

Freedom barometer

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PREFACE

Friedrich Naumann Foundation for Freedom Western Balkans proudly presents you the Freedom Barometer. This Barometer has been developed in Southeast and East Asia by FNF's head of office in Bangkok. It is built on the most renowned indices* in the field of economic freedom, political freedom and rule of law. FNF experts use these data sources, carefully draw conclusions and give you a picture of countries from a distinguished perspective. What makes the Freedom Barometer special is the combination of data and in depth reports. The figures should encourage the reader to ask for the basis of the source. The old saying "never trust statistics until you forged it yourself" is applicable here. This means that people may have different interpretations of a specific index. Based on comparison, the Freedom Barometer aims to open a window of a wider perspective on issues which are dear to us as Liberals: human rights, democracy, press freedom and free trade, just to name a few.

All countries in the Western Balkans region (that is Croatia, Bosnia-Herzegovina, Serbia, Montenegro, Kosovo and Albania), have already acceded the EU or are embarking on this path. We think that the annual progress reports of the European Commission do not offer enough solid facts to make a picture of the overall situation in an accession country. The data assembled in our first edition of Freedom Barometer offers a useful alternative for politicians, economists and human rights activists to make up their own opinions. Reliable data sometimes poses a challenge: the Freedom Barometer has excluded Kosovo for it seems obvious that the statistical data available was not cross checked.

The figures show at first glance minor differences but looking more closely similarities and differences become evident. Croatia for example, despite its EU accession, is still fighting rampant corruption but gets good scores when it comes to the field of Human Rights protections. Press freedom is in all countries considered a problem: political infringement and economic dependency on political advertisement poses a challenge for unbiased journalism. Economic freedoms in the fields of property rights, size of government, regulation of credit, labour and business and the freedom to trade internationally offer excellent parameters for comparison between all five countries.

We are confident the Freedom Barometer can become a useful tool for experts and interested citizens to indulge in these three fields of research. Special thanks goes to my colleagues in Bangkok who helped us to craft this report, as well as the experts and partners of FNF in Serbia, Dušan Gamser and Pavle Mihajlović.

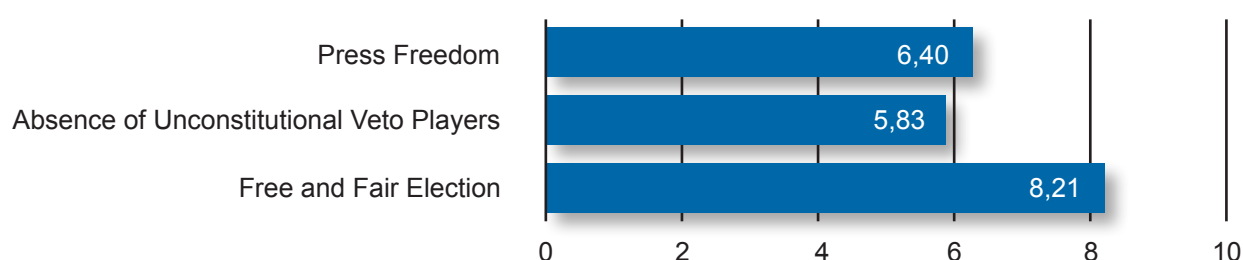
Charles du Vinage
Project Director, Western Balkans

* Fraser Institute - Economic Freedom of the World; Transparency International - Corruption Perception Index; Freedom House - Freedom in the World; Maplecroft - Human Rights Risk Index

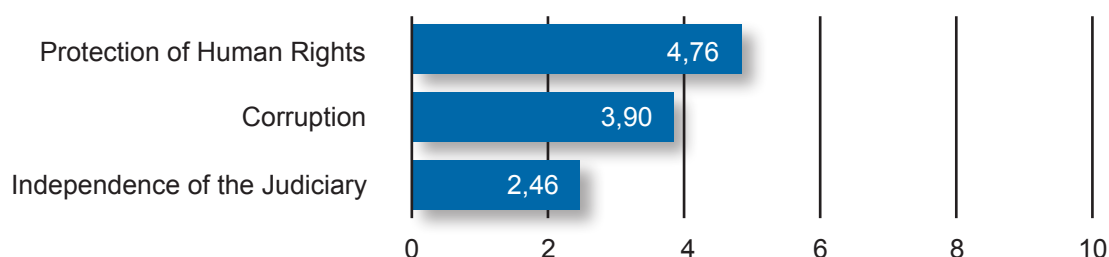
Serbia

GDP in 2012: EUR 33.704 million		
Yearly growth rate : -1,8%	per capita: 4.666 EUR	GDP by sector:
		agriculture 9%
		industry 27%
		services 64%
Population: 7.224 thousand	Human Development Index	Government deficit in 2012
Unemployment: 23%	HDI: 0,769 (rank: 64)	-7,0% GDP

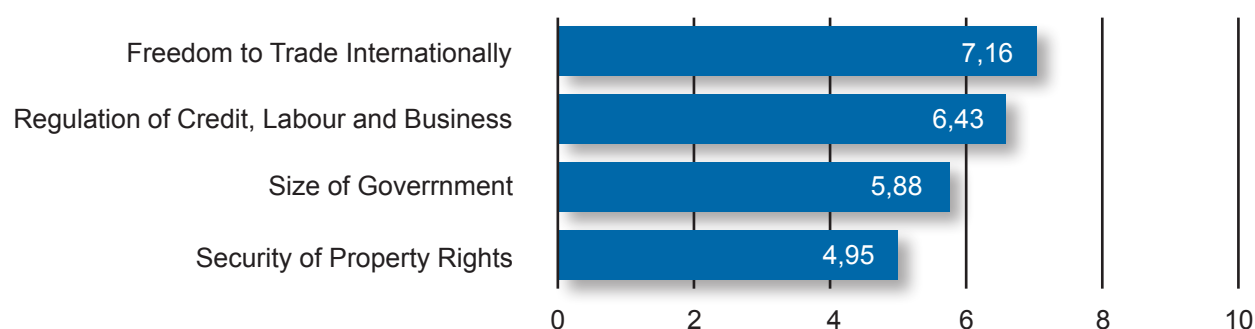
POLITICAL FREEDOM



RULE OF LAW



ECONOMIC FREEDOM



A. POLITICAL FREEDOM (20,44)

Elections in Serbia are generally free and fair, although the local and national elections were set on the very same day in 2008 and in 2012, which gave some advantage to the bigger parties. The electoral process has constantly improved since 2000, although the campaign reporting in media lacks necessary quality and unbiased analysis of the different party's policies. The greatest problem remains the inadequate reporting on sources and costs of financing of the election campaign, despite a law which requires political parties publish a full and comprehensive financial report on the costs of their election campaign and on its financial sources. The influence of money-politics is high. The president, who can only serve two terms, is elected every five years. The members of the National Assembly are elected for four-year terms. Political pluralism and participation is strong in Serbia, although MPs rarely risk expressing their opinion if it differs from the official one of their political party. The general threshold is 5%, except for the national minorities (0.4% per representative), which could be misused. The government coalition consists of more than 25 parties, due to the proportional election system, in which the whole country makes one electoral unit.

The unresolved issue of statehood for the mostly Serbian population in four municipalities in Northern Kosovo influences Serbian domestic and foreign policies decisively. These four municipalities, being officially part of the Kosovo province, harbour shadow businesses and organised crime not completely in range of Serbian forces. Kosovo unilaterally declared independence in 2008.

Russia, which rejects the independence of Kosovo, is among Serbia's most important international allies. In return, Russian authorities and investors enjoy a preferred status in Serbia. Russian companies hold significant assets in Serbia. Russian energy giant Gazprom Neft owns 56% of shares of Serbian NIS, responsible for 9% of Serbia's GDP and 12% of tax revenues. Serbia is also one of the few European jurisdictions inclined to cooperate with Russian authorities (for example, see Berezovsky).

