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**MONEY IN POLITICS:
POLITICAL FINANCING REGIMES INFLUENCING PUBLIC TRUST
(case study for Estonia, Latvia, and Lithuania)**

Master's thesis

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This thesis conforms to the requirements for a Master's thesis

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I have written this Master's thesis independently. Any ideas or data taken from other authors or other sources have been fully referenced.

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ABSTRACT

The thesis examines the relationship between political financing regime and public trust in political parties in Estonia, Latvia and Lithuania. Political parties require financial sources for electoral campaigns and operational administration. The shortage in financing may cause an interference of the third-parties interested in the decision-making of a political party. Scandals related to the topic of illegal funding of political parties are not rare in the Baltic States that undermine public confidence in political parties. In this sense, public funding is a primary a tool that can generate a balance in political financing regime, provide democratic elections and hence increase trust level in political parties.

A hypothesis that public funding generates a higher level of trust in political parties tested in the thesis is true in the case of Estonia while in the case of Latvia and Lithuania other factors that influence trust in political parties are found.

Keywords: political financing, political financing regime, public funding, private funding, public trust in political parties, Estonia, Latvia, Lithuania.

ABBREVIATIONS

PPA – Political Party Act of Estonia

LFPP(lv) – Law on Financing of Political Organisations (Parties) of Latvia

LFPP(lt) - Law on Funding of Political Parties and Political Campaigns and
Control of Funding of Republic of Lithuania

LPP(lv) - Law on Political Parties of Latvia

LPP(lt) - Law on Political Parties of Republic of Lithuania

PPFSC - The Political Party Finance Supervision Committee of Estonia (ERJK)

KNAB – The Corruption Prevention and Combating Bureau of Latvia

CEC – The Central Election Commission of the Republic of Lithuania

VC – the Venice Commission

WVS - World Value Survey

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INTRODUCTION

Political parties come to a government to work for the society. They come through elections, through people's will and trust. It is expected of them to work in the interests of society. It is also expected that no third party will influence the decision-making of political parties and hence the life of ordinary citizens, a brunch, a region or the whole country. People are willing to vote for those parties whose ideology is closer to them and who will represent them later in the parliament. However, money plays a significant role in this process as it is the primary source of the conduct of a political party, administration of elections and political campaigns. Money helps political parties to shape public opinion during a political campaign and even to win elections. With more financial resources, a political party gets more opportunities to reach the voter and convince him to support the party. Political campaigns become more expensive and require more financial resources to obtain an electoral support. The lack of financing can become a reason for a political party to support some third party decisions or even lobby some interests in exchange for financial benefits. The voter loses trust in political parties because of numerous scandals that provide an evidence of buying of access to a decision making process in a country. Consequently, "political parties are rated worse than courts, legislative or executive government institutions" (Transparency International, 2015). Hence, it is possible to assume that political parties' financing is correlated with some level of public trust.

There are well-developed rules that govern the funding of political parties in European countries. The Council of Europe and the United Nations conducted a variety of groundworks and analytical reports on the topic of political party financing. The European Commission for Democracy through Law (the Venice Commission (VC),

2001) formulated and adopted specific recommendations that describe basic principles and rules on political party financing and electoral campaigns. These rules consist of the regulatory framework as for the public, the same for the private funding of political parties. Public funding is available for those parties that have reached threshold requirements. For instance, free access to media is considered an indirect public funding of political parties. Private funding is a traditional source of political financing. It is regulated through bans and limits on donations made by one donator during one calendar year; in many countries, it should be an open list of persons who have made any contribution to a party. A state should establish limitations on spending of a political party. Additionally, political parties are obligated to present their financial reports to oversight institutions. The contemporary experience shows that political financing is narrowed down mostly to public funding regime with strong functions of oversight institutions. The aim of the political financing regulation is to provide equal rights for all participants of a political system. Nevertheless, each country is unique and requires some unique modifications in political financing regime. The core concept is to find a balance between all elements of political financing regime.

The aim of this thesis is to study political financing regimes in the Baltic States and to find what kind of impact it has on public trust in political parties in each country. The emphasis in this thesis is made on public funding of political parties. An introduction of public funding is usually provided as the balancing element in political party financing regime. It creates a more equal playing field for different political parties. The main argument of the introduction of public funding is that political parties represent groups of citizens. Hence, they have to be financed by the public means. It is expected that receiving state subsidies, political parties conduct their activity on behalf of public interests. Consequently, trust in political parties derives from the conduct of political parties. In this sense, public trust is an institutional economiser that has strong ties to political financing regime.

The theoretic chapter of this thesis highlights basic concepts and legal principles of political party financing regime that are applied both to party activity and to electoral campaigns. A political financing regime rests on two pillars: (1) regulatory rules and measurements of political financing; and (2) a regulatory body that monitors political parties' activity and its compliance with the established standards.

The empirical chapter presents a small-N case study. It is devoted to the comparative analysis of public and private funding and other elements of political financing regime such as free media access, reporting mechanism and the role of oversight institutions in this process in Estonia, Latvia, and Lithuania. Despite possessing similar features of political development and following the same recommendations of the Venice Commission and the Council of Europe, all three case studies have to some extent different modifications of elements of political party financing regime. In the last subchapter, trust in political parties is analysed parallel to the development of political system and party financing regime in each country. The case study shows that an implementation of public funding in Estonia helped to stabilise a political system that had an influence on the higher level of public trust in political parties in the first half of the 1990s. The cases of Latvia and Lithuania are different; public funding was established relatively late. The other factors had a significant impact on public trust in political parties.

The primary data sources of the comparative analysis are national legislation on political financing and data and political finance data of the International Institute for Democracy and Electoral Assistance; data on public trust on political parties of the World Value Survey (Wave 3 and Wave 5) and reports of Eurobarometer, etc.

CHAPTER 1. THEORETICAL APPROACH

A political party is an intermediary unit between society and the government. The quality of this relationship (society – political party – government) has an impact on the democratic development of a country in general. A political party needs financial sources to be stable and productive in this process, and to fulfil its core functions. A lack of financing is the main consequence when a political party decides to support or prioritise some private interests instead of public ones in exchange for financial benefits. That is why it is critical to have the same financing rules for every political party. They also provide equal access to financial sources and limit an influence of third parties on a political party and its decision-making that affects the electoral system and the whole country in the end. This chapter is devoted to the basic concepts and principles of the political party financing regime. It explains main elements of the political party financing regime, interrelations among them and what kind of relations it has with public trust in political parties. The second subchapter explains the relationship between financing regime of a political party and public trust in a political party.

1.1 Political parties financing regimes

A ruling-party has access to funding in different political systems. But when it is about political parties in opposition or new and smaller political parties that used to have limited access to financial sources, the rules for fair competition are needed. Max Weber conducted first research about party finance regimes at the beginning of 20th

century: “Party funding is one of the least transparent areas of party activity despite being one of the most significant” (Butler, 2010: 138). A legal framework of political financing consists of different regulatory elements that conduct a political financing mechanism in a country. Krasner described this mechanism in 1983 as “sets of implicit or explicit principles, norms, rules and decision-making procedures around which actors' expectations converge” (Koß, 2010: 15). On the basis of this definition, Colomer (1996) introduced the term ‘institutional regime’. But Kaiser (1998) argued that “institutional regimes are not equivalent to political systems” and converted this term into the term ‘party funding regime’ (Koß, 2010: 16).

Political financing regime has in its core legitimate sources of income and legitimate areas of spending, reporting and public disclosure of political activity (Koß, 2010: 15), and access to free media resources and sanctions for the violations of political funding norms. According to Ingrid van Biezen (2003), it should be “a healthy mix of different sources of income, including both private and public funding” together with some imposed limitations on private donations and “condition that the accounts of political parties are subject to external audit” (Biezen, 2003: 13). Additionally, the emphasis must be made on monitoring over political financing and sanctions in the case of violations. The OSCE/ODIHR recommendations also insist on fair criteria for the allocation of public financial support (VC, 2010, paragraph 160: 35). German scientists Weissenbach and Korte conducted research on party finance regimes of new democracies and countries in transition. They concluded that party financing regime has a direct impact on (1) the autonomy of a political party that means some independence “from private donors and the degree of corruption within it”; (2) political equality and competition between parties during elections; (3) organizational structure of a party and democracy inside of it (Weissenbach and Korte, 2010: 138-139). In general, party financing regime has an impact on the political development in a country and predicts its potential future.

There is four following forms of funding of political parties: (1) public funding; (2) private funding; (3) indirect funding that means different forms of support of a political party; (4) illegal funding. Nevertheless, there is no only one pure form of financing; current praxis shows that the funding mechanism of a political party has a hybrid form (Weissenbach and Korte, 2010: 138).

Private funding has always been a central source of political financing. There are next types of private financing (1) membership fees and joining fees; (2) donations (gifts) made by natural persons; (3) loans provided by banks and other financial institutions; (4) funding in a form of income received from the activity of a party including (4.1) interests received on funds kept in the bank accounts; (4.2) operations with property of a party and (4.3) incomes earned from sales of party literature and newspapers, etc. In other words, private financing of a political party includes all legal sources that are allowed in a country excluding subsidies from the state budget.

The most legitimate form of party funding is a financing in the form of membership fees and joining fees. It means that members make their contributions voluntary and have no direct demand to receive some services instead. They support a political party ideological line. Nevertheless, political parties that have a significant number of members take heed of their members' views and priorities that may be reflected in policy making. Membership and joining contributions are considered a democratic form of participation and depend to some extent on electoral performance. They are not legality prohibited or even allowed by law. Political parties regulate the minimum contribution by themselves. Nevertheless, some states set up contribution rates according to earned incomes aiming to avoid illegal access to political decision making through third-parties. In the case when political party members enjoy tax reliefs, this form of financing may not be treated as pure private funding (Biezen, 2003: 17-19).

Private donations are the other crucial source of political financing. But it has risks of ties between money and private political interests. That is why it is the most regulated form of political financing. The main principle here is to avoid conflict of interests and any secret donations and to provide transparency. A private donation is also "a form of political participation. Thus, legislation should attempt to achieve a balance between encouraging modest contributions and limiting unduly large contributions" (VC, 2010, paragraph 159: 35). The amount of collected private donations usually depends on fundraising capabilities of party leaders. For example, it takes from two months to two years to collect funds for the election campaign. According to Ikstens' research, leaders of different political parties approach private companies and top management who have at least expressed relatively similar ideological views aiming to involve them into political financing process. "The majority

of these leaders confirmed the assumption that sponsors seek certain “interests” from their investments in parties. Eight out of eleven respondents admitted that potential sponsors frequently put forward suggestions or even demand of political and/or economic character. However, party leaders stress their selectivity in accepting these demands” (Ikstens, 2008: 53-54). The research showed that only few party leaders claim that they did not give way to those demands; few party leaders confirmed “occasional” acceptance of such demands, and several party leaders confessed that they had to give up some ideological principles to receive financing (Ibid). Private donations have the biggest impact on the equality of political participation and competition, especially in developing countries. That is why law regulates the value of private donations according to earned incomes. Some states exercise one contribution limit per one natural person for membership fees, joining fees and private donations altogether. To be eligible for private donations, a person must possess some qualifications. For example, in some countries, only citizens may contribute to political parties while in others foreigners holding long-term resident permits are allowed to be a political donator (Biezen, 2003: 23). Any corporate and foreign donations the same as anonymous donations must be prohibited. Gifts are the other type of private donation.

Such form of political financing as loans provided by different financial institutions is relatively new. There are many critics of this kind of financing because of some visible ties between money and political decision making. In the case when the law does not prohibit loans, it has to be a rule that political parties are allowed to take loans only on market conditions and have credit relations only with those credit institutions that are registered in a country. The other limitations may be installed on the loan’s value. For example, a loan may not be larger than one-quarter of public subsidy. A loan must be secured only by the property of a party.

In democratic societies, incomes from party activity are seen as a classical form. Except for the above-mentioned types of party income, parties may run “recreation facilities, provide social security services, own travel agencies, sports teams, banks and housing projects” and other areas (Biezen, 2003: 19). The only restriction is that parties “should be able to utilise these proceeds for their campaigns and operations. While the use of such proceeds must respect disclosure and spending requirements, it should not be otherwise limited by relevant legislation” (VC, 2010, paragraph 167: 36). However,

in modern praxis, such activity may be accused of links to corruption and lobbying of interests aiming to gain financial benefits. This form of political financing is prohibited in many countries. Often this type of financing is controversial as a political party is a non-profitable or non-commercial organisation by national law.

