

Sammendrag.

Denne masteroppgaven omhandler korrupsjon og hvordan dette påvirker demokratiseringsprosessen i postkommunistiske land. For å avgrense temaet skal jeg utføre en komparativ case studie av Serbia og Kroatia. Årsaken til at disse landene ble valgt er på bakgrunn av deres felles historiske fortid, de var en del av det samme landet i 73 år. Begge landene opplevde i tillegg store utfordringer grunnet krigen som var et resultat av oppløsningen av Jugoslavia. I tillegg er både Serbia og Kroatia preget av mye korrupsjon som forekommer på alle nivåer og i har negative konsekvenser for samfunnet. I denne oppgaven vil jeg bruke funksjonalisme for å analysere manifeste og latente funksjoner av korrupsjon, i tillegg til side effekter i fire demokratiske institusjoner. Disse institusjonene er det økonomiske systemet, media, valgsystemet og rettssystemet. Korrupsjon forekommer i alle disse institusjonene og har negative konsekvenser for landenes videre demokratiske utvikling. Mens korrupsjon i det økonomiske systemet fører til ineffektivitet og hindrer fri konkurranse, hvilket igjen har negative konsekvenser for landenes økonomiske vekst og utvikling, fører korrupsjon i mediesektoren til en svekkelse av ytringsfriheten. I Kroatia brukes det stort sett indirekte midler for å påvirke mediene, mens styringsmaktene i Serbia og deres allierte i tillegg bruker mer direkte midler som angrep på journalister og stenging av TV kanaler som har innhold de ikke liker. Når det gjelder valgsystemet, fører korrupsjon i denne institusjonen til at innbyggere ikke har muligheten til å holde politikerne ansvarlig for deres handlinger, og det bryter også med det demokratiske prinsippet som omhandler frie og rettferdige valg. Korrupsjon i rettssystemet fører til at domstolene ikke har muligheten til å fungere som en maktbalanse mot de andre statsmaktene, og det fører også til en svekkelse av prinsippet om en rettsstat, som er en viktig forutsetning for et demokrati.

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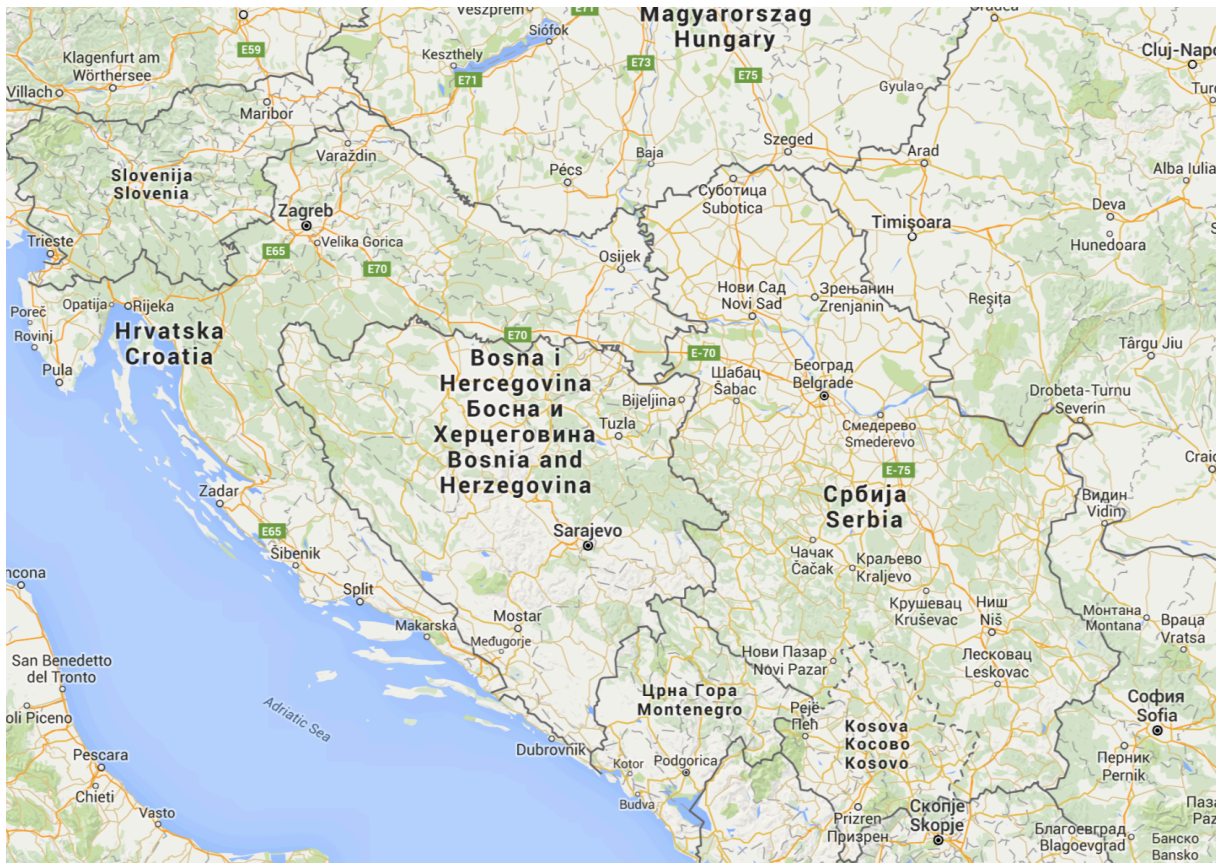
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List of acronyms.

ACA	Anticorruption Agency (Croatia)
CPI	Corruption Perception Index
DOC	Democratic Opposition of Serbia
DS	Democratic Party (Serbia)
EPH	Europa Press Holding (Croatia)
EU	European Union
FDI	Foreign Direct Investment
FRY	Federal Republic of Yugoslavia
GDP	Gross Domestic Product
HDZ	Croatian Democratic Union
HRT	Croatian Radio and Television
HSU	Croatian Pensioners' Party
ICTY	International Tribunal for the former Yugoslavia
JNA	Yugoslav People's Army
MP	Member of Parliament
NATO	North Atlantic Treaty Organization
NGO	Non-Governmental Organization
NUNS	Independent Association of Journalist in Serbia
OSCE	Organization for Security and Co-operation in Europe
OSCE/ODHIR	OSCE Office for Democratic Institutions and Human Rights
PR	Proportional Representation System
SEEMO	OSCE Mission in Serbia and the South East Europe Media Organization
SDP	Social Democratic Party of Croatia

SNS	Serbian Progressive Party
SPS	Socialist Party of Serbia
UN	United Nations
UNDOC	United Nations Office for Drugs and Crime



Map 1. Map of the area. Serbia and Croatia.

1. Introduction.

The Cold War period in Europe was characterized by tensions between the liberal democracies in the countries in Western Europe and the communist regimes in Central and Southeastern Europe. The collapse of communism started in the 1980s mainly due to poor economic performance and citizens' demands for basic human rights. Following the collapse, democratic coalitions came to power in several Central and Southeast European countries seeking to promote transitions towards democracy. These democratic transitions can be categorized under the third wave of democratization in the history of the modern world (Huntington 1991:12). The first wave began in 1820s, with the widening of suffrage to a large proportion of the male population. This wave of democratization lasted until 1926 and resulted in 29 democratic states. The second wave began with the triumph of the Allies in World War II, and lasted until 1962 with 36 countries being governed democratically. During the third wave, several post-communist countries moved closer to the liberal democracy model that the Western European countries advertised for. The European Union, EU, played a huge part in the case of democratic consolidation in Central and Southeastern Europe. In order to become member states of the union, the post-communist countries have been required to democratize and adjust their institutions, laws and regulations according to EU standards.

Democratic consolidation can be defined as the process by which democracy become so legitimate among the citizens' of a country that it is very unlikely to break down. This process involves behavioral and institutional changes that normalize democratic politics (Diamond 1996:238). Based on this definition it is clear that the

process of consolidating democracy is consuming and expected to take many years. Fukuyama argues that there are four phases that a country must go through in order for democratic consolidation to occur. The first phase is labeled ideology and includes normative beliefs about the rightness and wrongness of democratic institutions. A democratic society cannot survive if its citizens do not believe that this is a legitimate form of government. This phase is considered to be completed when the democratic coalitions won the elections in several countries in Central and Southeastern Europe and focused on moving the country in a more democratic direction. The second phase is institutional and includes reforming the constitutions, legal systems, party systems and the market structure. The third phase that must be completed in order to consolidate democracy is the creation and democratization of the civil society which can be defined as social structures that are separate from the state and the political institutions. These structures take shape even more slowly than political institutions, but are less able to be manipulated by public policy. The final phase of democratic consolidation is culture. Just as democratic institutions rest on the foundation of a healthy civil society, civil society in turn has preconditions in culture (Fukuyama 1995:8). This phase refers to civic values which can be defined as those values that need to be present in order to have a good society. Such values include respect for other cultures, faiths and traditions, tolerance and respect for religious, national and sexual minorities, as well as the belief that all citizens are entitled to be treated as equal under the law, receive equal pay for equal work and the respect for the harm principle (Ramet 2013:21).

Considering that democratic consolidation is a process that takes a lot of time, it may therefore explain why the newly formed democratic coalitions in Central and Eastern

Europe were not stable. They experienced a lot of challenges linked to their totalitarian pasts, including corruption, weak institutions, lack of trust from the people and poor economic performance. This thesis focuses on corruption and its impact on democratic institutions. Corruption is a complex phenomenon that takes on various forms and results in multiple effects. A broad definition offered by The World Bank explains corruption as the abuse of public office for private gain (World Bank 1997). The state structure in a country creates pockets of monopoly power, which gives government officials and civil servants discretionary power. As a consequence, they might use this power to increase their own revenues and enrich themselves (Boswell and Rose-Ackerman 1996:83). The levels of corruption in Central and Eastern Europe have increased since the end of the communist organizational monopoly. One can argue that this was due to the fact that the process of corruption became more complicated as the communist parties lost their power. During the communist era, it was clear who needed to be bribed in order to receive government goods, considering that all the bribes eventually went to members or allies of the communist party (Shleifer and Vishny 1993:605). Since 1989, however, government agents have acted more independently. Different agencies and ministries set their own bribes in an attempt to maximize their own revenues. This has resulted in corruption being spread to all sectors and institutions of the society and the levels of corruption increased. Shlapentokh (2013:150) argues that it is important to recognize corruption as a necessary cost in the transformation from a communist society towards a democratic one. However, at the same time it is important to find out whether this cost is a radical obstacle to the transformation towards a genuine democracy.

This thesis focuses on how corruption affects the democratization process. In order to narrow down the topic, I will do a comparative case study of the functions of corruption and its impact on democratic institutions in Serbia and Croatia. The countries have a similar past considering that they were a part of the same country for 73 years, until the break up of Yugoslavia in 1991. However, while a new anti-communist regime led by Franjo Tudjman came to power in Croatia in 1990, Serbia continued to be ruled by the Socialist party and its leader Slobodan Milošević, beginning in 1987. The war ended in 1995 and left the countries with unique challenges. In addition to transforming towards more democratic societies, the countries needed to rebuild houses destroyed by the war and return refugees to their places of origin. Both Serbia and Croatia are categorized as semi-consolidated democracies by Freedom House (Nations in transit 2016). However, Croatia receives a higher democracy score than Serbia and became a member state of the EU in 2013 while Serbia is scheduled to join the union in 2020. On the basis of this, I find it interesting to analyze if corruption has different impacts in the two countries. The research question in this thesis is: *“What are the functions of corruption in democratic institutions in Serbia and Croatia and what impact does corruption have on democratic consolidation?”*

This thesis will proceed as follows. First, I will be offering a historical background of Serbia and Croatia. It is possible to argue that the democratization process in Croatia started earlier than in Serbia. After the break up of Yugoslavia, the president of Croatia, Franjo Tudjman, argued that he wanted to move away from the country’s communist past and aimed at membership in the European Community. However, he also embraced the Catholic Church and nationalism while orchestrating and

engaging in a corrupt privatization process. By comparison, Milošević and the Socialist party continued to rule in Serbia and the public enterprises were not privatized. Second, I will discuss what democracy and democratic consolidation is, and why this is the goal for Serbia and Croatia. Several authors have offered different explanations of democracy should include, but it is widely accepted that however defined it is the best system of government. Next, I will present the method used to analyze corruption in Serbia and Croatia. I will utilize a functionalist approach and analyze the manifest and latent functions of corruption, as well as the side effects in four democratic institutions, which include: the economic system, the media, the electoral system and the justice system. Finally, I will discuss the difference of the function of corruption in Serbia and Croatia and what impact this has on further democratization in the countries.

2. Historical background.

This section is going to provide an overview of the historical past of Serbia and Croatia. There are several similarities between the countries considering that they were a part of Yugoslavia for 73 years. Yugoslavia can be divided into two periods. The first Yugoslavia was under the ceremonial crown of the Karadjordjević family and lasted for 23 years, from 1918 to 1941. The second Yugoslavia lasted for 46 years and was established by communist Marshal Josip Broz Tito after the Second World War (Ramet 1998:159).

2.1 Communist era.

During the communist era, the communist party in Yugoslavia enjoyed several advantages over the non-communist parties. It controlled the main political offices, the armed forces, the police and judiciary and the labor unions. In addition, the communist party nationalized the economy by seizing land, even land owned by Catholic and Orthodox churches, and launched a five-year plan. However, communism in Yugoslavia was different from communism in other countries especially concerning cooperation with the communist regime in the Soviet Union. In other communist countries, the communist parties were controlled by Moscow, which placed its agents in control of key offices. By contrast, Yugoslavia resisted Moscow's efforts to take control over its political system. Tito and his associates were instead searching for a new way in which to assert greater allegiance to Marxism-Leninism, which resulted in the development of a system the Yugoslavs called self-managing socialism. This system rested on mainly three pillars. First, the idea of self-management was aiming at enabling workers to manage enterprises for themselves. Second, the slogan "brotherhood and unity" was concerned with mending the

shattered relations among the different nationalities and building real harmony among the people of Yugoslavia. Third, non-alignment was related to foreign policy and emerged after 1955 when Tito began to court Third World leaders (Ramet 1998:164).

The decade starting from 1965 was a time of economic boom. This was mainly driven by two things: first, by the development of tourist resorts, especially along the Dalmatian coast in Croatia, and second, by Yugoslavia's increasing ability to compete in international trade markets (Ramet 1998:168). Following this economic growth, the six years of the late Tito era looked like a golden age. It was during these years that the economic boom started to be felt by ordinary citizens. These were also the years of stability, both economic and political, as well as to some degree foreign stability. Nevertheless, this stability was purchased with uncontrolled borrowing, which resulted in a huge increase of the Yugoslav foreign debt (Ramet 1998:170). Tito passed away in May 1980, and his death brought the people of Yugoslavia together. For a couple of months, it seemed that there were no longer Serbs and Croats, Slovenes and Macedonians, only Yugoslavs.

Slobodan Milošević came to power in 1987 and continued to rule Yugoslavia until the war which led to the country's break up in 1991. He came to power through an internal party coup where he pushed out his mentor, Ivan Stambolić, and took the leadership post himself. He radically changed the country's politics. First, he took greater control of the media, starting with taking personal control of the newspapers *Politika* and *Politika ekspress* and Radio-Television Belgrade (Ramet 1998:174). He used the control and manipulation of media as a tool to maintain his political power.

By using classic populist techniques, he distanced himself from the economic policies of Tito. He also used the media to champion the interest of Serbia in Kosovo, which was seen as the cradle of the Serb nation, despite Albanians having been the majority nationality there for over a century (Gallagher 2000:116). Second, he rehabilitated Serbian nationalism, and the Serbian Orthodox Church was praised for its role in fostering nationalism. This was in complete opposition to Tito's policies where nationalism was considered dangerous, and the involvement of religious organizations in politics was forbidden. Third, he organized popular disturbances by setting up a Committee for the Protection of Kosovo Serbs and Montenegrins. He then used this committee to destabilize the governments of Vojvodina, Kosovo and Montenegro replacing the officials in the areas with his own allies (Ramet 1998:175). In addition, he made changes in the military by replacing the so called "unreliable" officers, especially Slovenes and Croats, with Serbian officers.

