

Pregledni članak
324(497.5:100)"2003"
329(497.5:100)"2003"
Primljeno: 29. lipnja 2004.

Financing Political Parties in Croatia: Parliamentary Elections 2003

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Summary

The paper analyzes the way in which political parties in Croatia are financed. Particular attention is paid to the campaign finance during the 2003 parliamentary elections. It is suggested that the main obstacle in regulating political finance in Croatia is the non-existence of any kind of disclosure obligation for regular and campaign funds of political parties. The paper particularly carefully analyzes the structure of the Croatian political parties' budgets. There are two basic findings of the analysis: Croatian political parties rely too heavily on state subsidies, while donations from the business sector are completely non-transparent and without any limitations.

Key words: political parties, party finances, Croatia, elections



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1. Croatian system of financing political parties and elections in comparative public finance literature

Conducting democratic elections regularly includes a mixture of measures regulating the issues of political finance. There are no general rules how to deal with party and campaign funding or what could be labeled as the best practice in handling political finance. But nevertheless some standards of good practice could be very clearly elaborated. "A system of public financing, full disclosure and an enforcing agency backed by legal sanctions are essential to the success of a reform for party finance" (Nassmacher, 2003). So the essential point we could raise here is the question: how does the Croatian

system of financing parties and elections match the previously mentioned standards.¹ In answering that question we are going to pay particular attention to the behavior of political parties in financing their 2003 parliamentary election campaigns.

The Croatian system of campaign finance is not unknown to international scholars dealing with political finance.² One of the leading authors in the field, Michael Pinto-Duschinsky mentioned, for example, one peculiarity of the Croatian campaign finance as an item in his list of scandals related to political finance. He indicated that “after the Croatian Democratic Union fell from power in 2000, it came out that the party had raised most of its funding through ‘racketeering’ schemes in which government contractors would be paid only in return for substantial contributions to party coffers” (Pinto-Duschinsky, 2002: 73).

Putting aside the above mentioned malpractice, the question remains: what are the basic features of the Croatian system of funding parties and elections. Taking into account the common political finance measures we can offer several basic conclusions:

1. The Croatian system of funding parties and elections does not apply any disclosure laws
2. The regulatory policies containing bans and limits on party and election campaign finance are nonexistent
3. Croatian political parties heavily rely on government subsidies in funding their regular and campaign activities
4. The system shows general intrasparency of funding from private sources
5. Membership fees generally play an infinitesimal role in party budgets.

2. *Regulating Croatian party and campaign finance*

The Croatian political finance system is a typical case of the “thinly regulated” area. The whole regulation of party funding is contained in a couple of general articles provided by the section III of the *Law on Parties* enacted in 1993. The only concrete provision can be found in the article 19 which regulates the manner in which state subsidies to parliamentary political parties are calculated. In other articles there are no provisions regarding the basic nuts and bolts for regulating party and campaign finance, such as the bans and limits to particular types of revenues and expenditures, the ways of disclosure and reporting on public money, the public agencies for conducting the overall control and, finally, the breaches and penalties which could be implemented in case of non-statutory activities.

Due to that fact Croatia has been valed in the comparative political finance literature as a country without any disclosure laws (Pinto-Duschinsky, 2002: 76-77). The non-ex-

¹ First comparative studies on political finance conducted by Croatian scholars showed that the system hardly matches any standards established in developed countries (Petak, 2001).

² See for example: Toplak (2003), Ikstens et al. (2002).

istence of disclosure laws is not in itself a sign of a non-democratic practice in funding elections³; however, in an overwhelming majority of cases it means exactly such a type of practice.

3. The structure of party budgets

In performing their regular and campaign activities, Croatian political parties heavily rely on state subsidies. The importance of public funding is clearly shown in Table 1, which indicates the share of particular revenues and expenditures in party budgets. Public financing represents more than 75 percent of total revenues. Due to this, state is *the* major donor in financing Croatian political parties and, consequently, politics.

