

ANALYSIS OF CZECH POLITICAL PARTY DONATIONS

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Summary

This study analyzes the financing of selected political parties in the Czech Republic since 2006. It makes extensive use of available data sources and reaches results unique not only in the Czech Republic, but also internationally.

We find that 29.6% of all Czech procurement winners directly donate money to political parties. Other 20% of corporate party donors receive European donations, and few are even owned by the state. These situations pose a high risk of conflict of interests, as party members often directly decide about the outcomes of these transactions. The problem also manifests in real procurement results - our results suggest that a donation to a political party significantly increases the expected value of received public procurement contracts of the donor. At the same time the competition in its tenders is significantly lower.

The results are robust despite the considerable errors in the available data we identified, when many donors among both physical and legal persons apparently do not exist (donors born after the donation, companies with a non-existing identification number). This is further complemented by significant accumulation of donations just under 50 000 CZK for which the proper identification of the donor is not required.

The study also points out significant shares of offshore donors and donating shell corporations with no economic activity, possibly concealing true donor. It also examines the control mechanisms currently in place and presents recommendations for increased effectiveness of this control based on suggestions of international organizations.

Together with study, a database of donations and financial statements of political parties has been collected and made publicly available at PolitickeFinance.cz (also in English) as open data, with the aim to increase transparency of the financing of Czech political parties.

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1. Introduction

This study analyzes data on donations to Czech political parties. It presents general overview on party donations, then it focuses mainly on the 'red-flag' donors, which include:

- firms that receive public procurement contracts,
- firms that receive European donations,
- firms owned by foreign legal persons,
- shell corporations,
- firms that have fallen into insolvency shortly after donating.

The study further maps mistakes made by political parties - we draw attention to donations made by state-owned enterprises (illegal in Czech Republic), and significant error rate of both donation lists and financial statements of political parties. The aim of the study is to provide an unbiased and balanced description of the current situation and to do so in the most extensive way so far. The authors intentionally do not present judgmental views, the main aim being to stimulate the general public discussion leading to a more transparent system of political parties' financing in the Czech Republic.

The remainder of this study is structured as follows: in Chapter 2, we present the sources of data used in the analysis. The third part introduces basic numbers on donations. Chapter 4 deals with errors made by political parties in their annual reports. Chapters 5 and 6 focus on the red flags, or characteristics of donors that increase the risks of illegal behavior or conflict of interests. In the seventh chapter we evaluate the problems connected with auditing of the annual reports and in Chapter 8 we summarize the foreign literature on the topic of transparency of political financing and present policy recommendations for the Czech Republic.

2. Data

All the data gathered and used in this study are published at the public website PolitickeFinance.cz. These data were hand-collected from the parties' annual reports which are publicly available in the Czech Parliamentary Library, but in paper form only. Then the data were paired with other publicly available sources, such as business and public procurement registries. The quality of the data was tested on a random sample basis – the errors present come typically from the source documents (see Chapter 4 - Errors in the annual reports).

Basic information about individual donors was collected from the Czech Business Register and the Register of Economic Entities¹. Information about shell corporations and offshore ownership was obtained by further processing these data. Information on public procurement was scraped from the Public Contract Registry² and further hand-cleaned. Information on European grants was obtained from the official lists of donation recipients published monthly by the Czech Ministry of Regional Development. Insolvency data were obtained from a web service provided by the Insolvency Register³.

3. Summary of the donations

This study analyzes donations to Czech political parties made between 2006 and 2013. All parties that were represented in the Chamber of Deputies of the Czech Republic during this period are included, more recent data are also presented for minor parties that received more than 1% of votes in the Parliamentary elections in the fall of 2013. Table 1 presents a summary of the studied donations.

Party	Time period covered	2013 election result	Number of received donations	Sum of received donations (EUR*)	Share of donations on total income	Average sum of donations per year (in the covered time period; EUR*)
ODS	2006—2013	7.72%	15258	28 744 783	24%	3 593 098
ČSSD	2006—2013	20.45%	3193	11 423 108	9%	1 427 888
ANO 2011	2012—2013	18.65%	576	2 552 059	23%	1 276 030
TOP 09	2009—2013	11.99%	1803	6 248 977	33%	1 249 795
SPOZ	2012—2013	1.51%	233	1 620 728	62%	810 364
LEV 21	2012—2013	0.07%	71	1 565 624	94%	782 812
Starostové a nezávislí	2012—2013	--	147	1 082 293	68%	541 147
KDU-ČSL	2006—2013	6.78%	3885	2 540 110	7%	317 514
Věci veřejné	2006—2013	--	348	1 984 329	22%	248 041
KSČM	2006—2013	14.91%	1125	1 633 493	3%	204 187
Svobodní	2013	2.46%	2222	127 605	70%	127 605

¹ Provided by a web service of the Ministry of Finance <http://www.info.mfcr.cz/>

² <http://www.vestnikverejnychzakazek.cz/>

³ <https://isir.justice.cz/>

Strana zelených	2006—2013	3.19%	1987	671 629	10%	83 954
VIZE 2014	2012—2013	--	34	36 297	30%	18 148
Úsvit přímé demokracie	2013	6.88%	10	9 735	1%	9 735
Piráti	2013	2.66%	529	9 426	2%	9 426
Severočeši	2013	--	1	219	0%	219

Table 1: Summary of the political donations database. Source: PolitickeFinance.cz, <http://www.volby.cz/>

*Note: EUR amounts calculated using the exchange rate as announced by the Czech National Bank on December 19, 2014; 1 EUR = 27.64 CZK

Table 2 focuses on the donations made by physical persons and shows the share of these donations on total donations received by the parties. Interestingly, this share differs significantly across parties. While for KSČM, LEV 21 or Česká pirátská strana the physical persons' donations make up over 95% of the value of all donations received, parties such as ČSSD, ANO 2011, SPOZ or Věci veřejné received more money from donations made by legal persons.

