

TRANSPA-
RENCY IN
FUNDING
OF POLITI-
CAL PARTIES

CROATIA 2011

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CRINIS is an assessment tool that evaluates legislative systems and studies the practices of key actors involved in political finance. It aims to identify gaps and shortcomings in political financing systems, with the objective of promoting transparency in political party funding. It is premised on the conviction that transparency is a prerequisite for monitoring money in politics.

With necessary adaptations to regional circumstances, the methodology, developed by Transparency International (TI) and the Carter Center, has been successfully carried out in a number of countries in Latin America, Asia and Africa. This report focuses on findings in Croatia, as part of the regional project carried out in Albania, Croatia, Kosovo, Macedonia and Serbia.

Various public opinion and expert surveys conducted by Transparency International, including the Global Corruption Barometer, highlight that political parties are perceived to be one of the institutions most affected by corruption. The transition to multiparty democracy in the region has created new opportunities for political corruption, including the buying of influence in government policy-making through political donations. With activities of political parties increasing in sophistication – and costs – the importance of, and need for, political donations is ever-increasing. As a result, political parties are increasingly vulnerable to offers of funding in exchange for providing favours later, thus entering into a form of patron-client relationship.

Reducing corruption in political financing does not necessarily mean reducing the amount of money available to parties, but rather ensuring that political funding does not come from illegitimate or potentially questionable sources. Increased transparency and public knowledge about the flow of money in politics can help to eliminate corrupt practices. Transparency becomes the cornerstone of regulating political party financing. It provides the means for verifying and detecting malpractice and supplies the information required by citizens to make informed voting decisions.

This assessment has focused on the annual, non-electoral funding of political parties in each country and so does not analyse the financing of election campaigns. This critical component of political financing will be assessed in the next phase of the project, to be carried out in 2012.

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Foreword

Political parties play a central role in political competition: they are an indispensable instrument of democratic power. Considering that developed democratic states have multi-party systems, the issue of the funding of political parties has become a key consideration in all democratic societies – the manner in which party funding affects the relationship between political parties and its members, its voters and the general public is key to the quality of democracy. This correlation is particularly pronounced in new democracies, which have little experience to build on in the creation of party funding systems. Money has a both a symbolic and a practical value in political competition, and can thus pose a real threat to democracy unless properly regulated.

Transparency International Croatia recognized the importance of this issue in 2003, when it published a brochure entitled 'Money in politics: proposals for the regulation of the funding of political parties and election campaigns', which was one of the first attempts at dealing with the problem of party funding in Croatia. The 'Curbing Political Corruption' project launched in 2005 was more extensive in terms of both duration and goals, and resulted in the draft Political Activity and Election Campaign Financing Act. CRINIS is the third project relating to political financing in which Transparency International Croatia is involved. It is our belief that the implementation of this project will shed even more light on this as yet hazy sphere of political life in Croatia.



Nikola Kristić, President
TRANSPARENCY INTERNATIONAL CROATIA

1. Executive Summary

Political financing in Croatia received the average score of 7.0 in this test. Considering that there are three evaluation categories: *insufficient* (0 to 3.3), *average* (3.4 to 6.7) and *good* (6.8 to 10), the result achieved can be said to be on the border between the categories of average and good. While some legal solutions in Croatia are solid, there is still considerable room for improvement, particularly in the implementation of these legal provisions. The fact that good regulation is hardly sufficient to suppress political corruption is evidenced in numerous affairs that have been uncovered since the early 1990s, culminating in the last two years with the arrest of a former Croatian Prime Minister and several high officials.

Two of the categories with the lowest grades are Public Disclosure and Sanctions, which have received the grades of 5.7 and 4.0 respectively. These two categories are interconnected, which is the likely explanation for the low grades: without appropriate sanctions political parties can hardly be expected to present to the public accurate data relating to their financing. The experience in Croatia to date shows that the sanctions are the only ones that can produce results – legal solutions provide for effective sanctions, but the problem of their implementation still remains. Financial reports submitted by political parties are rather detailed and extensive and have consequently achieved relatively high grades (8.4 for the Scope and 9.4 for the Depth). However, the Reliability of data provided in those reports remains questionable so this segment has received a low grade (4.8). This is a particularly sensitive point of the Croatian party funding system which requires a lot of effort for a satisfactory level of transparency, like the one seen in developed democratic countries, to be achieved.

The comparison between the law and practice seems to indicate that the overall score for legal solutions (8.0) is generally higher than the score for practice (6.0), which suggests that legal solutions have not met with consistent application, and that this is where emphasis should be placed in future activities.

Croatia adopted the new Political Activity and Election Campaign Financing Act in February 2011 and it entered into force in the beginning of March. The Act largely incorporated the GRECO recommendations from 2009¹ relating to legal framework, which represents a significant improvement to the old regulatory framework. As there was little time to demonstrate the effectiveness of the new legislation in practice, and there was little chance to test it (since no financial reports have been submitted subject to the new Act, and no elections regulated by this Act have been conducted), the analysis of practice in this research largely relied on the implementation

and perceptions of the earlier legislation. As already noted in the 2009 GRECO report, the main challenge on the way to a genuinely transparent system of political funding in Croatia remains in the effective implementation of the law and evidence of its efficiency in practice.

In addition to an improved implementation of regulations, for the purpose of improving the political financing system in Croatia the following 5 measures are proposed:

1. Legal provision should specify more details of expenditures from annual activities of political parties. Reports might specify more details on expenditures on annual activities of political parties, including non-financial contributions and any discounts on goods and services..
2. Prior to submitting the financial reports to the relevant oversight authorities, reports should be certified by an independent authorised auditing company that would ensure a higher standard of reporting.
3. Stricter implementation of sanctions is necessary at all times. Public bodies and courts in particular should insist on sanctions being strictly imposed for violations of the law.
4. Civil society organizations, journalists and individuals should be encouraged to report violations to the state authorities. In order to change the environment and political culture, it is vital that the public is informed about the nature of political finance regulations.

1. Third Evaluation Round; Evaluation Report on Croatia on Transparency of party funding (Theme II) adopted by GRECO at its Plenary Meeting in Strasbourg 30 November – 4 December 2009)

2. Introduction and Background to the study

The birth of political parties and the multi-party system in Croatia stems from the inability of the communist system to 'guarantee a stable and promising development to its citizens'² and it was necessary, for this reason, to establish a new order based on liberal and democratic values. Transitional processes in Croatia were more complex and difficult than in the other countries of Central and Eastern Europe, particularly because of the processes related to the disintegration of Yugoslavia and armed conflicts, which 'seriously hindered the choosing of strategies for collective actors'³. The first political party was founded on 2 February 1989. The Act on Political Organisations (OG 19/90, 28/90, 59/90 and 2/91) was adopted in April 1990 as a direct reaction to the setting up of new parties, considering that the new political parties were founded before the law was enacted – up until April 1990 the new parties acted outside the law, as their legal status had not been regulated before that time. The Act on Political Organisations refers to party finances only in three articles, and merely in a declarative and incidental manner.

During the first fifteen years of multi-party democracy the financing of political parties was not a well regulated matter; in fact, compared to the regulations in force in most developed democracies, such as Germany or the USA, there was practically no regulation of political party financing in Croatia. Modes of acquisition and expenditure of party funds, and the system of checks and sanctioning of transgressors were not clearly defined. At that moment, the regulation of this matter in Croatia lagged behind the rest of Europe for about twenty years

The Act on Political Parties (OG 76/93, OG 111/96, OG 164/98, OG 36/01) was adopted in 1993. Of its 32 articles only 6 pertain to party funding. As an oversight and sanctioning system had not been in place, these few weak provisions were not adhered to by political parties, which rather carried on as they pleased unpunished. Had political financing been regulated in an appropriate manner in the early 1990s and had such provisions actually been implemented, a young democracy such as Croatia would nurture customs and good practice of transparent party funding. Sadly, this was an unlikely scenario in a country with a totalitarian past, where the party in power engaged in corruptive and clientelist activities, and where membership in that party meant private benefits and advantages. These circumstances led to an uncontrolled spread of political corruption.

The fight against corruption was one of six prominent issues to be resolved within the framework of Croatia's pre-accession strategy during EU membership negotiations. The European Union frequently warned about the flaws in Croatia's fight against corruption, while special attention was often drawn to the fight against political corruption. In the 2006 Progress Report on Croatia⁴, the European Commission clearly underlined the importance of regulating the financing of political parties. Adoption of a law regulating this area was one of the tasks set out in the National Anti-Corruption Programme (OG 39/06), and its implementation was also one of the conditions for accession to the EU. In other words, the Act on the Financing of Political Parties, Independent Lists and Candidates⁵ (OG 1/07) came about as a direct reaction to the pressure from the international community. If it had not been for that pressure, the provisions of the Act on Political Parties of 1993 would most certainly continue to apply. However, the Act was enacted merely to satisfy the formal requirements, and not to regulate this area in an appropriate manner, which is evidenced in the fact that it fails to regulate many important issues, such as the financing of election campaigns, which is generally considered to be a problematic area.

