POLICY PAPER

Regulating party finances in Ukraine: lessons from the Czech Republic

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- **Ukraine has lacked meaningful regulation of party finances since its independence, which resulted in the parties' dependence on oligarchs' money and distortion of political competition. It has recently adopted a new law on party financing which introduces comprehensive changes, but its proper implementation will depend on numerous political and institutional factors.**
- **The Czech Republic has established its system of control over party finances in 1991 and, like Ukraine, hasn't changed it much since then. On the positive side, public financing helped minimize the importance of large private donors for parties and created a level playing field. On the negative side, the state had no effective mechanisms of control over financial activities of the party, which were also hidden from the public eye. Like in Ukraine, the Czech government has recently introduced a new bill on party financing which is now being discussed and voted upon in the Czech Parliament.**

Introduction

Although the Euromaidan revolution of 2013-2014 has clearly breathed a new life into the democratization of Ukraine, its party system still remains largely unaffected by the changes. Breakdown of the Ukrainian party system during 2014 has led to the emergence of new names but not new models of functioning. Most Ukrainian parties remained dependent on oligarchs' money, which prevented them from representing the interests of their voters, but were reluctant to publicly acknowledge their financial backers fearing to loose public support.

The issue of party funding was finally introduced to the political agenda in the summer 2015 when a bill on the financing of parties was registered. The parliament finally adopted it in October, and the president signed it in November. The new law introduces far-reaching changes, including on public financing of parties.

Yet, the experience of many European countries clearly demonstrates that reforming party finances is a challenging task. We have chosen the Czech Republic as a model for several reasons. On the one hand, it shares with Ukraine its communist past which has put a mark on its party system. On the other hand, it could boast, at least until 2010, of the most stable and predictable party system in the region. Finally, its long experience of public funding of parties going back to 1991 provides opportunities to learn lessons connected with implementation of the relevant provisions.

This paper will start with a general overview of party financing in Ukraine and its recent legal changes. It will then proceed to examine Czech legislation on party financing and highlight its main advantages and drawbacks. We will use them in order to draw lessons that could be applied in Ukraine.

Party finances in Ukraine: old realities and new expectations

Ukrainian legislators have traditionally devoted minimum attention to the issue of party financing. For instance, the law 'On political parties' did not mention who could finance parties – only those who couldn't.[1] As a result, both legal and natural persons were allowed to financially support parties, but not the state.[2] However, legislation put no limits on contributions from any authorized source. Regulation of party expenses was even more relaxed as the law prescribed no limitations on them whatsoever.

Control over party financial activities was another badly missing issue from the relevant law. Parties had an obligation to publish annual reports on their incomes and expenses in national mass media, but faced no sanctions if they did not comply. No public body was entitled to monitor these reports, which made parties accountable only to tax agencies. Unsurprisingly, parties tended to ignore the obligation to publish annual reports.[3]

Electoral laws were somewhat more specific on possible channels of party incomes, although the lack of single electoral code and frequent changes of the relevant provisions added significant confusion to clarity and stability of the legislation.[4] As a rule, parties had to establish their own electoral funds through which all money could be collected and spent. Various limitations on electoral spending were set by different laws at different times without any uniformity.

Similarly, some electoral laws obliged parties to present their electoral spending reports, while others did not. However, even if parties had to present the reports, the latter had to be checked by the Central Electoral Commission (or territorial commissions in the case of local elections), which lacked both capacities and resources to scrutinize them properly. No sanction mechanism for violating these rules was in place either. Consequently, parties were publishing their spending reports only sporadically and in most cases due to pressure from the public.

Faced with such lax legal framework, Ukrainian parties were able to obtain and spend money without any control from the state and the general public. The absence of wide membership bases or connections with organized interests left them dependent on private donors who traded their financial support for political and economic privileges. As the penetration of economic interests into the state grew stronger, parties and oligarchs entered an unholy alliance in which the latter provided funding for parties' electoral activities and the former secured redistribution of state resources and privileges to the chosen ones.

