

Lithuania

by Kaetana Leontjeva

Capital: Vilnius
Population: 3 million
GNI/capita, PPP: US\$20,760

Source: The data above are drawn from the World Bank's *World Development Indicators 2013*.

Nations in Transit Ratings and Averaged Scores

	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013
Electoral Process	1.75	1.75	1.75	1.75	1.75	1.75	1.75	1.75	1.75	2.00
Civil Society	1.50	1.50	1.50	1.75	1.75	1.75	1.75	1.75	1.75	1.75
Independent Media	1.75	1.75	1.75	1.75	1.75	1.75	1.75	1.75	2.00	2.00
Governance*	2.50	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a
National Democratic Governance	n/a	2.50	2.50	2.50	2.50	2.75	2.75	2.75	2.75	2.75
Local Democratic Governance	n/a	2.50	2.50	2.50	2.50	2.50	2.50	2.50	2.50	2.50
Judicial Framework and Independence	1.75	1.75	1.50	1.75	1.75	1.75	1.75	1.75	1.75	1.75
Corruption	3.50	3.75	4.00	4.00	3.75	3.75	3.50	3.50	3.50	3.50
Democracy Score	2.13	2.21	2.21	2.29	2.25	2.29	2.25	2.25	2.29	2.32

* Starting with the 2005 edition, Freedom House introduced separate analysis and ratings for national democratic governance and local democratic governance to provide readers with more detailed and nuanced analysis of these two important subjects.

NOTE: The ratings reflect the consensus of Freedom House, its academic advisers, and the author(s) of this report. The opinions expressed in this report are those of the author(s). The ratings are based on a scale of 1 to 7, with 1 representing the highest level of democratic progress and 7 the lowest. The Democracy Score is an average of ratings for the categories tracked in a given year.

EXECUTIVE SUMMARY

In the twenty years since gaining independence, the Republic of Lithuania has established a functioning democracy with well-protected political and civil rights. Lithuania joined the North Atlantic Treaty Organization and the European Union in 2004 and the Schengen Area in late 2007. The country was hit hard by the 2008–09 global economic crisis, recording a 15 percent plunge in gross domestic product in 2009.¹ After two years of spending cuts and tax increases, the economy resumed growth in 2011, but has yet to reach pre-crisis levels.

Political discourse in 2012 was dominated by competing campaign promises in the run-up to the October parliamentary elections. Citing widespread allegations of vote-buying by the Labor Party (DP), President Dalia Grybauskaitė initially refused to approve the new center-left coalition government between the DP, the Lithuanian Social Democratic Party (LSDP), the Order and Justice Party (TT) and the Electoral Action of Poles in Lithuania (AWPL). The six-week political standoff ended in December, when President Grybauskaitė approved an incomplete list of cabinet appointments made by the parliament and presented for her approval by Prime Minister Algirdas Butkevičius. The new government officially took office on December 13.

For the past decade, much-needed public sector reforms have moved sluggishly, and corruption has remained widespread. Throughout the year, politicians attempted to influence or undermine judicial decisions, compromising the independence of the courts.

National Democratic Governance. An episode related to the bankruptcy and nationalization of Snoras, one of the Lithuania's largest private banks, severely destabilized the ruling coalition in early 2012. However, the center-right government remained in office, becoming the first administration in independent Lithuania's history to serve out a full, four-year term. Throughout the year, the government maintained its focus on energy independence, passing bills to build a new nuclear power plant and a liquefied natural gas terminal. Otherwise, national governance in 2012 was characterized by slow progress in reducing bureaucracy and reforming the public sector. *Lithuania's national democratic governance rating remains unchanged at 2.75.*

Electoral Process. Parliamentary elections in October 2012 were compromised by a record-breaking number of vote fraud incidents. Most incidents involved vote buying on behalf of the DP, which is also a defendant in an ongoing false accounting criminal case. After the elections, President Grybauskaitė tried but failed to preclude the DP from joining the new ruling coalition. In early December

2012, Lithuania's sixteenth government, consisting of four parties—the LSDP, the DP, the TT, and the AWPL—was approved by the parliament. *Lithuania's electoral process rating declines from 1.75 to 2.00.*

Civil Society. Civil society in Lithuania is active and highly engaged in political discourse. Volunteerism and private donations to charity have been increasing in recent years. Following widespread violations of electoral law in October 2012, citizens organized protests and volunteered to observe the second round of elections. *Lithuania's civil society rating remains unchanged at 1.75.*

Independent Media. Owing to higher taxes and the rising popularity of online media, some media companies have partly moved into the shadow economy. Meanwhile, legally operating media companies complain that staying profitable under the current tax regime is virtually impossible. In 2012, the president of the Lithuanian Journalists' Union was found guilty of libel against the editor of *Respublika*, although this charge was later dropped by a superior court. *Lithuania's independent media rating remains unchanged at 2.00.*