Although the Act Political Activity and Election Campaign Financing Act⁶ (OG 24/11) and its amendments (OG 61/11) represent an improvement over the existing legislative framework, actual positive changes in the domain of political party financing will only be accomplished once the Act is actually implemented, once its implementation is monitored, and once violations thereof are sanctioned.

2. Prpić, Ivan, 2004: Riječ unaprijed, in: Prpić, Ivan (ed.): Država i političke stranke. Narodne novine/ Hrvatski pravni centar, Zagreb, XI.

3. Kasapović, Mirjana, 1996: Demokratska tranzicija i političke stranke. Razvoj političkih stranaka i stranačkih sustava u Istočnoj Europi, Faculty of Political Science, Zagreb, 153.

4. http://ec.europa.eu/enlargement/pdf/key_documents/2006/nov/hr_sec_1385_en.pdf

5. Hereinafter The Act on Financing Political Parties.

6. Hereinafter: The Act on Financing Political Activities.

3. General Context on Political Financing

LEGAL FRAMEWORK ON POLITICAL FINANCING: ELECTORAL AND NON-ELECTORAL PERIODS

The Constitution of the Republic of Croatia (OG 41/01) does not contain a definition of a political party, but only sets out general provisions in Article 6 according to which ‘the right to establish political parties shall be unrestricted’, and that ‘the internal structure of political parties shall comply with fundamental constitutional democratic principles’. A more detailed definition and regulation of political parties is left to be regulated by laws (‘The status and financing of political parties shall be regulated by law’). It is interesting that paragraph 3 of said Article states that ‘political parties shall publicly disclose the sources of their finances and assets’.

The Parliament of Croatia is unicameral with 151 members elected for a four year term: 140 members in 10 multi-seat constituencies, 3 members chosen to represent Croatians residing abroad and 8 members of ethnic and national communities or minorities.

Despite these constitutional provisions, for more than fifteen years political finances in the Republic of Croatia were regulated in insufficient way. The first legal act to regulate political parties was the Act on Political Organisations, enacted in 1990, which mentions political parties in only three articles, and only in a declarative and incidental manner. The Act on Political Parties regulated some more general issues, such as founding political parties, party statutes, cessation of activities, while the matter of party financing was regulated by only 6 of the 32 articles of the Act. The provisions of these 6 articles were very curt and general, and one specific provision pertaining to party financing featured in Article 19, laying down the manner of accounting for financial transactions paid into party accounts from the State Budget. The remaining articles were general and contained no concrete regulation of party finances, and the main obstacle to the regulation of party finances was the absence of any obligation to publish detailed income and expenditure of political parties. The Act remained largely unimplemented, even in the parts containing clear provisions, regardless of the fact that the provisions of the Act were ‘written as *ius cogens*, i.e. as strictly binding law’⁷. There was a silent agreement between all parties in Croatia to avoid this subject so that ‘requests for more appropriate regulation of this matter were systematically ignored’⁸, i.e. requests to enact a new law which would deal exclusively with the financing of political parties and campaigns.

Party finances were partly also regulated by the Act on the Election of Representatives to the Croatian Parliament (OG 116/99, OG 109/00, OG 59/03, OG 69/03) and the Act on the Election of Members of Representative Bodies of Local and Regional Self-Government Units (OG 33/01). The only concrete provision in the Act on the Election of Representatives to the Croatian Parliament dealing with the financing of campaigns was set out in Article 31: ‘Each political party who has published slates of candidates for members of Parliament shall, by the beginning of the election campaign, publish framework data on the amounts and sources of own funds intended to be spent on the election campaign’. This provision, like most other provisions pertaining to party financing, was never applied: for example, in the 2000 election these figures were publicised only by the SDP–HLSL coalition⁹. There are numerous matters not regulated by this Act, such as: it did not contain any provisions concerning limits on income, limits on expenses allowed for election campaigns, or a provision imposing the obligation to publish a detailed financial report after elections. The Act failed to provide for an authority to oversee the financing of election campaigns. The Act on the Election of Members of Representative Bodies of Local and Regional Self-Government Units is even less thorough than the Act on the Election of Representatives to the Croatian Parliament: in addition to the above mentioned flaws also pertaining to this Act, it contains no provision laying down the obligation to publish the amount of funds intended to be spent in the election campaign.

After significant pressure from the international community, at the end of 2006 the Croatian Parliament adopted the Act on the Financing of Political Parties, Independent Lists and Candidates. This Act regulated for the first time the following matters: membership fees and donations, anonymous donations, foreign donations, banned sources of financing, as well as the prohibition of coercion and promises, and of making donations through a third person. In spite of this, the Act failed to include numerous provisions customary in these types of law in developed democracies, but also in transitional countries. The biggest flaw of this Act is that it failed to regulate election campaigns, despite the fact that such provisions, modelled after best worldwide practices, featured in the Draft Act on the financing of political parties and election campaign, drawn up by Transparency International Croatia and sent to all relevant public authorities. The legislator could have simply incorporated them in the new Act, but there seems to have been a lack of political will. The Govern-

7. Kregar, Josip / Marko, Jozef, 2004: *Financiranje političkih stranaka*, in: Prpić, Ivan (ed.): *Država i političke stranke*, Narodne novine/ Croatian Legal Centre, Zagreb, 88.

8. Mataković, Hrvoje, 2007: *Foreword*, in: Mataković, Hrvoje (ed.): *Novac i politika*, Transparency International Hrvatska, Zagreb, 6.

9. Kregar, Josip / Marko, Jozef, 2004: *Financiranje političkih stranaka*, in: Prpić, Ivan (ed.): *Država i političke stranke*, Narodne novine/ Croatian Legal Centre, Zagreb, 89.

ment of the time, who proposed the Act, left the regulation of the complex and awkward issue of the election campaign financing as a 'legacy' to a future government.

The financing of the regular functioning of political parties and election campaigns for parliamentary, local and presidential elections is regulated by several laws and subordinate legal acts:

1. The Political Activity and Election Campaign Financing Act (OG 24/11, 61/11)
2. The Ordinance on the manner of keeping records and issuing receipts for donations and membership fees, reports on donations received for the financing of election campaigns and reports on costs (expenditure) of election campaigns, and financial reports pertaining to the financing of election campaigns (OG 50/11)
3. The Act on the State Election Commission of the Republic of Croatia (OG 44/06, 19/07)
4. The State Audit Act (OG 70/93, OG 48/95, OG 105/99, OG 36/01, OG 44/01, OG 177/04)
5. Rules to be adhered to by national electronic media in the Republic of Croatia during election campaigns (OG 165/03, OG 105/07)
6. The Regulation on Accounting of Non-Profit Organisations (OG 10/08, OG 7/09).

We will look at some of the basic features of the political financing system in Croatia: public funding, limits on income, limits on expenses, and bans on sources of income.

PUBLIC FUNDING

The Croatian system of political finances belongs to the continental model of party financing and is characterised by funding from the State Budget¹⁰: this system is applied in all transitional countries of Central and Eastern Europe, while amounts allocated to parties from the State Budget vary from country to country. Political parties can be funded from the State Budget and from local and regional self-government budgets (Article 2 of the Political Activity and Election Campaign Financing Act), while the funds secured in the State Budget for this purpose equal 0.05 % of operating expenses incurred as stated in the previously published annual budget execution report (Article 3).

The right to State Budget funding is available to all political parties represented in the Croatian Parliament, and local and regional self-government funds are available to parties represented in a representative body of a local self-government unit (Article 4). The funds are allocated by setting an equal amount thereof for each deputy at the time of the constitution of the representative body. For each elected representative of the minority sex, i.e. for each woman representative, political parties are entitled to an extra 10 % of the envisaged sum per representative. The aim of this measure is to stimulate participation of women in the political life.

LIMITS ON INCOME

The Limits on income were introduced in Croatia for the first time in 2007 with the Act on the Financing of Political Parties.

Pursuant to the current Act (Article 11), the total amount of donations made by a natural person to a political party or an independent deputy/slate shall not exceed HRK 30,000 within a single calendar year.

The total amount of donations by a legal person:

- › made to a political party or a candidate in elections for the President of the Republic of Croatia shall not exceed HRK 200,000 within a single calendar year.
- › made to an independent deputy, a national minority deputy, an independent slate or a candidate for national minority deputy in the election of deputies to the Croatian Parliament and the election of members to the European Parliament shall not exceed HRK 100,000 within a single calendar year,
- › made to an independent member of the representative body of a local and regional governmental unit and an independent slate or a candidate in elections at the local or regional level shall not exceed HRK 30,000 within a single calendar year.

