



Party Law in Modern Europe

The Legal Regulation of Political Parties in Post-War Europe

The Impact of European Democracy Promotion on Party Financing in the East European Neighborhood

Natalia Timuş

Maastricht University

n.timus@maastrichtuniversity.nl

The Legal Regulation of Political Parties

Working Paper 6

August 2010



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This working paper series is supported by the Economic and Social Research Council (ESRC research grant RES-061-25-0080) and the European Research Council (ERC starting grant 205660).

To cite this paper: Timuş, Natalia (2010). 'The Impact of European Democracy Promotion on Party Financing in the East European Neighborhood', Working Paper Series on the Legal Regulation of Political Parties, No. 6.

To link to this paper: <http://www.partylaw.leidenuniv.nl/uploads/wp0610.pdf>

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ISSN: 2211-1034

The Impact of European Democracy Promotion on Party Financing in the East European Neighborhood

NATALIA TIMUŞ¹

Abstract

The paper investigates how the cooperation of European institutions (EU, CoE, and OSCE) in democracy promotion affects the success of European conditionality on party financing in East European neighboring countries. It examines the two major European level factors, the determinacy of requirements and the rewards, based on the case study of Ukraine, Moldova, and Georgia and a cross-case comparative analysis before and during Action Plans' period. The paper shows that there exists a European level influence on party financing changes in line with the European standards set by the Venice Commission. Also, the cooperation of European institutions in democracy promotion contributes to the success of the common European leverage in the field of party financing. Although EU lacks a specific party financing conditionality in Action Plans, the reference to the standards set by CoE and OSCE indirectly increases the determinacy of its requirements and offers domestic elites a clearer picture of its demands. At the same time, EU's merit in the joint European influence on party financing is its increased leverage on aspiring European members, even in the case of a low credibility of EU membership.

Keywords: party financing, Europeanization, democratization, post-communism, EU-East-Central Europe, Council of Europe, Venice Commission

Introduction

The process of European integration is seen as having a significant role in the democratization of post-communist countries. As Lewis stated, the influence of European integration “has been pervasive and so strong that it is virtually impossible to disentangle it from the fundamental processes of democratization” within the post-communist space. (Lewis 2005, 177) The European liberal-democratic model has been regarded as a successful way of overcoming the communist past and consolidating a democratic state within the newly emerging countries of Central and Eastern Europe (CEE). Thus, democratization and Europeanization went hand in hand. The political systems and the political actors from the region have developed within the process of European integration since the early 1990s. This explains the openness of the newly emerging democracies to transform according to European standards. (Bielasiak 2006; Enyedi 2007; Henderson 2005; Lewis 2005; Schimmelfennig and Sedelmeier 2005)

The existing literature on EU democracy promotion highlights several major European level conditions that determine the success of EU political conditionality. Scholars have stressed that a clear formulation of requirements increases their degree of determinacy and it is of significant importance for determining the effectiveness of their implementation and for avoiding a potential political distortion. (Schimmelfennig and Schwellnus 2006; Tocci 2008) Yet, most of empirical studies have revealed that EU democratic policies are broadly defined, lacking a significant degree of determinacy and some specific pathways according to which the political system of a country should transform itself. (Grabbe 2005; Schimmelfennig, Engert, and Knobel 2006; Schimmelfennig and Schwellnus 2006) This represents one of the major weaknesses of EU political conditionality both within candidate states as well as EU outsiders. Nevertheless, most of the studies agree that EU democracy promotion has been effective during the accession process of CEE states thanks to the high degree of credibility and the size of incentives, particularly the EU membership perspective. (Jacoby 2006; Schimmelfennig, Engert, and Knobel 2005; Schimmelfennig and Sedelmeier 2006; Vachudová 2005; Youngs 2002)

The instrumental role of EU accession incentives has been demonstrated to be decisive in overcoming domestic factors responsible for the acceptance of or the resistance to EU influence, such as the number of veto players, institutional patterns, the type of government, or cultural and historical legacies. (Börzel and Risse 2003; Brusis 2002; Schimmelfennig 2005; Vachudová 2005) Two recent studies on European neighbors suggest that even in the absence of EU accession conditionality the Union can be able to influence, yet relatively weakly, domestic democratic changes in the case of a low credibility of EU membership perspective. (Schimmelfennig and Scholtz 2008; Freyburg et al. 2009)

A striking observation can be made when trying to explain the success of EU conditionality on party financing within the framework of the European Neighborhood Policy (ENP) and its legal instruments: Action Plans (APs). The determinacy of EU requirements on party financing is very low as the European Union does not make direct references to party financing. Brussels only vaguely asks the neighboring states to comply with the European democratic standards set by the Council of Europe (CoE) and the Organization for Security and Cooperation in Europe (OSCE) and to fight corruption in accordance to the recommendations of the Group of States against Corruption (GRECO). Concomitantly, the nature and the

credibility of rewards are low as there is no EU membership stipulation in Action Plans. Following scholarly expectations the empirical findings should reveal the lack or a very low degree of party financing legislative changes in line with the European requirements. However, a first look at the three examined countries shows a significant amount of change in party financing regulations during the APs implementation as compared to the previous time-period.

The present paper aims at tackling this empirical puzzle by addressing some of the major limitations of the existing literature on EU democracy promotion and Europeanization studies. The understanding of the causal link between European and domestic level factors, on the one hand, and between EU impact and other European institutions (such as CoE or OSCE), or globalization, on the other hand, represents an important shortcoming of both groups of studies. Moreover, the large part of the existing literature is primarily based on the case study of accession countries, where EU political conditionality is argued to be strong due to the existence of a credible EU membership perspective. The conclusion is that EU democracy promotion and its political conditionality has outweighed the influence of other European institutions involved in the process of regional European integration. (Schimmelfennig 2007) Yet, this type of research design and case selection marginalizes the potential importance of other external factors. In the case when Brussels conditionality lacks its strongest ‘carrot’ – credible EU membership, such as in the East European Neighborhood (EEN), it is important to examine Union’s role as compared to other European democracy promoters: the Council of Europe and the OSCE.