Local Democratic Governance. A groundbreaking report by the Ministry of the Economy revealed a dire need for more efficient management and increased transparency of municipally owned enterprises. Business managers view local government as the most corrupt institution in Lithuanian society, a view reinforced by frequent corruption scandals involving municipal officials. Local government remained limited in its financial independence as municipal debts continued to increase. *Lithuania's local democratic governance rating remains unchanged at 2.50.*

Judicial Framework and Independence. The public continues to perceive the judiciary as insular, biased, and opaque. Eglė Kusaitė, a young woman accused of plotting a terrorist act in Chechnya in 2009, remained on trial throughout 2012, despite human rights groups' appeals over possible human rights violations. Kusaitė was fined twice during the year for calling her former prosecutors criminals. Events in 2012 also reflected an ongoing trend toward political interference in the judicial system. In one case, a parliamentary commission inquired into the dismissal of public officials even though the matter was already under pretrial investigation. Prominent politicians publicly encouraged the rejection of a court ruling in a highly publicized pedophilia case. *Lithuania's judicial framework and independence rating remains unchanged at 1.75.*

Corruption. The government made some progress in implementing a new anticorruption program in 2012 and continued to reform regulatory agencies, though the impact of these changes has yet to be seen. Corruption scandals and arrests made throughout 2012 by the Special Investigation Service indicate that corruption remains prevalent in Lithuanian business and politics. *Lithuania's corruption rating remains unchanged at 3.50.*

Outlook for 2013. In 2013, the government has pledged to maintain a focus on fiscal discipline, to continue its predecessor's fight against the shadow economy, and to lower the tax burden on labor. Some challenging key issues, such as the new nuclear power plant, may produce disagreements within the ruling coalition. The new government has already reversed some of the outgoing coalition's important administrative reforms, and may do the same to other areas, especially with regard to private healthcare services. Although Lithuania's economy is forecast to grow and unemployment to subside, these changes may not be enough to stem emigration.

MAIN REPORT

National Democratic Governance

2004	2005	2006	2007	2008	2009	2010	2011	2012	2013
n/a	2.50	2.50	2.50	2.50	2.75	2.75	2.75	2.75	2.75

In the first quarter of 2012, the center-right ruling coalition between the Homeland Union–Lithuanian Christian Democrats (TS-LKD), the Lithuanian Liberal Movement (LS), and the Liberal and Center Union (LiCS), was on the brink of collapse. However, the government remained intact, becoming the first administration in independent Lithuania’s history to serve out a full, four-year term. Parliamentary elections in October brought to power a new, center-left coalition between the Lithuanian Social Democratic Party (LSDP), the Labor Party (DP), the Order and Justice Party (TT), and the Electoral Action of Poles in Lithuania (AWPL).

In November 2011, the daily newspaper *Lietuvos Rytas* reported on the imminent nationalization of Snoras, one of Lithuania’s largest private banks, citing an unnamed source. In February 2012, during an investigation to identify the source, Interior Minister Raimundas Palaitis sacked the leadership of the Financial Crime Investigation Service (FCIS) without providing a clear reason for his dismissal, saying only that his decision was based on materials received from the State Security Department.² Prime Minister Andrius Kubilius challenged the decision and urged President Dalia Grybauskaitė remove Palaitis from his post. The president replied that such disputes should be settled in parliament, using voting procedures. The situation set off public protests calling for Palaitis to step down as well as tensions within the coalition, with members of the TS-LKD suggesting early elections. At the end of March, Palaitis’s party, the LiCS, agreed to his resignation and replaced him with parliament member Artūras Melianas. The government crisis speaks to the political influence still wielded by Lithuania’s State Security Department, even after a change in leadership in 2011.

In May, members of the opposition attempted to oust Justice Minister Remigijus Šimašius from the cabinet, citing slow progress on judicial reforms and the poor performance of the State Forensic Service, among other shortcomings. A no-confidence vote failed, and the opposition backed down.

By March, support for the prime minister on the Palaitis issue had brought government approval ratings to their highest point (15.5 percent) since the administration took office in October 2008.³ President Grybauskaitė’s usually high popularity rating, on the other hand, fell during the year, as a string of developments cast doubts on her leadership. Widespread reports of vote-buying during the October parliamentary elections called into question the effectiveness of legislation that had been proposed by the president and introduced in 2012 banning company

donations to political parties. The president's firm stance against allowing the DP to join the new ruling coalition was also heavily criticized, along with her reluctance to nominate LSDP leader Algirdas Butkevičius as prime minister due to the vote-buying allegations implicating the labor parties. In late 2012, a secret recording surfaced indicating Speaker of the Parliament Irena Degutienė's concern over alarming authoritarian tendencies in the president's governing style. By the end of 2012, the president had ceased to be the most popular figure for the first time since her 2009 inauguration.⁴ Under pressure to approve the government, the president finally conceded, appointing Butkevičius as prime minister and allowing the DP in the government in December.

