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“Estonia: The Increasing Costs and Weak Oversight of Party Finance,”

The evolution of Estonian party financing system shares similarities with processes in other East European countries. Campaign costs have been rising while parties rely increasingly on state subsidies. The Estonian legal system establishes few limits on financing, the most noteworthy of which is a ban on corporate donations. Overall, the main concern regarding party financing in Estonia is a lack of transparency. Although all parties have to submit declarations about campaign costs and donations, there is no effective system of scrutiny on the truthfulness of declarations. This chapter will address these issues and how finance influences party system development in Estonia.

Since re-gaining independence in 1992, Estonia has used a proportional representation (PR) electoral system for elections to the national parliament (*Riigikogu*) with a five percent national threshold. The system is comprised of two tiers: The lower-level constituencies (eleven or twelve depending on the time period) and a nationwide tier for distributing compensational seats. Until 2003, the compensational seats accounted between forty-five and sixty percent of all the seats, decreasing to twenty-six percent in 2007 due to slight changes in the electoral system.

Table 1 Estonia: Riigikogu Elections 1992-2007

	1992		1995		1997		2003		2007	
	V%	S%	V%	S%	V%	S%	V%	S%	V%	S%
Reform Party	-	-	16.2	18.8	15.9	17.8	17.7	18.8	27.8	30.8
Centre Party	12.2	14.9	14.2	15.8	23.4	27.7	25.4	27.7	26.1	28.7
Union of Pro Patria and Res Publica										
Publica	-	-	-	-	-	-	-	-	17.9	18.8
Moderates/Social Democrats	9.7	11.9	6.0	5.9	15.2	16.8	7	5.9	10.6	9.9
Country People's Party/People's Union ^a	-	-	- ^a	- ^a	7.3	6.9	13	12.9	7.1	5.9
Greens	-	-	-	-	-	-	-	-	7.1	5.9
Res Publica	-	-	-	-	-	-	24.6	27.7	-	-
Pro Patria	22.0	28.7	7.9	7.9	16.1	17.8	7.3	6.9	-	-
Coalition Party	13.6	16.8	32.2	40.6	7.6	6.9	-	-	-	-
United People's Party ^b	-	-	5.9	5.9	6.1	5.9	2.2	0	-	-
National Independence Party	8.8	9.9	-	-	-	-	-	-	-	-
Independent Royalists	7.1	7.9	0.8	0	-	-	-	-	-	-
Estonian Citizen/Better Estonia	6.9	7.9	3.6	0	-	-	-	-	-	-
Others	19.7	2.0	13.2	0	6.4	0	2.6	0	0.1	-
Total	100	100	100	100	100	100	100	100	100	100

^a – in 1995 in coalition with Coalition Party.

^b – in 1995 electoral coalition with 21 under name “Our Home is Estonia”.

The system of PR has brought with it a rather fragmented party system (see Table 1). However, the number of parties entering the parliament has decreased somewhat over the years. The effective number of parliamentary parties was 5.9 in 1992 and 4.4 in 2007,¹ and the frequency of splits and mergers has declined to some extent. The party systems in East European post-communist countries have usually been regarded as unstable and, if at all, showing only slight signs of stabilization and consolidation. The traditional measures of party system stability (*e.g.*, electoral volatility, partisan loyalty, programmatic clarity and persistence of party programs) generally also depict the

Estonian party system partially consolidated at best. However, in national elections the “menu” of viable parties changed surprisingly little from the first post-independence elections in 1992 to 2007. The vote shares of individual parties swung dramatically at times, but for the most part the votes simply to shift direction in next elections. Also, the programmatic stance of parties has changed to some extent, and yet the ranks of key politicians and parties remained to a large extent constant through the decade.

The general context of party competition in Estonia is similar the developed Western democracies: Electoral campaigns have been professional, dominated by mass media and focused on leaders, and also a system of public party financing has been well established. However, the parliamentary elections of 2003 brought with it the impressive rise of a genuinely new party Res Publica which seems to undermine the prior relative persistence of the party system. However, after the initial success and formation of government after 2003 parliamentary elections, scandals quickly undermined the party’s popularity. In 2005, Res Publica was struggling to maintain five percent popularity in public opinion polls. Finally, in 2006, it merged with Pro Patria to form the Pro Patria and Res Publica Union.