Unearthed scandals indicate that powerful interest and business groups are able to influence police, media, the judiciary and legislation. The privatisation of state assets has repeatedly been subject to lack of transparency and manipulation. In 2012, the Serbian government launched a crackdown on organised crime and corruption to aid the country's bid to join the European Union – leading to the fall of Miroslav Mišković, one of the region's most enigmatic business tycoons.

Free and Fair Election
(8,21)

*Absence of Unconstitutional
Veto Players*
(5,83)

In recent years, extreme nationalist and ultra-right organisations have increased their influence and outreach. Under the cloak of Serbian patriotism, some enjoy the support of right-wing political organizations and selected members of the Serbian Orthodox Church (SOC). The influential SOC is often hesitant to condemn acts of violence towards members of the LGTB community.

The military complies with the rules set by government. However, the lack of transparency regarding structure, authority, activity and funding of different sectors and secret services gives reason for concern.

Press Freedom (6,40)

The press in Serbia is partly free and its levels have remained stagnant over the last few years. There is widespread self-censorship among journalists. The ownership structure of media is not transparent and politicians successfully and regularly exert pressure on the press to write on behalf of their interest. Hate speech is used in tabloids without judicial consequences. A press council should guarantee freedom of the media, but since the members of the board are chosen according to their political affiliation, the body is not meeting expectations. A draft law on public information and media is being discussed with the aim to bring more transparency in media financing. As the EU's progress report mentions, the press is still insufficiently analytical and balanced.

B. RULE OF LAW (11,12)

Independence of the Judiciary (2,46)

The Serbian judiciary is derisory, inadequate and displays little separation from the executive. Several recent attempts at reforms have even worsened the situation, reinforcing rather than removing political criteria regarding both the organization of courts and selection of judges. Legal uncertainty is common, backlog is huge and courts are inefficient and slow.

Political influence on courts or onto public prosecutors is strong. Corruption by outside influences - such as by business lobbies or by organised crime syndicates and even by religious authorities - are widespread. A considerable number of solicitors have allegedly joined the corrupt practices in the judicial process. 'Military departments' of civilian courts, which had replaced military ones following the 2005 reform, have still been influenced by the army and secret service. This has hindered, particularly, the prosecution of war crimes. There has been no lustration at all, in spite of the serious breaches of professional codes during the 1990s and prior. In Serbia the lack of the rule of law is the single most difficult obstacle to freedom.

Corruption (3,90)

Corruption is rampant in Serbia. It is mainly confined to the political and administrative sectors, although it is prevalent through the health care and

education systems, where it is the most visible and irritating to citizens. At the local level, construction permits top the list of vulnerable areas. Political parties have been the main catalysts of corruption. A partitocratic system is maintained through almost total control of appointments and employment in the (huge) public sector, circumvention of public procurement procedures, nontransparent transfers, donations, sponsorships and advertising. Financing of political party activities is regulated, yet implementation is little more than a facade.

Media are a part of the problem due to non-transparent ownership structures preventing effective de-centralisation, politically aligned oligopolies in marketing and non-transparent budget transfers to media. The Agency for Combating Corruption started its work in 2010, yet its activities are still sporadic, while occasionally biased. It has created a publicly available on-line database of public officials, including their income and property. The interest of CSOs in the anti-corruption matter is increasing and a government-inspired anti-corruption campaign was launched in late 2012. It led to the arrest of the country's biggest tycoon. Subsequent effects on political corruption have not yet materialised.

In Serbia the risk of kidnapping, unlawful killing or disappearance is low, a remarkable improvement when compared with 1990's. However, arbitrary arrests are still a huge problem. There are numerous cases of torture and ill treatment in custody. Treatment of refugees and IDPs is poor, similar to that felt by Roma, LGBTs and members of small or new religious communities. Year after year, Gay Pride is banned or kept indoors, for security reasons. Hate speech and vandalism against minority groups or human rights watchdogs is common. Prosecution of war criminals is continuing, albeit slowly, while the law on lustration for human rights abuse during previous (communist or nationalist) autocratic regimes expired without attempts at implementation. There is a high level of discrimination of women, certain age groups and ethnic minorities in employment. Political partisanship also plays a part in filling public sector jobs, in particular at the local level. Trade union activities are scarce in the private sector, while over-inflated in public sector. Restitution of private property nationalized after 1945, even though lagging behind the overall process of transition, was continuing smoothly during 2012, but slowed down during 2013. During the last couple of years, breakthroughs in fighting domestic violence have been made, mostly due to civil society efforts. However, human trafficking and child labour, including misuse of children for illicit activities, remain a very serious issue.

*Protection of
Human Rights
(4,76)*

C. ECONOMIC FREEDOM (24,40)

Security of Property Rights (4,95)

Protection of property rights is poor in Serbia. Main advantages are good levels of security and an absence of purchasing restrictions of land and property. However, deficiencies of the judiciary system are by far offsetting these modest advantages. Courts are partial and subject to constant political pressure, especially after the introduction of opaque and non-transparent processes of judge selection during the 2010 judiciary reform. Efficiency, especially in corruption and high crime cases, stays at very low level. Legal protection of private property is poor and enforcement of contracts is slow and uncertain. This is especially the case with government owned enterprises that are late with payment to the private sector, as well as with big corporations that have political backing.

Corruption within the public sector is widespread, as well as present in the judiciary system. It is estimated that between one third and one quarter of total procurement expenses are tunneled into corruption which can total up to 15% of GDP. There is also a high level of costs incurred by business as a result of crime, especially with crime involving money laundering.

Size of Government (5,88)

Recent trends in increased government consumption represent an increased burden on private citizens. During the recession years, general government expenditures rose from 44.8% of GDP in 2008 to 49.9% of GDP in 2012. At the same time, government revenues only slightly increased leaving a huge gap of rising public deficits, which topped at 7% of GDP last year. In the last 5 years, public debt rose about 125% in absolute terms. Rising interest expenses, uncontrolled public administrative and procurement spending and high welfare costs will continue spending at very high levels.

Another important outflow of budget funds is made up of transfers and subsidies. A large number of governments owned and unreformed enterprises, unfinished privatization and restructuring processes need subsidies to cover high losses. These transfers are politically subjective, non-transparent and unaudited. Corporate and top marginal income tax rates are capped at 15%. Only a few pay personal income tax since it is only applied to very high yearly wages. Taking into account only income tax, the Size of Government sub-score does not give a complete picture of the overall level of taxation. Low income tax requires exceptionally high payroll taxes which amount to 47.8% of gross wage and additional 15% capital gains tax. Due to high tax costs of legal business and rigid regulation, at least 10% of working people are in the gray market, and additional 10 to 15 percent receive a portion of their wage under the table.

The main advantage of the regulatory frameworks in Serbia is the relatively easy access to free credit. The financial system is robust and highly integrated, though there are still some capital controls in place. Labour market regulations are very rigid and harmful to job creation. Minimum wage is historically above 50% of average wage in the country, and firing/hiring regulation is very unfriendly to business and new employers. Recently some debate on the topic and subsequent actions were suggested to challenge this problem. Collective bargaining does not represent a high burden to business though it is very present in public sector. Wages in public sector are 30% higher than the private, producing serious distortions to the labour market.