Party	Time period covered	Number of donations from physical persons (their share on total donations)	Sum of donations from physical persons in EUR* (their share on total donations)	Average sum of donations from physical persons per year in the covered time period (EUR*)
ODS	2006-2013	11 806 (77.38%)	18 050 074	2 256 259
LEV 21	2012-2013	62 (87.32%)	1 510 736	755 368
TOP 09	2009-2013	1 432 (79.42%)	3 538 591	707 718
ANO 2011	2012-2013	335 (58.16%)	1 216 500	608 250
ČSSD	2006-2013	2 812 (88.01%)	3 310 774	413 847
SPOZ	2012-2013	166 (71.24%)	698 205	349 103
KDU-ČSL	2006-2013	3 491 (89.86%)	1 877 064	234 633
KSČM	2006-2013	1 057 (93.96%)	1 586 817	198 352
Svobodní	2013	2 194 (98.74%)	109 274	109 274
Věci veřejné	2006-2013	255 (73.28%)	714 456	89 307

Strana zelených	2006-2013	1 902 (95.72%)	545 584	68 198
Starostové a nezávislí	2012-2013	109 (74.15%)	121 564	60 782
VIŠE 2014	2012-2013	33 (97.06%)	36 226	18 113
Úsvit přímé demokracie	2013	10 (100%)	9 733	9 733
Piráti	2013	524 (99.05%)	9 035	9 035
Severočeši	2013	0 (0%)	0	0

Table 2: Summary of the database on political donations made by physical persons. Source: PolitickeFinance.cz

*Note: EUR amounts calculated using the exchange rate as announced by the Czech National Bank on December 19, 2014; 1 EUR = 27.64 CZK

Figure 1 shows the historical development of the volume of received donations for the 7 political parties currently represented in the Chamber of Deputies of the Czech Republic. The peaks corresponding to the years of elections are clearly observable for some parties. There were no elections in the Czech Republic in 2007 and the total sum of donations made during this year reaches only 17% of the same value in 2010, when three elections of national importance took place.

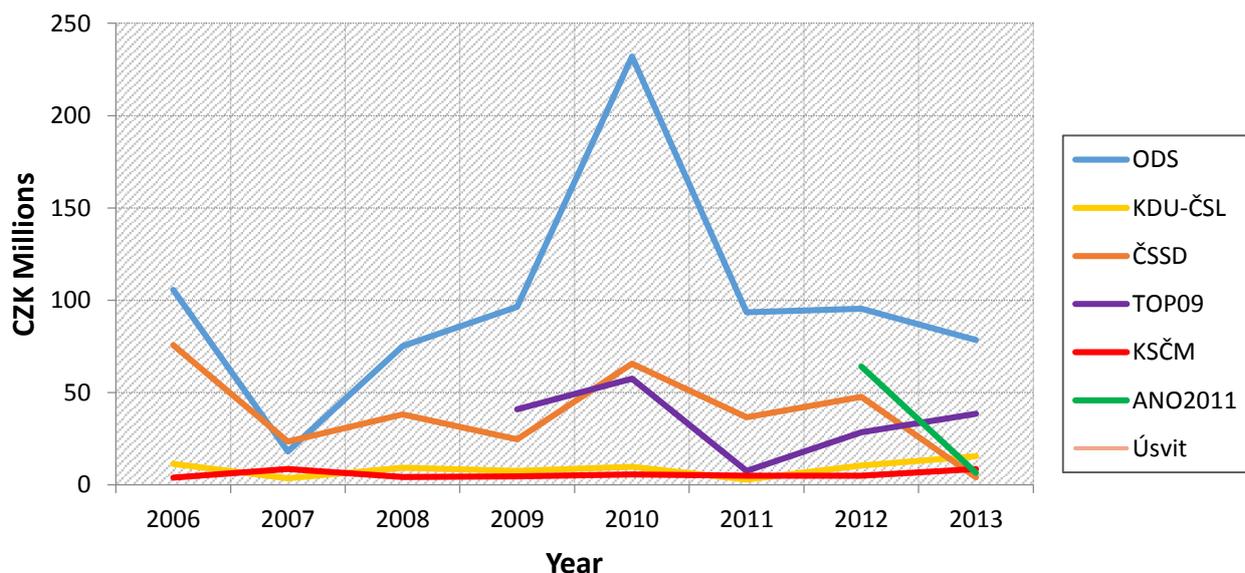


Figure 1: The development of the value of total donations received between 2006 and 2013 by parties currently represented in the Chamber of Deputies of the Czech Republic. Source: PolitickeFinance.cz

Only parties diverging from this trend are the Communist Party of Bohemia and Moravia (KSČM) and the Cristian and Democratic Union - Czechoslovak People’s Party (KDU-ČSL, Christian conservatives), who receive a relatively stable income from donors each year. Current legislation does not oblige parties to publish the exact dates of the donations, which is why it is not possible to examine patterns in the donors’ behavior within shorter periods of time. That would allow for further analyses of the donations’ influence on election outcomes.

The importance of the income from donations from only a few large donors for each political party is shown by Figure 2. The party by far most dependent on the donations from the TOP 10 donors is ANO 2011 – these donations represent more than 20% of all income the party generated, which nicely shows the party’s known allegiance to the single Czech oligarch, Andrej Babiš. We can similarly observe high shares of large donations for TOP 09 and ČSSD. These parties might be more exposed to external influence on the political decisions. The remaining part of the study concentrates on the structure of corporate donations and their consequences on transparency of the financing of political parties.