Dependence of parties on oligarchs' money had two troubling consequences. First, it distorted a level playing field among parties in favor of those who had personal or institutional connections to large businesses. As costs of electoral campaigns increased with time, newcomers and parties without strong financial backings weren't able to compete with their richer counterparts. Second, parties became disinterested in standing up for interests of their voters by focusing instead on repaying debts to their private sponsors. Thus, the representative function of parties was largely distorted.

At the same time, parties were reluctant to acknowledge the true sources of their finances, fearing deterioration of their popular support. Exploiting legal gaps

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[1] State bodies, state companies, foreign states, companies and nationals, religious organizations, and anonymous persons were prohibited from financing parties.

[2] In 2003, the parliament introduced provisions on public financing of parties, but they were never put into force. In 2007, these norms were finally excluded from the profile law. See "On the Path to Public Financing of Political Parties", Centre for Political Studies and Analytics, 2015, available at http://www.kas.de/wf/doc/kas_40272-1522-13-30.pdf?150128133717.

[3] Law "On Political Parties" (as of August 8, 2015), Verkhovna Rada of Ukraine, available at http://zakon3.rada.gov.ua/laws/show/2365-14/ed20150808.

[4] "Ukraine. Report on Legislation and Regulations on Political Parties Activities", Laboratory for Legislative Initiatives, 2010, p. 55-66, available at http://parlament.org.ua/upload/docs/Final%20Country%20Report%20Ukraine%20-%20ukranian_.pdf.

and vagueness, they either abstained from publishing financial reports or concealed real numbers and sources of their funding. During electoral campaigns, parties typically circumvented existing expenditure caps by channeling much of their costs outside of legally established electoral funds. The voters, on their part, were unaware of either who financed parties or how much they spent and, thus, were considerably restricted in their ability to make rational and informed electoral choices.

The recently adopted law on party financing is poised to dramatically improve the situation. It introduces several important changes.[5] First, it establishes annual limits on contributions from both physical and legal persons (amounting to app. EUR 18,6oo and EUR 37,200, respectively). Similarly, the law puts caps on contributions that individuals and firms could make to party electoral funds and preserves existing limits on electoral spending during parliamentary elections (around EUR 4.7 million). However, no such limits are set for presidential elections.

Second, the law introduces financing of parties from the state budget. According to the new provisions, all parties which have gained 2 percent of votes in the most recent parliamentary elections are entitled to receive support from the state[6] (limited to app. EUR 15 million each year) which will be distributed proportionally to the number of votes they gathered. Moreover, the state will reimburse all electoral costs to all parties who gain at least one MP in the parliamentary elections.

Third, parties will face much stricter control over their financial activities. On the one hand, they will have to publish their financial reports, which should include detailed information on their incomes, including in-kind contributions, and expenditures on quarterly basis and submit them to the National Agency on Preventing Corruption. In a similar vein, parties will be obliged to publish interim and final financial reports during electoral periods. On the other hand, parties and their members will face tough sanctions, ranging from administrative fines to imprisonment if they violate various rules on obtaining, spending, and accounting for their finances.

Since the law was signed by the president only recently, its main provisions will enter into force in 2016. Its implications for the party financing in Ukraine could be far-reaching, as parties will be legally obliged to disclose all their sponsors and report on all their expenses both before the state and society. At the same time, obstacles to its effective implementation will be equally strong, as parties will most likely attempt to subvert norms on financial transparency, while political elites could try to prevent the new control institution from being independent and unbiased. In the next chapter, we will look at the legal framework and practice of party finances in the Czech Republic, which has already faced many of the challenges which Ukraine could soon come across.

Czech model of regulating party finances

Sources of funding

Current Czech legislation provides parties with more possible sources of income. Aside from donations from individuals and businesses, parties can also get their funding from rentals and sales, deposit interests, business transactions, organization of public events, and loans and credits. These possibilities stem directly from the legal right of Czech parties to establish business companies and engage in certain types of business activities. However, the real share of business-related incomes of main Czech parties in their annual revenues is rather low, ranging from non-existent in cases of ANO 2011 and TOP 09 to nearly 20 percent in cases of the Communist Party of Bohemia and

[5] Law "On Changes to Some Legislative Acts of Ukraine on Preventing and Combating Political Corruption", Verkhovna Rada of Ukraine, 2015, available at http://zakon0.rada.gov.ua/laws/show/731-19/conv/print1446553766678897.

