

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

APPENDIX I: REFORM INDICATORS

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A. Economic Policy Reforms: Indicators & Description of EBRD's Rating Categories

First Stage Reforms

Small-scale Privatization

- 1 Little progress
- 2 Substantial share privatized
- 3 Nearly comprehensive program implemented, but design or lack of government supervision leaves important issues unresolved (e.g. lack of tradability of ownership rights)
- 4 Complete privatization of small companies with tradable ownership rights
- 5 Standards and performance typical of advanced industrial economies: no state ownership of small enterprises; effective tradability of land

Price Liberalization

- 1 Most prices formally controlled by the government
- 2 Price controls for several important product categories, including key infrastructure products such as utilities and energy; state procurement at non-market prices remains substantial
- 3 Substantial progress on price liberalization including for energy prices; state procurement at non-market prices largely phased out
- 4 Comprehensive price liberalization; utility pricing ensuring cost recovery
- 5 Standards and performance typical of advanced industrial economies: comprehensive price liberalization; efficiency-enhancing regulation of utility pricing

Trade & Foreign Exchange System

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

Extensiveness of Legal Reform for Investment:

- 1 Legal rules concerning pledge, bankruptcy and company law are very limited in scope. Laws impose substantial constraints on the creation, registration and enforcement of security over movable assets, and may impose significant notarization fees on pledges. Company laws do not ensure adequate corporate governance or protect shareholders' rights. Bankruptcy laws do

not provide for certainty or clarity with respect to the definition of an insolvent debtor, the scope of reorganization proceedings or the priority of distribution to creditors following liquidation. Laws in these substantive areas often have not been amended to approximate those of more developed countries and the laws that have been amended contain ambiguities or inconsistencies.

- 2 Legal rules concerning pledge, bankruptcy and company law are limited in scope and are subject to conflicting interpretations. Legislation may have been amended but new laws do not necessarily approximate those of more developed countries. Specifically, the registration and enforcement of security over movable assets has not been adequately addressed, leading to uncertainty with respect to the registration and enforcement of pledges. Pledge laws may impose significant notarization fees on pledges. Company laws do not ensure adequate corporate governance or protect shareholders' rights. Laws may contain inconsistencies or ambiguities concerning, inter alia, the scope of reorganization proceedings and/or the priority of secured creditors in bankruptcy.
- 3 New or amended legislation has recently been enacted in at least two of the three areas that were the focus of this survey--pledge, bankruptcy or company law--but could benefit from further refinement and clarification. Legal rules permit a non-possessory pledge over most types of movable assets. However, the mechanisms for registration of the security interest are still rudimentary and do not provide parties with adequate protection. There is scope for enforcement of pledges without court assistance. Company laws may contain limited provisions for corporate governance and the protection of shareholders' rights. Bankruptcy legislation contains provisions for both reorganization and liquidation but may place claims of other creditors in priority to those of secured creditors in liquidation.
- 4 Comprehensive legislation exists in at least two of the three areas of commercial law that were the focus of this survey--pledge, bankruptcy and company law. Pledge law allows parties to take non-possessory pledges in a wide variety of movable property and contains mechanisms for enforcement of pledges without court assistance. The legal infrastructure, however, is not fully developed to include a centralized or comprehensive mechanism for registering pledges. Company laws contain provisions for corporate governance and the protection of shareholders' rights. Director and officer duties are defined. Bankruptcy law includes detailed provisions for reorganization and liquidation. Liquidators possess a wide variety of powers to deal with the property and affairs of a bankrupt.
- 5 Comprehensive legislation exists in all three areas of commercial law--pledge, bankruptcy and company law. Legal rules closely approach those more developed countries. These legal systems have a uniform (i.e., centralized registration) system for the taking and enforcement of a security interest in movable assets and also provide for adequate corporate governance and protect shareholders' rights. In particular the rights of minority shareholders are protected in the event of the acquisition by third parties of less than all of the shares of a widely held company. Bankruptcy law provides in a comprehensive manner for both reorganization and liquidation. Liquidators possess a wide variety of powers and duties to deal with the property and affairs of a bankrupt, including wide powers of investigation of pre-bankruptcy transactions carried out by the debtor. There are specialized courts that handle bankruptcy proceedings. Liquidators must possess certain minimum qualifications