This work addresses the potential sources of bias and uncertainty with regard to EU democratic conditionality by examining the European level factors responsible for the success of European democratic conditionality. Firstly, the study goes beyond the ‘usual suspects’ of EU democracy promotion literature: EU candidates, and focuses on EU outsiders, particularly the EEN. The three examined countries – Ukraine, Moldova, and Georgia – seem to be the only EU outsiders from the European continent that can be regarded as control cases for the presence and the strength of European influence on domestic transformations. (Haverland 2006) Moreover, the work brings insights from a region where the influence of European integration process is becoming an interesting subject of EU democracy promotion research after the last eastward enlargements. In this way, the paper overcomes the

case selection limitation to EU accession countries, where EU political conditionality is argued to be strong due to the existence of a credible EU membership perspective.

Secondly, the paper explores the ‘broader Europeanization,’ moving beyond the common EU-ization perception of this process in the most of the existing literature. It examines the cooperation of the European institutions in democracy promotion by analyzing the relationship between EU democratic conditionality and democracy promotion of the Council of Europe (CoE) and OSCE/ODIHR within the framework of the Venice Commission (VC) – the major European institution responsible for the definition and the promotion of European democratic standards.

Thirdly, the article focuses on the study of political parties, the key domestic actors responsible for the adoption and implementation of democratic reforms within the newly emerging post-Soviet states. It combines EU democracy promotion research and the Europeanization literature by examining a largely ignored field of Europeanization of party politics – party legislation, with the focus on party financing. Despite the fact that most of studies on the Europeanization of party politics agree with Mair’s statement about the limited EU impact on party politics (Mair 2000) or even argue about a non-EU impact on parties in Central and Eastern Europe,² the lack of investigation of the field of party legislation still leaves open the question of how Europe matters for party politics.

The paper addresses the question of *how the cooperation of European institutions (EU, CoE, and OSCE) in democracy promotion affects the success of common European leverage on party financing in East European neighboring countries*. By cooperation between European institutions in democracy promotion the paper refers to the direct and indirect joint actions of EU, CoE, and OSCE aimed at coordinating their democracy promotion strategies and the reference to the European democratic standards, specifically those set by the Venice Commission.

In contrast to scholarly expectations of a non- or low EU impact on party financing the present study shows that the cooperation between the major European institutions increases the degree of determinacy of EU requirements and the success of their common democratic conditionality on party financing. Yet, compared to CoE and OSCE, the EU still holds an advantage in triggering domestic changes in its neighborhood thanks to its increased leverage in the aspiring members from Eastern Europe.

Although the present study focuses only on East European Neighborhood within the time-period of Action Plans, this theoretical framework can be expanded to the study of EU members and candidates, as well as other EU outsiders from the post-Soviet space.

The paper is structured as follows. It starts with a brief presentation of the limitations of Europeanization literature on party politics and sets the theoretical and the methodological framework. It then discusses EU political conditionality towards East European neighbors within the framework of country Action Plans and presents its limitations. The next sections examines the European standards on party financing the major European institutions responsible for setting and promoting them, as well as the mechanisms for Europeanization of party financing. Afterward, the work assesses the role of determinacy of European level requirements and rewards in the Europeanization of party financing. The article turns then to the case studies of the domestic evolution of party financing legislation, tracing the influence of VC's recommendations on party financing changes before and after the signing of Action Plans. In the end the work provides a comparative assessment of legislative changes during APs in line with the Venice Commission and EU requirements. The conclusion summarizes the major findings and highlights some future research agendas on the subject.

Theoretical and methodological framework

There is a striking difference between Europeanization studies of party politics and those on other fields of domestic policies and politics. While most of Europeanization literature focuses on the analysis of domestic legislative adjustment to EU requirements this aspect is almost unexplored in the field of party politics. The two exceptions are Walecki's analysis (2007) of Europeanization of party financial regulations and the paper of Molenaar (2010) which examines the influence of European level legislation on national parties and their role in modern democracies. Yet, the study of party legislation can reveal important insights about how the EU and other European institutions define the role of political parties in contemporary democracies and to what extent one can trace specific European democratic standards regarding political parties.

One of the major obstacles in analyzing the Europeanization of party legislation is the difficulty of discerning the specific EU level legislation on political

parties. But we should remember that Europeanization is not only EU-ization. Following Graziano and Vink's definition, Europeanization is understood in this paper as the process of domestic adaptation to European regional integration process. (2006, 8) Although the Union is the major actor in the process of European integration, Europeanization refers to various European level institutions, such as the CoE and OSCE. In this context, in order to examine the 'broader Europeanization process' it is of significant importance to investigate the cooperation between the major European institutions in defining and implementing their legal instruments that affect national political parties. The specific definition of the Europeanization of party financing legislation applied in this study is borrowed from Walecki, who defined it as the standardization of domestic party regulations with the European democratic standards. (2007, 2)

Following the research question the work is based on the major European level variables that determine the success of democratic conditionality: the clarity of requirements and the credibility and size of rewards. A first glance at EU conditionality within AP framework reveals that party financing stipulations are missing. Yet, the examined Action Plans contain a provision that requires from domestic political actors to comply with the European democratic standards set and promoted by CoE and OSCE/ODIHR. So, in a more indirect way, the Union recognizes CoE and OSCE/ODIHR as watchdogs of the European democratic principles. Instead of creating some determinate provisions on party politics the EU coordinates its democratic conditionality with the two other European democracy promoters. Following scholarly arguments on the importance of the determinacy of requirements the first hypothesis of this paper is:

The coordination of democracy promotion strategies between the European institutions increase the determinacy of European requirements and the success of the common European leverage on party financing.

By common European leverage the paper refers to the joint efforts of the three European institutions – EU, CoE, and OSCE/ODIHR – in promoting European democratic norms and practices in the East European Neighborhood.

In order for this hypothesis to hold true the research should reveal the existence of some clear and determinate party financing requirements set by CoE and OSCE/ODIHR. This would allow the domestic political parties to trace easily the

demands that come from the European institutions and the required legislative changes in order to comply with them.