The Socialist Alliance of Working People of Serbia was an organization which had existed for many years, serving as a mechanism for including religious believers in the socialist system. In autumn 1989, this body called for the termination of all economic links between Serbia and Slovenia (Ramet 2006:366). This was considered to be first signal of the break up of Yugoslavia. Slovenia issued an ultimatum stating that if some agreement could not be reached by 26 June, the Republic of Slovenia would declare its independence. Croatia stated that if Slovenia seceded, Croatia would follow. Both countries declared their independence on 25 June 1991. The war that followed the break up of Yugoslavia can be divided into two phases. The first phase started with the independence of Slovenia and Croatia. Two days later, the Yugoslav People's Army, JNA, opened hostilities against Slovenia.

However, within three weeks, the JNA agreed to a truce and began to withdraw from Slovenia. By then inter-ethnic violence within Croatia was escalating (Ramet 1998:179). The second phase of the war included Bosnia and Herzegovina and began in March 1992. This was a far more complicated case due to deep division between the ethnic groups. Unlike other Yugoslav Republics, Bosnia lacked a clear majority nationality. Instead, there were only minorities although some were larger than others. The war ended in 1995 with the Dayton Peace Accord, but it left the Yugoslav successor states with unique challenges in Eastern Europe, such as the need to rebuild houses and infrastructure and returning refugees and displaced people to their places of origin.

2.1 Post-communism.

The period after the Yugoslav wars is characterized as the post-war era. In the case of Croatia, this period also symbolized the post-communist era considering that the transformation of the political system from a communist one-party rule to a pluralist system started even before the election in May 1990. This election brought Franjo Tudjman and the newly established Croatian Democratic Union, HDZ, to power. Tudjman was a former communist general who turned into a nationalist and had a self-concept as the father of the country. Before entering politics he had been a historian, which may have influenced his political attitudes and actions. He favored diplomacy over military action, which often made him accept peace proposals, even when they were not in Croatia's interests. However, at the same time, he seemed obsessed by certain ideas. Tudjman's nationalism was something special and he was a democrat when he was out of power, but when he attained power he acted like a martinet (Sadakovich 2008:60). In his mind, it was he himself who could best be

trusted to know what the country's interests were, how these interests could be achieved and where the rules could be bent. While some of his power was formal, much of it was informal and even personal. Based on this, it is already clear that Tudjman's years in office were characterized by corruption, cronyism and nepotism. Tudjman engaged in a privatization process which included transferring large proportions of socially owned property into the hands of HDZ members and Tudjman's family and friends. This corrupt privatization process will be discussed in more detail in a later section. Concerning foreign policy issues, Tudjman's goal was orientation towards and eventually membership in the European community. At the same time, he did not want close relations with the United States due to his distaste for "supranational" ideologies, which he argued the U.S. represented. However, his nationalism was not welcomed in the European Community due to the fact that the community aimed at integrating states into a regional grouping in which globalization and free market were the corner stones, rather than self-determination and autarky (Sadakovich 2008:65).

Nevertheless, Tudjman and the HDZ were able to maintain their dominance so effectively that there was never any need for them to enter into a coalition with other parties. It was not until elections in January 2000 that a coalition government was established headed by the Social Democratic Party of Croatia, SDP, and Ivica Račan as the prime minister. While Croatia was starting its post-communist era after the wars by aiming at moving closer to and eventually becoming a part of the European community, Milošević continued to rule in Serbia after the war until 5 October 2000. One can argue that there are several similarities between Milošević and Tudjman. Both headed political regimes which were characterized by strong authoritarian traits,

and were based on personal rule with a small circle of allies. Vejvoda (2000:222) describes Tudjman and Milošević as “Europe’s last strongmen” arguing that they were driven by their own power-seeking agendas. Both relied on nationalism in order to generate public support, both sought to control the media and stifle independent voices in the mainline press, both were hostile to feminism, and both confronted hostile minorities (Ramet 2010a:274). However, there were also three major differences between the two presidents. First, Milošević, planned and orchestrated the war, while the war in Croatia can be characterized as having been mainly defensive. Second, Milošević’s party was the successor party of the old League of Communists of Serbia. It continued to reflect some of the old socialist attitudes, for instance regarding private property. By contrast, Tudjman’s party was an opposition party committed to an anti-communist program. Third, Milošević used the police to jail and get rid of some of his opponents, while Tudjman refrained from such tactics (Ramet 2010a:274).

The first sign of Milošević’s declining popularity came when the first major opposition coalition was formed in 1996. It was called “Zajedno” (Together) and was able to win an election and several of its candidates were voted into office in and around Belgrade. As Milošević’s second term as president of Serbia was expiring, he took several steps to maintain his political power. He aimed at getting an even stronger grip on the media by shutting down several small radio and television stations and assuming control of the daily newspaper, *Borba*, because it was critical of his regime. Considering that the constitution did not allow him to seek re-election, he arranged for it to be amended. This resulted in the power that was originally assigned to the president of Serbia now being transferred to the president of the Federal Republic of

Yugoslavia, FRY (Ramet 2010b:293). In 2001, his term in office would again expire and in order to stay in power he changed the constitution once again in July 2000. The presidential elections were held in September the same year and resulted in 48.22% of the votes for Vojislav Koštunica, the candidate of the Democratic Opposition of Serbia, DOC. By comparison, Milošević got 40.23% of the votes. The election commission called for a second round of voting to take place, while the opposition claimed that there were no need for a run-off election considering that Koštunica had won (Ramet 2010b:294). This incident led to a protest taking place on 5 October 2000 when angry Serbs stormed the parliament building in Belgrade and ended the 13 years of Milošević's rule (Ramet 2010b:286). Koštunica became the new president of FRY, while Zoran Djindjić became the prime minister. He was an intellectual with a Ph.D. in philosophy from an university in Germany. After finishing his degree, he returned to Yugoslavia where he took a teaching job. He was also a liberal and in 1989 he founded the liberal Democratic Party, DS, together with pro-democracy activists and other intellectuals.

2.3 Back to Europe and membership in the European Union.

During the post-communist era, several of the countries in Central and Southeastern Europe wanted to re-connect with Europe after decades of communist rule. The countries sought to join the European integration process and eventually become member states of the European Union. Croatia became a member state in 2013 and was the first country to join the EU since 2007 when Bulgaria and Romania joined the union. Also, it was only the second Yugoslav country after Slovenia, which had joined the EU in 2004. Croatia formally applied for EU membership in 2003 and much of the integration process has been concerning how to deal with accused war criminals

through cooperation with the International Tribunal for the former Yugoslavia, ICTY. This Cooperation got complicated at times, especially concerning the arrest of general Ante Gotovina who was considered a war hero by many Croatians. In other areas, the cooperation with the EU has been slow. Croatia resisted demands to grant full equality to same-sex couples and rejected an EU proposal to introduce textbooks on common Balkan history. Instead it preferred to retain the existing focus on national history and on European developments (Ramet and Sørberg 2008:15). In addition to this, the EU had learnt that once countries became member states of the union they lose momentum, especially concerning lowering the levels of corruption (Mahony 2013). Therefore, Croatia's accession to the EU had exerted pressures on the authorities to deal more effectively with corruption and in 2006 the government adopted a National Anti-Corruption program for 2006-2008. The plan was to reduce corruption to a level that would not have negative impacts on Croatia's economic, social and political developments. However, this program did not have huge positive effects and the motivation to deal with corruption stagnated in 2005 and 2006.

Croatian citizens changed the course of Croatian politics during the election in January 2000 by voting the HDZ out of office. The elections were conducted in a generally free and fair manner which sent a positive signal to the EU and was a sign that Croatia has entered into a new phase of political development. This new course included several reforms, increased transparency of executive offices and a renewed effort to integrate Croatia into the international community. When the HDZ returned to power during the parliamentary elections in 2003 it continued to work on the previous government's policies toward democratic reforms and European integration. The positive changes in Croatia were noticed by the international community and Croatia

was accepted into NATO's Partnership for Peace Program in May 2000 (Matić 2008:177). As mentioned previously, Croatia formally applied for EU membership in 2003 and it took ten years for the negotiations to be concluded. Croatia became a member state of the European Union in 2013.

In Serbia, the Milošević regime and the political elite succeed in destroying the basis of the country's national identity which had been characterized by its democratic structure, economy, and culture. Serbia previously had good relations with the Western countries, but the Yugoslav wars had completely destroyed this positive image of Serbia (Miljković and Hoare 2005:193). After the fall of Milošević, Djindjić wanted Serbia to embrace European values and commit to democracy, human rights and the rule of law, as well as accepting the EU's accession strategy defined by the Stabilization and Association Process, but Koštunica resisted this path and even claimed that Serbian law trumped international law.

By the end of the day on 5 October 2000, Koštunica was confirmed as the elected president of FRY, while Djindjić became the Serbian Prime Minister. Following the change of regime, the new government reversed the economic policies of Milošević by implementing a program of corrupt economic reform. Within two years, the results of this new course were liberated trade and prices, new monetary and fiscal policies which reduced inflationary pressure. In addition to this, the exchange rate was stabilized, budgetary matters experienced increased transparency and foreign direct investment began to be welcomed (Miljković and Hoare 2005:212). Every member of the ruling coalition expressed commitment to the European integration. One of the arguments was Serbia's geographic position, and hence its political and cultural

belonging to Europe. Other arguments focused on the economic benefits that would follow as a result of European integration. However, there were several issues that created tensions between President Koštunica and Prime Minister Djindjić. One of them was that Djindjić pressed for cooperation with the ICTY and to surrender Milosević to the international authorities. Koštunica on the other hand obstructed any such actions arguing that this issue should be resolved by the national judiciary (Pešić 2007:2).

After Djindjić was gunned down in 2003, Koštunica became the new prime minister in 2004, and called a halt to some of the economic reforms launched by Djindjić in the previous government. He also revoked reforms in education and in the justice system, and downgraded most of the key figures in Operation Saber, the anti-crime initiative launched after the assassination of Djindjić. Following this second transition government, there was a shift in priorities which led to a more old style of governance. This was expressed in the political and party control of the police, the security of intelligence agency, and in the media and judiciary by bringing back old figures to central position in the state apparatus. While the first transition government with Djindjić as prime minister focused on Serbia's integration with the EU, the enthusiasm for European integration ebbed after the second transition government led by Koštunica came to power (Pešić 2007:3). This change in priorities was accompanied by the rebuilding of the political and business elite. Koštunica's government fostered corruption by creating opportunities for state capture because the elite was able to take control over state institutions and exercise influence over them in line with its own interests. This was possible due to delay in the strengthening of political, judicial and administrative institutions (Pešić 2007:4).

A decade later, the parliamentary election in March 2014 scored a victory for Aleksandar Vučić and the Serbian Progressive Party, SNS. Throughout their campaign, SNS promised economic revival and a renewed fight against corruption. It gained the biggest parliamentary majority held by any party since Milošević in the 1990s, which left the opposition fragmented and weak for most of 2014 (Savić 2015:578). While some observers were concerned about the concentration of power in the hands of one political party, others hoped that a strong government could finally implement the necessary reforms in order to achieve positive developments in Serbia (Savić 2015:581).

3. Democratic theory and democratic transition.

Democracy is a wide term which can be used in several ways. Bruce Parrott (1997:4) defines democracy as "... a political system in which the formal and actual leaders of the government are chosen within regular intervals through elections based on a comprehensive adult franchise with equally weighted voting, multiple candidacies, secret balloting, and other procedures, such as freedom of the press and assembly, that ensure real opportunities for electoral competition". However, this definition is considered minimalist because it does not include all the individual liberties that other scholars, for example Zakaria, consider an essential element of genuine democracy. While Parrot's definition groups together the majoritarian and constitutionalist libertarian traditions of democratic governance, Zakaria argues that one should differentiate between democracy, which is the process of selecting governments, and constitutional liberalism which focuses on individual freedoms and what the goals of the government are. However, even though the scholars do not fully agree on what the term democracy should include, it is widely agreed that a democratic governance is the best form of government. For example, a vital condition for a true democracy is gender equality. However, the minimal definition of democracy offered by Parrott does not focus on this issue. Politicians, on the other hand, strive to appropriate the term and attach it to their actions in order to make them more legitimate. One may then say that the term has been circulating in the political marketplace as a debased currency. In order to identify and analyze the effect of corruption on the democratization process in Serbia and Croatia, we must know what the purpose and the goal of democratic consolidation are. In this section, I will there be offering different interpretation of what the definition of democracy should include.

Directly translated, democracy means ruled by the people, and in ancient Greek societies this was practiced by assembly democracy. However, in modern societies, this kind of system would be inefficient due to two main reasons. First, although the caucus system in some American states is a form of assembly democracy, usually the opportunities for participation in such systems diminishes as the numbers of citizens increase. This means that in modern states, this form of system will be inefficient. Second, although this system makes it available for more people to participate in the political system, the maximum number of participants who are likely to express themselves is very small (Dahl 1998:108). Because of this, as the population in a society increases, the members who fully participate will in fact become representatives of the rest who do not participate. Thus, there needs to be implemented a system of selecting representatives, which can be provided by free and fair elections.

Norberto Bobbio (1987:25) argues that the essence of democracy is majority rule. However, majority rule can be expressed either by an absolute majority or by a limited majority principle. Sartori (1987:30) argues that a modern democracy should rest on the principle of limited majority rule, which implies that it respects minority rights, and can be replaced if it does not. Assume that a majority is entitled to exercise its power without restraints. Inevitably, such a majority will treat the non-majority unfairly and unequally, and it can also make itself a permanent majority, as is being attempted in Poland today. If we have a majority that cannot be turned into a minority, then the system can no longer be characterized as democratic. Thus, the possibility for a change in the governing party or coalition is a necessary condition of the democratic process.

However, even a minimal definition of democracy requires more than just the existence of procedural rules like majority rule. The citizens must be offered different alternatives as to who is going to represent them, and be in a position where they can choose between those alternatives. For the citizens to be in such position they must be guaranteed some basic rights, including freedom of opinion, of speech, of assembly, and of association (Bobbio 1987:25). Schmitter and Karl (1996:50) define a modern political democracy as a system of governance in which the rulers are held accountable for their actions in the public realm. This is achieved through political competition between the representatives and the citizens being able to influence the politics through the electoral system. According to this view, what distinguish democratic regimes from non-democratic ones are the conditions that determine how the representatives came to power and that practices that hold them accountable for their actions. Fareed Zakaria (1997:25) argues that it is important to distinguish between democracy and liberal constitutionalism. If we use a minimal definition of democracy, then democracy becomes only a process of selecting governments or voting in referenda. Huntington (1991:9) agrees that open and free elections are the essence of democracy. However, the governments that are produced by an election may not be aiming at achieving the greater good, but instead turn out to be inefficient, corrupt, shortsighted, irresponsible and dominated by special interests. These are all qualities that are undesirable and incompatible with good governance. However, as long as it is a government ruled by a majority elected through free and fair elections, it is still democratic.

This is the foundation for Zakaria's argument which stresses the importance of separating the term democracy from constitutional liberalism. The latter is not about

the process of selecting governments, but rather focuses on what the goals for the government are (Zakaria 1997:25). Constitutional liberalism leads to democracy, but democracy does not necessarily lead to constitutional liberalism. Thus, a country may be defined as an illiberal democracy, meaning merely that it fulfills the requirement of free and fair elections. However, individual liberties, for instance protection of property rights, and the rule of law including a framework for law and administration do not exist. Democracy without constitutional liberalism not only is inadequate, but may potentially be dangerous in the sense that it might bring with it the erosion of liberty, abuse of power and ethnic division. It is easy to introduce elections on a country, and while that is sometimes a step in the right direction, the process of genuine liberalization is gradual and long-term. Arguably, it is better to implant liberal values first, before opening up the country to competitive elections, as was the case in Great Britain. On the other hand, Bosnia and Herzegovina implemented elections early, in 1990, while the liberal values was absent.

