Jānis Ikstens (Vidzeme, Latvia) / Michael Pinto-Duschinsky (Brunel, UK) / Daniel Smilov (Budapest/ Oxford) / Marcin Walecki (Oxford)

Political Finance in Central Eastern Europe: An Interim Report

Der Beitrag analysiert Gesetze und Regelungen über die Finanzierung von politischen Parteien und Wahlkampagnen in 17 Ländern: Albanien, Weißrussland, Bosnien-Herzegowina, Bulgarien, Kroatien, Tschechien, Estland, Ungarn, Lettland, Litauen, Mazedonien, Moldawien, Polen, Rumänien, Russland, Slowakei und Ukraine. Er bietet einen Überblick über die Kosten der Politik in einigen dieser Länder und stellt Hypothesen auf zu Mustern der Politikfinanzierung in Mittelosteuropa. Ein zentrales Ergebnis ist die Vielfalt der Politikfinanzierung in den untersuchten Ländern, was zumindest teilweise auf die unterschiedlichen historischen, politischen, sozialen und ökonomischen Merkmale der Länder in der Region zurückzuführen ist. Nach der Häufigkeit der angewandten Regelungen und Förderungen in den behandelten Ländern ergibt sich folgende Reihung: freie Sendungen in Radio und/oder TV: 100%; direkte staatliche Unterstützung von Parteien und/oder KandidatInnen: 76%; Ausgabenbeschränkungen (für Parteien und/oder KandidatInnen): 59%; Beschränkungen der Spenden an Parteien und/oder KandidatInnen: 47%. Die geringe Bedeutung von Mitgliedsbeiträgen scheint ein hervorstechendes Merkmal zu sein. In einigen der untersuchten Länder sind reiche "Oligarchen" als politische Finanziers aufgetreten, und einige post-kommunistische Parteien sind nach wie vor stark von Mieteinnahmen aus Gebäuden abhängig, die sie von den früheren kommunistischen Regimes geerbt haben.

1. Introduction

The special issue of the Austrian Journal of Political Science on the subject of political finance goes to press at a time of flux in Central and Eastern Europe (CEE). A number of countries in the region recently have enacted new laws on aspects of election and party funding; other countries are in the midst of debates about legal reforms. At the same time, the funding of politics in the post-Communist countries is rapidly emerging as a field of academic research. The pioneering chapter by Paul G. Lewis on 'Party funding in post-communist east-central Europe', which appeared as recently as 1998, has largely been overtaken by subsequent research. Some of this new work has been published and much more of it is currently in the form of conference papers, which are about to be published.

Against such a background, this article is inevitably an interim report. It consists of three main sections: the first gives a review of current laws and regulations; the second traces some of the realities of party or campaign funding; and the third interprets the legal and empirical findings. The first section, which deals with the legal framework, is the most complete. The second concentrates on the actual patterns of income and expenditure of political parties and the cost of election campaigns. This section gives findings that are based on a smaller number of countries, since there are still gaps in empirical research on a number of countries in the region.

Although the issue of where Eastern Europe begins and ends and the related question of what the geographical area should be called have been discussed many times before, it is relevant and necessary to deal with these questions in a few introductory paragraphs. Names of territories – regions as well as countries – are loaded with emotional meanings; they express underlying assumptions and legal claims. It is vital, therefore, to address the question of nomenclature. Moreover, it is not possible to make sensible hypotheses about patterns of political finance in the countries under review unless their historical, political, social and economic backgrounds are assessed.

The countries of Central and Eastern Europe are linked by their geographical proximity and by the fact that they have all emerged recently from Communist rule. For these two reasons, it is understandable that they are generally treated as a group for research and for practical purposes. Indeed, they may be regarded as a post-colonial group on a par with the (mainly African) former possessions of France, which belong to La Francophonie, or the former British dominions and colonies, which now belong to the Commonwealth. History has strong effects for a considerable time on the legal and political structures of post-colonial territories.

Table 1: People in Central Eastern Europe

	Population 2000 (in thousands)	**GNP 2000** (per capita, in US-Dollars at Purchasing Price Parity)	**Main Religion**	**Main Language**	**Minorities** (Percentage of population)
Albania	3,510	2,804	Muslim (70%)	Tosk	5%
Belarus	10,350	6,319	Orthodox (80%)	Byelorussian	19%
Bosnia-Herzegovina	3,922	1,720[1]	Muslim (40%)	Croatian	56%
Bulgaria	7,707	4,809	Orthodox (83%)	Bulgarian	17%
Croatia	4,334	6,749	Catholic (76%)	Croatian	22%
Czech Republic	10,264	12,362	Atheist (40%)	Czech	19%
Estonia	1,423	7,682	Lutheran	Estonian	35%
Hungary	10,106	10,232	Catholic (67%)	Hungarian	10%
Latvia	2,385	5,728	Lutheran	Lettish	43%
Lithuania	3,611	6,436	Catholic	Lithuanian	19%
Macedonia	2,046	4,254	Orthodox	Macedonian	33%
Moldova	4,432	1,947	Orthodox (98%)	(Romanian)[2]	35%
Poland	38,634	7,619	Catholic (95%)	Polish	2%
Romania	22,364	5,848	Orthodox (70%)	Romanian	10%
Russia	145,470	6,460	Orthodox	Russian	18%
Slovakia	5,415	9,699	Catholic (60%)	Slovakian	14%
Slovenia	1,930	14,293	Catholic (69%)	Slovenian	12%
Ukraine	48,760	3,194	Orthodox	Ukrainian	27%
Yugoslavia	10,677	2,300	Orthodox (65%)	Serbian	37%

NOTES:
(1) Bosnia and Herzegovina: GNP is for 1999–2000.
(2) Moldova's main language Moldovan is virtually identical to Romanian.

SOURCES: CIA World Factbook [http://www.cia.gov/publications/]; Adrian Karatnycky, general editor (2001). Freedom in the World: The Annual Survey of Political Rights and Civil Liberties, 2000–2001. New York: Freedom House, Transparency International [http://www.transparency.org/]; World Bank (2000).

Yet, neither the common experience of Soviet hegemony nor geography are sufficient to ensure uniformity within the post-Communist countries. The boundaries of the region and its naming are uncertain: the term *Mitteleuropa* – with its connotations of a zone of German and Austrian influence – sends shivers down British and French spines. 'Central Europe' and 'Eastern Europe' are more neutral, descriptive words but they do not define where 'Central' Europe ends and 'Eastern' Europe begins. There is the further question of determining where 'Eastern' Europe ends and the Asian parts of the former Soviet Union begin. For the purposes of this article, Russia and Ukraine are the most easterly countries which are included.