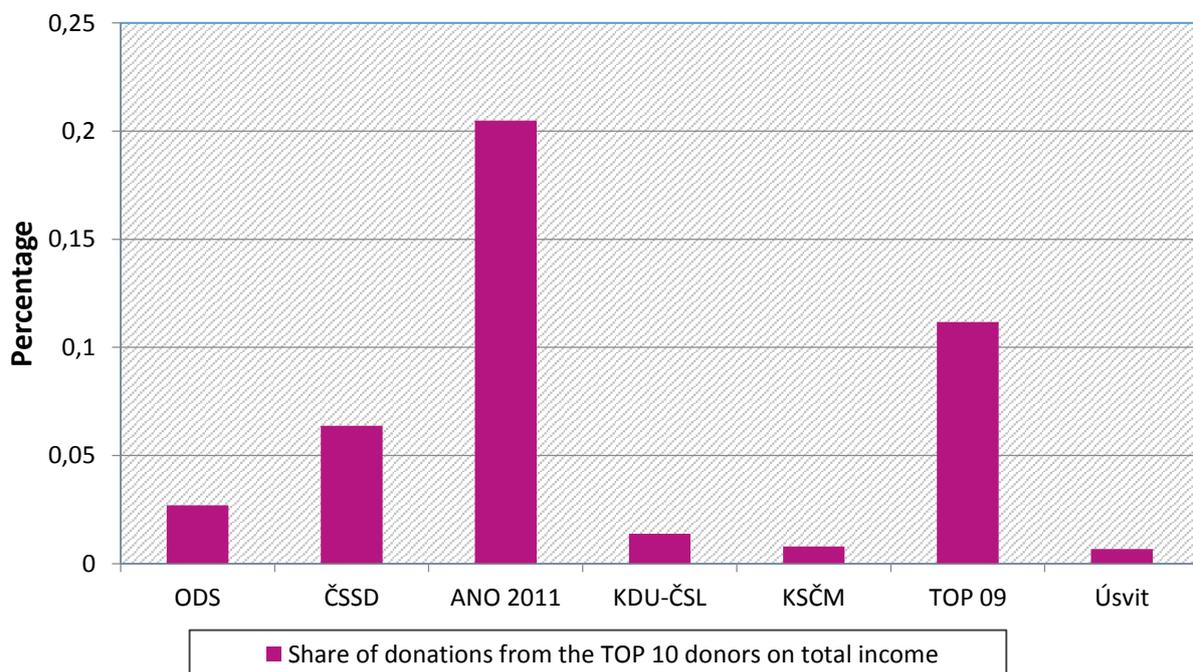


Figure 2: The share of donations from the TOP 10 contributing donors on total income between 2006 and 2013 for parties currently represented in the Chamber of Deputies of the Czech Republic. Source: PolitickeFinance.cz

The following graph shows the share of income from donations on total income of political parties and suggests that the importance of the donations is increasing over time. Only in 2013 this

share decreased to the level usual between 2006 and 2008. Also, we can observe that donations from physical persons are a much more variable part of the total donations than those made by legal persons.

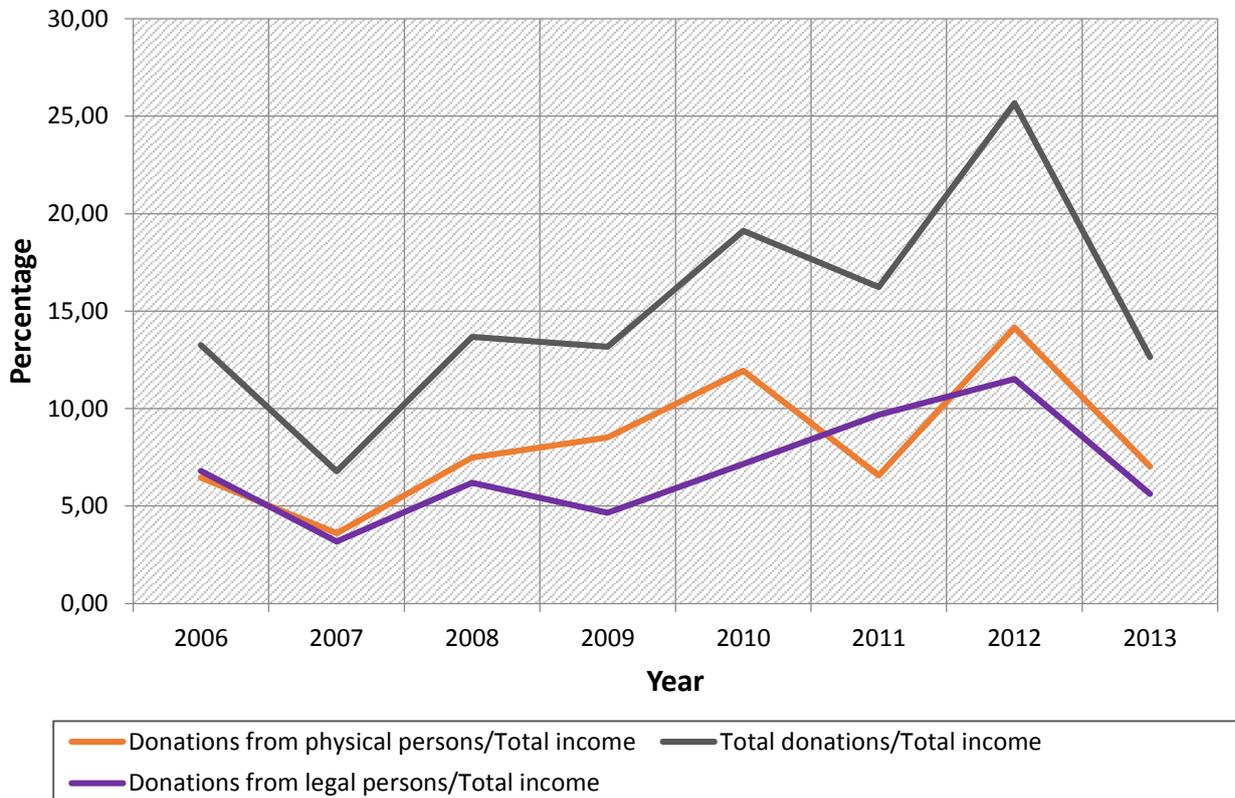


Figure 3: Share of the donations made by physical persons on total income of the parties.
Source: PolitickeFinance.cz

4. Errors in the annual reports

4.1. Errors in financial reports

The law clearly states which types of incomes and expenses a political party can account. Parties are required to present an overview of these in their annual reports in a standardized form. We, however, find that a large number of reports either contain additional (thus de jure illegal) sources of income, or the sums reported do not match the actual figures.

If the total amount reported in the financial statement does not add up to the sum of individual items, there is either a mathematical mistake in the statement or the party has not fulfilled the criteria demanded by the law. We consider both these cases as errors. With respect to the fact

that virtually all large parties exhibit this problem, it is possible that the mistake is not only on their side, but also that the legislation might be outdated. It is well possible that the categories currently allowed by the law are not sufficient and the parties do not know where to include certain types of expenses or incomes. In any case, the financial statements present unreliable information about the financing of the political parties. Table 3 presents a summary of the errors we found in the parties' annual reports in the examined time period. We also include the average value of these errors which is quite high for some parties. It is impossible to infer reliable information about the source or the recipients of this money.

Another erroneous way to write a financial statement is to include items not allowed by the law. That applies to the items "Other income" in the 2013 financial statement of the Czech Pirate Party (Česká pirátská strana) and "Loans and credit – paid" in the 2013 financial statement of ANO 2011. These parties are marked in the fourth column of Table 3.