Second Stage Reforms

Large-scale Privatization

- 1 Little private ownership
- 2 Comprehensive scheme almost ready for implementation; some sales completed
- 3 More than 25 percent of large-scale state-owned enterprise assets privatized or in the process of being sold, but possibly with major unresolved issues regarding corporate governance
- 4 More than 50 percent of state-owned enterprise assets privatized in a scheme that has generated substantial outsider ownership
- 5 Standards and performance typical of advanced industrial economies: more than 75 percent of enterprise assets in private ownership with effective corporate governance

Governance & Enterprise Restructuring

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

Competition Policy

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

Banking Reform

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

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

Non-Bank Financial Institutional Reform

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

Effectiveness of Legal Rules for Investment

- 1 Commercial legal rules are usually very unclear and sometimes contradictory. The administration and judicial support for the law is rudimentary. The cost of transactions, such as creating a pledge over a movable asset is prohibitive so as to render a potentially extensive law ineffective. There are no meaningful procedures in place in order to make commercial laws fully operational and enforceable. There are significant disincentives for creditors to seek the commencement of bankruptcy proceedings in respect of insolvent debtors.
- 2 Commercial legal rules are generally unclear and sometimes contradictory. There are few, if any meaningful procedures in place in order to make commercial laws operational and enforceable.
- 3 While commercial legal rules are reasonably clear, administration or judicial support of the law is often inadequate or inconsistent so as to create a degree of uncertainty (e.g., substantial discretion in the administration of laws, few up-to-date registries for pledges).
- 4 Commercial laws are reasonably clear and administrative and judicial support of the law is reasonably adequate. Specialized courts, administrative bodies or independent agencies may exist for the liquidation of insolvent companies, the registration of publicly traded shares or the registration of pledges.

- 5 Commercial laws are clear and readily ascertainable. Commercial law is well supported administratively and judicially, particularly regarding the efficient functioning of courts, liquidation proceedings, the registration of shares and the orderly and timely registration of security interests.

Environmental Policy Reform. The environmental policy reform indicator is the average of two components (as shown in *Table 1* below). The first is the degree of adherence to six key international environmental treaties: the Convention on the Wetlands of International Importance; the Convention on International Trade in Endangered Species of Wild Fauna and Flora; the Montreal Protocol for the control of CFC emissions; the Convention on Climate Change; the Convention on Biodiversity; and the Convention on Environmental Impact in a Transboundary Context. Countries are put into three groups on the basis of their progress towards signing and ratifying these treaties.

The second component attempts to measure progress in preparing and implementing national environmental action plans (NEAPs). Countries either have a NEAP planned or under preparation; or they have a NEAP prepared and under implementation.

Appendix I. Table 1. Environmental Policy Reform

	Treaties	NEAPs	Average
Bulgaria	5.0	4.0	4.5
Croatia	5.0	4.0	4.5
FYR Macedonia	5.0	4.0	4.5
Hungary	5.0	4.0	4.5
Latvia	5.0	4.0	4.5
Poland	5.0	4.0	4.5
Slovakia	5.0	4.0	4.5
Slovenia	5.0	4.0	4.5
Ukraine	5.0	4.0	4.5
Albania	4.0	4.0	4.0
Armenia	4.0	4.0	4.0
Azerbaijan	4.0	4.0	4.0
Belarus	4.0	4.0	4.0
Czech Republic	4.0	4.0	4.0
Estonia	4.0	4.0	4.0
Georgia	4.0	4.0	4.0
Lithuania	4.0	4.0	4.0
Moldova	4.0	4.0	4.0
Romania	4.0	4.0	4.0
Russia	4.0	4.0	4.0
Kazakhstan	3.0	4.0	3.5
Uzbekistan	3.0	4.0	3.5
Kyrgyzstan	1.0	4.0	2.5
Tajikistan	2.0	2.0	2.0
Turkmenistan	2.0	2.0	2.0
Bosnia-Herzegovina	1.0	2.0	1.5
CEE & Eurasia			4.0
Northern Tier CEE			4.4
Southern Tier CEE			3.9
Eurasia			3.9

Note: On a 1 to 5 scale, with 5 being most advanced.
 EBRD, *Transition Report 2000* (November 2000).