Robert Dahl (1998:85-86) was also not satisfied with the diffuse meanings of democracy, and tried to introduce a new term "polyarchy" in its stead in order to gain greater measure and conceptual precision. In order to be defined as a polyarchy, a country must fulfill five criteria. The first two criteria are concerning elections. First, a country must have elected officials and control over government decisions should be constitutionally vested in officials elected by citizens. Second, the elections must be free and fair. The elections are free when the citizens can go to the polls and give their vote without fear of reprisal. They are fair in the sense that all votes are counted as equal (Dahl 1998:85). So far, Dahl and Zakaria agree on what the best form of government is. However, the rest of the criteria refer to individual freedoms and rights

that must be present in a country in order to qualify as a polyarchy. The first is freedom of expression, meaning that citizens have a right to express themselves on political matters in reasonable ways without fear of reprisal and punishment (Dahl 1998:85). Second, the citizens have the right to seek out alternative and independent sources of information from other citizens, experts and newspapers (Dahl 1998:86). The alternative information should not be under the control of the government or any other political group aiming to influence the public's political beliefs and attitudes. In addition, democracy works well when citizens understand the issues and works badly when citizens vote without understanding the issues. This implies that the media and providers of the alternative information must present the issues in an understandable manner and be objective and professional. The last criterion entails associational autonomy, meaning that citizens have the right to form independent associations or organizations, including independent political parties or interest groups (Dahl 1998:86).

However, Giuseppe O'Donnell (1996:95) notes that some newly installed democracies, including Argentina, Brazil, Peru, Korea and several post-communist countries, are democracies in the sense that they fulfill the minimal definition of the term. Yet, these countries are not on the path toward becoming genuine liberal democracies. Therefore, O'Donnell introduces the term delegative democracies in order to characterize these countries. He argues that one of the main features of delegative democracy is that power is weighted towards the president. They are only constrained by the existing power relations and by constitutionally limited terms of office, even though, as discussed previously, Milošević changed the constitution in order to maintain his position as president. Institutions such as the judiciary and the

legislature work like partners of the regime and are under its control, and therefore cannot work as an external check and balance on the president's power. Having control over these institutions implies that the president in reality has been given full authority and accountability is in this case not existent. Devices that are used in delegative democracies are for example a run-off election if the first round of elections does not generate a clear-cut majority. This argument was used in Serbia in 2000 when the election committee argued for the need of a run-off election because Koštunica did not receive a clear-cut majority. This majority must be created in order to support the myth of a legitimate democratic system.

In sum, most scholars agree that democracy is the best form of government. Free and fair elections give the citizens the opportunity to select a government they think is most capable of implementing politics and ruling the country. This implies that liberal democracies have more political legitimacy than authoritarian states. In addition to this, Zakaria argues that a modern political democracy should guarantee the citizens basic individual freedoms and rights, including property rights, freedom of speech and rule of law. Diamond (1996:119) notes that democracy also offers a political culture which includes tolerance of opposition and dissent, trust in fellow political actors, and a willingness to cooperate with other citizens in the political arena. Aside from the ideological arguments that support the notion that democracy is a superior form of government, one can also argue that democracies correlate with economic growth. Internationally open and competitive economies work and achieve economic wealth, while completely or somewhat closed economies do not (Diamond 1996:114). Economies grow when they foster savings, investment and innovation. On the other hand, economies stagnate when states build a structure molded by

favoritism of different groups and lack of competition and innovation. Democracies can also appear to enjoy an advantage with respect to military power, which can be illustrated with regards to United States' supreme military capability and NATO which is a defense coalition of consolidated democracies. Despite their generally pacific character, democracies are also more capable of technological innovation for highly modern weapons that are essential on the battlefield. To summarize, democracies then seem to enjoy superiority not only concerned with legitimacy and ideological appeal, but also with regard to economic and military strength.

3.1 Democratic transition in Central and Eastern Europe and the Balkans.

The transitions from a communist rule have been different in Central and Southeast Europe compared to transitions elsewhere, for example compared to transitions in Latin America. Sarah Terry (1993:344-355) identifies five reasons for this. First, there was a dual-track nature of the transitions in Central and Southeast Europe. Most of the countries were trying simultaneously to construct a pluralist democracy and to develop a market economy. Second, most of the transitions before 1989 took place in countries with lower levels of socioeconomic and industrial development. This made it easier to develop a transition strategy. Third, previous transitions has not involved the same levels of ethnic groups and the complexity that followed. Fourth, the civil society had a special role in Central and Southeast Europe and there were several obstacles to its emergence. Lastly, there is the influence of the international environment where regional and international organization played a crucial role.

The Balkans stand out as a special case in the study of regime change and was also a special case among the other transitions in Central and Southeastern Europe. During communist rule office holders could not be held accountable at elections. Combined with the economic decline which was a result of the self-management pillar of Yugoslav socialism and the uncontrolled borrowing which led to increased foreign debt, the countries were left disabled and fragmented. The phenomenon of modernization without modernity that occurred under communism left no scope for the emergence of the autonomous individual who enjoyed liberal freedoms and rights. This in turn resulted in a society without a civil society. In Serbia and Croatia, the war has had a huge negative impact, including political instability and preventing socioeconomic modernization. This led to much poorer prospects for democratization and acceptance into the European Union compared with the countries of Central Europe. Other factors that contributed to making the task of democratic consolidation difficult were the lack of widespread liberal values, in particular the weakness of the rule of law tradition, and the general absence of a commercially based middle class committed to the rule of law (Pridham 2000:15). The emergence of a civil society has been a long and difficult process in both countries. In sum, the war, the economic decline and the huge brain drain as a result of the war, has prevented the developments of civil society.

The results of the first elections were quite similar in Serbia and Croatia. The same applied to the electoral laws that led to the outcome of two authoritarian leaders coming to power and the constitutions that had been designed for Milošević and Tudjman. Although I have shown above that there were important differences between the two presidents, the reality of the constitutional and political systems that

had emerged in Serbia and Croatia resulted in two men with virtually unchecked power. Both countries shared the same type of political regime with authoritarian leaders which was based on personal rule and a small inner circle of trusted friends and cronies. All the relevant political institutions that emerged in Serbia and Croatia during the post-communist period were at a formal level. This implies that the criteria for a democracy according to Zakaria's definition were fulfilled. However, individual freedoms, the civil society and the substance of democracy were not present. This means that both countries could be considered illiberal democracies, according to Zakaria's definition. They can also be characterized by what O'Donnell explains as delegative democracies, where the political power is weighted towards the president. In sum, Serbia and Croatia had formal democratic facades but authoritarian tendencies.

4. Corruption.

As previously mentioned, a simple and quite broad definition offered by The World Bank (1997:8) explains corruption as the misuse of public office for private gain. According to this definition, a country's state structure creates pockets of monopoly power, which in turn gives politicians and civil servants discretionary power. As a consequence, they might use this power to increase their own revenues, in other words, enrich themselves (Boswell and Rose-Ackerman 1996:83). Another definition, used by Shleifer and Vishny (1993:599) explains corruption as the sale of government property by government officials for personal gain. Different forms of corruption can be categorized into two main groups. The first group is low-scaled or petty corruption, which includes a single act of payment contradicted by the law in order to get access to government property. For example bribery falls into this group. The second group is called grand scale corruption. In recent literature, this form of corruption is defined as the seizure of laws which are used to one's own advantage or to cooperate with business via political links in the government (Hellman, Jones and Kaufman 2000:5). Vesna Pešić (2007:1) defines state capture, which is a form of grand scale corruption, as any group external to the state that exercises influence over state institutions for their own interests against the public good. The result of capturing the state in this way, is that the whole legal system loses its function and becomes opposite of what it should be. It now serves to the advantage of illegal interests rather than furthering policies which are beneficial to the public.

Corruption is often organized hierarchically. Low-scaled corruption often occurs at the bottom of the bureaucratic pyramid. Bribery is in this case paid at the lower levels to low-level officials who might share the bribes with their superiors. In this case,

bribes are organized at the top level, and the entire hierarchy functions as a bribe-sharing machine. On the other hand, grand scale corruption often occurs and is organized at the top of the government hierarchy where officials sign major contracts, award concession and private state firms (Rose-Ackerman 2010:231). In both cases it is difficult to detect corrupt activities. Low-scale corruption is difficult to detect because it takes a lot of resources and it is costly to monitor low-level officials and their day-to-day activities. Corruption involving high-level politicians is difficult to reveal because they often have the resources to create corruption opportunities, obstruct an investigation and avoid punishment. Especially if the political system lacks transparency and accountability, and if the government has seized control over state institutions, it is difficult to uncover and report corrupt activities.

On the basis of this, it is clear that corruption is a complex phenomenon that takes various forms and has multiple effects. There is no doubt that the consequences of corruption create issues for any political system. Most countries, except for Northern Europe including Denmark, Finland, Sweden, Norway and Netherlands, as well as New Zealand, are forced to deal with corruption and the negative impacts of it (Transparency International 2016). A cross-country empirical research conducted by Mauro (1995:683) shows that corruption is associated with lower levels of investment, productivity, and growth. Also, it discourages both capital inflows and foreign direct investment. Ades and Di Tella (1997:1025) show that corruption reduces the effectiveness of industrial policies and contributes to encouraging business to operate in the unofficial sector which violates tax and regulatory laws. Corruption also influences the investments of the governments, they tend to invest in sectors where the corruption opportunities are greater. Mauro (1998:265) shows that

highly corrupt countries tend to spend less on education and invest more in infrastructure, as well as having lower levels of environmental quality. Officials and bureaucrats in highly corrupt countries want to prioritize investment in goods and services where bribes are easier to take in order to enrich themselves, rather than on food, education and health, sectors that are more beneficial for the public and for society in general. Such behavior can easily result in a society affected by inequality, lack of trust and poor economic performance. Overall, one can argue that corruption reduces the legitimacy of democratic governments. However, it is not easy to determine if corruption causes this outcome, or if corruption is a result of these underlying conditions. Most likely, the causation goes both ways. However, by utilizing a functionalist approach on corruption and by focusing on its functions in Serbia's and Croatia's institutions, it can contribute to achieving greater insight as to how corruption affects the democratization process in these countries.

Historically, corruption often tends to increase when a country enters a period of modernization or regime change. Shleifer and Vishny (1993:605) argue that the process of bribery became more complicated once the communist regimes lost their power in Central and Southeast Europe. During the communist era it was clear who needed to be bribed in order to receive government goods, considering that all bribes eventually went to the communist party. During the post-communist era, government agents started to act more independently. Different agencies and ministries now set their own bribes in an attempt to maximize their own revenues. This contributed to the spread of corruption. Shleifer and Vishny (1992:609) argue that this was possible due to weak and underdeveloped institutions that emerged during the transition from communism. These newly formed governments did not have the same monopoly

power over bribe collection and multiple agencies took bribes where only one did before. Rose-Ackerman (2001:558) also argues that pro-democratic movements that succeeds in destabilizing an autocrat may lead to an increase in the level of corruption. She explains this as a reaction by the new government to its new insecure status. Especially considering the countries I am analyzing, Serbia and Croatia, the war and violent upheavals prevented institution building and resulted in the government lacking focus on the development of an impartial and transparent administration.

4.1 A functionalist approach to corruption.

Several theoretical approaches can be used to explain and analyze corruption and the effect it has in a country. A classical moralist approach implies that corruption can be inherent in certain societies, especially in former colonies and other underdeveloped countries. According to this view, corruption is mainly a cultural phenomenon. However, this approach also has a geographical dimension which can be defined as “geographical morality”. In this case, the main argument is that some parts of the world are more prone to developing a culture of corruption. For example many countries in Africa have high levels of corruption, while the Scandinavian countries have low levels. Nevertheless, this view underwent a lot of criticism. After the fall of communism it was replaced with a more universal version focusing mainly on the negative moral and economic consequences of corruption in a country (Sajó 2003:173). However, this thesis will not be treating corruption as a cultural phenomenon. Instead, I will be considering corruption to have some structural functions in the society. Therefore, I will be using a functionalist approach to analyze corruption in Serbia and Croatia. Functionalism is concerned with the consequences

that a phenomenon has in a larger structure, which is established by analyzing its functions (Merton 1968:101). According to functionalist theory, corrupt practices are understood as social actions that construct a structure. This in turn satisfies the social needs which are determined by the existing system (Sajó 2003:187). Merton (1968:105) defines manifest functions as those intended and observed consequences which make for the adjustment of a system.

The functionalist approach has been used in several studies in different fields, among them Malikowski's anthropological theory and Veblen's sociological theories (see Merton 1968). In the case of corruption, there are several studies that have used a functionalist approach in order to explain corruption in Eastern Europe and in post-communist regimes. András Sajó (2003:171) used neo-functionalism to conceptualize corruption in post-communist countries. His argument is that as post-communist countries move towards open market systems, corruption is no longer limited to the public sector. The political structure itself will create corrupt practices which become a structural feature of transition societies. According to his view, a transition from communism to a post-communist country will increase the level of corruption. Shlapentokh (2013:150) uses a functionalist approach to examine corruption and state of business in post-Soviet regimes. He notes that both supporters and critics of Putin's regime in Russia recognize corruption as a necessity. Corruption is here viewed as mechanism for interaction between agents at all levels in the society and offers some kind of stability to the system where bribery is used to solve people's problems.

One can distinguish between different functions. Manifest functions are those objective consequences that contribute to the adjustment of the system which are intended and recognized by the participants of the system (Merton 1968:105). In the case of corruption, an intended consequence of high-level officials who engage in corrupt activities is typically to enrich themselves. On the other hand, people may be willing to pay bribes in order to get better services faster. One of the main tasks of the government is to provide goods and services to the public and firms, either at no charge or for a fee. In corrupt countries, there is often two prices, a low price and a higher market price (Rose-Ackerman 1999:10). Firms may then pay off officials in order to gain access to below-market supplies. In this case, if the state controls supply of credit and the rate of interest, bribes may be used in order to get access to these services. A manifest function of corruption for government officials is then to enrich themselves, while individuals or firms are using bribes as a mean to get access to services provided by the government. Aside from setting their own prices on goods and services, the government officials can impose rules and complicated regulations and use those to enrich themselves. Bribery can then be used by individuals and firms in order to avoid these regulations. Concerning low-level civil servants, such as local bureaucrats and police officers, bribes may be imposed as a mean to increase their income. In several countries jobs of this kind are poorly paid. At independence, most former colonies inherited civil service pay scales set by the foreign states. These wages exceeded the ones in the private sector, but this advantage deteriorated over time. The same pattern appears in Central and Southeast Europe (Rose-Ackerman 1999:71). To sum up the possible manifest functions of corruption, high-level officials may use bribes as a mean to enrich themselves, low-level civil servants may use it as a mean to increase their low

salaries, while firms and individuals may use corruption in order to get access to government services and avoid complicated regulations.

Aside from the manifest functions of corruption, I am also going to analyze and explain the latent functions that corruption might have. This provides us with the possibility to achieve greater insight and knowledge about the phenomenon, than we otherwise would obtain only by focusing on the manifest functions. Latent functions are defined as those functions that contribute to the operation of the system, but are not necessarily intended or recognized by the participants (Merton 1968:105). In the case of corruption, a latent function may include that corruption reduces and hinders economic competition, increases inequality and inefficiency. If the government creates a system where it is possible to pay bribes in order to get access to goods and services provided by the government, this will in turn lead to inequality and unfairness. A public certification such as a driver's license or publicly funded access to higher education are available to those who qualify and pass the necessary tests. In a corrupt society, unqualified people are able to obtain such services and benefits through bribery. However, qualified people may also pay bribes in order to jump the line and avoid waiting for a long time. Those who have political connections and are wealthy enough to pay have a clear comparative advantage.