With the closure of the Soviet-era Ignalina Nuclear Power Plant in 2010, Lithuania went from being a net energy exporter to a net energy importer. Lithuania is entirely dependent on Russian energy giant Gazprom for its natural gas supplies and imports more than 80 percent of its energy from Russia. Hoping to reduce Lithuania's dependence on foreign energy, in June 2012, the parliament passed a bill allowing the government to sign a concession agreement with Hitachi to build a new nuclear power plant. However, in a consultative referendum on the power plant held in October, 65 percent of the electorate voted against its construction,⁵ citing a lack of information about the new project's costs and safety. In another effort to strengthen the country's energy independence, the parliament adopted a law on the creation of a liquefied natural gas (LNG) terminal. The law requires Lithuanian consumers to purchase at least 25 percent of their gas from the LNG terminal, a provision criticized by the opposition for limited free competition.⁶ Even before he was appointed prime minister, Butkevičius signaled a desire to scrap the 25 percent requirement, potentially rendering the LNG terminal an unprofitable state venture.⁷

Lithuania also continues to pursue electricity grid deals with Poland and Sweden, but the project with Poland has been hampered by delays since Lithuanian and Polish officials first agreed to link the two grids in 1992. Lithuania is set to interconnect with the Nordic electricity market in late 2015, but because Poland has delayed purchasing the necessary land, Lithuania's full interconnection with continental Europe will be postponed until at least 2016.

Lithuania's relations with Gazprom further deteriorated when the country filed a \$1.9 billion claim against Gazprom at the Arbitration Institute of the Stockholm Chamber of Commerce for alleged distortion of natural gas prices between 2004 and 2012. Gazprom currently charges Lithuania one of the highest gas prices in the European Union. Lithuania's efforts to comply with EU recommendations to privatize its energy markets sparked unfair tariffs as Gazprom could no longer monopolize transmission or distribution networks inside the country, prompting the European Commission to file a separate lawsuit against Gazprom in September 2012.

In December 2012, the new government took office in an improving economic setting. By the third quarter of 2012, year-on-year real gross domestic product growth stood at 4.4 percent.⁸ Unemployment continued a slow decline, falling

from 14.4 to 11.9 percent throughout 2012.⁹ As of August, the monthly minimum wage was raised from \$300 to \$318, reportedly creating financial strain on small and medium enterprises and local government. Nonetheless, the new government has further raised the monthly minimum wage to \$375, an action that may extend economic and fiscal challenges throughout 2013.

Electoral Process

2004	2005	2006	2007	2008	2009	2010	2011	2012	2013
1.75	1.75	1.75	1.75	1.75	1.75	1.75	1.75	1.75	2.00

The fairness of the national legislative elections on 14 October 2012 was compromised by a record-breaking number of vote fraud incidents. Overall, police received more than 500 reports and launched 26 pretrial investigations. Some voters complained their reports were immediately dismissed, indicating that the true scope of vote fraud could be much greater.¹⁰ Most incidents were related to vote-buying on behalf of the DP, which is also a defendant in an ongoing false accounting criminal case. After the first round of elections, a series of secret video recordings surfaced incriminating the DP in large-scale vote-buying in prisons. Some prisoners were recorded saying they would exchange their votes for protection from physical assault. The public, especially youth groups, responded by organizing protests and volunteering to monitor the fairness of the second election round.

Despite widespread reports of electoral violations, the Central Electoral Commission (CEC) cancelled election results in just 1 of 70 single-mandate constituencies. The CEC dismissed an appeal from the LS to postpone its approval of the election results until ongoing investigations were resolved. After the elections, the president tried but failed to exclude the DP from the coalition. She also drafted laws aimed at tackling vote fraud, while some politicians called for the introduction of electronic voting. In November, the parliament amended the penal code to increase penalties related to vote fraud.

The first election round drew a voter turnout of 53 percent, a record high since 2004, and the runoff attracted a 36 percent turnout.¹¹ The large voter turnout in the first round was partially credited to the nuclear power plant referendum held at the same time. Nearly two-thirds of valid ballots were cast against the construction. However, because the referendum was merely consultative, the voters' opinion is nonbinding.