Party	Number of statements with errors / total number of statements	Average error	Items not acceptable by the law ⁴
ČSSD	2 / 16	62 375 000 CZK	no
KSČM	16 / 16	34 081 072 CZK	no
ODS	3 / 16	20 153 666 CZK	no
SPOZ	1 / 4	1 902 307 CZK	no
TOP 09	3 / 10	356 556 CZK	no
KDU-ČSL	8 / 16	174 463 CZK	no
STAN	2 / 4	44 495 CZK	no
ANO 2011	0/4	-	yes
LEV 21	0/4	-	no
Piráti	0/2	-	yes
Severočeši	0/2	-	no
Strana zelených	0/16	-	no
Svobodní	0/2	-	no
Úsvit přímé dem.	0/2	-	no
Věci veřejné	0/16	-	no
VIZE 2014	0/4	-	no

Table 3: Summary of inconsistencies in the financial statements of political parties in the covered time period. Source: PolitickeFinance.cz

⁴ § 17, 18 of the Law 424/1991 Sb. On Association in Political Parties and Movements

⁵ We only evaluate this red flag individually for the 30 largest donating companies. The problem is analyzed in more detail in Section 6.4.

We can conclude that none of the large parties have their financial statements without any errors. Since it is not possible to uncover the actual transactions causing these problems, we cannot say whether these errors represent real cases of malpractice or the problem is in the inappropriateness of the legally required financial statement structure.

4.1. Errors in donor lists

In the annual reports, parties have to include lists of donating physical and legal persons and their information – for physical persons, it is the name, date of birth, address and the amount of the donation. For legal persons, it is the firm's name, address, identification number and the amount of the donation.

Concerning data on donations made by physical persons, we found donors that are not directly in breach of the law, but it is evident that this is either a mistake or a case of hiding the real donor's identity. The Civic Democratic Party (ODS) reported a donor born on September 30, 2013 who donated 500 CZK in 2013. In 2013, the Green Party (Strana Zelených) reported two donors with birthdays in the future, another two were not only 2 years old at the time of the donation. These mistakes were, on the contrary to the one made by ODS, later corrected based on the objections by the Control Committee of the Chamber of Deputies.

In the lists of donating legal persons, we found 41 donations from companies with a non-existing identification number. The proper identification of the source of the money is then compromised. The summary of these errors is presented in Table 5. Altogether, the situation suggests that the audit through which all these documents went without objections does not work properly. Revealing these mistakes is easy, however, the credibility of other reported data is significantly violated. Apart from such evident cases, there is no control mechanism able to effectively control the data on donors, which is why we can only speculate about the number of errors actually present in the annual reports. The need for proper identification of the donors is further highlighted in the following chapter.

5. Accumulation of donations under 50 000 CZK (1800 EUR)

In the annual reports, all parties have to report, among others, the list of all donors including the amount of the donation, full name, birthday and address of the donor; in case of a corporate donor, parties have to report the name of the company, its address and identification number. If the sum of all donations from an individual donor reach 50 000 CZK per year, it is necessary

to provide also a copy of the donation contract. This may represent a motivation for parties to avoid donations of value over 50 000 CZK for administrative or other reasons. The following graph unveils the consequences of this limit, showing that the value of donations of value between 40 and 50 thousand CZK is significantly higher than that of other donations.

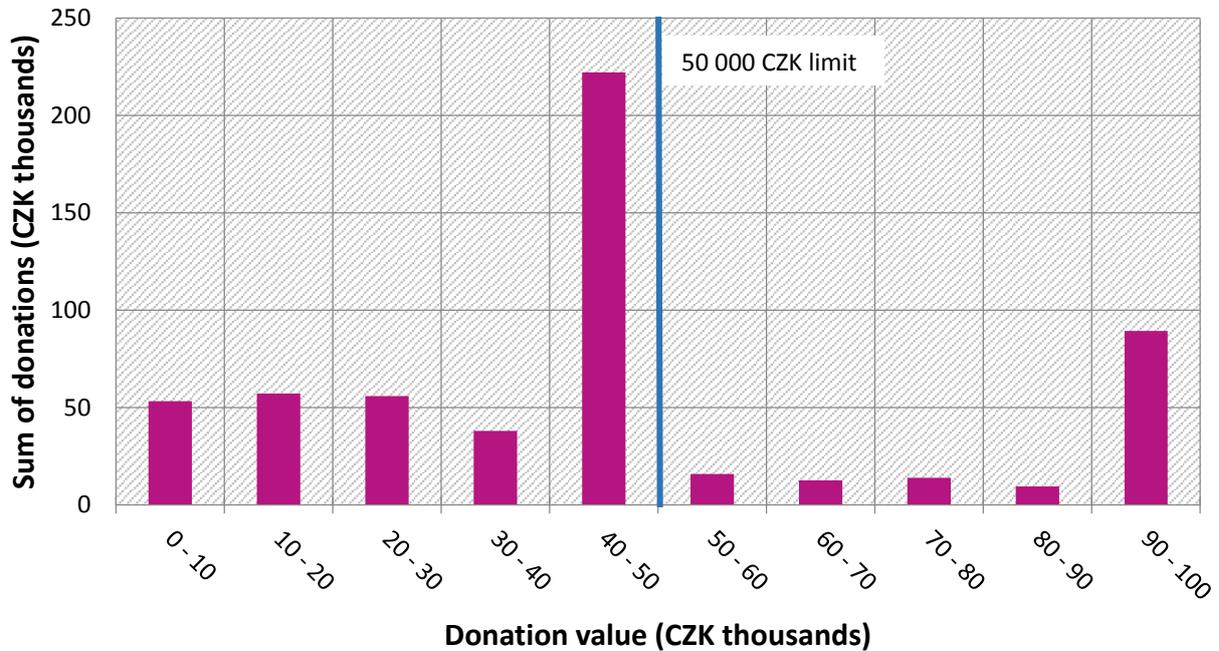


Figure 4: The sums of donations made between 2006 and 2013 divided into categories by their amount. The vertical line represents the limit above which parties must reliably identify the donor and include a copy of the donation contract in the annual report. Source: *PolitickeFinance.cz*

To view this problem in closer detail, we look only at donations between 35 000 CZK and 60 000 CZK. We can observe that the number of donations of value between 47 500 and 50 000 CZK is higher than for all other categories combined. Although the cumulation of donations under the limit might be to some extent seen as a natural response to higher transaction costs above the threshold, it is highly improbable that this is the sole reason. Given the previously mentioned errors in donor identification, the donations below the limit might have been used for splitting the higher donations from a single donor who does not want to be identified.