The second important variable that has been found to have a crucial influence on the success of democratic conditionality is the existence of rewards that would motivate the domestic actors to pursue changes in line with the European standards. The credibility and, most importantly, the size of rewards, such as the granting of full EU membership, has been proven to be a crucial factor in explaining the success of EU democratic conditionality both within EU members, candidates and neighbors. (Schimmelfennig and Scholtz 2008) In the case of the examined East European countries, although a clear membership perspective is missing from the APs' stipulations there still exists a low degree of credibility of EU membership, as compared to other EU neighbors from Mediterranean region or Middle East. Moreover, neither the Council of Europe nor the OSCE are able to reward their member states with the same type of carrot as Brussels: full EU membership. In these circumstances, the existence of a low degree of credibility of EU membership is expected to be sufficient to encourage domestic legislative changes on party financing, even if of a more voluntarily nature. Consequently, AP reference to European standards set by CoE and OSCE/ODIHR allows these institutions to benefit from EU's power of influencing domestic transformations in the aspiring East European member states. Thus, the following hypothesis is expected to be proven:

The coordination of democracy promotion strategies between the European institutions increases the success of the common European leverage on party financing thanks to EU's influence on aspiring members even in the case of a low credibility of EU membership.

The case selection is limited to Ukraine, Moldova, and Georgia. They are similar regarding the legal framework – Action Plans, and EU political conditionality. In all cases APs' party provisions are vaguely defined and the big carrot of EU conditionality – membership perspective – is missing. Also, compared to other European neighboring states, these are countries that have strongly declared their pro-European aspirations arguing about their 'European identity' and at the moment they have the highest potential of obtaining an EU association or a membership perspective. Therefore, they represent control cases for testing the nature and the degree of EU leverage on domestic transformations in the case when there is no EU

accession conditionality and credible EU membership but there is an increased salience of pro-European domestic discourse.

Although the analysis presents the evolution of party financing legislation since the early 1990s, the major focus is on the implementation period of EU country Action Plans (APs) – the official legal frameworks between the Union and its Eastern neighbors. For the purpose of cross-country comparison, although in Georgia AP's implementation period is five years and not three years as in Ukraine and Moldova, the research is limited at the examination of a three year period of time since the signing of Action Plans in each of the countries.

The research focuses on the specific aspect of party financing legislation, because it is considered to have achieved a special attention of European institutions in setting the requirements for domestic transformations, in general (e.g. fight against corruption), and for the Europeanization of political parties, in particular. (Walecki 2007; Smilov and Toplak 2007; Szarek 2006) Together with electoral principles that stipulated the importance of political parties' pluralism and competition, as well as political representation, party financing has been one of the first issues related to party politics regulated from the European level.

Karvonen's global study of party legislation reveals that party financing is one of the most regulated aspects of party organizational provisions in the newly emerging democracies, including East European states. (Karvonen 2007, 447) Based on this the present study limits its analysis to party financing and regards it as a major aspect of democratic transformations of party legislation in line with the European norms and practices.

Two major dimensions of party financing are examined hereby: 1. the existence of public funding for political parties, and 2. transparency and accountability of party financing. As it will be explained later, they represent two key European principles of party financing, set in "VC Guidelines of Financing of Political Parties" from 2001 and later in the "Code of Good Practices on Political Parties" from 2008.

The analysis focuses on party and campaign financing provisions from country laws on political parties and electoral laws. Electoral legislation is the one that offers the most complex information on party activity and represents the primary source on party financing regulations in the case when a separate law on political parties or party financing does not exist. The research is based on content and discourse analysis

of European and domestic party legislation, and domestic political discourses. The methodological framework combines the case study and process tracing of the evolution of party financing legislation and of European requirements together with the cross-case study analysis of European level influence on party financing changes during APs period. This type of approach allows for a better and a more careful step-by-step understanding of the relationship between the European level factors and the domestic party financing transformations.

EU political conditionality within the framework of Action Plans

The Action Plans are bilateral political documents agreed by both the EU and its neighbors that lay down the strategic goals of the cooperation between the two parties. APs offer a privileged relationship, based on “a mutual commitment to common values,” such as democracy and human rights, rule of law, good governance, market economy principles and sustainable development. (European Commission 2010) Although the documents do not include a promise of EU membership, “the level of ambition” of the relationship between the EU and its neighbors can increase, depending on the extent to which the European democratic values are shared, (ibid.) not excluding also the possibility of a full European integration. Thus, there is still a low credibility of EU membership perspective and the incentive to comply to EU’s conditionality with a potential European integration in the future.

Similar to the case of Association Agreements, the Action Plans are based largely on the compliance with *acquis communautaire*. However, the depth of the promulgation of EU’s accession conditionality and of the legislative harmonization is lower in the latter case. This explains AP’s focus on the broader political objectives, aimed at strengthening the stability and the effectiveness of institutions guaranteeing democracy and the rule of law as the first priority. The three examined APs contain common requirements regarding the general provisions on party politics within the sections on *Political dialogue and reform*. They refer to free and fair elections, strengthening of democratic institutions, including political parties, ensuring political pluralism, respect of minority rights, non discrimination, or freedom of speech and media. Regarding the anti-corruption measures, the text refers to the need of joining GRECO and implementing its recommendations (Ukraine) and ensuring progress in following GRECO’s recommendations on the fight against corruption (Moldova and Georgia).³

During the accession of CEE candidates the European Union moved beyond the general political accession criteria and developed a specific conditionality regarding party financing as early as 1999. (Walecki 2007, 11) In the case of the European neighbors, however, the EU did not indicate specific provisions on party financing within APs. Therefore, the general provisions on political parties mentioned above are the major AP clauses that relate also to party financing. Yet, the EU states the need of implementing these general provisions according to the CoE and OSCE/ODIHR⁴ stipulations. Consequently, one can interpret it as EU's recognition of the CoE and OSCE as the 'watchdogs' of European democratic norms and values and as the experts in the standardization of domestic party regulations with the European democratic standards. This, in its turn, is considered to be a mode of coordination of democratic strategies of the three major European level institutions.

One can also draw a comparison in this respect to the case of some other aspects of EU democratic conditionality, such as minority rights or asylum policy, when the Union makes reference to the norms and standards set by the Council of Europe. (e.g. Vink 2009)

The analysis of the two variables – the determinacy of requirements and rewards – in the case of the Action Plans reveals the following findings. Firstly, there is a low degree of determinacy of EU requirements on party financing because specific stipulations on this subject are missing and only general provisions on party politics are present in AP texts. Moreover, one of the general limitations of the Action Plans is the absence of a clear description of the implementation steps. Also, these legal frameworks lack some sanctions in the case of non-compliance to AP requirements.