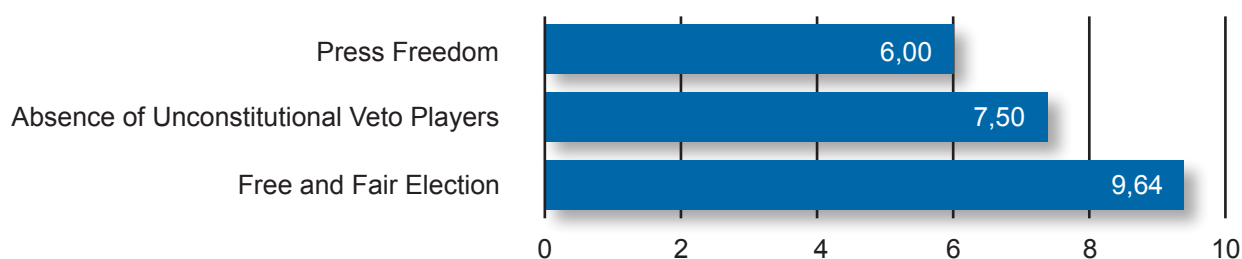
Business start-up and tax compliance costs are not significant barriers to growth. Yet the business environment remains harsh due to extremely complicated and slow procedures, very high bureaucracy costs and endemic corruption within both the public and private sectors. A typical example is construction permits, where Serbia ranks 179 out of 185 countries in World Bank's Doing Business Report. If business conditions are to improve, future reforms must address promoting more flexibility in the labour market, increasing efficiency of administration and fighting endemic corruption.

Trade freedom is at a high level in Serbia. It is supported by the CEFTA agreement with the region and the SAA agreement with the EU. Still, political uncertainty and undefined institutional structure in Kosovo hamper the trade to the South. Tariffs are relatively low, though a bit higher than in the region, but this is annulated with relatively more liberal regulation barriers. Capital control on the other hand still represents a remaining obstacle for international trade, mostly in the service sector. Along the way to EU accession, and especially with the implementation of the recent Belgrade-Pristina agreement, it is expected for trade freedom in Serbia to increase in the next few years.

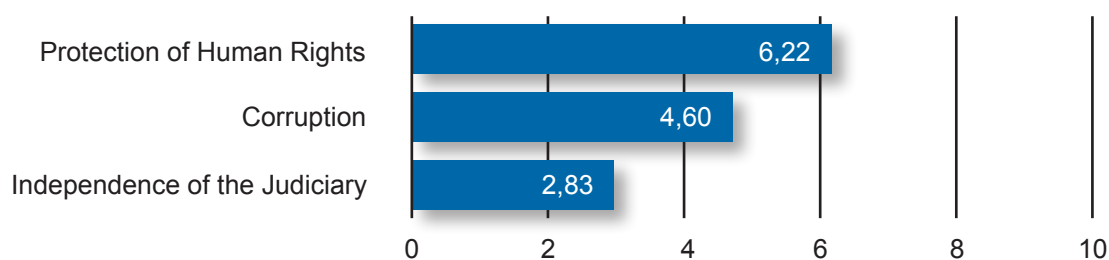
Croatia

GDP in 2012: EUR 48.027 milion		
Yearly growth rate: -2,0%	per capita: 11.255 EUR	GDP by sector:
		agriculture 5%
		industry 27%
		services 68%
Population: 4.267 thousand	Human Development Index	Government deficit in 2012
Unemployment: 15%	HDI: 0,805 (rank: 47)	-4,1% GDP

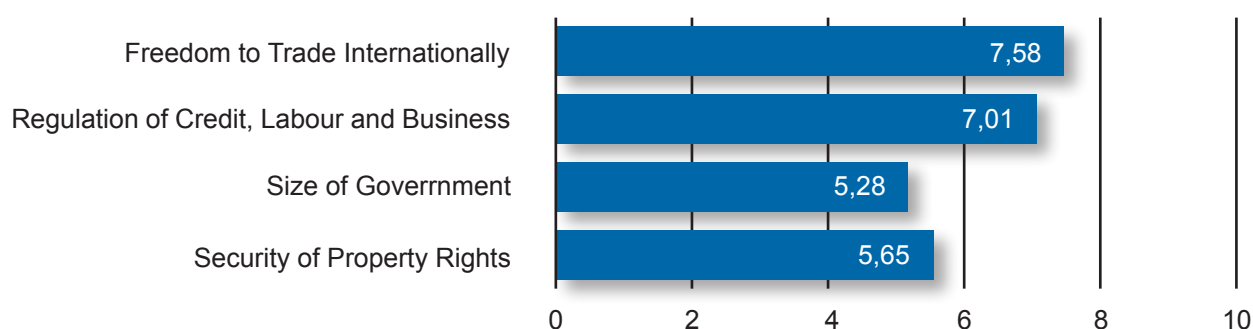
POLITICAL FREEDOM



RULE OF LAW



ECONOMIC FREEDOM



A. POLITICAL FREEDOM (23,14)

The last elections from 2011 were generally seen as a free and fair and the results were not disputed. Political participation is generally free and unrestricted, with a strong influence of NGO's and civil society on the electoral process and on political development in general. The Parliament is elected every four years, and the President of the republic – who has a predominantly ceremonial role – every five. The current government has undertaken some serious measures to undercut the illegal political funding which allegedly influenced the outcome of the elections in 2007. The case ended in the court process against the former Prime Minister Ivo Sanader.

The Croatian electoral system favours the representatives of national minorities and the parties with strong regional representation. Media coverage of the election campaign is professional, mostly impartial and of mostly high quality.

There are no traditional unconstitutional veto players in Croatia. As an EU member, Croatia has proper legal and institutional frameworks in place, which guarantee the independence of the government. Shortly before EU accession the country adopted an extradition law which does not comply with EU standards and indicates a network of interest among former employees of the secret service.

Croatia has a fully professional army under civilian control and has been a NATO member since 2009.

The Catholic Church is an important social and political player in Croatia. Catholicism is a cornerstone of Croat identity. In the 1990s, Croatia became one of the most Catholic countries in Europe. During the country's struggle for independence, the Catholic Church emerged as a respected and influential organization. Due to strong ties to the former HDZ government, the church was able to root itself deep into Croatian society. The church lost influence and power when the HDZ lost the parliamentary elections in 2011 and became an opposition party.

The press in Croatia is partly free. Besides self-censorship, politicians try to influence media. Although the ownership structure of the media is transparent, it has not led to the application of higher journalistic standards. Croatia's public broadcaster HRT threatened to dismiss journalists being critical of the situation surrounding press freedom. Investigative journalists receive death threats when writing about war crimes. There is no self-regulatory body of the press due to lack of political will.

Free and Fair Election
(9,64)

*Absence of
Unconstitutional
Veto Players*
(7,50)

Press Freedom
(6,00)

B. RULE OF LAW (13,65)

Independence of the Judiciary (2,83)

A constitutional amendment in 2010 has allowed the judiciary to act more autonomously. The independence of the state judicial and prosecutorial councils has been strengthened. These institutions can now independently select judges and prosecutors and evaluate their performance. The presidents of the courts are appointed by the State Judicial Council - a former privilege of the Ministry of Justice. A number of landmark court decisions (such as the conviction for corruption of a former Prime Minister and a judgment against the former ruling party for illicit financing) hint at a gradual emergence of an independent judiciary. Furthermore, education and training of judges have been improved, despite other areas of concern. Past political misuses of the process of post-communist lustration and the cronyism of the 1990s still affect judicial independence. Outside influence (be it political, economic, or even by organised crime) is still present.

Corruption (4,60)

Corruption remains a serious but under control problem in Croatia, both at the national and local levels. Croatia ranked 62 of 176 in Transparency International's Corruption Perception Index 2012 - just slightly "cleaner" than the world average. Corruption is present in political parties, post-privatization management, major infrastructural investments, subsidy policies, health care and numerous other fields. Notable breakthroughs were made in prosecuting highest level cases, such as against a former Prime Minister, then the biggest political party. That owes to timing the one hand (Croatia's full-member accession to the EU); and to the gradual emergence of specialized investigation units (themselves autonomous from the executive) on the other hand.