Value of donations (CZK)	Number of donations	Volume of donations (CZK)
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35 001 - 37 500	102	10 403 946
37 501 - 40 000	590	23 545 027
40 001 - 42 500	40	1 663 878
42 501 - 45 000	282	12 634 179
45 001 - 47 500	74	3 453 807
47 501 - 50 000	4093	204 405 434
50 001 - 52 500	32	1 647 107
52 501 - 55 000	62	3 359 302
55 001 - 57 500	315	1 738 804
57 501 - 60 000	15	9 282 344

Table 4: The number and value of donations between 35 000 and 60 000 CZK. Source: PolitickeFinance.cz

Figure 5 presents the sums of donations between 40 000 and 50 000 CZK for selected political parties. Higher share of donations in this category means higher risk of the possible hiding of the real identity of the donor.

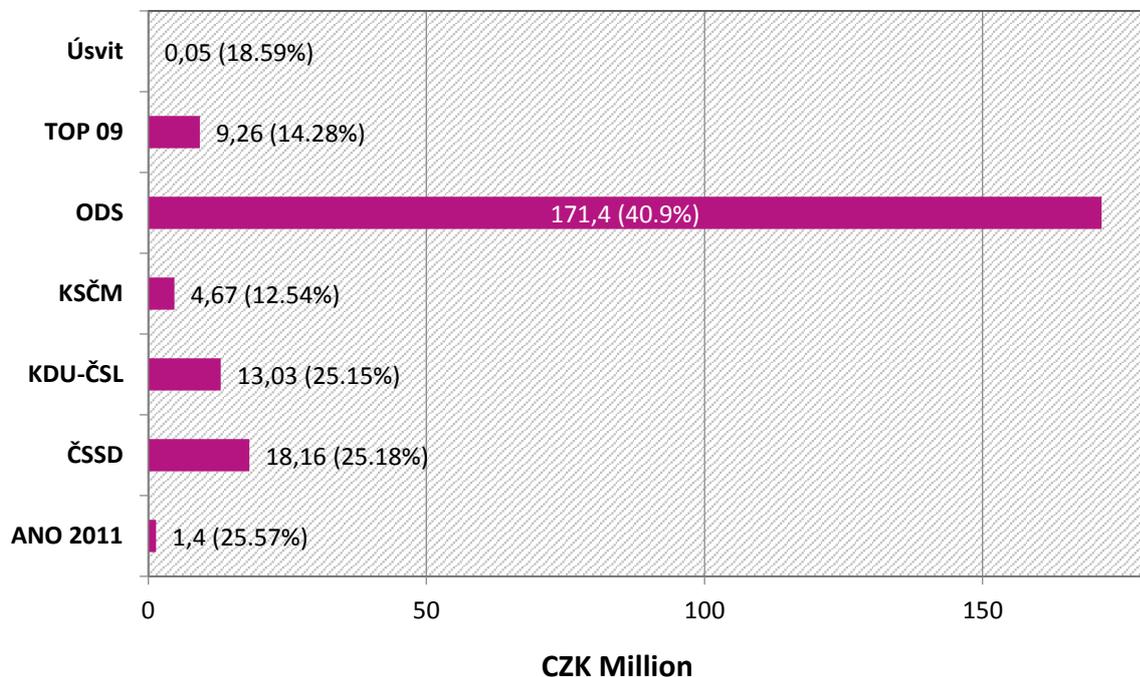


Figure 5: Sums of donations between 40 000 and 50 000 CZK for each party. In parentheses we report the shares of these donations on the total sum of donations of value under 200 000 CZK for each party. Source: PolitickeFinance.cz

In the table we can see that both the highest value and the highest share of donations just under the 50 000 CZK limit was received by ODS. Generally, for most parliamentary parties these donations play a significant role. This may point to the fact that donors avoid donations for which a donation contract is needed. This is problematic because it is harder to identify such donors, since there are many errors in the lists of donors, as mentioned above.

6. Red flags

Unlike the rest of this study, this chapter only concerns donations made by legal persons. For these donors, we may define and study “red-flag” factors as characteristics that create a higher risk of illegal behavior. This includes the potential risks of conflicts of interest, higher difficulty of public control of the parties’ financing or the risks of hiding the real donor’s identity. The examined red flags are:

- **Offshore donors.** We say a donating company is an offshore donor if at least 50% of the company is owned by a foreign person. Donations from these firms are problematic since it is often difficult to uncover the ownership structure of the company and again identify the true donor. Furthermore, the motivation of foreign persons to support Czech political parties is unclear.
- **Shell corporations.** We consider a donor a mailbox corporation if its address is the same as many other firms’, but they do not physically operate at this address. For identification of non-standard behavior, we define a mailbox corporation as a firm which:
 1. Has the same address as at least 19 other corporations;
 2. More than 50% of these corporations have not published their financial statements in the Czech Business Register.

Shell corporations are often hard to contact, because their addresses are only administrative and these firms, in fact, operate elsewhere or are not economically active at all. Moreover, if they do not publish their financial statements, it is difficult to unveil the source of the donated money.

- **State-owned donors.** When at least 10% of a corporation is owned by the state, political parties are not legally allowed to accept donations from that company. Such donations that are not returned are thus direct violations of the law.
- **Donors that win public procurement contracts.** Some companies may compete in public procurement auctions and simultaneously donate money to political parties. The

politician then might find himself in a situation where he has to decide about the outcome of a public procurement auction in which one of the competing companies has donated money to his political party. The risk of a politician's conflict of interest is then straightforward.

- **Donors that receive European donations.** Similarly to public procurement, when deciding about donations, politicians might find themselves in a situation where one or more of the competing companies have donated money to their political party.
- **Companies with no employees.** This category includes all donating companies that have 0 employees according to the Czech Statistical Office. We take this factor into consideration because it can indicate economic inactivity and it increases the risk of using these donors as the so-called "white horses", i.e. companies through which donations are transferred, but do not come from their own profits.
- **Insolvencies.** In this red flag, we include donors that are currently in any phase of insolvency. It is unusual for companies in financial trouble to donate money to political parties.
- **Non-existing identification number.** For these companies, political parties published identification numbers that do not exist in the Czech Business Register. Donors therefore cannot be reliably identified.
- **Donors that do not publish their financial statements in the Business Register.** Annual reports, accounting details or other documents are not stored in the Business Register in the way stated by the law. Controlling such companies' financing can be very difficult without access to these documents.⁵

It is important to point out two facts. Firstly, if a company shows some of these red-flag factors, it does not necessarily pose a problem nor does it mean that the company has broken any law. Secondly, most of the above mentioned red flags do not take into account the time of the donation, i.e. these companies could have shown a red flag factor either before or after the donation. However, even with this time inconsistency, such factors represent risks. For instance in case of public procurement or European donations, we can assume possible conflicts of interests for donations made both before and after a public procurement contract is awarded (or a European donation funded), as there might be multiple relevant decisions made by the authority both before and after the award.