[6] This provision will enter into force after the next parliamentary elections. Until then, only parties which crossed 5 percent threshold in 2014 parliamentary elections will qualify for state financing.

Moravia (*Komunistická strana Čech a Moravy*, KSČM) and the Christian and Democratic Union – Czechoslovak People's Party (*Křesťanská a demokratická unie - Československá strana lidová*, KDU-ČSL).

At the same time, many Czech parties heavily rely on loans as a source of their income. In 2014, for instance, the Czech Social Democratic Party (*Česká strana sociálně demokratická*, ČSSD) had 52 percent of its income coming from loans, followed by the Civic Democratic Party (*Občanská demokratická strana*, ODS) with 42 percent and ANO 2011 with 39 percent. The practice of taking loans is especially popular before the elections when parties need quick money for their campaigning activities. Often, however, this leads to great financial debts once elections have passed.[7]

Donations and membership fees constitute another source of income of parties, although their importance has dramatically fallen since early 1990s. Membership fees account for around 4-5 percent of the income of most Czech political parties (except KSČM which draws around 13 percent of its revenues from fees of its members). External donations are more relevant for party finances, although they also do not usually constitute more than one fourth to one third of party revenues. Originally, major Czech political parties gathered most of their income from private donations, but several political scandals in the 1990s connected with opaque party financing significantly alleviated party reliance on these sources of income.[8]

Another reason for the rather low importance of private donations for Czech parties lies in their abilities to obtain state funding. According to Czech legislation, the state could grant two main types of funding to parties. First, all parties which have gained 3 percent or more votes in the recent elections to the Chamber of Deputies (lower house of the Czech parliament) are entitled to receive public funds to cover their operational expenses (the yearly contribution ranges from EUR 222,ooo to 370,000 a year). Additionally, parties receive state subsidies for all the mandates they have won in parliamentary and regional elections (EUR 33,000 yearly for each deputy and senator and EUR 9,000 yearly for each member of regional council).[9] Second, parties which have gained more than 1.5 percent of votes in parliamentary elections can obtain the reimbursement of their electoral expenses (EUR 4 for each vote). A small contribution towards electoral expenses is also paid out after European elections.[10]

Czech political parties have long come to accept public funding as an integral part of their revenues. Among the parliamentary parties, ODS relies the least on public funding, gaining near 29 percent of its income from this source. Figures for other parties are higher: 33 percent for ČSSD, 38 percent for ANO 2011, 48 percent for KDU-ČSL, 59 percent for KSČM and Top 09. At the extreme end, Dawn – National Coalition (*Úsvit - Národní Koalice*) gained a whopping 99 percent of its income in 2014 from state subsidies.[11]

Such impressive figures raise the question of whether the introduction of public financing of parties in the Czech Republic has reached its initial objectives of securing parties from undue influence of corporate interests and establishing grounds for fair political competition. Both representatives of main Czech political parties and non-governmental experts agree on the positive role of state subsidies in shielding parties from heavy reliance on private donors and connected dangers of political corruption.[12] Nonetheless,

7 For instance, ČSSD used to transfer assets and liabilities back and forth between the party and its affiliated company in order to avoid insolvency.

8 Zsolt Enyedi and Lukáš Linek, "Searching for the Right Organization: Ideology and Party Structure in East-Central Europe", Party Politics, 2008, vol. 14, no. 4, p. 455-477.

9 "Act of Law 424/1991 Coll., on association in political parties and political movements", Parliament of the Czech Republic, Chamber of Deputies, available at http://www.psp.cz/cgi-bin/eng/docs/laws/1991/424.html.

10 "Act of Law 247/1995 Coll., on elections to the Parliament of the Czech Republic", Parliament of the Czech Republic, Chamber of Deputies, available at http://www.psp.cz/cgi-bin/eng/docs/laws/1995/247.html.

11 All numbers are for year 2014 and are taken from the website http://www.politickefinance.cz run by the Center for Applied Economics.