In broad terms, there is a distinction between countries in Central Europe – those relatively close to Western Europe – and the rest. This is seen in particular in the main measure of prosperity (Gross National Product per capita) and in the measure of democratic credentials pro-

Table 2: Politics in Central Eastern Europe

	President directly elected	**Electoral system**	**Freedom House index 2000–01**	**Freedom House rating 2000–01**	**Corruption perception index**(1) (rank order)	**State capture index**(2) (in percent)	**Illegal political finance** index(3) (in percent)
Albania	no	Mixed	9	partly free	n.a.	16	25
Belarus	YES	Majoritarian	12	not free	n.a.	n.a.	n.a.
Bosnia-Herzegovina	YES	Proportional	9	partly free	n.a.	n.a.	n.a.
Bulgaria	YES	Proportional	5	free	47=	28	42
Croatia	YES	Proportional	5	free	47=	27	30
Czech Republic	no	Proportional	3	free	47=	11	6
Estonia	no	Proportional	3	free	28	10	17
Hungary	no	Proportional	3	free	31=	7	5
Latvia	no	Proportional	3	free	59=	30	35
Lithuania	YES	Mixed	3	free	38=	11	13
Macedonia	YES	Majoritarian	7	partly free	n.a.	n.a.	n.a.
Moldova	no	Majoritarian	6	partly free	63=	37	42
Poland	YES	Proportional	3	free	44=	12	10
Romania	YES	Proportional	4	free	69=	21	27
Russia	YES	Mixed	10	partly free	79=	32	24
Slovakia	YES	Proportional	3	free	51=	24	20
Slovenia	YES	Proportional	3	free	34	7	11
Ukraine	YES	Mixed	8	partly free	83	32	29
Yugoslavia	YES	Mixed	8	partly free	n.a.	n.a.	n.a.

NOTES:
(1) The 'Corruption Perception Index' is produced by Transparency International. Only selected countries are included. The table shows the rank ordering of specific countries among those covered by TI. The sign ' = ' denotes that the ranking of a country is equal to that of another country.
(2) The 'State Capture Index' is produced by the World Bank institute: the higher the percentage, the more serious the incidence of 'state capture'.
(3) 'Illegal political finance' is one of six dimensions of 'state capture'. It measures the percentage of firms which considered themselves directly affected by illegal political donations.

SOURCES: see table 1.

vided by the Freedom House index. However, it is the variety of the countries in the region that is the most striking feature. This provides a warning against the presumption that political financing is subject to similar influences throughout the region.

The absence of any obvious regional identity is seen in the lack of a common history of existence as sovereign states, as well as in the diversity of languages and of predominant religions. Of the nineteen countries listed, only five retain the territories they held during the Cold War. No fewer than eleven of them are newly-created states or states which regained a sovereignty of earlier times. Three countries – Russia, Yugoslavia and the Czech Republic – are the truncated remains of states that were stripped of much of their territory in the 1990s. The different countries have contrasting political legacies from the Second World War, varying between former puppet states of Nazi Germany (such as Slovakia and Croatia) and countries prominent in their resistance to Hitler.

The uniformity of the population of countries such as Poland and Albania contrasts with the strength of ethnic minorities in a considerable number of the states in the region. Ethnic factors may affect politics in general and political financing in particular in some of the countries under review. Moreover, the countries range in population from under two million (in the case of Estonia and Slovenia) to 145 million in Russia. GNP per capita ranges from under USD 2,000 per annum in Bosnia and in Moldova to over USD 14,000 per annum in Slovenia. The political systems are rather more uniform though there is no shortage of exceptions to the general pattern, which is one of directly elected presidents and (especially in the countries abutting on Western Europe) of proportional electoral systems. In view of this diversity, it should come as no surprise that the picture of political financing that will emerge is also one of considerable variation.

Several kinds of source have been used: (1) legislation regulating party and campaign finance in the respective countries; (2) information provided by representatives of Central Election Commissions; (3) interviews with in-country experts on party finance[1]; (4) reports prepared by the Organization for Security and Cooperation in Europe; (5) reports in the media. Information is for laws in force as of October 1, 2001.

2. Laws and regulations

Before proceeding to examine the actual patterns of political incomes and expenditures, it is necessary to review the laws and rules about party and campaign finance which have emerged in the region since the fall of Communism. This section includes information on Albania, Belarus, Bosnia-Herzegovina, Bulgaria, Croatia, Czech Republic, Estonia, Hungary, Latvia, Lithuania, Macedonia, Moldova, Poland, Romania, Russia, Slovakia, and Ukraine. It attempts to lay out the most common patterns of campaign finance regulations and to identify a number of common shortcomings of campaing funding in the existing regimes. Information has not been gathered from Yugoslavia and Slovenia.

The main kinds of regulations and subsidies in the countries under review are shown in Table 3.

Ranked by the frequency with which they occur in the countries covered by the article, the main kinds of regulations and subsidies are: free radio and/or television broadcasting: 100%; subsidies-in-kind: 94%; public disclosure of party accounts: 88%; complete or partial ban on foreign donations: 82%; direct public funding of parties and/or candidates: 76%; spending limits (on parties and/or candidates): 59%; limits on contributions to parties and/or candidates: 47%; tax reliefs on political donations: 24%; bans on paid political advertising: 18%.

After the collapse of communist regimes, Central and East European countries moved quickly to adopt institutional frameworks characteristic of advanced democracies. That included the area of campaign finance where no prior regulations existed for obvious reasons. However, experience with competitive politics prompted most countries to revise and further detail their regulatory frameworks of campaign

