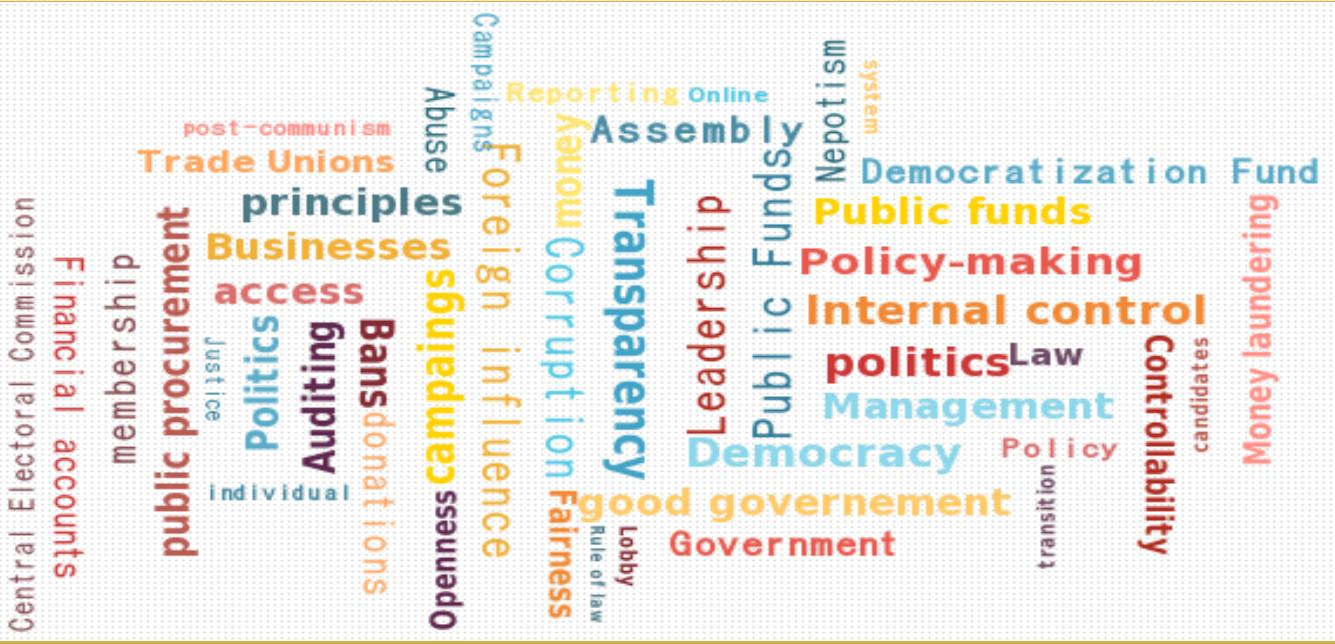


A POLICY REPORT BY THE GROUP FOR LEGAL AND POLITICAL STUDIES

NO. 05 – MAY 2013



Financing of Political Parties in Kosovo — can controllability and transparency help?



GROUP FOR LEGAL AND POLITICAL STUDIES

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"This project was funded through a U.S. Embassy, Pristina grant. The opinions, findings, and conclusions or recommendations expressed herein are those of the Author(s) and do not necessarily reflect those of the Department of State."

Policy Report 05/2013

Financing of Political Parties in Kosovo: Can controllability and transparency help?

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May 2013

For their contribution, we would like to thank the external peer reviewers who provided excellent comments on earlier drafts of this policy product. GLPS internal staff provided very helpful inputs, edits and contributed with excellent research support.

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FINANCING OF POLITICAL PARTIES IN KOSOVO: CAN CONTROLLABILITY AND TRANSPARENCY HELP?

I. INTRODUCTION

Legislation concerning the funding of political parties is of crucial importance for transitional democracies. The pace and scope of democratic reform is influenced by legislation that deals with issues of political party financing such as donations, thresholds and bans, transparency of financial accounts, as well as public grants to political parties. In many transitional democratic countries of Eastern Europe, the financing of political parties has fallen victim to allegations of corruption and fraud.¹ In transitional democratic countries such as Kosovo, the financing of political parties and organizations has become a major concern and continuous reform and legislation is needed in this regard in order to ensure the legitimacy and stability of the political system.²

In Kosovo, perceptions of corruption and fraudulent practices relating to the financing of political parties are very high.³ The misuse of public offices and resources to push forward the agendas of political parties have contributed to this perception. Violations and fraudulent practices range from missing lists of donations to illegal acceptance of foreign donations and incomes. Moreover, gaps in the legal framework for the financing of political parties have allowed for the perpetuation of corruption and fraud relating to the acquisition and use of political party funds. Regular control and monitoring mechanisms must be established to provide a legislative and regulatory framework that allows political parties to legitimately benefit from donations while preventing them from engaging in corruption and illegal bargaining.

The aim of this report is to analyze patterns of funding for political parties and electoral campaigns, identify main challenges vis-a-vis the application of the law on financing of political parties, and assess the role of the Central Electoral Commission (CEC) with regard to promoting the financial transparency and accountability of political parties. The first section of the report analyzes the legal framework that governs party financing. We then examine Kosovo's legal foundations and principles relating to the financing of political parties and move to frame the standards upon which Kosovo institutions can drive reform processes. The second section of the report analyzes the processes of funding political parties in Kosovo, by explaining in detail the public grants and donations scheme and their reflection in the total annual budget of political parties. Specific attention is devoted to the violations and irregularities relating to political parties financing and funds. Detailed analyses are prepared separately for both the annual financial reports and electoral financial reports of political parties in Kosovo. Moreover, this section will illuminate links between the political parties and corruption. Finally, in the last section of this policy report, we deliver a set of recommendations that would enhance the monitoring of political party financing, would increase the financial transparency of political parties, and would enhance the accountability of political parties.

¹Daniel Smilov, 'Party Finding , Campaign Finance and Corruption in Eastern Europe', (2007), 1-2

²Ingrid van Biezen, 'Financing political parties and election campaigns' in integrated project 'Making Democratic Institutions Work' , Council of Europe (2003), pp. 11-12

³ Group for Legal and Political Studies, 'Dissimilar Patterns of (mis)using the Public Money: Trends and practices of public procurement management in Kosovar municipalities, (2012), 4

II. REGULATORY FRAMEWORK AND STANDARDS OF FINANCING OF POLITICAL

By all means, funding for political parties and their activities allows political parties to perform their core political activities.⁴ Many argue that political party expenses can be considered a necessary cost of democracy.⁵ While funding is necessary for the existence and functioning of political parties, the financial interests of political parties can infringe upon their duty to represent the interests of constituents, particularly in states where the legal framework does not properly regulate party financing. In the following section, we analyze common advantages and disadvantages of regulatory systems of party financing before moving to analyse the legal framework of political party financing in Kosovo.

The main advantage of systematizing the regulation of political party financing, apart from informing the public at large regarding the principles governing financial operations of political parties, is to enhance fair political competition, to empower voters, to strengthen political parties as effective democratic actors and to prevent fraudulent activities. Legislation, specifically surrounding public disclosure, donation limits, and prohibitions on certain sources of funding, empowers the constituencies to select which party they want to support (and do so financially as well) and aims to prevent corruption and the distorting effects that money can have on politics.⁶ Moreover, experience shows that the framework regulating funding of political parties enhances political competition by providing political parties with public grants, and, in some countries, by enforcing a spending ceiling in regards to election expenditures.⁷ Regulatory frameworks for the financing of political parties can also strengthen political parties by offering grants in addition to donations and by giving extra funds for training and development. Overall, the legislation regarding the funding of political parties is developed to minimize the potential disruptive influences of financing concerns over the representative and policy interests of political parties while still allowing them to function during elections and annual activities.⁸

The term 'legal framework of political party financing' encompasses the overall legislation, internal documents of political parties as well as documents related to the financial operations and funding of political parties. More specifically, for most European countries, the legal framework of political party financing consists of laws on the financing of political parties, laws on the political parties and election campaigns, constitutional provisions when applicable and all other laws and legal acts that have an impact on the financing activities of political parties.⁹

The regulatory framework regarding the political party funding in Kosovo is based on several laws which supplement each other, such as the Law on Financing Political Parties No. 03/L-174, the Law on amending and supplementing the Law on Financing Political Parties No. 04/L-058, the Law on General Election in the Republic of Kosovo No. 03/L-073 and No. 03/L-256 which amends and supplements the Law on General Election, and the Central Election

⁴ Ingrid van Biezen, 'Financing political parties and election campaigns' in integrated project 'Making Democratic Institutions Work', Council of Europe (2003), 11-12.

⁵ International Institute for Democracy and Electoral Assistance - IDEA, 'Funding of Political Parties and Election Campaigns' Handbook Series, (2003), 4; See also: Ingrid van Biezen, 'Financing political parties and election campaigns' in integrated project 'Making Democratic Institutions Work', Council of Europe (2003), 12.

⁶ Daniel Smilov, 'Party Finding , Campaign Finance and Corruption in Eastern Europe', (2007), 14, 22.

⁷ OSCE, 'Guidelines on Political Party Regulation', (2011), 65,

⁸ OSCE, 'Guidelines on Political Party Regulation', (2011), 71, 72.

⁹ Ingrid van Biezen, 'Financing political parties and election campaigns' in integrated project 'Making Democratic Institutions Work', Council of Europe (2003), 14-15.

Commission Regulations. The vast number of complimentary laws composing the regulatory framework of financing political parties in Kosovo creates problems for understanding and accessing legal provisions for party financing and has incentivized the utilization of double standards.¹⁰

In Kosovo the Law on Financing Political Parties No. 03/L-174, as amended by the Law No. 04/L-05, regulates the financing of political parties/initiatives. The law regulates the financial and material donations and grants that political parties are entitled to, the types of contributions, financial support and incomes for the political parties and their initiatives, and defines the principles on their usage and allocation. In addition, the law determines the total amount of public funds to be distributed to political parties from the budget of Kosovo and specifies the types of donations banned and/or limited for political parties. Apart from these rules, the law on financing political parties specifies the financial accounts and associated reports which political parties have to retain, defines the deadlines within which political parties have to submit these reports to the relevant authorities and specifies the institution responsible for the external oversight of the political parties' financial activities.

While the standards and code of conduct for political party financing are set out in an inclusive regulatory framework, some argue that legal framework and ethical laws are the least respected by the political elite.¹¹ As the following sections of this report will illustrate, political parties in Kosovo do not conform to the requirements of the law and often violate its principles.¹² Such an attitude is in part facilitated by the deficiencies and loopholes in the current law, and in general, by the lack of control and monitoring agencies. Of note is the fact that the Law on Financing of Political Parties has been continuously criticized by the European Commission in its Progress Reports and the latest Feasibility Study. According to the EC Feasibility Study the law is not in line with the European standards because it 'neither prohibits nor strictly regulates donations from legal entities which provide goods or services to public administration'.¹³ Here again, the Feasibility Study for Kosovo acknowledges that this law should 'oblige' parties to contain only one bank account and it should set strict deadlines regarding the publication of financial reports.¹⁴

III. SOURCES OF POLITICAL PARTY FUNDS

Funding is necessary for running party activities, advertising, pushing forward the agendas, selecting candidates and, more importantly, polling and mobilizing voters.¹⁵ Hence, in well-established democracies, political party funding affects many aspects of democratic politics. For this reason, promoting and ensuring a transparent and accountable political party funding

¹⁰ KDI and TIK, 'Legislation and Practices in the Financing of Political Parties', (2011), 8-9.

¹¹ Luis de Sousa, 'Challenging to political financing regulations: Sound external monitoring/enforcement and sensible internal party accountability', Centro de Investigacao e Estudos de Sociologia, (2005), 7-8.

¹² Audit&Conto, 'Financial Statements and Auditor's Report for 2009 and 2010', (2011); See also: Published Financial Accounts of Political Parties for year 2011, available at: <http://www.kqz-ks.org/SKOZ-WEB/al/rrethkqz/materiale/zrpp/Raportet%20Vjetore%202011.pdf>.