12 Interview with Radim Bureš, program director of the Transparency International Czech Republic; Interview with Marek Zelenka, Oživení; Císař Ondřej and Tomáš Petr "Party Funding in

state subsidies in the Czech Republic have not prevented the recent personalization of party politics and appearance of parties largely dependent on private donations from large businesses, with the most obvious example being ANO 2011 led by Slovak entrepreneur Andrej Babiš.

At the same time, the influence of state financing on political competition in the Czech Republic was far from univocal. For the long time, the party landscape was dominated by ČSSD and ODS, which alternated in winning elections and controlling the government. Naturally, they got the lion's share of state subsidies and even tried to cut public financing to smaller parties, exposing themselves to accusations of abusing their privileged connections with the state.[13] However, since 2010, the positions of ČSSD and ODS have been diminished by newly emerged parties which were able to enter the parliament without public subsidies. Therefore, the Czech party system faced danger of cartelization, i.e. fusion of parties with the state, in 1990s and 2000s,[14] but changes in political landscape and public opinion were strong enough to reverse this trend.

Yet, continued reliance of new parties on state subsidies raises the danger of these parties becoming disinterested in raising funds by their own means. Currently, there is not enough evidence for concluding that Czech parties abandon their fundraising activities after qualifying for state support, with Dawn being the only notable exception.[15] At the same time, numerous Czech experts call for modifying the public funding system by making it more like the German model, where the amount of state subsidies is proportional to the income that party has obtained from private donations.[16] Such system could encourage Czech parties to fundraise more and inject an additional healthy dose of competition among them.

Spending and electoral campaigns

Party spending is weakly regulated by the Czech legislation. First, the profile law on parties establishes no restrictions regarding the acceptable expenditures for parties. Second, electoral laws differ widely in their approaches to party electoral expenditures.

Party finances are most strictly regulated in the presidential electoral campaigns according to the recent law adopted in 2012. For instance, all party candidates should open banking accounts through which all electoral-related transactions should be made. Interestingly, all operations made within this account should be made visible online to the public which adds a considerable degree of transparency to electoral spending during presidential campaigns. The new law also established spending caps for candidates at CZK 40 million (if a candidate participates in first round of elections) and CZK 50 million (if a candidate participates in second round as well). Furthermore, all candidates have to submit financial reports after the end of electoral campaigns to the Senate (upper house of the parliament); however, law envisages no clear sanctions for non-compliance.[17]

At the same time, no similar regulations exist for parliamentary, regional, and local elections. In these competitions, parties are free to spend any amount of money and to channel it through any number and type of electoral funds. A lack of regulation in this sphere also means that parties can finance their campaigns through separate business companies and individuals, which drastically lowers the level of transparency of party electoral expenditures. Similarly, parties do not need to prepare any kinds of financial reports during or after the electoral campaigns. Finally, no definition of electoral campaign

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the Czech Republic", in Political Finance and Corruption in Eastern Europe, eds. Daniel Smilov and Jurij Toplak, 2007, p. 71-90.

13 Michel Perottino, "The Czech Republic", in Legislation and control mechanisms of political parties' funding, Institute for Public Policy, 2005, available at http://www.isp.org.pl/files/19279128020337439001146755145.pdf.

14 Michal Klíma, "Consolidation and Stabilization of the Party System in the Czech Republic", Political Studies, 1998, vol. 46, no 3, p. 492-510.

15 This party entered the parliament in 2013 for the first time, but has already split into two factions after its leader Tomio Okamura had appeared to appropriate all state subsidies given to the party.

16 Interview with Tereza Zběžková, analyst of the Transparency International Czech Republic; Interview with Vit Simral, Frank Bold Czech Republic.