While the focus of electoral competition has mostly been the party at the constituency level (with open lists), the closed lists at the national level have also played a significant role. Much of the actual campaigning has usually been conducted nationally, even with regard to local elections. That has been strengthened by the fact that Estonia is a small country, with less than a million eligible voters, and the national media is much more important compared to local media. Campaigning in national television and newspapers has accounted for the bulk of the campaign expenditures by parties. While

parties have been the central actors, some candidates, especially the more wealthy ones, run independent campaigns. Increasingly, parties are concentrating their campaign on particular candidates, usually those topping the constituency lists. This is perhaps also because voters cannot give a “blank” party vote, but are required to vote for a particular candidate.

There is no special petition requirement for contesting elections. All parties officially registered in Estonia can run. However, the principal requirement for registration and remaining registered is the 1,000 membership minimum. Such a criterion is effectively stricter than would be a petition requirement of equal size as the members are more or less permanent while signatures are one-off only. From 1999, parties are not allowed to form electoral coalitions² and the lists are strictly party-based. However, they can include non-members and even members from other parties. Especially in 1999, shortly after the introduction of the ban on coalitions, there were some *de facto* electoral coalitions under the name of the major partner.

The cash deposits for contesting elections are set at the level of two minimum wages per candidate, whether they are individual candidates running in party lists. As of 2007 this amounts to \$611. The deposit is returned to all candidates if a party passes the national electoral threshold or to an independent candidate if he or she receives at least one half of a percent of the quota’s worth of votes in a constituency. Both the membership criteria and cash deposits are rather high considering the small size of the country and the fair level of economic development. For instance, if a party wishes to run a full list of candidates for parliamentary elections, the total cash deposit would be

\$61,791, that is more than three times per capita GDP. However, these figures are greatly overshadowed by campaign expenditures by parties as will be discussed in later sections.

Campaign Finance Model Description

The restrictions on campaign financing in Estonia stem from the Political Parties Act as there are no specific restrictions regarding campaign financing. The accepted sources of donations are quite limited: Only membership fees, proceeds from party property, donations from the state budget and contributions from private persons are allowed. Anonymous donations are banned, and corporate or organizational donations have been explicitly banned from 2004. At the same time, parties are allowed to borrow money from the banks. There are no limitations regarding the nationality of private persons financing parties. Also, parties have received support from European party organizations in connection with Estonia's accession to the Europe Union.

Estonia has an advanced system for public financing of parties. All parties winning at least five percent of votes on national elections receive funds from state budget in proportion to the number of seats won in the parliament. In 2004, financing for extra-parliamentary parties was introduced. At least one percent of votes in parliamentary elections on guarantees 150,000 EEK annually (\$12,775) and at least four percent 250,000 EEK annually (\$26,600) per party. The total amount of public funding for parliamentary parties is decided annually in state budget. The small support for extra-parliamentary parties is set in the Political Parties Act. In contrast to some other countries, the support for parties is a lump sum payment to the party headquarters. Thus, there are no provisions regarding the distribution of support to sub-national party units

and no special reimbursement of electoral campaign expenditures. Also, there is no indirect support for electoral campaign activities.³

In periods between elections, public funding has accounted for the bulk of parliamentary parties' income. During campaigns, party expenditures have been remarkably higher than donations from state budget and parties have relied substantially on private funding. Still, the actual difference is likely lessened by the fact that some of the money used in campaigning has probably accumulated during the preceding electoral term and the money borrowed from banks is later re-paid with the help of state subsidies.

Access to the media

Most of the airtime used by parties in the electronic media is predominantly television (during electoral campaigns it is in the form of paid ads on commercial channels). Private media ads are only limited by the amount of money parties are willing to pay for purchasing airtime. From July 2002, there are no ads, neither political nor non-political, in public television. The state run channel only broadcasts pre-election debates. There, the airtime has usually been distributed equally among the parties represented in the parliament or as was the case in 2003 with the rising new party Res Publica and in 2007 with the Greens, including particularly strong extra-parliamentary contenders. Smaller extra-parliamentary parties and individual candidates have received some coverage in these debates but significantly less than parliamentary parties. In some cases, they have been disregarded completely (*e.g.*, before the local elections in 2005). This has caused some discontent among the small parties relying on a support of less than one percent of the electorate.