The elections marked a shift to the center left. The 141 seats in the parliament were contested for by 18 political parties; of those, 7 parties passed the required 5 percent threshold. The LSDP gained 38 seats; the incumbent TS-LKD, 33 seats; the DP, 29 seats; and the OJP, 11 seats. The parliament will also have 3 independent members. Lithuania uses a mixed electoral system in which half of the parliament is chosen through multi-mandate proportional balloting and half through single-mandate constituencies. In December 2012, the parliament approved Lithuania's sixteenth government, consisting of four parties: the LSDP, the DP, the OJP, and

the EAPL. Most political analysts criticized the new government's program for lacking a clear action plan.

Only one of Lithuania's three liberal parties, the LS, managed to cross the 5 percent threshold, winning 10 seats in the parliament. The other two liberal parties, the LICS and the HRFU, fell short with 2.1 and 1.8 percent of votes, respectively, and failed to win a single seat in the single-mandate constituencies.⁹ This outcome may pave the way for a reunification of the split liberal forces. The fledgling Way of Courage (WC) party won 7 seats, a gain attributed to general dissatisfaction with the political scene. The voters also favored the EAPL, which increased its number of mandates from 3 seats to 8 and for the first time passed the 5 percent threshold, a success credited to heightened tensions over minority-related issues such as minority education policy and the official spelling of Polish names. The CEC decided not to enforce the 7 percent threshold usually applied for coalitions in the case of the EAPL, which ran in an informal coalition with a Russian minority party and the Lithuanian People's Party.

Former president Rolandas Paksas—impeached in 2004 as a result of his dealings with a Lithuanian-Russian businessman suspected of links to Russian organized crime—was again prevented from running in parliamentary elections in 2012. Following a 2011 European Court of Human Rights ruling that it was unjust to ban an impeached politician from public office for life, the Lithuanian parliament passed a bill in spring 2012 specifying a four-year period of exclusion from elected office following impeachment. Under these terms, Paksas could have run in the October elections on behalf of the TT party, which he heads; however, in early September the Constitutional Court ruled the bill unconstitutional, saying that such a change should come in the form of a constitutional amendment, instead. In December 2012, the newly elected parliament voted to begin hearings on a constitutional amendment to deal with the issue.

The false accounting criminal case against the DP, first opened in 2008, dragged on throughout 2012. On the last working day before the second round of elections, these charges were replaced with accusations of fraud, implying a harsher potential sentence and extending the statute of limitations from eight to ten years. In December 2012, the parliament voted to strip DP MPs of their parliamentary immunity. It remains unclear whether the case will be resolved in 2013.

As of 2012, a law came into effect banning both corporate and individual donations to political parties, excepting individual donations made during elections. Widespread vote fraud in 2012 confirmed this ban as ineffective, in line with predictions that previously legal, transparent donations would become illegal, unrecorded, and untraceable.

The lifespan for most new Lithuanian political organizations is quite short, as many are prone to unstable ad hoc coalitions, infighting, and weak leadership. With the exception of the WC party, Lithuanians did not favor newly formed parties, such as those led by deceased president Algirdas Brazauskas' widow or by businessman Vladimiras Romanovas, each of which received less than 1 percent of the vote. In 2012, there were 45 registered parties in Lithuania; a majority of

these did not participate in the October elections, and the 10 that did participate failed to win a single mandate. Political parties remain the most unpopular public institutions in the country; they are viewed positively by only 3.9 percent of the population.¹² This figure is nearly identical to the 3.6 percent of citizens with party membership.¹³

Civil Society

2004	2005	2006	2007	2008	2009	2010	2011	2012	2013
1.50	1.50	1.50	1.75	1.75	1.75	1.75	1.75	1.75	1.75

Although Lithuanian citizens are generally disinclined to express social or political frustration through mass demonstrations, there were signs of increased social mobilization in 2012, with youth groups protesting the year's flawed elections and the perceived rise of political cynicism in their country. Young people also launched a "White Gloves" campaign, volunteering to observe the second round of elections on 28 October and report any suspected incidents to the police.

Participation in volunteer work and donations to charities have been growing since the onset of the global economic crisis, signaling a possible rise in community spirit and compassion for those who suffered most from the crisis. According to the Civil Society Institute's 2010 Civic Empowerment Index, between 2007 and 2010 the number of charitable donors rose from 45 percent to 56 percent of the population, the number of participants in environmental cleanup events rose from 31 to 50 percent, and the number of individuals taking part in community service doubled from 17 to 34 percent.¹⁴ At the same time, the share of people who do not participate in any civil activities decreased from 40 to 25 percent. Food donations to the Food Bank (Maisto Bankas), founded in 2001, increased nearly tenfold between 2008 and 2011, and the charity now distributes food to nearly 40 thousand individuals.¹⁵