An increased independence of the judiciary facilitates successful prosecution of cases, even though there is still corruption in the judiciary itself. At the local level, the most corruption-vulnerable area is investment. Media and CSOs play an increasingly active role in dealing with political corruption at all tiers of government, due in part to Croatia's new constitutional right to information.

Protection of Human Rights (6,22)

Croatia has no problems with kidnappings or extrajudicial killings. Torture or other ill treatment in custody or prison is rare, while security forces are well trained and generally respect human rights. Yet refugees and IDPs face various administrative or other problems upon return. Trade unions have a bit more operational space and influence than elsewhere in the region, with their presence in media especially notable. A number of States supported Ombudsmen as well as numerous CSOs monitor human and civil rights. Gender rights and freedom of expression are somewhat protected, but minority rights are still in very bad shape. A notorious case

is the row over the use of Serb Cyrillic alphabet in multiethnic places in eastern Croatia. Hate speech is still widespread and it is all too often treated as socially acceptable behaviour. War crimes prosecution is painstakingly slow but increasingly fruitful. Impunity for human rights abuses during communist era persists. There was a drop in homophobic violence between 2012 and 2013.

C. ECONOMIC FREEDOM (25,50)

In some aspects private property rights are highly protected in Croatia, but still the judiciary system, as in other countries of the region, remains a major problem. Within Croatia's sub-score, the worst is the absence of sufficiently independent and impartial courts. However, the sub-score mark might not reflect reality because of the time lag within the recorded data. With recent high level anti-corruption legal cases and several reforms in line with EU accession, we can expect that overall independence and credibility of the judiciary system will result in better scores in future Freedom Barometer scores.

The legalization process of real estate property around Croatia will form a new basis for more secure and transparent property sales and purchases, which will allow for the abolishment of some trade of property restrictions. With perceivable reforms of the judiciary system, the major problem for future protection of property rights will be enforcement of contracts. Commercial law cases are still sluggish and ensuring legal compensation is still relatively uncertain.

The general government consumption is not at drastically high level, although it did top during the recession at 43.1% of GDP in 2010. Recent deficits, high welfare spending and Croatia's general desire to fulfill Maastricht standards pushed political leadership toward relative spending. Deficits hover between 4 and 5 percent of GDP, but short term leaning towards significant decreases of government borrowing and, ultimately, decreasing public debt, are encouraging signs.

The government plays a significant role in the economy. There are still many publicly owned companies that need huge subsidies to cover losses. Trends are showing the government's dedication to fully solve this problem, preferably with selling or liquidating these companies. An ability to do so may see better scores in this element in the future.

The greatest obstacle for private consumption and savings and the main reason for relatively bad sub-scores for the Size of Government comes from the high levels of tax. Government revenues are only around 38% of GDP in past 5 years, but relatively large portions of that comes from in-

*Security of
Property Rights
(5,65)*

*Size of Government
(5,28)*

come taxes. Corporate income tax is capped at 20% while the top marginal tax rate for personal income is 40%. This puts Croatia in the group of top income taxing countries of Europe. Also, VAT is at a very high level of 25%. With decreasing direct role of government in the economy and keeping spending under control, there will be opportunity for tackling the problem of over taxation.

*Regulation of Credit,
Labour and Business
(7,01)*

Economic activity in Croatia is generally liberalised. This is especially the case for the credit market and somewhat for elements of the labour market. Business regulation is not too harmful but the implementation of administrative procedures and bureaucracy costs place a significant burden on private business. Corruption is an important issue and obstacle, especially regarding the administration, though this problem is not as present as in other regional countries.

The main disadvantage for the business environment in Croatia is the rigidity of labour laws regarding hiring and firing regulations. Minimum wage is at very high level of 54% of net average wage in the country [1]. Both factors contribute to high costs of labour in Croatia relative to GDP per capita and its current development stage.

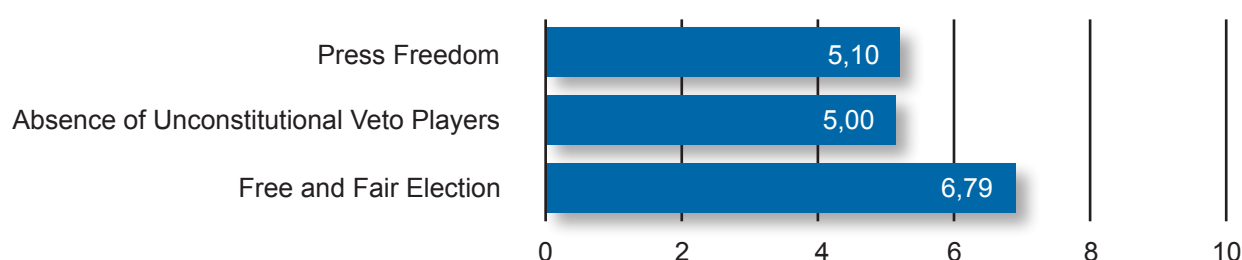
*Freedom to Trade
Internationally
(7,58)*

Trade freedom is at very high level in Croatia. Joining the EU in July 2013, Croatia made the final step on the way to economic integration in the EU. Now, it is a member state of customs union and its trade policy is accordingly defined, with complete liberalisation of inner EU trade. Tariffs, quotas and other prohibitive measures are at low levels and they will decrease further in the future. Still, during the process of adjustment to the accession, Croatia yet has to do minor reforms in regulatory framework and control of immigration. Also, the government had to impose some new measures to trade partners in line with overall EU policy that might harm some trade relations in the short term.

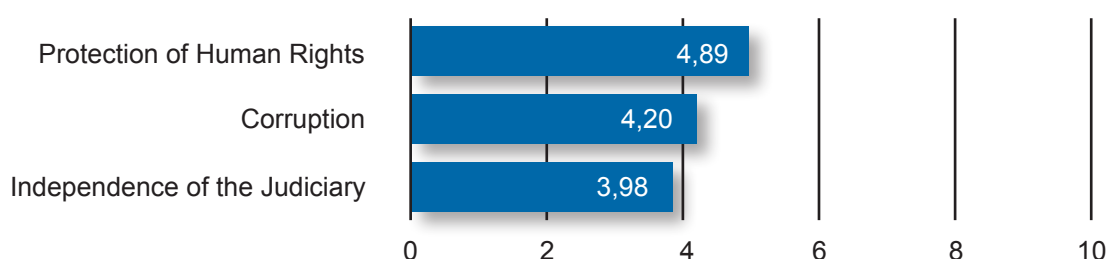
Bosnia & Herzegovina

GDP in 2012: EUR 14.195 million		
Yearly growth rate: -0,7%	per capita: 3.702 EUR	GDP by sector:
		agriculture 8%
		industry 25%
		services 67%
Population: 3.843 thousand	Human Development Index	Government deficit in 2012
Unemployment: 28%	HDI: 0,735 (rank: 81)	-2,8% GDP

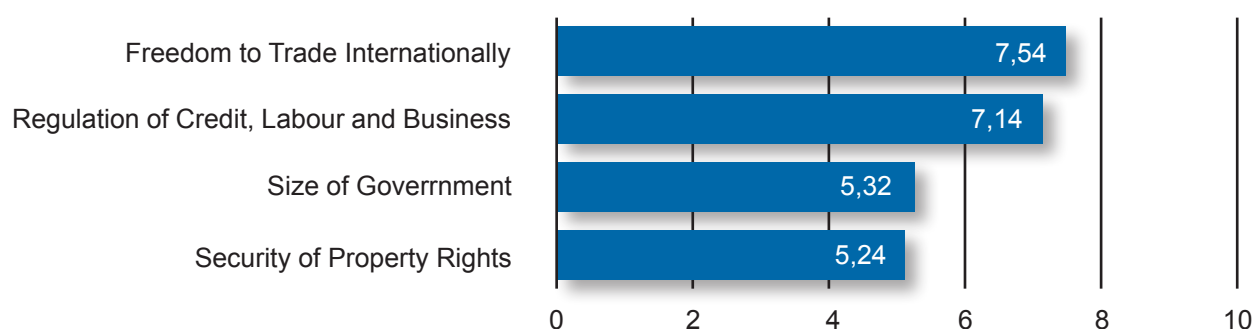
POLITICAL FREEDOM



RULE OF LAW



ECONOMIC FREEDOM



A. POLITICAL FREEDOM (16,89)

Free and Fair Election (6,79)

Despite the very complicated structure of the state, the elections in Bosnia and Herzegovina are generally free and fair and the results of the last election in 2010 are not disputed. Legislation still contains some ethnic limitations and is not in full accordance with the verdict of the European Court of Human Rights from 2009. As of September 2013, the three-head state presidency and the Parliament have failed to change the election law and enable citizens who have other ethnic origin than Bosniak, Serb, or Croatian to run for the Presidency.