Table 3: Political Financing in Central Eastern Europe

COUNTRY	SUBSIDIES				REGULATIONS				
	Any Direct Public Funding	Any Tax Relief	Any Free Broadcast	Any Subsidies in-kind	Any Public Disclosure	Any Contri-bution Limits	Any Spending Limits	Ban on Foreign Donations	Ban on Paid Political Advertising
Albania	YES	NO	YES	YES	NO	NO	NO	PARTLY	NO
Belarus	NO	NO	YES	YES	YES	NO	YES	YES	NO
Bosnia-Her-zegovina	YES	YES	YES	YES	YES	YES	YES	NO	YES
Bulgaria	YES	NO	YES	YES	YES	YES	YES	YES	NO
Croatia	YES	NO	YES	YES	NO	NO	NO	NO	NO
Czech Republic	YES	YES	YES	YES	YES	NO	NO	YES	NO
Estonia	YES	NO	YES	YES	YES	NO	NO	YES	NO
Hungary	YES	YES	YES	YES	YES	NO	YES	PARTLY	NO
Latvia	NO	NO	YES	YES	YES	YES	NO	YES	NO
Lithuania	YES	NO	YES	YES	YES	NO	YES	PARTLY	NO
Macedonia	YES	YES	YES	YES	YES	YES	YES	YES	NO
Moldova	NO	NO	YES	YES	YES	NO	NO	YES	NO
Poland	YES	NO	YES	YES	YES	YES	YES	YES	NO
Romania	YES	NO	YES	YES	YES	YES	NO	PARTLY	NO
Russia	YES	NO	YES	YES	YES	YES	YES	YES	NO
Slovakia	YES	NO	YES	NO	YES	NO	YES	YES	YES
Ukraine	NO	NO	YES	YES	YES	YES	YES	YES	NO
TOTAL	**76%**	**24%**	**100%**	**94%**	**88%**	**47%**	**59%**	**82%**	**18%**

NOTE: In Belarus, funds are given specifically for the publication of leaflets and posters, etc. This tied funding is listed as 'YES' under 'Subsidies-in-kind' but 'No' under 'Any direct public funding'.

finance. Therefore, it is appropriate to speak of party and campaign finance regimes in the making. Indeed, a feature of political finance laws in the region is the frequency with which they have been altered and continue to be changed.

The countries under review have so far developed a variety of regulatory regimes of campaign finance. Some (such as Croatia) have chosen notably liberal regulation and (as in Latvia) little state interference with campaign funding, while others prefer much more detailed regulations (Poland) or severe restrictions on the role of non-state donors (Belarus). Poland has recently chosen to prohibit corporate donations to parties in an attempt to limit the political influence of large corporations. Belarus restricts the entrepreneurial activities of political parties and virtually bans private donations.

(a) Regulations and bans

Foreign donations. As far as restrictions are concerned, one of the most common is a ban, either partial or complete, on contributions from foreign sources (foreign citizens, foreign governments, international companies and organizations). This is seen as a warrant of national sovereignty not to be undermined by external forces. Foreign donations are allowed in a few special cases. The role of the international community in the post-war restructuring of Bosnia-Herzegovina perhaps explains why certain foreign contributions are permitted. Lithuania has chosen to involve the Lithuanian diaspora in funding party activities, thereby giving certain advantage to right-wing, nationalist parties that ruled the country during the adoption of relevant legislation.

Anonymous donations. Most post-communist countries have opted to prohibit anonymous donations. However, Poland, Bulgaria, and Lithuania have taken the view that reasonable amounts of anonymous donations cannot undermine the democratic process. The Polish legislation stipulates that anonymous donations are to be deposited in bank accounts separate from the rest of campaign funding. Bulgarian laws stipulate that anonymous donations must not exceed 25% of the total party income. In Lithuania, a single anonymous donation cannot exceed USD 25, but the total of these donations is not limited.

Contribution limits. About half of the region's countries have introduced limits on contributions to parties and/or individual candidates in the elections. While they were designed to restrict the political influence of large businesses, preliminary findings indicate that money tends to find its way to political party accounts via mediations and donations by third parties, or via direct payments to third parties for services rendered.

Spending limits. Nearly two-thirds of post-communist countries have opted for overall spending limits during campaigns. However, a number of experts from particular countries have pointed out to the authors that these restrictions are often circumvented – either due to loopholes in the legislation or by means of illegal actions, which are particularly suited for cash-based economies of post-communist countries. It must be added that an inflexible limit policy may force parties to engage in illegal activities if – as is the case in Russia – the law sets unrealistically low contribution or spending limits.

Bans on paid television advertisements. A few countries (Bosnia-Herzegovina, Czech Republic, Slovakia) have opted for a ban on paid political advertising in an attempt to weaken the very need for large financial resources. The proposal is being discussed in Latvia as part of a wider reform plan of party finance but no decision has been reached yet. Opponents of the advertising ban cite the danger of growing hidden paid advertising, which constitutes an offence.

(b) Public subsidies

Public funding. While most countries in the region provide direct state financial subsidies to parties and/or candidates, this is by no means a universal approach. Countries such as Latvia, Moldova, and Ukraine refrain from giving direct state support to political contenders. One possible explanation for this approach is a lack of state resources at the time of adoption of the relevant legislation, which led to a lesser in-

volvement of the state. Secondly, absence of state subsidies may be related to an existence of one or two major parties that have access to rich corporate funding and try to frame political competition in a particular way. Moreover, as shown in the next section, in some of the countries with direct public funding (for example, Russia) the amounts given are very small.

Income tax relief. Hungary and Estonia provide this form of indirect public funding. In Estonia, tax relief is limited to donations by individuals up to 5% of their taxable incomes after deductions; for corporations, tax relief is given for political donations up to 3% of their monthly wage expenditure.

Benefits in-kind. All countries covered by this study offer free air-time on public radio and television.

(c) Controls

A number of Central and East European countries have introduced special election accounts, from which a campaign of a party or candidate can be financed. While it is difficult to speak of a clear-cut trend, countries using proportional representation to elect their parliaments tend to refrain from the system of special accounts.

Belarus has chosen a very unusual arrangement, which, however, is perfectly in line with the overall state-oriented tradition in the realm of political finance in this country. According to the Belarussian legislation, a single, state-run election account is opened before every election. Donations can be transferred to this account only, and the income is distributed equally among all candidates. Clearly, this system has effectively discouraged any donations, drained contenders from legal financial means and made indirect, hidden funding of election campaigns a widespread practice.

(d) Disclosure and enforcement

Disclosure rules are the norm and exist more frequently in CEE countries (and in the former Soviet Union in general) than in most other parts of the world. The only two countries where political parties need not reveal their income and expenditure accounts are Albania and Belarus. Both countries score low on the Freedom House index of political freedom. In three more countries (Bulgaria, Croatia and Macedonia), political parties must disclose their overall accounts but need not identify individual donors. In the twelve other countries covered by this article, both accounts and lists of donors must be revealed. Moreover, Lithuania has gone to the length of making financial records of parties and individual candidates available to a wider public on its internet website.

