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# POLITICAL PARTIES AND POLITICAL CAMPAIGN RULES IN THE CZECH REPUBLIC



TRANSPARENCY  
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Česká  
republika  
2017



#### POLITICAL PARTIES AND POLITICAL CAMPAIGN RULES IN THE CZECH REPUBLIC

The publication was made possible with support of the Ministry of Foreign Affairs of the Czech Republic within the framework of the Transition Promotion Program through the project Monitoring Elections in Kosovo, 2017.

More info: [www.transparency.cz/melko](http://www.transparency.cz/melko)

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**TRANSITION**

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**Summary:**

The paper deals with the political finance in the Czech Republic, especially the with the regulation of political party funding and political campaign financing. The core focus is on presentation of non-transparent and potential corruption space in the legislation dealing with financing political parties in the Czech Republic.

**Keywords:**

political party, political campaigns, political finance, rules

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# Introduction

Political parties financing is a popular topic both at the international level (ACE Electoral Knowledge Network, IFES, IDEA, IPSA Research Committee on Political Finance and Political Corruption, OECD etc.) as well as at the national level. However there are various forms of political campaign financing and funding political parties world-wide, several best practices and transparent principles to be introduced rather at the national level exist (GRECO, IDEA, Ohman) but some international recommendations can be found as well as (Venice Commission, Parliamentary Assembly, Council of Europe). The principle of transparency is seen as a fundamental and universal tool in the efforts of curbing corruption in various fields, including the political parties financing.

Discussions have continued for many years and for many years there is little improvement in the field of transparency of political parties financing across young democracies (transition countries), not specifically in the Central and Eastern Europe. One of the worse evaluated democratic countries in this respect is the Czech Republic. In the 3<sup>rd</sup> round GRECO Report in 2011 (GRECO 2011, Doublet 2012?) criticized the Czech Republic for no improvement and important gap in the transparency regulation of the political party funding and addressed nine recommendations to be implemented covering detailed information on party spending, detailed reporting on campaign financing and/or independent institutional monitoring and oversight.

Although there is currently (autumn 2014) a proposal of the new Act on Association in Political Parties and Political Movements that should improve current state of affairs, the development of amendment took many years. The GRECO evaluation (2011) only summarized main problems that were cumulated during past 25 years. And in the light of that fact, the result is the key problem of the Czech system of financing political parties is no systematic, proactive and transparent regulation – all twenty-four (!) amendments were only retrospective reaction for single issues.

The paper's aim is to summarize the development and current state of rules in financing political parties and political movements (PP). Subsequently, the potential space for creating non-transparent transactions and corruption opened by the regulation in the Czech Republic is introduced. The paper is structured as follows. In the first part the Act adopted in 1991 will be introduced, followed by the summary of development and main amendments made several times that were reacting for serious political scandals and the new rules for presidential campaigns. Third chapter introduces the current provisions in terms of political party financing as well as the key difficulties and loopholes that exists and are used by different actors. The fourth chapter summarizes the key changes of amendment introduced in September 2016 that is supposed to cause a “revolution” in the Czech party sfinancing.

Petr Vymětal

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## Political parties regulation in historical perspective

### Financing political parties in general

After 41 years of dominance of Communist Party of Czechoslovakia in the political party system of Czechoslovakia, on November 29<sup>th</sup> the 16<sup>th</sup> extraordinary session of the Federal Assembly unanimously voted on change of the Constitution and removed the Articles (Articles 4, 6 and 16) referring to the "leading role" of the Communist Party in the society, National Front<sup>1</sup> and the education in Marxism-Leninist ideas (FS ČSSR 1989). By this decomposition of monopoly political party system started, and plurality system was assumed to develop.<sup>2</sup> For this purpose a very brief Act on Political Parties was adopted during January 1990 (Act no. 15/1990 Coll.) dealing with establishing and ending of political parties and movements only. The issue of financing was referred to another bill's provisions (communist Business Law) on economy of so-called societal organizations. The reason for the quick passing of the law was to organize free competitive elections in the early summer 1990. Until December 31<sup>st</sup> 1992 Czechoslovakia kept the federal structure of the state (Federal Assembly with two chambers (Assembly of People and Assembly of Nations) and two national chambers (Czech National Council, Slovak National Council).