Since the elections for the State Presidency, State Parliament, Parliaments of the Entities, President of the Entities, and (for the voters in the Federation) for the Cantonal Parliament take place on the same day, voters are regularly confronted with four different ballots, which contributes to some confusion at polling stations.

In comparison with the other countries in the region, the legal framework on campaign financing is strong and effectively implemented. The announcement of the last election result was delayed for days, thanks to the poor capacity of the official site of the national electoral committee.

Absence of Unconstitutional Veto Players (5,00)

Bosnia and Herzegovina is the only country in the Western Balkan region which features a clearly defined unconstitutional veto player. The High Representative (HR) for Bosnia and Herzegovina, with the Office of the High Representative (OHR), was created in 1995 to oversee the civilian implementation of the Dayton Agreement. The HR and the OHR represent the countries involved in the Dayton Accords through the Peace Implementation Council (PIC). The Dayton Accord is the legal basis for the OHR, which grants the HR substantial invasive veto powers. Those powers were extensively used in the past to push reforms. The mandate of the HR was extended by the PIC until a set of benchmarks and conditions have been fulfilled. Closure of the OHR is considered to be a pre-condition for reaching the EU-candidate status.

Press Freedom (5,10)

The press in Bosnia-Herzegovina is partly free, but the record has worsened over the last few years. The owners use the press for political purposes. Hate speech is used in tabloids and self-censorship is widespread. Although there is a press council which acts as a self-regulatory body, it has no power to implement the code due to the ownership structure of the press. Citizens have the right to file complaints to the ombudsman of BiH. The shadow report of the press council 2012 indicates, journalists are badly paid and working conditions are difficult. Concerns have been raised that a possible splitting up of the public broadcasting service among the Federation and Republika Srpska will strengthen political involvement and the use of intimidation to further infringe upon reporting freedom.

B. RULE OF LAW (13,07)

The legal framework is complex due to the multi-tier system of government as set by the Dayton Agreement. The judicial system is fragmented and political divisions hinder meaningful institutional and other reforms. Political influence on courts and prosecutors is common and pervasive. The courts are underfunded and suffer from huge backlogs. There are opposing views on the role and future of international judges and prosecutors and as a result of a lack of political consensus, a few have remained in place.

Corruption is a serious and persistent problem, most concentrated in the political sphere. Corruption is pervasive in the privatization process, public procurement tenders, public-private partnerships and in activities of public sector companies. Religious dignitaries contribute to the problem rather than mitigating it. Petty corruption in health care, education and law enforcement is widespread and political parties still control employment in the public sector. A number of corruption-related international conventions were ratified, yet their implementation has not been satisfactory. The problem is further worsened as a result of a complex, asymmetrical, multi-tier system of government, whereby administration is inflated and multiplied. Responsibility is diffused and there is too little coordination and cooperation between anti-corruption agents at various tiers.

The Agency for the Prevention of Corruption and Coordination of the Fight against Corruption is under-staffed, under-resourced and is suffering from political pressure. Audit Service's or Ombudsman's recommendations are often ignored by the government. Whistleblowers are poorly protected since there are no relevant laws. However, the situation has slightly improved between 2010 and 2012, as BiH overtook Serbia and ranked 72 of 176 in Transparency International's Corruption Perception Index in 2012.

Kidnapping and extra-judicial killings are very uncommon in Bosnia and Herzegovina. However, the respect of human rights shown by security forces is variable. There are a number of cases of arbitrary arrest and a prevalence of torture or ill treatment in custody. Poor working conditions, trafficking and discrimination in the workplace (political, racial, ethnic and gender) are the worst problems in the area of industrial relations, while freedom of collective bargaining is also limited. Minority rights are poorly protected, especially of non-members of the three "constituent" ethnicities. Women rights are considerably less than men's and their salaries are comparatively considerably lower. Homophobia is strong and violent. Freedom of thought and expression is seriously limited, while freedom of religion is particularly restricted for those living outside their own ethno-religious neighbourhoods. There is a widespread discrimination of the Roma, including in access to civil registry. Refugees and IDPs often face administrative and political obstacles.

*Independence of
the Judiciary
(3,98)*

*Corruption
(4,20)*

*Protection of
Human Rights
(4,89)*

Hate speech and impunity for war crimes are a part of everyday life. On the other hand, human rights NGOs or other freedom defenders enjoy relatively acceptable treatment.

C. ECONOMIC FREEDOM (25,20)

Security of Property Rights (5,24)

Private property rights are poorly protected in Bosnia and Herzegovina. Other than an absence of purchase restrictions, every other element of the sub-scores shows very weak performances. The main factor of poor protection of property rights is the state of the Judiciary system. Judicial process is slow, partial and occasionally influenced by politics and corruption. With overly complex political system and inefficiency derived from having to go through two entities, the Federation of Bosnia and Herzegovina and Republika Srpska, most of the judiciary reform efforts were hampered. With rising tensions in previous years little has been done to reassure the protection of private property.

General security continues to be an issue. Policy regarding protection of private property and security is relatively reliable, but is especially troubled when it comes to combating organised crime. This explains the overall poor state of the business environment in the country.

Size of Government (5,32)

Tax burden in Bosnia & Herzegovina is relatively high since general government revenues rose to 45.7% of GDP in 2012. Both labour income tax and corporate income tax are at the level of 10%, however the downside is the complexity of the rest of the tax system. It is highly dependent on political circumstances of federation entities and cantons which have different property taxes and other government fees. Spending and direct government involvement into the economy is relatively high.

Inadequately implemented privatisation processes and populist interventionist policies have left many government owned companies with high labour surpluses and deficits that are covered by government transfers. There are still government monopolies in several industries. They are used in political struggles without consideration of the economic effects. This squeezes funds from cantonal budgets and, without unified fiscal policy, lacks discipline. Some of the cantons and municipalities run very high deficits and are building up debt quickly. Even though Bosnia and Herzegovina is not a highly indebted country, previous mechanisms drove public debt to jump from 21.7% of GDP in 2008 to 38.5% of GDP in 2012. The general Federation government deficit was not very high in 2012, but the recent trend raises concern. Cantonal governments spending must be put under control before the debt rises to unsustainable levels.

Administrativni zahtevi, korupcija i gubljenje vremena u administrativnim procedurama veoma su štetni po poslovanje. Birokratski aparat je veoma neefikasan, skup, netransparentan i visoko koruptivan. Troškovi poreskih procedura prate komplikovanu administraciju.

Regulation of economic endeavours in principle is relatively favourable for private business, though bureaucracy remains a major obstacle. The regulation of credit is completely liberalized as a result of currency board application and exchange rate policy. Labour laws are in some aspects flexible, especially with working hours regulations and non-excessive collective bargaining. But, experiencing one of the highest youth unemployment rates, much can be done to further ease obstacles and taxes in the youth labour market. Major reforms are needed in hiring and firing and mandate regulation which discourage employment in the first place.