¹³ See Communication from the commission to the European Parliament and the Council on a Feasibility Study for Stabilisation and Association Agreement between the European Union and Kosovo, Brussels, (2012), available at: http://ec.europa.eu/enlargement/pdf/key_documents/2012/package/ks_feasibility_2012_en.pdf

¹⁴ See Communication from the commission to the European Parliament and the Council on a Feasibility Study for Stabilisation and Association Agreement between the European Union and Kosovo, Brussels, (2012), available at: http://ec.europa.eu/enlargement/pdf/key_documents/2012/package/ks_feasibility_2012_en.pdf

¹⁵ European Commissions for Democracy through Law, 'International Standards of Financing of Political Parties and Election Campaigns', (2009), 27,

system remains one of the crucial objectives of transitional democratic countries.¹⁶ Apart from donations, political parties rely also on other sources of financing, such as the free labour of volunteers during the election campaigns, donations of goods, and, among others, free usage of different facilities.¹⁷

In Kosovo, the main financial and material sources of political parties, as regulated by Article 4 of the Law on Financing Political Parties are: membership fees, contributions, in-kind contributions, grants from the state budget and other income gained from the sale of books, reports, newspapers and other promotion-related materials.¹⁸ Political parties can impose *membership fees* on their members in an amount not exceeding 12 Euros per member per calendar year.¹⁹ On the other hand, political parties are allowed to receive *contributions* from natural persons (not exceeding 2,000 € per year) and from legal entities (not exceeding 10,000 € per year).²⁰

Whereas *in-kind contributions* are contributions that political parties can receive in a form other than money. In-kind contributions made to political parties in Kosovo include services, goods, usage of property and anything of value provided to them. Another type of financial source which political parties are entitled is the *public fund (grant)*, or the so-called democratisation fund, which is distributed directly from the annual budget of Kosovo. This grant can be used to finance the pre-election and election activities, finance the Assembly's parliamentary groups and other regular activities in which political parties are involved.²¹ Lastly, political parties can gather financial sources from their activities such as the sale of publications, editions, advertisings, posters and other allowed legal sources. All the income from such activities should be registered and verifiable.²²

While there are more than 50 registered political parties in Kosovo, this report focuses on four of the largest political parties, namely, PDK, LDK, AAK, and AKR.²³

¹⁶ Ingrid van Biezen, 'Party Financing in New Democracies: Spain and Portugal', *Party Politics*, (2000), 336; See also: European Commissions for Democracy through Law, 'International Standards of Financing of Political Parties and Election Campaigns', (2009), 27.

¹⁷ Allan Sikk, 'Party Financing Regimes and Emergence of New Parties in Latvia and Estonia: The political Representation of Social Interests in Central and Eastern Europe' (2004), 3.

¹⁸ Law No. 03/L-174 on Financing Political Parties; Article 4- Financial and Material Sources and Article 6-Incomings from the activity of political subject ('Political Subject shall not engage in a profitable business activity, except the sale of goods like: publications, editions, advertisings, posters with party emblem or acronym of political subject and other allowed legal sources').

¹⁹ Rule No 01/2008 on Registration and Operation of Political Parties, Section 15: Political Party Members, 9.

²⁰ Law No. 03/L-174 on Financing Political Parties, Article 5: Contributions for political subjects.

²¹ Law No. 03/L-174 on Financing Political Parties, Article 7: Financial Funds for the support of political subjects and Article 8: The purpose of use of allocations from the support fund of political subject

²² Law No. 03/L-174 on Financing Political Parties, Article 6: Incomings from the activity of the political subjects.

²³ CEC, 'Registered Political Parties', available at: <http://www.kqz-ks.org/SKQZ-WEB/al/rrethkqz/materiale/izrpp/Registri%20%20PP%20-ve.pdf>; Moreover, we have chosen the parties accordingly with their numerical representation in the Assembly. Since no financial data was public for VV, we have instead analyzed the financial reports of AKR.

Table 1: Political Finance Sources for years 2009, 2010 and 2011

Year	Political Parties	Types of Income				
		Membership Fees	Contributions	In-kind Contributions	Public Funds and other	TOTAL
2011	PDK	24105	520749	7200	26591	578645
	LDK	/	21306	20071	521079	562458
	AAK	/	/	/	153191	153191
	AKR	/	288070	2013	155355	445438
	TOTAL	24105	830125	29284	856216	<u>1739732</u>
2010	PDK	125782	351734	22852	557063	1057433
	LDK	/	13000	10000	383728	406728
	AAK	/	/	10000	150572	160572
	AKR	/	425451	23530	220729	669710
	TOTAL	125782	790185	66382	1312092	<u>2294443</u>
2009	PDK	57101	30757	6277	557063	651199
	LDK	/	/	/	375462	375462
	AAK	/	3800	2700	150797	157297
	AKR	/	58125	/	194811	252937
	TOTAL	57101	92682	8977	1278133	<u>1436895</u>

Table 1 summarizes the main types of income (membership fees, contributions, in-kind contributions, and public funding) of these political parties for years 2009, 2010 and 2011. Moreover, it does not include the financial reports of political parties for the year 2012, since the deadline to submit them to Kosovo Electoral Commission is the 1st of March 2013. As we can notice from Table 1, the total income of four political parties included in this analysis peaked in 2010, amounting to 2,294,443 Euros, followed by year 2011 and 2009, respectively 1,739,732 and 1,436,895 Euros.

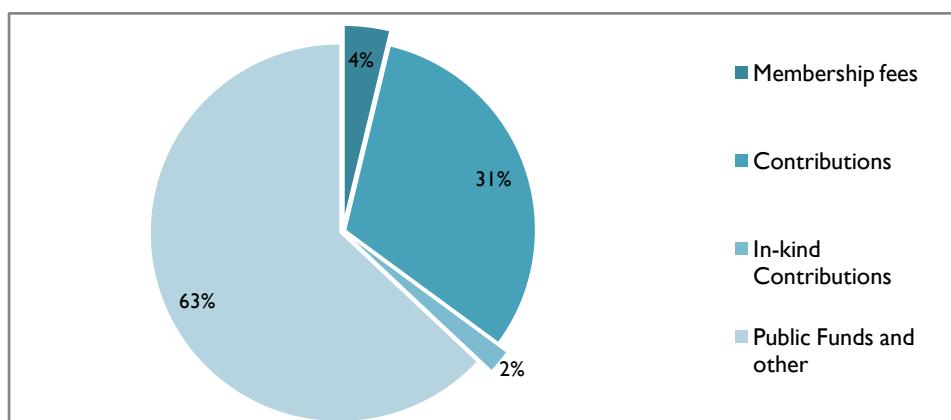
The reason why political parties income peaked in 2010 in part is influenced by the parliamentary elections held in the same year. According to the financial reports, political parties received approximately the same amount of income as their expenses incurred throughout the year. The same reports acknowledge that the amount of income received is justified by the incurred expenses of the political parties. The main financial contributions to the political parties for years 2009-2011 were donations, made either by persons or legal entities and public funds

(democratization funds), accounting for 31% and 63 % of income (see Figure 1). On the other hand, in-kind contributions and membership fees for the four aforementioned political parties seem to be very low, amounting to only 6%. It is worth mentioning that, from 2009 to 2010, income increased within each category. However, in the consecutive year, the only source of finance which continued to increase was contributions, whereas three other categories continued to decrease. There is a sound reason why contributions account for the majority of political parties' incomes, rather than membership fees, in-kind contributions and/or public funds. Public funds are strictly regulated by the law on financing political parties, leaving no space for manipulation by the parties. As political parties are aware that membership fees and in-kind contributions amount to a much lower sum than contributions, they tend to concentrate on attracting contributions. Corporations and/or influential individuals make donations to political parties and in return ask for favours that can be facilitated by these political parties²⁴ (i.e. in order to pursue their personal and/or institutional interest, donors intent to influence policy decisions and politicians). Hence, it is much easier for the political parties to attract contributions than other financial sources.

In 2009 and 2011, political parties with the highest finance sources were PDK and LDK. According to the financial reports of political parties, LDK and PDK, in most cases, reported the highest incomes. This is justifiable as these two political parties are the largest parties in Kosovo and are followed by the largest constituencies. Whereas in 2010, the parties with the largest incomes were PDK and AKR. As illustrated in Fig 2, political parties' financial sources, in general, have been increasing. Except for AAK, whose financial sources remained quite consistent, the income sources of PDK, LDK, and AKR increased substantially from 2009 to 2010.

As mentioned previously, this increase was due to the parliamentary elections in 2010. However, after 2010, the income sources of PDK and AKR decreased; but still remained larger than in 2009. LDK's financial sources, on the other hand, increased further even after the parliamentary elections, as compared to PDK's financial trend.

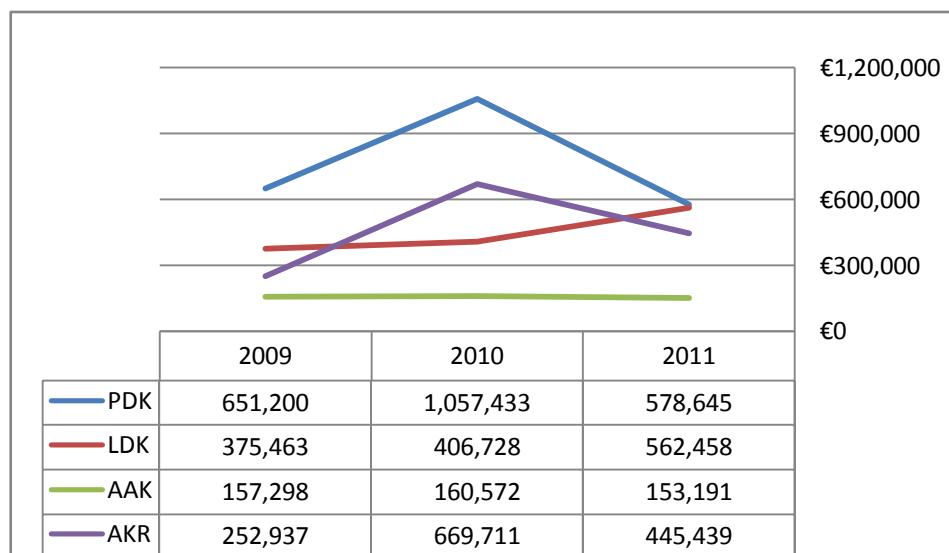
Fig. 1: Political Party Sources (PDK, LDK, AAK, and AKR), from 2009-2011



²⁴ International Institute for Democracy and Electoral Assistance, 'Funding of Political Parties and Election Campaigns' Handbook Series, (2003), 11

Sources	2009	Trend	2010	Trend	2011
Membership Fees	57,101	↑	125,782	↓	24,105
Contributions	92,683	↑	790,186	↑	830,125
In-kind Contributions	8,977	↑	66,382	↓	29,284
Public Funds and other	1,278,136	↑	1,312,093	↓	856,218

Fig. 2: Trends of the political parties' financial sources from 2009 – 2011



IV. MEMBERSHIP FEES

Rather than their financial importance, the significance of membership fees is that they represent the grass-root and traditional linkage between the constituencies and political parties.²⁵ The value of membership fees depends more on the countries' culture than on the type and orientation of political parties.²⁶ In Kosovo, only PDK has been receiving membership fees from its supporters for years 2009-2011, totalling 206,988 Euros. Nevertheless, the positive trend of requiring membership fees from 2009-10, which mainly could have been due to the parliamentary elections of 2010, was followed by a negative trend characterized with a significant decrease of membership fee collection (see Table 2).

Table 2: Membership Fees for years 2009-2011

Sources	2009	Trend	2010	Trend	2011
Membership Fees	57,101	↑	125,782	↓	24,105

Note: The figures above relate only to PDK, since other parties do not receive and/or report membership fees.

²⁵ International Institute for Democracy and Electoral Assistance, 'Funding of Political Parties and Election Campaigns' (2003), 7

²⁶ Zdravko Petak, 'A Comparative Analysis of Financing Parties and Elections in Croatia and in other Countries', (2001), 23

According to the auditing reports of the political parties' financial accounts for 2009 and 2010, PDK did not report any evidence verifying that the received amounts of €125,782 and €57,101 are accurate and in accordance with the CEC rules.²⁷ Due to the lack of evidence, the genuine source of PDK's reported membership fees could not be verified, which creates a lack of transparency in the process.