Public funding is introduced in the political financing regime as a regulatory and balancing element to private funding and as a tool of corruption prevention. An introduction of public funding usually generates public discussions “concerning the exploitation of the state by parties and politicians” (Roper, 2008: 2). There are cases when leading political parties insist on public funding introduction due to the economic crises and a shortage of relevant financial sources for the upcoming elections. Nevertheless, it provides fair political competition and independence from third parties interested in decision-making. In many cases, new and small political parties benefit from the public funding. The total amount of political funding may be defined as a share of the annual state budget (0.01%, 0.05%, etc.) or by a flat rate. In the case when it is a share of the state budget, a party may receive a subsidy proportionally to seats obtained during elections or some fixed amount for reaching the threshold. A minimum subsidy also may be foreseen for parties that do not reach a threshold requirement and do not receive any seat in the parliament.

The mechanism of public funding consists not only of state subsidies that are granted in compliance with threshold requirements but also of bans and limitations on private funding, party’s expenditures including pre-election period, an introduction of obligatory financial reporting, sanctions and existence of the oversight institutions. An oversight institution receives a pivotal role in the system. It should be composed of independent members and have all means for exercising monitoring functions (Biezen, 2003: 13).

Additionally to direct subsidies, political parties may receive indirect funding that is free access to media, tax privileges and other forms of state support. However, the level of state funding should not make political parties dependent on it. It is one of the fundamental principles of political financing. Dependence on public funding will lead to a weakening of relations between a political party and its electorate (Biezen, 2003: 47).

As we see, political party financing is a system of checks and balances. Dependence as on private funding the same as on public leads to weakening of relationships with party's electorate. Biesen (2003) makes an emphasis on the system of matching funds that is used in Germany. In this system, political parties receive public subsidies proportionally to the amount of raised private donations (0.38 euro of public subsidy per each one euro private funds) (Biesen, 2003: 50). As we see, the idea of checks and balances is that a state must control the amount of political funding from the state budget. All these need a well developed legal framework. It does not mean that too many restrictions are good for a political financing regime.

1.2 Trust in political parties

In order to build a democratic state, politicians and civil society should cooperate. In order to cooperate, some level of trust is needed. Many social science researchers have studied the meaning of trust as a term and find this category quite often confusing, complex or elusive. In general, the definition of trust is mostly defined (1) in terms of expectations (that reflect its future orientation) or beliefs (that show a potential influence of the other parties to the outcome); (2) as a behaviour; (3) in terms of feeling of being secure (“emotional security”) or confident in the trusted party (McKnight, Chervany, 1996: 8). But still, the concept of trust is considered very breadth. Even though demand for trust is growing (McKnight, Chervany, 2000: 827). But trust is very vulnerable in case of any risk or uncertainties that may cause effects weather on expectations or a behaviour and a feeling of security. Hence, a risk is one of the factors that define the quality of trust as it changes the perception and attitude to trust. And vice versa, trust is especially needed in situations when any risk arises (Mayer, Davis, Schoorman, 1995: 711). Thereof, the risk may be used to test the trust and its outcomes.

Trust is very critical to young democracies. It enables governments to define their risks and enhances them to work more effectively (Mishler, Rose, 2001: 30-31). To test trust-risk relations, there is a model of trust that focuses on relations between two sides: a trusting party (trustor) and a party to be trusted (trustee) (Mayer, Davis, Schoorman,

1995: 711; Coleman, 1990: 96). Both actors have some purpose when they establish relations. There are only two choices: to keep the trust or to break the trust (Coleman, 1990: 96). Hence, trust means here “an expression of confidence between the parties in an exchange of some kind-confidence that they will not be harmed or put at risk by the actions of the other party ...” (Jones and George, 1998: 531). The analysis of these relations shows that trust does not mean that trustee has to take all risks; it is only about trustee’s willingness to take some defined risks (Mayer, Davis, and Schoorman, 1995: 712). Coleman argues that a trustee may be interested in making some actions to create trust in the relations with a trustor. Hence, the analysis of desired outcomes of trust may lead to the understanding of how to manage the risks or how to behave to achieve specific goals or how to handle the trust to avoid some potential risks.

Trust is a critical component in politics. With the help of expression of shared views and values, trust contributes to relation building between politicians and their electorate (Jones and George, 1998: 532). Schmitter and Karl prove these relationships through the definition of a democratic state. A democratic state is characterised by “a system of governance in which rulers are held accountable for their actions in the public realm by citizens, acting indirectly through the competition and cooperation of their elected representatives (Schmitter and Karl, 1991: 76). It is possible to conclude that trust is an essential element for the political system. The example of relations between a trustee and a trustor explains the behaviour of a political party trying to create stronger relationships with potential voters during election campaigns. The leadership of a political party works at the building of trust with voters by providing its program that shows how this specific political party will deal with the challenges (risks). A political party needs trust to come to power; its electorate needs a political party because of (some) shared views and values, to become their ‘voice’ and represent them in the government. John Dunn warns of to distinguish between “trust in the good intentions of more or less professional politicians and trust in their functional capacities. Trust in either might often be an agreeable start” (Dunn, 2000: 89-90). But only real and practical functions are preferred to be trusted. Strengthening this argument, it is worth to take into account findings of Giffin who looks at trust through the prism of interpersonal relations (interpersonal trust) during communication. By Giffin, interpersonal trust is “based upon a listener’s perceptions of a speaker’s expertness,

reliability, intentions, activeness, personal attractiveness, and the majority opinion of the listener's associates" (Giffin, 1967: 104). Here we see that communication plays a significant role in the political processes. It also explains why different famous artists, actors and other famous persons are invited to become a member of a political party and take an active part during election campaigns. Having some auditorium, it is much easier to get an attention of regular citizens and popularise views of a political party. Consequently, making an assumption by Coleman, a voter has to be rational while giving his vote to the right by his opinion political party.

The organisation of free and fair elections the same as the active participation of citizens in these elections are among main elements of democratic development in a country. It is expected that elected representatives will provide the protection of human rights in a country and will participate in the development of laws that will be applied to all citizens respectively. Historically it has always been tensions and conflicts among political parties, thus their legitimacy and trust in them. Rosanvallon (2008) proves that legitimacy and trust are two political attributes that influence voting results (Rosanvallon, 2008: 3). Simmel (1999) made a hypothesis that trust is "a middle position between knowledge and ignorance of others" (Simmel, 1999: 315). Thus, only those party who received the highest support (meet a threshold requirements) should be taken into consideration. The logic here is next: as long as political parties represent their voter in the government and hence are legitimised, they should be financed by funds of these voters (electorate). Such funding is in the form of taxes paid to a state budget (public funding) or small personal donations (private funding). However public funding is available to a political party in case it meets a threshold requirement. On the basis of trust influencing an outcome of a political party, Rosanvallon defines trust by the assumption of Simmel's thoughts¹ that "trust is ... a hypothesis about future behaviour" (Rosanvallon, 2008: 4). Hence, from one side we have political parties that operate in the particular legislative environment; but their conduct depends on political financing

¹ Simmel, G. (1999). *Sociologie: Études sur les formes de la socialisation* (Paris: Presses Universitaires de France, 1999), pp. 355–356: "Certain enough to furnish the basis of practical action, trust is also an intermediate state between knowledge and ignorance of others. A person who knows everything has no need of trust. One who knows nothing cannot reasonably bestow his trust."

regime; from the other hand, it depends on the level of trust in them and its behavioural tendency (see Figure 1.1).

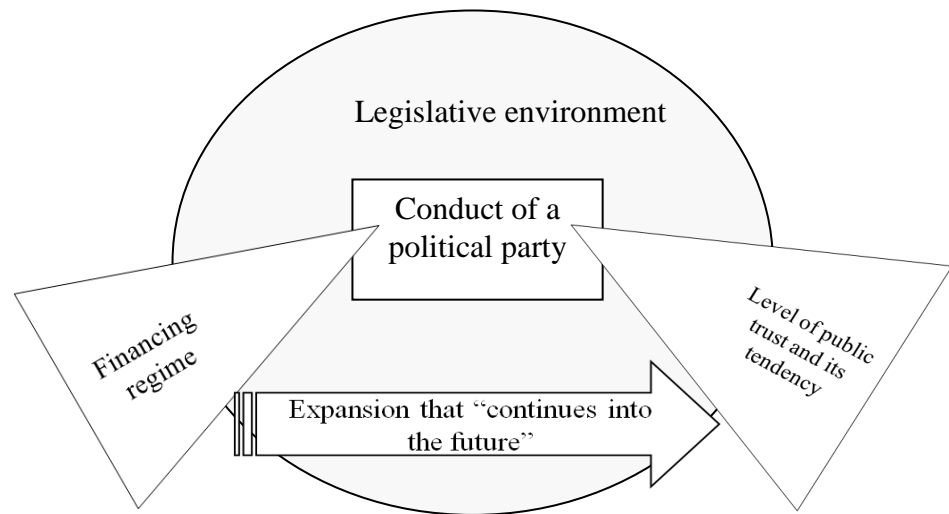


Figure 1.1 Ties between financing regime and public trust in a political party

According to Zanini (2008), the behavioural risk is the most important in trust relations (Zanini, 2008: 23-24). The very first author who suggested the role of time in trust relations was Coleman (1990): "... one way in which the transactions that make up social action differ from those of the classical model of a perfect market lies in the role of time" (Coleman, 1990: 91). Zanini interprets 'the role of time' as time gaps. If public trust connects legitimacy through its expansion that "continues into the future" (Rosanvallon, 2008: 3), that is behaviour, then it is possible to explain by using the time gaps why trust in the political party changes in the future.

It is possible to assume that violation of norms of political financing regime leads to shifts in the level of public trust (that is the future behaviour of trust). By this logic, trust is seen as an element of the political system. For this research, it is important to define trust as an institutional economiser that ties to the framework of political financing. Also, it is possible to claim that public funding regime creates a more transparent playing field, which over time builds a certain amount of trust in political parties.

CHAPTER 2. METHODOLOGY

This chapter presents a methodological approach to political financing regime and its links to public trust in political parties in Estonia, Latvia and Lithuania in order to test a hypothesis of the thesis. The subchapter about operationalization of data explains case study selections for the analysis, data used for the analysis and limitation of the study.

2.1 Research hypothesis

The aim of the research is to learn financing systems of political parties in Estonia, Latvia, and Lithuania, to define their similarities and differences, and to test a relationship between an introduction of public funding and public trust for in political parties every chosen country in the moment of public funding introduction and during next parliamentary elections.

The main hypothesis of the research is: public funding of political parties generates a higher level of trust in political parties.

2.2 Operationalization of data

Public funding is an independent variable in this thesis.

Public trust in political parties is a dependent variable as by the hypothesis the level (some level) of public trust in political parties depends on the introduction of public funding. Consequently, a level of public trust in political parties must shift (increase) during next parliamentary elections.

The research design of the thesis is a few-N comparative study (three Baltic countries - Estonia, Latvia, and Lithuania).

The empirical chapter of this thesis is a comparative analysis of the relationship between political parties financing regimes and public trust in political parties in the Baltic States: Estonia, Latvia, and Lithuania. All three states went through the nearly same historical formation of the political system: occupation by Soviets, restoration of independence in 1991, joining the European Union in 2004, though the implementation of all recommendation of the EU to built stable political systems in each country. If to look precisely to political party financing regime, Estonia was the first country that started to develop a more extensive system of state funding for political parties. Public funding is available for those parties that did not reach a threshold during last parliamentary elections. Estonia has slightly higher levels of public trust in political parties, although the absolute level is still relatively low. Latvian case is opposite to Estonian. State funding was introduced only in 2011 and came into effect only in 2014. Public trust in political parties is the lowest not only among the Baltic States but in the European Union. Lithuanian case is going to be between Estonian and Latvian.

These three case studies serve as substantively interesting cases since they represent different levels of the proper state funding of political parties and public trust in political parties that we are looking at. Therefore we can test the connection between them better.

In the practical part, it is needed to define which factors and conditions have influenced the establishment of public funding of political parties in each country. On

the next stage, it will be done a comparative analysis of the system of public financing of political parties in Estonia, Latvia, and Lithuania according to their main financing laws. The aim of this analysis is to define differences in the legislation of given countries and to understand their nature. Also, it is needed to make a comparative analysis of national legislation on private financing of political parties in Estonia, Latvia, and Lithuania. The aim of the analysis is to define the mechanism of such financing and the possibilities of violation of political parties' financing norms. Preliminary analysis shows that very often private funding of political parties is used as a distortion of political party financing mechanism. That is why many democratic countries prefer public financing only.

