa oil refinery, Alfa bank's bid to buy a 76-percent interest in Kyiv Invest Bank, and Siberian Aluminum Group's purchase of a Ukrainian plant.

Ukraine's 1993 Law On the Civil Service specifies a code of ethics for civil servants, but the law generally is not observed. According to the 1995 Law On Fighting Corruption, civil servants may not engage in profit-generating activities. However, the law does not provide an enforcement mechanism and contains loopholes that allow civil servants to engage in "creative activities" like research, consulting, and lecturing. While top government officials formally resign their positions as heads of companies, they often continue to promote their interests through honorary positions.

According to the Law On Elections of the President of Ukraine (January 1999), presidential candidates must disclose their income. Applicants for civil service positions must do the same. In general, persons tend to understate their earnings and property holdings by reporting their official salaries, which are relatively low.

Under the constitution, the Auditing Chamber controls budgetary spending on behalf of parliament. However, its effectiveness is undermined by the 1996 Law On the Auditing Chamber, which only gives the chamber power to inform law-enforcement agencies about misdemeanors. In turn, the Office of Attorney General represents the state in court and monitors investigations and criminal procedures—a common role for attorney generals in continental European countries. Under the Provisionary Articles of the Constitution, which are in force until 2001,

this office has the power of general oversight over law enforcement "until the respective laws on other government oversight bodies take effect." However, the Office of Attorney General is unable to exercise oversight over the executive because it remains financially and materially dependent on it.

Ever year since 1994, the Ukrainian parliament, government, and presidential administration have devised anti-corruption initiatives. By October 2000, there were 52 legal acts devoted to fighting corruption, including the 1995 Law On Fighting Corruption. The provisions of these acts are generally not observed, and investigations into corruption by top officials that are undertaken by special parliamentary commissions, investigative journalists, or even the Audit Chamber tend to go nowhere. Prosecutions mainly affect low-ranking officials, but the cases against Pavlo Lazarenko Oleksandr Tymoshenko are exceptions.

One of the core reasons for the proliferation of corruption in Ukraine is excessive regulation in the economic and social spheres. To start an enterprise, an entrepreneur must obtain 15 permits and official notifications from various authorities. In 1999, the number of laws and bylaws regulating taxation exceeded 500; this was an improvement over 1998 when the number reached 664. In 1991, there were only 21 normative acts on taxation. Foreign investment is regulated by more than 130 normative acts. These acts were adopted in different times and often contradict each other. Moreover, more than 100 local and state authorities have the right to inspect enterprises and other legal entities (including NGOs). Sixty different authorities have the right to seize bank accounts, revoke licenses, or impose similar punitive actions. According to World Bank estimates, the annual sum of bribes in Ukraine equals the country's trade turnover for a two-month period. In 1998 the president issued a decree On Deregulation of Business Activity, which was intended to curb the ability of different authorities to inspect enterprises. However, the decree's provisions are vague, and judicial review and law enforcement are weak. Moreover, the decree does not pertain to nonprofit institutions.

The severity of punishments only makes the situation worse. In Ukraine, a person or legal entity criminally liable if the sum of unpaid taxes exceeds 1,700 *hryvnia* (UAH). This provides an incentive for authorities to extort bribes as an alternative to criminal punishment. There have been several attempts to raise the threshold of criminal responsibility for tax evasion, but to date no decision has been made. Moreover, the draft criminal code provides for criminal responsibility for involuntary tax evasion. The implementation of this provision would only increase corruption.

Under the draft taxation code, which aims to unite all taxation regulations in a coherent document, the rights of the tax administration remain vast. It would be free to launch inspections, demand and withhold materials and documents, and forcibly execute tax payments. However, members of parliament have criticized this provision, and the administrative section of the code will probably be revised.

Most people are willing to pay bribes to smooth or accelerate the provision of services such as installing a telephone, obtaining a license to operate a business, and applying for official documents. They also pay bribes to receive otherwise-deficit services like entrance to a university and admission to a hospital. In turn, low salaries tempt officials to extort bribes. In polls conducted in March 2000 by the Ukrainian Center of Economic and Political Studies, 60.5 percent of respondents confessed that they had bribed officials to receive services to which they are entitled by law. There are no effective anticorruption educational programs.