For example, in the Czech Republic, membership fees were often cited as a cover for the banned donations made to political parties. Interested individuals and entities, determined to make donations which were banned, split the banned donations into several parts and donated them, in part, as membership fees.²⁸ For this reason, in Croatia, political parties are required by law to keep detailed records of donations and contributions received, including reports on membership fees.²⁹ In Kosovo, however, the Law on Financing Political Parties and CEC regulations do not state that political parties have to keep records of the membership fees.³⁰

V. CONTRIBUTIONS (DONATIONS)

The legislation in Kosovo has attempted, with different degrees of success, to ban political parties from receiving certain income sources, to limit contribution to political parties by natural persons and legal entities, as well as control incomes relating to specified activities of political parties.³¹ The chart below represents the contributions made to four political parties from 2009 until 2011. Throughout these years, PDK and AKR collectively received 98% of total contributions, respectively 45% and 53 %. On the other hand, LDK received only 2% of total contributions from 2009 until 2011. Whereas, AAK received 3,800 Euros in 2009, which, compared to the total contributions (€ 1,712,995) for three years, represents less than a percentage of the total. As we can see in Fig 4, LDK did not report any contributions in 2009, whereas AAK has failed to report contributions during 2010 and 2011. This said, political parties, according to their financial auditing reports, have often failed to report and/or have underestimated their sources of income. This might explain the huge difference between parties regarding the amount of received contributions.

²⁷Audit&Conto, 'Financial Statements and Auditor's Report for 2009 and 2010', (2011), 75, 101; RULE No 01/2008 on Registration and Operation of Political Parties, available at: http://www.kqz-ks.org/_SKQZ-WEB/_en/legislacioni/materiale/rregulatkqz/01-2008_en.pdf

²⁸ Yves-Marie Doublet, 'Fighting Corruption: Political Funding', Thematic review of GRECO's third evaluation round, (2011), 19.

²⁹ Political Activity and Electoral Campaign Financing Act, Croatian Parliament, (2011), Article 10: Membership Fees and Voluntary Contributions (donations)

³⁰ CEC Regulation No. 01/2008, Article 15.3: "A registered Political Party may impose membership dues or fees on its members in an amount not exceeding twelve euro (€12) per member per calendar year"

³¹ Law No. 03/L-174 on Financing Political Parties, Article 5, 6, 11.

Fig. 3: Contributions made to political parties, from 2009 to 2011

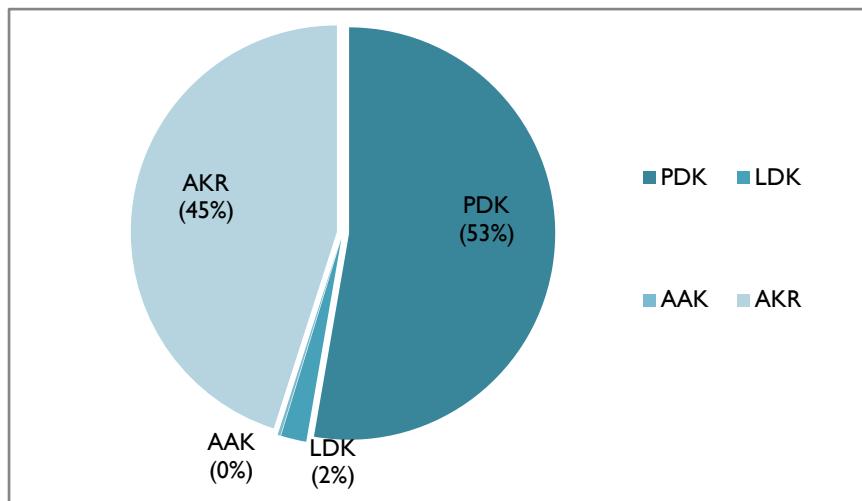
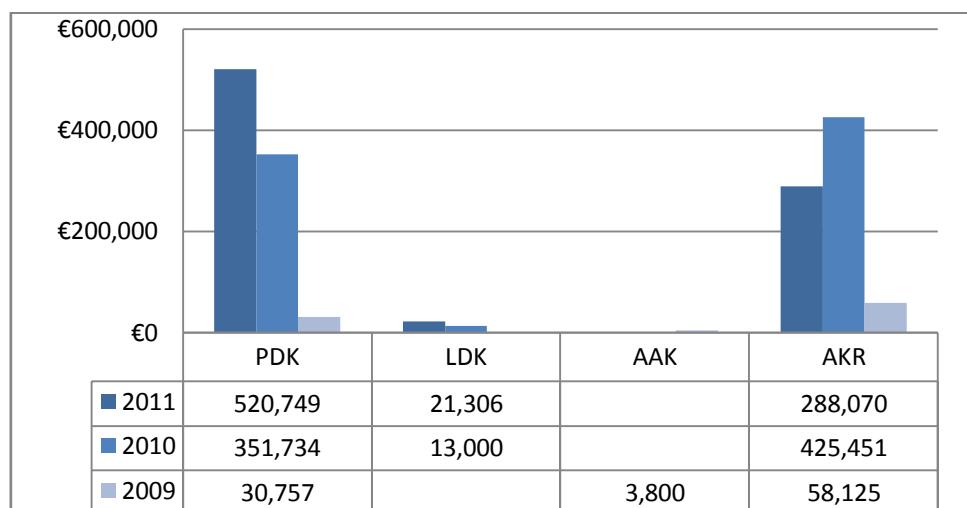


Fig. 4: Annual Contributions made to political parties in 2009-2011



Based on the reported list of donations, we can clearly see that that the composition of donations stems from those cities and regions where political parties have their strongest constituencies (see Table 3).

Table 3: Composition of donations based on cities/regions

Year	PDK	LDK	AAK	AKR
2009	€ 30,757 <i>The party did not present a detailed list of donations</i>	No donations	€3,800 Prishtine, Deçan, FusheKosove	€ 58,125 Prishtine, Maqedoni, Holande
2010	€ 351,734 Prishtine, Deçan, Istog, Kaçanik, FusheKosove, Besiane, Skenderaj, Rahovec, Vushtrri, Viti, Gjilan, Malisheve, Prizren, etc	€ 13,000 Kaçanik, Malisheve, Lipjan, Prishtine, Gjilan	No donations	€ 425,451 Prishtine, Gjilan, Itali, Podujeve, Lipjan, Vushtrri, FusheKosove, etc
2011	€ 520,749 <i>The party did not present a detailed list of donations</i>	€ 21,306 Lipjan, Prishtine, Kaçanik, Obiliç, Suhareke, Malisheve, Ferizaj, Podujeve, Fushe Kosove etc	No donations	€ 288,070 <i>The party did not present a detailed list of donations</i>

According to the Law on Financing Political Parties, individuals are not allowed to donate more than € 2,000 per calendar year, whereas legal entities are not allowed to exceed the amount of € 10,000 in donations per calendar year.³² These limits are lower than those in Serbia or Croatia. In Serbia, for example, the threshold of donations made by individuals is approximately € 3,480 per calendar year, whereas the threshold for donation made by legal entities is approximately € 34, 800.³³ While in Croatia the threshold of donations made by individual and legal entities per calendar year are much larger than those in Kosovo and Serbia, approximately € 11,500 and € 131, 500 respectively.³⁴ However, Bulgaria has entirely banned donations from corporations and it limited donations from individuals to the amount of € 5,000 per calendar year.³⁵

Given the donation limits in Kosovo, the law requires that political parties keep detailed records regarding each contribution. Though such regulations are in place, political parties have been violating these rules, as can be seen in their annual financial reports (see Table 4).³⁶

³² Law No. 03/L-174 on Financing Political Parties, Article 5: Contributions for Political Subjects.

³³ Law on Financing of Political Parties, Official Gazette of the Republic of Serbia no. 72/2003.

³⁴ Act on the financing political Parties, independent Lists and Candidates, available at: <http://pak.hr/cke/projekti.%20zakoni/en/FinancingPoliticalPartiesIndependentListsAndCandidatesAct/Financing.pdf>.

³⁵ Political Parties Act (2009), available at : <http://www.legislationonline.org/documents/id/15811>.

³⁶Audit&Conto, 'Financial Statements and Auditor's Report for 2009 and 2010, (2011); See also: Published Financial Accounts of Political Parties for year 2011, available at: <http://www.kqz-ks.org/SKOZ-WEB/al/rrethkqz/materiale/zrpp/Raportet%20Vjetore%202011.pdf>.

Table 4: Violations regarding the political parties' annual contributions

	Political Parties	Contributions	PI	>1,000 €	ML
2011	PDK	€ 520,749			✓
	LDK	€ 21,306			
	AAK	/			
	AKR	€ 288,070			✓
2010	PDK	€ 351,734	✓	✓	
	LDK	€ 13,000			
	AAK	/			
	AKR	€ 425,451		✓	
2009	PDK	€ 30,757			✓
	LDK	/			
	AAK	€ 3,800			
	AKR	€ 58,125			

Legend		
No records of contributors' personal information	PI	
Subjects received more than a €1000 per day from one contributor		>1,000 €
Missing lists of contributions		ML

In these three consecutive years, 2009 – 2011, many political parties in Kosovo have not submitted the detailed list of received contributions as required by the Law on financing political parties. According to the data received from CEC, PDK and AKR have failed to report a detailed list of contributions along with their financial reports. In addition, according to CEC reports, both political parties have received donations exceeding the amount of € 1,000 per day from one contributor. PDK, in particular, has submitted incomplete information regarding its donors. In general, the share of income reported as contributions could not be legally verified; in many cases, the real source of income could have been from the list of prohibited sources (unknown and/or foreign donations, government and non-government foreign institutions and/or public institutions).³⁷ These types of fraudulent financial activities reflect a great number of the malpractices committed by political parties and reveal the continuous lack of accountability and transparency of political parties' financing.

VI. FOREIGN DONATIONS

Most post-communist countries are sensitive regarding the control and pressure of the external political influence.³⁸ Most Central and Eastern European Countries have limited or entirely banned foreign contributions in order to strengthen the process of 'nation-state building and/or

³⁷ Law No. 03/L-174 on Financing Political Parties, Article 11: Ban in Financial Assistance

³⁸ International Foundation for Election Systems, 'Campaign Finance in Central and Eastern Europe' (2002), 7-8

liberalization causes'.³⁹ According to the Institute for Democracy and Electoral Assistance, there is a need to ban foreign institutions/individuals from donating to political parties and candidates in order to limit the external influence over national politics.⁴⁰ Countries, such as Albania, Macedonia and Croatia, have banned foreign donations to political parties and to candidates (see Table 5).⁴¹ In Kosovo, foreign donations (financial and material assistance) have been banned only to political parties;⁴² the laws do not explicitly regulate or ban foreign donations to candidates.⁴³ This provision in particular, encourages political parties to use such loopholes for their benefit. To that aim, loopholes in the regulations regarding donations made to candidates create a dual-risk: it first undermines the principle of equal opportunities among parties since such donations can be considered as "additional income for some parties, and second, it violates the transparency of political financing."⁴⁴ In order to stop the negative effects that might stem from the existing ambiguous regulations (or non-existing ones), a ban for foreign contributions should be imposed not only to political parties but also to candidates.

VII. CONTRIBUTIONS LIMITS AND ANONYMOUS DONATIONS

In addition to foreign donations, the legislation in Kosovo has also banned several types of funding for political parties, including donations from state enterprises and anonymous donations, and has put limits on the amounts of permitted contributions. The law prohibits corporations, with shares belonging to the State, from making political contributions.⁴⁵ For example, countries, such as Croatia, Serbia, Montenegro and around two-thirds of OECD countries, have prohibited donations from trade unions, charities, foundations and religious organizations.⁴⁶ The main reason behind these banned donations, specifically the ones from trade unions, is that these organizations are not entitled to use their money to influence political decisions.⁴⁷ Whereas in Kosovo, contributions from such sources are not explicitly prohibited, leaving space for manipulation regarding donations to the political parties. In this regard, it is worth mentioning the United Kingdom's approach of publishing a list of 'permissible donors'. This list includes in detail every person and type of legal entity permitted to donate to political parties; if not on the list, one is prohibited from donating to political parties.⁴⁸ This restrictive approach establishes a transparent system and leaves no room for ambiguities.

³⁹ International Foundation for Election Systems, 'Campaign Finance in Central and Eastern Europe', (2002), 7-8

⁴⁰ Institute for Democratic and Electoral Assistance; Available at: http://www.idea.int/political-finance/_country.cfm?id=7#Bans and limits on private income.

⁴¹ Institute for Democratic and Electoral Assistance, 'Political Finance Database: Albania, Macedonia and Croatia', available at: <http://www.idea.int/political-finance/bans-and-limits-on-private-income.cfm>.