The dependent variable of the research (public trust in political parties) will be described and measured in the second part of the empirical chapter. Different studies propose to measure trust in political parties using trust index. By the methodology of the European Social Survey and the World Value Survey, trust index is calculated as the mean of three trust scores: (1) trust in the parliament; (2) trust in politicians, and (3) trust in political parties. Each variable is measured by a five-level scale: great deal; quite a lot; not very much; none at all; cannot answer. These variables are highly correlated with each other and thus convey essentially the same information. Nevertheless, public trust in political parties will be analysed separately in this thesis but by the same scale and methodology.

This analysis will be used to compare the level of trust in political parties in Estonia, Latvia, and Lithuania. The analysis will show:

- To which extent public funding regime differ in selected countries;
- How reached the balance between public and private funding in selected countries;
- How an introduction of public funding influences public trust in political parties. In the case when there is no influence, it will be given an explanation what the reasons are.

It will be defined the condition of political financing regime in selected countries, the level of public trust in political parties and consequences of this relationship.

Data sources for political financing regime. National legislation is a primary source for the comparative analysis in all three case studies. The other data source on political finance regulation is provided by the International Institute for Democracy and Electoral Assistance (IDEA) that conducts a research of political financing since 2003. IDEA database covers approximately 180 countries including Estonia, Latvia and Lithuania.

Data sources for trust in political parties. The data of the World Value Survey (WVS) is the primary data source for analysis. The WVS conduct face-to-face or phone interviews with respondents who are between the ages of 18 and 85. The minimum sample size is 1200 conducted interviews. Each new research is conducted as a wave. Each wave has a specific number of questions. Each question has a number. In different waves, the same question is coded by various number (WVS, 2017).

Trust in political parties is coded as a variable “*Confidence: Political Parties*” in the WVS.

Question wording

I am going to name a number of organisations. For each one, could you tell me how much confidence you have in them: is it a great deal of confidence, quite a lot of confidence, not very much confidence or none at all?

Political parties.

2.3 Research limitations

In this research political parties are counted as legitimate formations as they are formed by the will of a group of citizens; they behave on behalf of the different mass of citizens, who supporting given party make it legitimate as well. Scientists look at political systems first of all through the prism of distrust (see Figure 2.1).



Figure 2.1 Place of trust in the political system

Coleman introduces distrust as a lack of trust by dividing the actions between the trustor and trustee “into two parts: the promise and the delivery. The delivery is partially but not wholly contingent on the promise” (Coleman, 1990: 750). Hence, distrust is the key element in the relations between a political party and a voter because a voter is not confident if a promise of a political party that is in the form of its program will be delivered in the form of real actions.

There are two primary forms of the expression of distrust: liberal and democratic (by Montesquieu). Only these two theories are used for measurement.

Trust is seen as an institutional economiser in this thesis.

Comparative analysis of legislation on political parties financing system will be made basing not on similarities, but on differences that exist in Estonian, Latvian and Lithuanian political parties laws.

The time frame of the analysis is described in Table 2.1:

Table 2.1 The time frame of the analysis

Country	Year of introduction of public financing of political parties	Trust in political parties:	
		in the year of public funding introduction	in the year of the next elections after the introduction of public financing
Estonia	1992	1991 - 1994	1996
Lithuania	1999	1999 – 2000	2004
Latvia	2011	2011	2015 – 2016

A time frame for each chosen country is different because of the different year of public funding introduction. Respectively, trust in political parties is tested in a year of public funding introduction and a year of the election next to public funding introduction.

As we see from Table 2.1, trust in political parties in Estonia is estimated for the period 1991 – 1994 and in Lithuania for 1999 – 2000. It is because WVS conducts a research (a wave) for a four-year period of time. In the case of Latvia, there is no available data in the WVS as during the 1990s the only research was conducted for Latvia during the Wave 3. As we look at the level of trust in a year when public funding was introduced, this data is not relevant. No new data on trust in political parties is available for Latvia.

In the case of Lithuania, the WVS has no data for the period 2000 – 2004, but there is data for the period 2005 - 2009. As 2005 was the year after 2004 parliamentary elections, this data was taken for the analysis.

As different agencies use a different methodology for data collection, and its interpretation, analytical reports of Eurobarometer were used only to see the tendency of trust in political parties (declining or increasing), but not to compare data with WVS.

CHAPTER 3. COMPARATIVE ANALYSIS

This chapter provides a comparative analysis of political party financing in three Baltic States: Estonia, Latvia, and Lithuania. Before turning to the analysis, it is useful to look at the definition of a political party in the national legislation of each country.

According to §1 of the Estonian Political Party Act (passed 11.05.1994, with the latest amendment in force 01.07.2014), “a political party is a voluntary political association of Estonian citizens, which has been registered pursuant to the procedure provided for in this Act and the objective of which is to express the political interests of its members and supporters and to exercise state and local government authority” (Eesti Vabariigi Riigikogu, 2014). A political party is a non-profit organisation by The Non-profit Associations Act.

Section 2 of Chapter 1 of the Law On Political Party (passed in 2006, with the latest amendment in force 2011) defines a party as “an organisation that is established in order to perform political activities, to participate in election campaigns, to nominate candidates for deputy positions, to participate in the work of the Saeima, local government councils (parish councils) or the European Parliament, to implement the party programme with the intermediation of deputies, as well as to be involved in the establishment of public administrative bodies” (Latvijas Republikas Saeima, 2011). Also, a political party can be a member of one registered party alliance in Latvia.

Article 2 of Chapter 1 of the Law On Political Parties of the Republic of Lithuania (passed 25.09.1990, with the latest amendment by 2014) states that “a political party shall be a public legal person who has its own name, has been established pursuant to this Law, and whose purpose is to meet political interests of its members, to assist in

expressing the political will of the citizens of the Republic of Lithuania, in seeking to implement state power and the right to self-government” (Lietuvos Respublikos Seimas, 2014).

To sum up, Estonian legislation defines a political party as a non-profitable association. It provides a clear understanding of its limited financial operations. Latvian definition is not so precise as Estonian while there is no clear description of what political activities are; section 7 defines only public activities of a party. Furthermore, it is pointed out (section 8 of LPP(lv)) that a party may have economic activity, but with later remark “which do not have the nature or purpose of profit making” (Latvijas Republikas Saeima, 2011). A political party definition in Lithuanian law is more neutral. But in the case of activities of a political party, the LPP(lt) directly relies on the Civil Code of the Republic of Lithuania and the Law on Funding of Political Parties and Political Campaigns and Control of Funding (LFPP(lt)).

According to the recommendations of the VC on the financing of political parties, all political parties may seek for public and private sources of funding. Public financing must be available to each political party that has seats in the parliament on a periodic basis and by some specific criteria. Additionally, an effective control should be guaranteed by a specific public organisation. Membership fees and private financial donations from citizens of a state are main recommended sources of private financing (VC, 2001: 2-4). The other sources such as candidate’s personal resources and loans are described in Chapter XII of the Guidelines on Political Party Regulation adopted by the Venice Commission at its 84th Plenary Session (VC, 2010: 35-46).

Next three subchapters are devoted to the comparative analysis of political financing regime in the Baltic States. The emphasis in the analysis is made on differences of each country’s regime while all three countries followed recommendations of the VC while establishing public funding. The last subchapter is devoted to public trust in political parties.

3.1. Public funding of political parties in Estonia, Latvia, and Lithuania

Public funding of political parties was introduced in Estonia in the first version of the “Political Parties Act” (PPA) in 1994 and has been in effect since 1996. Newly adopted PPA defined the minimum number of members for a political party that must have at least 1000 members² and introduced a system of state subsidies. Allocations from the state budget of Estonia were guaranteed only to those political parties that met a threshold requirement in proportion to obtained seats in the Riigikogu. Not only newly formed but also old parties favoured public funding, that in the second half of the 1990s grew up annually till 1,25 million euro (Pettai, 2009: 80). After the parliamentary elections of 1995, political parties distributed first state subsidy of 5 million Estonian kroons (EUR 319,693) among five parties and “two small parties that made up two electoral alliances” (Pettai, 2017: 7). This money was enough to reduce the dependence of political parties on private donations in Estonia. But significant regulation on private donations was made only in 2003 when it was introduced bans on private donations to political parties from the industry. Some scholars argue that only already existing political parties could thoroughly enjoy ‘privileges’ of state subsidies and “institutionalize their relations with their members and voters” (Pettai, 2009: 80). Newly created parties became limited in private support and would receive state funding later, but in the case of meeting the threshold requirements. The introduction of the threshold influenced the decrease in a number of parties entering the parliament³ (Sikk, Kangur, 2008: 63). One of the reasons was that during the 1990s approx. ten percent of Estonian citizens gave their votes for political parties that could not cross the threshold, while after 2000 this number is less than five percent (Pettai, 2008: 80). It means that Estonian

² The minimum number of members of a political party is 200 in Latvia (as of 1992) and 2000 in Lithuania (400 as of 1992, 1000 as of 2004 and 2000 as of 2015).

³ The average number of political parties entering Riigikogu was 5.7 during 1992 – 2007 (15 years), but the average of the effective number of electoral parties entering Riigikogu equaled 6,4 for the same period (Pettai, 2008: 79). But in 1992 separately, the effective number of political parties entering Riigikogu was 5.9 while in 2007 this number was 4.4 (Sikk, Kangur, 2008: 63).

voters become more rational. Also, it seems that they are starting to believe more in older parties than in newly formed ones.

Paragraph 12¹ of Chapter 2¹ of the updated PPA (entry into force 01.04.2011) sets up main rules of funding of political parties' activity in Estonia. The Law defines subsidies from the state budget as the primary source of a political party in Estonia (Eesti Vabariigi Riigikogu, 2011). But there are restrictions. Allocations from the state budget are available only to a political party; not for a single candidate or coalition. A political party must obtain a minimum threshold requirement of five percent to be eligible for state funding. Allocation is paid from Estonian state budget proportionally to the number of seats obtained in the election on a monthly basis as one-twelfth of the annual amount of the public subsidy (PPA, Chapter 2¹, §12⁷ (1)). Before 2003, only parliamentary parties could receive public funding. In 2003 this norm was changed aiming to support small parties that did not obtain a threshold requirement of five percent. A party that received one percent of votes during parliamentary elections was granted 9 587 euro of annual state funding. A party that received four percent of votes received 15 978 euro per year. A party that received five and more percents received state funding proportionally to the seats in the Riigikogu (Transparency International Tallinn, 2012: 4). As of 2014, this norm is changed according to the amendment RT I, 05.02.2014, 1 that entered into force as of the commencement of the term of the Riigikogu office of the XIII composition on 01.04.2014.

Hence, only those political parties are eligible for state funding that obtained no less than two percent of votes during parliamentary elections. The level gradation of received votes by political parties that do not meet threshold requirement is also more precise: (1) 2% but less than 3%; (2) 3% but less than 4% and (3) 4% but less than 5%. A political party will receive an annual allocation of 30000 euro, 60 000 euro and 100 000 euro respectively according to the level of obtained votes (PPA, Chapter 2¹, §12⁷ (2)). As we see, newly updated legislation introduces a twice higher threshold for getting states subsidies by political parties that received less than 5% of votes during last elections (2% instead of 1%). The minimum allocation is more than three times higher (30 000 euro instead of 9 587 euro), and the maximum amount of the subsidy from the Estonian budget is more than six times higher (100 000 euro instead of 15 978 euro).

Analytics from Transparency International Estonia and Bertelmann Stiftung claim that amendments made to PPA in section §127 “Allocations from state budget” in 2014 significantly improved the existing system of party financing in Estonia. Nevertheless, the system of party funding remains not balanced; there is high inequality in public funding of parliamentary and non-parliamentary parties (Transparency International Estonia, 2014: 4; Bertelmann Stiftung, 2016: 2). In 2016, Estonian Reform Party received 1 697 726 euro for 30 obtained in the Riigikogu seats, Estonian Centre Party received 1 446 953 euro for 27 seats, Social Democratic Party received 803 863 euro for 15 seats, Pro Patria and the Res Publica Union received 750 272 euro for 14 seats, Free Party received 428 727 euro for 8 seats and Conservative People’s Party received 375 136 euro for 7 obtained in the Parliament seats. In total, six governmental parties in Estonia received 5 412678 euro in 2016, in average annually 53 590.87 euro for one obtained seat in the Riigikogu⁴, whereas in 1996 this amount was equalled 319558 euro or 3164 euro for one obtained seat (Riigikogu Kantselei, 2016: 1). Allocations from the Estonian state budget for the non-governmental parties were not foreseen in 2016 as any other party (except those six political parties who obtained 5% threshold) didn’t receive even one percent of votes during elections in 2015. For the period of twenty years (1996 – 2016), it was allocated more than 71 million euro of public funds to political parties in Estonia⁵.

