



COST OF POLITICS IN UKRAINE

BACKGROUND PAPER

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INTRODUCTION

A rare consensus among the majority of political party scholars holds that an institutionalized system of political parties is a key element of a successfully functioning democracy. Larry Diamond and Juan J. Linz provide empirical support for this argument: “the historical evidence from our own cases suggests that the crucial consideration for democracy is ... the degree of party institutionalization. All of our cases call attention to the institutional strength or weakness of parties as a determinant of success or failure with democracy, and each of them grapples with the problem of institutionalization.”¹ A well-developed system of political parties is characterized by a high degree of its autonomy and creates a “boundary” which differentiates and protects this system from its environment and outside influences. In general, it means that in a highly institutionalized party system the existing political parties and, to some extent, incumbent members of parliament (MPs) “are able to maintain their support among the electorate from one national election to the next and leave newcomers slim chances to gain a substantial share” of the vote.² For example, public financing of parliamentary political parties might be one of the elements of such boundaries.

However, boundaries of the institutionalized party system in a democracy are not supposed to undermine another crucially important element of the democratic regime – a fair and meaningful contest among the competing parties and individual candidates for votes. Samuel Huntington (1996) states: “A primary criterion for democracy is equitable and open competition for votes between political parties without government harassment or restriction of opposition groups.”³ Setting up artificial mechanisms that undermine free and fair electoral competition by incumbent political parties and parliamentarians curtails basic democratic imperatives.⁴ One such wide-spread mechanism is the abuse of

state resources that “are being diverted to fund incumbent candidates”, their electoral campaigns and personalized networks and at the same time are minimizing the electoral chances of new candidates.⁵

In many countries, such a mechanism creates a vicious circle of corruption: power-holders abuse state resources to fund their electoral campaigns making the cost of electoral campaigning prohibitive for their opponents who do not possess sufficient funds to run a successful campaign. After achieving electoral victory, incumbents maintain access to state resources which they use for personal gain. Until the 2014 events of the Euromaidan demonstrations and the Revolution of Dignity, Ukraine was a prime example of this vicious cycle of corruption.

The objective of this background paper is to conduct primary research on the cost of parliamentary politics in Ukraine, the financial implications of running for a seat in the national parliament (Rada) and the costs incurred by an MP once in office.

METHODOLOGY



The background paper is based on semi-structured interviews with current and former members of the Rada, unsuccessful candidates for these positions, subject matter experts on Ukrainian parliamentary elections, as well as desk-based and literature research on the drivers of the cost of politics in Ukraine. Interviews were between one-and-a half hours and two hours in length and centred on these principal questions:

- What has been the historical experience of campaign financing and how has this shaped previous elections at the parliamentary level?
- What are the key drivers of electoral costs for current parliamentary elections? What does it roughly cost to run for parliament? What are the principal sources of funding for parliamentary campaigns? Is the burden principally on the candidate or the political party to fund campaigns?
- What are the costs incurred by MPs once in office? Are these demands principally public (official engagements) or private (constituent requests)?
- What barriers do these costs create for particular groups (such as women)? What are the prospects for future expansion or reduction of these costs based on either normative or legal constraints?

I. Historical Context

Since gaining independence from the Soviet Union in 1991, Ukraine has held seven cycles of elections to the Rada, the national parliament: in 1994, 1998, 2002, 2006, 2007 (snap election), 2012 and 2014 (snap election). Virtually every regular election to the national parliament has been held under a new electoral law adopted shortly before the electoral contest. During the 25 years of its independence, Ukraine has employed all major existing electoral systems: an obsolete Soviet absolute majority run-off formula in single-member constituencies in 1994, a mixed plurality/proportional representation model in 1998 and 2002, a full proportional representation system in 2006 and 2007, and again a mixed plurality/PR model in 2012 and 2014. Perhaps the only parliamentary value that remained constant throughout these years has been the number of the members of parliament – 450.

Numerous laws on parliamentary elections and the Law of Ukraine on Political Parties in Ukraine, originally adopted on 5 April 2001 and amended on numerous occasions, contain general legislative provisions that regulate the conduct of elections, including financing of electoral campaigns and political parties. Although these acts contain some major gaps, they do provide sufficiently detailed rules that regulate financing of electoral campaigns and political parties. However, neither political parties nor independent candidates bother to comply with these rules. All major stakeholders that participate in electoral campaigns – parties, candidates, members of district electoral commissions, observers, etc. – violate these rules to some degree. The effective enforcement and control over compliance with these campaign financing and spending rules are virtually non-existent. The business of electoral campaigns and political party financing is still closed and non-transparent.

Since comprehensive data on electoral

campaign financing are not available in the public realm, only rough estimates of the cost of elections may be provided in this paper based on interviews with members of the Rada and subject matter experts. However, the general dynamics is as follows: the more affluent Ukraine is, the more expensive the electoral campaign. The growth of the national GDP led to higher electoral spending.

The least expensive and the cleanest electoral campaign to the national parliament of independent Ukraine took place during the founding elections in 1994. The first multi-party elections in Ukraine did not require significant financial investment, political advertising on TV was almost non-existent, printed political advertising was of low quality and cheap, volunteers were readily available and were eager to help candidates and the influence of oligarchs was in a nascent stage. For example, a former MP who won an electoral race in a rural district in Vynnytsya oblast (region) in 1994 stated that he had spent 7,000 coupons (the Ukrainian currency at the time, an equivalent to approximately \$40) and 500 *Deutsche Marks* (an equivalent of \$250) mostly for gasoline and other travel expenses. In the 1998 elections he spent over \$30,000 of his own money running in the same single-member district and came third.

Several interviewees state that “big money” first entered Ukrainian politics in 1996 when then- Prime Minister Pavlo Lazarenko attempted to pay a number of MPs in order to form a parliamentary faction linked to his political party Hromada. The second half of the 1990s saw the political erosion of the Ukrainian parliament as money has featured prominently in Ukrainian politics both during electoral campaigns and in parliament between elections. With every electoral cycle, electoral campaigning was becoming more expensive, reaching its peak in 2012 when it cost up to \$5,000,000 to win a race to the Rada in a single-member district.