Party expenditure

The definition of campaign expenditures covers a wide array of items: Advertising (*e.g.*, printing, ads on television, radio and in printed media), public relations expenditures, other printing, expenditures on transportation, rents, campaign events and mailing. Thus, there are no effective restrictions on what can and cannot be classified as electoral expenditures. This is logical given that there is neither any ceiling on electoral campaign expenditures nor any restrictions on particular types of expenditures. After the 2003 parliamentary elections, ideas on expenditure ceilings were put forward, but at the time of this writing, they are not actively debated. The proposed limits have been at a very high level, even exceeding the most costly parliamentary campaigns. The only real limitation in effect in Estonia has been the complete ban on outdoor advertising six weeks preceding elections that was introduced in 2005. While the rule came into force before the 2005 local elections, it has been challenged legally by the Chancellor of Justice and in practice by some of the parties (see below). Before the 2007 parliamentary elections, all the major parties ran rather extensive outdoor campaigns, but more than six weeks before the election day. During the final six weeks, the focus shifted from the streets to vigorous campaigns on television, newspapers and the direct posting of leaflets promoting candidates.

Individual candidates are facing the same restrictions on expenditures as do the parties. The only significant difference is in regards to the sources of campaign funds. In contrast to parties, individual candidates are not barred from receiving donations from companies or other organizations, as the restrictions stem from the Political Parties Act. Also, they can use their own money. At the same time, these provisions do not extend to candidates in party lists. While the latter can, and sometimes do, run their personal

campaigns in addition to and independently from party campaigns, they are faced with the same restrictions as parties.

In contrast to some other countries, Estonian legislation does not regulate the topic of independent actors being engaged in electoral campaigns. For the most part that has not been an issue. Until the parliamentary elections in 2003, there were almost no restrictions on either campaign income or expenditures. Before the 2005 local elections, corporate donations and outdoor ads were banned and while two parties ran outdoor campaigns just before the start of official campaign period, some serious accusations of hidden advertising during the official campaign were brought up.⁴ The 2007 parliamentary elections did not see such problems arising on a national scale.

Disclosure and reporting

All parties and individual candidates running in elections are required to present a report of revenues and expenditures at the latest one month after the elections (this requirement began in 1992). The reports were submitted to the National Electoral Commission (NEC) and made public over the Internet. Since 2004, the reports have been submitted to the parliamentary select committee on the application of the Anti-Corruption Act. Additionally, parties are required to present quarterly and annual reports (since 1999) covering their income and expenditures to a special party register at the central commercial registry. These are made public over the Internet (until 2004 at the register's web site and since then on party web sites). Names and identity codes of all donors are to be disclosed by parties which are required to keep a public registry of donations on their web pages. The candidates are not required to present any declarations concerning their economic interests. In Estonia, this is only required from the members of parliament,

president, ministers and a large number of higher officials by the Anti-Corruption Act. The reports on campaign financing have been submitted virtually without any problems, but other disclosure requirements have been largely overlooked by parties because of the lack of sanctions. Only since 2003 are parties failing to present declarations or violate the Political Parties Act in other ways facing a fine. Before that, only two smaller parliamentary parties publicized a declaration printed in the *Riigi Teataja* (the Official Journal of Estonia). The declarations for most parliamentary parties are only available since 2002 on their web sites.

Enforcement

Enforcement of campaign rules in Estonia is the responsibility of NEC. The seven members of NEC are appointed by different institutions: the chief justice (2), the chancellor of justice (1), the state auditor (1), the state prosecutor (1), the director of chancellery of Estonian parliament (1) and the state secretary (1). The NEC is not a permanent organization in itself and its members have full-time jobs elsewhere.⁵ Its work and daily management is assisted and organized by the elections department of the chancellery of the parliament. The NEC is funded directly by the state budget, based on its own proposal. Most of the budget is used for organizing elections, in particular, for staffing the county and local electoral commissions.

