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

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Abstract: This paper investigates how the cooperation of European institutions (the EU, the Council of Europe, and the OSCE) in democracy promotion affects the success of European conditionality on party financing in the East European Neighbourhood. It examines the two major European-level factors, the determinacy of requirements and the rewards, based on the Ukrainian, Moldovan and Georgian case studies 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 the EU lacks a specific party financing conditionality in Action Plans, the reference to the standards set by the Council of Europe and the OSCE increases indirectly the determinacy of its requirements and offers domestic elites a clearer picture of its demands. At the same time, the EU's merit in the joint European influence on party financing lies in its increased leverage on aspiring European members, even in the case of low credibility of EU membership.

Keywords: political parties, Europeanisation, post-Communism, EU-East-Central Europe, democratisation, Council of Europe, political science

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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) (Timuş 2008).

The importance of European leverage in the process of democratization is particularly observable when one compares the post-communist developments of CEE with the former Soviet republics from the East European Neighbourhood (EEN). After the collapse of the Soviet Union both regions were facing similar problems, such as weakly developed parties and party systems or a high degree of electoral volatility. However, CEE candidates have been better able to handle these problems and to resemble more the West European parties and party systems (Bielasiak 2005; Olson 1998; Kopecký 1995; Helms 2008) and the type of democratic system (Roberts 2006). Since the early 1990s, democratization and Europeanisation went hand in hand in CEE. The higher degree of openness to the process of Europeanisation is partly the result of more favorable domestic conditions in CEE than in the former Soviet republics, particularly regarding the legacies of the Communist past or the previous democratic experience (Kitschelt 1996; Kitschelt et al. 1999; Birch 2003). However, the democratic transition path and the type of the emerging democracies were also significantly shaped by the accession process to the European Union (EU). The ‘carrots’ and ‘sticks’ of EU conditionality contributed to overcoming the legacies of the past and worked as

a catalyst of democratic reforms in CEE candidates (Lewis 2006, 2005; Vachudová 2005, 2008).

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 Schweltnus 2006; Tocci 2008). Yet, most empirical studies have revealed that EU democratic policies are broadly defined, lacking a significant degree of determinacy and specific pathways according to which the political system of a country should transform itself (Grabbe 2005; Schimmelfennig, Engert, and Knobel 2006; Schimmelfennig and Schweltnus 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 proven to be decisive in overcoming domestic factors responsible for the acceptance of or 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 neighbours suggest that even in the absence of EU accession conditionality, the Union is able to influence, though relatively weakly, domestic democratic changes in the case of a low credibility of the 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 Neighbourhood Policy (ENP) and its legal instruments: Action Plans (APs). The determinacy of EU requirements on party financing is very low as the Union does not make direct references to party financing. Brussels only vaguely asks the neighbouring 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 its Office for Democratic Institutions and Human Rights (ODIHR). The EU also asks its neighbours 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 APs. Following scholarly expectations the empirical findings should reveal the lack or a very low degree of party financing legislative changes in line with European requirements. However, a

first look at the three examined countries shows a significant amount of change in party financing regulations during 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 Europeanisation 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 the CoE or the OSCE), or globalization, on the other hand, reveals an important shortcoming of both groups of studies. Moreover, a 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 EEN, it is important to examine the EU's role as compared to other European democracy promoters: the CoE and 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 most recent 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 Europeanisation,' moving beyond the common EU-ization perception of this process in 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 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 Europeanisation literature by examining a largely ignored field of Europeanisation of party

politics: party legislation, with the focus on party financing. Despite the fact that most of the studies on the Europeanisation 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 CEE,¹ 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 (the EU, CoE, and OSCE) in democracy promotion affects the success of common European leverage on party financing in the EEN*. 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 VC. The common European leverage is understood as the joint power of the three major European institutions in triggering domestic-level changes in line with European democratic norms and practices in the EEN.

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. Nevertheless, compared to the CoE and the OSCE, the EU still holds an advantage in triggering domestic changes in its neighbourhood thanks to its increased leverage in the aspiring members from Eastern Europe.

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

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

1. Theoretical and methodological framework

There is a striking difference between Europeanisation studies on party politics and those on other fields of domestic policies and politics. While most Europeanisation 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 Europeanisation 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.

Even though discerning the specific EU-level legislation on political parties can be difficult, this analysis contends that Europeanisation is not only EU-ization. Following Graziano and Vink's definition, Europeanisation 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, Europeanisation refers to various European-level institutions, such as the CoE and OSCE. In this context, in order to examine the 'broader Europeanisation 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 Europeanisation of party financing legislation applied in this study is borrowed from Walecki, who defined it as the standardization of domestic party regulations with 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's framework reveals that party financing stipulations are missing. Yet, the examined APs contain a provision that requires from the domestic political actors to comply with the European democratic standards set and promoted by the 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 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.