Infrastructure. This indicator averages EBRD ratings for reform progress in five infrastructure sectors: telecommunications, railways, electric power, roads, and water & waste water. The component scores are provided in Table 2 below:

(a) Telecommunications

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

(b) Railways

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

ancillary services and track maintenance. Establishment of rail regulator and/or implementation of access pricing and/or plans for a full divestment and transfer of asset ownership, including infrastructure and rolling stock.

(c) Electric power

- 1 Power sector operated as a government department; political interference in running the industry. Few commercial freedoms or pressures. Average prices below costs, with external and implicit subsidy and cross-subsidy. Very little institutional reform with monolithic structure and no separation of different parts of the business.
- 2 Power company is distance from government. For example, established as a joint-stock company, though there is still political interference. Some attempt to harden budget constraints, but management incentives for efficient performance are weak. Some degree of subsidy and cross-subsidy. Little institutional reform; monolithic structure with no separation of different parts of the business. Minimal private sector involvement.
- 3 Law passed which provides for full-scale restructuring of the industry, including vertical unbundling through accounting separation, setting up of regulator with some distance from the government, plans for tariff reform if effective tariffs are below cost, possibility of private ownership and industry liberalization. Little or no private sector involvement.
- 4 Law for industry restructuring passed and implemented providing for: separation of the industry into generation, transmission and distribution; setting up of a regulator, with rules for setting cost-reflective tariffs formulated and implemented. Arrangements for network access (negotiated access, single buyer model) developed. Substantial private sector involvement in distribution and/or generation.
- 5 Business separated vertically into generation, transmission and distribution. Existence of an independent regulator with full power to set cost-reflective tariffs. Large-scale private sector involvement. Institutional development covering arrangements for network access and full competition in generation.

(d) Roads

- 1 There is minimal degree of decentralization, and no commercialization has taken place. All regulatory, road management and resource allocation functions are centralized at ministerial level. New investments and road maintenance financing are dependent on central budget allocations. Road user charges are based on criteria other than relative costs imposed on the network and road use. Road construction and maintenance are undertaken by public construction units. There is no private sector participation. No public consultation or accountability take place in the preparation of road projects.

- 2 There is a moderate degree of decentralization, and initial steps have been taken in commercialization. A road/highways agency has been created. Initial steps have been undertaken in resource allocation and public procurement methods. Road user charges are based on vehicle and fuel taxes but are only indirectly related to road use. A road fund has been established but it is dependent on central budget allocations. Road construction and maintenance is undertaken primarily by corporatized public entities, with some private sector participation. There is minimal public consultation/participation and accountability in the preparation of road projects.
- 3 There is a fairly large degree of decentralization and commercialization. Regulation, resource allocation, and administrative functions have been clearly separated from maintenance and operations of the public road network. Road user charges are based on vehicle and fuel taxes and fairly directly related to road use. A law has been passed allowing for the provision and operation of public roads by private companies under negotiated commercial contracts. There is private sector participation either in road maintenance works allocated via competitive tendering or through a concession to finance, operate and maintain at least a section of the highway network. There is limited public consultation and/or participation and accountability in the preparation of road projects.
- 4 There is a large degree of decentralization of road administration, decision-making, resource allocation and management according to government responsibility and functional road classification. A transparent methodology is used to allocate road expenditures. A track record has been established in implementing competitive procurement rules for road design, construction, maintenance and operations. There is large-scale private sector participation in construction, operations and maintenance directly and through public-private partnership arrangements. There is substantial public consultation and/or participation and accountability in the preparation of road projects.
- 5 A fully decentralized road administration has been established, with decision-making, resource allocation and management across road networks and different levels of government. Commercialized road maintenance operations are undertaken through open and competitive tendering by private construction companies. Legislation has been passed allowing for road user charges to fully reflect costs of road use and associated factors, such as congestion, accidents and pollution. There is widespread private sector participation in all aspects of road provision directly and through public-private partnership arrangements. Full public consultation is undertaken in the approval process for new road projects.