Shortly after first free election in June 1990, the MPs of the Federal Assembly started to prepare a new bill on Association in Political Parties and Political Movements that was approved on November 1<sup>st</sup>, 1991 and that established a new fundamental regulatory framework for political parties in the future (**Act no. 424/1991 Coll.**). The law sets the basic rules for establishing political parties and political movements, their operations, their end and set basic requirement for their financing.

From the very beginning, the law bans to the political parties and political movements (PP) any *business activities* – PP can only establish and/or participate as shareholders in other legal persons doing business especially in the fields of publishing, propagation, lotteries, selling goods promoting PP's programs and organizing cultural, sport, social and other events (§ 17) and can have share on their profit. The other regular *income* of PP was not specified in the law, except the ban on receiving donations from state and state authorities (§ 19) – there was no cap for individual donors, no cap for membership fees, and even the donations from foreign subjects were not banned. Only one rule in this sense was that the *donors* donating more than 10 000 Kčs (and/or cumulatively 50 000 Kčs from one donor) during a year have to be published and listed in *Annual Financial Report* (AFR). Except this the AFR required information on the PP's property, and on income and expenses of PPs. AFR were not required to be open to the public and the bill required to deliver it to the national chamber, where the PP was registered latest by April 1<sup>st</sup> next year. The act does not directly address that AFR should be audited.

In the case of *state support* of PP, the act defined the state contribution that was specified in the Act on elections to the Federal Assembly (Act no. 47/1990 Coll.). The paradox is, that this law set the

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<sup>1</sup> National Front (NF) was established as a coalition of political parties shortly after World War II. with the goal to overtake the government after the war. After 1948 other important organisations of social life were invited to participate in NF but the main voice and its program was represented only by the Communist Party of Czechoslovakia. And only the candidates for National Front can participate in elections. NF officially ended its activities on February 7<sup>th</sup>, 1990.

<sup>2</sup> Declaration of the free and voluntary establishing and competition of political parties respecting the democratic principles was introduced as long as by the new Constitution of the Czech Republic in 1993.

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specific PPs' support a year before the Act on political parties was adopted and named/labeled it as state contribution (the Act no. 15/1990 Coll. do not address any contribution to the PP at all). The contribution belongs to the PP if it has received more than 2 % of valid votes and all parties get 15 Kčs per vote (§ 53, section 3). There were no other forms of state support of political parties.

The first law should be understood as the first step and first effort to define a more complex regulation in this field. And necessary, it has many imperfections and drawbacks. The political will of the politicians and the elected MPs<sup>3</sup> was to open the political arena to new political parties in the name of freedom and liberty rather to adopt a regulation it for a personal gain (but this can be also true and can't be underestimated too). The control mechanisms, the accountability and transparency principles were not the key issues for now free, young democracies in transition. This could be documented by a simple fact – the Act no. 424/1991 Coll. set no oversight body on political party financing (ARS were only delivered to the national chamber), nor the law set any penalties for non-compliance in the field of funding political parties.

The **amendment no. 117/1994 Coll.** significantly changed the system of PP financing, especially extending the income side, and introducing some monitoring mechanism and sanctions. The amendment strictly forbid entrepreneurship of PPs, as well as the possibility to create legal persons and/or to own shares in business companies. The amendment allowed only income from (§ 17): contribution for election expenses and contribution for PP activity (both from state budget), contributions from budgets of local governments and municipalities, membership fees, donations, income from rent and lease of PP's property, interest on banking accounts, selling PP's property, organization of lotteries, cultural, sport and other events, as well as the loans. This shows a significant shift compared to the former approach – the state financing was extended by introduction of annual *contributions* for PP's activities. This contribution consists of two parts in the fact: the permanent one (3 mil. CZK for PPs overcoming 3 % of votes and increased by 100 000 CZK for each 0,1 % of votes, but maximum of 5 mil. per PP) and the contribution for mandate (500 000 CZK per each mandate in the Parliament). Moreover, PPs should keep books separately – one for common operation and the second for the transactions connected with the state contributions (!). The AFR was annually submitted to the Chamber of Deputies and Supreme Audit Office (the part of state contributions only) latest by April 1<sup>st</sup> and the AFR have to be audited in the future. The limit for disclosing donor's identity was increased to 100 000 CZK.