⁴² Law No. 03/L-174 on Financing Political Parties, Article 11: Ban on Financial Assistance 'government and non-government foreign institutions and foreign natural and legal persons' are subject to banned donations to political subjects'

⁴³ Law No. 03/L-174 on Financing Political Parties and Electoral Rule No. 12/2009: Campaign Spending Limit and Financial Disclosure, available at: http://www.kqz-ks.org/SKQZ-WEB/en/legislacioni/materiale /rregulatkqz/12-2009_en.pdf.

⁴⁴ Yves-Marie Doublet, 'Fighting Corruption: Political Funding', Thematic review of GRECO's third evaluation round, (2011), 7.

⁴⁵ Law No. 03/L-174 on Financing Political Parties and Electoral Rule: Article 11: Ban on Financial Assistance.

⁴⁶ International Foundation for Election Systems, 'Campaign Finance in Central and Eastern Europe' (2002), 8-9.

⁴⁷ NSW Parliamentary Library Research Service, 'Banning political donations from third party interest groups: A summary of constitutional issues', (2012), 13; See also: Parliamentary Library, 'Donations to Political Parties: Disclosure Regimes', (2004), 17.

⁴⁸ Ingrid van Biezen, 'Financing political parties and election campaigns' in integrated project 'Making Democratic Institutions Work', Council of Europe (2003), 23.

On the other hand, Kosovo, same as Albania, Macedonia, Croatia and several countries in Central and Eastern Europe,⁴⁹ has indirectly banned anonymous donations by requiring parties to record and identify the donor (see Table 5). Nevertheless, even though Kosovo and the aforementioned countries have taken such measures to promote the transparency of party financing, the problem is the weak enforcement of these laws and regulations.⁵⁰

Table 5: Banned contributions in different countries

Country	Foreign donations banned	Corporate donations banned	Government contractor donations banned	Other types of donations banned
Kosovo	Yes	No/limited	Yes	Yes
Albania	Partially	No	Yes	Yes
Macedonia	Yes	No/limited	No	Yes
Serbia	Yes	No	Yes	Yes
Croatia	Yes	No	Yes	Yes
Bulgaria	Yes	Yes	Yes	Yes

VIII. PUBLIC FUNDING

Public funding for political parties has become a dominating trend in around 78% of Central Eastern European countries.⁵¹ It is a well-known fact that Eastern European countries, after the transition, did not succeed in developing a diversified system of financial sources, especially regarding public funding.⁵² Countries, such as Bulgaria, Latvia, Moldova, Russia and Ukraine, which lacked public funding throughout the first decade after transition, have reported that high percentages of firms illegally donated to political parties; the recorded percentage was 34.4%, which was much higher than the average for all other transition countries (20%).⁵³ These data suggest that a lack of diversity, especially a lack of public funding, is strongly correlated with the tendency of corporations to capture the ‘policy making capacity’ of the countries in transition.⁵⁴ As a result, these countries recently have tried to diversify the available sources of income for political parties by introducing public funding.

In Kosovo, the amount of public funding for political parties cannot exceed 0.34 % of the state budget, as specified by the Law on Financing Political Parties.⁵⁵ Before the amendment of the law, this percentage was equivalent to 0.17% of Kosovo’s budget. The law also regulates the allocation of the public funds among political parties with the number of seats in the Assembly. Thus, the ruling political party receives the highest share from the public fund, or the so-called ‘democratization fund’. As seen in Figure 5, the highest share of the public funding for years 2009 to 2011 has been distributed to PDK, followed by LDK, AKR and AAK, in accordance with

⁴⁹ Janis Ikstens, Michael Pinto-Duschinsky, Daniel Smilov and Marcin Walecki, ‘Political Finance in Central Eastern Europe: An Interim Report’, (2002), 26.

⁵⁰ International Foundation for Election Systems, ‘Campaign Finance in Central and Eastern Europe’, (2002), 7

⁵¹ Janis Ikstens, Daniel Smilov and Marcin Walecki, ‘Party and Campaign Funding in Eastern Europe’, (2001), 6

⁵² Janis Ikstens, Michael Pinto-Duschinsky, Daniel Smilov and Marcin Walecki, ‘Political Finance in Central Eastern Europe: An Interim Report’, (2002), 34

⁵³ Janis Ikstens, Michael Pinto-Duschinsky, Daniel Smilov and Marcin Walecki, ‘Political Finance in Central Eastern Europe: An Interim Report’, (2002), 34-35

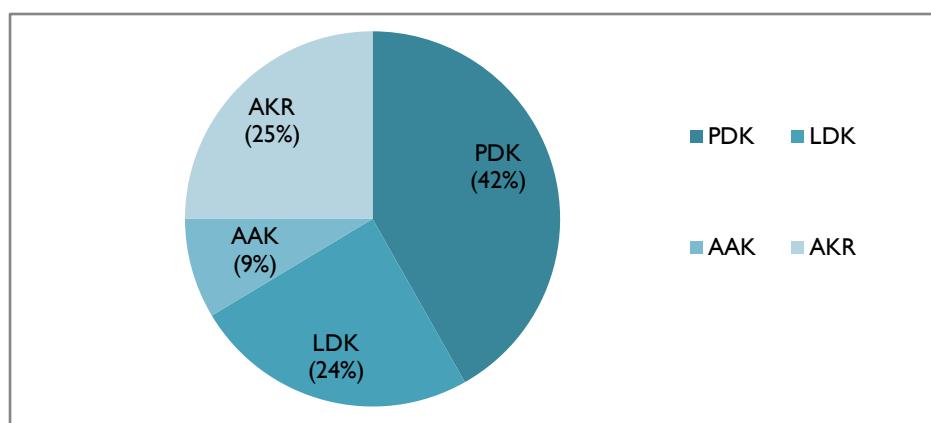
⁵⁴ Janis Ikstens, Michael Pinto-Duschinsky, Daniel Smilov and Marcin Walecki, ‘Political Finance in Central Eastern Europe: An Interim Report’, (2002), 34-35

⁵⁵ Law No. 03/L-174 on Financing Political Parties, Article 7.3

their seats in the Assembly. However, it is worth mentioning that the public funds for PDK in 2011 seem to be surprisingly small. However, since the financial reports for 2011 have not been audited, no further analysis could be conducted.

So far, financial officers of political parties in Kosovo have given assurances that there has been no mismanagement in regards to the public funding. Moreover, they acknowledged that there is no room for mismanagement of public funds, since the procedure itself is very transparent.⁵⁶

Fig.5: Total and annual public funding to political parties from 2009 to 2011



Political Parties	2009	Trend	2010	Trend	2011
PDK	557,063	<>	557,063	⬇	26,591
LDK	375,462	⬆	383,728	⬆	521,079
AAK	150,797	⬇	150,572	⬆	153,191
AKR	194,811	⬆	220,729	⬇	155,355

Political parties in Kosovo strongly support public funding for political parties since it helps meet their everyday organizational operations and costs.⁵⁷ Besides, public funding has been designed as a potential mechanism to prevent and/or mitigate corruption, to further support political parties and to remove their excessive dependence on private donors.⁵⁸ This kind of funding ensures that different parties compete relatively equally in elections; wherein ‘strengthening political pluralism and proper functioning of democratic institutions’.⁵⁹ However, public funding has also its disadvantages. It may remove the incentives for political parties to establish and keep close relationships with their voters.⁶⁰ Moreover, scholars believe that public funding changes the orientation of political parties from tools of civil society to tools of the state apparatus.⁶¹

⁵⁶ Interviews with the financial officers of political parties (PDK, LDK, AAK, and VV) and CEC officials, December, 2012

⁵⁷ Interviews with the financial officers of political parties (PDK, LDK, AKR and VV), December, 2012; See also: Dr. Marcin Walecki, ‘Direct Public Funding of Political Parties’, (2006).

⁵⁸ OSCE, ‘Guidelines on Political Party Regulation’, (2010), 69-70.

⁵⁹ OSCE, ‘Guidelines on Political Party Regulation’, (2010), 69.

⁶⁰ International Foundation for Election Systems, ‘Campaign Finance in Central and Eastern Europe’, (2002), 7.

⁶¹ Ingrid van Biezen, ‘Party Financing in new Democracies’, (2000), 337.

IX. FINANCING OF ELECTORAL CAMPAIGNS

During their electoral campaigns, political parties engage in many activities including grassroots voter mobilization, candidate recruitment, advertising, and, among others, fund raising. Striving for success, political parties must reach out to various audiences, especially to those that may contribute financially and to those that might vote.⁶² In democratic politics, money is of crucial importance since it gives an incredible advantage to political parties' efforts in mobilizing voters and acquiring additional funds.⁶³ The more funds the political parties have, the more they can communicate with their prospective voters. However, contributions, especially from influential individuals, business associations and enterprises, may be given with secret strings attached. Hence, such a relationship between political parties and donors might become a quid-pro-quo relationship; this has also been the case in Sweden, Denmark and Ireland, where political parties act in favour to donors' interests as long as they, in return, acquire campaign funds.⁶⁴

On the other hand, many countries pose limits on campaign expenditures as a mechanism to level the playing field and prevent political parties from excessive spending during campaigns, to curb corruption, and to control influence and inequalities between parties. Limits on election expenditure ensure that political parties with access to money do not act and behave opportunistically. This said, limiting electoral campaign expenses also acts as a mechanism to prevent vote buying.⁶⁵ However, experts have pointed out that such restrictions are often dodged, either by utilizing illegal channels or through utilizing the loopholes in legislation.⁶⁶ In some cases, such limitations force political parties to engage in illegal activities, which is the exact opposite effect that limiting electoral expenses intends to have.⁶⁷

This being said, disclosure and reporting regulations are means by which the corrupt relationship between political parties and different donors can be detected. Moreover, such regulations tend to increase the transparency of the overall electoral process.⁶⁸ In this part of the report, we will analyze the financing of political parties during electoral campaigns, with the aim of highlighting how political financing influences the relations between politicians/parties/and the electorate.

The reporting of income and expenses during the election campaigns in Kosovo is regulated by the Law on Financing Political Parties, Law on the General Election in Republic of Kosovo, and electoral rules 01/2008 and 12/2009. According to these laws and rules, political parties certified to participate in elections have to submit their financial reports, including also those of their branches. These financial reports should include complete and accurate disclosure

⁶² International Institute for Democracy and Electoral Assistance, 'Funding of Political Parties and Election Campaigns' Handbook Series, (2003),7.

⁶³ Erik Olin Wright and Joel Rogers, 'American Society: how it really works', Chapter 17 - Election and Voting, (2010) ,10.

⁶⁴ International Institute for Democracy and Electoral Assistance, 'Funding of Political Parties and Election Campaigns' Handbook Series, (2003), 11; See also: Erik Olin Wright and Joel Rogers, 'American Society: how it really works', Chapter 17 - Election and Voting, (2010) ,10.

⁶⁵ Ingrid van Biezen, 'Financing political parties and election campaigns' in integrated project 'Making Democratic Institutions Work', Council of Europe (2003), 29.

⁶⁶ Janis Ikstens, Michael Pinto-Duschinsky, Daniel Smilov and Marcin Walecki, 'Political Finance in Central Eastern Europe: An Interim Report, (2002), 26.

⁶⁷ Janis Ikstens, Michael Pinto-Duschinsky, Daniel Smilov and Marcin Walecki, 'Political Finance in Central Eastern Europe: An Interim Report, (2002), 26.

⁶⁸ International Institute for Democracy and Electoral Assistance, 'Funding of Political Parties and Election Campaigns' Handbook Series, (2003),5.

of incomes (income sources and cash contributions), expenditures, balance sheets, and receipts of paid administrative fees.⁶⁹

Until 2008, the financial reports of political parties (annual and electoral financial reports) were processed by the OSCE (Organization for Security and Co-operation in Europe). Therefore, our analysis will be based on the available financial reports from election campaigns in 2009 and onwards. The following analysis evaluates the financial reports of the following elections: the local elections of 2009, the parliamentary elections of 2010 and the extraordinary elections of 2012.

A. Local Elections in 2009

Due to the large number of political parties, in this section, we will only concentrate on the financial reports of the three biggest political parties (PDK, LDK, and AAK). During the 2009 electoral campaign PDK had the largest income, followed by AAK and LDK (see Table 6, column 3). During 2009, the main sources of income were contributions and in-kind contributions.