Since government officials have the ability to influence the quantity and quality of goods and services provided, and when they have the possibility to choose who is going to get access to those services, corruption will almost certainly lead to inefficiency (Rose- Ackerman 1999:21). Suppose a state has several inefficient and complicated regulations and imposes burdensome taxes. Then, given that the

country has an inefficient legal framework, payoffs can be made in order to avoid such taxes and regulations. In addition, bribes can be paid in order to cut the line in the bureaucracy. In such societies, bribery is used as means to overcome excessive regulations, reduce tax payments and allocate scarce goods. Leff (1964:8) is one of the scholars who argue that corruption in such cases may lead to an increase in efficiency. First, it can work as an incentive for the government, and motivate it to take a more favorable view of activities and policies that is going to increase economic growth. Even if the government is trying to promote economic growth, the policy it implements may not be the most effective and well-designed one to achieve this goal. Corruption can then be used as a tool to reduce the losses from such ineffective policies (Leff 1964:10). While the government is imposing one policy, the firms can use corruption to sabotage them and implement other, more effective measures. Nevertheless, if a firm is capable of preventing bad policies and favor those that are more effective and promote economic growth, what is stopping them from preventing and sabotaging good policies that may result in positive effects for the society, but are in their view burdensome? If the firms can use bribery as a mean to avoid inefficient regulations, they might as well use it in order to avoid environmental regulations and health and safety regulations for their workers.

Secondly, Leff (1964:10) argues that corruption can create an incentive for the bureaucracy to have a more positive attitude towards entrepreneurs. This is important because of the necessity for bureaucratic help in several areas, for example in order to get access to licenses, credit and foreign exchange allocations. Individuals can also pay off the bureaucrats in order to jump the line or speed up the handling of their cases. Rose-Ackerman (2010:220) agrees that in principle it is

possible for some bribes to be beneficial for the society, especially if they allow people to overcome inhumane and inefficient practices. For example, bribery may allow a person to escape an oppressive regime, or it can allocate import quotas to the most efficient firms. However, it will always be the second best solution. If bribery overcomes inefficient rules, the best solution is either to revoke the rules or to legalize payments to the state. A state that tolerates and accepts corrupt behavior, such as accepting or extorting bribes, in fact favors those who disrespect the law. In addition, it encourages public officials to create and increase the incentives for payoffs. This in turn undermines the laws and the legitimacy of the state (Rose-Ackerman 2010:220).

Lastly, Leff (1964:11) argues that corruption can increase the levels of competition. Since the licenses and services controlled by the bureaucrats are scarce, bribery will allocate such services effectively through competitive bidding among entrepreneurs. However, those with political connections and those who are willing to use corrupt means can easily obtain licenses as long as they pay a commission to the government. Even though this practice creates competition between the bidders, it excludes those firms that lack political connection or are not wealthy enough or interested in joining the bidding wars.

Nevertheless, Leff's argument focuses mainly on low-scale corruption. Grand scale corruption, on the other hand, occurs at the highest levels of government and involves major government programs. This form of corruption can be illustrated with the case of "Rukotvorine", a Croatian company that produced women's leather accessories and woven handcrafts. The owner of "Rukotvorine" was a Croatian bank

that decided to sell the company in 1994. Three potential buyers made their offers. One of the offers came from the company's current management team who presented an offer of 5 million German marks. The second offer came from an Italian businessman who offered 8 million Marks. Considering that this offer was granted in the form of a loan provided by an Italian bank, it would entail fresh money poured into the Croatian economy. The final offer came from two members of the HDZ. Both of them can be characterized as inexperienced businessmen, considering one of them was a former football player and the other one a war veteran. Their offer was 3.5 million Marks in the form of a loan granted by the same Croatian bank that decided to sell the company in the first place. The last offer won the bidding and the inexperienced businessmen took over the company. First, they sold the office building for 3 million in cash. Second, they laid off most of the workers and lastly they rented all the shops that were owned by the company (Grubiša 2006:68). In practice, they sold the company and rented out its facilities, which made them rich overnight. This case shows how grand scale corruption does not promote efficiency and does not necessarily contribute to positive outcomes for the society. First, the company was not sold to the highest bidder, the Italian businessman who offer 8 million Marks. Second, the offer from the Italian businessman would have been that beneficial for the Croatian economy considering it entailed fresh money from an Italian bank. This means that the bidding competition was not fair since the highest and the most beneficial offer did not win. Third, the company was sold to two inexperienced HDZ members with obvious political connections. In sum, this example shows how grand scale corruption prevents free competition, increases inefficiency, and favors political connections.

In addition to manifest and latent functions, corruption might also have certain side effects which have a negative impact on the society. While latent functions are unintended and not directly perceived, side-effects are unintended but perceived. Also, side-effects may not necessarily be direct consequences of corruption. One possible side-effect of corruption is a potential reduction in the level of trust in political institutions and in society in general. Large democracies are governed through political representatives and bureaucrats. Considering that elected representatives cannot be constantly controlled and monitored by the voters, they need to have some level of trust in those who are elected (Rose-Ackerman 2001:542). Corruption is therefore viewed as dishonest behavior because it violates the trust that is placed in the public officials. According to the definition presented earlier, corruption involves the use of a public position for private gain. Rose-Ackerman (2001:538) also argues that in a system characterized by low levels of trust, corruption is likely to increase even further. People are more likely to offer bribes if they expect that most officials are corrupt and that most people are paying bribes in order to get access to government goods and services. This in turn, can lead to the formerly honest officials accepting bribery and becoming corrupt when they are presented with such opportunities. On the other hand, if the society is characterized by high levels of trust, and people assume that other citizens are honest as well, they will refrain from using bribery due to the fear of being arrested. However, this requires a judiciary that is impartial and honest. In many countries the law enforcement authorities are corrupt, and use corrupt means to increase their incomes. For example, judges and police officers can demand bribes in order to overlook criminal law violations or limit penalties. Individuals can also use bribery in order to speed up the process or to influence a decision making in their favor. If people do not trust the law enforcement

authorities, they may avoid bringing disputes before the courts unless they are certain that they will win the bidding. The rule of law is then weakened and the laws do not mean so much.

Another side effect of corruption is that it can prevent economic development and growth and obstruct investment. This danger arises then organized criminal groups begin to dominate otherwise legal businesses. These groups are both wealthy and unscrupulous, meaning that they have the possibility to influence the system to a large degree. An economic system that is characterized by criminals that are able to influence the business environment by using threats and violence to drive away competitors and get access to licenses and contracts, is not a legitimate and fair system. This has especially negative outcomes if the criminal groups drive away foreign investors. This may be the reason why foreign direct investment from legitimate businesses has not been large in most countries in Eastern Europe.

In the following section I am going to offer an overview of corruption in Serbia and Croatia. In order to do that, I will present the Corruption Perception Index from Transparency International, which focuses on the citizen's perception or opinions about the level of corruption in their country. Because such indices are based on the respondents' perceptions of corruption, which does not necessarily match reality, I will also present the corruption levels in Serbia and Croatia by Nations in Transit, *Freedom House*, who are trying to measure the actual levels of corruption in the countries. The citizens of Serbia rank corruption as the third most important problem in their country, after unemployment and poverty (UNDOC 2011:3). In the case of Croatia, corruption is also rated as the third most important problem after

unemployment and the performance of Government (UNDOC 2011:3). On the basis of these results, it is clear that corruption is a major problem, but does it affect the further transition toward a liberal democracy? In order to determine this, I will analyze the function of corruption in four main institutions: the economy, the media, the electoral system, and the justice system.

4.2 Corruption in Serbia and Croatia.

Corruption has been a huge problem in Serbia and Croatia for a long period of time. During the communist era in Yugoslavia, the communist party ruled without much concern for public opinion. Within the party elite, jobs were often exchanged entailing that the bureaucracy was non-merit based. It was formed on an ideological rather than a professional basis. The state sector was large and inefficient. Rose-Ackerman (1999:115) characterized such a state as a kleptocracy. The kleptocrat's main goal is personal wealth, but the tools at their disposal used to achieve this are not perfect. Kleptocrats may control the state but are not able to control the entire economy, they may have a weak and disloyal civil service and confusing legal framework. Therefore, in order to get a better grip on the different state institutions so that he is able to achieve the maximum amount of wealth, it is important for the kleptocrat to put his own allies in key offices and positions.

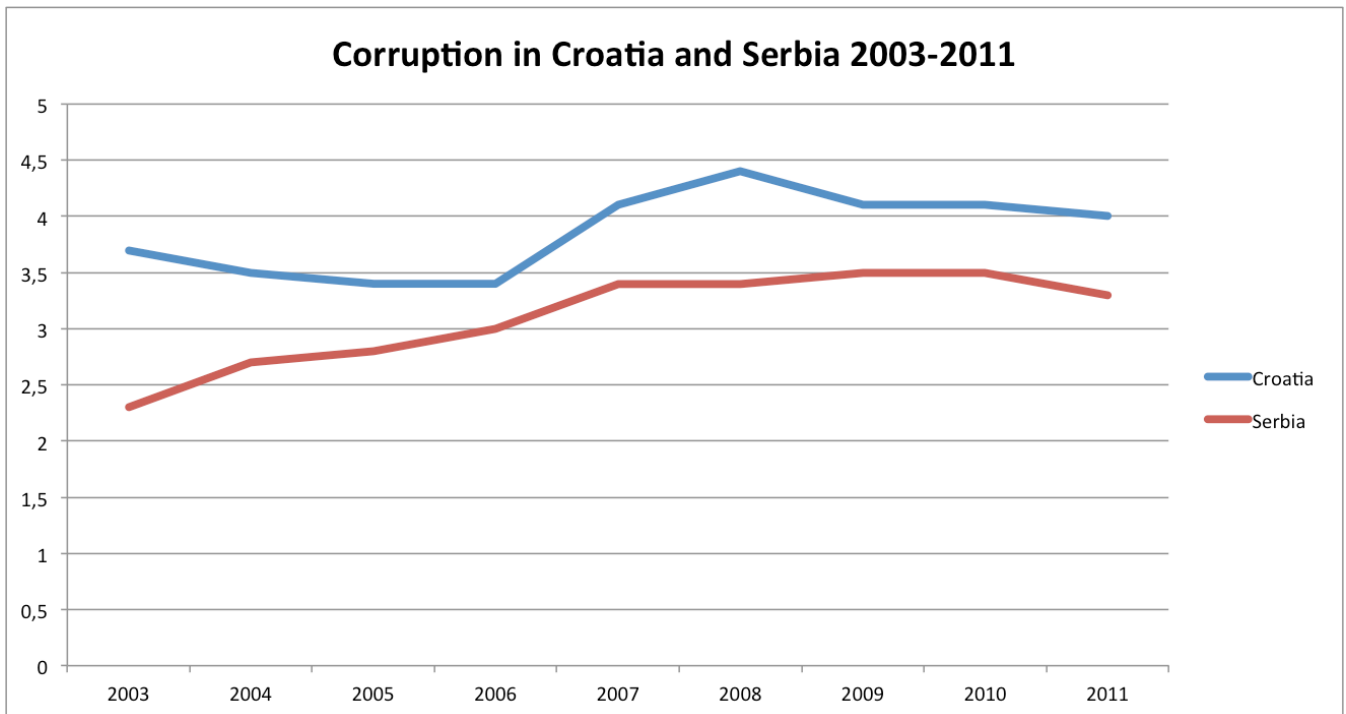
Corruption continued to pose a major problem in both Serbia and Croatia during the post-communist era. As shown previously, both Milošević and Tudjman were highly corrupt. Milošević took personal control over several media outlets and used this control and manipulation as a tool to maximize his political power. In addition, he put his own allies in central positions and key offices in the state. Tudjman's years in

office were also characterized by corruption, cronyism and nepotism. The privatization process in Croatia included transferring large portions of socially own property into the hands of Tudjman's family and allies (Ramet 2008:16). Sajó (2003:189) argues that corruption in the post-communist era created an economic sector composed of illegal markets. In highly corrupt countries, black markets including illegal trafficking of drugs, arms, and stolen goods turned out to be an important part of the national economy. Because corruption enables these illegal markets, it plays an important part for the national economy. This is especially true in the case of Serbia. A huge factor that changed the economic sector was the general economic sanctions imposed by the UN Security Council during the Yugoslav Wars in the 1990s. As a result, significant markets were lost and the production and export of cigarettes and gas were completely transformed. Gas almost disappeared as an important economic factor, while trade in cigarettes became a part of the black markets. This was one of the ways in which the regime used organized criminal activity to keep itself afloat and to fill the pockets of the leaders and central figures of the ruling party (Gow and Michalski 2005:149).

Koštunica's period as prime minister of Serbia was characterized by a weakening in the European orientation of Serbian transition. According to Vesna Pešić (2007:6), this development was accompanied by the rebuilding of state capture mechanisms. She argues that there are two major capturing agents in Serbia. The first one is the political party leadership that seized huge state property including public companies, public offices and institutions, which were used to serve their own interests. The second group includes the richest tycoons. The two elites cooperate with each other, and have designed a system of influence, interest and service from which both of

them benefit. The tycoons became an important part of the system due to their financing of the political parties which is how they sustain their political positioning. In return, the political parties favor the tycoons by protecting economic markets and pass favorable legislation. In Croatia on the other hand, Tudjman's legacy, characterized by patronage, still has deep roots in Croatian society. Although anticorruption campaigns have had some success over the last couple of years, the political will to fight corruption is generally weak. Bribes and fixed tenders continue to dominate the business sphere (Dorić 2015:198).

The graph presented on the next page shows the levels of corruption in Serbia and Croatia from 2003 to 2011, as perceived by the population. The scores are obtained from the Corruption Perception Index, CPI, provided by Transparency International. The scale ranges from 0 to 10, with low values representing high levels of corruption while high values represent low levels of corruption. However, the graph only covers the years to 2011 due to Transparency International changing their methodology in 2012. This means that it is unfortunately not possible to compare the CPI scores from 2012 with the previous years.



Graph 1. Corruption in Croatia and Serbia from 2003 to 2011. The scores are obtained from Transparency International's Corruption Perception Index.

Overall, the graph shows higher levels of corruption in Serbia compared with Croatia during the time period from 2003 to 2011. According to the results, Serbia has experienced a steady decrease in the levels of corruption, while the results indicate the corruption in Croatia increased from 2003 to 2006. From 2006 to 2008, the results indicate that corruption is decreasing. However, this does not correlate with the results from Nations in Transit which indicate that the actual corruption level in Croatia actually remained the same in 2006 and had a minor decline in 2007. In 2006, the Croatian government presented a National Program for the Fight Against Corruption. Although the program did not have any visible results in 2006 and 2007, it might have influenced the Croatian population's perceptions of the corruption levels in the country (Nations in Transit 2006). Considering that it is not possible to compare the CPI scores from 2012 with the previous years, I will just be presenting the CPI scores from 2015 on the next page.

Country	CPI score	Country Rank
Croatia	51	50
Serbia	40	71

Table 1. Corruption levels in Serbia and Croatia from 2015. The score is obtained from Transparency International's Corruption Perception Index.

Croatia shares the same CPI score and country rank with several other countries: Bahrain, Hungary, Slovakia and Malaysia. It has the second best score among the former Yugoslav countries, only Slovenia receives a better score. Serbia, on the other hand, is ranked higher than Bosnia and Herzegovina, but is ranked behind Macedonia and Montenegro. Nevertheless, this index has its limits considering that it is based on citizens' perceptions and opinions about the levels of corruption. These perceptions can be expected to diverge from reality for a number of reasons. For example, a more visible anticorruption policy may decrease the perceived levels of corruption because the citizens think that the government is taking the issue seriously, when in fact the corruption levels stay the same because the anticorruption policy has no effect. This could possibly be the case with Croatia's CPI score from 2006 to 2008. The media can also affect the public's perceptions. They might think that the levels of corruption are increasing just because more cases are brought to the public eye. Nevertheless, this does not mean that perceptions do not matter. For example, if the judiciary is perceived as corrupt, it may prevent citizens from resolving their problems in the courts which can result in a weakening of the rule of law (Trivunović, Devine and Mathisen 2007:10).