The **Constitutional Court** in 1995 cancelled the strict ban on entrepreneurship of PPs as well as cancelled the possibility of monitoring of state contributions by Supreme Audit Office (Decision no. 296/1995 Coll.). The amendment in 1996 (**amendment no. 322/1996 Coll.**) again allowed to the PPs to do business directly and/or by establishing a legal person or getting shares in existing companies in the same limited fields of activities like the act of 1991. It also added a new kind of income – inheritance (§ 17). The "revolution" came in the case of AFR – the act declared that AFR are open to the general public – it became accessible for transcription and copying in the Secretary of Chamber of Deputies (§ 18, section 2).

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<sup>3</sup> Distinction between politicians and MPs is in this point made on purpose by the author. The first elections organized in 1990 was very difficult in terms of a very short time not only for establishing of political parties, but also for designing candidate lists for elections from „political professionals“. Therefore, political parties and movements nominated people with little or almost no political experience like popular persons from cultural and societal life that were elected and they later discuss and approved all legislation.

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After a scandal of financing Civic Democratic Party that spread up in autumn 1997 that resulted in Sarajevo Assassination and resignation of PM Václav Klaus<sup>4</sup>, and the Bamberg scandal<sup>5</sup>, the Parliament approved another amendment (**amendment no. 340/2000 Coll.**). The amendment made an important shift in the case of PP financing:

- it limited maximum annual membership fee to 50 000 CZK per member (§ 6, section 2 (b) 9);
- all donations over 50 000 CZK have to be documented by the written deed of financial donation (§17a);
- all donors have to be listed in audited AFR (§ 18, section 1 (d));
- ban on gifts and non-financial performance from state, allowance organizations, municipalities and regions, state-owned companies, legal persons owned by municipalities with more than 10 % of shares, charitable organizations, all foreign legal person (excluding foundations and foreign PPs) and all foreigners without permanent residency in the Czech Republic (§ 19);
- increased the contribution for a mandate of MP to 1 mil. CZK annually, and created a new contribution for a member of regional assembly in the amount of 250 000 CZK annually<sup>6</sup>;
- increased the limit for receiving the permanent state contribution for 5 % from the next elections (§ 20, section 4)
- introduced sanction for late returning or non-returning of all donations accepted contrary to this law in the amount of double value of such donations; the penalty can be applied within 3 years from donation (§ 19a).

The significant tightening of the rules can be seen as an effort to introduce transparency in party funding, but also a way to limit political competition in regard of the state contribution<sup>7</sup> by the two biggest “cartel-type” parties (Social Democrats (ČSSD), and Civic Democratic Party (ODS)). The Constitutional Court argued in this respect (that is “limitation of competition and support only of successful PPs represented in the Parliament”), and cancelled the 5 % threshold requirement for receiving permanent contribution from the state in **2001** and returned the former 3 % threshold for receiving contribution; and moreover, Constitutional Court abolished the contribution for mandate of MP (Decision no. 98/2001 Coll.). As a reaction, the MPs introduced and Parliament has passed **Act no. 170/2001 Coll.** that again introduced contribution for mandate of MP in the value of 900 000 CZK

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<sup>4</sup> In 1995 Civic Democratic Party (ODS) received 15 mil. CZK from fake donors Lajos Bács (Hungary) and Radjiv M. Sinha (Mauricius) and the scandal appeared in November 1997 during PM’s visit in Sarajevo. Sinha disavowed from any donation, Bács was in time of donation already dead. The original donor was Milan Šrejbr, Czech tennis player who privatized Třinec Steelworks.