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 easily trace 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 neighbours (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 neighbours from the Mediterranean region or the Middle East. Moreover, neither the CoE 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's 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 European institutions increases the success of the common European leverage on party financing thanks to the EU's influence on aspiring East European 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 of APs and EU political conditionality; in all three cases APs' party provisions are vaguely defined, and the big carrot of EU conditionality – membership perspective – is missing. Also, compared to other European neighbouring states, these are countries that have strongly declared their pro-European aspirations, have argued their 'European identity' and at the moment have the highest potential of obtaining an EU association or a membership perspective., They therefore represent control cases for testing the nature and degree of EU leverage on domestic transformations in the case where 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 APs – the official legal frameworks between the Union and its Eastern neighbours. For the purpose of cross-country comparison, the research is limited to an examination of a three-year period following the

signing of APs in each of the countries, although Georgia's AP implementation period is five years as opposed to the three years allocated for Ukraine and Moldova.

The research focuses on the specific aspect of party financing legislation, because it is considered to have achieved the special attention of European institutions in setting the requirements for domestic transformations, in general (e.g. combating corruption), and for the Europeanisation of political parties, in particular (Walecki 2007; Smilov and Toplak 2007; Szarek 2006). Together with electoral principles that stipulate 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 at 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, which it regards as a major aspect of democratic transformations of party legislation in line with 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 and Report on the Financing of Political Parties" (2001) and later in the "Code of Good Practices on Political Parties" (2008).

This analysis focuses on party and campaign financing provisions from country laws on political parties and electoral laws. Electoral legislation is the aspect that offers the most complex information on party activity and represents the primary source on party financing regulations in the case where 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 as well as 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 a better and more careful step-by-step understanding of the relationship between the European-level factors and the domestic party financing transformations.

2. EU political conditionality within the framework of APs

The Action Plans are bilateral political documents agreed by both the EU and its neighbours 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 2005). Although the documents do not include a promise of EU membership, “the level of ambition” of the relationship between the EU and its neighbours can increase, depending on the extent to which the European democratic values are shared (*idem*), not excluding the possibility of a full European integration. Thus, there is still a low credibility of EU membership perspective and the incentive to comply with the EU’s conditionality with potential European integration in the future.

Similar to the case of Association Agreements, the APs are based largely on the compliance with the *acquis communautaire*. However, the depth of the promulgation of the EU’s accession conditionality and of the legislative harmonization is lower in the latter case. This explains APs’ 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 for joining the Group of States against Corruption (GRECO) and implementing its recommendations (Ukraine) and ensuring progress in following GRECO’s recommendations on the fight against corruption (Moldova and Georgia).²

During the accession of CEE candidates the 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 neighbours, 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/ODIHR³ 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 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 CoE (e.g. Vink 2009).

The analysis of the two variables – the determinacy of requirements and rewards – in the case of APs 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 APs 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.

Secondly, regarding the nature and the credibility of rewards, the texts of APs 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 allow itself to be rhetorically entrapped, as in the case of CEE (Schimmelfennig 2001). Brussels abstained from an official promise of a membership perspective to its EEN, limiting itself only to a promise of a more enhanced cooperation agreement with countries that will successfully implement the APs.

3. European standards on party financing

The earlier analysis revealed the low level of determinacy of AP stipulations on party financing and the low level of rewards (low credibility of EU membership). This section 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, (the 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 the CoE and OSCE.

Two major European-level actors can be identified who are responsible for setting and promoting the European standards on party financing. 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 Europeanisation 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,⁴ in establishing and promoting European standards on party financing. Although the recent work of Molenaar (2010) undertook a first step in explaining VC's role in setting the normative and regulatory elements of political parties, it does not examine the way in which the VC influences domestic transformations of CoE members in a similar manner to the provided analysis of the impact of GRECO 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, in contrast to the Committee of Ministers – the only CoE body

adopting ‘hard’ instruments (e.g. agreements and conventions). Yet, VC’s role 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 the member and observer states of the CoE, and also worldwide.⁵

Second, the importance of the VC is also determined by the cooperative framework that it offers for the three major European-level institutions involved in democracy promotion. The EC, the CoE, and the OSCE/ODIHR cooperate within the framework of VC’s plenary sessions and participate in the voting process during the adoption of VC’s studies, reports, or draft opinions on domestic legislation of its member 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 members and observer states the VC 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 VC from that of other CoE institutions, such as GRECO, the Parliamentary Assembly (PACE), or the Committee of Ministers. However, the focus is limited to the analysis of VC’s documents and follows the way in which they trigger party financing legislative changes within the EEN.