Because of this, I will also present the results of the corruption scores provided by Nations in Transit, *Freedom House*. Their scores are concerned with measuring the actual levels of corruption by evaluating public perception of corruption, the business interest of policy makers, law of financial disclosure and conflict of interest as well as

anticorruption initiatives. The ratings are based on a scale of 1 to 7, with 1 representing the lowest levels of corruption while 7 represents the highest levels of corruption. The ratings follow a quarter-point scale which entails that minor to moderate developments warrant a positive or negative change of a quarter point, 0.25, while significant developments count for a half-point, 0.50 (Nations in Transit 2016).

	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016
Serbia	5.00	4.75	4.50	4.50	4.50	4.50	4.25	4.25	4.25	4.25	4.25	4.25
Croatia	4.75	4.75	4.75	4.50	4.50	4.50	4.25	4.00	4.00	4.00	4.00	4.25

Table 2. The table is showing the corruption scores in Serbia and Croatia and are obtained from Nations in Transit, Freedom House. The ratings are based on a scale from 1 to 7, with 7 representing the highest levels of corruption and 1 representing lowest levels of corruption.

The results show that corruption in Serbia has declined with 0.75 points during the time period from 2005 to 2016. In Croatia, corruption has declined by 0.50 due to the fact that corruption increased during the last year, meaning that Serbia and Croatia now share the score of 4.25. This does not correlate with the CPI score from Transparency International which ranks Serbia much lower than Croatia.

Considering corruption levels in Croatia, membership in the European Union did not seem to foster further positive developments. According to the last available Nations in Transit report for Croatia, from 2015, the ruling Social Democratic Party of Croatia, SDP, and the main opposition party, HDZ, were more concerned with fighting over the legacy of Yugoslav communism and who should be blamed for the nontransparent privatization during the 1990s. Instead of pushing through highly needed reforms to curb corruption and political influence, the parties continued their rivalry through 2014, while the economy continued to shrink (Dorić 2015:186).

However, there were some positive developments in 2014. In October, the police arrested the mayor of Zagreb, Milan Bandić, and several of his associates on the suspicion of corruption and abuse of office. He has been linked to a number of corruption issues for a long time, but has not been interrogated until 2014. A local tycoon in the coastal city of Zadar, Rene Sinović was also arrested in 2014. He was a key figure in the privatization process in Croatia during the 1990s and the media have linked him to organized crime for years (Dorić 2015:199). Despite of these arrests, Croatia citizens have little faith in their leaders, especially in dealing with corruption. They perceive corruption to be most prevalent among politicians, public officials and in the judiciary. When those tasked with fighting corruption are perceived as corrupt themselves, it obviously is a huge problem for the country (Dorić 2015:199).

In Serbia, the SNS won nearly two-thirds of the seats in parliament in elections conducted in March 2014. This left the opposition fragmented and weak for most of the year. Considering the large amount of seats that the party won, it was in a position to enforce laws needed to reduce the level of corruption. The EU also urged the government to use its strong backing in parliament to follow through with anticorruption commitments (Savić 2015:280). However, the ruling SNS has yet to build a track record of concrete results. Minor results were achieved, although not significant enough to decrease the score on the corruption index, which has been the same since 2011. New high-profile cases were opened involving owners of large companies. However, those cases which were opened in the previous years are still ongoing and unresolved. One of those cases included embezzlement and tax evasion indictment against the owner of Delta Holding, Miroslav Mišković, his son

and nine associates (Savić 2015:193). Miroslava Milenović, Serbia's only forensic accountant argued during an interview in the daily newspaper *Danas* that political influence and the close ties between the political elite and the economic actors such as the banks and the tycoons are the root cause of corruption. She even quit her job in the Economy Ministry in June 2014 due to lack of political will to fight corruption (Savić 2015:194). Not much changed the following year. In 2015, there was no increased will to fight corruption. Considering that the SNS campaign during elections in 2014 focused on fighting corruption not much has been done since the party came to power which is a great source of frustration for the Serbian public (Damjanović 2016:9).

A survey conducted by the United Nations office of Drugs and Crime, UNDOC, in 2011 focuses on low scale corruption by trying to analyze the actual bribery levels as they are experienced by the citizens in Serbia and Croatia. Their data were obtained by using face-to-face interviews. The respondents were randomly selected and consisted of 3,000 Serbian citizens aged 18-64 years. In the case of Croatia 3,005 respondents aged 18-64 were interviewed. The results show that corruption is a major problem in both countries. In Croatia, corruption was ranked as the third most important problem after unemployment and the performance of government (UNDOC 2011:3). The results were similar in Serbia with corruption ranking as the third major problem, however, behind unemployment and poverty (UNDOC 2011:3). In Serbia 13.7% of the respondents had direct or indirect exposure to a bribery experience with a public official in the 12 months prior to the question (UNDOC 2011:3). By comparison, 18.2% of the Croatian respondents answered that they have had direct or indirect exposure to a bribery experience during the same time period (UNDOC

2011:3). In both countries the average bribe amount is equivalent to around one-third of the average monthly salary.

The figure presented below is obtained from the UNDOC report on bribery in Serbia and Croatia and shows the percentage of adult population who consider that corrupt practices occur very often in selected sectors or institutions in their country.

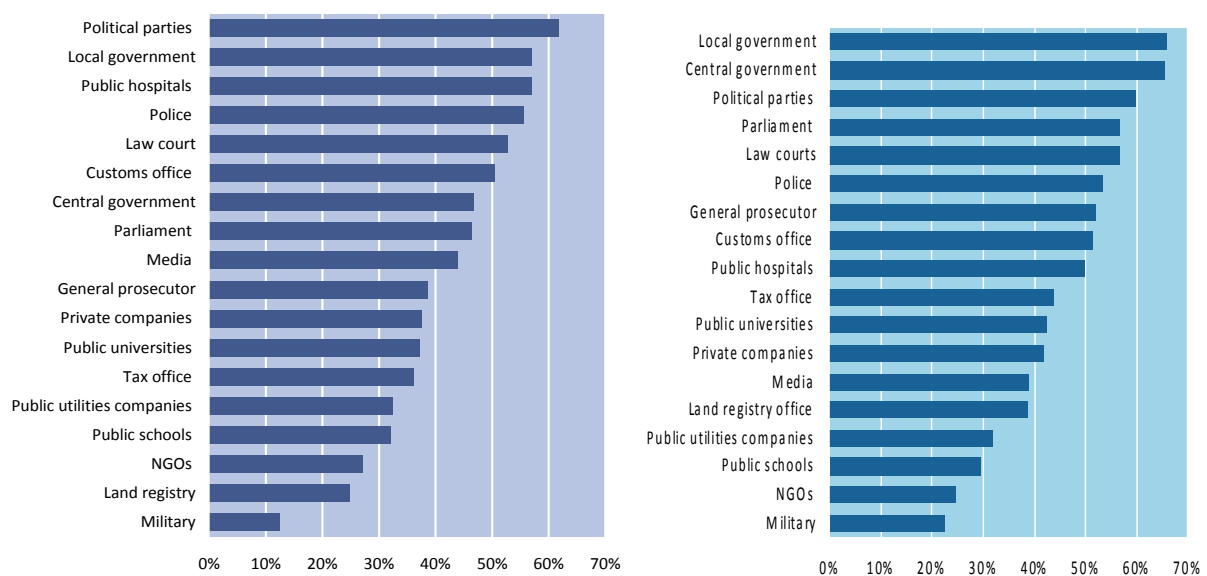


Figure 1. Percentage of population who consider that corrupt practices occur often or very often in selected sectors and institutions in respectively Serbia and Croatia (2010).

As the figure shows, most of the institutions that I am going to analyze in the following sections are present and perceived as corrupt. In Serbia, the political parties are perceived as most corrupt with 60% of the respondents considering the parties to be corrupt. Law enforcement authorities such as the police and the law courts ranks on respectively fourth and fifth place over the institutions that the respondents consider corrupt practices to occur the most. Considering the media, over 40% of the respondents in Serbia think that corrupt practices occur in this sector (UNDOC 2011:37). In Croatia, the most corrupt institutions are perceived to be local and central governments. Political parties are ranked at third place. In the case of law

enforcement authorities, nearly 60% of the respondents perceives law courts as corrupt, while around 50% of the respondents answer that corrupt practices occur in the police. Less than 40% of the respondents consider the media to be corrupt, meaning that the media are perceived to be more corrupt in Serbia than in Croatia.

5. Corruption in the economy.

China and the East Asian Tigers including Hong Kong, Singapore, Taiwan and South-Korea have achieved economic growth by reforming their economic sector towards a more free market-oriented system, while still remaining authoritarian states. Although market-oriented authoritarian regimes have been able to achieve economic growth in developing countries, only democracy seems compatible with economic success in advanced nations (Plattner 1996:41). One can argue that internationally open and competitive economies work, while fully or somewhat closed economies do not. This is because economic growth occurs when states foster savings, investment and innovation. On the other hand, economies stagnate when states build a market structure characterized by favoritism for different groups and lack of competition and innovation (Diamond 1996:114).

As previously mentioned, the last years of the Tito era was characterized by an economic boom which was in part driven by Yugoslavia's increasing ability to compete in the international trade market, and in part by the development of tourist resorts along the Dalmatian coast line in Croatia. However, during this period, Yugoslavia borrowed money uncontrollably, which increased its foreign debt (Ramet 1998:170). The Yugoslav wars following the break up of Yugoslavia also had great negative impacts on the economy in both Serbia and Croatia. Wars have four main impacts on a country's economy. First, a war increases public expenditure in order to buy weapons, arms, move soldiers around, and provide for children and war-disabled people. Second, war causes destruction. The loss of assets results in a decline of GDP and living standards. The country also needs to spend money after the war to build up the infrastructure and buildings that were ruined by the war. Third, war may

result in the loss of human capital because many people fled the war, which in turn can lead to shortages in the labor market. Finally, some industries may be unable to make full use of their productive capacity. This was especially the case in Croatia which lost tourists because people avoided visiting unsafe regions (Schönfelder 2008:211). In Serbia, the war had an impact on the economic structure. A huge factor that contributed in alternating the economic system in Serbia was the economic sanctions imposed by the UN Security Council, which led to significant loss of markets. As a result, a lot of trade shifted to the black market, for example the trade of cigarettes, and the regime used organized crime to keep itself and its allies afloat (Gow and Michalski 2005:149).

In both Serbia and Croatia it is argued that the root cause of corruption derives from corruption in the economic system. In Serbia, Milošević and the small elite that grew under him destroyed the Serbian economy and transformed Serbia from one of the richest countries of communist Europe, to one of the poorest post-communist European countries (Miljković and Hoare 2005:192). Corruption then spread to the justice system. The judiciary lost its respect and authority due to the fact that unpunished acts of embezzlement increased and the courts were not able to punish the guilty members of the elite (Miljković and Hoare 2005:195). In Croatia, the root cause of political corruption was the process of privatization, defined as the transformation of socially-owned enterprises into private companies owned by private individuals, that took place during the Tudjman regime (Grubiša 2006:66). This process included transferring large portions of socially owned property into the hands of Tudjman's family and allies (Ramet 2008:16). One of Tudjman's first goals after coming to power was the de-nationalization of properties expropriated by the

communist regime. At the same time, he aimed at creating a unique economic system which was labeled capitalism with a Croatian face. This system was supposed to rely on about 200 Croatian families that would take over the economy and begin accumulation of capital. This in turn, would create a new entrepreneurial class that would lead the country towards transformation of the economic system from a communist one (Grubiša 2006:66). The main goal was to remove professional managers who were educated in the Yugoslav socialist economy and replace them with a new entrepreneurial class. In order to recruit human resources for this process, the Croatian nationalist forces led by Tudjman, turned to their immediate surroundings, their allies with whom they fought against communism, their family, people from their villages, and political allies (Grubiša 2006:66).

The privatization process symbolizes an important difference between Tudjman and Milošević concerning corruption in the economic sector. While Tudjman engaged in a corrupt privatization process and transferred socially own companies to his own family and allies, Milošević never carried out the privatization of socially owned assets. One of the main reasons for Milošević's survival in office for so long was his absolute control over the economic sector and financial power. This was possible only in an economic system, which was not controlled by private ownership. For this reason, Milošević never carried out a genuine program of privatization because he did not want to lose the power that he enjoyed thanks to his ability to control the economy and being able to appoint and control the managers of state firms and banks (Miljković and Hoare 2005:196). Economic success during the Milošević era was not due to any particular entrepreneurial talent, but due to various forms of monopoly. This included printing and distribution of money, the control over the

import and sale of certain goods, and the granting of important positions in the state and its institutions, as well as the control and access to the media which is going to be discussed further in a later section. Politicians and businessmen in the Milošević era were deeply involved with organized crime. They would take control of firms that had already been plundered and brought to the verge of collapse. The firm's assets would then be sold at low prices and the firm's directors, after they had embezzled and taken everything they could, would then blame the whole thing on the war and the sanctions (Miljković and Hoare 2005:219). Another reason why Milošević never carried out a privatization process was because he and his allies would run the risk of losing from the reforms. A genuine privatization process would include closing down inefficient industries, reducing state intervention and open the economy to domestic and international competition (Diamond 1996:234). Milošević and his elite got their power precisely because the economic sector was inefficient and lacked competition.

5.1 The impact of corruption in the economic system.

It is widely agreed among scholars that widespread corruption is harmful to democracy. However, corruption also impedes economic growth by misdirecting the flow of capital and resources. In addition, it hinders economic decision and economic competition in general. A narrow group of government officials and their closest allies are enriched at the expense of the public, and at the expense of the legitimacy of the entire democratic system (Diamond 1996:116). The examples shown above concerning the economic system during the Milošević and Tudjman era show that the main goal of political influence and corruption in the economy is to maintain political power and to enrich the two presidents and their close allies. In post-communist states, the most important economic reforms included the privatization process. This

process is massive and has produced many allegations of grand scale corruption, including inside deals involving high level politicians (Rose-Ackerman 2001:550). However, in Serbia, privatization is only half-complete, meaning that about 50% of the companies were still owned by the state, or have mixed ownership as of 2007. This entails that about 40% of the workforce still worked in the unreformed economy and in enterprises managed by the parties in the ruling coalition (Pešić 2007:14).

The manifest function of corruption in the economic sector for the government officials is to maintain their political power and position in the political system. In both Serbia and Croatia, large dominant firms have established close relationships with the top political leadership which makes beneficial deals possible. Large amounts of assets have been captured by the party leadership and the business elite which constitutes of the 10-15 richest tycoons (Pešić 2007:14). Pešić (2007:6) argues that the most important agent for state capture, which is form of grand scale corruption, includes the ability of the political party leadership to seize huge state property, including public companies, public offices and institutions, which are used to fulfill the party's and its member's own interests. Further, she argues that the second most important agent is the richest tycoons of the country who are a part of the system because they finance all the relevant parties. The elites collaborate with each other, and have been able to establish a system in which their influences and interests are integrated for mutual gain. Based on this, the manifest function of corruption for the businessmen is to use their political connections and relations with government officials to get favorable deals and contracts. Leff (1964:11) argues that corruption can increase the levels of competition. Since the licenses and services controlled by the bureaucrats are scarce, bribery will allocate such services effectively thought

competitive bidding among entrepreneurs. However, this has proven to not be the case, especially concerning grand scale corruption and state capture in Serbia and Croatia. For example, the business elite may use their political connections in the privatization process and make sure that their offer wins, when state owned companies are sold, by eliminating competitive offers. This in turn will lead to an economic system that lacks competition.

Corrupt markets differ from competitive ones, because they favor the companies or businessmen with political connections. Some potential participants and buyers may refuse to enter the market because they are not willing to pay bribes or they fear punishment if they do. On the other hand, public officials may limit their dealing to insiders and trusted friends (Rose-Ackerman 2001:549). Previously, I discussed the case of "Rukotvorine", a Croatian company that produced women's leather accessories and woven handcrafts. This example shows precisely how corruption in the economic sector leads to inefficiency and lack of competition. First, the company was not sold to the highest bidder, the Italian businessman who offer 8 million Marks. Second, the offer from the Italian businessman would have been beneficial for the Croatian economy considering it entailed fresh money from an Italian bank. This means that the bidding competition was not fair since the highest and the most beneficial offer did not win. Third, the company was sold to two inexperienced HDZ members with political connections. In sum, this example shows how grand scale corruption prevents free competition and increases inefficiency, considering it favors political connections. In addition, what the HDZ members did with "Rukotvorine" was not in the best interests of the workers and the society. They sold the office building

and laid off most of the workers. Then they rented all the shops that were owned by the company (Grubiša 2006:68).