Both the Political Parties Act and *Riigikogu* Elections Act foresee a fine for violating the rules on the disclosure of donations and economic activity reports. It is differentiated according to who is responsible for the violation in question. The standard fine is \$1,600, but if a violation is committed by legal persons, it is increased to \$4,250. No parties have faced the fine until 2005, but the sanctions were neither in place for the

2003 parliamentary elections. While the declarations on campaign spending and donations have been submitted rather successfully, no governmental body audits the accuracy of total amounts, sources of income or the reported expenditures. By far, most parties have failed to submit their annual financial declarations to the *Riigi Teataja* while they have been more compliant with the requirement to publicize them on their web pages. However, locating the declarations on some party web pages is nearly or completely impossible as links to them are often very difficult or impossible to find.

The lack of transparency and absence of effective control over party financing together with unequal treatment of parties has been severely criticized by the Estonian chancellor of justice. In his report submitted to the parliament in 2006, the argument was made that the legislation regulating party financing violates the principles of democracy and equal treatment as stipulated in the constitution. Following the report, the constitutional committee of *Riigikogu* proposed a draft act significantly amending the principles outlined in this chapter. The proposal included setting a maximum limit on cash donations (approximately \$850 per month) and establishing a neutral and permanent body (members appointed by chancellor of justice, state prosecutor, state auditor and the chief justice) that would check and investigate financial matters of parties. However, the parliament failed to pass the law before the 2007 parliamentary elections and the draft sparked criticism from two largest parties at the time (*e.g.*, the Centre Party and the Reform Party). The chancellor of justice submitted a petition to the Supreme Court for declaring the present system of party financing to be in breach of the constitution, but the ruling has not been announced at the time of this writing.

Trends in party and campaign funding

The main developments in regards to party and campaign funding has been the increasing cost of campaigning and the rise of the *public financing* of parties. It was introduced in Estonian legislation since 1994 in the first Political Parties Act after the country re-gained independence. It has been in effect since 1996, and since the introduction, the total level of subsidies has increased more than tenfold (see Table 2). The sharpest increase came in 2004 when public financing of parties was increased threefold together with the introduction of new restrictions on private financing.

Table 2. Public subsidies to political parties, Estonia 1996-2004

	1996	1997	1998	1999	2000	2001	2002	2003	2004	2005	2006	2007
Million Euro	0.32	0.64	0.84	0.54	1.02	1.28	1.28	1.28	3.83	3.83	3.83	3.83
€ per registered voter*	0.40	0.81	1.07	0.63	1.19	1.49	1.49	1.49	4.46	4.46	4.46	4.27

Sources: Sven Mikser. 2001. 'Eesti kogemus erakondade rahastamisel,' *Riigikogu Toimetised* 4: 22-26, State Budget Law 2003–2007.

* – in 1995, 1999, 2003, 2007.

Until 2004, public party financing was exclusively targeted to parliamentary parties. Since then, tiny subsidies are also provided to parties receiving more than one percent of the vote in national elections (0.15 million EEK per year), and only slightly larger subsidies for parties with at least four percent of support (0.25 million EEK per year). These subsidies are not only minuscule, but also very disproportionate *vis-à-vis* subsidies to parliamentary parties regarding their vote shares. The two parties with the highest number of seats in the parliament (*e.g.*, the Centre Party and Res Publica) received about 130 EEK (slightly over \$10) for each vote in elections; the smallest of the

parliamentary parties (e.g., the Social Democrats) received 100 EEK (over \$8) per vote. The only two parties not represented in the parliament but eligible for public subsidies (e.g., the United People's Party and the Christian People's Party) received between \$1-3 per vote. Moreover, the support for extra-parliamentary parties is fixed in Political Parties Act and is not subject to annual changes in the state budget that sets the amount of total financing for parliamentary parties.

The *restrictions* on private donations to parties were modest until 2003. Until then, the law only banned donations from (state and local) governments, whether Estonian or foreign, and companies in their ownership. In 2003, an annual 10,000 EEK (\$850) limit to cash donations from private persons was introduced that superseded the ineffective ban on one time cash donations in excess of 1,000 EEK. Since 2004, the only legitimate sources of party income are limited to membership fees, public subsidies, donations from private persons and proceeds from party property. The annual limit of 10,000 EEK was abolished. In other words, donations from business companies or any other organizations have been banned altogether. This has led at times to the parliamentary parties becoming almost exclusively reliant on public subsidies according to their account statements.⁶ In 2004, the average share of public subsidies in parliamentary parties' income was eighty-two percent, a dramatic rise from forty-three percent during the second half of 2003.⁷