17 Lenka Petráková, "Political Party Financing", Oziveni, 2014, p. 7-8.

exists in the relevant laws which allow parties and their candidates to spend money for electoral purposes long before the voting day.[18]

This excessively liberal legal environment for party financial activities during the electoral periods (except presidential elections) raises significant criticism from the Czech expert community, as there is no way to gain full knowledge of how much money and for what purposes parties have spent in order to get elected. The problem is exacerbated by the fact that parties are not obliged to separate their electoral expenses in their annual financial reports (discussed in more details in the following subsection) and, thus, could hide the real numbers both from the state and the wider public. Harmonization between existing legislation on parliamentary and regional elections and the one regarding presidential elections is generally seen by the Czech experts as the solution to the existing legal deficiencies. At the same time, several important disagreements still remain, for instance if there is a necessity to establish spending caps for all types of elections.[19]

State control and sanctions

Czech legislation contains several important provisions on control over party finances, but lack effective instruments in implementing them. Each registered party should present its annual financial report by April 1 of the next year to the controlling committee of the Chamber of Deputies. Such report must include all earnings and expenses of the party during the last year, review of all gifts and donations with the exact sums and personal or business information about donors, and an auditor's report.[20]

Such an accounting system turns out to be highly problematic due to several reasons. First, rules for compiling reports are vague and give parties a lot of leeway, such as for instance, to not have to report in-kind donations. Second, reports are checked by members of the parliament, i.e. members of the very same parties which submit their reports.[21] Naturally, MPs tend to perform only formal check of reports, not wanting to endanger the financial reputation of their own parties. Third, given the absence of any regulations on party auditors, parties choose their auditors voluntarily in order to make resulting reports look favorable to them.

More importantly, no effective sanctions are in place. The Chamber of Deputies could theoretically suspend public financing of a party if it failed to submit a report in time, but it usually neglects such possibility, given its already party-based composition. If the committee finds any irregularities within report financial statements or violations of rules on donations to parties[22], it could inform the Financial Administration about it. In such case, the latter should impose fines on parties. Yet, according to the official records, no fine has been imposed on any party during at least the last 12 years.[23] Finally, a party can even be dissolved if it does not present its financial report in time. However, such a draconian measure has never been used.[24]

Fifth, although party financial reports are available to the general public, access to them is significantly restricted. Currently, they are all kept in the national parliamentary

[18] Vít Šimral, "The Funding and Oversight of Political Parties and Election Campaigns in East Central Europe", Frank Bold, 2015, p. 14-16.

[19] Although legally defined spending caps are recommended by several international organizations, such as GRECO and the Venice Commission, some Czech analysts suggest that such limits will simply push excessive finances into 'grey' zones and make them unavailable for legal control. See Vít Šimral, "The Funding and Oversight of Political Parties", p. 22.

[20] "Comparative Analysis of Political Party Financing in V4 Countries + Estonia", Oziveni, 2014, available at http://www.bezkorupce.cz/wp-content/uploads/2014/08/oziveni_comparative_analysis_ppf_01-1.pdf.

[21] The only attempt to transfer the right of monitoring party reports from the parliament to independent body (the Supreme Audit Office) was censored by the Constitutional Court in 2000. See Michel Perottino, "The Czech Republic", p. 17.

[22] The Czech law on parties forbids parties from receiving funding from several sources, including state authorities (except aforementioned state subsidies), state-owned companies, and foreign individuals and companies.

[23] Vít Šimral, "The Funding and Oversight of Political Parties", p. 19.

[24] The only case of party dissolution in the Czech post-communist history relates to abolishment of the Nazi-inspired Worker's Party in 2010. See Miroslav Mareš, "Czech Militant Democracy in Action", East European Politics and Societies, 2012, vol. 26, no. 1.

library in paper format and could only be scanned or copied by library visitors. Naturally, interested citizens should spend considerable amount of time and resources in order to properly analyze party financial statements and have no possibility to process them electronically.

As a result, the current Czech legal framework provides no effective mechanisms of control over party finances. Parties have no incentives to prepare detailed and comprehensive financial reports or to undergo a genuine audit, while the parliament sees no necessity in scrutinizing reports of parties or referring any found irregularities to the tax authorities. Ordinary citizens, journalists, and non-governmental experts, at the same time, are limited in their opportunities to analyze party reports by their own means.

New legislative proposals

The numerous deficiencies and gaps in the Czech legislation on party financing have attracted the attention of several NGOs, which united their efforts in order to pursue the development of new profile law. It was adopted by the Chamber of Deputies in first reading in October 2015 and is now under consideration by the parliamentary committees. The proposal addresses many of the identified problems of the legal framework on party finances and implements the majority of recommendations provided by international organizations, such as the Venice Commission and GRECO.