Political parties in Kosovo tend to acquire the majority of their income during the electoral campaign using both legal and illegal channels.⁷⁰ While analysing the auditing and financial reports of the political parties during these elections, we identified numerous irregularities.⁷¹ First, the income sources reported by the political parties did not match with the income valuations of the auditors, as specified in the auditing report of 2009 local elections (see Table 6, column 1 and 2).

Since such irregularities were present, we carefully examined the financial reports of the political parties released during these elections. Indeed, we found discrepancies in the data. For example, PDK's reported income amounted to € 401,188, whereas the income according to the financial accounts amounted only to € 250,610 (see Table 6, column 1 and 3). Moreover, none of these figures matches with the income valued by the auditors (see the Table 6, column 2). As we can see from Table 6, LDK reported a bigger amount of income than its contribution list accounts for, respectively €6,774 and €6,550. However, according to the auditor's report, LDK's income for the electoral campaign of 2009 was €0. There were also cases when political parties, such as AAK, did not report any income though according to the auditor's report and their annual financial reports they received €15,000. In addition to these discrepancies, the reported contribution lists from political parties did not contain detailed information as required by the law.⁷² Moreover, political parties accepted contributions that exceeded the amount of € 2,000 per year from one individual, which is prohibited by the law.⁷³ Such malpractice by political parties represents a lack of accountability and transparency. Consequently, such activities in many cases reflect manipulation of data by political parties in order to cover the corrupt deeds they are (political parties and politicians) engaged in.⁷⁴

⁶⁹ Law No. 03/L-073 on General elections in the republic of Kosovo, Article 40: Financial Disclosure Requirements; See also the Law No. 03/L-174 on Financing Political Parties ; Electoral Rule No. 12/2009: Section III: Campaign Financial Disclosure Requirements; Electoral Rule No. 01/2008.

⁷⁰ Kosovo Democratic Institute, 'Monitoring the pre-election campaign expenditures 2010', (2011), 32

⁷¹ Universum Audit, 'Auditing report of the Local Elections in 2009'.

⁷² Law No.03/L-174 on Financing Political Parties, Article 15.3.4

⁷³ See the Auditing Report of local elections in 2009: See also Law No. 03/L-196 on the prevention of money laundering and financing of terrorism, Article 25.1

⁷⁴ Yves-Marie Doublet, 'Fighting Corruption: Political Funding', Thematic review of GRECO's third evaluation round, (2011), 18

Table 6: Discrepancies between the reported income and auditors findings

	Reported Income by political parties	Income according to auditors	Income retrieved from the detailed financial report⁷⁵
PDK	€ 401,188	€ 154,616	€250,610
LDK	€ 6,774	0	€6,550
AAK	0	€15,000	€15,000

As reported in the previous section, political parties tend to underestimate their expenses by reporting less wages, less expenses, lower rents, and lower advertising expenses (billboards, TV and Radio adds).⁷⁶ This has occurred during the 2009 electoral campaigns wherein, in general, all political parties underestimated their expenses. However, when analysing the expenses of political parties individually, it seems that PDK overestimated its expenses and income, and did not report a loan which auditors uncovered (see Table 7). Whereas, LDK, apart from overestimating the expenses and income, reported a loan for which auditors did not find any evidence (see Table 7). It seems that these political parties overestimated their expenses in order to justify the received income and the need to seek other sources of income, such as the loans. In general, political parties failed to properly categorize their expenses and failed to submit the invoices needed to verify these expenses.

Table 7: Overestimation/Underestimation of the financial accounts by political parties

	Expenses	Income	Loans
PDK	€ 422,144	€ 401, 188	No Loan was reported
	<u>Overestimated</u> According to auditors: €68, 874	<u>Overestimated</u> According to auditors: € 154,616	<u>Underestimated</u> According to auditors: €10,965
LDK	€ 31,010	€ 6,774	€ 24,236
	<u>Overestimated</u> According to auditors: € 27,486	<u>Overestimated</u> According to auditors: € 6,550	<u>Overestimated</u> No evidence of a loan
AAK	€15,000	€15,000	/
	/	<u>Overestimated</u> According to auditors: €0.00	/

Political parties in Kosovo are obliged to submit their financial reports during the electoral campaigns and, in addition, submit the annual financial reports outlining all financial activities during the year. By comparing both the electoral financial reports and annual financial reports, we have noticed a number of inconsistencies. As shown in Table 8, the reported electoral expenses shown in the annual financial reports of the political parties (PDK, LDK and AAK) are different from the ones reported on the electoral financial reports. Moreover, as shown in column three (3) of Table 8, none of the reported electoral expenses match with the auditor's findings. Moreover, there are major discrepancies between the figures reported in the electoral and annual financial reports.

⁷⁵ The figures in this column were retrieved after analyzing the financial reports of the political parties.

⁷⁶Audit&Conto, "Financial Statements and Auditor's Report for 2009 and 2010, (2011); See also the Auditing Reports of the Electoral Campaigns 2009 and 2010.

Table 8: Comparison of the reported electoral expenses

	Annual Financial Report Electoral Expenses	Electoral Financial Report Electoral Expenses	Audited Electoral Financial Report – Electoral Expenses
PDK	€ 860	€422,144	€68,874
LDK	€ 117,144	€31,010	€ 27,486
AAK	€ 0.00	€ 15,000	/

B. Parliamentary Elections in 2010

The parliamentary elections of 2010 were the first elections organized by Kosovo as an independent country. These elections, same as the local elections in 2009, were associated with many irregularities and shortcomings. This section examines the income sources of political parties during this election, their structure, and the irregularities detected.

During the 2010 parliamentary elections, PDK had the largest income of any political party, followed by LDK, AKR and AAK (see Table 9). The main sources of income were contributions and public funds, respectively 687,823.95 and 231,176 Euros.

Table 9: Income trends of political parties during the electoral campaigns

Parliamentary Elections in 2010 Income Sources					
	Membership Fees	Contributions	In-kind Contributions	Public Funds and Other	Total
PDK	€ 101,306	€ 280,566	€ 22,662	€ 4,000	€ 408,534
LDK	/	€ 54,207	€ 19,000	€ 223,543	€ 296,750
AAK	/	€ 173,500	€ 16,500	/	€ 190,000
AKR	/	€ 179,550	€ 17,140	€ 3,633	€ 200,323
Total	€ 101,306	€ 687,823	€ 75,302	€ 231,176	

Historically, political parties incur more expense during parliamentary elections than during local elections. However, analysing the income sources of PDK suggests that this norm is not applicable in PDK's case. The reported income sources by PDK during the elections of 2009 and 2010 were almost the same, respectively €401,188 and € 408,534 (see Table 10). However, the amounts reported by PDK may have been overestimated. According to the auditing financial report on local elections in 2009, the income sources of PDK were overestimated by the amount of 150,577 Euros. Other political parties were in line with the norm and received more income during the parliamentary elections in 2010 than during the local ones in 2009, as shown in Table 10.

As was the case in 2009, there are vast discrepancies between reported expenses during the electoral campaign and those reported in the annual financial reports in 2010. As illustrated in the Table 11, PDK and LDK reported nearly the same amount of expense in both reports. However, major discrepancies were found in the financial reports of AAK and AKR; the former did not report any electoral expense in its annual financial report, though, according to the electoral financial report, their expenses amounted to 154,874 Euros. AKR reported only few electoral

expenses in its annual financial report (€ 41,603), which according to the electoral financial report were significantly higher, namely by € 415,702 (see Table 11). However, it is worth mentioning that during the electoral campaign of 2010, none of the political parties exceeded the allowed expenditure limit.⁷⁷

Table 10: Income trends of political parties during the electoral campaigns

	Local Elections 2009 Income Sources	Trend	Parliamentary Elections 2010 Income Sources
PDK	€401,188	↑	€ 408,534
LDK	€6,774	↑	€ 296,750
AAK	0	↑	€190,000
AKR	/	/	€ 200,323

Table 11: Comparison of the reported electoral expenses in 2010

	Annual Financial Report Electoral Expenses	Electoral Financial Report Electoral Expenses
PDK	€ 396,365	€ 396,367
LDK	€ 262,323	€296,750
AAK	€ 0.00	€ 154,874
AKR	€ 41,603	€ 457,305

It appears that political parties committed many violations, which stemmed from and perpetuated corruption, and which decreased the public confidence in and credibility of political parties. These offenses were in violation of the Law on financing political parties and law on prevention on money laundering and financing of terrorism, as shown in the table below. During the 2010 electoral campaign, political parties either did not report the contribution list or the list did not contain detailed information on the contributors. Such violations did not allow for oversight agencies (the CEC and/or auditing company) to verify the legitimacy of the donations to political parties, which in turn, implies that political parties might have received contributions that were not allowed and were banned by the law.

Table 12: Violations during the parliamentary elections in 2010

	No Contribution List/ Missing personal information	Lack of invoices	Over €1,000 per day from one contributor
PDK	√	√	√
LDK			√
AAK	√	√	√
AKR		√	

⁷⁷CEC Decision No. I261-2010 , Nov 2010; See also the Electoral Auditing Report of 2010

C. Extraordinary Elections 2012

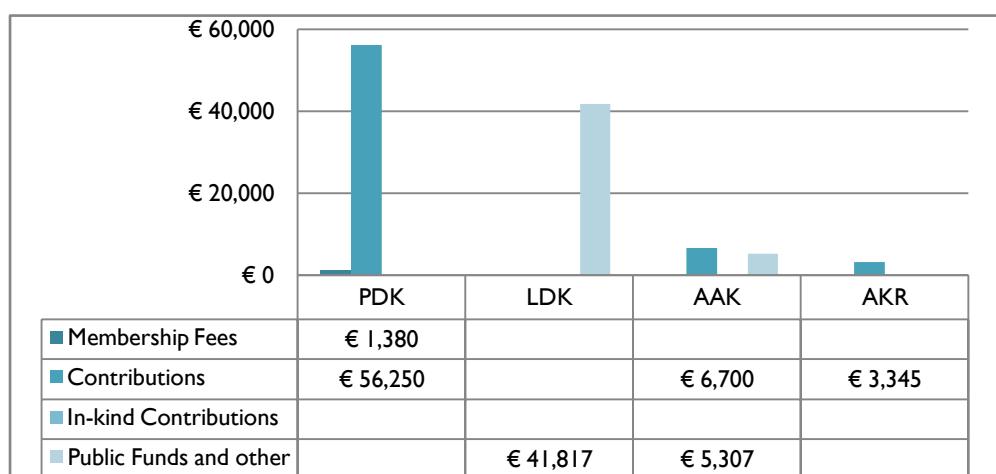
The last elections held in Kosovo were the extraordinary mayoral elections in 2012 in the municipalities of Ferizaj and Kaçanik. In Kaçanik, only one round of elections was held since one of the candidates won more than 51% of votes.⁷⁸ In Ferizaj, on the other hand, elections consisted of two rounds. It is worth mentioning that, during these extraordinary elections, political parties in Kaçanik and Ferizaj did not exceed their electoral expense limits, respectively 17,766 and 48,000 Euros.⁷⁹ Understandably, the income sources for the four political parties (PDK, LDK, AAK and AKR) were larger in Ferizaj than in Kaçanik (see Table 13).

Table 13: Income sources during the extraordinary elections

Extraordinary Elections Total Income Sources		
	Ferizaj	Kaçanik
PDK	€ 45,030	€ 7,825
LDK	€ 28,359	€ 12,715
AAK	€ 12,006	€ 2,800
AKR	€ 3,345	€ 2,000

PDK and LDK had the largest incomes in the municipal mayor elections in Ferizaj. As Figure 6 shows, only PDK received membership fees during these elections. However, auditors, due to the lack of evidence, were not able to verify the authenticity of this source of income as reported in the financial reports (annual and electoral). Except LDK, all other political parties (namely, PDK, AAK and AKR) received contributions. PDK received a substantially larger amount of contributions compared to AAK and AKR, respectively 84.8 % of the total contributions. Whereas, as according to the financial reports of political parties, public funds were reported only by LDK and AAK, respectively 88.7 % and 11.3% of the provided amount (see Fig 6). Other political parties might have received public funds; however, such funds were not reported in their financial reports.