Reporting of campaign income and expenditures has been obligatory since 1995. Quarterly and annual reports on all financial activities were introduced in 1999. However, there is no effective control over the validity of these reports. Despite that, most parties have submitted the reports on electoral campaigns. There have been some allegations

concerning the authenticity of reports, mostly concerning the sources of income rather than the overall level of expenditures. In several cases reported by Estonian media, parties have been supported by shell companies. One of the most prominent cases was in 1999, when the Reform Party reported receiving forty-two percent of its campaign resources from an obscure company R-Hooldus that was established by some of its leaders and had almost no turnover,⁸ but the cases are not limited to that. At times, members of parties in the parliament have donated sums likely in excess of their financial capacity. The most notable case was the Estonian Country People's Party in 1999 when nine of their national top candidates donated 100,000 EEK each, approximately twenty times the average monthly wage at that time. In some cases, doubts have been cast over the genuine sources of private donations. Besides the abovementioned example, some of the Centre Party's candidates donated 999 EEK in cash in several subsequent days during the local election campaign in 2002 (at the time it was forbidden to receive donations in cash exceeding 1,000 EEK).

While the Estonian media has brought up accusations regarding party financing from time to time, the inaccuracy of donations registries is very difficult to verify. Also, as most major parties have seen some adverse coverage of their financial practices, the accusations have not significantly damaged their relative popularity. The incentives of cheating about the overall costs of campaigns are in any case low as there have been no ceilings on expenditures. The fact that some of the electoral campaigns have been highly expensive has been evident. Electoral campaign costs in Estonia increased substantially from 1995 to 2007, on the average more than doubling after each electoral term (see Table 3). The figures for the 2003 elections can be considered lower than normal because

they took place just few months after local elections (which was also a rather costly campaign). The total self-reported spending has increased more than tenfold from 1995 to 2007 for parliamentary elections.

Table 3 Self-reported Expenditures on Electoral Campaign, Estonia

Party	1995	1999	2003	2007
Centre Party	0.07	0.48	1.39	2.65
Res Publica	-	-	1.24	1.27**
Reform Party	0.16	0.31	1.16	2.08
Country People's Party / People's Union	-	0.18	0.46	0.86
Coalition Party	0.10	0.23	-	-
Pro Patria Union	0.09	0.28	0.29	-**
The Moderates/Social Democrats	0.06	0.22	0.2	0.51
The Right Wingers	0.09	-	-	-
Our Home is Estonia / United People's Party/Constitution Party	0.04	0.06	0.07	0.04
Estonian Christian Democrats	-	-	-	0.17
Greens	-	-	-	0.16
Total*	0.69	1.84	4.86	7.74
Per registered voter (Euro)	0.88	2.15	5.65	8.63

Sources: expenditures 1995–2003: Estonian National Electoral Commission (<http://www.vvk.ee/>), 2007 expenditures: *Kokkuvõte 2007. aasta Riigikogu valimistel osalenud erakondade ja üksikkandidaatide valimiskampaania rahastamise aruannetest* (http://www.riigikogu.ee/public/Riigikogu/Korruptsioon/kokkuv_te_RKval2007.pdf), exchange rate from Bank of Estonia (www.eestipank.info/frontpage/et/, all accessed 17.06.2007)

* – including parties and individual candidates not listed here.

** – Pro Patria and Res Publica Union

A problem is posed for the calculation of the *share of public financing* in the total party income by the fact that reporting on routine income has until recently been inadequate and the share of public subsidies in campaign finance reports is very low.

Some parliamentary parties have not listed the state budget as a source of income at all. Thus, the post-election financial reports do not reflect the extent of public donations very well. Therefore, the rise in public subsidies and the increase in reported campaign spending have had markedly higher growth rates than national GDP which increased only 2.3 times between 1996 and 2006.⁹ During the first electoral cycle after the introduction of public subsidies, campaign expenditures grew at approximately the same rate as public subsidies to political parties. Even though the campaign expenditures in 1999 were higher compared to “year zero” than public donations, parts of campaign activities already started in 1998 when public donations were exceptionally high (elections always take place in early March). By 2003, the growth in campaign expenditures had clearly surpassed the increase in public subsidies. This is partly the consequence of emergence of a new, big spending party, Res Publica, that was at the same time excluded from receiving subsidies from the state budget. The trend seemed to reverse itself after the 2003, as the public funding of parties surged. However after the 2007 parliamentary elections, it was clear that the campaign expenditures had kept pace even though they had been comparatively high already earlier.¹⁰