This study traces the major European democratic standards and identifies several important documents that set VC’s standards on party financing. The VC 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 VC 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 the fight against corruption (Venice Commission 2009). As 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. It is based on a report on cross-national analysis of party financing and advances three major sets of issues: public party financing, private party financing and electoral campaign financing. Furthermore, it 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 VC 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 standards 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 VC 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.

4. Mechanisms of Europeanisation of party regulations before and during APs

The major mechanisms of European influence on party legislation before the signing of APs were the VC's opinions, joint opinions (reviews conducted and adopted together with the OSCE/ODIHR), as well as VC and OSCE recommendations. Their task is to advise CoE members and observers on legislative matters in line with 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 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 VC, in which both the European Commission (EC) and the OSCE/ODIHR participate and thus have a say in their final adoption. The member or observer countries to which these documents are addressed must introduce the required legislative changes in line with European experts' recommendations. The three examined countries are members of the CoE and must comply with its democratic requirements and follow its recommendations with regard to party financing.

Although these tools of the VC have a high potential to induce democratic transformations within the post-Soviet neighbourhood, their major weakness is the lack of viable sanctions in the event that European requirements are not followed. They merely represent soft instruments of European influence and 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 VC, or, more generally, the CoE, 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 in choosing from the long list and implementing the requirements that in most of the cases benefit their own political success.

The launching of the ENP and APs gave birth to a new European-level mechanism to influence political changes within the EEN. The ENP progress reports issued by the European Union in December 2006 and April 2008 provide a framework for the EU's assessment of domestic transformations in line with 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.

After listing the VC's European standards and the major mechanisms of Europeanisation of party financing, the work turns to the empirical analysis of the European influence on legislative changes before and during APs' implementation period.

5. The role of determinacy of requirements and rewards

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 Europeanisation of party financing. Firstly, although APs have a low degree of determinacy of requirements on party financing, the EU still influences domestic changes in this field by stressing the need to comply with European democratic standards set and promoted by the CoE and the OSCE/ODIHR. After tracing the major actors and documents in defining and promoting the European standards on party financing, this analysis suggests that the determinacy of the EU's requirements increases indirectly thanks to the existence of specific VC principles on party financing. The European standards established largely in the VC Guidelines and Report (2001) and further developed in the Code on Political Parties (2008) can be characterized as well-defined and clearly stated. Thus, the EU strengthens its leverage on European neighbours through the coordination of its democratic conditionality with the CoE and the OSCE/ODIHR.

However, as in the case of democratic conditionality in general, these standards still leave significant room for domestic discretion in their implementation. European neighbours 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 clearly defined steps for the implementation of European standards and recommendations on party

financing. The main mechanisms for promoting the European standards in the EEN – VC opinions and recommendations, as well as ENP Progress Reports – are of a soft nature, lacking some feasible sanctions.

Notwithstanding the above mentioned limitation, the analysis partly confirms the first hypothesis and reveals that despite the lack of 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 joint European leverage on domestic changes in party financing.

Secondly, with regard to European-level rewards for the successful implementation of party financing requirements, the findings show that the EU adds strength to the democratic policies of the 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 neighbourhood still aspire to future European integration, which is officially not ruled out, but depends on the extent of internal reforms in line with European democratic standards. As the 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 Europeanisation of party financing legislation in the aspiring candidate countries. This is one of the reasons for the increased level of party financing changes in the period of APs.

6. Party financing legislation and European requirements before the signing of APs

Before proceeding to the direct analysis of the European impact on party legislative changes during the APs' period, 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 neighbours 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 VC for failing to implement important party financing provisions. On the one hand, 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 percent of parliamentary votes (Art.30 of Law on Political Unions) and the higher degree of transparency in party and electoral campaign financing. On the other hand, further improvement was needed in order to comply with VC standards.

Table 1. Party financing legislation before and during 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)
	February 2005 – February 2008	- <u>Electoral Code</u> (1997, as amended in 2003) - <u>Law on Parties and other Socio-political OSCEs</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.

The 2006 Joint Opinion stressed the need for 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 the 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 OSCEs,” adopted in 1991 and that ‘survived’ numerous revision projects until 2007, and the “Electoral Code of the Republic of Moldova,” as amended in 2003. 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 VC (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).