In the 2014 snap parliamentary elections, the cost of running significantly decreased due to three factors. First, these elections took place shortly after the Euromaidan, which was accompanied by a general mood of cleansing corruption from Ukrainian society and politics. Second, a sharp downfall of the Ukrainian economy and the national currency, the hryvnya, meant less money was available for electoral spending. Third, the snap elections significantly shortened the length of the campaign.

Legislative framework

The mechanism of electoral campaign financing and financing of political parties was established by numerous laws on elections to the Rada and the Law on Political Parties in Ukraine originally adopted on 5 April 2001. Since its adoption, the Law on Political Parties has been amended over 20 times. The latest fundamental amendments to the law were passed on 9 October 2015 and introduced a detailed mechanism of state financing of political parties. State financing of political parties will become a reality when these amendments enter into force on 1 July 2016.

At present, electoral campaigns conducted by political parties and individual candidates are financed both from the national budget and from private sources. However, the current relevant legislation does not provide direct allocation of state funding for electoral purposes to parties and candidates. Instead, the Central Election Commission of Ukraine (CEC), which is directly responsible for the overall organization of electoral campaigns in Ukraine, is entitled to receive funds from the state budget. The amount of state funding is not predetermined by law. Instead, the necessary funds are allocated by the national budget for the year in which the elections were held at the suggestion of the CEC. Among many other purposes, the CEC pays for the following expenses: printing of information material (such as posters and booklets) for political parties and candidates, publishing their campaign documents in the

media, and payment for specifically reserved amounts of television and radio broadcasting time.⁶ Of course, these resources cover only a small fraction of campaign expenditures incurred by political parties and individual candidates.

The Law on Political Parties in Ukraine allows political parties to set up and maintain party funds which may be used for electoral purposes. Donations of such party funds can come from a variety of sources including voluntary donations from the party members, individual donors, businesses, fundraising, etc. However, all donations received from public sources must meet certain requirements. Article 15 of the Law on Political Parties, as amended in 2015, states that parties are not allowed to receive contributions from:

- state and local governments;
- state and municipal enterprises, institutions and organizations, and legal personality, which are partly owned (at least 10 per cent of the statute capital or voting rights directly or indirectly) by a state or municipal entity or by non-residents;
- foreign states, foreign legal personalities, foreign citizens or persons without citizenship, and legal personalities owned by foreign citizens or persons without citizenship;
- unregistered non-governmental, charity and religious associations and organizations;
- citizens of Ukraine who have not reached 18 years old, disabled, anonymous or pseudonymous persons;
- other political parties;
- physical and legal personalities that are authorised to fulfil the functions of state or local authorities; or individuals that have received a public contract in accordance with the Law On Public Procurement, during the contract validity and during one year after its expiration;
- physical and legal personalities that own unpaid tax debt.

On 8 October 2015, the Ukrainian parliament passed the Law of Ukraine on Amending Some Legislative Acts on Preventing and Combating Political Corruption (also known as the Law on the State Funding of the Political Parties).⁷ This legislation amended the Law on Political Parties, introducing the mechanism of public funding of political parties from the national budget. The Law on the State Funding of the Political Parties has become an important part of the electoral legislation reforms meant to combat political corruption and create a more independent field for political parties.

According to the Law on the State Funding of the Political Parties, state funding will be provided to all parties that pass the two-per-cent threshold at the latest ordinary or snap parliamentary elections. Currently, electoral legislation notes that only those political parties that reach a five-per-cent electoral threshold in the multi-member district can obtain seats in the Rada distributed under the proportional representation formula. Therefore, in addition to major political parties with parliamentary representation, small parties may receive state funding in support of their statutory activities as well.

The annual volume of state funding of statutory activities of political parties amounts to 0.02 per cent of a minimum salary as of 1 January of the year preceding the year of the allocation of the state budget, multiplied by the total number of voters who participated in the latest parliamentary elections nationwide. The total available budget funds for political parties is divided among parties according to the number of votes they gained at the previous parliamentary electoral cycle. An additional 10 per cent will be awarded as a bonus to the political parties that comply with the principle of gender balance.

The law also states that the total contribution to a party by a citizen of Ukraine in one year cannot exceed 400 minimum salaries. The maximum amount of the contribution by legal personalities is 800 minimum salaries.

The law also lays down the procedure of financial reporting of a political party by introducing mandatory quarterly reporting and an annual internal financial audit. Moreover, the law sets up a mechanism of verification of financial reporting and “envisages the administrative and criminal responsibility of authorised individuals for reporting untruthful information on party finance or failing to report at all”.⁸

Political parties and public opinion

In the past five years, two respected Ukrainian think tanks conducted a number of public opinion polls about political parties in Ukraine and sources of their funding. The most recent research on the subject, conducted in November 2015, showed that only 3.5 per cent of Ukrainians are members of political parties. Since 2010 this number has been relatively stable across the country. The level of public trust in political parties among Ukrainian citizens has been always traditionally low, but in 2015 it declined – only 12 per cent of the population reported trust in political parties. At the same time, almost 80 per cent of Ukrainians did not trust them. Meanwhile, just less than one in four citizens (23 per cent) agreed that one of the existing parties is representing his or her interests.⁹

In 2015, the overwhelming majority of Ukrainians (63 per cent) believed that political parties in Ukraine in general did not meet democratic standards. This figure has slightly increased compared to previous years. The main manifestation of such undemocratic standards is that political parties protect and lobby for the interests of their leaders and financial donors rather than to defend the interests of their voters. A failure of parties to adhere to their programmes and a lack of effective communication with citizens were named among other factors that contributed to the overwhelming mistrust to political parties among the public.¹⁰

The respondents placed the main responsibility for funding Ukrainian political parties on both their leaders and members,

while only 15 per cent supported funding parties from the national budget. Similarly, citizens did not endorse financing of parties from business sources (only 14 per cent of respondents approved this source of funding). However, Ukrainians were generally not ready to support parties financially, even those that represent their interests. Only 13 per cent of respondents agree to do so (in 2009 the figure was 10 per cent, in 2012 it was six per cent), while 31 per cent of respondents believed that supporters of the particular party should fund their activities¹¹.