More information on the breakdown of parties’ sources of income is available since 2002 when routine reporting became more regular. The year 2004 saw a slight increase in overall party income compared to early periods without national elections. The increase is basically due to the sharp increase in public subsidies for parties. Donations from other sources actually declined for most of the parliamentary parties compared to 2002. For some quarters in 2004, several parties reported less than \$1,500 of income from sources other than the state budget. It is notable that in the 4th quarter of

2003, subsidies for parties increased sharply from the 2nd and 3rd quarter. This was likely because of the inflow of corporate donations that became outlawed from the beginning of 2004. The increase in total as well as non-public income in 2005 and 2006 can be explained by local and approaching national elections, but income from other than public sources remained less than twice 2002.

Development of Parties and the Party System

Given the high level of public funding almost exclusively targeted to parliamentary parties, the existence of a level playing field for parliamentary and extra-parliamentary (including potential new) parties can be to some extent called into question. However as the Greens proved in 2007, even a very modest campaign can still be an option for small, new parties occupying a niche on the political spectrum. Apart from that, the discrepancies among major parties are also rather large and were to some extent visible in the campaign before the 2005 local elections. As corporate donations by far outweighed support from individuals in campaign incomes until 2003, the ban on all donations from legal persons introduced since 2004 has contributed to difficulties in fundraising for extra-parliamentary parties. The effectiveness of that legal provision in restricting political corruption can be questioned as illegal transfers of money do not necessarily take place from companies and party bank accounts. Instead, they can flow from owners to powerful party leaders. The provision that possibly balances the playing field between parties is the possibility to borrow money from banks. Thus, a party on ascendance may meet their expenses if it can convince a bank that it will gain access to budget funds after a successful election. This was a strategy partly used by Res Publica in 2003 while the party relied heavily on corporate donations, a notable share of campaign

expenditures was covered by loans. In 2007, borrowing was used for the Centre Party and Social Democrats.¹¹

The 1,000 membership requirement has certainly contributed to more organized parties. The stability of the party system has been enhanced by other regulations as well. First, the party financing regime is rather restrictive, currently even more so than before 2003 elections. Secondly, it is not possible to form electoral coalitions, or form a splinter faction in the parliament or change factions. Thus, the costs of changing allegiances are rather high for politicians. Notably if a completely new party was to form within the parliament, it would be barred from forming a faction and excluded from receiving subsidies from the state. When seven members left the Centre Party fraction in 2004, the share of the party in public financing remained based on its number of seats after 2003 elections. While these factors have not prevented changes completely, the likelihood of new party formation has been reduced.

While the equality of opportunity among parties may have declined with regard to the financing of campaigns, the playing field regarding media has likely become more level. There is some evidence, although somewhat impressionistic, that the public media has grown more independent during the last decade. While in mid-1990's journalists often were concerned about being politically "incorrect," this is increasingly less the case. Estonia has not seen attempts of controlling the state-financed media on the scale of the Czech scandal over the appointment of television director-general in 2001. Although there have always been some concerns over the appointment of successive heads of public television, none of them has actually been too strongly linked to any of the parties.

There are some recent cases of appointments of politicians to high non-political offices, but once selected, they have attempted to keep a low and non-partisan profile.¹²

The private media has presented more controversies as some of the major media outlets (primarily newspapers and radio) have been linked to certain parties. In February 2005, all parties represented in the parliament save for one, wrote an open letter to the Norwegian owner of Estonia's biggest non-tabloid daily, *Postimees*, accusing the editors of being biased in favour of the Reform Party. The Party has also had evident links to a major private radio group (*Trio*), the present minister of justice being a business partner and the present director general of public broadcasting (former minister of culture) once was a director of the group. In general, however, Estonian media landscape remains basically free and quite heterogeneous. At the same time there are no good guarantees that the future appointees to public media heads remain politically neutral.