Lithuania had a number of legislative acts that regulated election financing during the 1990s. Many different modifications of political financing were experienced. Hence, it was a hot debate among political parties whether there was a need for the introduction of public funding. But economic crises and lack of available resources for the upcoming parliamentary elections of 2000 made an effect to the process and influenced common understanding that state subsidies might strengthen political parties and promote the transparency of a party financing. As a result, public funding of political parties was introduced in 1999 in Lithuania when the “Law of the Funding of Political Parties and

⁴ In 1990s, the total budget of public funding of political parties had a slow increase. In 2004 it was tripled (from 1.28 million euro in 2003 to 3.83 million euro in 2004). The next rise took place in 2008 to 5.75 million euro. The yearly amount of public funding is stable since 2010 (by the data of Riigikogu Kantselei, 2016: 1).

⁵ Calculates by the data of Eesti Vabariigi Riigikogu Kantselei (2016).

Political Organizations” (LFPP(lt)) was enacted. Thus, crises united Lithuanian political elites around the introduction of public funding to political parties (Unikaite, 2008: 33-34).

According to the “Law on Elections to the Seimas” (1994), it was set up the four percent threshold of obtained during election votes to enter Lithuanian Parliament. A special regulation was implemented for political organisations that represented ethnic minorities. These parties could enter the Seimas with 2 percent threshold. In 1996, the threshold requirements were changed. It was increased to 5 percent to a single political party. A party coalition could come to the Parliament having at least 7 percent of votes, while the special threshold for minorities was abolished (Unikaite, 2008: 31). Unikaite claims that the threshold requirements were changed under the efforts of the Lithuanian Democratic Labour Party (LDLP), the Homeland Union Lithuanian Conservatives (HULC) and the Lithuanian Christian Democratic Party (LChDP) that were the strongest parties in Lithuanian Parliament aiming to restrict any competition. Nevertheless, the introduction of the coalition threshold gave hope for smaller parties to enter the Seimas (Ibid).

Currently, public funding of a political party in Lithuania is organised according to the “Law on Financing and Financial Control of Political Parties and Political Campaigns” (Article 14), adopted in 2004. By the law (Chapter 2, Article 7), membership fees are considered to be the primary source of political financing in Lithuania. State subsidies are the secondary funding source of a political party (Lietuvos Respublikos Seimas, 2014). Allocations from the state budget in Lithuania are available only for those political parties that meet all requirements of the previously mentioned law (Article 15 “The Procedure for Calculating the Size of, as well as for Distributing and Paying, State Budget Appropriations for Funding the Activities of Political Parties”, Clause 1): “1. Political parties that are registered with the Register of Legal Entities in accordance with the procedure laid down by law and meet the requirements established by law regarding the number of members of a political party, and against which no restructuring or liquidation procedure has been instituted, shall be entitled to state budget appropriations for funding the activities of political parties” (Lietuvos Respublikos Seimas, 2011). Additionally to the mentioned requirement, a political party must obtain at least three percent of votes during elections “to the Seimas, municipal

councils, and the European Parliament according to the results of which these state budget appropriations are distributed” (Ibid). A total sum of state subsidies for the financing of political parties is fixed in a state budget (Article 14, Clause 2). Its annual amount may not exceed 0.1% of the annual state budget of Lithuania (Unikaite, 2008: 34). Also, a political party is obligated to notify the Central Electoral Commission on the number of its members by 1 April annually. In the case of violation of LFPP(It), the CEC will stop public funding of a political party for the period of two years starting from the date when such decision will be accepted (Article 14, Clauses 3-5) (Lietuvos Respublikos Seimas, 2014).

Lithuanian legislation provides specific procedure according to which allocations from the state budget are distributed to political parties. The sum of state subsidy is calculated by multiplication of a six-month financial coefficient (that is an amount of funds for one vote for a six month period) and the number of obtained votes by the specific candidate of a political party during elections (Article 15, clause 4). The Central Electoral Commission defines the amount of allocation and transfers it to the account of a political party twice a year by 15 April and 15 November (Article 15, Clause 5).

State subsidies for financing the activity of political parties in Lithuania were insignificant at the beginning of the 2000s. Because of the lack of available financial sources, parliamentary parties started to promote public funding system. The total share of state subsidies for political parties was growing up in the state budget. The biggest share of state subsidies was distributed among the three largest parties (Lithuanian Social Democratic Party - LSDP, the New Union / Social Liberal – NU/SL, and Lithuanian Liberal Union – LLU). In 2005, they received additionally a compensation of the costs incurred during the electoral campaign. For the period of 6 years (2000 – 2006), the annual amount of state funding increased from 268104 euro (980000 Lt⁶) in 2000 to 1.7 million euro in 2004 (6 million Lt) and 4.3 million euro (15 million Lt) at the end of 2006 for the year of 2007. In 2015 and 2016, allocations from the state budget were 5.5 million each year. For the period of sixteen years (2000 – 2016), it was

⁶ According to the European Central Bank, the average exchange rate was 1 Euro = 3.6553 LTL in 2000 and 3.4528 LTL in 2004. As of February 2002, the exchange rate of the Lithuanian lit is fixed to Euro because of accession of Lithuania to the EU (1 Euro = 3.4528 LTL).

granted approx. 51 million euro to political parties from the state budget (Unikaite, 2008: 35-37; The Central Electoral Commission of the Republic of Lithuania, 2017⁷).

At the beginning of 2000, the VC presented detailed recommendations regarding funding of political parties. These recommendations were developed in late 1990-x and adopted in 2001. The development of political financing regimes in Estonian and Lithuania was conducted partly in correspondence with these recommendations because of the future accession of the Baltic States to the EU in 2004. The regulatory framework of political party financing in Latvia has been developing differently than in Estonia and Lithuanian. Latvia was the poorest country among the Baltic countries and had a larger number of problematic issues to solve. In the tradition of the Baltic States, Latvia also adopted a law that regulated political financing in the country in the mid of 1990s (LFPP(lv), adopted in July 1995, the latest amendment made in 12.09.2013). But public funding of political parties wasn't extensively discussed mostly because of two reasons: "lack of money in the state budget and the failure of parties to fulfil their educative and informative functions" (Ikstens, 2013: 11). The other reason was that bank loans became a primary source of political financing since 1998 until they were forbidden in 2004. Finally, public funding of political parties was introduced in Latvia in 2010 and entered into force in 2011. Before the introduction of public funding, "Latvia has seen a high degree of electoral volatility and notable turnover of parties at the parliamentary level" (Ikstens, 2008: 59). As of 2012, those political parties that meet two percent of threshold requirement during parliamentary elections may get public funding in Latvia. An eligible political party could receive a public subsidy of 0.50 Lats per one vote. In 2013 this norm was changed. An eligible political party receives annually 0.71 Euro per each vote obtained during last parliamentary elections (LFPP(lv), Section 7¹).

Moreover, each political party that is eligible for public funding has to open a special bank account to make all transactions during the political campaign. A party has only 20 days to present information indicating its name, registration number and number of party members to Corruption Prevention and Combating Bureau (KNAB)

⁷ The Central Electoral Commission of the Republic of Lithuania provides full data about public funding of political parties since 2000 in national currency, Lt. That is why all sums in the text are converted to euro (<http://www.vrk.lt>).

that takes a decision whether to grant state subsidies to a party or not (LFPP(lv), Section 7²). This decision is made on the basis whether a political party during last four years:

- (1) violated the norm on pre-election expenses by more than ten percent;
- (2) did not indicate some incomes or expenditures, the total amount of which exceeded 100 minimum monthly salaries and was punished for it; and
- (3) had any coercive measures applied to a party and proved by the court (LFPP(lv), Section 7³).

Hence, it is easy to deduce that this system is very beneficial for big political parties rather than for small ones. Ikstens argues that such amount of public subsidies is not sufficient source for big political parties as it is enough only to cover daily expenses (Ikstens, 2013: 12). KNAB also admits that private funding is still the most important source of financing of political parties in Latvia. The Expert Group for Governance Improvement (established by the President of Latvia Andris Bērziņš) made a proposal to increase the level of public funding “in order to reduce the dependence of political parties on private donors significantly” (Latvijas Valsts Prezidents, 2014: 8). But only 16.2% of the surveyed Latvian citizens support this proposal (Ibid).

The design of the regulatory framework of public funding in the Baltic States has been changing since these countries declared the accession to the EU. In 2001, the Venice Commission adopted “Guidelines on political party regulation” that defined the main principles of public funding. The OSCE/ODIHR amended the document in October 2010. Public financing regimes in Estonia, Latvia and Lithuania contain all main elements, but still, they have many differences that are presented in Table 3.1.

*Table 3.1 Comparative analysis of political parties' public financing of the Baltic States according to their main financing Laws**

<i>Comparative indicators</i>	<i>Estonia</i>	<i>Latvia</i>	<i>Lithuania</i>
Legislation basis	PPA	LFPP (lv)	LFPP (lt)
1. Basis of public financing	Regularly provided	Regularly provided	Regularly provided + financing by separate governmental programs
2. Eligibility criteria of public financing	Representation in the election body – Riigikogu, 5% threshold. Funding proportionally to the obtained in the parliament seats.	The share of votes in previous elections – more than 2% of votes.	The share of votes in previous elections must be at least 3% of votes.
3. Allocation calculation	The equal amount provided to smaller parties, larger parties receive funding proportionally to votes and seats obtained in the election.	Parties receive allocation by a flat rate of 0.71 euro per each received vote.	On the basis of the six-month coefficient per one vote: (1) An annual subsidy budget is divided into 2 parts and then by the number of all votes obtained by parties that have met a threshold requirement during election (it is a six-month coefficient per one vote); (2) An amount of subsidy is equal to the obtained in election votes multiplied by the six-month coefficient.
4. Budget financing of parties which haven't reached a threshold, per year	Not available for parties that didn't receive at least 2% of votes. Parties that receive at least: 2% but less than 3% of the votes will receive annually 30000 euro; 3% but less than 4% of votes - 60 000 euro; 4% but less than 5% of the votes – 100 000 euro. In the case of a merger of political parties, allocations are summed up. In the case of division of political party, the allocation is divided on the basis of the	Not available for parties that didn't receive at least 2% of votes. The threshold to enter Parliament is 5% for a single party or association of parties. Parties that didn't enter the Parliament, but received at least 2% and less than 5% will receive public funding under the same conditions as parliamentary parties (by flat	Not available for parties that obtained less than 3% of votes. The threshold to enter Parliament is 5% for a single party and 7% for a coalition. Parties that didn't enter the Parliament but obtained at least 3% of votes receive an allocation from the budget under the same conditions as parliamentary parties: by the six-month coefficient per one vote.

<i>Comparative indicators</i>	<i>Estonia</i>	<i>Latvia</i>	<i>Lithuania</i>
	agreement of division.	rate 0.71 Euro per one vote). Parties that surpass the 2% threshold are eligible to receive back the required 1,400-euros deposit	
5. Period of public financing	Each year until the month of the elections results.	For 4 years; from the next calendar year after the Saeima elections.	Each year
6. Payment performance of public financing	One-twelfth of the annual amount – by the fifth date of each month	Four times a year – until 15 January, 15 April, 15 July and 15 October	One time every six months - not later than by 15 April and 15 November of each year
7. Amount of annual allocation from the state budget to political parties	Annual subsidies to political parties are determined in the State budget (0,05%?). But the law does not provide any details how this amount is defined.	-	The annual share of allocation in the annual state budget is 0,1%.

**Table 3.1 is built on the basis of PPA, LFPP(lv), LFPP(lt) and political finance data of IDEA.*

As we see, Table 1 indicates more loyal public financing procedure in Estonia than in Latvia and Lithuania. Estonian parties that have not reached a threshold to enter the parliament, but obtained more than two percent of votes, receive allocations from the budget. Nevertheless, the legislation framework in Lithuania and Latvia is more equitable to small and newly formed parties. These parties must obtain at least two percent of votes to receive public funding under the same conditions as leading parties. Latvian public financing procedure seems to be more capitalistic as Latvian parties receive funding by a flat rate calculation. A flat rate basis means the stable amount of money per each obtained during election vote (0.71 Euro per vote). Of course, in this case, the leading party is getting more public funds than following ones.