Previous research on the topic

The issue of political party funding and electoral campaigns became both a subject of public debate and academic research in Ukraine in the early 2000s. Several factors lead to an interest in this topic in academic research and political discourse. First, the Rada in 2001 passed the Law on Political Parties in Ukraine (5 April) and the Law on Elections of People's Deputies of Ukraine (18 October) which together established a provision regarding public financing of political parties. However, since the national budget has never allocated any funds for this purpose, the legislative provision remained only on paper. Secondly, the 2002 elections provided ample evidence that electoral campaigns became an expensive business in Ukraine.

The first major study of electoral campaign financing in Ukraine was conducted by several experts affiliated with the Laboratory of Legislative Initiatives, a well-known think tank, Iryna Maevska, Vitaliy Zamnius, and Denys Kovryzhenko. Their research, titled "Financing of electoral campaigns in Ukraine: problems of legislative regulations", was published in the journal *Chasopys Parliament* in 2003.¹² The opening paragraph stated: "In any country elections might become a game for the rich. Elections raise many questions: who is able to finance [an] electoral race? Where is the money coming from? Do political parties have to work off 'charitable contributions?'"¹³ This study analyzed the legislative framework of electoral campaign financing, sources of

financing and the cost of electoral campaigns in Ukraine and other countries, the role of judicial bodies to enforce the rules, the reasons why these rules have not been enforced and several related topics.

The same issue of *Chasopys Parliament* contained remarks from Ukrainian politicians and experts regarding electoral campaign financing who overwhelmingly endorsed legislative changes that introduced public funding of political parties. The author of the Electoral Code of Ukraine (never adopted), MP Yurii Klyuchkovskiy, for instance, argued referring to the problem of funding of political parties:

The place and role of political parties is defined by article 36 of the constitution of Ukraine, pursuant to which the parties summarize and express public opinion [and] participate in elections. To ensure the due performance of these functions, the procedure of transparent funding of political parties should be introduced. Currently, the real sources of parties' funding are membership fees (however, in circumstances when the average salary in Ukraine is lower than the minimum cost of living, this cannot constitute a substantial share of contributions) and contributions of sponsors. Regarding the latter questions arise: what is the goal of such financial support, why do the sponsors support a particular political party and where do these funds originate – from commercial activities (legal) or certain illegal activities (e.g., money laundering)? In Ukraine, there are many parties which do not have any ideology and social support and are merely used for political "cover" of the economic interests of financial-industrial groups.¹⁴

Among other important works on the subject the following studies should be mentioned:

1. "Sources of financing of electoral campaigns of political parties" by Anatoliy Romanyuk analyses both legal and illegal sources of electoral campaign financing. The author acknowledges that a study of electoral campaign financing in Ukraine suffers from a lack of sufficient reliable data about the real cost of elections and even less reliable information about the sources of funding.¹⁵
2. A special issue of the journal *National security and defense* published in 2010 by the most prominent Ukrainian think tank, Razumkov Center of Economic and

Political Studies, provides a well-researched report “Party system of Ukraine: peculiarities of emergence, problems of functioning, tendencies of evolution.”¹⁶

This comprehensive analysis of the past, present and future of the Ukrainian party system addresses many relevant topics including electoral campaign financing of political parties. The report names a lack of separation of political power from business as one of the most troublesome elements of Ukrainian politics: “The main motivation of business’s direct participation in politics is the use of politics as a resource for business.”¹⁷

3. There are several good investigations of sources of electoral campaign financing conducted by Ukrainian journalists that shed light on the business of electoral campaigning and provide some empirical evidence about the sources of funding.¹⁸
4. On 1 March 2016, the US National Democratic Institute published a report *NDI research dispels myths about women’s political participation in Ukraine*. The report analyses barriers for political participation of women in Ukraine:
5. “Although NDI’s 2015 surveys disproved some traditional myths about the barriers to women’s political participation in Ukraine, they highlighted others. In order for Ukraine to move towards higher levels of women’s political participation, the government should improve the country’s legal framework, including enforceable gender quotas and reform of campaign finance laws, to create more incentives for parties to nominate women candidates ... It is critical to address barriers in the minds of potential women aspirants themselves.”¹⁹

An important analysis of political parties and electoral campaign funding in the comparative perspective was conducted by the International Institute for Democracy and Electoral Assistance (International IDEA).²⁰ Ukraine featured prominently in this study.

II. Drivers of the Cost of Parliamentary Politics: Electoral Campaigns

Electoral campaign expenditures

As in many other countries, individual candidates and political parties that participate in elections in Ukraine incur both formal and hidden cost. Ukrainian political parties are required by law to submit a declaration about their electoral campaign expenses in the aftermath of the electoral cycle. As a rule, only legitimate formal expenses, which are impossible to hide, are included in such declarations. These are mostly expenditures for political advertising on television, radio, print media, internet sites, billboards, etc. Officially, all Ukrainian political parties combined spent UKR 665.9 million (Ukrainian hryvnias) (approximately US\$26 million) during the 2014 Rada elections; 90.6 per cent of this amount was incurred for political advertising in various media.²¹ Most other electoral expenses (payments to propagandists, electoral observers, members of regional electoral commissions, participants of electoral rallies, rental of premises for electoral campaign needs, etc.) as well as a significant share of the political advertising cost are not included in declarations. One interviewee MP compared the cost of electoral campaign with an iceberg: only a small fraction of overall electoral expenses is publicly declared. In his study of electoral campaigns conducted by political parties, Anatoliy Romanyuk states that up to 90 per cent of electoral campaign financing constitutes illegal expenditures.²²

Participation in elections and running for a parliamentary seat in Ukraine is a very expensive affair. A major political party, which expects to gain a large number of seats in the Rada and form a sizable parliamentary faction, spends between US\$300 million and US\$500 million during an electoral campaign. A cost of electoral campaigning for a somewhat smaller party with parliamentary representation runs between US\$50 million and US\$100 million. In 2014, a relatively small political party which could not afford to buy time for political advertising on major national television

channels and did not gain any parliamentary representation paid US\$5 million to run a nationwide electoral campaign for the Rada.