These provisions are a significant improvement on the previous legal solution limiting the total amount of donations by a natural person to a single political party to HRK 90,000 within a single calendar year, i.e. to HRK 1,000,000 for donations by a legal persons, by which the legislator gave substantial advantage to legal persons by allowing them to donate such high amounts.

LIMITS ON EXPENSES

In Article 17 the Act limits the expenses of election campaigns, but does not regulate the amount of regular annual party financing. Thus the total amount of election campaign expenditure per candidate or political party must not exceed the following amounts:

- › HRK 8,000,000 (eight million Croatian kuna) in case of elections for the President of the Republic of Croatia;
- › HRK 1,500,000 (one million five hundred thousand Croatian kuna) within a single constituency in case of the election of deputies to the Croatian Parliament;
- › HRK 1,500,000 (one million five hundred thousand Croatian kuna) in case of the election of members of the European Parliament;
- › HRK 500,000 (five hundred thousand Croatian kuna) in case of elections for the Mayor of the City of Zagreb;
- › HRK 400,000 (four hundred thousand Croatian kuna) in case of elections for county prefects and the mayors of major cities and county seats;
- › HRK 250,000 (two hundred and fifty thousand Croatian kuna) in case of elections for city and municipal chief officials in local governmental units with a population exceeding 10,000;

¹⁰ Financing of political parties was introduced in 1993 with the adoption of the Act on Political Parties.

- › HRK 100,000 (one hundred thousand Croatian kuna) in case of elections for city and municipal chief officials in local governmental units with populations from 3,001 to 10,000;
- › HRK 50,000 (fifty thousand Croatian kuna) in case of elections for city and municipal chief officials in local governmental units with a population not exceeding 3,000.

BANS ON THE SOURCES OF INCOME

Just like the limits on income, the bans on sources of financing was also introduced in Croatia for the first time in 2007 with the Act on the Financing of Political Parties. The current legal framework was not significantly altered in comparison to the initial solution.

Thus, Article 22 specifies that there shall be no financing of political parties, independent deputies/slates by:

- › foreign states, foreign political parties and foreign legal persons;
- › governmental bodies, public enterprises, legal persons vested with public authority, companies and other legal persons in which the Republic of Croatia or any local and regional governmental unit has any interest or shares, as well as public and other institutions owned by the Republic of Croatia or any local and regional governmental unit;
- › labour unions or employer associations;
- › associations, trusts and foundations represented by central government officials, or local or regional officials;
- › religious communities, humanitarian and other non-profit associations and organizations;
- › natural and legal persons subject to any enforcement proceedings related to their outstanding debts due to the budget or their employees.
- › anonymous sources.

Making donations through third parties (intermediaries) is also forbidden.

4. Methodology

The CRINIS methodology entails assessment of two different types of political financing: non-electoral finances of political parties and election campaign funding for legislative and where applicable, presidential elections. This report looks only at the assessment of funding of annual activities of political parties in 2010, whereby resources were mobilized to support the party structure and its activities during this non-election year.

The methodology involves examining the regulatory framework on transparency of political financing, so as to compare it to internationally recognized principles. Through different

research methods, it also examines what happens in practice. By providing thorough diagnosis of the legal framework and actual practice, it provides strong empirical evidence to create a clear picture of areas in the need of reform.

The information collected during the research was used to build an index on the transparency of political party funding. The level of transparency is quantified taking into consideration the following ten dimensions (Table 1).

DIMENSIONS	GENERIC QUESTIONS FOR BUILDING INDICATORS
1. Internal bookkeeping of parties	Is bookkeeping mandatory by law? How professional is staff in practice?
2. Reporting to state oversight agency (State Audit Office)	By law, do parties, service providers, donors and media render accounts on their role in political finance? When and in what format?
3. Comprehensiveness or scope of reporting	Do reports include public and private sources? Do they cover income and expenses? Do they cover monetary contributions, in-kind contributions, rebates etc?
4. Depth of reporting	By law, do reports include information on individual donations? Do they clearly identify the donor of each donation?
5. Reliability of reporting	Do different actors disclose all resources in reports? How accurate are reports, to the knowledge of experts?
6. Disclosure to the public	Is it mandatory for state agencies/parties to disclose information on political finance? In practice, how accessible is such information to experts, journalists and ordinary citizens?
7. Preventive measures	Are donations channeled exclusively through official bank accounts? Are there any loopholes for anonymous donations?
8. Sanctions	What are the existing sanctions - civil, criminal and political – according to the law? In practice, are the existing laws strictly enforced?
9. State oversight (State Audit Office, State Election Commission)	Do experts evaluate institutions of state oversight as independent? Are they considered efficient? From the perspective of self-evaluations, do they lack human resources? Do they lack training?
10. Public oversight	Do civil society organisations monitoring political finance exist? In which areas of political finance do they develop activities? Do experts evaluate organizations of public oversight as independent?

INTERNAL BOOKKEEPING (dimension 1) ties in to the way in which political parties internally manage their financial resources. REPORTING TO THE STATE OVERSIGHT AGENCY (dimension 2) evaluates the extent to which parties or candidates report to a government oversight body. Three dimensions – COMPREHENSIVENESS OF REPORTING (dimension 3), DEPTH OF REPORTING (dimension 4) and RELIABILITY OF REPORTING (dimension 5) – centre around the nature of data furnished in the financial reports and help to determine the quality of the information submitted to the oversight bodies. These evaluate crucial areas like all relevant finance activity, including cash, in-kind and other transactions, identity of the donor, credibility of submitted data and the perception of credibility of reports by key actors. DISCLOSURE OF INFORMATION TO THE PUBLIC (dimension 6) takes a look at the public’s access to political finance information. A third group of dimensions encompassing PREVENTION (dimension 7), SANCTIONS (dimension 8) and STATE OVERSIGHT (dimension 9) addresses monitoring compliance with established

rules and regulations. This includes preventive measures to facilitate effective oversight, the existence of sanctions that can be imposed and the institutions and actors in charge of performing oversight functions. Finally PUBLIC OVERSIGHT (dimension 10) addresses monitoring and oversight role of the civil society and media irrespective of the formal state oversight body with regard to political financing issues.

The information collected through the involvement of a broad spectrum of sources and different research methods, brings together over 75 evaluation indicators (law and practice). Questions feeding into each indicator have different range of answers, which translates into different weights for the final score for each indicator. The scale for each indicator ranges from 0 to 10, where 10 indicates that a country has met all criteria expected in terms of transparency and accountability and 0 indicates that non of these criteria has been met. Scores between 0 and 10 are grouped into three evaluation categories: *insufficient* (0 to 3.3), *average* (3.4 to 6.7) and *good* (6.8 to 10).

TABLE 2. QUANTITATIVE INDEX OF TRANSPARENCY IN POLITICAL PARTY FUNDING		
DIMENSIONS, INDICATORS AND WEIGHTING OF LAW AND PRACTICE		
DIMENSIONS	NUMBER OF INDICATORS	WEIGHT LAW/PRACTICE
1. Internal bookkeeping	Total 7 3 Law 4 Practice	50% Law 50% Practice
2. Reporting to state oversight agency (State Audit Office)	Total 9 5 Law 4 Practice	50% Law 50% Practice
3. Scope of reporting	Total 4 2 Law 2 Practice	50% Law 50% Practice
4. Depth of reporting	Total 5 3 Law 2 Practice	50% Law 50% Practice
5. Reliability of reporting	Total 3	100% practice
6. Disclosure to the public	Total 15 6 Law 9 Practice	50% Law 50% Practice
7. Preventive measures	Total 10 5 Law 5 Practice	50% Law 50% Practice
8. Sanctions	Total 12 6 Law 6 Practice	50% Law 50% Practice
9. State oversight (State Audit Office, State Election Commission)	Total 5 2 Law 3 Practice	50% Law 50% Practice
10. Public oversight	Total 5	100% practice

DATA SOURCES

This study utilized both primary and secondary sources for collecting data. Relevant laws and regulations were examined for the assessment of the legislative framework. For analyzing the practices, the research team examined the reports from the political parties and oversight bodies and interviewed various stakeholders to get insights on the operation of the party funding system and its oversight. Key actors surveyed included seven¹¹ political parties, selected based on the number of seats obtained in the last legislative election (see Appendix A), and their accountants/treasurers.

Field tests were conducted to measure how easy it is for citizens to access information on funding of political parties and thereby evaluate rates of response from different institutions, including parties, state oversight agencies and donors. Access to information tests was conducted by a research team using a standard procedure to contact various actors. The second tests were conducted by a group of volunteers of average citizens. The aim was to contrast the ability to access the same set of information by actors with different levels of knowledge and contacts.