Moreover, a payment performance of subsidies is entirely different in the Baltic States. In Estonia, such payments are made monthly, in Latvia – quarterly, and in Lithuania – twice a year. In Estonia, an amount of payment is minimised. It is possible to assume that it is harder to make any manipulations with one-twelfth than with one-

fourth part of annual subsidy. Estonian legislation foresees that this amount is enough to cover current needs of a political party. A political party is allowed to use state subsidies only for the election campaign. Latvian subsidies that are calculated by a flat rate were introduced with the same idea. In this case, each party has to manage its public funds carefully, especially before elections with the aim to accumulate some financial resources in advance that will be used during elections campaign. In Lithuanian case, a party receives a six-month amount of public subsidy twice a year. Respectively, party top management can plan their expenditures much easily in a year of elections. But there is a bigger possibility of corrupt manipulations. Latvian case of payment performance seems to be the most optimal as it is paid quarterly. A political party receives enough money to cover current expenditures and to foresee some amounts in advance especially in a year of elections.

Estonian PPA defines a period of public financing much more accurately – each year until the month of elections. Latvian legislation defines four years period between elections. In Lithuania, a period of public funding is “each year” (meaning from elections to elections). But Latvian and Lithuanian political party financing Laws can be controversial in the case of parliament dissolutions and early elections.

To sum up, despite the introduction of public financing in all three Baltic States, Latvian and Lithuanian political parties claim that this funding is not enough to cover even daily needs. In the case of Estonia, there are proposals to cut public funding as parliamentary parties receive annually approximately one million euro per each party⁸. Despite allocations from the state budget constitute substantial portion in funds of political parties, private funding is still a primary source of political financing in Lithuania. Private funding represents even a bigger share in funds of Latvian political parties.

⁸ In May 2015, Free Party (Eesti Vabaerakond - EV) initiated a collective appeal to the Constitutional Commission to reduce public funding of political parties at least by half. EKRE supports this idea to cut the amount of public funding of political parties while Estonian Reform Party and Estonian Centre Party that are the recipients of the biggest share of public funds state that public funding system is transparent and well organized. The Constitutional Commission rejected the appeal in 2016.

3.2. Private funding of political parties in Estonia, Latvia, and Lithuania

Private funding is a traditional political party financing method. According to Chapter 2¹ (§12¹) of PPA, a political party may receive private funding from the next sources in Estonia: membership fees established on the basis of the articles of association of the political party; donations; borrowing from credit institutions and transactions with the property of the political party (Eesti Vabariigi Riigikogu, 2014). In the case of Latvia, a political party may receive financing from membership and joining fees; gifts (donations) from natural persons; income earned by the economic activity of a political party and the other not prohibited sources of funding (LFPP(lv), Section 2). Lithuanian legislation provides the longest list of political parties financing sources. It is membership fees that are initial and periodic; funds received from other activities such as publishing, distribution of printed materials and party symbols, organization of political and cultural events (such as lectures and exhibitions), etc.; loans provided by banks registered in Lithuania; interest on the funds kept in the bank accounts and tax relief that equals to one percent of the annual income tax paid by a Lithuanian resident who voluntarily allocates some funds for the political campaign. All these sources have to be permanent (LFPP(lt), Chapter 2, Article 7). As we see, in Estonia, the PPA defines only primary funding sources. But it doesn't contain any information about income from the political party's activity. A political party may only organise some operations with its property. As it was mentioned above, a political party in Estonia by definition is a non-profitable organisation. It means that a political party cannot earn any income or profit per se. However, in Latvia and Lithuania, a political party may be engaged in some economic activity aiming to receive additional funding. By the Latvian Law, any financial and economic activity of a political party/organisation should be transparent and presented publicly (LFPP(lv), Section 9). In the case of Lithuania, types of financing of political parties are too different and well classified.

To sum up, legislators tried to describe all potential sources of financing of a political party in all three countries. Estonian legislation provides very strict definitions of these sources, while in Latvia and Lithuania there are variations with other sources.

In addition to it, Lithuanian law recognises sources of funding of political campaign separately from those that are used to cover operational needs of a political party. It is political party funds received from its sources of funding that are used for political campaign; donations made by natural persons during political campaign period; loans received during political campaign period from the credit institutions that are registered in Lithuania; and interests of the funds that are kept in the account of political campaign (LFPP(lt), Chapter 2, Article 7, paragraph 8). In the case of Estonia, it is allowed to use state budget allocations only for the political campaign. Latvian political parties are allowed to use state budget allocation for operational needs of a party and a political campaign. Table 3.2 contains information about the mechanism of private financing of political parties in Estonia, Latvia, and Lithuania according to the national legislation of each country.

*Table 3.2 Comparative analysis of political parties' private financing in the Baltic States according to their main financing Laws**

<i>Comparative indicators</i>	<i>Estonia</i>	<i>Latvia</i>	<i>Lithuania</i>
Legislation basis	PPA	LFPP(lv)	LFPP(lt)
1. Membership fees and/or joining fees	From natural persons (party members with the identification of their personality: who pays, the amount of payment and date of payment). Fees are established on the basis of the articles of association of the political party	From natural persons. The total amount of membership fee, joining fee and donations (gifts) may not exceed 50 minimum monthly salaries during one calendar year for one member	From natural persons who under the Law have the right to donate
2. Donations	From all Estonian citizens and persons who have long-term residence permit	From all Latvian citizens and all persons who have a right to receive Aliens passport in Latvia	From all citizens of Lithuania, permanent residents, stateless persons, private legal persons
3. Indication of donation and donor	The name and personal identification code of the donator and the amount and the date of accrual of the donation; procedure of donation should be published on a website of a party	The given name, surname, personal identification number, and place of residence of the giver (donor). If donation exceeds one min monthly salary, all the data must be given to KNAB	The names of all donating persons must be disclosed. A list of donors should be posted on the CEC website during ten working days after donation is made

<i>Comparative indicators</i>	<i>Estonia</i>	<i>Latvia</i>	<i>Lithuania</i>
4. Corporate donations	Donations of any legal person are not allowed	Donations of any legal person are not allowed	Not allowed since 2011
5. Anonymous donations	Not allowed	Not allowed	Not allowed
6. Any other donation	Not allowed	Not specified	Not specified
7. Other prohibited donations	The Law gives a big range of prohibited donations that must be immediately returned to donator where it is possible within 30 days; where it is not possible – resend it to the state budget.	Anonymous or any prohibited donations must be transferred to the State budget within 5 days. Donations must belong to the donator. Third party donations are prohibited.	Donations to a political party through third persons are forbidden. All prohibited donations must be returned to the donator within 5 working days from the day of the receipt of donation indicating the reason why donation may not be accepted. If it is not possible to return the donation to a donator, it must be transferred to the state budget within 10 working days.
8. Limitation of amount of donor contributions	Cash donations - up to 1200 euro per financial year; no limit for bank transfers.	Up to 50 minimum salaries during one calendar year	Up to 20 average monthly salaries (that were previously declared). Donation may not exceed 10 % of the annual income of the donator.
9. Limitation of donor contribution over a time period	Not specified	Not specified	Not specified
10. Loans	Allowed (Ch.2 §122); by credit institutions, only on market conditions. Loan must be secured only by the property of a party	Prohibited (Section 6 (5))	Allowed (Ch. 2, Art. 7, Par. 6); only by those banks that are registered in the Republic of Lithuania

**Table 3.2 is built on the basis of PPA, LFPP(lv), LFPP(lt) and political finance data of IDEA.*

Membership fees are the primary private source of financing of political parties in the Baltic States. PPA defines membership fees as a funding source in Estonia that must be established by the articles of association of the political party (§12¹). Additionally, Latvia legislation foresees joining fees but does not provide any description of how these fees are set up. The total amount of joining and membership fees together with

donations and gifts may not exceed fifty minimum monthly salaries for one member of the political party within one calendar year (LFPP(lv), Section 3). However, if to look at the norm that a party has to notify the KNAB in the case when membership and joining fees together with donations exceed one minimum monthly salary for one member, the norm of the maximum of fifty minimum monthly wages is not justified⁹. It means that one member of a political party has a right to pay membership and joining fees plus donations and gifts at the maximum of 19 000 euro during 2017. A political party is obligated to inform the KNAB if a member pays or donates at least 380 euro within one year. The KNAB publishes this information on the own website. This information also should be included in the report of a party. In Lithuania, membership fees and procedure of its payment must be defined in the statute of a party. Such fees are periodic and/or initial. Initial fees are joining fees. The legislator also gives a possibility to political parties to set up other membership fees additionally to these two types of fees (LFPP(lt), Chapter 2, Article 7, paragraphs 4-5). However, there are no any limitations on the value of membership fees in Lithuania.

Donations are the other significant source of political funding in the Baltic States that have one standard feature: Donations are accepted only from natural persons. The term “donation” is “a financially assessable benefit, including a service, but not voluntary work, voluntarily given by a natural person” according to the PPA (PPA, Chapter 2¹ §12³). In Latvian LFPP(lv), “donation” has an association with “gift” and “gratis benefit” (Section 2 (2)). Lithuanian legislation provides a more precise definition; it is “cash, movables or immovables, information, property rights, results of intellectual activities, other material and non-material values transferred” (LFPP(lt), Chapter 1, Article 2, paragraph 1). All collected financial funds should be kept in a current bank account of a political party. Corporate donations are not allowed in the Baltic States. In Lithuanian case, it was allowed until 2011. In all three countries, donators should be defined; their personal information must be publicly performed the same as an amount of the donation and a date when it was done. Estonian citizens and other persons who have a long-term residence permit in Estonia are allowed to make donations to political parties. In Latvia, not only citizens but all holders of Aliens

⁹ The minimum monthly salary in Latvia was 370 Euro in 2016. As of 01 January 2017, this amount is 380 Euro (Eurostat, <http://ec.europa.eu/eurostat>, accesed on 20.03.2017).

passports are allowed to make donations. In Lithuania, the list of donors also contains stateless persons and legal persons. Hence, such mechanism provides more possibilities for private donations in Latvia and Lithuania. Estonian law is stricter in this case and prevents political parties from the influence of third sides (for example, foreign states funding). Researchers point out on “the ever-changing regime of party finance [that] reflects an evolution of methods Latvian parties use to compete in the election. Despite the numerous revisions of legislation, a fundamental aspect of party finance has remained stable – party continues to rely on private money” (Ikstens, 2013: 12). Latvian system is characterised by a stable dominance of large donations (Ibid: 13). As it was mentioned before, the total value of donations (or a combination of membership and joining fees together with gifts and donations) may not exceed the amount of 50 minimum monthly salaries within one year by one natural person in Latvia¹⁰. On average, five leading parties collect approximately 90 percent of all donations in Latvia. Within a single election cycle, five leading parties collect approximately 75-80 percent of their budget from donations (Ikstens, 2008: 51).

In Lithuania, one natural person is allowed to donate for each independent participant of the political campaign a donation that does not exceed an amount of ten average monthly salaries¹¹ that equals to 6 370 euro for each independent participant. In the case when a candidate is financing own political campaign, a donation may not exceed twenty average monthly salaries that are equal to 12 740 euro per campaign. Another restriction limits these amounts: a donor must not donate more than ten percent of his annual income that was declared during the previous year. The legislation also proposes a simplified procedure for donations of natural persons that do not exceed the amount of 40 LTL (approx. 11.5 euro) for an independent political campaign. The Government of the Republic of Lithuania shall set up simplified procedure. However, still, it is not clear to which extent it will be simplified as even for small donors the disclosure of their identity is needed. The donation limit of ten percent of the income

¹⁰ The maximum donation amount is 19 000 Euro within 1 year in 2017.

¹¹ The minimum monthly salary in Lithuania was 350 euro in the first half of 2016 and 380 euro - in the second half of 2016. As of 01 January 2017, this amount is 380 euro (Eurostat, <http://ec.europa.eu/eurostat>, accessed on 20.03.2017). However, the average monthly salary in Lithuania is 637 euro (net) and 823 euro (gross) per month (by the data of Lithuanian Official Statistics Portal: <http://osp.stat.gov.lt/en/home>).

earned during the previous year is applied for small donators as well. This norm is vague. Indeed, all small donations must be public. A donator that is a natural person must declare his income and assets. Cash donations are allowed in the case they do not exceed 1000 LTL (approx. 287 euro¹²). Otherwise, bank transfer must be used (LFPP(lt), Chapter 2, Article 10). A political party is obligated to fill out the donation sheet for each donation separately and present it to the CEC (Ibid). Hence, this mechanism opens possibilities for rich donators who can make large donations legally. The fault of this mechanism is in the next: while making large donations, a wealthy donator may ask for lobbying of his interests by a political party; a political party that has a shortage in funding may accept proposed deal in exchange for financing. The other trick is that a single donator can make donations to several parties or independent candidates legally.