While connections between political and economic elites have likely not been on par with some of the neighbouring states, there have been cases of argued malign connections. Some of the most prominent examples include the financial support of companies successfully participating in the privatization of Estonian Railways to all the parties represented in the governing coalition at the time. Also, the generous support of Oliver Kruuda (the managing director of chocolate producer *Kalev*) to the Centre Party has been linked to the deal placing the police headquarters to the former headquarters of the company. Res Publica, the new party that emerged in 2003, was supported strongly by Olari Taal and Tõnis Palts, wealthy Estonian businessmen. They were, however, also prominent politicians. Also, Res Publica initially tried to follow a principle that no one sponsor can contribute in excess of ten percent of the total party income,¹³ attempting to

limit potential negative impact of sponsors on the party and underlining its image as a transparent and honest party.

A common occurrence in parliamentary elections has been the support of some rich companies by all major parties. Examples of this include Urmas Sõõrumaa (the managing director of security company *Falck* and the former owner of its Estonian branch), some construction, oil transit and shipping businessmen and companies. Even though the relationship between parties and their sponsors has sometimes raised doubts about corrupt practices and the sources of party income have not always been clear, the links have not been very explicit or oligarchic. The latter implies that despite problems in party financing, none of the parties could reasonably be considered to be “pocket parties” (a term sometimes used for instance in Latvia) of single leading businessmen or groups.

It should be noted, however, that party financing has not been a subject of meticulous public scrutiny in Estonia. There are no NGO’s or governmental bodies actively engaged in analyzing party financing. For example in Estonia, there is no institution similar to the Latvian Anti-Corruption Bureau that analyzes even the basic accuracy of financial declarations. Neither has any significant independent analysis been conducted on campaign expenditures or party financing practices in general that has been extensively done in Latvia, assisted by the Soros Foundation. It is difficult to say whether less scrutiny has been a cause or effect of relatively less problematic party financing scene. The level of corruption in Estonia may be lower than in some of the neighbouring countries, or in contrast, the perception of problems in party financing could be less because relatively little public attention has been devoted to this issue. Political finance has been brought up in media reports around elections and more recently by the

chancellor of justice, but there have not been full-scale scandals. As controversies still keep arising, the practices of political financing should gain more attention both from NGO's and academic community. On the other hand, a public body analyzing the accuracy of party financing declarations and evaluating financing practices more in general is probably needed. Otherwise the declarations required from the parties would remain bordering on fiction.

The abovementioned ban on corporate donations could make things even less transparent than before. Corrupt money is at least as likely to flow to single powerful leaders as to party coffers. In the absence of effective check on donors' registers, party members can quite easily function as third persons to channel potential support from corporate bodies into campaigns. Why has the spending seemingly been declared more sincerely? Probably because advertising is visible by definition, and as the media itself is the main institution engaged in analyzing political finance, the gross misreporting of campaign costs would be simply more obvious.¹⁴

Controversial change has been introduced regarding the recipient body of financial declarations of electoral campaigns. Until 2004, the declarations were submitted to the NEC. Since then, they are submitted to the Parliamentary Select Committee on the Application of Anti-Corruption Act. While the submission of declarations of economic interests by higher civil servants to a parliamentary committee is reasonable, the committee as the recipient of electoral campaign declarations is a more contentious issue. In national elections, that effectively means that parties end up being on both sides of the reporting process. On the other hand, the NEC was never effective when inspecting the accuracy of financial reports.

Conclusions

During the fifteen years since independence, Estonian party financing has developed into a high-spending system with considerable state subsidies and few restrictions except for the ban on corporate donations. Scandals related to party financing have been modest compared to most Central and East European countries, but the overall system has neither been transparent nor thoroughly fair. While the parties have been rather law-abiding in submitting declarations required by the legislation, no effective scrutiny of their truthfulness has ever taken place. It is also doubtful whether a parliamentary select committee is an appropriate body for the adequate oversight of party financing. The sharp increase in overall campaign costs raises doubts regarding the evenness of electoral playing field. Even though both in 2003 and 2007 new parties managed to be elected to the parliament, the advertising by a few of the largest parties has easily overshadowed the rest. Underneath the relatively still surface, party financing also seems murky. At the time of this writing, it remains to be seen whether any irregularities will surface into full-blown scandals and whether the attention devoted by the chancellor of justice to problems of party financing will lead to more awareness in the media and creation of caps on campaign spending or better scrutiny of parties' declarations.