Regarding the nature and the credibility of rewards, the texts of the Action Plans do not include any reference to the strongest potential reward: EU membership perspective. Despite the high expectations after the wave of electoral revolutions and democratic reforms the EU did not let itself rhetorically entrapped, as in the case of Central and Eastern Europe. (Schimmelfennig 2001) Brussels abstained from an official promise of a membership perspective to its East European neighbors, limiting itself only to a promise of a more enhanced cooperation agreement with countries that will successfully implement the APs.

After clarifying EU political conditionality within the framework of the Action Plans the next step is to examine how the cooperation between European level

institutions determines the strength of the common European impact on legislative changes in party financing.

European standards on party financing

The first step is to trace and identify the European standards on party financing set by the Council of Europe and OSCE/ODIHR. The earlier analysis revealed the low level of determinacy of AP stipulations on party financing and the low rewards (low credibility of EU membership). This part will examine to what extent the cooperation between European institutions in democracy promotion increases the level of the two independent variables. It is not the purpose of this study to measure the degree of cooperation between the three European institutions, (EU, CoE, and OSCE) which is troublesome in the absence of operational indicators of European level cooperation. Instead, the paper is interested in investigating how EU conditionality benefits from and contributes to democracy promotion strategies of CoE and OSCE.

There can be identified two major European level actors responsible for setting and promoting the European standards on party financing. The Group of States against Corruption (GRECO) is one of the major CoE institutions in promoting and enforcing national anti-corruption policies, including party financing. The existing two studies on the Europeanization of party financial regulations focus on the role of GRECO in setting common European standards regarding party financing and political corruption. (Walecki 2007; Molenaar 2010)

However, no study at the moment examines extensively the role of the European Commission for Democracy through Law, known as Venice Commission,⁵ in establishing and promoting European standards on party financing. Although the recent work of Molenaar (2010) undertook a first step in explaining the role of the Venice Commission in setting the normative and regulatory elements on political parties it does not examine the way in which VC influences domestic transformations of CoE members in a similar manner to the provided analysis on GRECO impact because of the lack of empirical data.

The similarity between GRECO and VC is that both institutions can adopt only 'soft' instruments on party financing, by contrast to the Committee of Ministers - the only CoE body adopting 'hard' instruments (e.g. agreements and conventions). Yet, the role of Venice Commission in establishing and promoting European norms and practices on political parties, including party financing, is paramount. First, this

results from its primary aim of upholding and promoting the three underlying principles of Europe's constitutional heritage: democracy, human rights and the rule of law. The instruments that it uses are expert recommendations, studies, and codes on good practices. They regard the promotion and the implementation of common European democratic standards primarily within member and observer states of Council of Europe but also worldwide.⁶

Second, the importance of the Venice Commission is also determined by the cooperative framework that it offers for the three major European level institutions involved in democracy promotion. The Council of Europe, OSCE/ODIHR, and the European Commission cooperate within the framework of VC's plenary sessions. The EC and OSCE/ODIHR are members of the Venice Commission and participate in the voting process during the adoption of the VC's studies, reports, or draft opinions on domestic legislation of its members (?) and observer states (e.g. Joint Opinions). The usual practice is that whenever a new piece of legislation or an amendment is adopted within VC's member and observer states the Venice Commission issues its comments, reports, or joint opinions in which it stresses the ills of the legislation but also prescribes and proscribes party financing provisions in line with European democratic norms and practices.

This paper does not aim at isolating the role of the Venice Commission from that of other Council of Europe's institutions, such as GRECO, the Parliamentary Assembly (PACE), or the Committee of Ministers. However, the focus is limited on the analysis of VC's documents and follows the way in which they trigger party financing legislative changes within the East European Neighborhood.

This study traces the major European democratic standards and identifies several important documents that set VC's standards on party financing. The Venice Commission has adopted the "Guidelines and Report on the Financing of Political Parties" in 2001 and the "Opinion on the Prohibition of Financial Contributions to Political Parties from Foreign Sources" in 2006. Also, in December 2008 the Venice Commission adopted the "Code of Good Practice in the Field of Political Parties," which represents the major European level document that set the basic principles of party activity, such as equality, dialogue, co-operation, transparency and fight against corruption. (Venice Commission 2009) Because this latest document was adopted quite recently it did not manage to have a significant influence on party legislative changes within the examined countries. Therefore, this article will focus on the first

two VC documents. The 2001 “Guidelines and Report on the Financing of Political Parties” states the essential role of political parties in a democratic state and based on a report on cross-national analysis of party financing it advances three major sets of issues: public party financing, private party financing, and electoral campaign financing. The document also discusses the mechanisms of controlling party funding and sanctioning the violation of financial legislative provisions. It stipulates that “public financing must be aimed at each party represented in Parliament” and that in order to ensure the equality of opportunities it could be extended also for extra-parliamentary parties that represent a significant electoral segment. One of VC requirements is the existence of objective criteria for the distribution of public funding (Venice Commission 2001, §5) Regarding private funding, the Guidelines and Report state the prohibition of donations from foreign states or enterprises but the possibility of private donations from nationals living abroad. (Venice Commission 2001, §6) The 2006 VC Opinion concludes that foreign donations can be allowed, for example, only if they do not inhibit effective democratic development, undermine the fairness or integrity of political competition, pursue aims not compatible with the Constitution and the laws of the country, or are part of international obligations of the State. (Venice Commission 2006, §33) The VC standards on electoral campaign financing require a fixed limit and distribution formula (proportional to the number of electoral votes) for different political parties. (Venice Commission 2001, §8-9) Finally, the Venice Commission requires a transparency of all types of party financing and the existence of control mechanisms and sanctions in case of any irregularities of party financing.