Crisis-induced budget cuts mobilized various societal groups to organize into associations. Statistics on the number of nongovernmental organizations (NGOs) are ambiguous, with many more of them officially registered than are actually operational. At the beginning of 2012, there were 9,333 active associations, 2,709 public institutions (excluding schools and hospitals), and 209 charity and sponsorship funds.¹⁶

Private individual donations to NGOs receive a 2 percent tax deduction. Funding to NGOs through this provision has stabilized following a decrease in personal income due to the economic crisis and a cut in the personal income tax rate. While the number of recipient organizations increased in 2011, the number of donors decreased. The total amount donated increased from 37 million Litas (approximately \$13.9 million) to 37.8 million Litas (approximately \$14.2 million).¹⁷ According to official data, donations to charities and sponsorships rose by 9 percent between 2010 and 2011.¹⁸ Private companies account for 91 percent of total sponsorships and donations, with the remaining 9 percent coming

from individuals and anonymous donors. Sports teams are the major recipient of donations, followed by social care organizations, cultural groups, and healthcare organizations.

Business associations and trade unions are traditionally the most influential NGOs in the policymaking arena. In 2012, trade unions demonstrated their influence by blocking the parliament from passing changes to the Labor Code. Lithuanian businesses cite tight and inflexible employment regulations as one of the largest drags on the economy, but the most recent attempt to reduce the administrative burden failed.

Labor group coalitions include the Lithuanian Confederation of Trade Unions, the Lithuanian Labor Federation, and Solidarity; the country’s leading employer organizations are the Lithuanian Confederation of Industrialists and the Lithuanian Business Employers’ Confederation. These groups, together with the government, constitute the Tripartite Council, which makes recommendations on national labor policy. Despite its wide powers, the council has low representation—trade unions claim only about 9 percent of the workforce, and the employer confederations represent just 15 percent of enterprises.

Independent Media

2004	2005	2006	2007	2008	2009	2010	2011	2012	2013
1.75	1.75	1.75	1.75	1.75	1.75	1.75	1.75	2.00	2.00

Throughout 2012, Lithuania’s media continued to suffer economic strain from higher taxes and the rising popularity of online media. After dropping dramatically during the economic crisis, advertising revenues grew by 5 percent in 2011, though these gains were unevenly distributed (mostly in online advertising).¹⁹

As of 2009, the media’s tax rate quadrupled to a standard 21 percent value-added tax. After that time, journalists—previously exempt from paying into the state social security system—were required to make social security contributions, which reached 34 percent in 2011. To avoid the high tax burden, some businesses forced their employees to purchase business certificates or to receive part of their wages illegally. By late 2012, these illegal practices, most notably by outlets indirectly linked to the DP, became a matter of public debate. Meanwhile, legally operating media companies complained that it was virtually impossible for high-quality media to stay profitable under the current tax regime.

Throughout 2012, Lithuania’s independent media were criticized for partisanship and a lack of investigative depth. Despite a promising increase in news-related daily television shows, coverage of political news was often perceived as lacking rigor, and media outlets remained divided on issues such as the infamous pedophilia case. Because most private mass media companies are owned by businesspeople or obscure conglomerates, they are widely regarded as representing business interests. In some cases, businesspeople used their media outlets for

personal attacks against competitors, a clear ethics breach. Public trust in mass media hovered around 36 percent in 2012, up by 1 percent since 2011 but down 50 percent over the past decade.²⁰

Libel remains a criminal offense, though harsh penalties are rare. In June, a circuit court in Vilnius found the president of the Lithuanian Journalists Union, Dainius Radzevičius, guilty of libel against the editor of *Respublika*, Vitas Tomkus. Tomkus brought the libel suit after Radzevičius published his opinion on a report released by the whistleblower website WikiLeaks alleging that owners of Lithuanian media, primarily *Respublika*, were blackmailing businesses and politicians to secure advertising contracts. Tomkus was the first journalist to use the libel law to limit the press freedom of another journalist. Radzevičius was sentenced to a 2,600 Litas (approximately \$980) fine and 10,000 Litas (approximately \$3,745) in nonmaterial damages. However, in October, a board of Vilnius district court judges cleared Radzevičius of the libel charges.