The problem about disclosure does not lie in the laws themselves but in the lack of enforcement. While local media have shed light on an abundant number of suspicious cases of political finance, official inquiries or even investigations are rarely pursued. This can be attributed to a lack of independent enforcement agencies and insufficient involvement of civil society. Moreover, penal codes of several countries simply lack sanctions for violations of party finance rules, or sanctions are rather symbolic. In Macedonia alone, election results of a political party that had violated political finance regulations can be declared null and void.

3. Patterns of income and expenditure

Those researching into political financing in CEE are relatively fortunate in being able to examine party accounts which are published in a higher proportion of countries in the region than is the case in most others. Nevertheless, for reasons amplified below, the official figures, especially concerning campaign expenditures, need to be treated with great caution. They appear severely to underestimate the real levels of spending.

However, even if allowances are made for the unreliable nature of the evidence, the tentative conclusion that emerges from existing academic research is that in Central Eastern Europe, and particularly in post-Soviet countries, the lack of diverse sources of money emerges as the major problem, and not the level of expenditure. Moreover, even if the real levels of income and ex-

penditure, as distinct from the declared levels, are still uncertain, two things are clear: the relative importance of different sources of political finance, and the contrast between the funding of communist (or post-communist) parties and other parties.

Political funding in the region is characterised by: (1) irregular flows of funds and relatively non-diversified financial sources; (2) limited income from membership subscriptions; (3) the disproportionately large role of plutocratic funding, which often exceeds direct state subsidies. For most of the CEE countries, state support is of lesser importance than would be expected.

Another important aspect of political financing in CEE countries is the way in which political parties have emerged from the Old Regime unequally endowed. The extent of the Communist Parties' hold on some of its economic resources has a continuing influence in a number of countries. The special circumstances of transition in Poland, Hungary, Bulgaria and Romania, for instance, undoubtedly had the effect of protecting Communist Party finance. This was especially the case in Poland.

(a) Membership fees and party taxes

The circumstances of transition from a non-democratic regime to a democratic system do not entirely account for the failure to develop a popular financing of politics in CEE countries. There have been similar failures in Western countries. But low membership and – resulting from this – low income from such membership is especially pronounced in the CEE. If party membership is measured as a percentage of the electorate, there is a wide range of results both within Western Europe and in the CEE. On average, the CEE scores considerably lower than Western Europe. According to recent research by Peter Mair and Ingrid van Biezen (2001, 9), the percentage of electors who were party members in 1999–2000 was 2.8% in the four CEE countries for which evidence was available (Czech Republic, Slovakia, Hungary and Poland) compared with 5.5% in 16 countries of Western Europe. Had figures been obtained from more CEE countries, the proportion of party members to electors would almost certainly have been lower than 2.8% since the countries from which statistics were not obtained generally seem to have weaker party organisations.

Income from membership subscriptions is particularly low in non-Communist parties. In Bulgaria in 1995, the Union of Democratic Forces (UDF) reported that party members paid 6.87% of its total income; in 1997, membership subscriptions amounted to only 0.078% of the total (Smilov 1999b). Records of the main Czechoslovakian parties in 1991 showed a similarly large differentiation between sources of income in Communist and non-Communist parties. While subscriptions to the Communist Party of Bohemia and Moravia accounted for 36.6% (approximately USD 1.32 million) of the total party income (approximately USD 3.61 million), for the Civic Movement, the Czechoslovak Peoples' Party and the Czechoslovak Socialist Party, membership subscriptions accounted respectively for 0.34%, 15.6% and 5% of the total income (Lewis 1998, 139).

In Estonia, in 2000, membership subscriptions amounted to 1.81% of Pro Patria's income, 7.15% of the total Centre Party's income and 3.05% in the case of the Reform Party. The Moderates stated in their annual financial report that the party had not received any membership subscriptions at all (Pentus 2001). Even in Hungary, the proportion of membership subscriptions in party budgets is generally very low. In 1995 the Hungarian Democratic Forum received the equivalent of USD 79,500, which accounted for 0.96% of the total income. In the case of the Fidesz, the percentage of total income accounted for by membership subscriptions (approximately USD 5,738) was only 0.12% in 1995. Again, the post-communist Hungarian Socialist Party received far more from membership subscriptions, than any other party, yet its income from this source was low: 3.27% of the total (approximately USD 160,000) (Lewis 1998, 139).

According to Steven Roper (2001), "in the case of Romania, party member dues have traditionally never been collected. Because of the low standard of living and lack of participatory culture, membership dues have never been an

important source of party revenue". Similarly, for the Ukrainian political parties the role of membership subscriptions is very limited and parties do not encourage their members to make direct payment to the organisation. Yet, the Socialist Party manages to receive money indirectly from its members and supporters who subscribe to the party's newspapers.[2] In Poland, the low percentage of the electors who are party members is especially striking when compared with the years of Solidarity in the 1980's. Poland had a mass political movement, but when the euphoria of 1989–1990 disappeared, the political parties which came to take the place of Solidarity had a smaller membership base than those in the Czech Republic, Hungary and Slovakia.

If they are unable to raise the funds they consider sufficient from voluntary payments from ordinary party members, governing parties and their candidates in many parts of the world levy 'taxes' upon those who derive benefits from government. In post-communist regimes, two classes of donor are the main sources of such enforced contributions: (1) government contractors and (2) officeholders, both public and elected.

In Estonia, the Moderates demand from all their members in the legislature and from their ministers a fixed quota equivalent to USD 29 per month (Pentus 2001). These 'party taxes' are recorded by Moderates as private donations. The MPs of the Estonian Centrist Party are obliged to pay every month a fixed share of their salaries. In Romania, all parliamentary factions oblige their MPs to make similar payments. Roper (2001) reports that "the amount may be as much as 20% of an MP's monthly salary".

The Polish case shows the spectacular importance that these party taxes have come to assume. The successful rise of this new form of fundraising is the result of recent party reorganisation and expansion.[3] Parties demand from members who hold an elective or appointed public office a fixed share of their salaries. These tolls apply to most of the 560 members of the legislature, hundreds of party members with governmental positions, members of supervisory boards and, above all, to thousands of local councillors. The amount depends on the party and in the case of councillors differs from 5–10% of their salaries or certain fixed quotas. Members of supervisory boards and other members with functional positions are compelled to contribute 10% of their salaries.

(b) Donations from wealthy individuals, corporations and candidates

The importance of large donations is in inverse proportion to the insignificance of money from membership subscriptions. In Poland, in terms of corporate support, institutional donations represented less than 40% in the 1991 campaign, compared to about 87% of the total party income of the Freedom Union in 1997. Moreover, in the 1995 Presidential Elections, Lech Walesa received one major gift from businessman Aleksander Guzowaty; this constituted almost 72% of Walesa's income and, to date, is the largest official donation in Polish politics.