Mechanisms of Europeanization of party regulations in East European Neighborhood before and during the Action Plans’ period

The major mechanisms of European influence on party legislation before the signing of APs were Venice Commission’s opinions, joint opinions (reviews conducted and adopted together with OSCE/ODIHR), as well as VC and OSCE recommendations. Their task is to advise CoE members and observers on legislative matters in line with the European democratic standards, particularly electoral and party legislation. The basic procedure is the drawing of reports based on European experts’ assessments and of opinions on draft legislation of CoE’s member states. The initiative of commenting and adopting a recommendation or an opinion on domestic legislation can come both

from domestic political actors as well as from VC members. These reports are then presented during the plenary sessions of the Venice Commission, in which both the European Commission and OSCE/ODIHR participate and thus have a say in their final adoption. The member or observer countries to which these documents address have to introduce the required legislative changes in line with European experts' recommendations. The three examined countries are members of the Council of Europe and they have to comply with its democratic requirements and to follow its recommendations with regard to party financing.

Although these tools of the Venice Commission have a high potential of inducing democratic transformations within post-Soviet neighborhood their major weakness is the lack of viable sanctions in case if European requirements are not followed. They merely represent soft instruments of European influence and they are based primarily on persuasion and voluntary commitment of domestic elites to implement European democratic standards. The absence of any type of material incentives or rewards that could be offered by the Venice Commission, or, more generally, the Council of Europe, decreases significantly their power to stimulate the implementation of European democratic standards. Moreover, the extensively detailed European provisions and the lack of issue ordering according to their importance give domestic political elites a degree of freedom of choosing from the long list and implementing the requirements that in most of the cases benefit their own political success.

The launching of the European Neighborhood Policy (ENP) and of APs gave birth to a new European level mechanism to influence political changes within East European neighbors. The ENP progress reports issued by the European Union in December 2006 and April 2008 provide a framework for EU's assessment of domestic transformations in line with the European democratic standards. However, they offer a general overview of the implementation of AP requirements and they are not helpful in investigating specific party related changes. In these circumstances, the VC recommendations and opinions still represent the major instruments for assessing the European level influence on party legislative changes after the signing of APs.

The role of determinacy of requirements and rewards in the Europeanization of party financing

The analysis of the coordination of European democracy promotion strategies reveals several important findings regarding the role of the determinacy of requirements and of the rewards for the Europeanization of party financing. Firstly, although APs have a low degree of determinacy of requirements on party financing, the European Union still influences domestic changes in this field by stressing the need of complying with the European democratic standards set and promoted by the Council of Europe and OSCE/ODIHR. After tracing the major actors and documents in defining and promoting the European standards on party financing, this study suggests that the determinacy of EU's requirements increases indirectly thanks to the existence of specific VC principles on party financing. The European standards established largely in VC "Guidelines and Report" (2001) and further developed in the "Code of Political Parties" (2008) can be characterized as well-defined and clearly stated. Thus, the EU strengthens its leverage on European neighbors through the coordination of its democratic conditionality with the Council of Europe and OSCE/ODIHR. However, as is the case of democratic conditionality, in general, these standards still leave significant room for domestic discretion in their implementation. European neighbors have a certain degree of freedom in making context-specific adjustments in many aspects, such as the amounts of donations, the fixed limit on public financing distribution formula, the inclusion/exclusion of extra-parliamentary parties for public funding, etc.

One of the limitations of European democracy promotion strategies is also the lack of some clearly defined steps for the implementation of European standards and recommendations on party financing. The main mechanisms for promoting the European standards in the East European Neighborhood – VC opinions and recommendations, as well as ENP Progress Reports – are of a soft nature, lacking some feasible sanctions.

Despite the mentioned above limitation, the analysis partly confirms the first hypothesis and reveals that despite the lack of some clear AP party financing stipulations the European coordination of democracy promotion strategies increases the determinacy of European requirements. The next step is to examine to what extent these advantages and limitations of the determinacy of requirements influence the success of the joint European leverage on domestic changes in party financing.

Secondly, with regard to the European level rewards for the successful implementation of party financing requirements, the findings show that EU adds strength to the democratic policies of CoE (VC) and OSCE even in the presence of a low credibility of EU membership perspective. Even without a clear promise of EU membership within APs, domestic elites from the European neighborhood still aspire for a future European integration, which is officially not ruled out, but depends on the extent of internal reforms in line with the European democratic standards. As OSCE and CoE institutions lack any type of carrots for successful domestic changes in line with their requirements, the EU still maintains an increased leverage in influencing the Europeanization of party financing legislation in the aspiring candidate countries. This is one of the reasons of the increased level of party financing changes in the period of APs.

After examining the background context and the main European factors responsible for the success of European democracy promotion strategies in the field of party financing this study turns to the empirical analysis of the European influence on legislative changes before and during the Action Plans.

Party financing legislation and European requirements before the signing of the Action Plans

Before proceeding to the direct analysis of European impact on party legislative changes the paper will give a short background on the existing domestic laws on party financing and the European recommendations that still have not been addressed by domestic political elites at the time when APs were signed.

Since the declaration of independence each of the three East European neighbors has adopted several major laws that contain provisions on party financing. In Georgia two major legal documents contained party financing provisions: the “Organic Law of Georgia on Political Unions of Citizens” (1997, as amended in December 2005) and the “Election Code of Georgia” (2001, as amended in the summer of 2006). The latest amendments to these laws came after the Rose revolution and were aimed at addressing VC European experts’ recommendation. However they were still criticized by the Venice Commission on failing to implement some important party financing provisions. On the one side, there has been progress in the legislative harmonization in line with the European standards on party financing, such as the introduction of a proportional public funding of parties with more than four

Table 1. Party financing legislation before and during the Action Plans (APs)

Country	Action Plan period	Existing party financing legislation before APs	Party financing legislation changes	
			New Laws	Amended Laws
Georgia	February 2006 – February 2012	- <u>Organic Law on Political Unions of Citizens</u> (1997, as amended in 2005) - <u>Election Code</u> (2001, as amended in 2006)	-	- <u>Election Code Amendments</u> (as amended through November 2007) - <u>Election Code Amendments</u> (March and July 2008)
Moldova	February 2005 – February 2008	- <u>Electoral Code</u> (1997, as amended in 2003) - <u>Law on Parties and other Socio-political Organisations</u> (1991)	- <u>Law on Political Parties</u> (December 2007)	- <u>Electoral Code Amendments</u> (July and November 2005) - <u>Electoral Code Amendment</u> (March 2007) - <u>Electoral Code Amendment</u> (April 2008)
Ukraine	February 2005 – February 2008	- <u>Law of Ukraine “On Associations”</u> (1992, amended in 2001) - <u>Law on Election of People’s Deputies of Ukraine</u> (1998, 2001, as amended in 2002) - <u>Law on the Election of the President of Ukraine</u> (1999) - <u>Law of Ukraine “On Political Parties in Ukraine”</u> (2001)	-	- <u>Law on the Election of People’s Deputies</u> (October 2005)