With the exception of the state-owned Lithuanian National Radio and Television, media in Lithuania are privately owned. Of the 30 broadcasters in the television market, the leading national outlets are TV3 (owned by the Scandinavian conglomerate Modern Times Group), LNK (owned by Lithuania's MG Baltic), and Lithuanian National Television's LTV1. Between mid-2011 and June 2012, the number of digital television subscribers grew by one-fifth to 357,700 households.²¹ In October 2012, Lithuania made a full transition to digital television, promising to increase viewership of channels like the news-oriented Lietuvos Rytas TV, which previously could be viewed only in major cities. Of the approximately 50 radio broadcasters in Lithuania, all are private except for the state-run Lithuanian National Radio, which in spring 2012 had the largest audience share at 18.9 percent.²²

Lithuania has 4 national daily newspapers—*Lietuvos Rytas*, *Vakaro Žinios*, *Respublika*, and *Lietuvos Žinios*—and around 70 regional dailies. The Lietuvos Rytas and Respublika groups dominate the newspaper market.²³ In late 2011, 35.6 percent of Lietuvos Rytas shares were transferred to the public sector following the nationalization of Snoras. Lithuania does not have sector-specific regulations on the concentration of media ownership, but legislation on competition sets a general limit at 40 percent market share, implying no single business group can gain a dominant market share and exert unlimited influence.

The internet continues to grow in importance in the media market. In 2012, 55 percent of Lithuanian households were connected to the internet, and 67 percent of citizens were regular users, a slight increase over the previous year. Household surveys revealed that online newspaper reading, reported by 92 percent of internet users, was the most popular use of the internet.²⁴ News portals in Lithuania's extensive online media market competed intensively over the quality, quantity, and format of information. Television broadcasters have also upgraded the selection of shows available online, and some began offering live streaming. Social media use has also grown rapidly; more than 51 percent of Lithuanian internet users had Facebook accounts in 2012, up by 5 percent from 2011.

Local Democratic Governance

2004	2005	2006	2007	2008	2009	2010	2011	2012	2013
n/a	2.50	2.50	2.50	2.50	2.50	2.50	2.50	2.50	2.50

A 2012 report by the Ministry of the Economy revealed a dire need for more transparent and efficiently managed municipally owned enterprises. In 2011, 262 such enterprises, employing 19,800 individuals and holding assets of 8.5 billion Litas (approximately \$3.2 billion), produced a loss of 833,000 Litas (approximately \$312,000).²⁵ A further 37 enterprises failed to submit their financial reports, in violation of the law. In many cases, these enterprises' socially and commercially oriented functions are not clearly separated. Municipally owned enterprises encompass a wide-ranging portfolio that includes utility companies as well as saunas, hairdressers, bookstores, and funeral companies.

Public confidence in local government is undermined by politicking, graft, and mismanagement. Throughout 2012, public trust remained in the range of 25–29 percent, unchanged from the previous year.²⁶ Municipal councils are viewed as lacking accountability to their electorate.²⁷ According to Corruption Map 2011, produced by the Special Investigation Service (SIS), citizens view municipal councils as Lithuania's fifth most corrupt institution.²⁸ Business leaders and managers, however, view local government as the country's most corrupt institution. This difference in the opinion may stem from businesses' daily dealings with municipalities. Corruption Map 2011 cites a tripling in the number of business representatives who have bribed municipal employees, from 8 percent in 2007 to 23 percent in 2011; the number of people extorted for bribes also rose considerably, from 17 to 29 percent.

At present, mayors are elected by municipal councils whose members are chosen in general elections. A move to popularly electing mayors has been debated, but owing to slow parliamentary procedures, a bill on constitutional amendments to institute direct mayoral elections was not passed in 2012. The government supported direct mayoral elections but challenged the proposal to make mayors accountable to both the citizens and the municipal council. Direct elections would allow mayors to focus on their immediate functions rather than engage in continuous political bargaining to maintain coalition support.

Local governments are limited in the functions they have the independence to perform. Currently, municipalities cannot manage urban or rural state-owned land, an ability that would allow them to more quickly realize investment projects. Local governments are also limited in their financial independence. Central budget allocations account for about half of municipal budgets; the remaining portion comes from property and land taxes and local fees. But in reality, because much of the municipalities' independent proceeds go to the central government wage fund and utility payments, municipal councils are free to distribute less than one-tenth of municipal budgets.²⁹ In the national budget, the portion of total personal income tax revenue allocated to local governments dropped from 73.5 percent in 2010 to 61.3 in 2012 and will be further reduced to 57.3 percent in 2013.³⁰ Many municipalities experienced financial difficulties following the August 2012

minimum wage increase because the government failed to offset this decision with additional allocations.

Wide regional disparities in local government revenues are leveled through revenue transfers. Cities with higher personal income tax revenues are net donors, while poorer regions are net recipients. In effect, the central government dictates the share of personal income tax revenues for each municipality, thus undermining municipalities' independence. The situation is particularly serious in the capital city of Vilnius, where 60 percent of personal income tax is redistributed among other cities. Despite this lower share of revenues, Vilnius is required to perform functions unique to the capital. In 2011, Vilnius and its municipally owned enterprises accrued debts of nearly 1 billion Litass (approximately \$375 million), an amount equivalent to its yearly budget. Overall, year-on-year growth in municipal debt exceeded 20 percent in mid-2012.³¹

Judicial Framework and Independence

2004	2005	2006	2007	2008	2009	2010	2011	2012	2013
1.75	1.75	1.50	1.75	1.75	1.75	1.75	1.75	1.75	1.75

Lengthy investigations, trials, and occasional corruption scandals in the judiciary have damaged the reputation of Lithuania's court system. Throughout the year, discussions continued on reforming the prosecution service and state security with a view toward making them accountable to the government, rather than the president, but no tangible progress was made.