In Latvia, an examination of the Latvian parties' annual reports shows that some 80% of their funding comes from donations. According to Ikstens (2001) "large donations (more than USD 5,000) make up 80% of corporate contribution and donations of more than USD 1,000 cover almost 75% of income from private donations". Most of the corporate donations arrive from financial institutions, companies engaged in transportation of oil and chemical products and from the food industry as third most important contributor. During the 1999 campaign in Estonia, all parties except the Centre Party, received more money from the private companies than from individuals. According to the parties' official reports Pro Patria received 74.55% of its total income from corporate donors, while the Centre Party received 26.99% of its total income from private companies. In the case of the Moderates, corporate donations amounted to 39.1% of the total income and for the Reform Party this figure was 47.66%.[4]

In Russia, in the 1995 Duma Elections, 515 corporate donors contributed approximately USD 6 million to the 30 electoral associations (almost 38% of their income). During the elections, institutional donations represented about

55% of the total income of 'Our Home Russia' (about USD 1.3 million) and 49% in the case of LDPR (approximately USD 1.1 million). During the 1996 Presidential Elections contributions from corporate donors played the most important role, representing more than 72% of the candidates' total income (USD 10.6 million). General Lebed received 93% of his income from the 94 legal entities (USD 2.65 million), while donations constituted 90% of Yeltsin's campaign fund (about USD 2.6 million). These publicly declared statistics are almost certainly underestimates.

In Bulgaria, despite the absence of legally disclosed information concerning parties' income, the clear picture is that in recent years donations and sponsorship have played a major role in financing political parties. In 1995, donations accounted for 47.81% of the total Bulgarian Socialist Party income, compared with the Union of the Democratic Forces which received 82.25% of its income from donations; by 1997 donations constituted 99.9% of UDF's total income.

In the Ukraine, more than in any other country, informal political actors – financial groups and political 'oligarchs' – dominate the political spectrum. Even though Table 4 presents officially declared campaign spending which might be irrelevant, as parties often lower the real cost of the campaign, the very strong presence of business involvement is evident. 'Oligarchs' took a direct and active role in supporting political parties and campaign blocks. In the 1998 Parliamentary Elections money officially received from legal entities accounted for 91.4% of the committees' overall income.

(c) Public funding

For the new democracies of the CEE direct public funding is an almost standard feature; however, the precise pattern of state subvention varies considerably and the levels of direct public funding in all the CEE countries differ significantly.

In several countries, the level of public subsidy is notably low. In Bulgaria, the state financial support was most significant in the first years of the transition period: it was gradually scaled down, and in the last general election became largely symbolical. This is partly explained by the financial collapse of the state at that time (spring 1997) (Smilov 1999b). In the Russian State Duma elections of 1995, the total amount of direct public subsidies distributed among electoral blocs was little more than USD 1 million, which constituted about 6% of their total income (approximately USD 16 million). Thus, 43 registered electoral associations re-

Table 4: Official Financial Reports of Major Political Parties and Blocks in Ukrainian 1998 Parliamentary Elections

Name of party or block	Total budget	Received from corporations	Percent of all income
Hromada	190,132.00	N/A	N/A
The Green Party	1,128,487.50	1,127,487.50	99.9%
Communist Party	24,934.60	2,491.10	9.9%
Labour & Liberal Block	705935.00	705935.00	100%
United Social Democrats	529,900.00	529,900.00	100%
Party of Regional Renaissance	793,568.90	754,802.90	95%
Agrarian Party	125,000.00	101,000.00	80.8%
People's Democratic Party	1,915,936.30	1,915,936.00	100%
All-Ukrainian Workers' Party	56,558.10	56,338.10	99.9%
National Front	7,401.00	N/A	N/A
Socialist & Peasant Block	106,967.00	20,000.00	18.7%
The Working Ukraine Block	406,600.00	386,600.00	95%

SOURCE: Central Election Commission, in: Holos Ukrainy, #57 (1807), 26 March 1998.

ceived only some USD 23,255 each.[5] During the 1996 presidential elections, each of the 11 registered candidates received approximately USD 60,000 of direct subsidies, which accounted for only 4.46% of their declared incomes.[6] In the Duma elections of 1999, direct state subsidies to all political parties rose to USD 4.6 million. Every candidate received direct state subsidies amounting to the hardly grand total of USD 38.91; this accounted for 0.06% of their total spending allowance. During the 2000 presidential elections, money was allocated to all registered presidential candidates. Each of the 11 candidates running for president received an insignificant sum from the federal budget.[7]

In Poland, the first step towards state subsidy of political financing was made with the Electoral Law of 1993, which introduced state reimbursement of electioneering expenses. Thus, the committee received approximately the equivalent of USD 7,650 for each deputy elected to the two chambers. After the 1997 General Election, the treasury allocated to the particular election committees the total of USD 4.1 million. The two main parties, the Solidarity Election Action (AWS) and the Democratic Left Alliance (SLD), received about 79.3% of this, amounting to USD 7,350 for each elected deputy. Thus, the AWS, with its 201 MPs and 51 Senators, received USD 1.85 million and the SLD with 164 MPs and 28 Senators received about USD 1.4 million. All the other four parties had to divide proportionately the sum of USD 0.8 million. Public subsidies accounted for only 4.75% of the total declared income of the Polish Peasant Party (PSL) in 1997, and 4.44% in 1998. In 1998 public financing accounted for 11.63% of the Freedom Union's (UW) total income. The Labour Union, not represented in the current parliament, recorded public funding as the main source of income.[8] As a result of the recent political finance reforms of 2001, public financing in Poland was increased. It is estimated that these new subsidies might cost the state budget around USD 14.5 million in 2002.

The role of state refunds for campaign expenditure is clearly evident in the Czech Republic. After the 1996 general elections the successful ODS of Vaclav Klaus received about USD 6 million from the state budget. In the parliamentary elections of 1998, a substantial subsidy amounting to USD 5.5 million went to the victorious Social Democrats.

Estonian political parties rely heavily on state financial assistance to fund their routine activities. In 2000 public funding accounted for 67.95% of Pro Patria's regular income 87.75% of that of the Centre Party. For the Moderates, the figure was 92.83%, and for the Reform Party 82.51%. However, election campaigns are less dependent on state subsidies. During the 1999 election campaign, public funding accounted for only 7.47% of the total Pro Patria campaign income, 12.90% for the Centre Party, 23.07% for the Moderates and 15.07% for the Reform Party.