First, it requires parties to channel all their electoral expenses (excluding those during local elections) through transparent accounts, similarly to the current requirements for presidential elections. Second, the law establishes spending caps during electoral periods (the largest one amounting to around EUR 3.4 million).

The draft law also sets stronger requirements on party financial reports. First, the reports will have to include all in-kind donations together with its market price, as well as a list of all companies in which parties have shares and the profit they have derived. Similarly, parties will need to distinguish all electoral expenses in their reports. Second, all party reports will be published online in electronic forms. Third, the draft establishes an independent state body which will check the reports and have investigative powers. Fourth, parties won't be able to use the same auditor for more than 5 years, although they still will be able to select the person themselves. Finally, the draft law increases the amount of fines if the party violates various provisions on transparency of its finances.

At the same time, several shortcomings of the current legal framework have still not been addressed. For instance, Czech observers note that the draft law does not explicitly prohibit outside persons and companies from financing party campaigns and does not extend its regulation onto them. This could allow parties to finance their campaigns through affiliated companies and organizations without a strict state oversight. Moreover, the draft law gives parties the possibility to establish their own foundations which are exempt from strict financial regulations. Theoretically, they could also be used in order to channel illicit money for party purposes.[25] The parliament, however, still has time to improve the related provisions of the draft law before the final vote.

Lessons for Ukraine

The Czech legal framework of party finances and its implementation is a valuable case study for any country seeking to improve its relevant regulation mechanisms. For Ukraine, which lacked virtually any legal control over party finances during its independence period, it could provide several positive lessons which could be used as examples to be followed. At the same time, numerous gaps and weaknesses of Czech legal system could also serve as negative lessons for Ukraine, pointing to what should be avoided when designing effective legislative mechanisms for controlling party finances.

[25] "Briefing on Reform of Political Party Financing, Czech Republic", Frank Bold, 2015.

Among the ***positive lessons***, the following should be highlighted:

1. Public financing of political parties has proven to be a quite effective mechanism of preserving parties from the undue influence of big private sponsors and to stimulate fairer competition among parties with different financial resources. The introduction of public financing in Ukraine, thus, could become an even more important step in the same direction, given the generally lower transparency of party financing and the decisive role money plays during electoral campaign.

At the same time, one important factor may weaken the positive influence of state subsidies: Ukraine's new law reserves relatively little money for state subsidies. For instance, during 2014, six Czech parliamentary parties received total of around EUR 16.7 million in order to cover their operational expenses. The corresponding number for Ukrainian parliamentary parties in 2015 should be EUR 14.9 million, although party expenses in Ukraine tend to be significantly higher, especially during elections (this is mostly due to abundance of political advertisement and high cost of it during electoral periods). Therefore, the Ukrainian government should consider increasing the amount of public subsidies in order to make their effect on party finances more visible.

Furthermore, the public financing of Czech parties also revealed some drawbacks. In some cases, it may dissuade parties from raising funds from other sources or even from conducting any activity beyond those formally requested. This danger could be even more pronounced in Ukraine where the threshold for obtaining state support plans to be lowered to 2 percent. This could give many non-parliamentary parties incentives to enrich themselves through electoral campaigning without aiming to continue their activities in non-electoral periods. Although the new Czech legislation provides no solution to this potential danger, elements of German model of matching public subsidies with amount of own funds raised by party could be introduced.

2. Transparent accounts for presidential candidates and – potentially – for parties during parliamentary and regional elections is a quite unique Czech provision not applied in other European countries. At the same time, it ensures high level of public control over electoral expenses of parties and candidates, as every citizen can monitor their transactions online. By introducing similar provision in relevant Ukrainian laws, Ukrainian lawmakers could greatly increase the transparency of electoral finances.

At the same time, we could also speak about several valuable ***negative lessons***:

1. In the Czech Republic, the absence of an independent agency controlling party finances has resulted in low transparency of party revenues and expenses, as the parliamentary committee responsible for this task has no incentives to perform it properly. Ukraine's new legislation addresses this issue by empowering the National Agency on Preventing Corruption which will be independent from other state institutions with this task.