Administrative requirements for business operations are very harmful with high corruption and idle administrative processes. Bureaucracy is very inefficient, expensive, non-transparent and highly corrupt. Tax compliance costs are in line with complicated administration.

Trade freedom is very high in Bosnia and Herzegovina. In spite of ethnic tensions, trade is free between federation entities. Regarding the movement of people, special exit and entry arrangements with Croatia, Serbia and Montenegro, as well as strong historical bonds, add to overall trade networks with regional countries.

Bosnia and Herzegovina is a member of CEFTA and has signed the SAA agreement with the EU which give a framework for very liberal terms of trade. The result is very low tariffs and small regulatory barriers especially between CEFTA countries. In line with further EU integration, major elements of Freedom to Trade Internationally sub-scores will improve in the future.

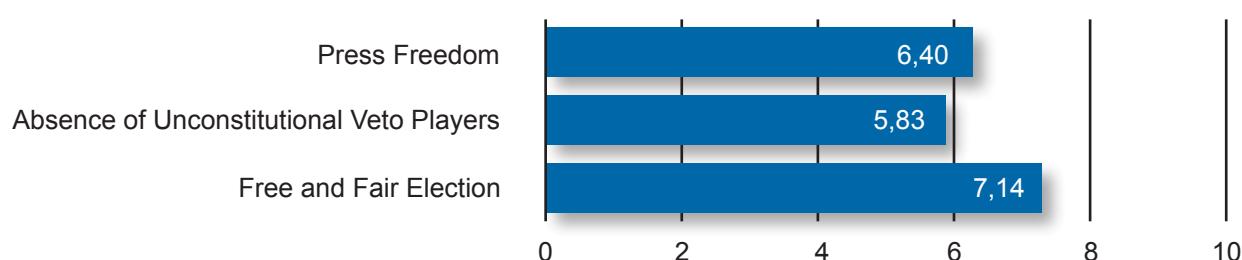
*Regulation of Credit,
Labour and Business
(7,14)*

*Freedom to Trade
Internationally
(7,54)*

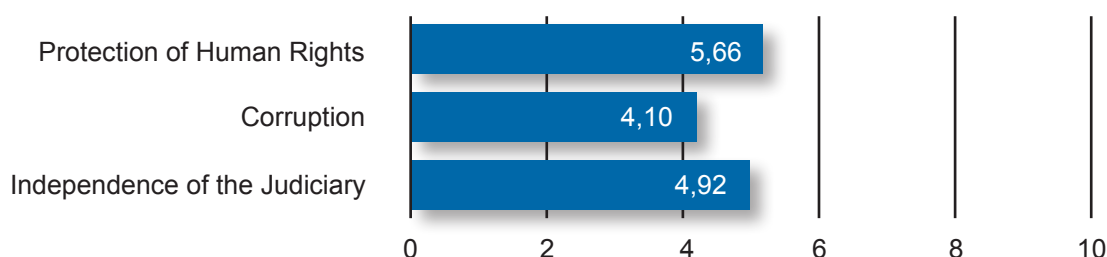
Montenegro

GDP in 2012: EUR 3.502 million		
Yearly growth rate: 0,0%	per capita: 5,639 €	GDP by sector:
		agriculture 9%
		industry 19%
		services 71%
Population: 621 thousand	Human Development Index	Government deficit in 2012
Unemployment: 13%	HDI: 0,791 (rank: 52)	-4,0% GDP

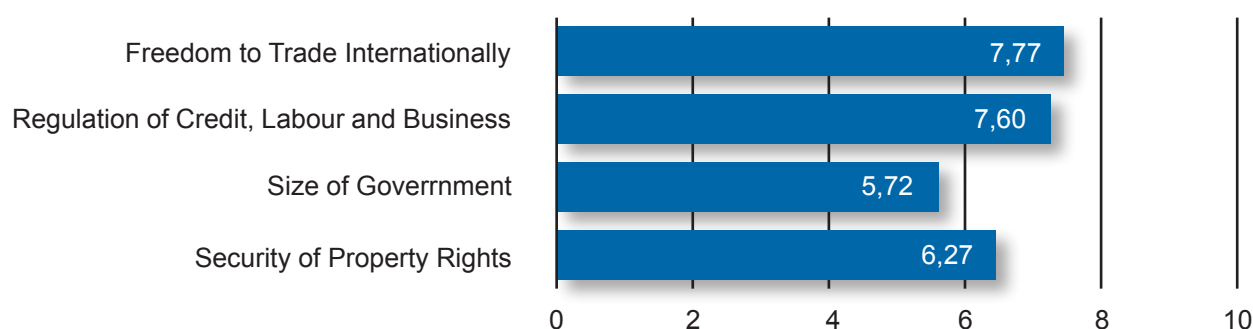
POLITICAL FREEDOM



RULE OF LAW



ECONOMIC FREEDOM



A. POLITICAL FREEDOM (19,37)

The elections in Montenegro are generally free and fair. That being said, the governing Democratic Party of Socialists (DPS), which has remained in power since the first democratic elections in 1990, faces serious allegations of electoral fraud and misuse of the public resources for the financing of its electoral campaign. These allegations have not yet been sufficiently dealt with.

The Parliament is elected every four years and the President of the Republic every five years. The representation of national minorities is fair and based on a free vote. The media coverage of the election campaign is extensive, giving to the voters a wide range of different opinions. There is still worryingly unbalanced reporting on the governments activities, especially during the election campaign, which is ground for some concern.

Powerful interest and business groups have soft powers in Montenegro. They are able to influence police, media, judiciary and legislation. Organized crime, politics and economy form a non-transparent network of interests which is likely to be dissolved by Montenegro's latest efforts to join EU.

The press in Montenegro is partly free. Due to the strong entanglement between politics and the economy, investigative reporting on political scandals is nearly impossible due to widespread self-censorship. The ownership structure of the media is not transparent. Since press finances itself mostly through advertisements from state institutions, it is highly dependent on cooperation. Journalists are poorly paid.

Free and Fair Election
(7,14)

*Absence of Unconstitutional
Veto Players*
(5,83)

Press Freedom
(6,40)

B. RULE OF LAW (14,68)

Independence of the judiciary is clearly stipulated in the country's constitution, however due to the composition of the judicial council (6 out of 10 members are elected either directly or indirectly by the executive) it remains exposed to political influence. According to a CEDEM survey, as of 2011 Montenegrin citizens had less confidence in the judiciary than any other branch of government. In 2010, 42% of citizens believed that corruption was "highly present" in the judiciary, according to a CEDEM poll. More positively, the prosecution of war criminals has been carried out much more effectively and transparently than in the other countries of the region.

*Independence of
the Judiciary*
(4,92)

Corruption
(4,10)

Corruption is deeply rooted in this small country and its level is a serious problem. Misuse of public resources for political party ends is widespread. Although that was recently made illegal, many by-laws in the field are missing. Corruption thrives among the highest echelons of government, as well as at the local level, in the police force, judiciary and administration. Conflict of interest and cronyism mostly go unchecked. Too few corruption cases are discovered and prosecuted. The Department for Anti-Corruption Initiatives is more of a governmental tool than an independent regulatory body. Montenegro did adopt a new anti-corruption strategy in mid-2011, but its implementation has so far been limited to trainings of public officials. The training itself is a step in the right direction, focusing on issues of conflict of interest, free access to information, corruption in police, judiciary, urban planning and management or public finance, protection of whistle-blowers and witnesses and confiscation of the illicitly acquired property. In the CPI 2012, Montenegro was ranked 75 of 176.