In its 2000 Corruption Perceptions Index, Transparency International ranked Ukraine 87 out of 90 countries and gave it a score of 1.5 (where 10 represents the lowest level of corruption). Transparency International ranked Ukraine 75 out of 99 with a score of 2.6 in 1999, and 70 out of 85 with a score of 2.8 in 1998. Likewise, a recent survey by the World Bank and the European Bank for Reconstruction and Development of 247 Ukrainian businesses revealed that 32 percent were affected by illegal payments to influence public policy and public institutions.

## ECONOMIC LIBERALIZATION

### SOCIAL INDICATORS

#### Privatization

1997	1998	1999-2000	2001
4.25	4.50	4.50	4.95

According to the State Statistics Committee, the share of GDP coming from the private sector in 1999 and 2000 was about 60 percent. The same committee has reported, though, that only 1.1 percent of industry is in purely private hands; 15.9 percent is entirely state or municipal property, while 0.4 percent is the property of foreigners. The remaining 82.6 percent, which contributes more than 54 percent of GDP, is former state property that has been corporatized and turned into shareholding companies. Between 25 and 50 percent of the shares in these enterprises

are held by state banks, and this allows state officials to

shadow) economy approaches 70 percent of GDP. The In-

During the period covered by this report, the government adopted 159 documents on privatization, 87 of which parliament passed as laws. These documents were intended to increase the number of enterprises that may be privatized and to make the privatization process fairer. Nonetheless, there are still gaps in legislation that slow down the privatization process.

Between January and September 2000, the state budget received only UAH 1,260 million (\$231 million) in privatization earnings. This was UAH 400-500 million less than the expected revenue. The state aims to raise \$2.5 billion in the sale of its telecommunications company Ukrtelecom. The June 2000 privatization law calls for the sale of a 50-percent stake (without one share), of which 25 percent must be sold to an investor that has worked in the telecommunications sphere for at least three years.

In the previous years, insider privatization was accomplished through Ukraine's certificate and re-compensation programs. Under the certificate privatization program, which ended in January 1999, privatization certificates that could be exchanged for stock in enterprises were distributed to citizens. Management and large investors, in turn, used the program to gain additional shares.

Generally, the public does not support privatization because it sees few possibilities to reap its benefits. As the number of success stories increases and public relations for the process improves, it is quite possible that the public will change its attitude. After President Kuchma was reelected, he issued a decree On Urgent Measures to Foster the Reform of the Agricultural Sector of the Economy (December 3, 1999). By July 2000, 97.9 percent of Ukraine's agricultural lands were distributed to those who work on it. However, former collective farm leaders head 72 percent of the country's new agricultural units. Farmers are in control

of arable lands passed its first reading in June 2000.

#### Macroeconomic Policy

1998	1999-2000	2001
4.50	4.50	4.25

Ukraine's primary taxes are the value added tax (VAT), the personal income tax, the enterprise profit tax, and customs and excise duties. The major problems plaguing the tax system are high compliance costs, the unequal distribution of the tax burden, and the ad hoc introduction of unjustified taxes to increase budget revenues. The share of taxes in GDP in 1999 was 35.6 percent. The tax administration has become a means of exerting political pressure. During the sum-

code. I May 2000, and it passed its first reading in July.

that functions according to the 1997 Law On the National Bank of Ukraine. NBU has been one of the most reform-oriented power bodies. However, the Council of the NBU, which is made up of parliamentary deputies and government officials, has broad authority over credit and financial policy and could undermine the NBU's independence. In September 2000, the NBU reported that its currency and

gold reserves totaled only \$1,119 million, of which \$1,012 million are liquid. Its reserves were kept \$1,500 million through 1999, but the NBU's efforts to increase demand for the hryvnia have gradually sapped them.