The state funding of political parties is an important factor in the operation of Hungarian democracy. As early as 1990, state funding accounted for 93% of the Independent Smallholders' Party budget, 88% of the Christian Democratic People's Party budget and 24% in the case of the Hungarian Socialist Party. Well-documented records for 1995 confirm significant state dependence in the cases of six parliamentary parties. Parties received from 18% (Fidesz) to 90% (Alliance of Free Democrats) of their total income in the form of state subsidies.

Indirect state subsidies have contributed significantly to party financing in the CEE countries. There are many various kinds of indirect subsidies but two are of particular importance: free broadcasting and subsidies for parliamentary groups. An important source of money for CEE parties consists in specific grants paid to parliamentary caucuses and individual parliamentarians (excluding salaries) (Lewis 1998, 145ff.). The demarcation of different kinds of public funding is a controversial matter; however, these funds should be classified as a source of indirect subsidies for political parties from the state's budget. Generally, grants for party representation in Parliament are a perfect supplement to the party's central and local offices and can also be used for campaign activities.[9] Undoubtedly, most of the CEE political parties would not be able to operate efficiently without access to these parliamentary re-

Table 5: Financing a Presidential Election Campaign: Major candidates' Spending in Poland, Russia and Ukraine

Russia*				Ukraine**		Poland****			
Presidential Elections 1996*		Presidential Elections 2000**		Presidential Elections 1999***		Presidential Elections 1990		Presidential Elections 1995	
Candidate	**Spending** (million USD)	**Candidate**	**Spending** (million USD)	**Candidate**	**Spending** (million USD)	**Candidate**	**Spending** (million USD)	**Candidate**	**Spending** (million USD)
Lebed	2.83	Zyuganov	0.869	Moroz	0.214	Mazowiecki	0.597	**Kwasniewski**	1.373
Zhirinovsky	2.72	Titow	0.866	Tkachenko	0.195	**Walesa**	0.581	Walesa	1.121
Yavlinsky	2.72	Yavlinsky	0.840	**Kuchma**	0.154	Tyminski	0.351	Pawlak	0.544
Yeltsin	2.42	**Putin**	0.451	Vitrenko	0.125	Cimoszewicz	0.192	Kuron	0.529

* Official spending limit – USD 2,850,000 ** Official spending limit – USD 920,000
*** Official spending limit – USD 385,000 **** N/A

SOURCES: Annual reports for 1990, 1995, 1996, 1999 and 2000. Tabulated by Marcin Walecki.

sources.[10] For countries with low direct subsidies to political parties these indirect subsidies play an important role for non-parliamentary activities.

(d) The cost of politics

An examination of the revenue and expenditure items from the parties' published annual reports shows that there was a significant increase in election expenditure between 1991 and 2000. In particular, expenditure on the mass media burgeoned. Yet, official statistics need to be treated with considerable scepticism. In some CEE countries, the artificially low level of the legal limits on permitted campaign spending makes the reporting of political party expenditure irrelevant.

The way in which the reported statistics have reflected changes in spending limits is demonstrated by the financial accounts of Russian parties and electoral blocs. During the 1993 election campaign, national blocs spent USD 3.7 million; two years later national blocs reported spending USD 15 million on campaigning. In 1995, spending limits were imposed allowing individual candidates to spend no more than approximately USD 100,000 and electoral blocs no more than USD 2.4 million. The officially reported figures on campaign spending naturally slumped in line with the new regulations. In the 1999 elections to the Russian Duma, individual candidates were allowed to spend only USD 65,000 and electoral blocs USD 1.6 million. Not surprisingly the press has reported that, unofficially, national blocs spend considerably more than these totals, which of course they were unable to declare without laying themselves open to prosecution for exceeding the legal limits. In fact, according to the campaign fundraiser for the SPS (Union of Right Forces), the party spent over USD 25,000 million on the Duma elections.[11] Dr Leonid Gozman, who was responsible for the party's electioneering strategy, reportedly spent no less than USD 200,000 on campaign research alone.[12]

In the Russian 2000 presidential elections, each candidate could spend a mere USD 920,000 in the first round of elections, and a

further USD 0.3 million in the second round. In the case of Putin's campaign, the total declared sum of contributions to his electoral fund was about USD 1,030,000, part of which was returned to the contributors. Putin had intimated that he had no intention of running an intensive and costly election campaign. During the presidential campaign of 2000 four of the candidates made serious accusations against Grigorij Yavlinskij to the effect that his extensive newspaper and television coverage exceeded the artificially low limit for the first round of USD 0.9 million.

In general, Russian, Polish and Ukrainian examples show that spending limits have proven in practice to be a fiction having been introduced at an unrealistically low level. Limits not only have failed to curb a political finance 'arms race', but their failure also has undermined confidence in the whole system of political finance regulations. The rules have made it hard to assess the true levels of expenditure.

4. Trends, hypotheses and tentative evaluations

More than a decade ago Eastern Europe started its transition to democracy with the adoption of constitutions, which introduced the rights to vote freely and to form political parties. The pluralistic and competitive political process was not the only value enshrined in the transition constitutions, for instance, various social rights – the rights to work, to healthcare assistance, maternity and retirement benefits, and to free education – found their place in many of the East European basic laws. Typically, the 'framers' across the region were not occupied with the question of *the cost of the rights* they were entrenching. One of the consequences of their negligence was that many of the constitutional social commitments remained meaningless declarations. In terms of party funding and campaign finance, the constitutions were virtually silent, and left the regulation of this issue to the national legislatures.

Now, a decade later, the time is ripe for a re-examination of the ways in which the right to vote and to political representation in Eastern Europe have been institutionalised. Who are the actual beneficiaries of the competitive elections which have been established in the region? Is the political process open to a plurality of interests? Are there systematically excluded minorities?

Few of these questions can be answered meaningfully without a careful study of the practices of party funding and campaign finance which have been developed in Eastern Europe. Without such an examination, one cannot be sure that the rights to vote and to political participation have a different fate than the fate of the quickly forgotten constitutional social commitments.

From this perspective, the first troubling tendency in the region is that little attention is being paid to the issue of party funding and campaign finance as a constitutional matter affecting the very fundamentals of the democratic order. A clear demonstration of this is the fact that the CEE's constitutional courts, although being very active in other areas, have, with a very few exceptions,[13] avoided the 'political' questions of party and campaign finance. Legislatures have enjoyed broad policy discretion in the adoption of rules on political finance, with no serious input or oversight either by civil society or a judicial body. Not surprisingly, this situation has led to the production of legislation which contains many provisions:

(a) aiming mainly to express a certain ideology;
(b) attempting to establish the dominance of the pro-governmental parties, and oppress the opposition;
(c) creating loopholes and lack of transparency as far as this maximises the advantages of the major parties or political actors.