DATA COLLECTION METHODS

Stakeholders, including the oversight agency, party accountants and donors contributing money to the parties as well as corporations who do not donate to political parties were interviewed based on the survey questionnaires. Media companies were not contacted in this round of survey requesting the details of airtime given or sold to parties as the Croatian law does not allow advertising of political parties outside election campaigns. Parties' income and expenditure reports were obtained from their respective websites. In the citizen experiment, men-

tioned above, participants were given a list of specific information to be obtained regarding regular political party funding, using different mediums of communication including internet, phone or official letters requesting information.

Table 3. summarises the type of information collected, the source of information and the data collection method used.

LIMITATIONS OF THE STUDY

There are several limitations of this study, including challenges that the research team faced during the project. One party (SDP) and one of the supervising bodies (Ministry of Finance – Tax Administration¹²) did not respond to our query, while the response of donors was also relatively weak.

Although the research team did their best to make sure that the group of citizens who performed a second test reflected the Croatian average, this criterion was not met in terms of education (all participants had at least secondary school diplomas. i.e. were better educated than the Croatian average).

TYPE OF INFORMATION	SOURCE OF INFORMATION	DATA COLLECTION METHOD
Legal Framework	Relevant laws and regulations	Legal review
Internal party practices on financial issues	Party reports, official records and public information	Team analysis, complemented by interviews of party accountants and experts
Disclosure of information	Political parties, oversight agencies, donors, media agencies	Research of publicly available information Testing availability of information from various stakeholders through written requests
Income and expenditure of political parties	Parties, oversight agencies, donors, watchdogs	Interviews; questionnaire
General Practice on political finance	Parties, MPs, CSOs, experts	Interviews; questionnaire

11. Seven parties were contacted and feedback was received from six. However, income and expenditure reports of all seven parties were obtained.

12. The Ministry of Finance refused to provide reports on the operations of political parties, claiming that these were business secrets.

5. Research Findings

Political financing in Croatia received the average score of 7.0 in this test. Considering that there are three evaluation categories: *insufficient* (0 to 3.3), *average* (3.4 to 6.7) and *good* (6.8 to 10), the result achieved can be said to be good. However, there is still considerable room for improvement. Some of the categories with the lowest grades are Public Disclosure and Sanctions, which received the grades of 5.7 and 4.0 respectively. These two categories are interconnected, which the likely explanation for the low grades – without appropriate sanctions, political parties can hardly be expected to present to the public accurate data relating to their financing. The hard options are the only ones that can produce results – the legal solutions provide for effective sanctions, the only problem is their implementation. Financial reports submitted by

political parties are rather detailed and extensive and have consequently achieved relatively high grades (8.4 for scope and 9.4 for detail). However, the accuracy of data provided in those reports remains questionable so this segment has received a low grade (4.8). This is a particularly sensitive point of the Croatian party funding system which requires a lot of effort for a satisfactory level of transparency to be achieved.

The comparison between the law and practice seems to indicate that the score for legal solutions (8.0) is generally higher than the score for practice (6.0), which suggests that legal solutions have not met with consistent application, and that this is where emphasis should be placed in future activities.

TABLE 1: CRINIS INDEX: GRAPH SHOWING OVERALL FINDINGS WITH AGGREGATED AVERAGES

CRINIS INDEX: AGGREGATED AVERAGES

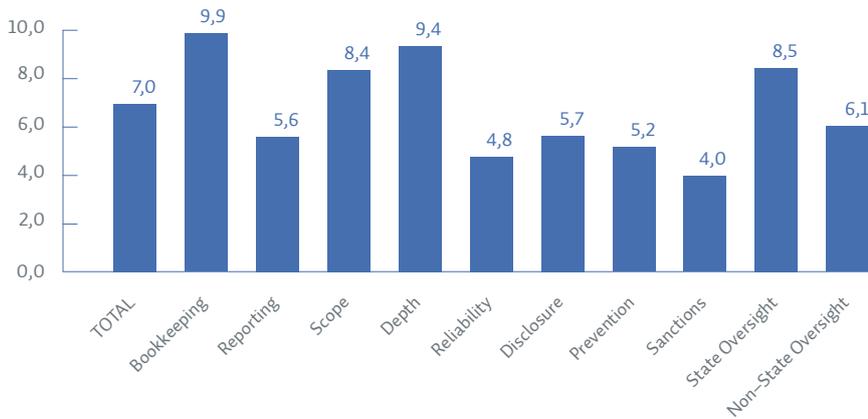
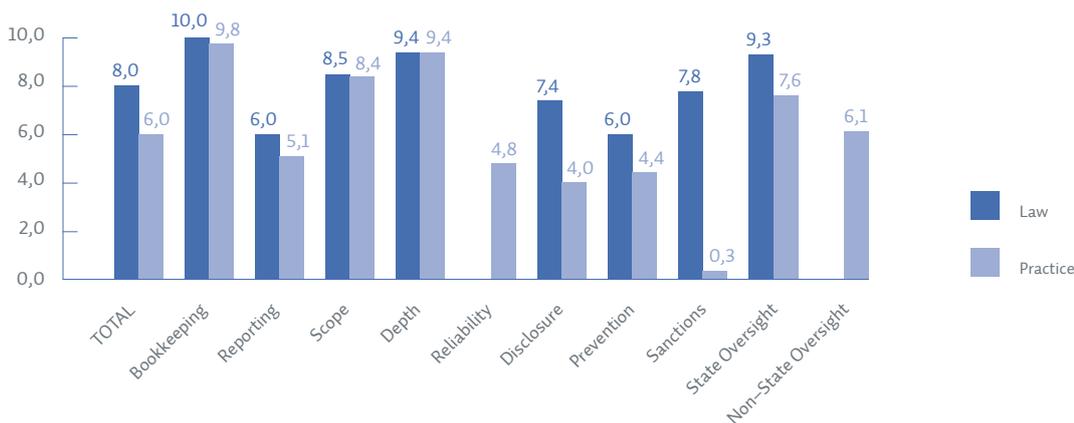


TABLE 2: GRAPH SHOWING OVERALL RESULTS LAW AND PRACTICE

CRINIS INDEX: LAW VS. PRACTICE



Dimension 1: Internal bookkeeping

The first stage of reporting by parties is internal bookkeeping. Legal obligations in the area of bookkeeping and the political culture of the parties are factors that can influence this dimension. For parties to comply with legal regulations and uphold their own values and principles, it is essential for them to have a functioning administration, with the necessary capabilities.

In this study, the internal bookkeeping of parties was measured with five general indicators. These include legal requirements for parties to keep books on income, expenditure and assets and their actual practice in this regard. Other indicators address questions of disclosure of this information to party members, the standard of accounting procedures followed, authorized individuals to sign financial accounting reports and whether financial records are kept for a prescribed length of time.

BOOKKEEPING



Political parties are required by law to keep books – Article 29 of the Political Activity and Election Campaign Financing Act establishes that political parties are to maintain their operating records as stipulated in the accounting regulations applicable to non-profit organizations. Bookkeeping of non-profit organisations is regulated in more detail in the Regulation on Bookkeeping for Non-profit Organisations (OG 10/08, OG 7/09).

Article 12 of the Regulation states that bookkeeping of political parties may be entrusted to an external accountant, a person or a legal entity. However, this does not affect the level of professionalism with which accounting is done. Financial statements are signed by the accountant and a representative of the political party. Financial statements are public – according to the provisions of Article 39 of the Political Activity and Election Campaign Financing Act political parties are required to publish their annual financial statements of the previous year on their websites latest by 1 March of the ongoing year and keep them online for at least 90 days. Most political parties make these statements permanently available on their websites.

Article 11 of the Regulation prescribes that political parties must keep their accounting documentation: payrolls and analytical pay records are kept permanently, documents on the basis of which data is entered in the journal and the ledger¹³ are kept for at least eleven years, while documents from which data is entered in subsidiary ledgers¹⁴ are kept for at least seven years.

Political parties do not disclose financial information to their members exclusively – party members have opportunity, like all other citizens, to gain information on party web site. Reports are published once a year with basic information on income and expenditures and reports on donations are published every six months.

Dimension 2: Reporting to the Oversight Bodies

For this dimension, the study focused on five indicators that covered both the legal framework and reporting to the designated government oversight bodies. These indicators included questions regarding whether parties must render accounts to a state agencies, whether donors, vendors and media companies are required to report, whether there is a specific standardized format for submitting information and how often reporting is required.

REPORTING



Article 30 of the Political Activity and Election Campaign Financing Act establishes that political parties must submit annual financial reports to the State Audit Office within 60 days after the end of the reporting period (the end of the calendar year).