Not only do these relationships result in an inefficient economic system which lacks competition. It is also harmful to the overall economic growth and prosperity of the country (Rose-Ackerman 2001:566). Again, if we look at the example of "Rukotvorine" the offer from the Italian businessman would have entailed pouring fresh money into the Croatian economy. It would have had positive outcomes for the country's economy, especially considering that the company was sold in 1994, during the wars when Croatia would have benefited from foreign investment. In addition to the manifest and latent functions, corruption might also have some negative side-effects in the economic system. One of those is that it creates obstacles to foreign direct investment, FDI, by scaring away potential investors. A study done by Eurochambres in 2009 shows that the main obstacle to FDI in Western Balkans according to entrepreneurs from EU member states is corruption (Eurochambres 2009:24). Other major obstacle is anti-competitive and informal practices and economic and regulatory policy uncertainty, which are in part consequences of corruption.

6. Corruption in the media.

Independent media are a necessary precondition for a consolidated democratic state. Norberto Bobbio (1987:39) argues that freedom of press and freedom of assembly and association are channels through which citizens can appeal to and communicate with those in power. Citizens can use the media to ask for benefits, more equal distribution of resources and hold those in power accountable for their actions. Robert Dahl (1998:85) argues that freedom of expression is an important criterion that needs to be fulfilled in order for a state to be characterized as democratic. This entails that citizens have a right to express themselves on political matters without fear of severe punishment. In addition, citizens have a right to seek out alternative and independent sources of information from other citizens, experts and newspapers. These alternative sources of information can not be under government control or under the control of a political group that is attempting to influence the political beliefs of the public (Dahl 1998:86).

In other words, the media can facilitate public discussion and allow the public to criticize and hold those in power accountable for their actions only if it is privately owned and free to criticize the government without fear of reprisals (Rose-Ackerman 2001:554). However, this has not been the case in Serbia and Croatia. Under communism, the journalists were seen as defenders of the political and social system. In the Official Code of Journalists in Yugoslavia, a journalist was defined among other things as a socio-political worker who adhered to the idea of Marxism-Leninism and participated in the development of the social self-management society (Gallagher 2000:114). In the post-communist era in Southeast Europe, control and manipulation of the media have been seen as vital by the ex-communists who were

initially in power and tried to shape the post-communist society according to their own agenda (Gallagher 2000:112).

As previously mentioned, Milošević's control and manipulation of the media was one of the most important tools that helped him assure his hold on power in post-communist Serbia. He used classical populist techniques to distance himself from the economic policies implemented by Tito. As previously mentioned, he also used the media when he began to work toward his goal for a Greater Serbia by championing the interests of Serbs in Kosovo (Gallagher 2000:116). The state had the ability to influence and put pressure on the media by rewarding the newspapers which were seen as its allies through government control over printing shops. The pro-government press had access to newsprint at much cheaper prices than independent newspapers (Gallagher 2000:121). However, the most extreme media law was passed in 1998 allowing the authorities to close down independent radio stations that the ruling elite did not like (Gallagher 2000:112).

In Croatia, although the post-communist government led by Tudjman argued that it had severed links with the communist era and insisted that it had embraced liberal values, there were several restrictions on the media. The manipulation of the state media was accomplished by appointing a HDZ vice president as head of Croatian Radio and Television, HRT. As a result of this, the state-run television, HRT, was able to advance the views of the government. Although criticism was not completely absent, this measure made it easier to mute individual critical voices (Cohen 1997:88). However, it proved to be more of a challenge for the government to deal with a large number of critical views. The government then used economic measures

to mute these voices, because it allowed it to maintain its democratic image. In April 1991 a privatization law was passed with the purpose of suppressing anti-government criticism. This legislation allowed the state-run Croatian privatization fund to select new managing bodies for enterprises that were undergoing transformation to private ownership (Cohen 1997:88). The government successfully used this legislation to force the internationally recognized newspaper, *Danas*, to close down in 1992 by depriving it of printing and distribution rights (Gallagher 2000:119).

Kisić (2015:63) argues that changes in the media sector in transition countries have to be made on two basic levels. First, there has to be a democratic transition in the media. This entails that there should be accountable governance and law-making in order to liberate the media from political influence. Principles of free market should dominate and licenses to broadcast should be issued by independent agencies rather than the state. Second, the media sector needs a professional transition, including professional and accountable journalists. During the 1990s, the independent media worked as a response to the repression by the regime. They were not after profit, but motivated by defending their profession and the freedom of expression (Kisić 2015:67). However, the independent media experienced economic challenges at the start of transition from communism. They were challenged with new market conditions which resulted in it not being able to safeguard the quality it has maintained during the 1990s and resist political power. The independent media were no longer a factor for change, but it had turned into a mirror of mainstream elites and their interests (Kisić 2015:71).

On the basis of this, it is important to analyze media freedom in Serbia and Croatia in order to determine to what degree the countries have been able to break out of the post-communist past towards a genuine multi-party democracy characterized by media freedom. I will be using the independent media scores in Serbia and Croatia obtained from Nations in Transit, *Freedom House*, in order to determine the level of media independence in the countries and political influence on the media sector. The index I am using addresses the current state of press freedom in the country, including libel laws, harassment of journalists, and editorial independence, as well as the emergence of a financially viable private press and internet access for citizens. The ratings are based on a scale from 1 to 7, with 1 representing high levels of media independence and 7 representing low levels of media independence. The rating follow a quarter-point scale. Minor to moderate changes warrant a positive or negative change of a quarter point, 0.25. Significant changes warrant a half point, 0.50 (Nations in Transit 2016).

	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016
Serbia	3.25	3.25	3.50	3.75	3.75	4.00	4.00	4.00	4.00	4.00	4.25	4.50
Croatia	3.75	3.75	4.00	3.75	4.00	4.00	4.00	4.00	4.00	4.00	4.00	4.00

Table 3. The table is showing the independent media scores in Serbia and Croatia and are obtained from Nations in Transit, *Freedom House*. The ratings are based on a scale from 1 to 7, with 1 representing high levels of independent media and 7 representing low levels of independent media.

According to the results, Serbia scored better than Croatia on the independent media rating in the second half of the 2000s, except for in 2008 when the countries had the

same score of 3.75. However, Croatia's score has been the same since 2009, while Serbia's score worsened with the current government in 2015 and 2016.

In 2005 and 2006, Croatia scored 3.75 on the independent media ranking. The state was the largest media owner in Croatia during these years. As mentioned previously, under the rule of Tudjman, the HRT came under heavy pressure from the government and acted as the mouthpiece of the government and the political party in power. Following the change in government, the public was promised that HRT would be transformed into a modern public broadcaster. However, the HRT still had to deal with political pressure and was faced with difficulties in the process of becoming truly independent (Nations in transit 2005). The following year, in 2007, Croatia's score declined by 0.25 point to a score of 4.00. Although this is a minor decline, it was due to Croatia's failure to develop media standards and the increase of commercialization that the media experienced during 2006. The media picture was characterized by an increase in tabloid-style print coverage of sports and celebrities. Serious political and economic issues became more of a framework for political advertising rather than serious focus points (Nations in Transit 2006). However, the score went back to 3.75 points the following year due to Croatia implementing some self-regulatory actions. Nevertheless, this positive trend did not last for long and the country's rating declined back to 4.00 in 2009 where it has been ever since.

By contrast, in Serbia the independent media ratings gradually declined from 2005 to 2010. Although its ratings were stable from 2010 to 2014, the score has further worsened with the current government in 2015 and 2016. In 2005, Serbia received a score of 3.25 which declined in 2007 due to lost opportunities for improvement. The Republic Broadcasting Agency had allocated national frequencies in April 2006, but

the process was characterized by many shortcomings. These regulations aimed at ending the chaos in the digital media arena; however the efforts proved itself to be chaotic. Nationwide frequencies and broadcasting licenses were allocated to several broadcasters to share one frequency. Nevertheless, broadcasters were faced with unfavorable conditions for market competition, because private, pro-government broadcasters that had made money and got licenses in the Milošević era thanks to close ties with the regime, had a head start and a comparative advantage (Kisić 2015:83). In 2010, Serbia's score declined further, to a score of 4.00, due to new and controversial laws, such as the Law on Public Information and the Law on National Minority Councils, which were hastily adopted without much public debate. Leading media outlets, journalist associations and international and regional organizations, such as the OSCE Mission in Serbia and the South East Europe Media Organizations, SEEMO, expressed their concern about the Law on Public Information, arguing that it could lead to increased self-censorship and the closure or some media organization. In addition, the law could lead to weakening the media sector economically and affecting the independence of the media in the relation to the political power. Concerning the Law on National Minority Councils, the organizations pointed out that it could create additional problems in media privatization and the functioning of the media market (Nations in Transit 2010). Serbia's score has been stable at 4.00 in the period from 2010 to 2014, but has declined by a half point under the current government led by Prime Minister Aleksandar Vučić, and is now at 4.50.

6.1 The impact of corruption on the media sector.

One of the most important tools for fighting corruption is a free and independent media sector that is able to provide the citizens with objective and balanced coverage of public affairs and expose corruption through investigative journalism (Trivunović et al 2007:31). Corruption in the media sector directly undermines such provisions. It deprives the public of information that is needed in order for them to hold those in power responsible and accountable for their actions. However, the key problem concerning corruption in the media is not low-scale corruption, such as bribery of individual journalist. Rather it is the grand scale corruption which includes political parties and business with political ties who are trying to influence media outlets. They have the ability to influence the media through advertising, printing contracts, or directly by overlooking underpayment of taxes by editors and media companies (Rose-Ackerman 2001:554). Other tools include the government forcing the newspapers to shut down, for example when the government in Croatia forced the newspaper *Danas* to shut down in 1992 by depriving it of printing and distribution facilities (Gallagher 2000:119).

In both Serbia and Croatia, the media is controlled by individuals, groups and parties that are aiming at fulfilling their political interests. Their main interest is to control the information that is available to the citizens which can be due to several reasons. A political party may try to control the media so that it is able to prohibit them from publishing scandals about the party, or the party can use the media to spread rumors about its competitors. In addition, the party can control the media to assure that it is the one party to get most publicity. During the election campaign in Serbia from January to March 2014, the majority of the broadcast and print media favored

Socialist Party of Serbia, SPS, which was in the ruling coalition. SPS got 20.15% of the news coverage, while DS, Boris Tadić's coalition and Ivica Dačić as an individual, got respectively 16.51%, 14.5% and 11.7%. The rest of the parties received less than 9% of the news coverage combined (Kisić 2015:78). Another motivation for controlling the media is to be able to spread propaganda. As mentioned previously, the media were an important tool for Milošević and he used it to spread Serb nationalism in Kosovo. Lastly, control over media can assure politicians and business companies that their illegal and corrupt activities never gets revealed, and thus they are able to avoid scandals and possible punishment.

In Croatia, the political influence over the media occurs mostly indirectly through legislation and the economy using economic tools. The reason for this may be that Croatia right after the disintegration of the socialist system when Tudjman came to power argued that it had broken with its communist past and was now ready to embrace liberal values. If the country then blocks internet sites or forces newspapers to remove their content, it will clearly show that it is not committed to transformation towards a consolidated democracy. Even under Tudjman's rule, the government refrained from jailing and getting rid of people criticizing its rule. However, in 2013, a criminal code came into effect which penalized "shaming" and "insult". It prescribed fines for publishing factual assertions which could damage someone's honor or reputation in print or broadcast media, as well as online. The first conviction under this law happened in March 2014 when journalist Slavica Lukić of *Jutarnij List* were found guilty of "shaming" and was fined with 3,460 euros. Lukić was sued by a private medical clinic, Mediol, after she wrote about its finances, including the government funding it receives. The judge reportedly ruled that an individual can be

held responsible for “shaming”, even when reporting the truth, if the court feels that the information was not in the public interest. After a public petition and months of public debate, the government agreed to amend the article to protect individuals from penalization if they were able to prove the reliability of their statements and make an argument for the need to publish them (Dorić 2015:194). However, this kind of legislation can lead to self-censorship. Journalists may decline to publish information in fear of being found guilty and forced to pay fines.

Another tool that the government in Croatia used to gain control over the media was economic influence. In 2014 the media corporation Europa Press Holding, EPH, entered into negotiations with the Ministry of Finance over unpaid loans from numerous creditors. Under the Financial Business and Pre-bankruptcy Settlement Act, the government can assist companies that are facing bankruptcy after reviewing their cases and determining if they are worth saving. In practice, this implies that the Ministry of Finance has replaced the courts as the judge of many bankruptcy cases. This can lead to their discriminating against some companies, by not showing willingness to save them, while they are offering certain companies more favorable payment terms. In February 2015, the news site *Index.hr* reported that Finance Minister Slavko Linić had forgiven most of EPH’s unpaid taxes (Dorić 2015:195). If the government is able to determine which companies they are willing to save, and if the companies that have ties with the government are favored it clearly gives them a huge advantage.

The government’s influence on the media sector in Croatia, as described above, has arguably led to self-censorship and lack of professionalism among journalists.

Croatia's media landscape have for the last two years been characterized by a lack of independent, quality outlets with low reporting standards. Private television focuses for the most part on entertainment, while investigative journalism is scarce in the print media market. The Croatian media sector is also faced with economic challenges, which can create incentives for media companies to engage in corrupt activities in order to survive economically. The Ministry of Culture has estimated that the number of journalism jobs in Croatia has declined by between 1,500 and 2,100 jobs between 2009 and 2014. Minister Zlatar-Viočić has argued that the profession is lost (Dorić 2015:195).

In Serbia, the government is also using economic means to indirectly influence the media, for example through advertising and financing. However, it is also using more direct approaches such as suspending TV stations due to content it does not like, shutting down news sites and forcing newspapers to remove their content. Before the parliamentary elections in Serbia, in March 2014, the DS reported that on at least two occasions a local cable provider which is controlled by an SNS party member suspended service to viewers in Southeast Serbia during an appearance by DS chairman Dragan Djilas. DS implied that this kind of censorship exceeded even the darkest of times in the country's past (Savić 2015:587). A similar incident happened during the floods in May 2014, when the authorities brought in 15 people for questioning because they had allegedly spread false information and created panic about the scope of the disaster. During that same time, websites such as the *Teleprompter.rs* and *Drugastrana.rs* were blocked after publishing critical reports about the prime minister, Vučić, and the online edition of the popular daily newspaper *Blic* had to remove some of its critical content (Savić 2015:587). In a addition to this,

according to a survey conducted by the Independent Association of Journalists in Serbia, NUNS, there were 20 physical attacks and six lawsuits against journalists in 2014 (Savić 2015:587). In 2015, Ivan Ninić, an associate of the anticorruption portal *Pistaljka* was attacked and beaten with metal bars outside his residential building by two masked men. He believes that the attack was ordered by members of the ruling elite because of a corruption story he was working on and planned to publish (Damnjanović 2016:7). Acts of this kind contribute to increased self-censorship. The journalists and newspaper are not willing to provide objective information to the public and reveal corruption because they are afraid of reprisals.

Nevertheless, the Serbian political elite also use tools to more indirectly influence the media sector. The major mechanisms of influence on editorial policies are through economic influence such as media ownership and financing through advertising and other funds. Management of almost all of the media outlets are afraid of losing income made on advertising, and they are therefore trying not to annoy big companies and government officials, especially considering that the government is the biggest buyer of advertising space (Kisić 2015:78).