With some minor exceptions, a successful contender in a single-member district pays between US\$1 million and US\$5 million for an electoral race. The most expensive campaigns are those run in hotly contested large urban centres such as Kyiv, Dnipropetrovsk, Kharkiv, Odesa and Donetsk); the least expensive are in peripheral rural districts. Of course, there are exceptions when a winning candidate spends significantly less for his/her electoral campaign than other major contenders who run in the same district. For example, in the 2012 elections in the Ukrainian capital, Kyiv, not a single pro-government candidate won a seat in the Rada. Then major opposition political parties negotiated between themselves, distributed constituencies and nominated a single candidate from the opposition who was supported by voters. In most cases, the cost of the electoral campaign of an opposition candidate was significantly less than the Party of Regions affiliates. A vivid example is the contest in Constituency 212 where Viktor Chumak, nominated by the opposition, spent between US\$50,000 and US\$100,000 to win his electoral district while pro-governmental Oles Dovgyi's unsuccessful electoral race costed him US\$5 million.

Without a single exception, all interviewees stated that political advertising on the major central television and radio channels with comprehensive nationwide coverage constitutes the most expensive expenditure of the electoral campaign. Thus, one second of air time on a major television channel costs between UKR 150,000 and UKR 300,000 (approximately US\$6,000 to US\$12,000). Overall, payments for political advertisements on television, radio, print media and billboards comprise up to 70 per cent of all electoral expenses for a political party. A portion of this cost is formal because some advertising

requires legal agreements between contracting parties and may be made available to the public. A hidden unaccountable cost of political advertising includes indirect advertising materials that support and promote some candidates, materials that contain negative information about other competing candidates, neutralization of “black PR”, payments to prevent making public information unfavourable to a candidate, third-party advertising, paid-for-news items (known as *jeansa*), etc.

Most major central television channels in Ukraine are not profitable and have to be supported by their owners, domestic or international oligarchs²³ who also support “friendly” political parties and individual candidates. An important form of such support for “friendly” political parties and individual candidates is a significant discount for air time for political advertisement that loyal parties and candidates receive from channels owned by these oligarchs and their financial groups. It goes without saying that, after elections, these political parties and candidates elected in single-member districts are expected to promote the business interests of their sponsors.

After political advertising, the second most expensive expenditure of electoral campaign is hiring staffers who perform various functions during the contest: propagandists, electoral observers, members of district electoral commissions, electoral headquarter workers, lawyers, etc. Political parties and individual candidates do not account for these expenses in their declarations.

Propagandists distribute leaflets, flyers, other printed materials about political parties and candidates that hire them, talk to people on the streets, visit voters at their households. A small political party that did not clear an electoral threshold in the 2014 election and as a result did not gain any parliamentary representation has spent US\$1.5 million on these activities. Major parties spend significantly larger amounts.

Parties may “hire” as their propagandists representatives of professions who by the nature of their duties interact with large numbers of voters (e.g. communal services, post office services). For example, in several regions of Ukraine one major party presented post office workers who deliver mail in rural areas free bicycles as gifts.

Electoral observers oversee the voting process on the day of elections and witness how votes are calculated. Their function is to prevent any voting violation or irregularity and take the necessary action if such a violation is not corrected. They are paid UKR 400 to UKR 500. Depending of the significance of a political party and its ambitions, it costs between UA\$300,000 and US\$1 million per electoral cycle to train observers.

Members of district electoral commissions are nominated by political parties which may or may not participate in elections. In addition to the meagre salaries that they receive from the state budget for performing their duties, political parties pay them as well. There are three types of payments that members of district electoral commissions may receive: daily allowances, additional payments for their experience and position in the commission (e.g., commission chairs and secretaries are paid better) and in some cases, payments for falsifying and rigging elections. Fees that political parties pay to their members (or nominees) in district electoral commissions are important because a party has to be sure that it has a loyal person in the commission who has not been bought by a competing party and that all votes are calculated correctly. District electoral commission members are paid between UKR 400 and UKR 3,000 for the electoral cycle. Commission chairs and secretaries receive significantly higher payments. *De jure*, all these payments are illegal and are not included in electoral expenses declarations by political parties.

Central party headquarters are at the heart of the electoral contest and require significant

financial expenditures. Party headquarters staffers receive between US\$2,000 and US\$10,000 per electoral cycle depending on the type of work they perform and their seniority. Major political parties employ between 200 and 400 staffers at their headquarters during a parliamentary electoral cycle. All of them are paid in cash. In addition, political parties pay for rental of premises for their central electoral headquarters in Kyiv and regional headquarters in oblasts.

Payments for legal services represent a separate expenditure. Although all major parties have their own lawyers, they also hire additional skilled lawyers to work on the day of the election to ensure that electoral violations that affect the party are not left without proper legal action.

The next major group of electoral campaign expenditures deals with electoral rallies. The main political parties organize electoral shows inviting to their rallies famous musical bands, singers or speakers, who get paid for their services. Quite often parties mobilize and also pay participants (students, inhabitants of rural areas, other categories of low-income citizens) to attend their electoral rallies. The price is between UKR 50 and UKR 200 per person per rally. Such paid participants give an electoral rally a crowded and popular appearance, which in turn looks attractive on television to other voters.

Political parties incur significant expenses when they take electoral campaigns to one of 25 regions of Ukraine. One electoral trip which includes a visit by party leaders, an electoral show, press conference with coverage in local media, etc. may cost up to US\$100,000.