Fig 6: Political parties' income during the Municipal Mayor elections in Ferizaj

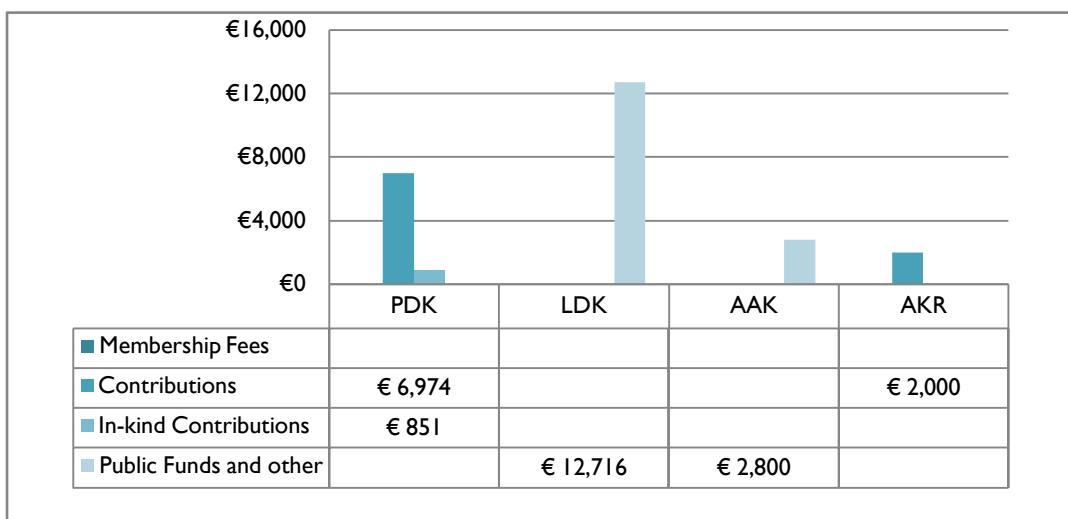


⁷⁸ Central Election Commission, 'Expenditure Report for Extraordinary Municipal Mayor Elections in Kaçanik Municipality, (2012), 4

⁷⁹ Audit&Conto, 'Auditing report of the extraordinary elections in Kaçanik and Ferizaj', (2012)

In the municipal mayoral elections in Kaçanik, LDK had the greatest income, followed by PDK, AAK and AKR. In-kind contributions were reported only by PDK, while (as in the municipal mayor elections in Ferizaj), public funds for the mayoral elections in Kaçanik were reported only by LDK and AAK, respectively €12,716 and €2,800 (see Fig 7). Other political parties, PDK and AKR, might have received public funds; however, such funds were not reported in their financial reports.

Fig 7: Political parties' income during the Municipal Mayor elections in Kaçanik



In contradiction with patterns revealed in other financial reports (annual and/or electoral), political parties submitted detailed lists of contributions and did not accept any donation exceeding the amount of €2,000 per year from one contributor during these elections.⁸⁰ This improvement has been noted also by auditors and CEC officials. CEC officials claimed that this was the outcome of a couple of financial trainings held during 2012.⁸¹

According to the auditing reports in both municipalities, political parties have underestimated their wage, advertising and transport expenses. The table below represents a comparison between the income sources of political parties and their total expenses. As shown in Table 14, in both municipalities, PDK and LDK's total expenses equal their incomes sources. This was not the case with AAK and AKR, whose total expenses exceeded their income sources, exactly by 2,813 and 15,329 Euros⁸² (see Table 14).

⁸⁰Audit&Conto, 'Auditing report of the extraordinary elections in Ferizaj', (2012)

⁸¹ Interview with CEC officials, December, 2012.

⁸² See also; Betim Musliu and Adem Gashi, 'Organized Crime in Elections Process: An analysis of Prosecution and Adjudication Policy', (2012), 26 - where such discrepancies between the real expenses and the reported income sources were reflected.

Table 14: Comparison of Income Sources and Total Expenses

Extraordinary Elections - Ferizaj		
	Income Sources	Total Expenses
PDK	€ 45,030	€ 45,030
LDK	€ 28,359	€ 28,359
AAK	€ 12,006	€ 14,819
AKR	€ 3,345	€ 18,674
Extraordinary Elections - Kaçanik		
	Income Sources	Total Expenses
PDK	€ 7,825	€ 7,825
LDK	€ 12,715	€ 12,715
AAK	€ 5,140	€ 2,800
AKR	€ 7193	€ 2,000

X. REPORTING

Financial reports of political parties should contain detailed and accurate information in order to monitor the money flow of political parties. The annual financial reports should include all the resources and incomes, as specified by the legislation, in order to allow specific agencies and the public to verify the sources of income, evaluate the parties' compliance with the legislation, and identify influence of donors over the political parties.⁸³

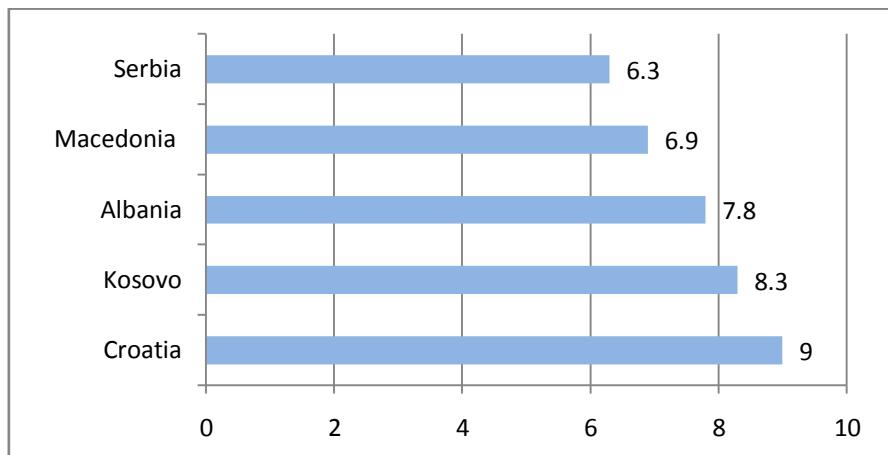
In Kosovo, reporting procedures are specified by the law on financing political parties. The financial reports should contain detailed information (the amount, date, name of the individual or legal entity and the personal ID number) for every contribution that exceeds the amount of 100 Euros.⁸⁴According to Transparency International, Kosovo's legal framework on the financial reporting of political parties is comparable with other countries in the region. In fact, the legislation covering the financial reporting of political parties appears to be relatively stronger than in other countries in the region. The figure below shows the assessment of legislation relating to the scope and depth of financial reporting in different countries, where points 0 to 3.3 stand for insufficient, 3.4 to 6.7 stand for average and 6.8 to 10 stands for good.⁸⁵As illustrated in Fig. 8, Kosovo and Croatia make the top of the list.

⁸³ Transparency International, 'Shining a light on Political Party Financing: Albania, Croatia, Kosovo, FYR Macedonia and Serbia 2011, (2011), 10.

⁸⁴Law No. 03/L-174 on Financing Political Parties, Article 3.4.

⁸⁵ Transparency International, 'Shining a light on Political Party Financing: Albania, Croatia, Kosovo, FYR Macedonia and Serbia 2011, (2011), 10.

Fig. 8: Legal Assessment of the financial account reporting



Source: Transparency International

In addition to a comprehensive legislative framework, transparent and legitimate political party financing requires proper control, disclosure and enforcement mechanisms. Foundationally, the legal framework establishes a system under which the cash flow of political parties is limited, controlled, and overseen. The detailed reporting and disclosure of political party income provides information that allows other actors to oversee the flow of political contributions to the broad objective of necessitating and regulating financial reporting, to increase transparency within the entire system of political party financing, to create incentives for political parties in raising and spending their financial resources in a legitimate way, and to hinder opportunities for hidden transactions between political parties and enterprises.⁸⁶

Political parties in Kosovo should submit their annual financial reports by the first of March for the previous year. Financial reports should include the state balance, the statement of benefits and losses, and statements showing every payment made to another person and/or legal entity. Moreover, the financial reports should contain bank balances, expenditure invoices and detailed information concerning the contributions received.⁸⁷ However, the submitted financial reports usually do not conform to regulations set by the law.

XI. MAIN FINDINGS

The financial reports provided by political parties have been audited twice, in 2009 and 2010. In these two auditing reports, it has been noted that political parties do not keep their financial records in accordance with the accounting standards of Kosovo.⁸⁸ Moreover, these reports shed light on many cases of violation by political parties. The auditing report of 2009 revealed that political parties under-reported their expenses, indicating that they have underestimated also their income/sources by which they finance their everyday operations. The most common categories that were underestimated were rent, municipal activities and wages. Moreover, not all

⁸⁶ Marcin Walecki, 'Challenging the Norms and Standards of Election of Election Administration: Political Finance', (2007), 80

⁸⁷ Law No. 03/L-174 on Financing Political Parties, Article 15.2.

⁸⁸ Audit&Conto, 'Financial Statements and Auditor's Report for 2009 and 2010', (2011).

of the political parties have reported the expenses of their branches and sub-branches, which is another cause of underestimation and reflective of fraudulent practice. In addition, some political parties have received income from their branches in foreign countries; according to the auditors, these branches were not registered.⁸⁹ In line with these reporting irregularities, the auditing report states that the in-kind contributions have not been reported at all by some political parties. Moreover, a large percentage of political parties did not present invoices and receipts needed to validate the reported financial data. These general findings were also reflected in the auditing report of year 2010.

Another critical area, which requires attention, is distinguishing between political party and electoral expenditures, which in practice can be very difficult.⁹⁰ In order for such a distinction to be observed, a timeframe and a (reasonable) demarcation of the beginning of the campaign should be established.⁹¹ Otherwise, the lack of a distinction between everyday party expenses and electoral expenses provides room for manipulation.⁹² In some countries, this demarcation has been achieved by creating special bank accounts dedicated only for the campaign activities.

During these two years, political parties have not acted in accordance with the law; many of the political parties have not recorded detailed information about their received contributions. Moreover, some of them did not even report a list of contributions. In such cases, it is very hard to verify whether the financial sources of political parties originate from legal sources. Political parties are obliged to report a detailed list of their contributions in order for the public at large and oversight agencies to oversee and evaluate the money flow and its influence. These irregularities and the absence of such information lead to lack of transparency and accountability. Consequently, when information is not available, the legitimacy of the financial sources is called into question. The table below shows in detail the number of political parties who clearly violated some of the aforementioned rules. The figures show that the ratio of violations to the total number of financial reports decreased from year 2009 to 2010. However, there is room for improvement considering the fact that these problems are still present in the financial reports of 2011.

Table 15: Political party violations for years 2009, 2010, 2011

Number of violations over total number of political parties' financial reports				
Year	Underestimation/lack of invoices (rents and/or wages)	No records of contributors' personal information	Missing lists of contributions	Missing lists of in-kind contributions
2009	22/39 (56%)	8/39(21%)	6/39 (15%)	4/39 (10%)
Increase/Decrease of violation number	↓	↓	↓	↓
2010	20/48 (42%)	9/48 (19%)	3/48 (6%)	/
Increase/Decrease of violation number	/	↓	↑	↑
2011	N/A	1/40 (2.5%)	3/40 (7.5%)	1/40 (2.5%)

⁸⁹ Such irregularities were reported in the auditing report of 2009.

⁹⁰ Yves Marie Doublet, Political Funding: Fighting Corruption, Thematic Review of GRECO's Third Evaluation Round, 27.

⁹¹ Ingrid van Biezen, Financing Political Parties and Election Campaigns : Guidelines, (2003), 31.

⁹² Sergiu Lipcean, Cornel Ciurea, Leonid Litra, Cornelia Cozonac, 'Financing Political Parties: Between Transparency', (2010), 6.

Financial officers of the political parties are chosen by the governing council of the political party and are responsible for the every-day financial operations of the party. Moreover, these officers oversee cases such as bank deposit invoices, cash advances, different kind of donations and contributions.⁹³ The financial officers of the political parties should perform their duty in line to the laws and regulations and should also rely on internal financial regulations. However during the interviews, financial officers were reluctant to hand-over their internal financial regulations, except for VV. According to the internal financial regulations of VV, the financial officer prepares the financial report on a monthly basis for internal purposes, which is then overseen by the general secretary of the party. Moreover, the general secretary and the financial officer are entitled to oversee any deposit made to the VV branches, all expense cash advances and to control and report on the quarterly internal control of the cash flow.⁹⁴ According to the auditing reports, many irregularities in the financial reports stem from the professional incompetence of the financial officers and their high rate of turnover.⁹⁵ CEC, in order to avoid these problems, is obliged by law to offer professional trainings to the financial officers, to oversee the submitted financial reports, and not to accept incomplete financial reports.⁹⁶ However CEC has failed to complete any of these aforementioned duties mainly due to lack of staff.⁹⁷ CEC officials stated that during 2012 they organized two professional trainings for the financial officers of political parties and the outcome was fairly positive.