Ukraine's 166 commercial banks possess a total capital of 3.2 billion hryvnias. A positive trend in 2000 has been the decrease in interest on loans from 52 percent in January to 35 percent in August. On February 21, 2000, the float value of the currency was introduced. As a result, the hryvnia was devalued but stabilized in May. The float rate of the currency helped maintain stability in the currency market and in the exchange rate. In October 1999, the exchange rate was UAH 4.5/\$1. Immediately after the December 1999 presidential election, it rose to UAH 5.22/\$1. By October 2000, the exchange rate was UAH 5.43/\$1.

Since October 1999, the Ministry of Finance has accumulated a UAH 2.9 billion debt with the National Bank in missed treasury bill payments. In September 2000, the National Bank issued a formal protest and forced the Ministry to repay UAH 73 million instantly. A possible solution to the problem is the restructuring of existing debt and a refusal by the NBU to purchase further treasury debt notes.

Ukraine has traditionally relied on the IMF for emergency funds and financing of its budget deficit. At \$2.7 billion, Ukraine's debt to the IMF is one-fifth of its foreign debt. In September 1999, the IMF suspended its loans when Ukraine failed to meet the conditions for funding. This matter is expected to be resolved by 2001.

#### Microeconomic Policy

1998	1999-2000	2001
5.25	4.75	4.50

During the period covered by this report, Ukraine showed modest success with regard to property rights, agricultural and energy sector reform, and growth in the production of goods and services. Annual inflation held steady at about 25 percent. According to the State Tax Administration, there are 1,770,000 private entrepreneurs in Ukraine. There are approximately 3.5 small enterprises per 1000 persons, employing 11 percent of the labor force. In comparison, the EU averages 42 small enterprises per 1000 persons.

The main threat to property rights in Ukraine is excessive regulation. The Tax Administration, in particular, may unilaterally seize bank assets from firms that are indebted to the budget and extra-budgetary funds. Up to 30 percent of all tax payments are extorted through this mechanism. There is a draft law that prescribes a property-based liability for the underpayment of taxes that only can be employed by a court decision. To date, it has not been adopted. Ukraine also maintains an overly complicated accounting system that requires parallel statistical and tax bookkeeping. International accounting standards are supposed to be introduced in 2001.

In April 2000, Ukraine took an important step in its protection of intellectual property when parliament passed the Law On Circulation of Audiovisual Production and Phonograms. The law replaces cumbersome and expensive procedures for obtaining permits to use audio and video products and creates a special marking for verifying a product's authenticity.

No further liberalization of consumer prices was achieved during the period covered by this report. The state controls some basic foodstuffs and provides subsidies for utilities and housing. The 2000 budget cut some social subsidies. Subsidies for people with low income are mostly indirect.

On May 6, 2000, the Cabinet of Ministers cancelled 259 normative acts providing subsidies and privileges that businesses often obtained through government connections. The Cabinet also cancelled 23 acts that allowed businesses to engage in barter trade or mutual debt cancellation instead of monetary transactions, mainly in the fuel and energy sector. (In 1999, these subsidies and privileges led to a UAH 4 billion decrease in budget revenues.) Most capital is accumulated in metallurgy and in fuel and energy production and distribution. Competition for government benefits prevents the concentration of capital in single hands but undermines the effectiveness and coherence of state policies. Arbitration remains fair but slow.

Laws on trade barriers that were adopted in 1999 and 2000 are contradictory, and frequent changes to legislation contributed to severe shortages of petroleum products. Capital controls imposed by the NBU were a factor in the decline in consumer imports. During the period covered by this report, the government took steps to attract foreign investment. According to the State Statistics Committee, in the first half of 2000 foreign investment in Ukraine totaled \$420 million (or 58.6 percent more than in the first half of 1999). According to *Wall Street Journal* estimates, average per capita foreign direct investment in Ukraine is \$25. (It is \$125 in Poland, \$130 in China, and \$450 in Hungary.) Ukraine has not developed an integrated policy for improving the investment climate. Total foreign capital in Ukraine reached only \$3.596 billion by July 2000.

Ukraine's energy sector is a particular problem. Many members of parliament opposed Prime Minister Yushchenko's decision to make Yuliya Tymoshenko responsible for energy reform. However, since her appointment, Tymoshenko reportedly has reduced corruption in the energy sector and significantly increased cash payments, thus replacing the barter system that had been predominant in recent years. The share of monetary transactions in the sector has risen by 117 percent.