Table 5 shows the summary statistics about donors of selected political parties⁶ and their respective red flag factors. Only one of the factors represents direct violation of the law –

⁵ We only evaluate this red flag individually for the 30 largest donating companies. The problem is analyzed in more detail in Section 6.4.

⁶ Úsvit přímé demokracie has not been included since it has not received any donations from companies identified as red-flag donors.

donations from companies owned or co-owned by the state. Other factors we only consider risky and they are discussed in the following chapters.

Number of donations	ANO 2011	ČSSD	KDU-ČSL	KSČM	ODS	TOP 09	Věci veřejné
State-owned donors	0 (0%)	3 (0.8%)	1 (0.3%)	1 (1.5%)	2 (0.1%)	0 (0%)	0 (0%)
Shell corporations	12 (5.1%)	24 (6.3%)	19 (4.8%)	2 (2.9%)	225 (6.5%)	39 (10.5%)	47 (50.5%)
Economically inactive	1 (0.4%)	2 (0.5%)	11 (2.8%)	0 (0%)	28 (0.8%)	4 (1.1%)	0 (0%)
Offshore donors	11 (4.6%)	41 (10.8%)	48 (12.2%)	0 (0%)	220 (6.4%)	20 (5.4%)	13 (14%)
Donors that win public procurement	23 (9.7%)	124 (32.5%)	151 (38.3%)	4 (5.9%)	1168 (33.8%)	114 (30.7%)	7 (7.5%)
Donors that receive European donations	37 (15.6%)	82 (21.5%)	107 (27.2%)	8 (11.8%)	694 (20.1%)	81 (21.8%)	2 (2.2%)
Insolvencies	2 (0.8%)	6 (1.6%)	9 (2.3%)	0 (0%)	104 (3.0%)	8 (2.2%)	1 (1.1%)
Non-existing identification number	3 (1.3)	1 (0.3%)	8 (2.0%)	3 (4.4%)	23 (0.6%)	1 (0.3%)	2 (2.2%)

Table 5: Summary statistics of red-flag donors for selected parties. In parentheses we include their share on total donations count. Source: PolitickeFinance.cz, Business Register, Ministry of Regional Development

The preceding table presents absolute counts of donations for each political party and shows a few interesting facts. First, we can observe an unusually high share of shell donors for Věci veřejné (VV). They account for up to 50% of this party's total corporate donations, raising serious question on the major source of party funding. Second, the table suggests that VV, ČSSD, KDU-ČSL receive unusually many donations from offshore donors. Third, some parties, such as ČSSD, KDU-ČSL or ODS (more traditional major parties), receive up to a third of their total donations from companies that win public procurement contracts. A more thorough discussion of these red-flag factors follows after Table 6 which summarizes the volumes of donations received from red-flag donors.

Sum of donations in thousands of CZK	ANO 2011	ČSSD	KDU-ČSL	KSČM	ODS	TOP 09	Věci veřejné
State-owned donors	- (0%)	22.5 (<0.1%)	2.7 (<0.1%)	5 (0.4%)	6.8 (<0.1%)	- (0%)	- (0%)
Shell corporations	1 129 (3.1%)	1 606 (0.7%)	444 (2.4%)	35 (2.9%)	36 593 (12.5%)	2 503 (3.3%)	17 538 (50.3%)
Economically inactive	1 (0%)	52 (0%)	185 (1%)	- (0%)	2 208 (0.8%)	1 530 (2%)	- (0%)
Offshore donors	1 316 (3.6%)	3 407 (1.5%)	1 246 (6.9%)	- (0%)	13 884 (4.7%)	2 560 (3.4%)	7 415 (21.3%)
Donors that win public procurement contracts	883 (2.4%)	7 102 (3.2%)	9 126 (50.2%)	97 (8%)	74 492 (25.4%)	19 848 (26.6%)	2 955 (8.5%)
Donors that receive European donations	28 955 (78.5%)	4 459 (2%)	3 318 (18.3%)	136 (11.2%)	43 763 (14.9%)	12 698 (17%)	260 (0.7%)
Insolvencies	18 (0.1%)	445 (0.2%)	360 (2%)	- (0%)	11 723 (4%)	540 (0.7%)	6 (0%)
Non-existing identification number	26 (0.1%)	17 (<0.1%)	520 (2.9%)	204 (16.8%)	863 (0.3%)	20 (<0.1%)	110 (0.3%)

Table 6: Summary statistics of the value of donations made by red-flag donors for selected parties. In parentheses we include their share on total donations. Source: PolitickeFinance.cz, Business Register, Ministry of Regional Development

Table 6 contains the same parties and red-flag factors as Table 5, but shows the volume of donations rather than their absolute counts and confirms the above mentioned findings. Furthermore, it suggests that more than half of KDU-ČSL's income from corporate donations come from companies that win public procurement contracts. Also, 80% of the total volume of ANO2011's corporate donations came from companies that receive European donations. This can be explained by the fact that many of these companies are owned by Andrej Babiš, who, at the same time, is the leader of ANO2011. Let us now discuss selected red-flag factors in more detail.

6.1. State-owned donors

The law forbids political parties to accept donations from companies owned by the state or municipalities (not applicable if the ownership share is lower than 10%). In our database, we found 7 state-owned companies from which parties accepted donations. Moreover, more than

half of these companies donated more than once. The following table shows a summary of these donations and their volume.