The independence and impartiality of the judiciary are widely challenged. At the beginning of 2012, after secret information was leaked in the Snoras case, politicians became actively involved in the case for dismissal of the FCIS leadership. Although the prosecution had already undertaken a pretrial investigation, a parliamentary anticorruption commission launched its own inquest. Concluding that Interior Minister Palaitis had failed to produce objective arguments for dismissing the heads of FCIS, the commission proposed reinstating the officials. Palaitis did not follow these recommendations and later resigned. In fall 2012, the Vilnius district court ruled that one of the FCIS leaders should be reinstated.

In another alarming development, senior politicians publicly encouraged disobeying court orders in the 2009 pedophilia case. In late 2011, a circuit court ordered a temporary guardian to hand over an alleged pedophilia victim to her mother. The guardian, herself a circuit judge and a newly elected member of the parliament, refused to obey the court order. The public was polarized on the issue, but numerous politicians, including the speaker of the parliament, supported the guardian, claiming that "unjust" court orders do not have to be implemented. The alleged victim was ultimately transferred to her mother, but the parliament members' determination to prevent the court order's implementation was a grave example of political meddling with the judicial system. The alleged victim's former guardian is now the leader of the WC party and ran in the parliamentary elections on a ticket of reforming the judicial system.

The public perceives the judiciary as insular and opaque; its impartiality is widely challenged. Only around 17 percent of the population trusts the courts.³² A national anticorruption program planned for 2013 aims to increase judicial transparency by computerizing lawsuit allocation to judges and publishing information on court proceedings online. The number of complaints filed with the Judicial Ethics and Discipline Commission, an institution that adjudicates disciplinary cases within the judiciary, grew sevenfold between 2009 and 2011, although many complaints are unrelated to discipline and are dismissed.³³ The first half of 2012 brought a further 20 percent increase in complaints.

Throughout 2012, the court continued to conduct a controversial trial involving a young female Lithuanian Muslim convert, Eglė Kusaitė, who was detained in late 2009 after being accused by Lithuanian prosecutors of plotting a terrorist act in Russia. While in custody in 2010, Kusaitė reported physical and psychological abuse by Lithuanian authorities and Russian security officials who were allegedly allowed to participate in a pretrial investigation. Concluding that they were not supported by any objective records, the Lithuanian prosecution refused to conduct a pretrial investigation of Kusaitė's complaints. In 2012, Kusaitė was sentenced on two separate occasions by circuit courts for publicly calling her former prosecutors criminals. Her appeals were dismissed by the district court, and she was ordered to pay fines of 7,800 and 1,300 Litas (approximately \$2,930 and \$490). Human rights groups have appealed to the president and the speaker of the parliament over possible human rights violations, claiming that the court, the prosecution, and the State Security Department jointly operated without an adequate system of checks and balances.

In early 2012, the Constitutional Court ruled that school vouchers, an integral part of higher education reform, violate the constitution when given to private institutions of higher education. The court also challenged provisions of the law that undermined the autonomy of higher educational institutions. The number of laws deemed unconstitutional by the Constitutional Court grew threefold from 2010 to 2011. Lawyers view this phenomenon as exemplifying the low quality of the lawmaking process, although it could also be a sign that the constitution is out of date—for instance, when the constitution was passed in 1992, no private institutions of higher education existed, and thus their financing through school vouchers could not have been envisaged. If the constitution is not amended to bring it in line with the current sociopolitical landscape, it may become an impediment to transformation of the public sector.

Corruption

2004	2005	2006	2007	2008	2009	2010	2011	2012	2013
3.50	3.75	4.00	4.00	3.75	3.75	3.50	3.50	3.50	3.50

Throughout 2012, corruption investigations by the Special Investigation Service led to arrests of top-level municipal officials. The arrest in December 2011 of the mayor of Radviliškis was followed in 2012 by the detention of the vice mayors of

Kaunas and Vilnius. Most local government corruption cases are related to public procurements. Follow-through on corruption cases has reportedly increased in recent years, although corruption investigations continue to linger before reaching court. Politicians view the work of SIS Director Žimantas Pacevičius as successful and even rejected a bill to dismiss him when his tenure ended in late 2012. After a second vote, his dismissal was adopted; the new SIS director had yet to be appointed by the president at year's end.