Anonymous donations and donations made by legal persons are prohibited in the Baltic States. The PPA (§12³) contains a list of other prohibited donations: “the transfer or the granting of use of goods, services or proprietary rights to a political party on conditions not available to other persons; release from ordinary binding duties or obligations; waiver of claims against a political party; payment of the expenses of a political party by third parties for the political party or making concessions to the political party, unless the payment of such expenses or the making of such concessions is also available to other persons in ordinary economic activities; donation made via a natural person and at the expense of the assets of a third party; donations by aliens, except for donations by persons holding the permanent right of residence or the status of a long-term resident in Estonia” (Eesti Vabariigi Riigikogu, 2014).

Latvian legislation does not indicate restricted donations per se. All donations must be done according to the law. The other obligation is that a political party must inform the KNAB about donation within 15 days after it was accepted. The KNAB publishes information about donations on its web page. The bureau has a right to examine whether a donation was made in compliance with the law, but within 45 days after the political party has informed about the donation. Latvia legislation foresees another five working days for further examination when it is needed. A political party in

¹² This norm is four times lower in Lithuania than in Estonia (1200 euro).

Latvia has a right for considering whether to accept a donation or to transfer it back to donator after the donation was accepted (60 days). In the case of reimbursement of donation to a donator (a giver), a political party must also publish this information on its website (Latvijas Republikas Saeima, 2011). As we see, Latvia legislation does not define prohibited donation (except bans on donations made by legal persons and anonymous donators), but there is a list of requirements to the donator and the donation procedure. Also, the KNAB has wide controlling power over donations and other sources of funding of political parties in Latvia. That 60 days, given to a party to decide if to accept a donation may be seen as a “window” for corrupt manipulations. From one side a party has 15 days to notify the KNAB about donation, from the other side if something is wrong with this donation, it may be turned back. If to look at this system backwards, theoretically it is possible to prove that it provides incentives for political parties to hide donations. According to the research aimed to study financial systems of Latvian political parties in 2006-2007, “nine of eleven parties admitted that they use private donations as a way of funnelling corporate money into the party’s account. Some organisations use membership dues for that purpose as well” (Ikstens, 2008: 54). Another feature of Latvian legislation is that it does not prohibit political party entrepreneurship if it does not aim to make a profit. Parties do not pay corporate income tax as well. Nevertheless, political parties tend to avoid it (Ikstens, 2013: 11).

In Lithuania the same as in Latvia and Estonia, political parties are not allowed to receive financing through the third persons. A party is prohibited use those monetary donations for a political campaign, which are not registered in the accounting records of a party or those for which donation sheet is not filled out. The legislation also provides remarks about donations that should not be regarded as unacceptable. The legislator insists that all donations must be made under Lithuanian legislation. However, there is a case when donation that exceeds ten percent of the total amount of the declared income of donator that was received during previous year may be accepted. It may happen in the case when according to the data available in the information system of the CEC at the moment of inquiry does not exceed ten percent of the annual income that is declared by the natural person for the previous calendar year (LFPP(lt), Article 11, Clause 3). Here there are questions to the legislator::

- What are the reasons that the information system of the CEC may not contain full data about the value of the total donation? Is it acceptable?
- If previous donations were made in short time before the next one and information about the previous donation physically could not reach the CEC and the moment of inquiry information about the previous donation is missing, what will happen when after some time it will be found that previous donations fulfilled the limit of donator already, but the next donation was made as well?

As outlined above, in the case when Estonian political party received restricted donations, these donations must be immediately returned to the donor where it is possible. However, in the case when it is not possible to return prohibited donations, they must be transferred to the state budget. Donations that are made in non-monetary form should be sold at the market price by a political party. It applies only to those non-monetary donations which value is above 64 euro. The income from this operation must be transferred immediately to the budget. In the case the prohibited donation cannot be sold with reasonable efforts, it must be transferred in the other manner that is defined by the law (PPA, Ch. 2¹, §12⁴).

In Latvian case, the LFPP(lv) foresees a punishment if a political party does not include to annual report donations that exceed the amount of 100 minimum monthly salaries (LFPP(lv), Section 7³). A political party may receive refusal from the KNAB to grant funding from the state budget. The existence of this statement in the legislations proves that despite great achievements in the area of political financing in Latvia, still there are gaps that parties use to violate the law. Here also there are questions to the legislator:

- Is it allowed to hide donations which do not exceed that minimum?
- Will be a political party punished if it hides from authority and publicity small amounts of different donations?

Borrowing is the other private funding source of a political party. In Estonia, A political party can have credit relations only with credit institutions. All borrowings must be made on market conditions only. Legislator foresees that only political party property may be used to secure a loan agreement. Estonian legislation seeks for the

balanced funding mechanism of political parties. That is why the upper limit of the loan may not exceed 25 percent of the total sum allocated from the state budget. However, this rule is not applied to an election coalition or a political party whose funds were below 50 000 euro in the previous financial year (PPA, Ch. 2¹, §12²). As we see, this norm gives advantages for small political parties in Estonia. In the case, when a political party will receive loans that do not correspond to the described norm, they are considered to be a prohibited donation and must be transferred immediately to the state budget. Borrowings were very popular in Latvia at the end of the 1990s, until they were forbidden in 2004. Loans in Lithuania are in the list of permanent sources of funding of political parties. The only restriction is that it should be banks that are registered in the Republic of Lithuania. It is also allowed to use loans during the political campaign.

The examination of private funding of political parties in the Baltic States shows that the system was shaped significantly during 2004-2014 in three countries. The legislation of each Baltic state was amended with restrictions on the value and quantity of private donations; limitation on cash donations; publicity of donators and declaration of their legitimate income part of which will be donated. In the case of Estonia, the formation of the system of private funding was shaped in a way to make a balance between private and public funding of political parties. Public funding was introduced relatively late in Lithuania and Latvia. Hence, it was enough time to form “corrupt habits” of private political party financing. After the introduction of public funding, private funding restrictions were developed in a way to limit illegal private funding of political parties. However, it is not enough. It should be reached some balance that needs the balanced introduction of other elements that shape the system of funding of political parties in a country.

3.3 Other elements of financing regime of political parties

The political financing regime requires some additional elements that will make the system more balanced. Among such elements is special access to the media, introduction of limits on spending of political parties, disclosure, reporting and strong oversight institutional mechanism.

The special access to the media is an indirect state funding of political parties by its nature because political parties are granted some amount of free-time on public TV and radio. National agencies monitor this process with the aim to provide fair and equal access to media by each candidate and political party. The case of Estonia is unique because public television does not provide any political or non-political advertisements. “The state-run channel only broadcasts pre-election debates” (Sikk, Kangur, 2008: 66). The access to an advertisement on private TV and radio channels, first of all, depends on the financial ability of a political party to cover such expenses. Hence, the smaller political party is the more limited access to private mass media it has. The same is about independent candidates. Nevertheless, due to the absence of an upper limit on electoral campaign expenditures, bigger political parties that have better financial position benefit from private advertisement. Television is preferable for political advertisement in Estonia. However, experts do not see any discrimination that might be caused by such disparity, first of all, because of the high Internet penetration rate, various e-tools and election portals run by the Estonian Public Broadcasting (ERR) service. E-tools help candidates to keep their costs at a minimum and reach a wider public (SGI-Network, 2016).

A media access in Latvia is regulated by the Law on Parliamentary Pre-election Campaigns (in force since 1995) that laid out basic rules of political party advertising in public media during parliamentary election campaigns (Ikstens, 2013: 9). According to this law, a limited amount of free air-time on public television (40 minutes) and radio (four slots of five minutes on each¹³) has to be allocated equally to the registered

¹³ This norm was amended in 2014 prior OSCE/ODIHR recommendations.

political parties. The aim of this law is to minimise unfair campaign practices of receiving a “free air-time on public or commercial channels in addition to the amounts specified in the law” by a political party (Ikstens, 2013: 9; OSCE, 2014: 13). According to the position of the Supreme Court (2006), a public broadcaster in Latvia must follow “the principle of proportional equality as described in the Code of Good Practice in Electoral Matters issued by the Venice Commission” (Ikstens, 2013: 9). As of 2012, paid TV-advertisements are prohibited during a 30-day period before elections (SGI-Network, 2016). The National Electronic Media Council oversees the media coverage of elections and its compliance with Latvia legislation (OSCE, 2014: 13). Nevertheless, the media system in general terms provides fair and balanced coverage in Latvia. However, there are some challenges: (1) “media outlets do not consistently provide fair and balanced coverage of the range of different political positions. (2) Local newspapers and electronic media in Latvia’s rural regions are often dependent on advertising and other support from the local authorities, sometimes leading to unbalanced coverage. (3) [The] opaque ownership structures of media outlets mean that support for political actors is often implied rather than clearly stated as an editorial position. (4) Corrupt political journalism has been prevalent across a wide spectrum of the media. (5) There are also marked imbalances in media coverage related to the different linguistic communities. For example, both Latvian and Russian language media demonstrate a bias toward their linguistic audiences” (SGI-Network, 2016). In Lithuania, political parties have equal and fair access to public mass media too. But the role of e-tools is neglected; television is still the primary source of political advertisement. The CEC regulates a form and a content of an advertisement and the media conduct in general during elections. A political advertisement “has to be clearly marked as such, should be at least 30 seconds, should include direct presentation of campaign platforms, and should not be published on the front pages of print media” (OSCE, 2016: 9). The CEC obligates media companies to declare the terms of political advertising in advance of the campaign period providing a detailed report on the time or space provided to a political party or a candidate. “The Radio and Television Commission, a media regulatory body, monitors all nationwide broadcasters and provides reports to the CEC. In the case of violation of media campaign rules, the CEC ...[will] report on the offence and [will] send the case to a district court” (Ibid).

The introduction of spending limits of a political party is another regulatory element of political party financing regime. In the case of Estonia, there are no restrictions on expenditures in the PPA. Estonian legislation does not classify electoral expenses as well. In Lithuania, all campaign expenditures must be paid from the account designed for this purpose only (LFPP(lt), Chapter 2, Article 17). There are also limitations on expenses that depend on where the constituency covers the whole territory of the country (1 LTL per one voter entered on the electoral roll) or only a part (2 LTL per one voter, but at least 20 000 LTL). The political campaign funds may be spent on (1) a political advertisement (production or distribution); (2) salary of political campaign treasurer; (3) a political campaign audit; (4) the rent of different kind of property and vehicles necessary for the campaign; (5) expenses for accommodation, meal and transportation of political campaign volunteers, representatives of political party, candidates or observers, etc. (Ibid, paragraph 4). Electoral deposit, transport expenses and accommodation of potential candidates or a candidate, expenditures under a legal service contract, other political party expenses related to the period other than political campaign period may not be considered as political campaign spending. In the case when a candidate collected more funds for the political campaign than it could be used to cover expenditures of the campaign, these unused funds must be transferred to the state budget. In the case of a political party, the remaining funds may be used by the political party to cover its further expenses (Ibid, paragraph 7-8). In Latvia, campaign spending limits were introduced in 2004. It is not allowed to a political party to use state budget and local authority resources for the electoral campaign. The LFPP(lv) sets up limits on spending of the funds allocated from the state budget (Section 7⁴). A political party may spend public allocations for: “(1) premise hire, including the organisation of meetings, and services related to premise hire, including public utility services; (2) communication and Internet services; (3) work remuneration and other payments to natural persons connected with the operations of the relevant political organisation (party) or the operations of the association of the relevant political organisation (party); (4) sworn auditor services; (5) research work, polls and consultations; (6) the organisation of educational events intended for inhabitants, including public events, seminars, charity events, and the publication and distribution of books, informative materials, excluding the ensuring of catering services; and (7) political campaigns”

(Latvijas Republikas Saeima, 2011). In local elections, a political party is allowed to spend in pre-election period approximated 0.0004 euro per one vote gained “at the previous elections of the relevant local government council ... [or] ... in the relevant electoral district at the previous elections of the *Saeima*.” (Section 8⁴). In the case of the Saeima or European Parliament elections, this coefficient is 0.0003 euro per vote in the previous elections (Latvijas Republikas Saeima, 2013). As we see, in all three cases there is an entirely different approach to the regulation of political expenditures: in Estonia, there are no spending limits, but it is prohibited to use public funding for the election campaign. In Latvia, spending limits are set up only to the allocations from the state budget while Lithuanian legislation regulates political campaign spending.