Financial reports are submitted in a standardised form, as are reports on donations. The standardised form for the latter can be found in the Annex to the Ordinance.

The law does not require that donors submit reports on donations made to political parties to the State Audit Office. However, for donations made in the form of products or services

13. The main accounting record of an entity. It is a collection of the group of accounts that supports the value items shown in the major financial statements.

14. Special or supporting ledger that provides more detailed information about individual accounts than a general ledger customers.

(including non-monetary donations, such as movable or immovable property, property rights, etc.) donors must issue a bill stating the market value of the donated product or service, which must state the party receiving the donation and must be marked as non-payable¹⁵. There is no legal obligation on sellers, i.e. suppliers to report.

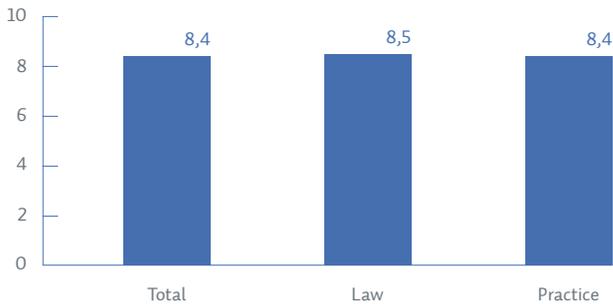
Since media companies are banned from placing any political advertisements in the non-election period, they do not have to report. Media companies have the legal obligation to submit reports pertaining only to election campaigns¹⁶.

In a last few years all parties are reporting their finances to the state agency. That was not happening in the past – until beginning of 2000s none of parties was reporting their finances, although they were obliged to do that by the law.

Dimension 3: Scope of Reporting

Scope of reporting, as the third dimension in this study, focused on comprehensiveness of information to be reported: different sources of income, such as donations, membership fees or income from public funding, and expenditure from public and private sources.

SCOPE



According to the Act¹⁷, political parties may receive income from property they own, membership fees, publishing, donations, sale of promotional material, organising party events, and from budget funds. Political parties may not receive donations from anonymous sources and from foreign institutions, trade unions, employers' associations, state authorities, public enterprises, religious communities, NGOs, etc.¹⁸.

The annual financial report submitted by political parties is a standardised report for non-profit organisations, stating the following categories of income: budget funds, membership fees, donations, property and other income. Categories of expenses are the following: employee-related expenses, ma-

terial expenses, depreciation, financial expenses, donations and other expenses.

The Ordinance on the manner of keeping records stipulates that political parties must keep records on donations received on a daily basis for every month of the calendar year¹⁹. The following records must be kept: record of monetary donations received from permitted sources from natural and legal persons, record of donations received in the form of products or services from permitted sources from natural and legal persons, record of monetary donations received from banned sources from natural and legal persons and record of donations received in the form of products or services from banned sources from natural and legal persons.

This legal provision places an additional burden on political parties to keep records that they may try to avoid, especially if avoidance fails to be met with appropriate sanctions. It is slightly unrealistic to expect a party to keep a record of donations received from banned sources –the data published on their websites indicated that none of the Parliamentary parties published this record. This is hardly surprising considering that parties probably do not wish to put donors in an awkward position, particularly those whose donations are treated as banned by the law.

In our opinion, based on analysis of last 20 years on political finances practice in Croatia, it could be easily presumed that published reports and provided information provided are sufficiently comprehensive, both information on income and expenditure. Political parties are constantly trying to hide part of incomes and expenditures. This is probably consequence of low level of political culture in Croatia and fact that is multi-party system was established only 20 years ago.

Please provide an evaluation on scope of reporting in practice. From looking at the published reports, do you think that information provided is sufficiently comprehensive? Does it cover all categories of income received? Does it cover all categories of expenditure undertaken?

Dimension 4: Depth of Reporting

The detail or depth of information provided is just as important as the comprehensiveness of the reporting. The usefulness of financial reports depends largely on the information included in them. Therefore, reports should identify each donor, the amount and the date of each donation, and similarly itemize expenditures. This depth of information allows oversight bodies, civil society groups and voters in general to examine the accuracy of information provided, identify parties who depend excessively on a few selected donors and

15. Article 10 of the Act on the Financing of Political Activities and Election Campaigns.

16. Article. 12 of the Act on the Financing of Political Activities and Election Campaigns.

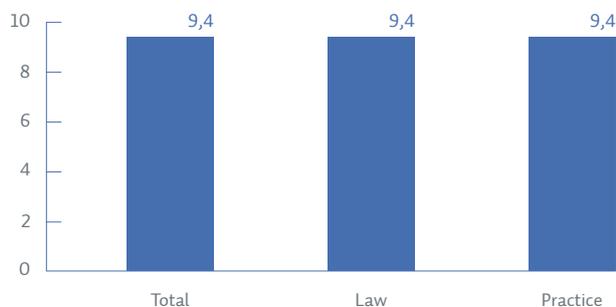
17. Article 2 of the Act on the Financing of Political Activities and Election Campaigns.

18. See Article 22 of the Act on the Financing of Political Activities and Election Campaigns.

19. Article 3 of the Ordinance on the manner of keeping records and issuing receipts for donations and membership fees, reports on donations received for the financing of election campaigns and reports on costs (expenditure) of election campaigns, and financial reports pertaining to the financing of election campaigns.

monitor future representatives for any potential action that may benefit their donors at the expense of the public. This dimension was measured by aggregating multiple indicators such as how detailed income and expenditure reports are and whether there is a threshold for disclosure of income in financial reports.

DEPTH



Legal provisions on reporting of income can be described as relatively detailed. Standard annual reports are not very detailed, but reports on donations, which have to be attached to annual reports, include different sorts of information on the donors.

The financial report submitted by parties must contain the following information:

- › annual programme and financial plan,
- › report on donations received over the course of the year with specified data on the natural and legal persons who made the donations (name and address), date of payment of the donation, i.e. provision of product or service free of charge, the amount of donation, i.e. the market value of the product or service provided free of charge stated on the non-payable bill, and the type of each donation. The report must also include data on donations paid into the accounts of subjects connected to the political party or the ones are under its control. The contents of this report are set out in more detail in the Ordinance on the manner of keeping records and issuing receipts for voluntary contributions (donations) and membership fees received, reports on donations for funding election campaigns and reports on costs of election campaigns, and financial reports on the financing of election campaigns²⁰ (OG 50/11).

The Ordinance²¹ requires that reports on donations include the name and address of the donor, tax identification number (both for persons and legal entities), date of donation, amount of donation paid, sum of all donations made by the same donor on the day of the payment, amount of donation exceeding the amount permitted by the law and additional notes.

Similar records must be kept for donations received in the form of products or services, and also for payments of party membership fees.

The Croatian law set no threshold above which donations must be reported. All donations independent of their amount must be reported.

Reports on expenditure are not as detailed. Standard annual reports are relatively short, while the only detailed reports are those on the costs of election campaigns²².

Published reports are reflecting all information that is required by law and all parties are complying to the legal provision on details of reporting. Although, it is questionable accuracy of reports and this is one of main problems in Croatian political finance system.

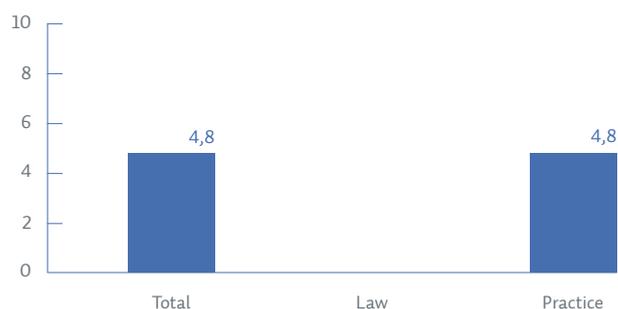
Dimension 5: Reliability of Reporting

One key element of reporting - due to its close ties to transparency - is its reliability, or the belief that the data contained in a report is accurate. This dimension, therefore, is perception based and there are no law indicators (see graph below). The reliability of a report is related to how accessible it is to the public and to what extent the public controls its veracity. If the reliability of the data is questionable, the public's interest in monitoring will naturally wane.

Measuring the reliability of data is difficult. The Crinis methodology relies on data from surveys with key actors such as party accountants, officials of oversight agencies and members of civil society.

Multiple indicators processed the responses to questions such as: how accurate reports are (example, in terms of the percentage of donations likely to be reported) and whether it is possible to obtain an accurate idea of the financing of parties by looking at the official accounting statements.