Notes:

¹ The number of parliamentary parties appears to be lowest in 1995 (see Table 1). However, the electoral coalition of the Coalition Party and Rural People's Union formed three factions in the parliament right after the elections.

² This only applies to national elections. Electoral coalitions are still possible in local elections despite attempts by the parliament to ban them as well that have been blocked by the Supreme Court on two occasions.

³ The parties enjoying the benefits of political office are in all likelihood using some state resources or at least transfer some of their routine tasks to offices paid by the state (*e.g.*, those of parliamentary factions).

⁴ The People's Union (*Eestimaa Rahvaliid*) displayed large posters quite obviously linked to the Party, but without any direct references to the political party by words. It did not deny the fact that it had paid for the

ads while denied it being a part of the electoral campaign. A more prominent and hotly debated campaign of a new diary product was run by a subsidiary of the Estonian chocolate manufacturer “Kalev”. The ads exhibited a small picture of the product and catchwords that were very similar to the official Centre Party symbols and slogan during its official campaign. Both the company and the party denied the link, but the campaign was made more controversial because of parallel accusations that the Centre Party leader had bought a house from the general manager of the company for much less than its market price, and the new Estonian Police headquarters had been purchased from the company when the Center Party held the office of Minister of Interior. Estonian Consumer Protection Board started a legal proceeding but the case was closed without lodging charges.

⁵ In fact, they are required to be working as judges or official in the bodies under the abovementioned officials. The chairman of NEC at the time of writing was Heiki Sibul, the Director of the Chancellery of Riigikogu.

⁶ “Suuremat lisaraha korjas annetajatelt vaid Reformierakond.” 2004. *Äripäev* 13 April.

⁷ Parliamentary elections took place in March 2003. Therefore, the two first quarters are excluded for the sake of comparability. The figures are from Ülle Madise, and Allan Sikk. N.d. “Die Institution der politischen Partei in Estland,” In *Parteienrecht im europäischen Vergleich*, ed. Martin Morlok. Baden-Baden: Nomos.

⁸ Jaanus Piirsalu “Reformierakonda suurrahastas tundmatu firma.” 1999. *Eesti Päevaleht*. 14 April.

⁹ Eurostat, epp.eurostat.ec.europa.eu (accessed 18 June 2007).

¹⁰ It is difficult to compare party expenditures cross-nationally, as both population size and level of economic development need to be taken into account, but it is difficult to assign them well-reasoned weights. However, when comparing the level of spending in Estonia to Western democracies based on the approach used by Hiltrud and Karl-Heinz Nassmacher, the state appears among the top spenders both based on 2003 and 2007 elections. See, Karl-Keinz Nassmacher. 2001. “Major Impacts of Political Finance Regimes.” In *Foundations for Democracy: Approaches to Comparative Political Finance*, ed. Karl-Heinz Nassmacher. Baden-Baden: Nomos Verlagsgesellschaft, pp. 181-196; Allan Sikk. *Highways to Power: New Party Success in Three Young Democracies*. Dissertationes Rerum Politicarum Universitatis Tartuensis, 1. Tartu: Tartu University Press, p. 100.

¹¹ Holger Roonemaa. 2007. “Odavaimalt riigikokku pääsenud roheliste koht maksis 0,42 miljonit,” *Eesti Päevaleht*. 7 April. The practice of borrowing from ambiguous sources, as a potential way of circumventing the ban on corporate donations, was among the issues criticized by the chancellor of justice in his report to the parliament in 2006.

¹² In 2004, the former minister of justice was appointed the new chief justice, and former minister of culture was appointed the director general of *Eesti Raadio* (Estonian public radio broadcasting), and in 2007 the merged *Rahvusringhääling* (National Broadcasting) both former members of the Reform Party.

¹³ Rein Taagepera. 2004. “Meteoritic Rise: Res Publica In Estonia, 2001-2004.” Paper prepared at the ECPR Joint Sessions of Workshops, 13-18 April, Uppsala, p. 9.

¹⁴ However, that has mostly been the playing ground of *SL Õhtuleht* (a tabloid) and *Äripäev* (a business oriented newspaper), see Kadri Paas. 2002. “Tegelikke valimiskulusid on väga raske hinnata.” *SL Õhtuleht*, 21 November and Kadri Paas. 2002. “Varjatud rahastamine.” *Äripäev* 01 January,