The ideology expressed by the predominant majority of the party and campaign finance laws in the region contains a bias towards egalitarianism and regulation. Thus, the review of such laws in the second section of this article has found that all of the countries covered provide free air-time during campaigns, and most have schemes of public funding and require some public disclosure of political funds. Contribution limits and spending limits are common, though by no means universal (see also Ikstens

et al. 2001). All these measures and techniques are traditionally employed to equalise the chances of different contestants in the political process in financial terms, and to reduce the impact of personal and corporate wealth on politics. A forthcoming study (Pinto-Duschinsky et al. 2002) has demonstrated that, in comparative terms, the Eastern and Central European countries have introduced more regulation in the area of public disclosure than Western Europe and the Americas.

Finally, the American style libertarian argument of 'money is speech' has been entirely absent from the Eastern European political scene; radical libertarian principles of legitimation have not been used in the area of party funding and campaign finance, despite the prominence of neo-liberalism in parts of the region.

The demonstrable ideological bias in favour of egalitarianism and regulation probably has a historical explanation: the combined effect of the communist legacy and the influence of political and legal ideas from Germany, Austria, and France. Yet, if one looks beneath the common ideological surface of the developing models, one would find different patterns of funding of politics.

As shown in the previous section, Eastern European countries have failed to develop a diversified system of funding sources. In most CEE countries, money for politics comes principally from corporations or large individual contributors. Small donations are as a rule not encouraged in the CEE by forms of matching grants (which make state subsidies dependent upon parallel, private fundraising), or by targeted tax relief/credit on small political donations. Despite the low levels of income from membership subscriptions, there are no legislative efforts to encourage the parties to extend their membership base – state subsidies are as a rule tied only to electoral performance and parliamentary representation.

Against this background, public funding of parties and candidates (either in the form of reimbursement of electoral expenditures, or in annual subventions) has been the only effort to diversify the sources of political money, and decrease the plutocratic influence in politics. Thus, generally, two major types of models have emerged in the region: one with significant public funding, and one with predominantly private funding coming mainly from corporate sources, or wealthy individual donors. It should be noted, however, that both of these models exhibit sustained legislative efforts to equalise the chances of political contestants in financial terms: the countries without public funding, as a rule, feature various contribution and expenditure restrictions, free air-time on electronic media, and some forms of in-kind support for the parties.

Formally, only Latvia, Moldova and Ukraine do not envisage forms of public funding. Yet, countries such as Bulgaria and Russia provide only nominal financial support for parties and candidates, covering a tiny fraction of their expenditure. In other countries, such as Albania, public funding has been introduced very recently, and any conclusions about the actual characteristics of the model will be premature. And there is the case of Belarus, where public funding of candidates in elections is fully within the discretion of the president of the country. Whether public funding in this case is an element of democratic government or an instrument to suppress and control the opposition is an open question.

Is there a correlation between the establishment of a particular party funding model and other features of the political regimes in the CEE countries? All of the 'central case' countries without public funding – Bulgaria, Latvia, Moldova, Russia, Ukraine – happen to be countries with a high 'state capture' index according to the 2000 study of the World Bank[14] (World Bank 2000). Especially telling seems the average share of the respondent firms in these five countries directly affected by 'illegal donations' to political parties – 34.4% – when the average for all transition countries is 20%. Similarly on average, countries without public funding have a much higher index of 'buying of legislative votes'.[15]

These data suggest that the lack of public funding is correlated with the opportunity for corporations and wealthy individuals to 'capture' the policy-making capacity of the transition states. This problem has recently been over-

exposed as a problem of 'corruption'. Fundamentally, however, it is a problem of the autonomy of the democratic institutions, and a defect of democratic representation. Put somewhat differently, this is a process of degradation of democracy and its transformation into oligarchic forms of government. It is by no means coincidental that the political landscape of Russia and Ukraine is inhabited by 'clans', 'oligarchs', and other non-democratic centres of power.

The hypothesis about the correlation between the lack of public funding and state capture is not fully supported by the data, however. Countries with significant public funding, such as Slovakia and Croatia, also have developed forms of state capture. The 'capturing' of the state in these cases seems to have been a product of oppressive majorities around Meciar and Tudjman, who had managed to frustrate the opposition and occupy the key economic positions in the countries. Having this in mind, it is obvious that public funding cannot be seen as a remedy against state capture on its own. But it could be argued that the existence of significant state funding will reduce the likelihood of state-capture, by increasing the autonomy of democratically elected politicians vis-à-vis business interests. Of course, it could be argued that public funding has disadvantages of its own and that it is an unsatisfactory solution – even if it may be seen as a necessary one – to the fundamental problem of lack of popular participation in political life.

In certain cases, the choice of a model without significant public funding has been dictated by the desire of the governing parties or politicians to preserve their competitive advantages. The clearest example of such a development has been the Russian evolution of party funding and campaign finance. After the dissolution of parliament in 1993, President Yeltsin saw the establishment of the political parties as a major threat to his rule: therefore, both the electoral system and the rules on party funding were designed to encourage individual candidates and ad hoc electoral alliances (Smilov 1999b). The 'established' parties had no major institutional advantages, since the President preferred a relatively weak and fragmented Duma, which would be easier to control. Until 2001, there was no special law on the political parties. The new law adopted under President Putin does change the situation to an extent, but it is too early to judge how it is going to be applied in practice.[16] In short, the lack of significant public funding and other institutional advantages served the strategic goal of starving the opposition of resources. The pro-presidential parties themselves were not that disadvantaged, because they, as a rule, enjoyed the support of various oligarchs, eager to gain access to presidential and governmental favours.

A similar logic could be observed in the case of Bulgaria – the ruling parties in the country gradually scaled down public funding, because they realised that by being in power they were in a much more favourable position in terms of fund raising than the opposition. Thus, a growing *funding gap* between the government and the opposition has appeared, which could be observed both in the case of the Socialist government of Jan Videnov and the right-wing government of Ivan Kostov (Smilov 1999b).