*Protection of
Human Rights*
(5,66)

Montenegro boasts very low levels of disappearances and kidnappings. This is not the case regarding extrajudicial killings, whereby suspicious cases are painstakingly investigated. Security forces recently underwent extensive trainings on human rights sensibilities, yet their awareness is still insufficient. Ill-treatment in custody is still common. Freedom of labour associations is relatively well protected, yet their output is meager; working conditions are still bad and there is still discrimination in the workplace. Political parties control employment, not least in the public sector. Nepotism, clanship or tribalism is common in various areas of life. The number of women at senior management positions is low and overall women are paid less than their male counterparts. The treatment of minorities (the Roma case being especially striking) is very bad. The disabled are insufficiently protected. Government officials send divergent signals regarding LGBT equality, while society is prevalently (and quite often violently) homophobic. Most political parties practice zealotry and political divisiveness, including at the local level, while religious figures often join or even champion hate speech. On the other hand, government institutions respect freedom of religion, gathering, association, thought or expression relatively well. During 2013, the first Gay Pride Rally was held with clear government support and strong police protection, amid counter homophobic riots.

C. ECONOMIC FREEDOM
(27,40)

Security of Property Rights
(6,27)

Legally, private property rights are well protected and not infringed upon by regulation. High levels of security, relatively low business costs com-

bined with fairly liberalised regulation, are good basis for protection of property rights. However, Montenegro struggles with implementation of the rule of law through the judiciary system. It is slow, subject to political manipulation and only moderately independent from government.

Even though corruption is not highly perceived, it is a significant obstacle in judiciary processes. Overall integrity of the legal system is vague and uncertain. To provide more security for private property and better enforcement of contracts, the government has to act two-fold. Major reforms are needed in the judiciary system to make it more efficient and fair and; political will is needed to make judiciary truly independent from state and party influence.

Government consumption and ever present influence was a major burden for the private sector. In recent years the situation did change for the better, dropping the general government expenditures from 51.6% of GDP in 2008 to 41.6% in 2012. Government revenues decreased in line with expenses, with the deficit decreasing from the record of 5.7% GDP in 2009 to 3.6% in 2012. However, while aiming to eliminate budget deficit, the government increased corporate income tax to 15% and introduced new personal income tax rates at 6% and 15% for higher earners. With these trends, Montenegro regained fiscal sustainability with opportunity for the government to decrease expenses significantly, but also increased taxes to fill fiscal holes.

Other important issues are government owned enterprises in heavy industry, tourism and other economic areas. This drives non-transparent amounts of subsidies to cover losses. The tax system is not too invasive, but government plans to increase revenues to minimise the budget deficit. The latest change is the rise of corporate income tax to 15%.

Montenegro has a relatively liberalised business environment. Since currency in the country is the Euro, the credit market is completely liberalised. The labour market is also relatively flexible. Hiring and working hours regulation are very favourable to business and dismissal costs are not a big burden. Still there is a space for significant improvements in firing regulation and application of collective bargaining.

Business regulation is a mix of generally good laws, rigid laws, poor implementation and overall complicated procedures. Starting a business is very easy and tax compliance costs are relatively tolerable. Administrative procedures are somewhat complicated and non-transparent, with significant bureaucracy and corruption adding to the cost. Modernizing and simplifying administration should be the top priority, while more can also be done to liberalise several occupations that are highly protected by licensing.

Size of Government
(5,72)

*Regulation of Credit,
Labour and Business*
(7,60)

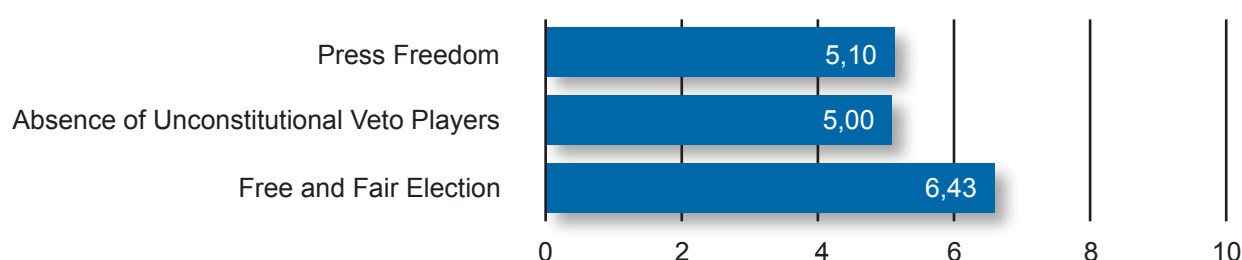
*Freedom to
Trade Internationally
(7,77)*

Trade freedom is at a high level in Montenegro. It is supported by CEFTA agreement with region. Especially important is free trade and easy travel arrangements with the major trading partner, Serbia. Also, SAA agreement gives a framework for liberalised trade with the EU. Use of the Euro also supports trade. Tariffs are relatively low, though higher than in the region, but this is annulated with relatively more liberal regulation barriers. Along the way to EU accession, it is expected that trade freedom in Montenegro will increase in the following years.

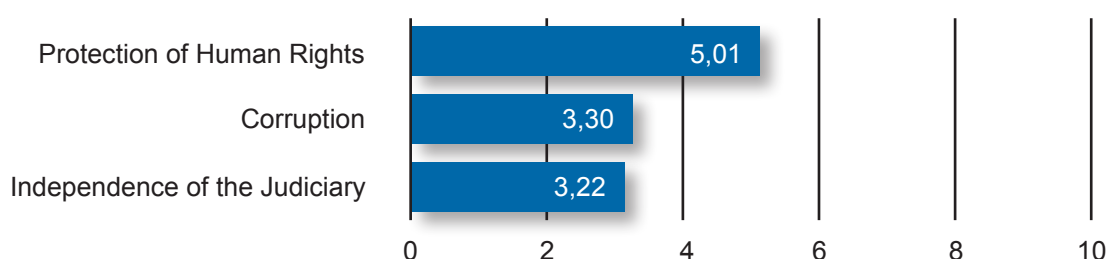
Albania

GDP in 2012.: EUR 10.091 milion		
Yearly growth rate: 1,3%	per capita: 3.191 EUR	GDP by sector:
		agriculture 19%
		industry 16%
		services 65%
Population: 3.162 thousand	Human Development Index	Government deficit in 2012
Unemployment: 15%	HDI: 0,749 (rank 70)	-3,1% GDP

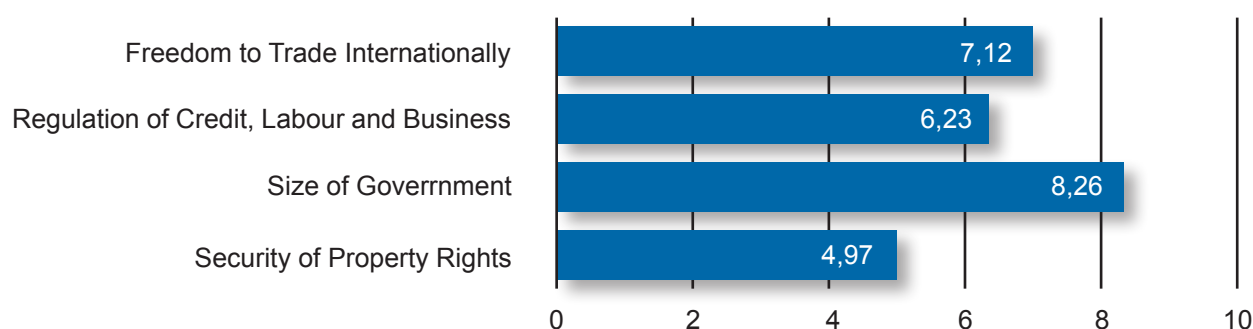
POLITICAL FREEDOM



RULE OF LAW



ECONOMIC FREEDOM



A. POLITICAL FREEDOM (16,53)

Free and Fair Election (6,43)

The last elections in Albania (June 2013) took place in the much calmer environment than four years ago, when fraud allegations brought up by the opposition, resulted in an oppositional boycott of the Parliament, which effectively slowed down the Albanian EU accession process. The numerous incidents (one of them resulted in a loss of a life) have not damaged the overall process of free elections, nor did it damage the outcome in a decisive way. The election campaign was sound and competitive and although the media coverage was far from balanced, the political debate was more substantial than it was four years ago.