Political parties in Latvia and Lithuania are entirely responsible for their expenditures that must be in compliance with the law. All their activity should be transparent. They must disclose all incomes and expenditures publicly during specified terms. In Estonia, a political party is obligated to present quarterly spending report which sets out the expenditures by categories: (1) costs connected to the party’s activity (operating costs); (2) labour costs; (3) administrative costs. The operating costs of a party are disclosed by the next categories: advertising costs by media type (television, radio, online, outdoor, newspaper advertising, printed materials), public relation, publication and public events costs, etc. (PPA, §12¹(8) - (11)). Together with the expenditures report, a political party has to present an accounting print out of payable bills and the balance sheet during ten days of the month following the quarter (§12¹(12)). In a year of elections, a political party has to present an election campaign expenses report within one month after the election. This report contains full information about payment receipt (date of issue, name and number), payment (amount, date of payment) and recipient of the payment (name, identification information, etc.). An annual report must be submitted together with the opinion of the certified auditor by 30 June of the following year (§12⁹). All these mentioned disclosure and reporting rules were amended recently (2014-2015) due to critics about the lack of transparency and absence of effective control over party financing in Estonia.

Latvia has similar to Estonia procedure of costs declaration incurred during the election period. Additionally, political parties have to present an income declaration to a supervision body (LFPP(lv), Section 8¹), but the reporting period is the 120th day

before the election up to the election day. Latvian political parties have only three months to prepare an annual report (by 31 March each year) if to compare with Estonian half a year (by 30 June each year). Those political parties that receive public funding have to append a report on spending of the granted public funds (Section 8⁵).

In Lithuania, each political party has to disclose all incomes received for the political campaign by groups of donors including all incurred costs of the campaign and assumed liabilities in the “Political campaign funding report”. Additionally, all participants of a political campaign are obligated to submit a political advertisement report (indicating their funding sources) during 25 calendar days starting from the proclamation of final results. Annually, a political party has to submit to the supervision body a report on the use of public funding. An annual report consists of the balance sheet, performance report and explanatory note. An audit report has to be added as well. As we see, Lithuanian political parties have the shortest period among the Baltic States to present an annual report (by 15 March of the following year).

A political party is obligated to disclose full information about its incomes and costs upon the first request of the supervision body in each Baltic state. The Political Party Financing Surveillance Committee (PPFSC) is an independent supervision body in Estonia. It consists of members appointed by political parties represented in the Parliament and representatives of the Chancellor of Justice, Auditor General and the National Electoral Committee (one member per institution or political party). The duration of the office is five years (ERJK, 2017). The committee monitors financial activity and observes the use of financial sources of political parties. The reporting period in the year of elections is during one month after it. This norm is in effect since 1992. As of 1999, parties present quarterly and annual reports publicly over the Internet (Sikk, Kangur, 2008: 67). As of 2013, political parties are obligated to report all their incomes and expenses of the accounting period from 1 January by the categories that are described above. Political parties must pay fines in the case of “violation the rules on the disclosure of donations and failing to file the economic activity reports” (Sikk, Kangur, 2008: 68). These fines are differentiated (PPA, Chapter 2²). Estonian supervision committee has not only control and punishment functions, but also consults political parties how to overcome difficulties in funding and management (by the request of a party). Also, the committee has a right to appoint an auditor in the case of

need of a special audit by the committee's previous decision. In such case, the cost of the audit is covered from the budget of the committee. Transparent International insists on possible bias of the PPFSC as (1) members of political parties are the majority that is needed to pass resolutions; (2) the committee has limited personal and "cannot always scrutinize the reports thoroughly or conduct background checks on the validity of information presented to them"; (3) the committee does not check whether an amount of donation corresponds to the income of donator (Transparency International, 2012: 9). The analytical agency SGI-Network reports that financing regulation in Estonia still has several loopholes: (1) "the alleged misuse of administrative resources by governing political parties to finance their electoral campaigns¹⁴" (SGI-Network, 2016) and (2) limited budget of the PPFSC that is not enough for the efficient work of the organization.

In Latvia, the KNAB is an oversight institution that is Corruption Prevention and Combating Bureau. This organisation is independent and runs under the supervision of the Prime Minister of Latvia. The KNAB is composed of two main branches: prevention and investigation branches. The Division of Control of Political Parties Financing is one of the divisions of prevention branch. It monitors a compliance of all financial operations of political parties (donations, donations through the third party, anonymous donations, spending limits, pre-election expenditures, etc.) with the party financing regulation in Latvia and controls an illegal funding to be paid to the state budget. The division also deals with annual financial reports of political parties (KNAB, 2017). According to Section 8 of LFPP(lv), a political party must present a financial report within 30 days after the election. It must disclose all data about incomes and expenses of a political party during 120 days of pre-election period regarding all types of advertisements including cost for their creation and printing, mail services used for the distribution of pre-election materials, organization of election campaign and all sponsoring charity events (including gifts, etc.), all printed materials needed for the election campaign (including lists, newspapers, magazines, bulletins, books, etc.) and other expenditures by separate types. An annual report of a political party must be submitted to the KNAB each year by 31 March. (Another copy of this report must be

¹⁴ There are examples when court cases related to the 2013 municipal elections in Estonia were still pending two years later as of fall 2015 (SGI-Network, 2016).

submitted to the State Revenue Service). The KNAB inspects an annual report of a party within one year until the 1 April of the next year and informs Latvian society if a political party violated Latvian Law. A party that receives public allocations must present a report about money flow circulation indicating the amount of state allocation that was left at the beginning of the financial year and at the end (Section 85), report about incomes and detailed report about spending. It is worth to mention that Section 85 “Annual Report” of LFPP(lv) indicates reporting requirements only for those parties that were granted public funding (Latvijas Republikas Saeima, 2011). Does it mean that in the year when there are no elections only those parties operate that receive public funding while small parties (those that did not meet the two percent threshold requirement) do not have financial resources and operate only in the year of the election?

Despite having a wide range of tools to provide an adequate control of political financing and to combat corruption, many researchers consider the KNAB as a weak institution. It was established because of increased international attention to corruption in Latvia before the accession to the EU since the early 2000s. During last ten years, the KNAB had many inner scandals around the nomination of the head of the institution that actually influenced its image. Among another challenge is an orientation on preventive methods of corruption rather than combating it, low salaries that lead to the high turnover of personnel in the organisation and absence of qualified experts.

The Central Electoral Commission (CEC) is an oversight institution in Lithuania. It is composed of Chairman of the Commission, two members appointed by the Minister of Justice; two members appointed by the Lithuanian Bar Association; two members appointed by the President of the Republic and members from parliamentary parties. Here we see the same principle of the composition of the regulatory body as in Estonia. The difference is in that how members from the political parties are nominated. It is more complicated procedure: prior the formation of the CEC parliamentary parties make a joint list of candidates. If a candidate from the list does not meet all requirements (such as university law degree and the experience of working in electoral committees), the Seimas may reject the nominee. The Secretariat of the Commission is represented by five units such as election organisation unit; finance unit; computer technologies unit; funding control of political parties and election campaign unit and

training and communication unit. The Law on the Central Electoral Commission (2002) regulates main functions and activities of the CEC. The CEC has wide supervisory power over election conduct, continuously monitoring power over financing aspects and media coverage during a political campaign (OSCE, 2016: 7; LFPP(lt), Ch.5, Art.26). Nevertheless, the CEC is criticised for being insufficient in the monitoring of the political parties financing, their transparency and accountability (Transparency International, 2013: 3).

Hence, the role of supervisory bodies is very important in the framework of political party financing regime. Public funding is not popular among citizens. Its role is even diminishing when the supervisory committee has a weak position as it is in Latvia and Lithuania. Stricter oversight functions over political financing may conduct a more transparent political competition and higher trust in political parties in the Baltic States.

3.4. Public trust in political parties in the Baltic States

Public trust in political parties is one of the indicators of democratic development in a country. Trusting a political party means that a part of civil society in a country relies on a party and identifies itself with this party. It also means that the actions of this party take into account views and beliefs of the mentioned part of the society. Those people, who do not follow political development in a country precisely, quite often just compare a party they are in favour of an opposition party. They assume that favourite political party acts in their interests more often than the opposition party (Keel, 2016, p. 876). Vice versa, that part of the society that actively participates in political processes in a country is more in favour of political parties.

Estonia re-established its independence and has chosen the way of fundamental changes such as the democratic development of the political system and implementation of the free market economy that influenced people's lives and thinking values and beliefs. Tilma and Rämmer (2008) traced the dynamics of changing values during 1990-1996 that was the first stage of the transition period for Estonia. The political system

and the economy were transformed simultaneously during mentioned period (Tilma, Rämmer, 2008: 292). Estonian citizens were highly involved in the political life of the state. But their trust depends on the level of confidence in state institutions. “The quality of the civil service and the performance of institutions can increase or decrease the level of support for the institutional system of the state” (Ibid).

Table 3.3 contains the data for the year 1992 when Estonia already re-established its independence and just started to reform its economic and political systems and for the year 1996 when Estonia implemented some reforms, and it already passed two years since the introduction of public funding of political parties.

*Table 3.3 Trust in political parties in Estonia in 1992 and 1996, % **

<i>Trust</i>	<i>Great deal</i>	<i>Quite a lot</i>	<i>Not very much</i>	<i>Not at all</i>	<i>Total</i>
1992 in political system	1	17	55	27	100
1996 in political parties	1	22	46	31	100

Data source: Tilma, Rämmer, 2008: 293-294 („Baltic Surveys“).

In 1992 people who participated in the survey were asked a question if they are confident in the political system. But in 1996 the question was asked about confidence in political parties. The author assumes that these indicators are close to each other by the meaning. Hence, Table 3.3 indicates that only 18% of the Estonian population were confident¹⁵ in the political system in 1992. The number of those citizens who were confident in the political system but not very much was 55% and 27% of those who were not confident at all. In 1996, as we see, the share of those who were not much confident in the political system changed significantly. One part of these people joined the group of citizens who have more trust in political parties; the other part joined those who do not trust at all. Moreover, if to compare political parties with other institutions (for example, police, government, Estonian army, labour unions, etc.), they were the most mistrusted institutions during 1992 and 1996. “Only 20 percent of Estonians considered themselves supporters of a specific political party. ... [In] 1994 as many as 67 percent of the voters would have their electoral choices on individual rather than on

¹⁵ It is calculated as the sum of answers “Great deal” and “Quite a lot”.

party grounds” (Ruus, 2000: 12). The Baltic Barometer survey III provided the same data that confirms approx. one percent of Estonians trusted in political parties completely. But the number of those who had some general trust in political parties is lower (15 percent) than by the data presented by the “Baltic Surveys” (22 percent) (Ibid). Nevertheless, trust in political parties and other governmental institutions stabilised in 1996 till the beginning of the 2000s (Tilma, Rämmer, 2008: 296). An introduction of the rule of 1000-members for the creation of a political party reduced the number of registered parties from thirty in 1995 to sixteen in 1999 in Estonia. The degree of political stability also depended “upon the cohesion of the three party right-of-centre coalition (Isamaa, Moderates and Reform Party) which came to power in April 1999 with a slim 3-seat majority” (Smith, 2001: 105). However, in total, every third citizen did not trust in political parties while every fourth had the insignificant level of trust in political parties in Estonia. According to Ruus, low party politics was the most challenged consequence of low trust in political parties that was caused by undeveloped party system (Ruus, 2000: 12) due to the lack of adequate financing and experienced politicians in Estonia.

Lithuania had a transition period the same as Estonia in the first half of the 1990s; the economy and politics were restructured simultaneously; private ownership and a multiparty system were successfully established (Alisauskiene, 2008: 255). It was introduced “the mixed-member proportional electoral system” that provided a” balance between representation and fragmentation” in the Seimas (Unikaite, 2008: 30). The second half of the 1990s is characterised “by relatively high levels of political participation and interest in politics” (Alisauskiene, 2008: 256). The Seimas was represented by the three strongest political parties (LDLP, HULC and LChDP) whose idea was to lessen the electoral competition and who were the initiators of main political changes aiming to create more beneficial system only to them. Nevertheless, the 1996 parliamentary elections brought not well-known political parties to the parliament. This showed split in votes and distrust to the parliamentary parties (Unikaite, 2008: 31). Hence, surveys conducted during the 1990s indicated that “Lithuanian citizens are more likely to trust institutions with a symbolic role rather than the legislative and executive institutions” (Alisauskiene, 2008: 269). The other characteristic of voters in Lithuania was that they were “more likely to trust leaders and personalities instead of parties”

(Unikaite, 2008: 33). Among political institutions, political parties were the least trusted at the end of the 1990s according to the data of “Baltic Surveys” (Table 3.4).

Table 3.4 Trust in political institutions in Lithuania in 1997, %

<i>Trust</i>	<i>Great deal</i>	<i>Quite a lot</i>	<i>Not very much</i>	<i>Not at all</i>	<i>Total</i>
Parliament	0.6	26.0	63.3	10.1	100.0
Government	1.1	35.2	57.7	6.0	100.0
Political parties	0.3	14.0	72.1	13.6	100.0

Data source: Alisauskiene, 2008: 269 („Baltic Surveys“).