(e) *Water and Waste water*

- (1) There is a minimal degree of decentralization, and no commercialization has taken place. Water and wastewater services are operated as a vertically integrated natural monopoly by a government ministry through national or regional subsidiaries or by municipal departments. There is no, or little, financial autonomy and/or management capacity at municipal level. Heavily subsidized tariffs still exist, along with a high degree of cross-subsidization.

- (2) There is a low level of cash collection. Central or regional government controls tariffs and investment levels. No explicit rules exist in public documents regarding tariffs or quality of service. There is no, or insignificant, private sector participation.
- (3) There is a moderate degree of decentralization, and initial steps have been taken in commercialization. Water and waste-water services are provided by municipally owned companies, which operate as joint-stock companies. There is some degree of financial autonomy at the municipal level but heavy reliance on central government for grants and income transfers. Partial cost recovery is achieved through tariffs, and initial steps have been taken to reduce cross-subsidies. General public guidelines exist regarding tariff-setting and service quality but these are both still under ministerial control. There is some private sector participation through service or management contracts or competition to provide ancillary services.
- (4) A fairly large degree of decentralization and commercialization has taken place. Water and waste-water utilities operate with managerial and accounting independence from municipalities, using international accounting standards and management information systems. A municipal finance law has been approved. Cost recovery is fully operated through tariffs and there is a minimum level of cross-subsidies. A semi-autonomous regulatory agency has been established to advise on tariffs and service quality but without the power to set either. More detailed rules have been drawn up in contract documents, specifying tariff review formulae and performance standards. There is private sector participation through performance standards. There is private sector participation through the full concession of a major service in at least one city.
- (5) A large degree of decentralization and commercialization has taken place. Water and waste-water utilities are managerially independent, with cash flows—net of municipal budget transfers—that ensure financial viability. A municipal finance law has been implemented, providing municipalities with the opportunity to raise finance. Full cost recovery exists and there are no cross-subsidies. A semi-autonomous regulatory agency has the power to advise and enforce tariffs and service quality. There is substantial private sector participation through build-operate-transfer concessions, management contracts or asset sales to service parts of the network or entire networks. A concession of major services has taken place in a city other than the country's capital.
- (6) Water and waste-water utilities are fully decentralized and commercialized. Large municipalities enjoy financial autonomy and demonstrate the capability to raise finance. Full cost recovery has been achieved and there are no cross-subsidies. A fully autonomous regulator exists with complete authority to review and enforce tariff levels and performance quality standards. There is widespread private sector participation via service management/lease contracts, with high-powered performance incentives and/or full concessions and/or divestiture of water and waste-water services in major urban areas.