<sup>5</sup> Bamberg affair escalated in 1998 and is connected with Czech Social Democratic Party (ČSSD), when its representatives met with Czech-Swiss businessman Jan Vízek in Bamberg in Germany. He offered a donation of hundreds of millions of CZK and damaging materials on ruling parties (ODS and ODA) in return of nomination Vízek’s people in the government in other offices. Social Democracy finally rejected his offer, but the affair gave publicity.

<sup>6</sup> This contribution for the mandate of members of regional assembly was introduced shortly after territorial decentralization and public administration reforms after 1999 in the Czech Republic.

<sup>7</sup> During 1998–2002 Social Democrats (Zeman) introduced a minority government that was tolerated by the right-wing liberal Civic Democratic Party (Klaus) according to the Contract on introducing stable political environment in the Czech Republic (frequently called Opposition Contract). Moreover, those parties tried to unsuccessfully introduce majoritarian election system, later to introduce bonuses for winning party.



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and even more, it doubled values for permanent contribution (to 6 mil. CZK).<sup>8</sup> **Amendment no. 556/2004 Coll.** allowed PPs to do business in broadcasting, and allowed to membership fees higher than 50 000 CZK. All this, including the list of donors donating more than 50 000 CZK and copies of deeds of financial donation, have to be listed in AFR.

Paradoxically, **amendment no. 345/2010 Coll.** only slightly decreased the value of permanent contribution for mandate of MP (to 855 000 CZK annually) and for the mandate of representative of regional assembly (to 237 500 CZK annually). Maybe it was an economy measure of cutting state expenditures in the light of the fact a global financial crisis.

The rest of non-listed amendments here were more or less technical updates and/or were not directly dealing with the party financing.

### 1.1 Contributions for election expenses for political parties

The **bill on Elections to the Parliament** (Act no. 247/1995 Coll.) adopted in 1995 should not be omitted to mention too. This bill introduced “contribution for election expenses” for all PPs that receive at least 3 % of all valid votes, receive 90 CZK per vote (§ 85). The bill also deal with the financial guaranties set for PPs for each 8 constituencies in the election to the Chamber of Deputies in the value of 200 000 CZK (§35, repayable if the party gets at least 5 % of votes) and elections to the Senate in the value of 20 000 CZK for candidate (§65 repayable if the candidate gets at least 6 % of all votes). Constitutional Court in its **Decision no. 243/1999 Coll.** abolished the level of 3 % set for obtaining this contribution. The reason was that this provision together with the financial guaranties is burdensome for small parties and Constitutional Court recommended to set the level for the contribution to 1 % of all valid votes. **Amendment no. 204/2000 Coll.** the level was set for 2 % and the contribution lowered for 30 CZK for vote and changed the financial guaranties newly at 20 000 CZK per PP for any of 35 constituencies. Constitutional Court again abolished the provisions dealing with financial guaranties and the conditions for obtaining contribution for election expenses (**Decision no. 64/2001 Coll.**). The next **amendment no. 37/2002 Coll.** decreased the financial guaranty to 15 000 CZK for any PP per each of 14 constituencies and this guaranty became non-refundable. The contribution for election expenses was set to 100 CZK per each vote, if the PP gains at least of 1,5 % of all valid votes.

### 1.2 Presidential campaign financing – a step ahead?

Very specific rules were adopted in terms of **presidential election**. There were 12 proposal made to change Constitution in this respect from 2001 in total, but the twelfth passed successfully in 2012 (Act no. 71/2012 Coll.). According to this change, a new bill (Act no. 275/2012 Sb.) specifies the rules for process of elections, nomination of candidates and campaign financing.

First, all candidates have to run a *transparent banking account* at domestic bank latest by submission of candidate list. All transactions for election campaign have to be made only through this account. If there any money left, not later than 30 days after elapsing the 120 days ban on spending transactions after official election result announcement, the rest of the money can be used for sport, social, health, environmental, cultural or public purpose (§ 24). This information has to be published within 15 days following the day when the residual money was transferred for public beneficial purposes (§ 38, sect. 2).

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<sup>8</sup> Interesting is this bill is originally dealing with state-bonds program and the change of one paragraph was only added on.