Table 1: Public funding in total revenues of political parties

Country	Per cent of public funding
Croatia	75
Austria	68
France	65
Germany	56
Israel	56
Japan	47
Spain	43
Netherlands	16
Australia	12
Canada	6
Italy	4
United States	3
United Kingdom	2

Source: Pinto-Duschinsky (2002)

4. Non-transparency of funding from business companies

One of the peculiarities of the Croatian system of political finance is a completely unclear picture of the business sector's contributions to political parties' budgets. The donations from the businesses have to be hidden under the item "other sources", but due

³ Sweden is a very good example of a country with a democratic practice in political finance without the enacted disclosure laws. In that country there was a long debate whether or not the parties should be obliged to disclose their financial data. The starting point in the discussion was the statement that political parties represent private associations of civil society. Consequently, they are not obliged to disclose their financial reports. "The whole question was finally resolved when, in 1980, all five parties represented in the parliament concluded a 'voluntary agreement' for the annual mutual exchange of their balances on income and expenditure and to make their balances available to others upon request." (Nassmacher, 2003: 10).

to the lack of any clear accounting standards they are sometimes expressed as “contributions” or “transfers”. Different figures that have been disclosed on this source of funding by the two leading political parties confirm the existence of the problem. The Social Democratic Party (SDP) disclosed 4.6 million of kunas received in 2003 from the business sector and did not report any item under the label “contributions”. At the same time the Croatian Democratic Union disclosed just 1 million of kunas under the item “other sources” and 7.8 million of kunas under the item “contributions”. Since the HDZ, according to some reliable findings (Appelt, 2003b), received at least 6 million kunas, that means that the two political parties applied a different standard of reporting on the funds coming from the business sector.

Table 2: Structure of revenues of political parties in Croatia in 2003

	HDZ	SDP	HSP	HNS	HSS	IDS	LS	DC
Public funds	18,376	30,626	2,382	1,552	8,631	4,388	2,224	2,171
Contributions	7,801	-	-	-	-	-	-	-
Membership fees	201	1,559	1	512	203	38	95	23
Transfers	-	-	-	-	-	-	-	99
Economic activities	1,066	-	-	-	-	-	-	-
Other sources	1,039	4,682	326	415	3,578	146	88	1,114
Total	28,485	36,868	2,710	2,481	12,485	4,574	2,408	4,132

Source: Appelt (2003a)

Apart from the dubious accounting standards that have been applied in financial reporting, even more problematic is the non-existence of any disclosure obligations of political parties in terms of money received from the business sector. There are no disclosures of the amounts nor the disclosures of the threshold which could limit and make more transparent the funds coming from Croatian companies. Additionally, there strong indications that many donations have not been registered at all, meaning that the bulk of the corporative money ended up in the political parties’ coffers in the form of cash.⁴

The lack of clear reporting standards as well as the non-existence of disclosure obligation highly contribute to the non-transparency of the funds coming from the business sector. It also increases the possibility of corruption of all kinds. The financial supporters of political parties from the business sector may require a favor in return for their funds: securing informal influence on governmental decisions.⁵

⁴ There have been dozens of scandals which revealed that Croatian political parties regularly receive a lot of their funds as cash contributions from companies. It is a well-known story of the “money in bags”, which Croatian newspapers have regularly reported about.

⁵ On corruptive potentials of party finance see comparative analysis edited by Robert Williams (Williams, 2000).

5. Party budgets in non-election vs election years

Table 3 gives the data on the total revenues of the leading Croatian political parties in the period following the 2000 parliamentary elections.⁶ The figures clearly show a sharp increase in the revenues during the election year. The revenues of Croatian political parties increased twofold on the average during the election year, indicating the role which campaign finance plays in the whole field of political finance. In some cases, such as that of the Croatian Peasant Party (HSS), the Democratic Center (DC) or the newly formed Liberal Democrats (Libra), the revenues in the election year increased more than twofold.