Donor	Owner	Party	Number of donations	Sum of donations	Year/s
Technické služby Stochov, s.r.o.	City of Stochov	ODS	1	520 CZK	2010
Slovácké vodárny a kanalizace, a. s.	City of Uherské Hradiště	ČSSD	1	899 CZK	2007
TESPRA Hodonín, s.r.o.	City of Hodonín	ČSSD	5	4 109 CZK	2006-2012
LESY KOMŇA s.r.o.	City of Komňa	KSČM	1	5 000 CZK	2012
Víceúčelová sportovní hala Slaný spol. s r.o.	City of Slaný	ODS	4	6 220 CZK	2009-2013
TECHNIS Kojetín spol. s r. o.	City of Kojetín	ČSSD	7	17 500 CZK	2006-2012
Technické služby Moravská Třebová s.r.o.	City of Moravská Třebová	KDU-ČSL	5	2716,50 CZK (the value of one of the donations was not reported)	2006-2010

Table 7: Summary of donors of which the state owns at least 10%. Source: PolitickeFinance.cz

As seen in Table 7, donations from companies that are partly or entirely owned by the municipalities have been received by nearly all major political parties. Furthermore, most of these have broken the law repeatedly. Although the donations are of a relatively low value, we cannot ignore these findings - they point to the lack of an effective control mechanism. Only the last two donations by state-owned companies, which have been made in 2013 to ODS and ČSSD, have been returned in line with the law. The remainder has never been noticed by neither the parties nor the audit bodies. Nevertheless, the mistake is not only on the parties' side but also on the companies' side - donating funds to political parties is a consequence of political control of the companies. The fact that state-owned companies pose high risk of such abuse is further documented by our previous study showing that most of these companies are politically controlled.⁷

⁷ see Public companies and political control, CAE (2013), <http://www.zindex.cz/data/2013-09-10-SOEs-studie.pdf>

6.2. Donors that win public procurement contracts

We find that 29.6% of all companies that have won at least one public procurement contract during the examined period have donated money to a political party during that time. Altogether, the public contracts won by the donating companies accounted for about 727 billion CZK (or about 26.3 billion EUR). The associated risk is straightforward - it can easily happen that a politician is deciding about the outcome of a public procurement auction in which one of the competitors is a company that has donated money to the politician's party who therefore faces a conflict of interests. Donating companies may then be more successful in public procurement auctions. This has been well documented in our previous studies.

The analysis by Palanský (2014) examines data on public procurement administered by the regional governments between 2006 and 2014 shows that companies that donate to parties that were represented in the regional boards have signed procurement contracts of value more than 57% higher than non-donating companies. In addition, the political situation at the regional level which has changed dramatically after the 2008 elections enables interesting comparison of companies that donate to the party in power and other companies (i. e. companies that donate to the party not in power or companies that do not donate at all). As it turns out, the more a company has donated to the party in power, the more public procurement auctions it won during the time their party had majority in the regional boards.

Počarovský (2014) analyzed data on construction public procurement contracts, finding that donating companies with turnover between 100 million and 1 billion CZK signed public contracts of value of 46% more than non-donating companies. Concerning the total number of procurement contracts, donating companies have signed 20% more than other firms. Simultaneously, donating companies faced significantly lower competition, documenting that the competitions might have indeed been manipulated into their favour by restrictive conditions.

The volumes are quite considerable - for example, between 2008 and 2012, [Alpine Bau CZ, s. r. o.](#) has made 10 donations to 3 different political parties in the total value of 625 000 CZK. In the same time period, it has signed public procurement worth more than 3.5 billion CZK. [TALPA - RPF, s. r. o.](#), which contributed to the budgets of ODS and TOP09 by 1.9 million CZK, has signed 45 public contracts with total value of more than 500 million CZK.

In this area, the importance of analysis of the parties' financing is clear. The results confirm that the outcomes of procurement auctions may be biased towards the donating companies. Although such behavior may be explained by legal means as well, our findings point at significant risks of conflicts of interests, which is why companies that participate in the public procurement auction should not donate money to political parties for their own good.

6.3. Donors that receive European donations

The case of European donations is quite similar. In our database of 3410 corporate donors, there are 549 companies that receive European donations. That represents about 17.4% of donating companies receiving European donations at the same time. Altogether, the value of the European donations received by these companies was about 5.2 billion CZK. The most generous political donors from the group of European donations recipients include [Lovochemie, a.s.](#), [PRECHEZA a.s.](#), [Fatra, a.s.](#) or [Synthesia, a.s.](#) These companies donated 18 million CZK to ANO 2011. Other notable companies from this category are [Ray Service, a.s.](#), [EXTENSION s.r.o.](#) and [OSTROJ a.s.](#) which donated to SPOZ, ODS and TOP 09, respectively. In addition, [OSTROJ a.s.](#) is a significant supplier of public procurement. The risk of a conflict of interests is present here as well, even though reduced by a variety of control mechanisms.

6.4. Donors that do not publish their financial statements in the Business Register

As of July 15, 2014, only 7 out of 29 companies that donated more than 500 million CZK in 2013 have published their annual reports for 2012 in the Business Register, while the mandatory deadline for these submissions expired on December 31, 2013. Concerning public control, the fact that these companies do not publish information about their financing makes them less transparent and receiving donations from such companies further decreases the transparency of the parties' financing itself.

For example, [Maxi Guard, a.s.](#), which donated 2.3 million CZK to ODS in 2013, has published only one financial statement during its entire existence, that for the year 2003. Even more alarming is the case of [D-Pharm, a.s.](#) and its sister company [Lékárna U Rubínu](#), which have the same address and owner - Mrs. Danuše Vítková. Together, these companies donated 12.75 million CZK to ODS between 2012 and 2013. However, according to the latest financial statement published in the Business Registry - that of 2010 - [D-Pharm, a.s.](#) finished the fiscal year with a loss of 154 000 CZK. [Lékárna U Rubínu](#) made a profit of 5 841 000 CZK in 2011 and has not published their financial statements ever since. In the spring of 2014, both companies went into insolvency due to inability to pay their liabilities, [D-Pharm, a.s.](#) is now bankrupt. Arguably, such development might be connected to the major demise of ODS, which in 2013 lost the prime minister position due to a corruption scandal, and consequently also two major elections.

Political donations from such companies are very problematic due to the lack of transparency of their financing. Since these donors do not publish their annual reports, it is impossible to uncover the sources of their income, nor their ownership structure.