The abuse of governmental positions for party building purposes is an understudied topic in Eastern Europe. The abundance of evidence and allegations of such abuses in Russian elections, but also in other countries in the region, suggest that the dynamics of party funding could hardly be understood properly without a more careful study of this problem. An encouraging fact is that, despite the pro-governmental bias leading to a growing gap in the funding of the governmental and opposition parties, electoral 'surprises' do happen in Central Eastern Europe on a regular basis. Instructive is the case of Bulgaria, where the financial might of the Socialist Party in 1997, and the UDF in 2001 did not save them from bitter electoral defeats. Meciar's party in Slovakia and Tudjman's supporters in Croatia lost key elections despite their long stays in power and their opportunity to accumulate huge resources. In some extreme cases, like the last parliamentary elections in Poland and Romania, the ruling parties could not enter the legislature at all. What is more, new major parties do appear all around the re-

gion, and in some extravagant cases they even manage to win parliamentary elections – King Simeon II's movement in Bulgaria is an interesting, although probably aberrant example.

This evidence speaks against attributing too much influence to the mechanisms and abuses of party funding rules on the political process in the countries of Central Eastern Europe. These countries are not so 'captured' after all, and the democratic process has not been entirely stifled by the interests of a few oligarchs. More troubling from that perspective, seem to be Russia and Ukraine, where radical political changes concerning the centre of power – the presidential institution – are much more problematic. But this is of course due to the constitutional structure of these states. In any event, the impact of political finance models and practices on this issue would be extremely difficult to measure.

If the political finance model matters in a particular area, however, it is definitely the area of *perception* of the legitimacy of the governmental structures. Let us consider the fact reported by the World Bank state capture study that 42% of the firms in Bulgaria report themselves as directly affected by 'illegal political donations'. At the time the BEEPS study was done, which is the basis of the World Bank report, there were no contribution limits in Bulgaria and no requirements for disclosure of the name and the amount of the donations. In what sense, then, were the donations illegal? A plausible hypothesis is that most of the respondents had different ideas about the illegality of the donations, but they converged in their common overall *perception* of the political system in the country as corrupt. Thus, despite the effort of the World Bank experts to base their study on more tangible, proxy measures of corruption, probably a significant part of the responses they got reflected general perceptions of the 'corruption of the system as a whole'. This is all the more probable, having in mind the poor public knowledge of the technical intricacies of the rules and principles of party funding and campaign finance.

This observation suggests a bold hypothesis: the egalitarian expectations for a well-regulated system of political finance reflecting just social principles, which the majority of Eastern European party funding models create, lead the public to be bitterly disappointed in cases of irregularities and to quick conclusions that the 'system is rotten as whole'. Perception of widespread corruption is possibly a combined product both of facts and extremely high expectations. If these perceptions lead to an improvement of democracy in Eastern Europe, they should be welcome. However, in countries where there is a danger that a fledging democracy itself may be disregarded as a 'corrupt form of government' perceptions should be treated seriously, as they can become self-fulfilling prophesies.

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2 Interview with the Chairman of the Socialist Party, Alexander Moroz, Kiev, October 2000.
3 As a result of the 1998 administrative reform, political parties considerably increased the number of their councillors. See Szczerbiak (1999).
4 Official reports for the 1999 election campaign. See Pentus (2001).
5 Source: Central Electoral Commission, 1996, Vybory 95: Electoralnaya Statistika Moscow: CEC.
6 Source: Central Electoral Commission.
7 Source: ITAR-TASS news agency, Moscow, 29 February 2000.
8 As it is often the case, the facts may differ from those contained in the balance sheets. For the UP annual report see p. 6.
9 In Poland, the SLD acknowledged in the National Election Committee Communiqué of February 18, 1992 that it received PLZ 10 million from its own parliamentary caucus in 1991. This kind of practice, though essentially illegal, is still taking place in a more indirect way.
10 Political parties with parliamentary representation receive money through their MPs' and Senators' offices for running their local offices, as well as the necessary equipment for operating these offices, and

a certain number of postage-free envelopes for parliamentary correspondence.

11 Interview with the leader of SPS, Moscow, September 2000.

12 Interview with Dr Leonid Gozman, West Sussex, November 2000.

13 The most notable exception was the constitutional controversy in the Czech Republic concerning amendments to the law on political parties providing for an increase of state subsidy for big parties. See the decision of the Czech Constitutional Court from February 27, 2001. Another exception was a 2001 decision of the Macedonian Constitutional Court, which declared unconstitutional the ownership of companies by political parties.

14 The average index of these five countries is 31.8, while the average for all transition countries in the study is 21. For the purposes of comparison, low state capture countries like Slovenia and Hungary stand at 7.

15 The share of firms directly affected by the buying of legislative votes in the five countries without public funding is 38, while the average for all transition countries is 24.

16 For instance, it is not yet clear how the new scheme of state funding (envisaged by the 2000 Party Law) will actually operate in practice.

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AUTHORS

Jānis IKSTENS, born in 1970, Assistant Professor in Political Science at the Vidzeme University College in Latvia. He has held fellowships granted by the Fulbright Foundation (at Columbia University, New York) and by the Soros Foundation, Latvia. Main research interests: political parties and party systems in the Baltic countries. Co-author of a study for the United States Agency for International Development on political financing in the 18 member countries of the Association of Central and Eastern European Electoral Administrators (2000).

Address: Department of Political Science, Vidzeme University College, Cesu iela 4, Valmiera, LV–4200, Latvia; e-mail: ikstens@latnet.lv.

Michael PINTO-DUSCHINSKY, born in 1943, Senior Research Fellow in Politics at Brunel University, UK. He chairs the International Political Science Association's Research Committee on Political Finance and Political Corruption. In 1992–98 he was founder governor of the Westminster Foundation for Democracy. He specialises in research on political financing and has been active in the campaigning for the rights of victims of the Nazi Holocaust.

Address: Brunel University, 92 Hamilton Rd., Oxford, OX2 2QA, UK; e-mail: pinto@totalise.co.uk.

Daniel SMILOV, born in 1970, Senior Consultant of the Constitutional and Legal Policy Institute, Budapest, and Visiting Professor at the Central European University, Budapest. He is DPhil candidate at Jesus College, University of Oxford. Research interests: constitutional law and adjudication, party funding and campaign finance, and corruption.

Address: Jesus College, Oxford, OX1 3DW, UK; e-mail: smilov@policy.hu.

Marcin WALECKI, born in 1974, PhD candidate at St. Antony's College, University of Oxford, Senior Program Officer at the National Democratic Institute Washington DC, USA. Research interests: political parties and political finance in post-communist countries.

Address: e-mail: marcin.walecki@st-antonys.oxford.ac.uk.