Finally, many political parties and especially individual candidates in majoritarian districts spend substantial amounts of money on bribing voters. Bribes can be paid indirectly or directly. An indirect form of bribery includes the distribution of food products to low-income citizens, pensioners, war veterans and

other similar groups on the eve of elections on behalf of a party or individual candidate.²⁴ A typical food set would contain a package of buckwheat, sugar, flour, a bottle of vegetable oil and other basic staples.

A direct form of bribing voters – paying them for their vote – has been used quite extensively by individual candidates in single-member districts. Several parties, mainly the Party of Regions, have been accused of directly bribing voters. The first cases of paying electors for their votes were recorded in 1998 when a favourable vote cost UKR 20 to UKR 25. This form of direct bribing of voters reached its peak in the 2012 elections when the price for a vote increased to UKR 300 to UKR 400, and in some highly contested constituencies up to UKR 2,000. During the 2014 parliamentary elections, direct bribery of voters was not common.

Sources of funding

As stated above, running an electoral campaign for a seat in the Ukrainian national parliament tends to be very expensive and requires substantial financial resources. Membership fees that rank-and-file party members pay to support their political organization do not cover even a small fraction of the cost of electoral campaign. Most of the additional financial support comes from other sources. These sources are largely hidden from the public view, unrecorded and unaccountable in the public realm. Detailed information about these sources is not available.

Most interviewees stated that every major political party in Ukraine is backed by a major Ukrainian oligarch, a business mogul who accumulated great wealth after the break-up of the Soviet Union. In addition to business interests, oligarchs have interests in political power and the media. Quite often oligarchs sponsor more than one political party. Financial support is provided in the form of cash, and political parties and individual candidates do not account for it in their electoral declarations.

The second major source of funding of

political parties is wealthy business people who are either party members or are affiliated with a party in other ways. For a number of reasons, many of them are interested to take part in elections on the party list and become Rada members. First, MP status provides immunity from prosecution. Only the national parliament may allow an MP to be prosecuted and historically the Rada has been quite hesitant to give such permissions. Secondly, Rada membership provides some guarantees and protection against corporate raiding which has been recognized as one of the biggest and most dangerous problems in the Ukrainian business environment.²⁵ Thirdly, parliamentary membership means political power and access to state financial resources which grants certain financial benefits for businesses that belong to MPs.

A business person who is interested to become a Rada member is expected to pay for his or her place on the party electoral list. If a businessman is a long-term party supporter and “reserved” a place on the party list well before the election, the price is US\$3–million to US\$4 million. It increases closer to elections to US\$5 million and in some extreme cases may run up to US\$20 million.

In the 2014 parliamentary elections, a “typical” party list included three categories of contestants: well-known public figures who became famous during the Euromaidan or the war in Donetsk and Luhansk oblasts (many of these individuals were new to the Rada and gained a boost in public recognition from the Euromaidan and military events in the east); loyal and experienced party functionaries and party sponsors whose finances were used to pay for the electoral campaign. In general, a party which succeeded in electing 50 MPs would send at least 20 business people, who paid for their place on the electoral list, to the Rada.

Another important source of filling party funds and financing of electoral campaigns was used by the ruling Party of Regions under the Yanukovich regime. The party established

almost total control over Ukrainian law enforcement bodies and tax police and these institutions were used to investigate and punish businesses which did not voluntarily support the ruling party. In many cases, business people were given a choice either to pay large amounts to the Party of Regions or face prosecution and even possible imprisonment for their business activities. As a rule, business people would choose the former option.

If an electoral campaign of political parties in the multi-member proportional representation district is financed by various sources, a race in a single-member majoritarian constituency is financed mostly by a single source: the candidate’s personal financial resources. Political parties are looking for prospective candidates who are loyal to the political organization, are well-known in the electoral district and are able to organize and pay for the electoral campaign from their own funds.

Candidates in single-member districts are expected to pay for virtually all expenses they incur during their electoral race: positive political advertising of themselves, negative advertising against their competitors, propagandists, observers, travel and office expenses. In addition, many candidates pay for food packages they distribute among voters, repairs of schools, kindergartens and children’s playgrounds located in the electoral district.

The general rule is that political parties do not provide any financial assistance to their majoritarian candidates. As a rule, parties provide candidates in single-member districts with some printed material about the party. Another form of assistance is electoral campaign visits to majoritarian districts by party leaders to support their candidates. One interviewee called it an electoral symbiosis: a party promoted its majoritarian candidates and majoritarian candidates promote their political party.

However, there are always exceptions to the general rule, and unique cases when a

party helps a majoritarian candidate to pay for an electoral race have been recorded. This typically occurs when a party has a strong candidate who has a good chance to win a district and for some reason a party desperately needs to win this constituency. Occasionally a party might pay for a campaign of a candidate who is not expected to win. It is done, however, to promote the party and mobilize its voters in the multi-member constituency who reside in this particular majoritarian district.

At the same time, there are cases when a candidate is expected to pay a political party for the use of its brand while running an electoral campaign in a single-member district.

III. Drivers of the Cost of Parliamentary Politics: MPs in Office

Sources of funding

To some extent the Euromaidan altered the nature of electoral campaigning in the country. In general, the 2014 parliamentary elections were cleaner and less corrupt than many previous electoral cycles and the cost of the electoral campaign decreased. Independent electoral observers and those affiliated with political parties played an instrumental role in preventing occurrences of electoral violations. New laws that set up a mechanism to counteract the influence of unaccounted party electoral funds and electoral expenditures were passed and currently are being implemented.

The Euromaidan and its aftermath also modified the cost of parliamentary politics incurred by members of the Rada once in office. Before the Euromaidan, a member of the Ukrainian parliament would receive financial resources from a variety of sources while in office. All MPs received an official salary for performing their parliamentary duties in the amount of an equivalent of approximately US\$2,000 per month. A roughly similar amount was allocated to an MP to support the functioning of their office and the same sum was given for salaries of their assistants. Although all this money came from the state budget, a member of the Rada did not have to account for how these funds were used. Both domestic and quite often international travel expenses of Rada members were paid from the state budget.