The implementation of an updated national anticorruption program for 2011–14 progressed during the year. By the end of 2012, 7 measures had been fully realized and 4 had failed, with 84 still in the process of implementation.³⁴ The new program focuses on clear-cut objectives and measurable criteria for more accurate assessment of anticorruption efforts. One of its central aims is to reduce bureaucracy and introduce e-services, especially for the corruption-prone areas of territory planning and construction permits. The program will usher in new rules to increase transparency in the drafting of related legislation and the granting of permits. For example, all draft bills submitted to the parliament will be required to indicate their original initiators.

The new anticorruption program will also introduce procedures for increasing efficiency in the judiciary and improving central control of public procurements. The outgoing center-right coalition was vocal about reducing corruption in public procurement, yielding some tangible changes. In February 2010, the Public Procurement Office (PPO) began publishing all reports and decisions of purchasing organizations online. In 2011, the PPO investigated 324 public procurements, identifying violations of official procedures in roughly 23 percent. Public institutions' directors are not held personally liable for procedural violations, and penalties for violators are disproportionately low. The procurement of European Union assistance, which accounts for over a quarter of state budget revenues, is especially prone to mismanagement. The number of public tenders carried out through the centralized online public procurement system has risen but remains relatively low at 3.1 percent, accounting for 12.5 percent of the total value of public procurements.³⁵

In 2011, the public perceived healthcare as Lithuania's most corrupt sector.³⁶ According to the SIS's "Corruption Map" study, 44 percent of respondents to the 2012 survey reported bribe extortions at public healthcare institutions and 34 percent reported giving bribes. The public healthcare system is prone to long queues and a lack of transparency in assigning procedures. Without legal copayments or a clear incentives structure for healthcare professionals, the system is very susceptible to corruption. Many individuals do not file official complaints of bribe extortion, fearing damage to their relationship with healthcare institutions.

In December 2012, a large corruption network was uncovered in the customs system, leading to the arrests of 30 customs officials accused of taking small bribes for real or apparent violations. Although the corruption network, encompassing more than one-third of a single customs post, appears troublingly large, its routing suggests that the customs system is committed to reducing corruption.

Lithuanian businesses are burdened with onerous reporting regulations, comprising some 900 requirements in the areas of statistics, consumer protection, and corporate, labor, and tax law as well as another 1,200 in vertical sectors of the economy such as transport, finance, trade, and construction.³⁷ In 2012, there were about 60 regulatory agencies in Lithuania.³⁸ The government continued its reforms of business protection procedures, coupled with functional and institutional mergers designed to prevent abuse, excessive interventions, and unjustified penalties. As of 2012, regulatory agencies perform inspections according to questionnaires, a measure useful to both businesses and inspectors. Breaches not covered by legally approved questionnaires may not be punished; however, 54 percent of surveyed companies reported that questionnaires were not used during inspections.³⁹

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Macedonia

by Ljubica Grozdanovska Dimishkovska

Capital: Skopje
Population: 2.1 million
GNI/capita, PPP: US\$11,370

Source: The data above are drawn from the World Bank's *World Development Indicators 2013*.

Nations in Transit Ratings and Averaged Scores

	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013
Electoral Process	3.50	3.00	3.25	3.25	3.25	3.50	3.25	3.25	3.25	3.25
Civil Society	3.25	3.25	3.25	3.25	3.25	3.25	3.25	3.25	3.25	3.25
Independent Media	4.25	4.25	4.25	4.25	4.25	4.25	4.25	4.50	4.75	4.75
Governance*	4.00	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a
National Democratic Governance	n/a	4.00	3.75	3.75	4.00	4.00	4.00	4.00	4.25	4.25
Local Democratic Governance	n/a	4.00	3.75	3.75	3.75	3.75	3.75	3.75	3.75	3.75
Judicial Framework and Independence	4.00	3.75	3.75	3.75	4.00	4.00	4.00	4.00	4.00	4.25
Corruption	5.00	5.00	4.75	4.75	4.50	4.25	4.00	4.00	4.00	4.00
Democracy Score	4.00	3.89	3.82	3.82	3.86	3.86	3.79	3.82	3.89	3.93

* Starting with the 2005 edition, Freedom House introduced separate analysis and ratings for national democratic governance and local democratic governance to provide readers with more detailed and nuanced analysis of these two important subjects.

NOTE: The ratings reflect the consensus of Freedom House, its academic advisers, and the author(s) of this report. The opinions expressed in this report are those of the author(s). The ratings are based on a scale of 1 to 7, with 1 representing the highest level of democratic progress and 7 the lowest. The Democracy Score is an average of ratings for the categories tracked in a given year.