6.5. Accumulation of different red-flag factors

In this section we focus on accumulation of the rest of the red-flag factors. These cannot be interpreted individually as red-flags, but combined with others they might reveal some problematic cases. This category includes, for example, shell corporations with a foreign owner. It is often very difficult to uncover the ownership structure of these companies. In the examined time period, such companies donated about 10 million CZK to Czech political parties. VV, for instance, received donations from [Kastelis a.s.](#), [Tribunus Plebis a.s.](#), [ACTEA Consulting s.r.o.](#), [Ponehodě CZ s.r.o.](#) and [Sternol s.r.o.](#) These donations were worth almost 7.5 million CZK. [ACTEA Consulting s.r.o.](#) is owned by [Tribunus Plebis a.s.](#), and all these companies are owned by mother companies registered in Panama. For VV, donations from such donors (offshore shell companies) accounted for about 20% of all received donations.

A similar case is [S & T Plus s.r.o.](#), a shell corporation owned by a foreign legal person, which received a lot of public procurement contracts. The company donated 500 000 CZK to ODS and later signed public procurement contracts worth more than 250 million CZK. However, in neither case we can state that the law has been broken, we only indicate cases of intransparent financing of political parties.

7. Audit

All annual reports that serve as the sole source of data on donations and financial results of the parties have made it through an independent audit without objections. Based on the results of our analysis, we can state that this control mechanism does not work properly.

Annual reports are audited typically by small companies with turnover under 10 million CZK or self-employed people (in the case of KSČM and TOP 09). Moreover, parties practically do not switch the auditing companies, and thus there exists an increased risk of a nonstandard relationship between the party and the auditor, which may be the cause of the ineffectiveness of this type of control. We recommend that parties hire larger or externally assigned auditors and that these must change regularly. Similar recommendations can be found in the report by

GRECO (2013) which suggests that the Czech Republic should consider increasing the independence of auditors of the parties' annual reports. To give an example of good practice that prevents politically motivated choice of auditors we can mention Poland, where the auditors are paid from the state's budget and are assigned to the parties by lottery.

8. Foreign good practice

The main recommendations of the international organizations concerning the financing of political parties can be divided into 5 categories which we will now examine in detail. The following examples of good practice and recommendations come mainly from the GRECO's report for the Czech Republic and the handbook *Money in Politics* issued by the United States Agency for International Development. We also make use of two publications by the International Institute for Democracy and Electoral Assistance.

8.1. Control bodies

Major flaws and risks connected with Czech political party financing raise the question of having proper control and supervision bodies. Their independence and unity (either in the sense of cooperation of multiple bodies or the existence of only one) are, according to U.S. Agency for International Development (2003), the basic building stones of effective control. In the Czech Republic, the bodies are united, yet hardly independent. The oversight is carried out by the Control committee of the Chamber of Deputies. GRECO (2013) points out that this control mechanism is purely formal and it cannot be considered independent, since the parties practically control themselves.

Second layer of the control system is the audit of the annual reports. As discussed in the previous chapter, the audit is likely not working well. Thus, GRECO (2013) recommends that the Czech Republic should increase the independence of auditors. One of the ways to reach this goal is to adopt the Polish approach where auditors are assigned by lottery to ensure their neutrality.

8.2. Transparency of financing

Furthermore, GRECO (2013) recommends that the Czech Republic should ensure that the annual reports are easily accessible by the public. This is in accordance with U.S. Agency for International Development (2003) which identifies transparency as the basic instrument of control of the parties' financing, stating that without transparency, it is impossible to enforce the regulations of political financing (for example preventing conflicts of interests etc.). According to International Institute for Democracy and Electoral Assistance (2003), transparency helps voters decide by providing them with means of higher awareness about the parties' or candidates' campaign financing. Furthermore, it increases the general trust in the democratic system and decreases risks of corruption by providing yet another control mechanism. On the other hand, an important argument against publishing the donors' personal information is the protection of privacy – this is currently being discussed in the Czech Republic, as together with the publication of this report we made the information available online.

8.3. Transparency of expenditures

GRECO (2013) also recommends that parties' expenditures should be published in a more detailed way than they currently are. Today, expenditures are divided into only 4 categories (operational expenses, wages, taxes and fees and campaign expenses). Specifically, the report stresses the importance of publishing election campaign expenses. Detailed information on campaign expenses would allow for comparison of parties' and candidates' campaigns. Moreover, the report suggests separating the campaign expenses for the party as a whole and for each senate or presidential candidate. These reports would have the same characteristics as the annual reports of the parties themselves.

8.4. Limits on donations

U.S. Agency for International Development (2003) identifies, among others, the following risks connected with the financing of political parties: high influence of the donors on the forming of political decisions and inequality of opportunities in politics. The first one corresponds to the results of our analysis of donations where we point out risks of conflicts of interests when deciding about the outcome of public procurement auctions or state grant recipients. The second rises from the argument that high amounts of money enable one party to obtain significant advantages over the other ones and compromises open political competition. Both these risks could be reduced by imposing limits on donations. In Belgium, for instance, the limit is 500 EUR per physical donor per party per year and 2 000 EUR per donor per month.⁸

⁸ In Belgium, political donations from legal persons are forbidden completely.

8.5. Sanctions

The last recommendation of GRECO (2013) is imposing other relevant sanctions for cases of violation of the law 424/1991 Coll. On Association in Political Parties and Movements. Some violations have been pointed out throughout this study, however, no sanctions have been imposed in these cases. Other relevant sanctions and especially their application would increase the motivation to report annual reports in the form required by the law. Possible sanctions suggested by international organizations include mainly fines and the loss of the right of the party to receive state contributions. These sanctions are already included in the current legislation, however, GRECO (2013) considers them and their application insufficient.

9. Conclusions

We uncover several major flaws in transparency of Czech political party financing. First of all, there is enormous space for conflict of interest given that a large portion of donations come from winners of public procurements or EU funding. Secondly we question credibility of donor reporting, showing that some of them are apparently non-existent, and many others are avoiding proper identification. Thirdly we point to absence of effective control mechanisms and real transparency – we were first to publish full searchable lists of donors together with this study.

The proclaimed risk of conflict of interest is backed by solid results. On average, donating companies receive more public procurement contracts than other companies, and they also face significantly smaller competition in the procurement tenders. We, however, demonstrate that only a small fraction of such problems can be properly identified, since a large number of donations come from shell or offshore companies, thus the source of money can hardly be followed.

Our results in closer detail document issues previously pointed out by GRECO and OECD. Individual conclusions of this study show significant drawbacks in the transparency and control of the Czech political parties' financing, which pose serious threat to the functioning of a democratic state. Yet the political representatives show long-term reluctance to deal with the topic. The aim of this study is thus to point out major weaknesses of our system and stimulate the domestic and international pressure on its change.

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