In addition to these formal legal incomes, a member of the Ukrainian parliament, particularly members of the ruling political party, could receive an additional shadow income from personal “sponsors” who would expect certain favours in return. The amount of such payments could be very substantial and depended on services that an MP was expected to perform: lobbying on behalf of the sponsor’s business interests, protecting an ally’s business holdings, execution of

“special errands,” or casting a “yes” vote for a bill needed by a sponsor. A sponsor could also provide a parliamentarian with financial support for personal or ideological reasons. Detailed information regarding all these payments and favours were kept secret not only from the public but even from other MPs from the same party faction.

Under the Yanukovych regime, the ruling Party of Regions used a number of other incentives to secure loyalty of members of the Rada, including creating favourable conditions for businesses owned by loyal MPs, promising positions of parliamentary committee or subcommittee chair, or other similar measures. The Party of Regions used not only a carrot but a stick as well (tax police, law enforcement) which often proved more effective than positive incentives.

When the war started in the Donetsk and Luhansk oblasts in the spring of 2014, Ukraine was already on the brink of economic collapse. In order to cut expenses, the Rada made a decision to significantly reduce parliamentarians’ salaries and cut their other benefits. Currently, an MP’s net monthly salary (after taxes) stands at UKR 4,900 (US\$190). Additionally, an MP receives UKR 6,100 (US\$240) for general office expenses and UKR 11,000 (US\$430) for salaries of assistants. Travel allowances for Rada members were totally removed at first; but in 2016 MPs were given up to UKR 2,500 monthly for domestic travel.

Since 2014, the national budget for official international travel of governmental employees, including MPs, has been sharply reduced. Only a limited number of parliamentarians are allowed to travel abroad on official business using national budget funds. For the most part, this travel relates to Ukraine’s obligations for international commitments organized by the Organization for Security and Cooperation in Europe,

the North Atlantic Treaty Organization, the Parliamentary Assembly of the Council of Europe and other international organizations.

On most other occasions, international travel of Rada members is financed either by MPs themselves or from non-Ukrainian sources. However, instances when travel abroad by Ukrainian MPs are sponsored by international sources are not well received by the general public. For example, in June 2016, MP Svitlana Zalishchuk travelled to Norway where she had several official meetings with the deputy speaker and other members of the Storting, the deputy minister of foreign affairs and other dignitaries. Her trip was sponsored in full by the Norwegian Helsinki Committee. However, her report about this trip on her Facebook page sparked a large number of negative comments about wasting resources and low productivity of work of Ukrainian MPs.²⁶

The state budget for 2016 allocated UKR 91.2 million for salaries of Ukrainian MPs, almost three times more than in 2015 (UKR 32.2 million). Additionally, their wages will increase this year.

Understandably, it is very difficult to survive on this meagre salary in the national capital. Therefore, a number of political parties set up a system of supplementary payments to their MPs. An average supplementary payment, between US\$1,000 and US\$5,000, is granted to MPs to help them to maintain a decent quality of life and pay for their day-to-day expenses and to ensure that MPs remain loyal to their political party and maintain party discipline including voting along party lines.

Several interviewees, especially junior MPs, argued that the system of low salaries of MPs is maintained intentionally to prevent backbenchers, often the same junior MPs, from performing their parliamentary duties to the fullest extent. Many front-bench MPs who are party sponsors do not live on their official salary alone. They are interested in dominating the decision-making process within the party. The system of supplementary payments makes

junior MPs dependent on their political party and its sponsors. Of course, many junior MPs do not accept supplementary payments from the party, which makes them more independent in their decisions. However, they still have to perform certain services allowed by law to receive additional legal income (university teaching, research, lecturing, writing) which distracts them from their main duties in the Rada. One interviewee stated that she was not offered supplementary payments from her party because she promised to publically disclose the additional income. It is impossible to generalize without proper research how many junior MPs adhere to this type of ideological stance and reject supplementary party income; but certainly it creates an additional layer of unpredictability and a complication in internal party funding.

Expenditures while in office

The main expense that an MP incurs after the election is the cost of maintaining and running an efficient, productive office, the duties of which include: a reception desk responsible for receiving voters and dealing with their complaints and applications; a press service; and, above all, a group of assistants and experts who help an MP to perform his/her main professional responsibility – to produce quality legislation.

There are many members of the Rada who are altogether uninvolved in the process of law-making or who might occasionally introduce one or several draft laws into parliament. These parliamentarians do not have a need to maintain an office and spend the money allocated for this purpose at their own discretion. For those MPs committed to active engagement in the law-making activities and producing a significant number of meaningful bills, maintaining an in-house group of assistants and subject experts is an acute necessity. An MP either pays experts for their services or motivates them in other ways. As noted above, an MP is allotted only UKR 11,000 per month to pay for office needs, which is universally understood to be insufficient to pay for quality advisors. There

are several ways to address this problem:

- An MP who owns a business hires his assistants *de jure* as employees of that business but *de facto* they perform law-making activities.
- An MP *de jure* or *de facto* chairs or participates in a professional association which pays experts for their services.
- An MP is affiliated with a non-governmental organization which applies for grants and experts are paid from that pool of funds.

Quite often MPs lobby of behalf of third-party business interests by submitting to the Rada and promoting legislative drafts prepared by various interest groups. Frequently they get paid for these services. From time to time, an MP may introduce in parliament a draft law prepared by NGOs or groups of volunteers; as a rule no money is involved in such cases.

The second major type of expenditures is “representational expenses”: receptions, taking visitors or guest speakers to dinner, holiday cards, as well as water, coffee, tea and snacks served to visitors of staff. Travel “representational expenses” is another important category of expenditures.

Practically all members of the Rada elected in single-member constituencies have their reception desks located in their districts. One interviewee, who was elected to the Rada in both a single-member and the multi-member district, explained how MPs can get re-elected in majoritarian constituencies. Citizens who live on the territory of an electoral district take their complaints and problems to the MP representing their district. Those voters expect that the MP will work to resolve those problems: build or repair a school, kindergarten, road, hospital, electricity or gas line, etc. If these expectations are not met, then voters will likely become disappointed and elect another representative who can maneuver to find financial resources and deliver on voters’ demands. Many citizens vote for those candidates who either can invest

their own money in the district or raise funds for the district. Therefore, “many MPs work to meet expectations of their voters”. Such local and narrow expectations produce a breeding ground for corruption in single-members districts.