However, several important challenges still remain. The agency has not been formed yet, although relevant law was adopted more than year ago, so issues of professionalism and political neutrality of its members remain. Moreover, given the many other important tasks which are entrusted to the agency, the question of its institutional capacity and resources to properly monitor party finances arises. In order to address this challenge, the Ukrainian parliament could choose to transfer such functions to other, more specialized bodies with a more limited sphere of competences. Meanwhile, Ukrainian civil society should commit its resources and expertise in order to help the agency members perform their tasks effectively.

2. The lack of effective sanctions mechanisms for violating rules on party finances has also prevented the Czech state from exercising effective control over party funds. The new Czech legislation, according to some Czech experts, improves the situation, but not radically, as amounts of fines remain quite low. The new Ukrainian law, at the same time, has a somewhat better potential, as it imposes slightly higher fines and also criminalizes some aspects of illicit party funding or violating rules on reporting. At the same time, the effective enforcement of these sanctions could run into troubles as long as law-

enforcement and judicial bodies responsible for these tasks remain dependent from political bodies and vulnerable to corruption. Thus, reform of law-enforcement and judicial systems remains crucial in making party finances more transparent.

3. The inability of Czech citizens to obtain party financial reports in an accessible form has created significant roadblocks towards public oversight of party finances. A proposed provision obliging all parties to present their reports in an electronic format constitutes an important step forward, but should be complemented by the necessity to transform electronic files into open data format in order to make them more easily accessible. The new Ukrainian law envisages that reports should be published in open data format as well, although this provision again raises the issue of capacities and resources of the anti-corruption agency responsible for implementing this task. Again, the role of civil society in this regard could be crucial, as its representatives could contribute to launching and maintaining such system of open data.

4. The absence of caps on donations to and spending of Czech political parties was another major drawback of its legal system which allowed parties to gather and spent money uncontrollably. The new Ukrainian legislation establishes caps for donations to parties and even prevents one person from circumventing this provision by financing any party from different companies it may own. At the same time, limits on electoral expenses could prove to be not effective enough, as parties will seek ways to circumvent them and channel electoral money outside legally allowed funds. This is because parties still have incentives to spend a lot, given legal possibilities to buy advertisement in various media without any meaningful restrictions. Therefore, Ukrainian parliament should work on limiting (or, in some cases, banning) political advertisement in order to limit de facto amount of money that parties could spend during elections.

Conclusions

Ukraine could learn several important lessons from the Czech experience, which are all the more important given the adoption of the new law on party financing, which establishes effective instruments of state control. In December 2015, the Ukrainian parliament has allocated funds for the state financing of parties in 2016, of which the parliamentary parties are expected to get the first tranches in July 2016. However, several challenges to successful implementation of the law may still arise.

First, the new body which will control party financing could become either dependent on political forces currently in power, or paralyzed by abundant workload. In any case, Ukraine's civil society could greatly help the reform by contributing its efforts to improving the capacity of the new independent body and controlling its activities. Second, the reform of party finances will be incomplete if the sanctions are not enforced, which points to a great need for reforming law-enforcement and judicial systems. Both reforms are under way, but the achievements have so far been unspectacular. Finally, a stronger involvement of the general public in controlling party financial activities is also crucial. This would make its electoral choices more informed and responsible.

Recommendations

Ukraine could draw several important lessons from the Czech experience of regulating party expenses, from which the following recommendations can be drawn.

For the government:

1. Increase the amount of public financing in order to strengthen its impact on party finances;
2. Oblige parties to open transparent accounts, i.e. visible for the public in online regime, for all national elections;
3. Accelerate the reform of law-enforcement and judicial systems in order to strengthen the effect of new sanctions for breaching rules on party finances;
4. Create limits on electoral advertisement in various types of mass media in order to establish de facto caps on party electoral expenses.

For the civil society:

1. Cooperate with new members of the anti-corruption agency in order to help them monitor party finances effectively.
2. Engage in development and maintenance of the system of transforming party reports into open data format.

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