Table 2. Party financing European requirements and major legislative changes before and during APs

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

Note: * Parties with less electoral votes are eligible for a relatively greater public funding than those with a higher percentage of votes.

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

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 specific measures on public disclosure of party finances (e.g.

information on the size and 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 VC 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 be doubled with a proportional public funding (Venice Commission 2002). Finally, during the VC fact-finding mission in June 2002, 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 with European requirements on party financing reveals that only Georgia had a public financing provision, as well as a more developed party financing legislation. However, the three countries still needed to establish 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 neighbours regarding compliance with European requirements on party financing, particularly due to the embedded political corruption that impeded the compliance with party financing transparency and accountability principles.

7. European influence on party financing changes during APs

The Rose and Orange revolutions in Georgia and Ukraine showed a clear and a strong expression of pro-European aspirations of the newly elected ruling parties. United National Movement (UNM) in Georgia and, respectively, Our Ukraine (NU), Socialist Party of Ukraine (SPU), and Yulia Tymoshenko’s Bloc (BYuT) 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 potential EU accession.⁶ One of the steps that has been undertaken by the post-revolutionary forces was the initiation and adoption of a number of legislative changes aimed at addressing the previous VC recommendations and 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 funding, 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 the 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 the 2006 and 2007 parliamentary elections in line with democratic standards. Nevertheless, the report also stressed the failure of the Ukrainian political elite to address key European recommendations advanced by the VC and the OSCE/ODIHR, as well as GRECO, particularly the need for 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 in March 2008 as part of the Amendments to the Election Code of Georgia. As a result of the long negotiations between the UNM and the opposition parties in 2006-2007, within the CoE'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 donors' information, a clear limit on donations and the prohibition of anonymous donations (Art. 47), as well as 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 technical clarifications.

Although Moldova did not experience a revolution similar to Georgia or Ukraine, it too was caught in the wave of democratic transformations from the region and a new era of democratic reforms in line with 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 European standards. Following these developments the new parliament declared as a priority 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 adoption, the parliament gave up on this legislative project without making public its reasons (Grosu 2007).

Party financing returned to the parliamentary agenda in December 2006, when the 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 in the establishment of a "modern system of party financing," the European expert H. Vogel argued that it also had 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. The VC criticized 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 last minute changes that favored the governing party and disfavored the opposition. On the one hand, PCRM stressed its will to follow the recommendations of 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 for a further revision of the Electoral Code to "take full account of the recommendations of the CoE 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 CoE (European Commission 2008, 3).

8. Comparative assessment of European influence on party financing in the EEN

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 VC, had been requiring EEN states to comply with European

standards on party financing before the signing of APs, it is during the implementation period of APs that the amount and 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 APs is the result of cooperation between the major European institutions.

East European domestic political elites were more inclined to listen to the 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 in hopes of obtaining 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 VC. In its turn, this contributed to the increase of common European leverage on party financing changes during APs' period.

Overall, based on the analysis of legislative changes during 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 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 APs. 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 introduced 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 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 thus contribute to the consolidation of political institutions and democratic principles.

9. Conclusion

This paper identifies and investigates the empirical puzzle of EU influence on party financing changes during the period of APs in the EEN. It argues that it is the merit of the coordination of democracy promotion strategies between the EU, the CoE and the OSCE in strengthening

common European leverage on party financing in Ukraine, Moldova and Georgia during APs' implementation.

The work contributes to the existing literature on EU democracy promotion and Europeanisation 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 rewards, this analysis shows that cooperation between European institutions contributes to the success of common European influence on party financing. Although the EU lacks a specific party financing conditionality in APs, the reference to the standards set by the CoE 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, the 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 recent studies on EU democracy promotion in the European neighbourhood (Schimmelfennig and Scholtz 2008; Freyburg et al. 2009) where, even in the case of a low credibility of EU membership perspective, Brussels can 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 the EU's leverage on its European neighbours. 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 Europeanisation process,' as this provides new insights regarding the nature and 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 European conditionality. Further research must be conducted on explaining the nature and extent of cooperation between European institutions in democracy promotion. Moreover, in order to understand the whole process of 'Europeanisation,' in this case understood as the domestic adaptation of East European states to regional European integration, further research must 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 APs. As the European-level requirements have been the same regarding the adoption of 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.

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² 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).

³ OSCE/ODIHR is particularly mentioned in the case of the democratic conduct of elections.

⁴ Council of Europe's advisory body on constitutional matters.

⁵ 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.

⁶ 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.”