In 2015, the government focused on making progress in reducing state ownership of the media. However, this process has been heavily criticized. Under the Media Strategy, which was adopted in 2011, a total of 73 state-owned media outlets were scheduled for privatization. Nevertheless, only 34 of those have actually been privatized, and most of them were bought by individuals close to the ruling party (Damnjanović 2015:7). This illustrates how the government is using economic influence, like the privatization process, to take control over the media by selling

media outlets to its own allies. Not only do such activities give government allies a huge advantage, they also hinder market competition.

The Media Strategy also aimed at curbing cross-ownership and strengthening pluralism in the media sector. This entails restriction of the influence of a company or a group on media outlets (Kisić 2015:80). However, the corrupt activities that are used by the ruling elite in order to control and influence the media have led to a lack of professionalism in Serbia's media landscape. As a consequence, this is giving the ruling elite even more possibilities to influence the media sector by providing journalists with fabricated affairs, exclusive information and campaigns against political opponents. Rather than using investigative journalism to dig into affairs and to ensure the quality of the sources, the media publish whatever a certain member of the ruling elite hands them. In addition, the government is also able to influence editorial policies through being able to appoint editors and personnel in certain newspapers. For example, every new government or every new political course has entailed a new editor-in-chief for the daily newspaper *Politika*. (Kisić 2015:81).

According to Nations in Transit's country report on Serbia and the scores on the independent media ranking, freedom of speech and media independence have deteriorated under the current government led by Prime Minister Aleksandar Vučić. Self-censorship has increased and become a huge problem. Journalists are refraining from writing about certain issues because they are afraid of losing funding, especially through advertising (Damnjanović 2016:6). A Slovenian media expert, Prof. Sandra Basić Hrvatin, argued that the print media have been devoting too much space for the stories that were handed to them by government institutions, which

testifies to the fact that the state successfully controls the information and the media sector (As cited in Kisić 2015:82).

7. Corruption in the electoral system.

As mentioned previously, in modern representative democracies, elections serve two main functions. First, they provide citizens with the opportunity to choose, through free and fair elections, which politicians they want to represent them and their interest in the government. The elections are free when the citizens can go to the polls and give their vote without fear of reprisal. Fair elections entail that all votes are counted as equal (Dahl 1998:85). Secondly, elections give citizens the opportunity to hold their representatives accountable for their actions. If the representatives did a good job in enacting policies according to the citizens' preferences, they can be rewarded by being re-elected. On the other hand, citizen can punish the representatives by removing them from office if they, for example enriched themselves in corrupt or self-serving ways (Kunicová and Rose-Ackerman 2005:573).

However, elections can be conducted through different electoral systems. Both Serbia and Croatia have a proportional representational electoral system, PR. According to Dahl (2000:131), this electoral system is designed in order to produce a close connection between the proportion of the total votes that a party received and the proportion of seats the party gains in the parliament. In theory, a party that receives 53% of the votes will gain 53% of the seats in the parliament. However, this is rarely the case, because there is always a threshold and there are also instances of weighted voting. If the threshold in a country is 5%, parties that receive, let us say, 2% of the votes will not be represented in the parliament. Its votes might then go to one of the bigger parties, meaning that a party winning 53% of the votes, might get 65% of the seats. Diamond (1996:118) argues that in a country with diverse social groups and interests, the PR system provides the best opportunities for many groups

to be represented. However, in a PR system the party leadership is able to gain a lot of power compared with individual legislators. Concerning corruption, this gives the party and its leadership the ability to effectively gain corruption opportunities for themselves, while individual officials have fewer opportunities (Kunicová and Rose-Ackerman 2005:573).

Further, both Serbia and Croatia have a unicameral parliament with a directly elected head of state. In both countries, the president is elected at direct elections. The president gets elected through a system of absolute majority, meaning that in order to become president, the candidate must get the majority of the popular votes. If no candidate is able to achieve an absolute majority, the elections are to be repeated in 14 days in Croatia and in 15 days in Serbia. During this second round of elections, only the two candidates who received the most votes during the first round are allowed to compete for the position as president (Money, Politics and Transparency 2014). Concerning parliamentary elections, both Serbia and Croatia have adopted a proportional election system for parliamentary elections. In Croatia, this system was adopted in 1999 and included 10 proportional electoral units, each with 14 mandates in the Croatian Parliament (Money, Politics and Transparency 2014). This system was slightly adjusted in 2003, 2010 and 2011 by increasing the number of seats for ethnic minorities. The last amendment provided ethnic minorities comprising more than 1.5% of the population with 3 mandates in the Parliament. By comparison, in Serbia, the whole country is one electoral unit. Each of the competing parties offers its list of candidates for the 250 seats in the Parliament. Through such electoral system, it is hard for a single party to gain a majority of votes, which is why this electoral system usually produces coalition governments (Pešić 2007:19). The

current government in Serbia has 16 ministries. However, the number of ministries is changeable because every ruling coalition decides how many ministries and other positions in public enterprises each party is going to receive.

Campaigns are a huge part of the elections and the financing of electoral campaigns must be regulated in order to have a transparent system. In Croatia, the election campaigns are mainly funded by the government and other donations that parties receive through different activities. The government is funding all parties and independent candidates if they are able to meet the minimal threshold for entering the parliament. However, all funding must be fully reported and made publicly available (Money, Politics and Transparency 2014). In Serbia, political parties, coalitions and citizens groups are considered actors in the electoral system. Therefore, campaign financing is only provided through donations that the political parties, coalitions and citizens' groups receive, and are not financed by the government (Money, Politics and Transparency 2014).

In order to analyze corruption in the electoral system in Serbia and Croatia and determine political influence in this institutions, I will be using the electoral process scores in Serbia and Croatia which are obtained from Nations in Transit, *Freedom House*. Even though the index does not measure corruption in the electoral system, it will give us some indication as to how the electoral process functions in Serbia and Croatia. The methodology of Nations in Transit's electoral process index examine how good national, executive and legislative elections in a country are, as well as the electoral process itself, the development of multiparty systems, and popular participation in the political process. The ratings are based on a scale of 1 to 7, with 1

representing the highest score and good electoral process, while 7 indicates low scores and a bad electoral process. The ratings follow a quarter-scale point. Minor to moderate developments warrant a positive or negative change of a quarter point, 0.25, while significant developments count for a half point, 0.50 (Nations in Transit 2016).

	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016
Serbia	3.35	3.25	3.25	3.25	3.25	3.25	3.25	3.25	3.25	3.25	3.25	3.25
Croatia	3.00	3.25	3.25	3.25	3.25	3.25	3.25	3.25	3.25	3.25	3.25	3.00

Table 4. The table is showing the electoral process scores in Serbia and Croatia and are obtained from Nations in Transit, Freedom House. The ratings are based on a scale from 1 to 7, with 1 representing positive scores on electoral process and 1 representing negative scores on electoral process.

The results show that Croatia scored better than Serbia on electoral process in 2005. However, the following year, both countries received the same score of 3.25. This trend continued to 2016, when Croatia increased its score by a quarter-point and received a score of 3.00 while Serbia remained at 3.25. Nevertheless, a difference in a quarter point symbolizes minor differences between the countries, implying that there are no huge differences between the electoral systems in Serbia and Croatia.

Croatia received a score of 3.00 of the electoral process ranking. In 2003, the HDZ came back to power and formed a majority coalition with Croatian Pensioners' Party (HSU) and representatives from ethnic minorities who, for the first time, became a part of the Croatian government. Prior to the presidential elections in January 2006, a new law on campaign finance was passed which required that the candidates report the amount and sources of campaign funds to the Election Commission. These positive changes actually improved Croatia's score in 2005 from the previous year by

0.25 points (Nations in Transit 2005). However, Croatia's score declined the following year. In 2006, the presidential elections were as mentioned held in January, while the local government elections were held in May. While there was positive change prior to the presidential elections, there was a lack of clarity regarding the allocations of seats reserved for ethnic minorities both before and after the local elections. The government did not use updated voters lists; thus, it did not take into account the changes registered in certain local units. On the basis of this shortcoming, Croatia's score declined with a quarter point in 2006 (Nations in Transit 2006). The electoral process score for Croatia remained the same until the last Nations in Transit report, where it increased with a quarter point. Considering that the country report for Croatia is yet to be published, I can not for sure point out why the score increased. However, in 2015 parliamentary elections were held in Croatia in 2015 and the OSCE Office for Democratic Institutions and Human Rights, OSCE/ODIHR, was invited to observe the elections. In their report, OSCE/ODHIR expressed confidence in Croatia's State Election Commission, and its ability to organize elections in a professional, impartial and transparent manner (OSCE/ODHIR 2015:1). There were also made some positive changes to the Croatian electoral process including standardizing the number of signatures required to register a party list, detailed provision allowing for international observers and lifting the obligation for commercial broadcast media to cover the campaign (OSCE/ODHIR 2015:4). Although some concern were raised about increased hate speech directed at national minorities, the positive changes may have led to the improvement of Croatia's score on the Nations in Transit electoral process ranking.

In the case of Serbia, the country received a score of 3.25 in 2005 which actually was an improvement by a quarter point from the previous year. In 2004, the Parliament removed the voter turnout requirement, which made the first presidential elections in Serbia possible since 1998. The Parliament also removed the 5% electoral threshold for parties representing ethnic minorities. In addition, a new Law on Financing Political Parties were implemented, which made the campaign funding more transparent. However, this law was to a large degree not adhered to during the Presidential elections. Nevertheless, Serbia was praised by the OSCE stating that the election generally held in agreement with democratic and European standards (Nations in transit 2005).

7.1 Impact of corruption on the electoral system.

Concerning corruption, there are several opportunities for corrupt activities in the electoral system. A political party may resort to corrupt behavior in order to get the majority of votes and receives a large amount of seats in the parliament. Even though low scale corruption may occur in the electoral system, for example through bribery of individual party members, grand scale corruption including political influence through closed candidates' lists and illegal campaign funding are more present in this institution.

Closed candidates' list was previously used in both Serbia and Croatia. This may create corruption opportunities because it gives the parties' top leadership the ability to take control over the seats in the Parliament both before and after the elections. Before the elections the party leadership has the ability to compose the candidates list, while it has the ability to influence the results after the elections by deciding

which candidates will enter the Parliament regardless of their order on the candidates' list. In sum, electoral laws that permits closed candidates' lists are creating opportunities for grand scale corruption by giving the party leadership ability to influence the elections (Pešić 2007:19). However, Croatia has abandoned the use of closed candidates' list in 2015, while this remains a huge problem in Serbia. Moreover, in Serbia, an illegal practice introduced by the Koštunica's minority government has given even more power to the party leadership and provided it with the opportunity to influence the political system. Those who are selected to enter the parliament in Serbia are obliged to sign blank resignation letters before they enter the Parliament. The party leaders then keep these blank resignations and are able to use them to throw a MP out of the Parliament if he or she is disloyal or does not vote as instructed (Pešić 2007:19). Considering that the elections in a democratic society provide the citizens with the opportunity to punish individual representatives by voting them out of office, this possibility is potentially removed with the use of a closed candidates' list. The citizens do not control which representative gets a seat in the Parliament. Rather this decision lies in the hands of the party leadership, as the MP's mandate is entirely dependent on the good graces of the party leadership. Furthermore, this creates a system in which the parliament is stripped of any possibility to exercise check and balances on the executive (Trivunović et al 2007:14).

A second corruption opportunity derives from illegal campaign funding. Funding is crucial and gives the party opportunities to promote itself and advertise for its policies. A good campaign can potentially determine the outcome of the elections, and therefore it is a channel that creates corruption opportunities and incentives for

the political parties. Since 2011, Serbia has had a solid legal framework for election campaign financing which include the obligation to report all campaign income and expenditure, as well as making all transactions through special bank accounts. If a party violates the rules it is faced with possible sanctions and there is an independent body, the Anticorruption Agency, ACA, tasked with controlling records of campaign finances (Transparency Serbia 2013:6). In Croatia, political parties are provided with funding from the state budget, which amounts to 0.05% of the actual operating expenses. Electoral campaigns are also funded through the state budget and the amount of support is determined proportionally to the number of elected representatives that a political party receives (Mataković 2013:10). A study initiated by Transparency International aims at measuring the level of transparency in political party funding by identifying the gaps and shortcomings in the political financing system. The study uses both primary and secondary sources to examine both the legal framework for party financing and how the laws are implemented and used in practice. The legislative framework is measured by examining the relevant laws and regulations. The practices are measured by examining reports from the political parties and oversight bodies, as well as interviews with various stakeholder in order to get insight into the operation of party financing and how the laws work in practice (Mataković 2011:11). The country gets one average total score. In addition, it gets one score on legal framework and one score on the practice of the laws. There are several indicators and the scale on each indicator ranges from 0 to 10, where 10 indicates that the country has met all the expected criteria in terms of transparency and accountability, while 0 indicates that none of the criteria has been met (Mataković 2013:12).

Croatia received an average rating of 7.7. Considering that 10 is the highest score, 7.7 is quite high. However, on two of the indicators, Croatia received a low score. On the indicator measuring reliability of reporting, meaning the belief that the data in the reports on party financing are accurate, Croatia received a score of 4.9. Ten years ago, parties in Croatia began to publish annual reports and statements of income and expenditure on politician campaigns. However, these reports are still considered to be largely inaccurate and several media reports on secret party funding and party corruption suggested that the reports provided by the parties might be inaccurate. In addition, a whole series of corruption scandals and investigations were conducted by the police and State Attorney's Office in 2010 and 2011 which revealed that the reports are incomplete. The case of Milan Bandić, the presidential candidate in 2010, is a good example. He reported that he had collected 930,000 euros for expenditure related to the election campaign, but Transparency International Croatia estimated that he had spent more than 2,53 million euros only for media advertising (Mataković 2010:18).

By comparison, Serbia received a score of 6.8, which is a quite high score although it is lower than the score Croatia received. Even though the report states that Serbia has a solid legal framework for party financing, the reliability of reporting is doubtful considering that half of the sources of funding are unknown. In addition, there is a widespread perception that parties are financed by powerful businessmen, but this type of donors are left out of the campaign finances reports (Transparency Serbia 2013:28). As previously mentioned, Vesna Pešić (2007:6) shares this perception arguing that this is the main mechanism for state capture. A handful of the richest tycoons in Serbia are able to influence the country's policies through financing of

political parties (Vesna Pešić 2007:6). Concerning sanctions of political parties that violates the laws on party financing, Serbia has a good legal framework and received a score of 7.8. However, despite having solid laws, the law practice in Serbia receives the score of 0.9 due to the fact that sanctions have never been imposed against political parties or their leadership (Transparency Serbia:39).

A democratic political system must find a way to finance political campaigns without engaging in illegal party and campaign financing. While the politicians have incentives to engage in such activities because they serve the interest of their party and increase its chances to get a good outcome of the election, the businessmen that are financing the parties expect to get something in return. They may want special treatment in the form of help in legislative processes or in dealing with the bureaucracy. They might also want profitable contracts or are seeking to buy companies that are up for privatization at cheap prices (Rose-Ackerman 2001:552). This creates a system that is not based of free competition and equality, but rather favors tycoons who have established ties with the party leadership by financing them. It creates a small corrupt elite which consists of the party leadership and businessmen who are helping each other influence the political system in order to achieve their own interests. A side effect of these illegal and close ties between the businessmen and the party leadership is a system in which the government's autonomy is compromised and it has lost its ability to freely implement policies that are beneficial for the citizens and the society. Instead the government is taken hostage by the tycoons and forced to create laws and implement policies according to their interests (Trivunović et al 2007:16). However, it is not only the private businessmen or tycoons who are controlling the government. An MP has the

possibility to simultaneously be mayor of a city or president of the regional government and be on the managing board of companies, funds or agencies. The only limitation is imposed by the Law on Conflict of Interest, which states that an MP can not have a managerial position in more than one public company at the same time (Pešić 2007:10). If an MP can be both a politician and a businessman at the same time, it obviously creates incentives for the misuse of public office for private gain.