Barriers to entry into politics

All interviewees surveyed agreed that the main barrier to entry into politics in Ukraine is an extremely high overall cost of electoral campaigning both in multi-member and single-member districts. In 2012 and 2014, there were quite a few cases when citizens voted along ideological lines and elected candidates whose campaigns were relatively inexpensive; but money ultimately is the mechanism and instrument to promote candidates’ ideas and intentions to the electorate. Financial resources provide access to the media and allow prospective MPs to build an organizational infrastructure for electoral campaigning. Citizens who do not have sufficient resources to run a successful electoral campaign constitute an underprivileged group. Single-member districts that use the majoritarian electoral formula serve particularly as an almost impenetrable barrier that prevents Ukrainian citizens from entering politics due to the prohibitively high cost of an electoral campaign.

Of course, rich people are privileged in every country and poor people are not. In Ukraine, as in many other countries, an ordinary citizen who has political ambitions and wants to become an MP has virtually no chance to do so in an ordinary voting year. Ukrainian citizens without personal wealth or unique and extraordinary access to wealthy sponsors have practically no opportunities to seek and win office. The few people who did it with little money were able to do so because a revolution took place and the previously dominant rules of the electoral game were challenged. The few people who did gain office with little money were able to do so because the revolution upended the previously dominant rules of electoral campaigns. Whether these desirable positive exceptions

become new rules of the game across the country or the old corrupted rules endure remains to be seen.

According to several interviewees, among other groups who have problems entering politics due of the cost of electoral campaigning are disabled people and citizens who are internally displaced because of the war in the Donetsk and Luhansk oblasts.

None of the surveyed interviewees (including both female and male MPs) named gender as a factor that impedes aspiring politicians to enter the political arena. Both men and women play an important role in Ukrainian politics. However, official electoral statistics paint a somewhat different picture. In the latest elections to the national parliament that took place in 2014, female candidates gained 47 seats, or 11.1 per cent of all elected MPs.²⁷ Although this is still a modest number in comparison to Western democracies, the 2014 contest produced the highest proportion of women since the country gained its independence. For example, 44 women in 2012 were elected to the Rada, or 9.9 per cent of all elected parliamentarians. There were only 11 female MPs, or 2.3 per cent in the Ukrainian parliament elected in 1990.²⁸ Despite this positive dynamic towards a more gender-balanced parliament, the majoritarian and proportional representation formulas produce drastically different outcomes. Thus, in 2014, 45 female MPs were elected in the multi-member district, and only two won in single-member districts (both in Lviv oblast representing Samopomich and Petro Poroshenko Bloc). This statistics seems to show that, on one hand, perhaps the message on gender equality is beginning to impact the actions of Ukrainian political parties. At the same time, on the other hand, elections in single-member districts represent a major obstacle for women to access *the upper echelons* of power due to their high cost and some other factors.

Hopefully, a new clause in the legislation on state financing of political parties that awards

an additional 10-per-cent bonus to the parties that comply with the principle of gender balance will bring more women into Ukrainian politics.

IV. Outlook

The downfall of the Yanukovich regime as an outcome of the Euromaidan and the rise to power of pro-European political forces, which proclaimed anticorruption efforts as a key focus of their public policy, created favorable conditions for restraining the role of money in politics and cleansing Ukrainian parliamentary elections of corruption. Ukraine undeniably has a long way to travel; but a number of important and positive steps were undertaken over the past two years. Reforming the process by which political parties are financed might become an instrumental step towards combatting political corruption in the nation.

As noted above, on 8 October 2015 the Rada amended the Law of Ukraine on Political Parties in Ukraine, introducing a mechanism of financing political parties through the national budget. These amendments entered into force on 1 July 2016.

All interviewees consider the introduction of public funding of political parties as a step in the right direction. However, interviewees uniformly recognized that this was a first step which would need to be followed by further anti-corruption efforts. All but two interviewees were fairly optimistic that the mechanism of state financing of political parties will make parties more independent from outside influence by creating boundaries resistant to dirty money from private sources. Public financing of parties would change the overall picture of electoral campaign funding towards greater transparency and accountability of political parties and individual candidates.

At the same time, all interviewees admit that the new system of party financing might be abused, lead to inefficiency or possibly collapse. To prevent such a negative scenario from becoming a reality, the new legislation on party financing should be backed by the allocation of money for parties in the

national budget, the strict control over its implementation and adequate and timely punishment for its violations.

These three elements meant to contribute to the success of party financing reform are either already in place or will be realized in the coming months. For example, as relates to the first point above on allocation of money, the 2016 state budget allocated UKR 391 million (US\$15,680,000) to finance “statutory activities of political parties”.²⁹

The National Agency for Prevention of Corruption (NAPC) was created by a Directive of the Cabinet of Ministers of Ukraine on 18 March 2015. Under this law, NAPC controls the enforcement of the Law on Political Parties including provisions of public funding of parties. Thus, the NAPC will audit all reports submitted by political parties about their income and expenses including expenses incurred during electoral campaigns. As of June 2016, with four members elected, NAPC was able to embark on its duties. Selection of the fifth member of the agency is currently under way. On 28 March 2016, the agency held its first official meeting. Natalia Korchak was unanimously elected as the Head of Agency and NAPC approved a set of immediate organisational measures to launch the operation of the agency.³⁰

The Law of Ukraine on Amending Some Legislative Acts on Preventing and Combating Political Corruption passed by the Rada on 8 October 2015 established a system of multi-level punishment for violations of legislation on party financing. This law added article 159-1, “violation of the financing of political parties, electoral campaigning, [and] campaigning during Ukrainian or local referendum”, to the Criminal Code of Ukraine. In addition, several relevant new articles were added to the Code of Ukraine on Administrative Violations.³¹

The reforms that introduced public financing

of political parties set up an important anti-corruption mechanism in Ukraine, but they are not comprehensive and should not be overestimated. For example, they do not exclude cases of shady financing of political parties in cash from unaccounted private or business sources. Such funds can be easily used for hidden and sometimes illegal expenses, including those discussed in the “Electoral campaign expenditures” section of this paper.