Source: National electoral and party laws 1990-2006 from Georgia, Moldova, and Ukraine.

percent of parliamentary votes (Art.30 of Law on Political Unions) and the higher degree of transparency in party and electoral campaign financing. Yet, some further improvement was needed in order to comply with VC standards. The 2006 Joint Opinion stressed the need of a full disclosure of sources of campaign finance before and after elections, the establishment of a state body audit of electoral campaign and the review of disproportionate and problematic sanctions on campaign funding violations. (Joint Opinion 2006, §28-29)

In the Moldovan case several laws provided party financing stipulations before 2005. “The Law on Parties and other Socio-political Organisations” (adopted in 1991) that ‘survived’ numerous revision projects until 2007, and the “Electoral Code of the Republic of Moldova” (as amended in 2003).

Table 2. Party financing European requirements and major legislative changes before and during the Action Plans

Country		Provisions before APs	Requirements before APs	Major legislative changes	Requirements after 3 years
Georgia	<u>Public funding</u>	- parties >4% of parliamentary elections	-	2008: - fixed regressive distribution	- violation of stability of law
	<u>Transparency and accountability</u>	- sanctions for violation of campaign finance provisions - prohibition of foreign election funding - private audit company of election funding	- disclosure of sources of campaign finance - state body audit of electoral campaign - disproportionate and problematic sanctions	2008: - greater transparency of party funding - limit on financial and material donations	- reconsider the use of official positions and administrative resources for campaigning - disclosure of campaign funds before, during, after elections - violation of stability of law
Moldova	<u>Public funding</u>	- state loans without interest rates for electoral competitors	- public funding at minimum among all parliamentary parties	2006: - 0.05% annual state budget 2008: - 0.2% annual state budget from 2009	
	<u>Transparency and accountability</u>	- prohibition of anonymous and foreign election funding - no interdiction of funding from third persons - non-independent monitoring of party financing	- control and sanctions of party and campaign financing - possibility of donations from nationals from abroad	2006 and 2008: - comprehensive party financing regulations - interdiction of foreign funding	- revision of interdiction of foreign party financing - revision of control and sanctions of party and campaign financing
Ukraine	<u>Public funding</u>	- lack of direct public funding	- public funding at minimum among all parliamentary parties	2005: - electoral funding for parties >3% votes in parliamentary elections	-
	<u>Transparency and accountability</u>	- preventive (more severe) party financing regulation - limits on donations and disbursements from the election fund	- repressive instead of preventive financial regulations - comprehensive party financing laws in line with VC Guidelines 2001	2005: - very detailed rules on campaign financing - prohibition of anonymous and foreign citizens' donations	- full disclosure campaign contributions and expenditures - fighting political corruption - lack of clear regulatory mechanisms

Source: National electoral and party laws and VC recommendations and opinions from Georgia, Moldova, and Ukraine 1990-2008, ENP progress reports 2006 and 2008

The first legislation included general and vague provisions on party financing, which was one of the major reasons why it resisted changes, as political leaders benefited from this vagueness of the legislative framework. (Lipcean 2009, 20) The Electoral Code from 1997, as modified in 2003, brought some more specific party financing provisions, such as the prohibition of foreign funding for electoral campaigns (Art.36) or state loans without interest rates for electoral competitors (Art.37), as well as more transparency in campaign financing (e.g. prohibition of anonymous donations (Art.38)). The Moldovan Parliament attempted to modify the 1991 Law on Parties in 2000 when the draft law adopted in the first reading received the overall positive evaluation of the Venice Commission (2002). However, it was withdrawn from the Parliamentary agenda because of the emerging political conflict between the governing and opposition parties and later the approaching of 2005 parliamentary elections. (Grosu 2007)

Finally, since the declaration of independence in the early 1990s Ukraine had the highest number of legislation that contained provisions on party financing. The latest amended “Law on Election of People’s Deputies of Ukraine” (2002) and the Law of Ukraine “On Political Parties in Ukraine” (2001) made progress regarding party financing regulations and transparency. They stipulated some specific measures on public disclosure of party finances (e.g. the information on the size and the sources of contributions), prohibition of foreign and anonymous donations, and strict sanctions for encroachment of financing limits (Law on Political Parties 2001, Art. 15). This progress was welcomed by the Venice Commission experts, yet the Ukrainian legislation still lacked any direct public subsidies for political parties. Moreover, the existing indirect public subsidies (e.g. free broadcasting) were evaluated by experts as not contributing significantly to electoral campaign financing. (Ikstens, Smilov, and Walecki 2001, 50) Commenting on the Law on Political Parties 2001, VC members suggested that the existing hard sanctions on financial limitations to be doubled with a proportional public funding. (Venice Commission 2002) Finally, during the VC fact-finding mission in June 2002, the Ukrainian political leaders acknowledged themselves that further progress should be made regarding the adoption of a more detailed legislation on party financing in line with the 2001 VC “Guidelines and Report on Financing of Political Parties”. (Venice Commission 2002, §28)

Summing up, a comparative analysis of the EEN compliance to European requirements on party financing reveals that only Georgia had a public financing provision, as well as a more developed party financing legislation. However, all the three countries still needed to establish a more comprehensive party financing legislation in line with the European standards set by VC Guidelines and report from 2001. Ukraine appears to lag behind its neighbors regarding the compliance to European requirements on party financing, particularly due to the embedded political corruption that impeded the compliance with the principles of transparency and accountability.