The last mechanism I am going to mention, is the government official's control over thousands of jobs in public institutions and state-owned enterprises in Serbia. This is increasing the corruption opportunities for the government officials and enables them to influence the job market by having the ability to appoint whomever they want in central positions in public companies (Trivunović et al 2007:15). Considering that Serbia is a highly centralized country, many positions are under the jurisdiction of each minister and it is overall estimated that the government controls nearly 40,000 appointments. For example, the Minister of Education and Sport, has the authority to appoint more than 3,000 directors of primary schools in Serbia and about 400 directors of secondary schools. The Minister of Health has similar authority and is able to appoint directors of hospitals, health centers and other health institutions that are funded by the government (Pešić 2007:8). The result of this is the creation of a system in which jobs may be given on the basis of political orientation instead of qualifications. This in turn might lead to inefficiency. Instead of appointing the most qualified person as the director of a school that will be able to increase the quality of the school and provide it with better result, a director may be appointed primarily on the basis of his or her political orientation and loyalty. This will not necessarily lead to

the best possible outcome for the school. In addition, this practice leads to an uncertainty in the job market if people risk losing their jobs when a new government is elected because of their political orientation.

8. Corruption in the judiciary.

Corruption in the justice system, such as in the police, the prosecution services and the courts prevents the enforcement of laws and ultimately undermines the rule of law and trust in the justice system itself. Corruption in all the aforementioned institutions have been and still is a serious problem in almost all post-communist countries, including Serbia and Croatia. Both forms of corruption, low scale and grand scale corruption occurs in the justice system and have negative impacts. Low scale corruption, in this case, may include the acceptance or extortion of bribes for personal material gain. The bribes are paid in order to speed up the decision making process in the courts or to influence the courts decision in one's favor. On the other hand, grand scale corruption in the justice system may involve not money, but political influence. This influence may be used in order to implement selective application of the law which is favoring certain political agents and their interests (Trivunović et al 2007:25).

During the era of Milošević's rule in Yugoslavia in the 1990s, the judiciary was not independent from political control and it was not able to act as an external check on the president's power. Instead, it could be characterized as being a partner of the regime and the ruling party due to the fact that the constitution at the time gave the president an overwhelming authority to rule the governing party and its leaders. In such system, the judiciary was not able to provide a balance of power to the president. After the fall of Milošević, this trend continued in post-communist Serbia, because no reforms were implemented that would contribute to increasing the independence of the judiciary (Miller 1997:147). A similar trend occurred in post-communist Croatia. The political system at the time was characterized by an

asymmetry of power between the president and the opposition. This was partly due to regime's ability to control and limit the independence of the judiciary. During the first period of the Tudjman rule, there was a high representation of ethnic Serbs in Croatia's justice system which was one of the main motivations for the government to make changes in the judicial sector. Less than six months after Tudjman came to power in Croatia, the government had replaced 289 judicial officials. In October 1990, a controversial law was adopted which gave Tudjman's Minister of Justice the power to appoint and remove personnel in the judicial sector. Under this law, high government officials had the ability to decide if a judicial official had the proper working, civil and moral qualities to fulfill his or her responsibilities (Cohen 1997:87). In other words, the regime was now able to appoint judges who fitted their criteria, resulting in a judicial system which was highly influenced by political interests.

Based on this, it is clear that the judiciary has not been independent from political interest in Serbia and Croatia, and today it is still one of the most underdeveloped institutions in both countries. In order to analyze the impact of corruption in the judicial sector in Serbia and Croatia, I will be using the judicial framework and independence scores which are obtained from Nations in transit, *Freedom House*. The index measures how well the judiciary is structured and if it is influenced by political interests. It focuses on constitutional reform, human rights protection, reforms in the criminal code and judicial independence. In addition, it also measures the status of ethnic minority rights, equality before the law, the treatment of suspects and prisoners and compliance with judicial decisions. The ratings are based on a scale from 1 to 7, with 1 representing good judicial framework and a high degree of independence, while 7 represent bad judicial framework and a low degree of

independence. The ratings follow a quarter-point scale. Minor and moderate developments warrant a positive or negative change of a quarter point, 0.25, while significant developments receive a half-point, 0.50 (Nations in Transit 2016).

	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016
Serbia	4.25	4.25	4.25	4.50	4.50	4.50	4.50	4.50	4.50	4.50	4.50	4.50
Croatia	4.50	4.25	4.25	4.25	4.25	4.25	4.25	4.25	4.25	4.50	4.50	4.50

Table 5. The table is showing the judicial framework and independence scores in Serbia and Croatia and are obtained from Nations in Transit, Freedom House. The ratings are based on a scale from 1 to 7, with 7 representing the low levels of judicial framework and independence and 1 representing high levels of judicial framework and independence.

According to the results, Serbia had a better judicial framework with more judicial independence than Croatia in 2005. However, this trend changed the following year. From 2008 to 2014, Croatia scored better than Serbia, but the difference was only a quarter point, indicating only minor differences between the countries. Since 2014 the countries have received the same score of 4.50.

In 2005, Croatia received a score of 4.50 on the judicial framework and independence rating. During this time period, the state of the judicial system was the country's main problem and the key area where the European Commission told the government to do more to achieve positive changes according to European standards. The European Commission also argued that citizens' rights were not being fully protected due to delays in judicial proceedings. The court system was faced with a backlog of 1.3 million cases, most of those dating from before 2000 (Nations in Transit 2005). The following year, in 2006, Croatia improved its rating by a quarter point due to reforms aiming at increasing the efficiency of the courts. Progress was made in dealing with the case backlogs affecting the Land Registry by

digitalizing the area in order to make the system more efficient. This was important progress due to the Land Registry being considered as the second main area of overall backlog. The Parliament also adopted a new Law on the Courts in December 2005. The plan was to guarantee the right of citizens to a court action of reasonable duration and thus avoid further backlog (Nations in transit 2006). Nevertheless, Croatia's score on judicial framework and independence declined by a quarter point in 2014, and has been at the score of 4.50 ever since. The reason for the quarter point decline was due to ethnic bias in court rulings and the judiciary not being able to take an active role in protecting minority rights (Dorić 2014).

By comparison, Serbia received a score of 4.25 in 2005 which is a quarter point higher score than Croatia, although the difference is minor. During this year, the government amended several laws with the aim of strengthening the independence of judges and developing the judicial sector according to European standards. However, the Serbian government did not succeed in protecting the rights of ethnic minorities and the judiciary was not able to effectively deal with war crime cases. The Koštunica government tried to avoid cooperation with the ICTY by refusing to hand over war crime criminals. Instead Koštunica proposed the voluntary surrender of the suspects (Nations in Transit 2005). Serbia's rating on the index declined two years later, in 2008, due to the lack of a functioning constitutional court for all of 2007. The Constitutional Court was not in session from October 2006 through December 2007 following the retirement of its president. The old court could not preform considering it had no president, and a new one was not appointed for more than a year later. This meant that Serbia was without an authority capable of judging the constitutionality of laws, which was harmful to the rule of law (Nations in Transit 2008).

8.1 Impact of corruption on the justice system.

Since 2008, Serbia has received a score of 4.50 on the judicial framework and independence rating provided by Nations in Transit. For the past three years, Croatia has received the same score. Despite over a decade of reform efforts, the judiciary still remains the weakest institution in Croatia. In Serbia, the government has also tried to reform the judiciary in order to improve its independence, accountability and efficiency. However, despite the five-year reform strategy adopted in 2014, the judiciary in Serbia continues to suffer from inefficiency and political influence (Damjanović 2016:8). As mentioned previously, corruption in the law enforcement authorities is a serious problem in both Serbia and Croatia, and both low scale and grand scale corruption occur and have negative impacts on the judicial system. In both Serbia and Croatia, the law courts and the police are viewed as highly corrupt. According to the UNDOC report presented previously, more than half of the respondents in both countries stated that the law courts and the police are corrupt. The law courts are ranked as the fifth most corrupt institution in Croatia, while the police is ranked at sixth place (UNDOC 2011:39). By comparison, the police are perceived to be more corrupt than the law courts in Serbia and are ranked as the fourth most corrupt institution while the law courts are ranked at fifth place (UNDOC 2011:37).

Considering low scale corruption, including the acceptance and extortion of bribes, judges are faced with corrupt incentives due to their power to affect the distribution of wealth through their decisions (Rose-Ackerman 2001:551). If a country suffers from delays and huge backlogs, bribes and payoffs can be used as a way to speed up the decision making process. This is certainly the case in both Serbia and Croatia. The

average duration of first-level court proceedings in Croatia are 460 days, which is much higher than the EU average of 260 days (Dorić 2015:197). In Serbia, every year hundreds of cases are delayed due to statute of limitation. In 2014, these included cases against family members and close allies of Milošević (Savić 2015:59). In addition, both countries suffer from a major case backlog. Judge Dragomir Milojević stated that during the first nine months of 2015, the backlog of court cases in Serbia increased by more than 100,000 cases and reached a total of almost 3 million cases (Damnjanović 2016:9). As mentioned, bribes can be used as a way to speed up the process. However, bribes can also be used in order to influence the court rulings in one's favor.

As previously mentioned, the police are perceived as highly corrupt in both Serbia and Croatia. Police officers have several opportunities to engage in corrupt activities, considering they are the law enforcement authority which citizens are most likely to come in contact with dealing the issue of fines, traffic offences or investigation of criminal activities. In addition, police officers also have incentives to engage in corrupt activities due to their low salary, and they may use bribery as a mean to increase their income. Low scale corruption in the police sector is difficult to uncover because it is costly to monitor police officers on a day-to-day basis. It is also difficult to report bribery accepted by police officers because the police organizational culture often tends to protect corrupt officers (Trivunović et al 2007:25).

In sum, one can argue that corruption in law enforcement creates a justice system that is not based on equality, but rather favors those who have the means and are willing to pay bribes. As a result, citizens that cannot afford to be the highest bidder

or are not willing to pay bribes, may avoid reporting criminal activity and bringing cases before the court. Instead, they might find ways outside the courts to solve disputes, such as hiring private arbitrators and get protection by organized crime (Rose-Ackerman 2001:551). According to the results of the UNDOC report a lot of criminal activity in Serbia and Croatia is not reported (UNDOC 2011:45, UNDOC 2011:47). If citizens increasingly seek remedies outside the justice system, it leads to a weakening of the rule of law (Trivunović 2007:10).

In addition to low scale corruption, grand scale corruption including political influence over the judicial system occur, especially in Serbia. This was visible in 2014 when a change to the Law on Public Prosecutors was implemented and made it possible to force the Chief War Crime Prosecutor Vladimir Vukčević out of his job in January 2015 on the grounds of retirement, rather than at the end of the year when his mandate was due to expire. Vukčević saw this change of the law as being directed at him personally because of the war crime investigations over which he had presided. The law was changed again in January 2015, due to international pressure, allowing Vukčević to remain in his job until his mandate expired (Damjanović 2016:9). However, the political pressure continued. The NGO, Belgrade's Humanitarian Law Centre stated that head of the army, Ljubiša Diković, was responsible for the wartime crimes in the Kosovo region, Drenica in 1999. Vukčević announced that an investigation would be carried out and that all those who could have been responsible for the war crime would be investigated, including Diković. Government figures and media with ties to the government defended Diković and argued that this was an attack on the Serbian army. Serbian president, Tomislav Nikolić, also defended Diković during an interview with the newspaper, *Politika*, stating that

Diković was an honorable man and arguing that the investigation was part of an campaign against the state. He also used the opportunity to send a clear message to Vukčević. "He'd better think about what he is digging up in Serbia", said Nikolić (Riha 2015). A law professor at the private Union University in Belgrade argued that this statement was intended as a warning and this situation illustrates that the judiciary is not independent from political influence. The government, together with close allies within the media sphere, is trying to influence the judicial system, not only indirectly through new laws, but also directly through threats.

Grand scale corruption in the form of political influence in the judiciary can also result in a lack of professionalism among judges. In Croatia, a Split judge stated that several judges had not passed the Croatian equivalent of the bar exams and were working due to a special recommendation procedure (Dorić 2015:197). After Vukčević's mandate expired, the Serbian Assembly failed to elect a new chief prosecutor for war crimes because none of the five candidates attracted the required majority of votes. The government was criticized by the opposition. It alleged that there was a lack of clear criteria for the election of position, and that the candidate's political suitability was the only important factor. Janko Vasinović from the Movement for Turnaround party argued that half of the candidates were not at the top of the expertise list made by the Prosecutorial Council and that there was suspicion that some of them only became candidates due to their political eligibility (Dragoljo 2015). Lack of professionalism in the judiciary may result in citizens losing trust in the justice system. As previously mentioned, this is particularly damaging to the rule of law if the citizens are seeking remedies in alternative institutions such as organized crime and private arbitrators. In addition, grand scale corruption is particularly

damaging to the law enforcement institution and the ability it has to investigate, prosecute, and convict high level officials and their allies (Trivunović et al 2007:25)

The system of disclosing, processing and punishing corrupt activities can only be efficient if the system and the state is based on the rule of law (Budak 2006:63).

9. Concluding remarks.

This thesis has focused on corruption and its impact on democratic consolidation in Serbia and Croatia. These countries were chosen due to their similar past, considering they were part of the same country on and off for 73 years. However, both Serbia and Croatia are characterized by high levels of corruption which occurs in all of the four institutions that have been analyzed in this thesis. By using a functionalist approach, I have shown the manifest and latent functions of corruption, as well as the negative side-effects it imposes on the countries. It is clear that corruption has negative impacts on the democratic institutions in Serbia and Croatia and is slowing down and possibly preventing further democratic development. Concerning the economy, it is argued that the root cause of political corruption in both countries derives from the economic system. However, there is one major difference in how corruption was used in this sector in Serbia and Croatia. Tudjman used the privatization process to enrich himself and his closest allies. The privatization process in Croatia included transferring huge amounts of socially owned assets into the hands of 200 Croatian families, most of them family and friends of the political elite. By comparison, Milošević never carried out a genuine privatization process, because he and his allies would have run the risk of losing from the reforms, considering that they would have had to close down inefficient industries and open the economy to domestic and international competition. Today, the most important economic reforms in both Serbia and Croatia have included the privatization process. However, this process has produced allegations of corrupt behavior and inside deals involving high level politicians. Considering that only democracies seems compatible with economic growth in advanced states, corruption in the economic sector might slow down further economic development in Serbia and Croatia.

Concerning the media, most of the corrupt activities in this sector involve grand scale corruption in both Serbia and Croatia. In both countries, the political influence over the media occurs indirectly through legislation and economic tools. However, one difference between the two countries is that the government in Serbia also uses direct means, such as attacks and threats against journalists and suspension of TV stations due to content it does not like. Both direct and indirect influence over the media are in violation of the principle freedom of speech which is considered to be an important condition for democracy. The reason for this difference is possibly that Croatia has never had a tradition of beating up and jailing journalists. In addition, since the death of Franjo Tudjman at the end of 1999, Croatia has been interested in joining the European community. By refraining from such tactics, it gives the country the opportunity to maintain a democratic image.

Croatia scores only 0.25 points higher than Serbia on the electoral process rating provided by *Nations in Transit*. This is indicating that there is only a minor difference between the countries. In this institution, most of the corrupt activity occurs at the grand scale level involving, among other things, illegal party funding. The result of this is an unfair and non-transparent electoral system. This does not fulfill Dahl's central criterion for democratic rule, which is free and fair elections. A difference between Serbia and Croatia is that Serbia still uses a closed candidates' list. This creates corruption opportunities because it gives the party leadership the ability to take control over the seats in the Parliament and decide which MP gets a seat. As a result, citizens are deprived of the possibility to hold their representatives accountable and punish corrupt behavior by not re-electing corrupt representatives.

By contrast, Croatia abandoned the use of closed candidates' lists in 2015. However, it is still early to say if this has led to positive effects on further strengthening the electoral system. Both countries received a score of 4.50 on the judicial framework and independence index, and the scores have not changed since 2014. Still, the judiciary remains one of the weakest institutions in both Serbia and Croatia and is characterized by a huge backlog of cases. Both low scale and grand scale corruption occur in this institution and an important side effect of corruption in this institution is that it leads to the weakening of the rule of law, which is considered to be an important criterion for a democratic system.

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