The next step in the reform process—privatization of *oblenergos* (regional energy distribution monopolies)—has been postponed repeatedly. The 1999 experience indicates that, once privatized, the *oblenergos* actually decrease their share of monetary transactions from 30 percent to about 1 percent. Instead, they engage in barter and export the acquired goods for profit. The government wants to elimi-

nate loopholes that make this practice possible, but this goal has delayed the privatization process altogether.

Russia fulfills up to 50 percent of Ukraine's oil and gas needs, and Ukraine's debt to Russia is approximately \$1.5 billion. Kazakhstan and Turkmenistan could provide Ukraine with gas. However, since their pipelines pass through Russian territory, Russia controls the supply. Several countries have expressed an interest in constructing a new pipeline that will unite Central Asian and European markets and pass through Ukrainian territory. There is also hope of an alternative Baku-Supsa-Odessa-Brody-Gdansk oil route from the Caspian region. The oil terminal in Odessa and a new pipeline to Brody might be ready in 2001, if sufficient funding is found.

### Social Sector Indicators

The inability of Ukraine's public service sector to meet society's needs has undermined support for the government. Likewise, low wages have stimulated activity in the "shadow" economy. In the first quarter of 2000, according to the Ministry of Labor and Social Policy, expenditures on education were only 1.3 percent of GDP, on health care, 0.2 percent, and on social security, 2.2 percent. By the end of 1999, Ukraine was ranked 90 out of 185 countries in the United Nations Human Development Index. Monthly wages in the public service sector average UAH 150 to 300 (less than \$55), and service providers seldom receive public budgetary funds in full and on time.

According to the Auditing Chamber, only 49.4 percent of social expenses were funded in the first quarter of 2000. Likewise, the International Labour Organization has reported that Ukraine used only 44 percent of its industrial capacity in 1999. The debt on wage payments was UAH 6.4 billion in June 2000. According to the United Nations, Ukraine's average monthly income dropped from \$37 in 1998 to \$25 in 1999. In July 2000, President Kuchma signed a decree that set the average wage for the first quarter of 2001 at UAH 194.

According to the Ministry of Labor and Social Policy, unemployment was 4.24 percent (1.9 million people) by September 1, 2000. This is 1.1 times the level one year earlier. The government has estimated that unemployment will rise even further. The number of vacancies has increased from 35,000 to 74,000 over the last three years. About a

half of those who are unemployed go to employment services. In 1999 and 2000, the unemployment rate was 5.5 percent for women and 3.1 percent for men. Persons aged 35 to 39 account for 80.1 percent of unemployment. Persons under the age of 19 account for 10.7 percent.

In 1999, Ukraine owed UAH 1,973 million in pensions payment, but in 2000 the government claimed that it had repaid the debt. The government submitted a draft pension reform law in 2000 would extend the retirement age by 5 years (to age 65 for men and 60 for women) and diversify pension sources. Already people can opt for non-state pension funds, but the lack of consistent and comprehensive legislation prevents the system from functioning well.

The system of higher education in Ukraine is similar to that of economically developed nations in Europe. In 2000, there were 207 state and 96 private higher education facilities. One's first higher education degree is free of charge in state facilities, but state funding is insufficient. Corruption associated with examinations is common. In 2000, though, NGOs and foreign donors supported a new initiative to develop a system of independent educational testing.

According to International Labour Organization, Ukraine's population decreased from 52 to 50 million during the last decade. The Economics Institute of the National Science Academy has reported that average life expectancy is 68.6 years, or 73.9 years for women and 63.3 years for men. In its rating of national health protection systems, the United Nations has ranked Ukraine 79 out of 191 countries because of insufficient financing and treatment. Expenditures on health protection have declined from 4 percent to 2.5 percent of the state budget, and the average wage for medics is only UAH 130. In June 2000, Ukraine adopted a decree by the Cabinet of Ministers On the Realization of a Health Protection Program in Ukraine. The Ministry of Health Protection and the Academy of Medical Sciences of Ukraine also started a project to create community-based clinics at which patients will pay in cash for treatment.

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Last Update: October 20, 2000

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