European influence on party financing changes during Action Plans

The Rose and Orange revolutions from Georgia and Ukraine showed a clear and a strong expression of pro-European aspiration of the newly elected ruling parties. UNM in Georgia and, respectively, NU, BYuT, and SPU in Ukraine have based their political discourse on a clear pro-European orientation and anti-Russian attitudes. They expressed their willingness to implement European standards in order to achieve successful democratic reforms and to prepare for a potential EU accession.⁷ One of the steps that have been undertaken by the post-revolutionary forces was the initiation and the adoption of a number of legislative changes aimed at addressing the previous VC recommendations and the compliance with the 2001 VC Guidelines and Report on party financing. European experts perceived them as a significant step in complying with VC guidelines on party financing, although the adopted legislation still contained several important limitations.

In Ukraine, the revised “Law on the Election of People’s Deputies” (July 2005) included very detailed rules on campaign financing. One of its major contributions was the introduction of the electoral public funding for parties with more than three percent of votes in parliamentary elections, in line with earlier VC recommendations and the 2001 VC Guidelines and Report on party financing. Yet, some further limitations of party financial provisions remained unresolved, such as the absence of the limit on campaign fund, the lack of clear regulatory mechanisms, and a very expensive electoral process. Also, more transparency was required by providing full disclosure of sources and amounts of financial contributions before and after elections. (Venice Commission and OSCE/ODIHR 2006, §46-51) Moreover, the Constitutional amendments from 2004 introduced a proportional representation (PR)

formula. As national and international experts have stressed, together with closed party lists PR allows influential businessmen to buy a place in a party list as a result of bribery or generous financial contributions to party electoral campaigns. (Spector et al. 2006, 53) In its 2006 ENP Progress Report on Ukraine's implementation of Action Plan the EC mentioned that "endemic corruption" was the major obstacle in the way of Ukraine's development. Despite progress in revising the legislative framework according to OSCE recommendations following 2004 elections Ukrainian leadership was advised to overcome the shortcomings of legal stipulations regarding campaign financing. (European Commission 2006, 2-4)

The last ENP progress report from April 2008 welcomed the conduct of 2006 and 2007 parliamentary elections in line with the democratic standards. Nevertheless, the report was also stressing the failure of Ukrainian political elite to address key European recommendations advanced by the Venice Commission and OSCE/ODIHR, as well as GRECO, particularly the need of an effective implementation of legal initiatives aimed at fighting political corruption. (European Commission 2008, 3-4)

In Georgia, the legislative change regarding party financing came into effect March 2008 within the Amendments to the Election Code of Georgia. As a result of the long negotiations between UNM and the opposition parties in 2006-2007, within the Council of Europe's negotiations framework, the adopted Strasbourg memorandum (February 27, 2007) included considerable remarks suggested by the opposition parties. (CIPDD 2007) These provisions were included in the Election Code of Georgia with the amendments from June and November 2007. They envisaged the interdiction of cash donations, an easy identification of donor's information, a clear limit on donations and the prohibition of anonymous donations. (Art. 47), as well as some specific party financing regulations aimed at increasing the degree of transparency (Art.48). The March 2008 amendments to the Election Code did not introduce important changes regarding party financing, only some technical clarifications.

Although Moldova did not experience a revolution similar to Georgia or Ukraine, it was also caught in the wave of democratic transformations from the region and a new era of democratic reforms in line with the European standards, including the field of party financing. On the eve of the 2005 parliamentary elections, PCRM shifted to a pro-European profile. It managed to obtain the parliamentary majority and agreed to sign together with the parliamentary opposition forces the Political Partnership Agreement in April 2005. One of the main provisions of this document is the

declaration of European integration as the primary objective and the readiness of parliamentary parties to work together for the sake of implementing domestic reforms in line with the European standards. Following these developments the new parliament declared one of its priorities in the year 2006 the adoption of a law on party and campaign financing. (Parlamentul Republicii Moldova, 2005) The Ministry of Justice drafted a new law that aimed at controlling party financing, including limits on financing and sanctions in case of violation of party financing legislation. Yet, although the government approved the law and sent it to the parliament for the adoption the parliament gave up on this legislative project without making public its reasons. (Grosu 2007)

Party financing came back on the parliamentary agenda in December 2006, when Moldovan legislature adopted in a first reading a new Law on Political Parties. One of the novelties of this law was its stipulations regarding party funding, which was presented as tackling European experts' recommendations on party and campaign financing. After acknowledging that the legislative document represented an important step forward to the establishment of a "modern system of party financing," the European expert H.Vogel argued that it had also serious shortcomings, particularly regarding the interdiction of foreign party financing, the need to introduce an interdiction on third party donations, and an independent monitoring of campaign financing, etc. Venice Commission criticized first of all the lack of public debate, transparency, and scientific investigation during the adoption of the new Law on Parties. (Venice Commission 2007)

Before the 2009 elections PCRM adopted the new Law on Parties, partly revising it according to previous VC comments, this time after consulting the opposition and civil society. However, PCRM still introduced some last minute changes that were favoring the governing party and were disfavoring the opposition. On the one hand, PCRM stressed its will to follow the recommendations of the European institutions and to "introduce advanced European standards in Moldova" through the new Law on Political Parties. On the other hand, the governing party made a special clause regarding the start of public subsidies only after the upcoming parliamentary elections, which was detrimental for the opposition parties. (Volnitchi 2008) The final 2008 progress report on the implementation of EU-Moldova Action Plan stressed the need of a further revision of the Electoral Code to "take full account of the recommendations of the Council of Europe and OSCE/ODIHR in order to ensure effective democracy." With

regard to the 2007 Law on Parties the Commission only mentions that it addresses some recommendations of the OSCE/ODIHR and the Council of Europe. (European Commission 2008, 3)

Comparative assessment of European influence on party financing in East European neighborhood

The empirical analysis of domestic transformations in the field of party financing points to the existence of a direct European level influence on party legislation. Although European institutions, particularly the Venice Commission, had been requiring EEN states to comply with European standards on party financing also before the signing of APs, it is during the implementation period of Action Plans that the amount and the extent of domestic legislative changes on party financing has grown considerably. Based on the analysis of the two European level variables: the determinacy of requirements and the rewards, this study argues that the increased European level influence on party financing during the APs is the result of the cooperation between the major European institutions.