Appendix I. Table 2. Infrastructure

	Telecom	Power	Rail	Roads	Water/Waste	Average
Estonia	4.0	4.0	4.0	...	4.0	4.0
Hungary	4.0	4.0	3.3	3.3	4.0	3.7
Poland	4.0	3.0	4.0	3.3	4.0	3.7
Romania	3.0	3.0	4.0	3.0	3.0	3.2
Slovenia	2.3	3.0	3.3	3.0	4.0	3.1
Bulgaria	3.0	3.3	3.0	2.3	3.0	2.9
Czech Republic	4.0	2.0	2.3	2.3	4.0	2.9
Latvia	3.0	3.0	3.3	2.3	3.0	2.9
Lithuania	3.3	3.0	2.3	2.3	3.3	2.9
Croatia	3.3	2.3	2.3	2.3	3.3	2.7
Georgia	2.3	3.3	3.0	2.0	...	2.7
Armenia	2.3	3.3	2.0	2.3	2.0	2.4
Moldova	2.3	3.3	2.0	2.0	2.0	2.3
Russia	3.0	2.0	2.3	2.0	2.3	2.3
Slovakia	2.3	2.0	2.3	2.3	...	2.2
Albania	3.3	2.3	2.0	2.0	1.3	2.2
Kazakhstan	2.3	3.0	2.3	2.0	1.3	2.2
Ukraine	2.3	3.0	2.0	2.0	1.3	2.1
Bosnia-Herzegovina	3.3	2.0	2.0	...	1.0	2.1
FYR Macedonia	2.0	2.3	2.0	...	1.3	1.9
Azerbaijan	1.3	2.0	2.3	1.3	2.0	1.8
Kyrgyzstan	2.3	2.3	1.3	1.0	1.0	1.6
Uzbekistan	2.0	1.0	2.3	1.0	1.0	1.5
Belarus	2.0	1.0	1.0	2.0	1.0	1.4
Tajikistan	1.3	1.0	1.0	1.1
Turkmenistan	1.0	1.0	1.3	1.0	1.0	1.1
CEE & Eurasia						2.4
Northern Tier CEE						3.4
Southern Tier CEE						2.9
Eurasia						2.1

Note: On a 1 to 5 scale, with 5 being most advanced.

EBRD, *Transition Report 2000* (November 2000).

B. Democratic Freedoms: Elaboration of Freedom House's Rating Scheme of Political Rights and Civil Liberties

Freedom House annually rates political rights and civil liberties separately on a seven-category scale, 1 representing the most free and 7 the least free. The 1999-2000 Survey included 192 countries and/or territories. The 1-to-7 rating is derived by country teams awarding from 0 to 4 raw points per checklist item (shown below). The highest possible score for political rights is 32 points, based on up to 4 points for each of eight questions. The highest possible score for civil liberties is 52 points, based on up to 4 points for each of thirteen questions. Under the methodology, raw points correspond to category numbers as follows:

<u>Political Rights category number</u>	<u>Raw points</u>
1	28-32
2	23-27
3	19-22
4	14-18
5	10-13
6	5-9
7	0-4

<u>Civil Liberties category number</u>	<u>Raw points</u>
1	45-52
2	38-44
3	30-37
4	23-29
5	15-22
6	8-14
7	0-7

Political Rights checklist

1. Is the head of state and/or head of government or other chief authority elected through free and fair elections?
2. Are the legislative representatives elected through free and fair elections?
3. Are there fair electoral laws, equal campaigning opportunities, fair polling and honest tabulation of ballots?
4. Are the voters able to endow their freely elected representatives with real power?
5. Do the people have the right to organize in different political parties or other competitive political groupings of their choice, and is the system open to the rise and fall of these competing parties or groupings?

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

Civil Liberties checklist

1. Are there free and independent media, literature and other cultural expressions? (Note: In cases where the media are state-controlled but offer pluralistic points of view, the Survey gives the system credit).
2. Is there open public discussion and free private discussion?
3. Is there freedom of assembly and demonstration?
4. Is there freedom of political or quasi-political organization? (Note: This includes political parties, civic associations, ad hoc groups and so forth.)
5. Are citizens equal under the law, with access to an independent, nondiscriminatory judiciary, and are they respected by the security forces?
6. Is there protection from political terror, and from unjustified imprisonment, exile or torture, whether by groups that support or oppose the system, and freedom from war or insurgency situations? (Note: Freedom from war and insurgency situations enhances the liberties in a free society, but the absence of wars and insurgencies does not in itself make an unfree society free.)
7. Are there free trade unions and peasant organizations or equivalents, and is there effective collective bargaining?
8. Are there free professional and other private organizations?
9. Are there free businesses or cooperatives?
10. Are there free religious institutions and free private and public religious expressions?
11. Are there personal social freedoms, which include such aspects as gender equality, property rights, freedom of movement, choice of residence, and choice of marriage and size of family?
12. Is there equality of opportunity, which includes freedom from exploitation by or dependency on landlords, employers, union leaders, bureaucrats or any other type of denigrating obstacle to a share of legitimate economic gains?
13. Is there freedom from extreme government indifference and corruption?