RELIABILITY



The accuracy of financial reports submitted by political parties in Croatia is relatively hard to estimate. Since the early 2000s parties have regularly published their annual financial reports and reports on income and expenditure relating to

20. Hereinafter: Ordinance on the manner of keeping records and issuing receipts.

21. Article 4 of the Ordinance on the manner of keeping records and issuing receipts.

22. Article 12 of the Ordinance on the manner of keeping records and issuing receipts.

election campaigns. These reports were, however, largely considered as inaccurate²³: a number of media outlets wrote about the existence of secret party funds²⁴ and party corruption, suggesting that some financial reports prepared by political parties were missing important information. Considering the fact that the State Audit Office does not have the mandate to investigate such claims, the 'Report on the audit of financial reports and operations of political parties and independent candidates for 2009 available on its websites remains questionable.

In comparison to other scores Croatia received a relatively low score in this dimension. Numerous media reports have been alluding to political malfeasance and various non-transparent sources of financing political parties. Although not proven in courts, such reports gave rise to suspicions that financing of political parties, and the leading party in particular, were not entirely transparent, and led to the general belief that expenses of at least some political parties were excessive and not properly reflected in financial reports²⁵. Furthermore, given that sanctions for underreporting and violating the law were virtually never imposed on parties (the Sanctions received a score of 0.3), the overwhelming public perception was that providing incomplete information in financial reports was a common behaviour. Several recently initiated investigation proceedings show that the investigation bodies have now decided to establish whether such allegations were true. However, the very existence of these allegations created the public perception that financial reports of political parties did not contain full and accurate information about party funding.

For the most part violations of legal provisions have been discovered by the media²⁶ or NGOs²⁷. A series of corruption affairs involving political parties was uncovered in 2010 and 2011 through investigations carried out by the police and the State Attorney's Office²⁸.

Although the Ordinance²⁹ states that records of donations received must be authenticated by a seal and signature of the responsible person from the political party, it remains unclear whether this provision will actually force political parties to state accurate data in their records. To date, parties have usually tried to avoid stating the correct amount of expenditure³⁰, the names of actual donors and the amount

of donation, while the reasons for this avoidance can only be assumed (promise of future favours in exchange for a donation, receiving donations from suspicious sources, etc.) Independent experts interviewed largely expressed their concern about the reliability of reports, as well as whether they contain full data: 'Given the degree of political culture in the country we have no reason to believe that the reports are full and accurate unless this can be verified. Simply appealing to ethics will unfortunately yield no results'. Lawmakers should anticipate that parties will seek ways to get around limits and disclosure requirements. Therefore violations and the corresponding penalties should be clearly provided for in the law.

Dimension 6: Public Disclosure

The general purpose of public disclosure of party financial information is to 'enable everyone to pose questions on political finances in a public debate'³¹, and also to discourage parties from engaging in controversial transactions in their financial operations. Reporting serves as a monitoring mechanism because it gives an opportunity to other political actors, mostly journalists, but also other political parties, to inform the public about any violations of the law³². The obligation to publicize financial reports hinders potential abuses, as the public has the 'unique power' which curbs the pressure donors exert on political parties, but also limits the possibility that parties repay donors for their donations by doing them favours³³.

Allocation of public funds is connected to the obligation of public disclosure. It is a way for the state to justify its intervention into political parties, traditionally regarded as private subjects, following the reasoning that, as recipients of public funds, they are accountable to the state for their financial operations.

The disclosure of financial information is based on indicators, which describe the types of requirements to which the parties are subject: the disclosure of information on public subsidies; the disclosure of information on private financing received, the frequency of disclosure; and the channels through which the public is made aware of such information (visits to the party, the electoral management body, internet access etc).

23. <http://www.pomakonline.com/content/view/226/109/>, <http://www.jutarnji.hr/macek-i-barisic-stalno-su-navlacili-poslove-za-fimi-mediju-i-massol/973592/>

24. <http://www.jutarnji.hr/fimi-media---jarnjak-i-macek-znali-su-sve-o-crnim-novcu--donosili-su-ga-u-hdzu-dijelili-/973856/>

25. <http://www.srp.hr/?p=794>

26. <http://www.tportal.hr/vijesti/hrvatska/148879/sto-je-vaznije-istina-o-crnim-fondovima-ili-tko-ju-je-objavio.html>

27. <http://www.gong.hr/news.aspx?newsID=3529&pageID=1>

28. <http://www.tportal.hr/vijesti/hrvatska/148879/sto-je-vaznije-istina-o-crnim-fondovima-ili-tko-ju-je-objavio.html>

29. Article 3, paragraph 6 of the Ordinance on the manner of keeping records and issuing receipts.

30. <http://www.poslovnih.hr/vijesti/na-popisima-donatora-stranaka-manje-poznate-tvrtke-osim-vipa-61846.aspx>

31. Nassmacher, Karl-Heinz, 2000: Comparing Party and Campaign Finance in Western Democracies, u: Gunlicks, Arthur B. (ed.): Campaign and Party Finance in North America and Western Europe, Excel Press, San Jose, 258.

32. Ware, Alan, 1998.: Conclusion, u: Burnell, Peter/ Ware, Alan (ed.): Funding democratization. Manchester University Press, Manchester and London, 235-236.

33. Alexander, Herbert E., 1976: Financing Politics: Money, Elections and Political Reform, Congressional Quarterly Press, Washington D.C., 171-172.

Furthermore, additional indicators based on the findings of field tests were used to measure practices of disclosure. This included the citizen experiment, in which a group of citizens, journalists and students, requested information addressed to various stakeholders (such as political parties, donors, TV stations). These indicators are based on the following questions: what information was obtained through field tests conducted by volunteers? What was the rate of response achieved with requests for information submitted by local research teams? And whether parties voluntarily disclose financial information?

DISCLOSURE



The right to financial support was first given to political parties in 1993 by the adoption of the Act on Political Parties; the level of support remains approximately the same as provided for in this initial legal solution even after the adoption of other laws. Funds are secured in the State Budget for regular annual financing of political parties equalling 0.05 % of the annual budget for the previous year, while funds are also available to political parties in local self-government budgets³⁴. This kind of support is not available to non-parliamentary parties or to parties not represented in local self-government representative bodies – this right is available only to parties with elected members³⁵, while the amount of support is proportional to the number of elected representatives³⁶.

In 2009 the largest political parties in Croatia received the following amounts of public funding:

- › HDZ (Hrvatska demokratska zajednica) – HRK 23.3 million³⁷ from the State Budget and HRK 18.7 million from local self-government unit budgets,
- › HNS (Hrvatska narodna stranka) – HRK 2.7 million from the State Budget and HRK 4.9 million from local self-government unit budgets,
- › HSS (Hrvatska seljačka stranka) – HRK 2.3 million from the State Budget and HRK 5.6 million from local self-government unit budgets,
- › HSL (Hrvatska socijalno liberalna stranka) – HRK 1.5 million from the State Budget and HRK 0.035 million from local self-government unit budgets,

34. Article 3 of the Act on the Financing of Political Activity and Election Campaigns.

35. Article 4 of the Act on the Financing of Political Activities and Election Campaigns.

36. Article 5 of the Act on the Financing of Political Activities and Election Campaigns.

37. 1 HRK = 7.3 EUR.

38. Report on the audit of financial reports and operations of political parties and independent candidates for 2009 - <http://www.revizija.hr/izvjesca/2010-stranke-2009/izvjesce-o-obavljenj-financijskoj-reviziji-politickih-stranaka-i-nezavisnih-zastupnika-za-2009.pdf>.

39. Article 26 of the Act on the Financing of Political Activities and Election Campaigns.

40. Article 11 of the Act on the Financing of Political Activities and Election Campaigns.

- › SDP (Socijaldemokratska partija) – HRK 22.3 million from the State Budget and HRK 13.3 million from local self-government unit budgets³⁸.

Despite the fact that political parties are not obliged to disclose data on their financial activities pursuant to the Access to Information Act, the provisions of the Political Activity and Election Campaign Financing Act impose this obligation. The annual and semi-annual financial reports on donations are published on their websites.

The report on donations is a constituent part of the annual report. The report on donations received by political parties over the course of the year to support their political activities must be published on the website on regular basis every six months, no later than 15 days after the expiration of the six-month period. The report should be made available on the website for a minimum of 30 days³⁹.

The analysis of practice in this dimension received a relatively low score when compared to other dimensions. It is worth noting that although the new legal framework is solid, the new Political Activity and Election Campaign Financing Act was only adopted in February 2011, which allowed insufficient time to assess its practical implementation. The interviewees' perceptions and the analysis of practice have therefore largely been based on the old legal solutions, which contained a number of weaknesses and loopholes – the fact often abused by political parties. It remains to be seen how the new regulation will affect the practice in the future.