East European domestic political elites were more inclined to listen to EU's request within APs to follow CoE and OSCE democratic standards than to previous 'soft recommendations' of the latter European institutions. Domestic elites engaged in an anticipatory process of adjustment to European standards in order to show their commitment to these standards as well as hoping to obtain further EU membership perspective. The increased determinacy of EU requirements on party financing as the result of the reference to CoE and OSCE democratic standards allowed domestic elites to trace the specific European standards on party financing set and promoted by the Venice Commission. In its turn, this contributed to the increase of the common European leverage on party financing changes during the APs period.

Overall, based on the analysis of legislative changes during the APs' period, as compared to the preceding years, there can be traced a success in the joint European influence on party financing. As table 1 illustrates, new or amended legislative acts were adopted in all the cases in order to comply with party financing standards according to European experts' recommendations. Also, table 2 demonstrates the qualitative dimension of legislative changes during the APs. The last column of this table shows that there are still various European requirements that were not addressed by domestic political elites. However, the adopted and implemented legislative

changes are of significant importance as compared to the period prior to the signing of the Action Plans. In fact, before the APs only Georgia had a public funding provision. But at the end of the AP period both Moldova and Ukraine adopted party financing legislation that was introducing annual state funding for political parties. The existence of party financing provisions represents an important achievement for promoting political pluralism and strengthening political party organizations in the newly emerging East European states, as well as for democratic consolidation in general. Also, all the three examined countries managed to adopt more comprehensive party financing regulations in order to ensure transparency and accountability in party funding, to fight political corruption and to contribute, therefore, to the consolidation of political institutions and democratic principles.

Conclusion

This paper identifies and investigates the empirical puzzle of the EU influence on party financing changes during the period of the Action Plans in the East European Neighborhood. It argues that it is the merit of the coordination of democracy promotion strategies between the European Union, the Council of Europe, and OSCE, in strengthening the common European leverage on party financing in Ukraine, Moldova, and Georgia during the implementation of the APs.

The work contributes to the existing literature on EU democracy promotion and Europeanization studies by examining how the cooperation of European institutions affects the success of European conditionality on party financing in East European countries. Based on two major European level factors, the determinacy of requirements and the rewards, this analysis shows that the cooperation between the European institutions contributes to the success of the common European influence on party financing. Although the European Union lacks a specific party financing conditionality in the Action Plans, the reference to the standards set by the Council of Europe and OSCE indirectly increases the determinacy of its requirements in this field and offers domestic political elites a clearer picture of its demands. At the same time, EU's merit in the joint European influence on party financing is its increased leverage on aspiring European members. In this respect, this article confirms the recent studies on EU democracy promotion in European neighborhood (Schimmelfennig and Scholtz 2008; Freyburg et al. 2009) where, even in the case of a low credibility of EU membership perspective Brussels can still influence democratic domestic changes.

Hence, the paper argues that the existing legislative changes during APs period in line with VC party financing standards are partly explained by EU's leverage on its European neighbors. They are more inclined to listen to Brussels than to the other two European institutions because of a potential EU accession perspective.

Thus, the work shows the importance of the analysis of the 'broader Europeanization process,' as this provides new insights regarding the nature and the strength of European level influence on domestic transformations.

The focus of this paper is on the two major European level factors identified by scholars as being responsible for the success of the European conditionality. Further research has to be conducted on explaining the nature and the extent of the cooperation between the European institutions in democracy promotion. Moreover, in order to understand the whole process of 'Europeanization,' in this case understood as the domestic adaptation of East European states to regional European integration, further research has to be done in examining the domestic level factors that determine the final outcome of the European impact on party financing changes. The preliminary findings show that Ukraine, Georgia and Moldova pursued different degrees of legislative changes in the period of the Action Plans. As the European level requirements have been the same regarding the adoption of the VC party financing standards, this difference is expected to be the result of domestic factors. Especially in the case of EU post-Soviet outsiders, where the direct European impact is weak and domestic elites engage in a more voluntary adaptation to European standards, the domestic variables play a crucial role in defining the success and the final outcome of European democratic conditionality.

Notes

¹ Correspondence Address: NATALIA TIMUŞ, Department of Political Science, Faculty of Arts and Social Sciences, Maastricht University, P.O. Box 616, 6200 MD, Maastricht, the Netherlands. Email: n.timus@maastrichtuniversity.nl

² Special issue on “Does EU Membership Matter? Party Politics in Central and Eastern Europe,” *Journal of Communist Studies and Transition Politics*, 25 (4).

³ EU-Ukraine Action Plan, Art. 2.1.1, 2.1.3, 2.1.7 (pp.5-7); EU-Moldova Action Plan, Art. 2.1.1, 2.1.3, 2.1.4, and 2.1.10 (pp.5-6 and 9); and EU-Georgia Action Plan, Art. 4.1.1 (pp.13-14).

⁴ OSCE/ODIHR is particularly mentioned in the case of the democratic conduct of elections.

⁵ Council of Europe's advisory body on constitutional matters.

⁶ Council of Europe has 47 member states: Albania, Andorra, Armenia, Austria, Azerbaijan, Belgium, Bosnia and Herzegovina, Bulgaria, Croatia, Cyprus, Czech Republic, Denmark, Estonia, Finland, France, Georgia, Germany, Greece, Hungary, Iceland, Ireland, Italy, Latvia, Liechtenstein, Lithuania, Luxembourg, “The former Yugoslav Republic of Macedonia”, Malta, Moldova, Monaco, Montenegro, Netherlands, Norway, Poland, Portugal, Romania, Russian Federation, San Marino, Serbia, Slovakia, Slovenia, Spain, Sweden, Switzerland, Turkey, Ukraine, United Kingdom. Belarus is associate member, while Argentina, Canada, the Holy See, Japan, Kazakhstan, the United States and Uruguay are observers. South Africa and Palestinian National Authority have a special co-operation status similar to that of the observers.

⁷ This idea was shared during party leaders interviews by David Bakradze, chairman of UNM, Georgia, Natalia Prokopovich, Our Ukraine (NU); and Sergiy Taran, “Pora.” The electoral slogan of the Socialist Party of Ukraine in 2006 was also following this idea: “Bringing Europe in our home country.”

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