Political Rights

1. Generally speaking, places rated 1 come closest to the ideals suggested by the checklist questions, beginning with free and fair elections. Those elected rule. There are competitive parties or other competitive political groupings, and the opposition has an important role and power. These entities have self-determination or an extremely high degree of autonomy. Usually, those rated 1 have self-determination for minority groups or their participation in

government through informal consensus. With the exception of such entities as tiny island countries, these countries and territories have decentralized political power and free sub-national elections.

- 2 Such factors as gross political corruption, violence, political discrimination against minorities, and foreign or military influence on politics may be present, and weaken the quality of democracy.
- 3 , 4, and 5. The same factors that weaken freedom in category 2 may also undermine political rights in categories 3, 4, and 5. Other damaging conditions may be at work as well, including civil war, very strong military involvement in politics, lingering royal power, unfair elections and one-party dominance. However, states and territories in these categories may still have some elements of political rights such as the freedom to organize nongovernmental parties and quasi-political groups, reasonably free referenda, or other significant means of popular influence on government.
- 6 Typically, such states have systems ruled by military juntas, one-party dictatorships, religious hierarchies and autocrats. These regimes may allow only some minimal manifestation of political rights such as competitive local elections or some degree of representation or autonomy for minorities. Category 6 also contains some countries in the early or aborted stages of democratic transition. A few states in Category 6 are traditional monarchies that mitigate their relative lack of political rights through the use of consultation with their subjects, toleration of political discussion, and acceptance of petitions from the ruled.
- 7 This includes places where political rights are absent or virtually nonexistent due to the extremely oppressive nature of the regime or extreme oppression in combination with civil war. A country or territory may also join this category when extreme violence and warlordism dominate the people in the absence of an authoritative, functioning central government.

Civil Liberties

- 1 This includes countries and territories that generally have the highest levels of freedoms and opportunities for the individual. Places in this category may still have problems in civil liberties, but they lose partial credit in only a limited number of areas.
- 2 Places in this category, while not as free as those in 1, are still relatively high on the scale. These countries have deficiencies in several aspects of civil liberties, but still receive most available credit.
- 3 , 4, and 5. Places in these categories range from ones that receive at least partial credit on virtually all checklist questions to those that have a mixture of good civil liberties scores in some areas and zero or partial credit in others. As one moves down the scale below category 2, the level of oppression increases, especially in the areas of censorship, political terror and the prevention of free association. There are also many cases in which groups opposed to the state carry out political terror that undermines other freedoms. That means that a poor rating for a country is not necessarily a comment on the intentions of the government. The rating may simply reflect the real restrictions on liberty which can be caused by non-governmental terror.
- 8 Typically, at category 6 in civil liberties, countries and territories have few partial rights.

For example, a country might have some religious freedom, some personal social freedoms, some highly restricted private business activity, and relatively free private discussion. In general, people in these states and territories experience severely restricted expression and association. There are almost always political prisoners and other manifestations of political terror.

- 9 At category 7, countries and territories have virtually no freedom. An overwhelming and justified fear of repression characterizes the society.

C. Democratic Freedoms Disaggregated: Elaboration of Freedom House's Rating Scheme in its Nations in Transit 2000

In its *Nations in Transit 2000*, Freedom House measures progress towards democratic freedoms by assessing a series of questions in six categories: (1) political process; (2) civil society; (3) independent media; (4) governance and public administration; (5) rule of law; and (6) corruption. Progress towards each category is rated on a seven-category scale, 1 representing the most advanced and 7 the least advanced.