There are quite a few other important steps that would contribute to restraining the role of money in Ukrainian politics:

- the watch-dog role of the media and investigative journalism;
- additional electoral reform, including getting rid of the majoritarian elections in single-member districts as the most corrupt form of elections;
- greater transparency of political party activities and financing;
- comprehensive and sweeping anti-corruption reforms nationwide;
- perhaps most difficult, the creation and institutionalization of a culture of intolerance for corruption in the minds of Ukrainian citizens.

S U M M A R Y

The first elections to the Rada in independent Ukraine that took place in 1994 were both the least expensive and corrupt in comparison to all other parliamentary electoral cycles held in the country. Beginning in the second half of the 1990s, “big money” entered Ukrainian politics, corrupting both electoral campaigns and the national legislature. With every electoral cycle, electoral campaigning has become more fraudulent and more expensive, reaching a peak in 2012.

Ukraine adopted some legislative norms that were intended to regulate the conduct and financing of electoral campaigns and prevent electoral corruption; but no major stakeholders that took part in the electoral process, including political parties, candidates, the media, or members of electoral commissions bothered to comply with these laws. Compliance with electoral campaign financing rules and punishment of those who violated them was virtually non-existent.

Running an electoral campaign in Ukraine is a very expensive business. With some relatively small exceptions only those candidates and political parties which can afford to spend sizable amounts of cash win representation in the national parliament.

Political parties as well as individual contestants incur both formal legal and hidden shady costs. Some experts on the subject argue that up to 90 per cent of electoral campaign expenditures constitute illegal spending. Among hidden electoral cost are the expenditures for: indirect political advertising, negative PR against competitors, rental of premises for electoral campaign needs and payments to members of electoral commissions, electoral observers, propagandists, participants at electoral events and performers at electoral rallies, among other related expenses.

Funding necessary to run a successful electoral race often comes from opaque sources which are hidden from public view, unrecorded and unaccountable in the public domain. Virtually every major political party is backed by a prominent Ukrainian oligarch who requires loyalty and assistance from “his” members of parliament. Many Ukrainian parties have neither ideological nor social backing and are “merely used for political ‘cover’ of the economic interests of financial-industrial groups”, as noted by a Ukrainian MP.

Before the Euromaidan, a typical Ukrainian MP would receive financial resources from a variety of questionable sources in return for introducing the “right” bill, casting the “right” vote, protecting “right” business interests and lobbying for the “right” piece of legislation among other parliamentarians. The size of such payments to an MP could be very substantial. Members of the Rada did not have to account for their expenses while in office.

The overall situation has changed significantly after the downfall of the Yanukovich regime. The latest cycle of elections to the Rada in 2014 was notably more honest and significantly less costly than most other parliamentary electoral contests in independent Ukraine. The main reason of this progress was the Euromaidan, which advanced European values, anti-corruption, transparency and democracy. The Ukrainian polity led by a robust civil society publicly declared its intolerance to corruption and electoral fraud.

Heightened attention that civil society organizations paid to the fair and honest conduct of the 2014 snap parliamentary elections contributed to the decreased cost of the electoral campaign. Electoral observers nominated by NGOs and competing political parties were instrumental in curtailing occurrences of electoral fraud and violations. Another more pragmatic reason for the

decreasing cost of electoral campaigning in 2014 was a severe decline in the Ukrainian economy and the national currency, constraining resources available to electoral contestants.

Under strong pressure from civil society organizations, the Rada between 2015 and mid-2016 passed a number of bills that together created a comprehensive mechanism that might be an effective driver of anti-corruption efforts in Ukraine. The elements of such an anti-corruption mechanism are the National Anti-Corruption Bureau, the National Agency for Prevention of Corruption, Specialized Anti-Corruption Prosecutor's Office, a system of public financing of political parties and election campaigns control, reform of the judiciary, lustration and the National Agency for Identification, Tracing and Management of Assets Derived from Corruption. As of June 2016, some of these institutions are already operational and some reforms are implemented; others are in the process of formation and/or implementation.

At present, the main challenge is to make all these reforms and institutions functional and effective. As related to the eradication of electoral corruption, the influence of dirty money in parliamentary politics and the fusion of politics and business, additional reforms should be implemented:

- (1) adoption of a legislative framework that establishes a system of public financing of political parties and electoral campaigns;
- (2) control over the proper implementation of this system and transparency of electoral financial reports submitted by parties and individual candidates;
- (3) the inevitable punishment for violation of these rules.

In the past the Ukrainian legislature has passed a modest number of well-thought-out laws that were supposed to prevent the spread of corruption in the country. Unfortunately, many of them were never implemented. The strict compliance with and the enforcement of the

campaign financing and spending mechanism are important tasks and challenges that all stakeholders of anti-corruption efforts (governmental institutions, civil society, international organizations) face.

It is a well known fact that the majoritarian model in single-member districts is the most corrupt form of elections in Ukraine. Many experts argue in favour of the proportional representation model for elections to the Rada. Getting rid of the majoritarian vote would bring to an end many fraudulent schemes used in single-member districts and decrease the overall cost of electoral campaigns.

A strategic innovation that would control incomes and expenses of public officials, including members of the national legislature, is the electronic asset declaration system which will be launched soon. Public servants will be required to submit an income declaration in an electronic form. The NAPC will check the declarations and if a public official has submitted false information he or she may bear either administrative or even criminal responsibility.

If all these reforms are properly implemented, Ukraine might achieve an important breakthrough in making electoral campaigns and parliamentary politics more transparent, honest and cost-effective. The overall society and the state of democracy in the country will benefit from these reforms.

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