Table 3: Revenues of Croatian political parties (in thousand kunas)

	2000	2001	2002	2003
HDZ	9,634	10,020	12,488	28,485
SDP	11,889	17,617	17,929	36,868
HSP	n.a.	n.a.	874	2,710
HNS	n.a.	1,216	965	2,481
HSS	3,078	3,006	3,627	12,485
IDS	2,854	3,532	2,778	4,574
HSLs	4,598	3,353	n.a.	n.a.
LS	1,550	869	1,155	2,408
DC	831	2,035	1,510	4,132
Libra	–	–	365	5,552

Source: Appelt (2003a)

The main source of the increased funds required for campaigns were the donations from the central government budget. From 2002 to 2003 state subsidies increased from 36 to over 70 million kunas. This shows, on the one hand, how important public funds are for financing Croatian political parties. At the same time, these “mushrooming” public funds were not enough for covering the ever-increasing campaign costs. The funds from “other sources” increased rapidly as well, from 4.1 million to 11.3 million kunas and if we add the amount hidden under the item of “contributions” in the case of the HDZ, the whole sum increased from 11.6 million to 29.6 million kunas.

6. Basic features of campaign finance in 2003 parliamentary elections

Table 4 gives the data on the expenditures of political parties. The most important item is located in the second row, under the title “services”. That item represents the most important item in the expenditure side of the political parties’ budgets. Since all

⁶ The data for some parties, particularly for the HSLs, are incomplete.

other costs only slightly changed, the increase in the costs of services clearly shows the basic costs of running campaign. The increase in that type of costs is higher than the expenditures on all other items taken together.

Table 4: Expenditures of political parties in 2003

	HDZ	SDP	HSP	HNS	HSS	IDS	LS	DC
1. Material expenditures	17,549	26,448	2,520	3,991	9,753	2,324	1,786	3,356
1.1. Services	16,555	23,326	2,103	3,251	8,928	2,113	1,728	3,240
1.2. Increase in services to 2002	14,850	17,235	1,668	2,847	7,595	1,618	1,391	2,672
2. Salaries	4,305	2,792	-	338	1,245	1,051	213	265
3. Non-material expenditures	2,917	3,006	248	189	183	325	157	364
4. Transfers	1,722	-	51	9	480	-	100	39
5. Investments	1,619	1,614	96	9	-	-	22	21
6. Other expenditures	301	1,135	20	106	104	143	18	83
Total	26,796	34,547	2,520	4,642	11,767	3,844	2,299	4,135

Source: Appelt (2003a)

Conclusion

The Croatian system of political finance is definitely a system with a high level of non-transparency in funding political parties and campaigns. There are no obligations for the political parties to disclose their revenues and expenditures. But it has to be pointed out that the transparency of financial operations may not be enough. If we assume that Croatian voters are not particularly keen to know much about the campaign finance, there is a need to include additional institutional arrangements which will recognize that fact. Public authorities must in such a case create a public agency which could be able to monitor and check on the flow of political finance (Nassmacher, 2003: 12).

The second problem of the Croatian system of financing parties and campaigns is related to its heavy reliance on public funds, the funds coming as subsidies from the central government budget, as well as from the regional and local budgets when local elections are at stake. There are, however, several unintended consequences when political finance system so heavily relies on public funds. The independence of parties may be undermined, the opposition parties may find themselves at a disadvantage in relation to the ruling parties and the state subsidies are extremely unpopular among the citizens (Nassmacher, 2003: 8). So openness to various sources of fund-raising should be a very important criterion for handling political finance in a country. Thus, a much too high

level of public funding – exactly Croatia’s case – could be for that reason an obstacle for developing an optimal system of financing parties and elections.⁷

Finally, the Croatian political finance system does not only require a strong obligation for public disclosure and clear standards for making accounting reports; an extremely important element of the regulation should be the establishment of the limits for particular funding sources (companies, individuals). Another important element is the establishment of the bans against certain kinds of financial contributions, which may be applied without any difficulties. Only when all these elements are comprised within a unified institutional system will it be possible to say that we have established a democratic control of political parties and campaign finance flows.

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⁷ German political scientist Karl-Heinz Nassmacher reasonably argues that public funding should only partly cover party expenses (Nassmacher, 2003: 14).