On the other hand, financial officers state that irregularities in the reporting phase are mainly of a technical nature.⁹⁸ They claimed that the current financial forms are not 'user-friendly' and that the accounts are too general which lead to complications during the reporting process. Moreover, another reported difficulty is the financial forms for the annual financial reports and election campaigns. According to the financial officers, these problems could be ameliorated if political parties were equipped with uniform financial software. This proposal has been considered also by CEC; however, the conclusion was that such software is very costly due to its maintenance and staff-training related costs.

By comparing the legislation that covers the financial reporting of political parties, we can argue that Kosovo is in line with other countries in the region. These rules require that financial reports of political parties should be made public including the identity of the donors (see Table 7). However, if we look at institutions that have a mandate to receive and review financial reports, investigate potential violations or other tasks related to oversight, Kosovo lags behind countries in the region. The oversight role, in addition to being the responsibility of the CEC and auditing agencies, involves other institutions that investigate, examine and monitor the financial reports of the political parties (such as Public Revenue Office, Central Register, the State Audit Office, State Commission for Preventing Corruption, and, amongst other, Parliament (see Table 16)). The involvement of an array of institutions in investigative and daily monitoring activities has increased the detection of malpractices, irregularities and fraudulent practices of political parties. Hence, it is of crucial importance for Kosovo to extend such mandates to other institutions as well and increase oversight over the incomes of political parties.

⁹³Political Parties' Statutes and Interview with the financial officers, December, 2012.

⁹⁴ Rules of Procedure of the General Secretariat : Chapter IV: Financial Management.

⁹⁵ Audit&Conto, 'Deklaratat Financiare dhe Raporti I Auditorit te Pavarur, 2009 dhe 2010 and Interview with the CEC officials, December, 2012.

⁹⁶No. 03/L-174 on Financing Political Parties, Article 19.1 and 19.2 and Election Rule No. 12/2009: 3.5.

⁹⁷ Audit&Conto, 'Deklaratat Financiare dhe Raporti I Auditorit te Pavarur, 2009 dhe 2010.

⁹⁸Interviews with the financial officers of the political parties, December , 2012.

Table 16: Financial reporting regulated by law in different countries

	Kosovo	Albania	Macedonia	Serbia	Croatia	Bulgaria
Is information in reports from political parties to be made public?	YES	YES	YES	YES	YES	YES
Must reports from political parties reveal the identity of donors?	YES	YES	YES	YES	YES	YES
What institution(s) receives financial reports from political parties?	CEC and Assembly	CEC	CEC, Auditing agency, Public Revenue Office, Central Register and the State Audit Office, State Commission for Preventing Corruption and Parliament	Anti Corruption Agency	Auditing Agency and Ministry, Supreme Audit Office	Auditing Agency
Is it specified that particular institutions are responsible for examining financial reports and/or investigating violations?	CEC and Auditing Agency	CEC, Auditing agency, High state Control and Tax authorities	Auditing Agency, State Audit Office, State Commission for Preventing Corruption, Public Revenue Office, the Parliament	Auditing Agency, Anti-corruption Agency and State Audit Institution	Ministry, Auditing Agency, State Audit Office and National Election Commission	Auditing Agency, National Audit Office and Prosecutors Office
What other institutions have a formal role in political finance oversight?	CEC and Auditing Agency	CEC and State Supreme Audit	The Broadcasting Council	None	Croatian Parliament	National Revenue Agency

Source: GRECO's Political Finance Database

A. Corruption and Political Parties

Due to their representative role in the political system, political parties often abuse their role by offering lucrative positions to followers and supporters, channelling public resources to members, and shaping economic and political institutions for their own interests. This is common especially in developing and newly democratizing countries where institutions are in their early phases of development.⁹⁹

The status of Kosovo in the Freedom House report is 'Partly Free' and its political rights scored 5, in a scale point of 1 to 7 (7 being the lowest level of freedom).¹⁰⁰ According to Corruption Perception Index of 2012, Kosovo ranks in the 105th place out of 176 countries, with a score of 32-37 (0, very corrupt, and 100, very clean).¹⁰¹ Moreover, corruption has been identified also by the European Commission as being one of the most severe problems in

⁹⁹ Verena Blechinger, 'Corruption and Political Parties: Sectoral Perspectives on Corruption', (2002), 5-6

¹⁰⁰ Freedom House, Freedom in the World 2012: Kosovo, available at: <http://www.freedomhouse.org/report/freedom-world/2012/kosovo>

¹⁰¹ Corruption Perception Index 2012, Transparency International, available at: <http://cpi.transparency.org/cpi2012/results/>

Kosovo.¹⁰² Additionally, 73% of Kosovar respondents in the Global Corruption Barometer 2010/11 stated that corruption in Kosovo is present in almost all of the institutions. They perceive political parties to be extremely corrupt, scoring 4.2 on a point scale from 1 to 5.¹⁰³ Moreover, according to the Global Integrity Report of 2011, political financing transparency in Kosovo has scored poorly, respectively 28 on a 1 to 100 point scale.¹⁰⁴

One of the ways how corruption is manifested by the political parties is through 'vote buying'. In transition countries, voters make their decisions to donate based on the amount of gifts and rewards offered by the parties and/or candidates in return. Such manipulations and corrupt practices have been observed in areas considered to be the geographic strongholds of main political parties, such as in the Dukagjini and Drenica regions.¹⁰⁵ The voter turnout in these regions reached nearly 90%, in most cases because some individuals voted multiple times. Moreover, political parties frequently utilized public resources for their personal enrichment and political campaigns.¹⁰⁶ The most common pattern is the usage of public offices and public procurement means to push forward their agendas.¹⁰⁷ Public administration politicization cases have been witnessed in 2010, and, as a consequence, a tremendous decrease in the efficiency in the administration was perceived.¹⁰⁸ Such patterns have been fought and initiatives have been taken, however, more serious steps and strategies should be put in place in order for the rate of corruption to decrease, not only in the area of political parties but also in all institutions. Agencies such as Kosovo Agency for Anti-Corruption (KACA) should improve their capacity and expertise in order to better deal with the corrupt practices.¹⁰⁹

B. Politics and Business Intersections

Campaign contributions mainly come from business establishments. It is no secret that individuals, firms and corporations make 'overt and covert' contributions to the political parties.¹¹⁰ There is a need to analyse the financial contributions of certain firms and businesses in order to see how the flow of money influences the political parties and to what extent. Contributions, especially those kept secret and not reported, can be regarded as a 'long-term investment' of a mutual relationship.¹¹¹ Political parties support the agendas of certain firms and organizations in exchange for different kinds of pay-offs - financing via policy making being the most common one.¹¹² Initiatives to eliminate the huge involvement of the political parties in business in Kosovo and their influence over the economic opportunities and prosperity of businesses and economic ventures have not been satisfying.¹¹³ As mentioned previously, it is of crucial importance for Kosovo to extend the mandate of investigating and examining the financial

¹⁰² European Commission, Kosovo Progress Report 2010 and Kosovo Progress Report 2011

¹⁰³ Global Corruption Barometer 2010/11, Transparency International, available at: <http://gcb Transparency.org/gcb201011/>

¹⁰⁴ Creative Commons, 'Global Integrity Report 2011', (2011), 26

¹⁰⁵ Bertelsmann Stiftung's Transformation Index (BTI), 'Kosovo Country Report', (2012), 7

¹⁰⁶ International Foundation for Election Systems, 'Campaign Finance in Central and Eastern Europe' (2002), 10

¹⁰⁷ Ivan Briscoe and Megan Price, 'Kosovo's new map of power: governance and crime in the wake of independence' (2011), 27-29; For more read also the 'Public procurement and Party Financing' section on this paper

¹⁰⁸ Bertelsmann Stiftung's Transformation Index (BTI), 'Kosovo Country Report', (2012), 7

¹⁰⁹ OECD, 'Public Integrity System: Assessment May 2009', (2009), 2

¹¹⁰ Steven Griner and Daniel Zovatto, 'From Grassroots to the Airwaves: Paying for the Political Parties and Campaigns in the Caribbean', (2005), 13.

¹¹¹ Luis de Sousa, 'Challenging to political financing regulations: sound external monitoring/enforcement and sensible internal party accountability', Centro de Investigacao e Estudos de Sociologia (2005), 14.

¹¹² Verena Blechinger, 'Corruption and Political Parties: Sectoral Perspectives on Corruption', (2002), 5-6.

¹¹³ Bertelsmann Stiftung's Transformation Index (BTI), 'Kosovo Country Report', (2012), 11

reports of political parties to anti-corruption agencies in order to review and regulate the influence of money over political subjects and parties and vice versa.

C. Political Parties: Weak Internal Control

In those entities where power and money are strongly connected, internal mechanisms for political finance control are crucial. Like any other organization, political parties also attract individuals who are prone to corruption. Hence, political parties should impose upon themselves their own internal regulations in order to prevent fraudulent financial practices. Regardless of the sophisticated legislation, political parties should exercise detailed, persistent and frequent internal controls in order to prevent financial malpractices.¹¹⁴ Initiatives and efforts to increase the transparency should come from the members of the political parties and not only from the public and legislative pressure and oversight agencies.¹¹⁵ Moreover, political parties should appoint professionally competent financial officers who have the necessary expertise to report on and maintain financial records on daily basis. This said, political parties should not appoint such officers, especially when not competent for the position, based on the principle of nepotism, which is common in Kosovo.¹¹⁶

D. Public Procurement and Party Financing

The argument that a proper mechanism for financing of political parties is crucial for the functioning of democracy has become a cliché. Keeping in mind the controversial relation between money and party members, appropriate enforcement mechanisms should be functional and in place. Legislation, which is essential for the functioning of the political party financing system, should be accompanied by proper control and enforcement mechanisms.¹¹⁷ The establishment of such mechanisms will strengthen the legitimacy of the political operations and in turn will reinforce democratic processes and rule of law.¹¹⁸

Kosovo faces many challenges which hinder the democratic process and create room for corruption and malpractice. For example, public procurement at the local level is well known for contributing to and ‘paving the way’ for corrupt activities by the political parties.¹¹⁹ As illustrated by many reports, frequently political parties use the public offices and public procurement means to push forward their agendas by imposing control even on the local level.¹²⁰ Moreover, keeping in mind that Kosovo does not possess a sustainable private market, businesses and firms rely heavily on public tenders in order to survive and retain their position in the market. This kind of scenario strongly links firms and businesses with the government and political parties.¹²¹

As political parties control the mechanisms of public procurement (political patronage), the available market opportunities become designated only to those bidders favoured by political

¹¹⁴ Marcin Walecki, ‘Challenging the Norms and Standards of Election of Election Administration: Political Finance’, (2007), 83.

¹¹⁵ Daniel Smilov, ‘Party Finding , Campaign Finance and Corruption in Eastern Europe’, (2007), 21.

¹¹⁶ HDR, ‘Kosovo Human Development Report 2012: Private Sector and Employment’ , (2012), 91.

¹¹⁷ USAID, ‘Political Party Finance in Argentina, Chile, Costa Rica and Mexico: Lessons for Latin America’, (2004), 15.