Dimension 7: Preventive measures

This study assesses the dimension of preventive mechanisms in political party funding by using six indicators. These include existence of a centralized system of bank transactions (known as a 'single account') and a ban on cash deposits which could prevent identification of the origin of donations. Furthermore, this dimension looks into the existence of preventive measures against abuse of government resources and whether fiscal incentives are present for disclosure of donations. Another indicator focuses on whether there are media regulations on preventing potential abuse of political influence.

The law does not explicitly ban donations in cash, however, the provision stating that 'monetary donations shall be paid into the central account of the political party⁴⁰' seems to suggest that donations are paid into a single central party account, which means that attempts to conceal funds in various party accounts should be prevented.

PREVENTION



Political parties enjoy a special tax treatment – pursuant to Article 9 of the Political Activity and Election Campaign Financing Act, ‘with regard to their efforts strictly associated with their political activity, political parties shall not be subject to the payment of the profit tax and the value-added tax under the provisions of special laws, and may also be entitled to tax benefits under the provisions of a special law’. This provision fails to specify the special law, who is to determine the type of activities eligible for tax exemptions, or the criteria this determination should be based on. However, a restrictive approach would have to be taken without a doubt.

The practice related to prevention mechanisms achieved a relatively low score of 4.4. As explained above, the Political Activity and Election Campaign Financing Act was adopted in February 2011, which is why its efficiency has not been truly ‘tested’ neither in regular party financing nor on elections. The score therefore reflects the perception and experience from last year when different legal framework was in place.

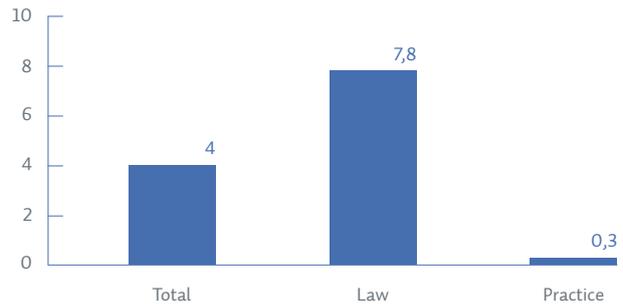
The law bans party advertising outside the election campaign.⁴¹

Dimension 8: Sanctions

As with most other dimensions, multiple indicators that focused on both the legal framework and practices were used to evaluate the dimension of sanctions. Questions included: are existing laws on annual funding of political parties adhered to in practice? Is current legislation in this area adequate? Are sanctions for violation of established rules appropriate?

Imposing sanctions on political parties for financial abuses and infringement of the law proved to be one of the weakest points of the legal regulation system, particularly when it comes to the practical implementation of the regulation concerning party finances. This is clearly supported by the results of the Crinis study: the practical application of sanctions received the lowest score in the whole research. It was weak in the past and the new law has introduced more comprehensive

SANCTIONS



sive sanctioning regime – as new was not until now ‘tested’ on election, it is hard to predict would sanctions really implemented for financial abuses and infringement.

The Act on Political Parties⁴², the first legal solution which regulated party financing in Croatia, envisaged fines ranging from 200 to 500 German marks of the time for parties failing to publicly disclose the source of their financing or failing to submit their annual financial report. However, this provision, which was in force from 1993 till the end of 2006 has never been applied into practice.

The current legal framework envisages a wide range of sanctions.

A fine ranging from HRK 50,000 to 500,000 shall be imposed upon a political party, if the party fails to use the funds for the purposes laid out in the program and charter of the party, fails to maintain records of membership fees and voluntary contributions received, exerts any kind of pressure or promises political favours to donors, fails to submit its annual financial reports including the required annexes, to the State Audit Office within the specified period.

For any offence made by a political party, a fine ranging from HRK 10,000 to 20,000 shall also be imposed on the person authorized to act on behalf of the political party or represent it as well as the person responsible for its financial operations⁴³.

The sanctions regime extends further into other forms of sanctions. If a political party fails to submit its annual financial statements, including the required annexes, to the State Audit Office within the period specified, or if it fails to disclose information on donations received during the course of the year, the payment of funds for their regular annual financing from the budget shall be suspended⁴⁴.

Political parties cannot be banned from participating in the elections for committing financial offences. However, heads of parties and/or their accountants can also be prosecuted⁴⁵ but based on previous experiences, the likelihood of this sanction, being enforced remains rather low.

41. Title IV Rules on the procedure of electronic media with the national concession in the Republic of Croatia during the electoral promotion (OG 165/03, OG 105/07).

42. Article 26 of the Act on Political Parties (OG 76/93); Article 4 of the Amendments to the Act on Political Parties (OG 164/98)

43. Article 43 of the Act on the Financing Political Activity and Election Campaigns.

44. Article 41 of the Act on the Financing Political Activity and Election Campaigns.

45. Article 49 of the Act on the Financing Political Activity and Election Campaigns.

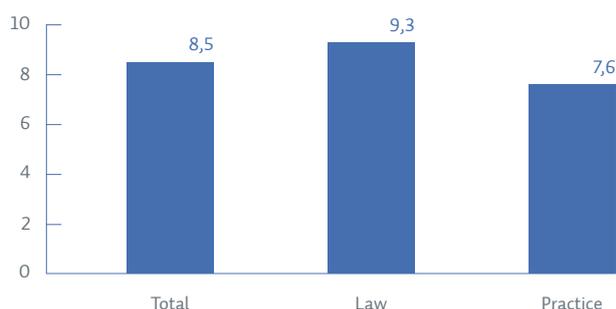
Donors can also be penalised if they fail to issue an invoice for any donation made in the form of products or services, or if the value of any donated product or service as specified in such invoice, does not correspond to its market value. They are also not allowed to make donations if they have any outstanding debts to be paid either to the budget or to their employees⁴⁶.

The markedly low score for practice in this dimension (only 0.3, which is by far the worst result obtained in the whole research) was achieved through the analysis of practice based on the regulatory framework which was in force until February 2011. As explained above, the old framework was rather weak when it came to sanctioning violations and dishonest practice, as several laws which regulated this area allowed for different interpretations of obligations, competencies and authority. Still, the main problem was the lack of political will to impose any sanctions – either by initiating a misdemeanor procedure, or by disappropriation of public funds provided by the state for financing political parties.

Dimension 9: State Oversight

State oversight is an indispensable element in strengthening the systems that regulate political financing. The independence and clear mandate of the oversight body is necessary for its effective functioning. It is also vital that the institution has sufficient resources and technical capacity to carry out its duties. The three indicators used in this study include questions on legal mandate and institutional arrangement to evaluate whether the body has necessary legal powers to carry out independent oversight of political party funding. Other questions focus on examining actual practices, such as, how independent is the oversight body, as evaluated by relevant actors in the field? What are its capacities and shortcomings in terms of its resources?

STATE OVERSIGHT



In Croatia the oversight of annual party finances lies in the domain of the State Audit Office, the State Election Commission and the Tax Authority of Finance Ministry. The State Audit Office performs audits of the annual financial operations and annual financial statements.⁴⁷ Its competencies are regulated by law, by the State Audit Act. The State Audit Office is run by the Auditor General, who is appointed by the Parliament for the term of 8 years. He/she can be reappointed to the same position⁴⁸. The law does not define the qualification requirements for the appointment of the Auditor General.

The position of the leading persons of the State Audit Office is legally regulated in the way that prevents their dismissal from duty before their tenure comes to an end, e.g. for political reasons.

The Auditor General is independent in his/her work and can be dismissed from his/her duty before expiry of the tenure only in the following situations: when the person request dismissal, when appointed to the other position with his/her consent, if the person permanently loses the capability to carry out the duty, and if found guilty for a crime which makes him/her inappropriate to carry out the duty of Auditor General⁴⁹.

The head of State Audit Office has to date not been removed from duty for political reasons.

It is difficult to assess whether this body has sufficient resources for carrying out its work effectively. The laws simply specify that the financial means necessary for their operation shall be provided by the state budget⁵⁰ but that does not mean that they have sufficient number of employees and/or financial resources at their disposal. In the past the State Audit Office proved to be lacking in performing adequate oversight of party financing, since the state audit ‘failed to perform a single financial control of parties’ operation up to the autumn of 2002⁵¹. This was justified by the lack of employees; according to the statement given by the spokesperson of the State Audit Office in December 2001, the financial control was not performed as the office was ‘very busy with the audit of the transformation and privatisation’⁵². Today, such supervision is regularly performed, and in the past, just like today, this issue is more related to the lack of political will to perform the control rather than the lack of human resources.