Lithuanian interests in politics are cyclical and contextual – the closer the election, the higher interest in politics (Alisauskiene, 2008: 275). Table 3.4 indicates that in pre-election 1997-th only 14 percent of Lithuanians trusted in political parties. This number is two times lower than trust in parliament and three times lower than trust in government.

The data of the World Value Survey (WVS) also indicates a decrease in trust in political parties in Lithuania at the end of 1990th (Table 3.5).

Table 3.5 Trust in political parties in Lithuania, %

<i>Year</i>	<i>Great deal</i>	<i>Quite a lot</i>	<i>Not very much</i>	<i>Not at all</i>	<i>No answer</i>	<i>Do not know</i>	<i>Total</i>
1994-1998 ¹	0	12	62	12	0	14	100
2005-2009 ²	0	8	58	25	1	8	100

Data source: ¹ World Values Survey Wave 3; ² World Values Survey Wave 5 (online analysis).

As we see, by the data of World Value Survey only 12 percent of Lithuanians trusted in political parties in the second half of the 1990th; according to the Baltic Survey, this share was 14 percent. It was a period of the dominance of the three strongest political parties. An introduction of public financing of political parties was hotly discussed. Due to the economic crisis and absence of funding for the 2000 parliamentary elections, the consensus was reached in this debate. Nevertheless, all this led to the low trust in political parties. The period of 2005-2009 is chosen for the analysis as the period after the next parliamentary elections that took place after the introduction of public funding in Lithuania. Table 3.5 shows, trust in political parties was characterized by the next trends: only 8 percent of citizens trusted quite a lot in political parties (instead of 12 percent in 1998) while the share of those who did not

trust at all became twice larger (25 percent) if to compare with 12 percent in 1998. According to the data of the Standard Eurobarometer 62, Lithuanian respondents were very similar to the average Europeans in their responses in autumn 2004. They were confident most of all in the European Union, electronic mass media, voluntary organisations and army. Political parties and government were the least trusted in 2004 in Lithuania (European Commission, 2004: 5). Two main factors may explain this phenomenon:

- 1) Weak position of political institutions in the country. Approximately 85 percent of Lithuanians distrusted all their institutions in 2000-2004. High level of political completion inside the country had led to the decline of trust in political parties in general.
- 2) Lithuanians were characterised by high level of trust in European institutions since 2000, first of all, because of the future accession to the EU in 2004. “Lithuanians believe in the greater efficiency of European policy and bureaucracy, .. [were] disappointed with the capacities of their local authorities” (European Commission, 2004: 9). Hence, Lithuanians were more confident in politicians in Brussels than in domestic political institutions.

Latvian society did not trust in political parties during the 1990s. Researchers explain this phenomenon by increased idea of restoration of independence of Latvia and increased political participation in the late 1980s that started to go down in the beginning of 1990s. “After 1991, political action was replaced by passivity and political apathy” (Koroleva, Rungule, 2008: 235). It happened because of a decrease in living standards after the implementation of reforms and people beliefs that politics are responsible for the social politics and individual welfare (Ibid). Hence, Latvians had relatively little trust in political parties at the 1990s (Table 3.6).

Table 3.6 Trust in political parties in Latvia, %

<i>Year</i>	<i>Great deal</i>	<i>Quite a lot</i>	<i>Not very much</i>	<i>Not at all</i>	<i>No answer</i>	<i>Do not know</i>	<i>Total</i>
1994-1998 ¹	0	10	45	41	0	5	100
2005-2009 ²	1	13	41	42	0	3	100

Data source: ¹ World Values Survey Wave 3; ² World Values Survey Wave 5 (online analysis).

As we see from Table 3.6, more than 40 percent of Latvian citizens did not trust in political parties since the mid-1990s at all. Only every tenth citizen had some confidence in political parties in the 1990th, while since 2005 one percent of the population started to believe in Latvian political parties; the share of those who started to trust quite a lot also became larger. Nevertheless, the share of those who also had some little trust in political parties and those who do not trust at all remain more than 80 percent.

During 2004-2014, public trust in political parties remained relatively small. According to Providus, a Latvian think-tank, public trust in political parties was nine percent in 2004. In 2014, ten years later, it was on the same level – nine percent (Povidus, 2014: 10). By the data published in the Eurobarometer 71 in 2009, less than five percent of Latvian citizens trusted in political parties while 93 percent tended not to trust at all. Moreover, 88 percent of citizens do not trust in the Latvian government and 91 percent in Saeima. It is the lowest level of distrust in political parties not only among the Baltic countries but in the EU. Nevertheless, after the accession to the EU, “trust in the EU remains at a comparatively high level – 44 percent, still, it is a bit lower percentage than in Europe on average” (European Commission, 2009: 8). But even in trust to the EU, Providus declares some level of decline in 2013 and 2014 (Providus, 2014: 10). There are two general explanations why Latvian citizens do not trust in political parties:

1) The system of flexible open lists for parliamentary elections does not work in Latvia as it should. Ideally, voters preferences define the rank-order of proposed candidates in the list that usually conduct an intra-party competition. The election campaigns in Latvia are “conducted in a centralised manner” with the emphasis on a leader of a party who attracts broader public support. Hence, the system is losing its trustworthiness. A majority of Latvians believe that “current electoral system should be replaced by one which provides a closer link between voters and elected officials as well as fosters greater accountability of parties and members of parliament” (Ikstens, 2008: 46).

2) Latvia has the highest level of political corruption among the Baltic States. It may be explained as the Soviet heritage. Corruption was seen as a core element of the

political system in USSR. Since the restoration of independence, private funding was the main source of political party financing. During 1990th, it was formed the corrupt political culture in Latvia. In the 2000s due to the future accession to the EU, Latvia was recommended to implement basic rules against political corruption. “We are still lagging far behind the “average European” in our belief that our vote counts. One of the most visible public battles of the past ten years has been the fight against corruption and for reducing the influence of money in politics” (Povidus, 2014: 10). Even though the system was reshaped during last ten years, political parties were not ready for painful changes and to cut illicit funding. Their resistance, unfair competition and new cases of corrupt during each election only reduced the level of public confidence in political parties in Latvia.

3.5. Findings of the analysis

Findings of the analysis are presented below separately by each country describing the relationships between the introduction of public funding and trust in political parties.

Estonia

Estonian politicians agreed on public funding introduction very fast in 1992. They had a clear idea of the new democratic state which they wanted to build. It was a clear understanding that only fair and transparent political competition could ensure it. State subsidies were foreseen even for small parties that could not obtain enough votes to enter the parliament.

Public funding of political parties in Estonia came into effect in 1994. Immediately after the parliamentary elections of 1995, political parties were granted first state subsidies. These public funds helped to stabilise Estonian political system in the middle of the 1990s. Moreover, an amount of public funding was growing every year until the end of the 1990s.

Public trust in political parties in Estonia was unstable at the beginning of the 1990s. Despite the fact that, Estonian population was highly engaged in political processes of the restoration of Estonian independence, trust in political parties was relatively low. Every second citizen had some little trust in political parties in 1992, while every fourth didn't trust at all; only every sixth trusted a lot in political parties. As of 1996, one may observe a smooth declining shift in trust in political parties among Estonian population. From one hand, the share of those who were more confident in political parties started to grow. From the contrary, the share of those who did not trust in political parties slightly grew up as well. The share of those who were not too much confident in political parties decreased. Absolute trust in political parties had only one percent of the population during the whole period since 1991st. There are several reasonable explanations of the cleavage in trust in political parties:

1) After the restoration of independence, Estonian population became less and less engaged in political processes. It was a time of finding decisions for domestic challenges inside the country. The population was divided into three major groups: (1) those that stood for the economic transformations supported by politicians inside the country, (2) those that were against such transformations, and (3) those that were in between first two groups; their number was decreasing.

2) Estonian population was characterised by different attitudes towards the way of political development in the country and historical memory between Estonian and non-Estonian (Russian) communities. Ethnic Estonians enjoy a higher level of trust in political parties (Titma, Rämmer, 2008: 294).

3) Everyday politics demanded highly professional politicians and leaders. But being newly independent country, Estonian politicians needed some time to find right solutions to domestic challenges and implementation of the reforms. As we see, it has an impact on trust in political parties starting from 1992-1993. The other point is that everyday politics were boring in independent Estonia because leading political parties reached consensus on many topical questions in a very short period of time. An introduction of public funding helped political parties to concentrate on domestic challenges and stabilised the level of trust on the same level.

Lithuania

The case of Lithuania is different. Public funding was introduced relatively late, in 1999. Private funding was the primary source during 1990. Donations, membership fees and loans held the largest share in the financing of political parties. The idea of public funding introduction was proposed in 1997. However, parties agreed on it when they felt a shortage in financing due to the economic crisis in 1998 – 1999. The majority of Lithuanian population was against it. Political parties received first public subsidies at the end of 2000 that were distributed among the parliamentary parties. Nevertheless, there were claims that this funding was not enough to cover operational costs of parties.

Public trust in political parties was relatively low in Lithuania starting from 1991. Unfair political competition among biggest parliamentary parties made its contributed to declining in trust in political parties during the 1990s. Social surveys showed that Lithuanian population was not confident in political parties as they were exploiting the state and political system. The situation did not change drastically even after the introduction of public funding.

Public trust in political parties was measured in terms of distrust. Distrust in political parties was more than 70 percent. The relatively negative shift in distrust in political parties is seen during 2005-2009 when a number of people who had some little trust in political parties joined the group of those who do not trust at all. Distrust in Lithuanian political parties also may be explained by very high trust in European institutions instead of domestic ones.

Latvia

Latvia is an extreme case in this case study. Private funding such as donations and membership fees was the primary source of political financing. During twenty years, since the restoration of independence, the illegal culture of political financing was formed in Latvia. Public funding was introduced in Latvia very late – in 2011 and came into force in 2014 by the pressure of the European Union as a countermeasure to defeat political corruption in the country.

Public trust in political parties in Latvia is the lowest not only among the Baltic States but in the whole Europe. Latvian population was highly engaged in all political processes during 1989 – 1991, the same as in Estonia. In some years, Latvian

population became passive and out of politics. There were two primary reasons: the first one connects to unfair political competition and manipulations with flexible open lists for parliamentary elections. The other reason is that after implementation of reforms the level of life in Latvian drastically decreased. It was a naive Soviet belief that only politicians are responsible for the level of life in a country. Moreover, political corruption started to grow. New scandals related to political financing appeared during each election. An introduction of public funding did not change the situation. Political parties that used to illicit funding cannot easily refuse from comfortable schemes of financing. The biggest role in the implementation of public funding regime in Latvia has been given to anti-corruption bureau that has oversight function over political financing. However, absent common view on who must be a head of the agency, inner competition, low level of salaries, the absence of tools, labour and financial resources to exercise oversight functions fully created even higher distrust in combating corruption process and in political parties in Latvia in general.

The other finding is that political financing regime in Latvia is the most regulated among the Baltic States. It leads to the point that well balanced political financing regime does not mean the presence of a big number of bans and limits on political financing. The crucial role in this system belongs to political culture in a country.

CONCLUSIONS

The aim of this thesis was to learn financing systems of political parties in Estonia, Latvia, and Lithuania and to test relationships between an introduction of public funding and public trust for in political parties.

It was found that theoretical literature on political financing is numerous but very fragmented. Many researchers study only public funding, private funding and interrelations between these two elements of political financing. Only several researchers study an influence of other elements on the funding system of political parties. That was the logic why this thesis provides an overview of the whole political financing regime and defines its main principals. The logic of theoretical approach to public trust in political parties was to show which relationship it has to political financing regime.

The comparative analysis of three case studies was conducted in this thesis. All three case studies have well-developed legislation on political financing aiming to find a balance between public and private funding. Nevertheless, state subsidies are the primary source of political party financing in Estonia while in Latvia and Lithuania private funding prevail.

The main hypothesis of this research was proved by the case of Estonia, where public funding was used to stabilise political competition in the country and gave an impetus for further healthy competition.

Nevertheless, the proposed hypothesis does not work for the cases of Lithuania and Latvia. Public funding was introduced relatively late in this countries after when illicit funding became a very comfortable habit for political parties.

The hypothesis may be criticised that public funding is not popular among citizens in a majority of countries in the worlds. And many other factors have an influence on trust in political parties. However, it to look at public trust using before-and-after approach (as it was done in the analytical part), the links between public funding of political parties and trust in political parties are visible.

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