¹¹⁸ USAID, ‘Political Party Finance in Argentina, Chile, Costa Rica and Mexico: Lessons for Latin America’, (2004), 15

¹¹⁹ Group for Legal and Political Studies, ‘Dissimilar Patterns of (mis)using the Public Money: Trends and practices of public procurement management in Kosovar municipalities’, (2012), 4; See also: Yves-Marie Doublet, ‘Fighting Corruption: Political Funding’, Thematic review of GRECO’s third evaluation round, (2011), 18

¹²⁰ See also: Group for Legal and Political Studies, ‘Dissimilar Patterns of (mis)using the Public Money: Trends and practices of public procurement management in Kosovar municipalities’, (2012);

¹²¹ Group for Legal and Political Studies, ‘Dissimilar Patterns of (mis)using the Public Money: Trends and practices of public procurement management in Kosovar municipalities’, (2012).

parties, whereas other bidders simply chose not to bid.¹²² Public Procurement, which amounts to nearly one fifth of Kosovo's GDP, remains one of the most important sources of 'discretionary spending and rents for political elites' in control of the public funds.¹²³ There are many cases/malpractices which support the dubious relation between political parties and public procurement. For example, a report identified cases when municipal authorities were signing procurement contracts even though there were no sufficient funds committed.¹²⁴ In addition, this policy report also states that municipal authorities were using the public money and facilities to push forward their political agendas and to finance their electoral activities. Such malpractices have been identified also in other reports.¹²⁵ Besides, an immense party presence has been identified in the Kosovo Agency for Privatization, Procurement Review Body and Kosovo Tax Administration, and on the boards of state firms (PTK, KEK and PIA).¹²⁶ The over-control of the economy and abuse of public money and donor community by the government has been listed as one of the biggest concerns by the European Commission.¹²⁷ The EC criticized the law on public procurement and recommended that (senior) political appointees, in order to be held accountable, should be the ones who sign the high-value procurement contracts.¹²⁸ Nevertheless, the Assembly failed to adopt this recommendation when the new law was adopted in 2010.¹²⁹ Apart from the legislation, another structural problem in the procurement system is the vulnerable position of the procurement officers' vis-à-vis their 'political masters'. Evidence suggests that, procurement officers, apart from being physically intimidated, have been pressured to manipulate decisions and sign off on specific contracts.¹³⁰

Considering the fact that Kosovo is going through a massive privatization campaign and public procurement has been increasing in recent years, it is of crucial importance to set some regulations regarding the bidding procedures for public procurement. For instance, in some states where the business donations are allowed, donor companies are forbidden to apply for public tenders¹³¹ or they are obliged to disclose donations made to the political parties in which cases they must follow additional procedures as regulated by law or other mechanisms.¹³² Developing a proper public procurement mechanism has been a challenge not only for countries in transition such as Kosovo, but also for developed countries which have struggled to devise appropriate enforcement and control mechanisms.¹³³ Firstly, the public at large should have

¹²² Center for International Private Enterprise, 'Making Public Procurement in Kosovo more transparent', available at: http://www.cipe.org/blog/2012/04/17/making-public-procurement-in-kosovo-more-transparent#.UO_hZW83ZBp

¹²³ Ivan Briscoe and Megan Price, 'Kosovo's new map of power: governance and crime in the wake of independence' ,(2011),

¹²⁴ Group for Legal and Political Studies, 'Dissimilar Patterns of (mis)using the Public Money: Trends and practices of public procurement management in Kosovar municipalities, (2012), 13; For more details on the specific procurement contracts see: Office of the Auditor General, 'Audit Report on the Annual Financial Statements of the Municipality of Gjakova for the year ended on 31 December 2011', (2012), 13-14.

¹²⁵ For more cases see : USAID-MSI, 'Corruption in Kosovo: Observations and Implications for USAID', (2003), 17.

¹²⁶ Kosovo Stability Initiative, 'Untying the knot: The Political Economy of Corruption and Accountability in Kosovo, (2010) ; COHU, 'Extending Control with the aim of Concealing Corruption: Thaqi Government in its second 100 days', (2008)

¹²⁷ European Commission, 'Kosovo 2010a: Progress Report', (2010), 29.

¹²⁸ Bertelsmann Stiftung's Transformation Index (BTI), 'Kosovo Country Report', (2012), 30.

¹²⁹ Bertelsmann Stiftung's Transformation Index (BTI), 'Kosovo Country Report', (2012), 30.

¹³⁰ Kosovo Stability Initiative, 'Untying the knot: The Political Economy of Corruption and Accountability in Kosovo, (2010), 9; See also Group for Legal and Political Studies, 'Dissimilar Patterns of (mis)using the Public Money: Trends and practices of public procurement management in Kosovar municipalities, (2012), 8,12

¹³¹ Yves-Marie Doublet, 'Fighting Corruption: Political Funding', Thematic review of GRECO's third evaluation round, (2011), 18

¹³² Daniel Smilov, 'Party Finding , Campaign Finance and Corruption in Eastern Europe', (2007), 21

¹³³ Technical Assistance Module, 'Political Party Finance in Argentina, Chile, Costa Rica and Mexico: Lessons for Latin America, (2004), 10

access and be able to observe the procedures and the process of public tendering. There is a need to digitalize the public tendering process, which would lead to an increase of public confidence and transparency relating to public procurement.¹³⁴ Moreover, in order to further enhance transparency and accountability, a detailed list of the decisions, as to who won the tender should be released. If such in-depth mechanisms become functional, the overall transparency would drastically improve.

E. Transparency and controllability

Transparency is generally thought to be an effective provision against influence and favouritism that arise from close links between political parties, local offices and businesses. One of the biggest concerns regarding the political parties is the transparency of their activities and financial operations. Studies illustrate that political parties in Eastern Europe countries lack transparency, especially when considering the financing of political parties.¹³⁵ As illustrated in many reports, this is also true for Kosovo. Many allegations of corruption in Kosovo, as elaborated in the previous section, have been closely connected with the procurement procedures;¹³⁶ a problem which has been noted as well as by European Commission.¹³⁷

In developed countries, transparency of the political party financing systems has been promoted directly by making parties disclose their accounts and financial reports, and indirectly by making parties disclose their investments, assets and party patrimony.¹³⁸ However, this is not sufficient to enhance transparency.¹³⁹ In addition, the numerous structural difficulties in the public procurement processes, such as lack of expertise, complexity of the legislation and lack of awareness regarding rights and obligations of the procurement officers, hinder accountability relating to public money spending and decreases transparency of the overall process.¹⁴⁰

F. Public Perception

Accountability, trust and good governance have been rated as one of the most important determinants for the Kosovar households when deciding which political party to support.¹⁴¹ However, according to Transparency International, elections in Kosovo were marred by transparency and accountability problems, especially regarding the financing of political parties.¹⁴² Based on the UNDP report of 2012, political parties were perceived as one of the main

¹³⁴ Group for Legal and Political Studies, 'Dissimilar Patterns of (mis)using the Public Money: Trends and practices of public procurement management in Kosovar municipalities, (2012), 23

¹³⁵ Daniel Smilov, 'Party Finding, Campaign Finance and Corruption in Eastern Europe', (2007), 12; See also; Transparency International, 'Shining a light on Political Party Financing: Albania, Croatia, Kosovo, FYR Macedonia and Serbia 2011, (2011)

¹³⁶ OECD, 'Public Integrity System: Assessment May 2009, (2009), 23

¹³⁷ European Commission, 'Kosovo 2011 Progress Report' Commission Staff Working Document, (2010), 37; See also: Kosovo Stability Initiative, 'Untying the knot: The Political Economy of Corruption and Accountability in Kosovo, (2010), 9

¹³⁸ Luis de Sousa, 'Challenging to political financing regulations: sound external monitoring/enforcement and sensible internal party accountability', Centro de Investigacao e Estudos de Sociologia (2005), 23

¹³⁹ Marcin Walecki, 'Challenging the Norms and Standards of Election of Election Administration: Political Finance', (2007), 78

¹⁴⁰ Kosovo Stability Initiative, 'Untying the knot: The Political Economy of Corruption and Accountability in Kosovo, (2010), 9

¹⁴¹ National Democratic Institute, 'Public Opinion in Kosovo: Baseline Survey Results, (2010), available at: http://www.ndi.org/files/Kosovo_BaselinePresentation_121010.pdf

¹⁴² SETimes, 'Lack of Transparency Trails Political Parties in Southeast Europe', (2012), available at: http://www.setimes.com/cocoon/setimes/xhtml/en_GB/features/setimes/features/2012/04/02/feature-04

responsible actors for the overall poor situation in Kosovo.¹⁴³ Moreover, according to this report, public perception of political parties in Kosovo is poor and dissatisfaction is high.¹⁴⁴

Apart from the poor perception of and high dissatisfaction in political parties, Kosovan households have also demonstrated a lack of trust in the electoral system; precisely, 52% of the respondents stated that they hardly trust in the electoral system.¹⁴⁵ There are many arguments explaining society's low levels of confidence in the electoral system and political parties. Politicians engage in corrupt activities by manipulating elections in their favour due to their personal and political enrichments. This enables them to enjoy the benefits of being employed in public institutions, abusing their official positions to control the public funds (public procurement), and amongst others, pushing forward their agendas by imposing democratic control over local levels of governance and policy making.¹⁴⁶ Moreover, election manipulation is one of the ways in which political members acquire many materialistic benefits. Hence, it is not a surprise that the public perceives political parties and the electoral system as disappointing shepherds of democracy and as highly dissatisfactory.

XII. RECOMMENDATIONS

- 1) In order to control the influence of money over politics, Kosovo must establish a mechanism that specifies in detail the individuals, legal entities and other organizations allowed to donate to political parties. Considering the fact that the law on financing political parties does not prohibit or specify clearly the acceptable or unacceptable donors (the law bans certain donations, however there is room for manipulation since the bans are not very detailed), a list of 'permissible donors' should be created and published. This list should indicate all the permissible donors, while any donor not on the list is strictly prohibited from making contributions to political parties. The creation of such a list would not allow for any ambiguity regarding permissible donors. Moreover, such a list increases the transparency of money flow into political parties.
- 2) Kosovo lacks mechanisms of control over the financing of political parties. Except for the auditing offices, there are no other oversight agencies responsible for reviewing and scrutinizing the financial reports of political parties. Hence, it is essential to incorporate, like other countries in the region, other institutions that would receive, investigate and examine the financial reports of the political parties. In other words, it is important to extend such mandates to other institutions and bodies, such as the anti-corruption agency, in order to scrutinize the political parties' incomes and detect fraudulent financial practices.
- 3) According to the auditing reports of 2009 and 2010, most of the financial officers of the political parties are professionally incompetent and lack the necessary expertise. Hence, in order to avoid irregularities, and eliminate cases of uncompleted and wrongly completed financial reports, CEC should offer professional trainings to the financial officers of the political parties, as the law foresees it. Since the lack of personnel was the

¹⁴³ UNDP Public Pulse, 'Action Paper on Association of Professional Journalists in Kosovo', (2012), 11

¹⁴⁴ UNDP Public Pulse, 'Action Paper on Association of Professional Journalists in Kosovo', (2012), 15

¹⁴⁵ Kosovar Center for Security Studies, 'Kosovo Security Barometer', (2012), 12

¹⁴⁶ Betim Musliu and Adem Gashi, 'Organized Crime in Elections Process: An analysis of Prosecution and Adjudication Policy', (2012), 22

main reason why such trainings did not occur, CEC should increase its expertise and take proper measures to develop their training capacity.

- 4) Political parties should impose internal control mechanisms in order to limit fraudulent practices. Such mechanisms strengthen the parties' internal organization and increase its transparency. Detailed and frequent internal controls are more than necessary to find and limit fraudulent financial practices.
- 5) Political parties should be equipped with well-structured and easy-to-use financial software dedicated specifically to the political party financing. Such software would simplify the process of recording and reporting financial information, would decrease the human error, and would also be less time-consuming compared to the current system. In addition, such software would be programmed as not to allow political parties to submit uncompleted financial reports, which has happened frequently in recent years. Such a mechanism would lead to an increase of efficiency. Moreover, CEC would also benefit from such software since the control, review, and public disclosure process would be streamlined and simplified. This said, well-structured software would also increase the transparency and enable the public at large and oversight agencies to easily access the financial records of political parties.

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POLICY REPORTS

Policy Reports are lengthy papers which provide a tool/forum for the thorough and systematic analysis of important policy issues, designed to offer well informed scientific and policy-based solutions for significant public policy problems. In general, Policy Reports aim to present value-oriented arguments, propose specific solutions in public policy – whereby influencing the policy debate on a particular issue – through the use of evidence as a means to push forward the comprehensive and consistent arguments of our organization. In particular, they identify key policy issues through reliable methodology which helps explore the implications on the design/structure of a policy. Policy Reports are very analytical in nature; hence, they not only offer facts or provide a description of events but also evaluate policies to develop questions for analysis, to provide arguments in response to certain policy implications and to offer policy choices/solutions in a more comprehensive perspective. Policy Reports serve as a tool for influencing decision-making and calling to action the concerned groups/stakeholders.