Political process

- (1) When did national legislative elections occur? Were they free and fair? How were they judged by domestic and international election monitoring organizations? Who composes the government?
- (2) When did presidential elections occur? Were they free and fair?
- (3) Is the electoral system multiparty-based? Are there at least two viable political parties functioning at all levels of government?
- (4) How many parties have been legalized? Are any particular parties illegal?
- (5) What proportion of the population belongs to political parties?
- (6) What has been the trend of voter turnout at the municipal, provincial and national levels in recent years?

Civil Society

- (1) How many nongovernmental organizations have come into existence since 1988? How many charitable/nonprofit organizations? How many were there last year? Are they financially viable?
- (2) What forms of interest group participation in politics are legal? Which interest groups are active politically?
- (3) Are there free trade unions? How many workers belong to these unions? Is the number of workers belonging to trade unions growing or decreasing?
- (4) What is the numerical/proportional membership of farmers' groups, small business associations, etc?

Independent Media

- (1) Are there legal protections for press freedoms?
- (2) Are there legal penalties for libeling officials? Are there legal penalties for "irresponsible"

journalism? Have these laws been enforced to harass journalists?

- (3) What proportion of the media is privatized? What are the major private newspapers, television stations, and radio stations?
- (4) Are the private media financially viable?
- (5) Are the media editorially independent? Are the media's news gathering functions affected by interference from government or private owners?
- (6) Is the distribution system for newspapers privately or governmentally controlled?
- (7) What proportion of the population is connected to the Internet? Are there any restrictions on Internet access to private citizens?
- (8) What has been the trend in press freedom as measured by Freedom House's *Survey of Press Freedom*?

Governance and Public Administration

- (1) Is the legislature the effective rule-making institution?
- (2) Is substantial power decentralized to subnational levels of government? What specific authority do subnational levels have?
- (3) Are subnational officials chosen in free and fair elections?
- (4) Do the executive and legislative bodies operate openly and with transparency? Is draft legislation easily accessible to the media and the public?
- (5) Do municipal governments have sufficient revenues to carry out their duties? Do municipal governments have control of their own local budgets? Do they raise revenues autonomously or from the central state budget?
- (6) Do the elected local leaders and local civil servants know how to manage municipal governments effectively?
- (7) When did the constitutional/legislative changes on local power come into effect? Has there been a reform of the civil service code/system? Are local civil servants employees of the local or central government?

Rule of Law

- (1) Is there a post-Communist constitution? How does the judicial system interpret and enforce the constitution? Are there specific examples of judicial enforcement of the constitution in the last year?
- (2) Does the constitutional framework provide for human rights? Do the human rights include business and property rights?
- (3) Has there been basic reform of the criminal code/criminal law? Who authorizes searches and issues warrants? Are suspects and prisoners beaten or abused? Are there excessive delays in the criminal justice system?
- (4) Do most judges rule fairly and impartially? Do many remain from the Communist era?
- (5) Are the courts free of political control and influence? Are the courts linked directly to the Ministry of Justice or any other executive body?
- (6) What proportion of lawyers is in private practice? How does this compare with the previous year?
- (7) Does the state provide public defenders?
- (8) Are there effective antibias/discrimination laws, including protection of ethnic minorities?

Corruption

- (1) What is the magnitude of official corruption in the civil service? Must an average citizen pay a bribe to a bureaucrat in order to receive a service? What services are subject to bribe requests--for example, university entrance, hospital admission, telephone installation, obtaining a license to operate a business, applying for a passport or other official documents? What is the average salary of civil servants at various levels?
- (2) Do top policy makers (the president, ministers, vice-ministers, top court justices, and heads of agencies and commissions) have direct ties to businesses? How strong are such connections and what kinds of businesses are these?
- (3) Do laws requiring financial disclosure and disallowing conflict of interest exist? Have publicized anticorruption cases been pursued? To what conclusion?
- (4) What major anticorruption initiatives have been implemented? How often are anticorruption laws and decrees adopted?
- (5) How do major corruption-ranking organizations like Transparency International rate this country?