Despite the visible progress, dispute-solving mechanisms were not effectively implemented, which resulted in numerous delays during vote counting and announcement of results.

Absence of Unconstitutional Veto Players (5,00)

Influential interest and business groups have soft powers in Albania. They are able to influence police, media, the judiciary and, ultimately, legislation.

Albanian organized crime groups are among the most expanding and connected criminal groups in Europe and the Balkans. Their network of operations expands far beyond this region. Albanian organised crime groups are specialised in trafficking, production and distribution of narcotics, as well as in illegal trading of arms, cars and human trafficking. Crime groups are organised in clans, which are deeply rooted into social structures. They are hybrid organisations, suspected to be involved both in criminal and in political activities. Their influence in political developments in the region, particularly in Kosovo is suspected to be significant.

Press Freedom (5,10)

The press in Albania is partly free. Media is seen by politicians as a tool to spread their message rather than providing citizens with independent reporting. The owners of the press define the scope of reporting. Media is far from performing its role as the fourth pillar of the state since rule of law is not advanced enough. Albania does not have a press council but an ombudsman for the right to information. Despite having satisfactory legislation in place the implementation remains incomplete.

B. RULE OF LAW (11,53)

Independence of the Judiciary (3,22)

The Albanian judiciary continues to struggle to remain independent and display meaningful separation of power. This remains difficult because members of the highest level courts are dependent upon the ruling party for their appointment.

During recent years, there were several rows between the Parliament and the President over nominees for high ranking positions in the Constitutional Court and High Court of Justice. There seems to be less political interference when it comes to nominations for low and medium level court appointments, however these officials are still prone to political pressure.

The process of lustration (of communist-era human rights violators), as established in 2009, has occasionally been misused for political vendettas.

Corruption levels (in politics and administration) are notably higher than the world average, according to the last survey of Transparency International. The top vulnerable areas are the judiciary, police force, public infrastructure works, environmental protection and professional licensing. Budget openness is minimal and political partisanship, nepotism and tribalism are rampant in public sector employment. There is a positive correlation between “efficacy” of administration and elections, indicating political corruption. Attempts at prosecuting high level corruption have delivered meager results. A number of governmental institutions are in charge of fighting corruption and organised crime, but their field of responsibility is unclear and meaningful activities are sporadic. Albania was ranked 113 of 176 in the Transparency International’s Corruption Perception Index in 2012 – a considerable setback when compared with the 2008 result of 85 of the 180 countries surveyed.

On average, human security risks are around the world average. They are low regarding disappearances but high regarding torture or other ill treatment in custody or prison, extrajudicial killings and, especially, arbitrary arrest and detention. There is also a high prevalence of child labour. Working conditions are poor, while there is a high level of discrimination, in particular nepotism or political cronyism, in the workplace. Involuntary labour and human trafficking are widespread, while freedom of labour association and legal opportunities for collective bargaining are seriously limited. The implementation of the restitution of private property collectivised during the communist era is hindered, while respect of civil rights is sketchy. Freedom of religion is very highly respected and the level of inter-faith tolerance is admirable. Ethnic minorities enjoy basic rights, however women and other minority’s rights are highly compromised. In spite of state-of-the-art legislation, strong homophobia persists and the LGBT population is not just discriminated against, but suffers total exclusion from society.

Corruption
(3,30)

*Protection of
Human Rights*
(5.01)

C. ECONOMIC FREEDOM (26,60)

Security of Property Rights (4,97)

Private property in Albania is relatively insecure. Major drivers of modest security of property rights sub-score are poor results in the elements of independence of the judiciary and the overall integrity of the legal system. Both remain the main obstacles to protection of private property rights in Albania. Legal procedures are sluggish and property rights are not well defined in some areas.

Since 2010, imposition of amendments to "The Law on Foreign Investments" introduced new restrictions to buying commercial property which will affect future results in this particular sub-score. Agricultural land can only be leased and not purchased, while commercial properties may be purchased only with a guarantee of threefold investment against the value of the land.

A major advantage in protection of private property is high security provided by reliable policy and absence of military interference in rule of law and politics. This provides the basis for needed judiciary reforms to improve protections of property rights.

Size of Government (8,26)

Government in general is mostly absent from direct participation in the economy. This results in excellent sub-scores putting Albania in the front of the region and almost all other European countries. The main driver of the good score is the size of government spending. Even though, at the beginning of the recession, spending experienced a steep rise, recent developments are reassuring. After running the top deficit of 7.4% of GDP in 2009, the Albanian government decreased its spending to 3.1% of GDP in 2012. Subsequently, government spending has been brought back to pre-recession relative levels, leaving consolidated government expenditures at only 27.2% of GDP in 2012. During this time it was possible for Albania's taxation system to stay favourable towards personal income and labour costs, especially in comparison to the region. Both personal and corporate income tax rates are at the level of 10%.

There are some deficiencies in Albania's Size of Government sub-score. The public sector is still significantly involved in utilities, infrastructure and some public companies. Most notably, in the recession years, government transfers and subsidies were increased in efforts of direct intervention to cancel the downturn effect. This may be a major concern in the future if governments continue to interfere in the economy.

Regulation of Credit, Labour and Business (6,23)

Regulation in general is permissive to private business in Albania but still, much more can be done to mitigate uneasiness for a functional market economy. Starting a business is relatively easy regarding procedures and requirements for private investors. It takes up to 30 days and seven pro-

cedures to legally start a business. However, bureaucracy costs are significant, both legal and within the realm of corruption. Licensing and restrictions highly protect particular occupations. Regulation of credit is still at relatively high levels compared to other transitional countries, which is a result of the countries previously modest international financial integration.

The labour market still lacks significant flexibility. Firing regulations and powerful collective bargaining make hiring relatively expensive. Minimum wage is at about EUR 150 a month, which is at a relatively high level of 50% of GDP per capita. Favourable efforts were made by the liberalisation of working hours that could lead to further reforms in the future.

Trade freedom is at a high level in Albania. It is mostly in line with the CEFTA agreement with non-EU regional countries and the SAA agreement with EU. These define very low tariffs and barriers for entry. Still, some regulations hamper international trade as well as increase bureaucracy that adds to trade costs. This is especially the case with capital controls and labour restrictions, which are still present in practice. For further integration in global markets, and EU accession, it is expected that there will be more trade freedom in Albania in the near future.

*Freedom to Trade
Internationally
(7,12)*

Authors

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He is the founder and the author of free market blog Club von Neumann. Pavle lectured in several international conferences, held seminars for policy activists and consulted political parties on fiscal policy issues. He has written numerous articles for famous daily newspapers and weekly magazines in Serbia and also appeared on TV, radio and internet media. His academic and writing work is mostly concentrated on topics in Public finance, monetary theory and policy, Austrian economics, International economics and finance, economics of regulation, and pension reform.



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Dušan Gamser is a former subregional coordinator of the FNF for Western Balkans. He co-launched or participated in a number of non-governmental projects aimed at improvement of public policies or enhancing civic participation in politics. Those include the Istinomer website and the online quarterly journal The New Century. In Netherlands - throughout 2007 and during the parliamentary season 2008/09 - he was a member of The Third Chamber, an international advisory forum dealing with development cooperation. He lives in Belgrade and works as a consultant, political trainer, or interpreter. His fields of interest especially include political and economic transition, human rights, democratic civil oversight of the security sector, decentralization and local governance and fighting corruption.