The State Audit Act stipulates that the audit as performed by the Office is the examination of documents, deeds, statements, internal control and internal audit systems, accounting and financial procedures, and other records in order to determine whether financial statements truly reflect the financial activities in compliance with accepted accounting principles and accounting standards, and that the audit also

46. Article 45 of the Act on the Financing Political Activity and Election Campaigns.

47. Article 27 of the Act on the Financing Political Activity and Election Campaigns.

48. Article 12 of the State Audit Act.

49. Article 13 of the State Audit Act.

50. Article 15 of the State Audit Act, Article 11 of the State Election Commission Act.

51. Kregar, Josip / Marko, Jozef, 2004: *Financiranje političkih stranaka*, in: Prpić, Ivan (ed.): *Država i političke stranke*, Official Gazette/Croatian Law Center, Zagreb, 88.

52. Jelušić, Mario, 2001: *Financiranje izborne kampanje i hrvatsko izborni zakonodavstvo*, Zbornik Pravnog fakulteta u Zagrebu, (51) 6: 1375.

includes the procedure of examining financial transactions⁵³. A legal representative of a political party is obliged to furnish the certified state auditor with required documentation, deeds, statements and other records, as well as provide other information needed for the audit work⁵⁴. From the above, it can be concluded that the State Audit Office has all legal authorities required to adequately perform the audit of financial operation of political parties.

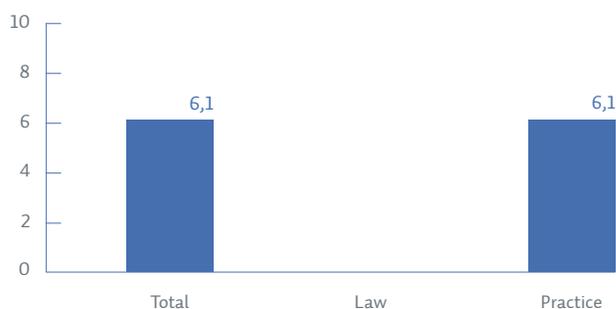
The existing system of reporting and public disclosure is well conceived, and would likely ensure that abuses and corruption affairs were a rarity if political parties adhered to the legal provisions. The weakest link in the system, which leaves a lot of room for improvement, is the verification of accuracy of financial reports.

When irregularities were established in the operation of political parties, the State Audit Office in its reports from year 2009 appealed to the parties to correct such irregularities. However, since the establishment of irregularities was not sanctioned in any way, only a small number of parties named corrected these irregularities within the required period.

Dimension 10: Public oversight

In addition to the oversight functions performed by state bodies, other actors such as the media, academics, civil society organizations and citizens and at times, political parties themselves may engage in monitoring funding of political parties. Monitoring may include activities such as reporting irregularities to government bodies, analyzing finance reports to inform the public and pressuring authorities to ensure that their oversight is functioning and effective. In assessing this dimension, the study focused on the oversight activities performed mostly by civil society organizations and media. The specific questions included: whether there are organizations that oversee political financing, whether they are independent, active and influential in their activities. Another indicator also looks into the question of whether civil society, citizens or political parties report irregularities to the state oversight body.

NONSTATE ACTORS' OVERSIGHT



53. Article 2 of the State Audit Act.

54. Article 5 of the State Audit Act.

In previous years, various non-governmental organisations in Croatia have pointed to the irregularities related to financing of political parties, with Transparency International Croatia and GONG taking the lead. Non-governmental organisations participated in various activities: media monitoring, pointing to the abuse of funds received from the budget, cooperation with political parties and candidates, etc. The worst type of cooperation is related to the amendments of the regulation. We shall illustrate this with the example of the adoption of the Act on Financing Political Parties from 2006.

In 2006 Transparency International Croatia, in cooperation with the experts from the University of Zagreb prepared a draft proposal of the Act on the Financing of Political Parties and Election Campaigns, in line with the best European practice. Transparency International Croatia presented it to the highest officials such as the President of the Government, the President of the Parliament, and State Secretary of the Central State Administration Office. Before the draft proposal of the Act on Financing Political Parties, Independent Lists and Candidates was forwarded to the parliamentary procedure, government representatives had consultations with the associations Transparency International Croatia, GONG and Partnership for Social Development. These associations used the occasion to yet again point to the shortcomings of the Act. However, the Government included only a part of the solution from the draft prepared by Transparency International Croatia, and then only those solutions which are more general in nature and are not considered controversial. The Government did not include certain necessary innovations or more detailed regulation of the pre-election campaign and stricter limits of the amounts of donations to political parties, into the proposal which was forwarded to the parliamentary procedure. This showed that the influence of the non-governmental sector on policy proposals was limited: the regulation was rejected despite having policy background and being notechnically adequately prepared.

A similar situation was again encountered in 2011 when the Working Group for preparing the new draft Act on Financing Political Parties was established, with representatives of state institutions and Transparency International, but no representatives of other parts of interested public, such as the academic community.

The media is also involved in covering the issue of financing political parties. However, the articles are often seeking sensations and ideologically biased media are publishing statements about certain political parties. Political parties acted in a similar way, with the rival parties accusing each other of corruption.

6. Recommendations

1. MORE DETAILED REPORTING ON EXPENDITURES

Legal provisions on reporting of income can be described as pretty detailed, but there is still some room for further improvements. Therefore reports might specify more details on expenditures on annual activities of political parties, including non-financial contributions and any discounts on goods and services. These would include items such as salaries, rental of premises and utilities, travelling costs and accommodation, purchase of goods (equipment, furniture, vehicles, etc.), training, consultancy, etc.

Separate accounts might be used by parties for funds received from the budget and those received from other sources, in order to facilitate monitoring the restrictions related to the spending of budgetary funds, avoiding as much as possible item 'other expenses'.

2. MANDATORY AUDIT OF FINANCIAL REPORTS

Before being submitted to competent state authorities, financial reports should be certified by an independent authorised auditing company. This would ensure a higher standard through three-level system: party accountants draw up annual financial reports (as well as the reports on election campaign funding), which are then checked and verified by independent auditors (certified private auditing companies). This would reduce the possibility of issuing false reports, considering that private auditing companies may lose their license and thus the right to carry out their activities if it is established that the audit was irregular and not in line with the international auditing standards. A state authority (an auditing authority, i.e. the State Audit Office) would then come in as a third instance and verify the form and authenticity of the submitted audit reports.

3. STRICTER IMPLEMENTATION OF SANCTIONS

Public bodies and courts in particular should insist on sanctions being strictly imposed for violations of the law. This has proven to be one of the weakest points in the system, and is assessed to be one of the reasons behind frequent violations of the law related to party financing. Implementation should also imply stricter monitoring, which would in turn require a closer cooperation between the key institutions – the State Election Commission, the State Audit Office and the Tax Authority of Finance Ministry. All these institutions are in charge for monitoring political financing in different stages. Another solution would be to establish a new independent body which should proactively supervise party financing. This new body should closely cooperate with all authorities dealing with the control of finances in the country, including Tax Authority of Finance Ministry and State Audit Office, and gather all information on party financing in one place.

4. IMPROVING PUBLIC OVERSIGHT

As any enforcement agency cannot be able to detect all of the violations on its own, it should engage external stakeholders in the process of monitoring political finance. All reports and audits conducted by institutions should be made transparent and accessible to all stakeholders interested in financing of political processes. Civil society organizations, journalists and individuals who believe that a violation has occurred should be able to report this to the supervisory body. In order to change the environment and political culture, it is vital that the public is informed about the nature of political finance regulations. To this end, Croatia should invest more into public awareness campaigns, media training, and other forms of educating external stakeholders on political finance regulations and on the process for filing complaints.

7. Annex – List of Participants In the Research

POLITICAL PARTIES (ALPHABETICALLY):

1. Croatian Democratic Union (HDZ)
2. Croatian People's Party – Liberal Democrats (HNS)
3. Croatian Peasant Party (HSS)
4. Croatian Party of Rights (HSP)
5. Croatian Party of Pensioners (HSU)
6. Social Democratic Party of Croatia (SDP)
7. Independent Democratic Serb Party (SDSS)

NON-GOVERNMENTAL ORGANISATIONS:

1. Nikola Kristić, TIH
2. Marko Rakar, Vjetrenjača
3. Dragan Zelić, GONG

COMPANIES NOT MAKING DONATIONS TO POLITICAL PARTIES:

1. Snježana Bahtijari, Ericsson Nikola Tesla
2. Mladen Fogec, Siemens
3. Žarko Horvat, Holcim
4. Ranko Potkonjak, Lenovo
5. Zlatko Zekan, Storm Computers

DONORS:

1. Štefanija Balog, Arhitektonski studio
2. Branko Roglić, Orbico
3. Slobodan Vajagić, SV Group d.o.o

EXPERTS:

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2. prof. dr. Zdravko Petak
3. prof. dr. Damir Grubiša

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3. Davor Krile, Slobodna Dalmacija
4. Saša Paparella, Poslovni dnevnik