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Second, the bill specifies the *caps/limits for campaign spending* – 40 mil. CZK for 1st round, and 10 mil. CZK for the 2nd round, including VAT (§ 37, sect. 2). If any goods and services were provided for free, their common price is included in the spending limit!

The bill also sets a definition what election campaign is “any advertising for the candidate for the president office and all election campaigning (public declarations for his/her support, as well as of declarations disadvantaging opponents) including accompanying events normally paid” (§ 35, sect. 1).

All candidates together get 5 hours of time in radio and television in total starting 16 days and ends 48 hours before election (1st round) and 1 hour of time in radio and television in total starting 4 days and ends 48 hours before 2nd round (§3 5, sect. 5).

Last issue dealing with presidential campaign financing is the book keeping. All candidates are required to take complete accounting and all donors (both individual as well as legal persons) have to be filed by names, date of birth, address and or name, seat and identification number (§ 36). Sixty days after declaration of results of elections candidates have to introduce all accounting to the Mandate and Immunity Committee of the Senate (§ 38, sect. 2).

Those are the basic requirements set for financing campaign. The bill also specifies issues of proposing candidate lists, for organization point of elections, conflict solving by court etc.

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## Corruption risks in financing politics in the Czech Republic until 2016

As shown here above, there are very weak rules for both financing political parties in general, and almost no rules for campaign financing – however both issues are interconnected. This situation, in the light of the fact of expensive election campaign demands (see Table 1 for two last general elections were held), created a space for undue behavior and potential corruption exchange. Even the critique of international organizations is not moving development in the Czech Republic really ahead.

**Table 1** Campaign spending of PPs in the Czech Republic (in mil. CZK)

	2010	2013
ANO 2011	--	119,1
ČSSD	270,2	87,3
KDU-ČSL	28,1	39,7
KSČM	31,0	13,1
ODS	541,6	98,3
SPOZ	--	29,8
TOP 09	107,2	70,3
Úsvit	--	11,8
VV	108,1	0
Zelení	16,2	12,3

Note: Data for 2010 are expenses for all types of elections – general elections to the Chamber of Deputies, to the Senate elections in 1/3 of constituencies and the municipal councils as well as.

So, where are the corruption space, non-transparency and misuse in case of financing political parties and political campaign in the Czech Republic? It could be divided into several categories. First of all, the key issue can be **law and rules** itself. The regulation does not set many requirements on PPs financing and many “standard” provisions are missing. There are loopholes that could be used (see the donations from abroad here above) and of course the laws are interpreted at the edge of its original aim. The laws do not fulfill the principles of transparency and accountability in sufficient way. As an example, the regulation for presidential campaigns can be used. There are many unclear provisions that offer a space for frauds – e.g. non-listing ban on donations from charitable societies, the need to calculate all events for the candidate support (How? In which value? How the candidate get know about it?) and/or calculate all in common value, if anything was offered with discount (but how the common price is calculated nobody knows) to name only some of them. And last but not the least, the rules for campaign financing are missing in general (excluding the presidential election).

Second, there is the space for **masking and/or improper declaration** done on purpose, both of income and expenditure. There are many examples, how it could be done. First, there was a case of dead donor in the past. Similarly, declaring the false donor in order to mask the real donor is frequent. If we omit the ODS scandal appeared in 1997, the same party received in 2013 a donation of 1 mil. CZK

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from a 22-years old hairdresser currently at her maternity leave with no possession and with a permanent home at the cottage (Lidovky.cz 2014). A second activity is to itemize donations and to declare them as the membership fees to avoid publication of the donors' names if they donated less than 50 000 CZK, like in 2010 has experienced ČSSD (Novinky 2010); there is no tax reason for it (PPs donations as well as membership fees are income-tax free). The third way used is donations through various organization and/or companies that the law prohibits from donations – mostly the state companies and/or publicly owned companies. The charitable societies cannot donate any money in the general elections, but other forms of “NGOs” are not prohibited to finance campaigns. The issue is that many forms of NGO according to the Czech law have almost no reporting obligations, especially in the case of its donors – that creates a space for masking real donors again. The team of current president Miloš Zeman during the campaign used a civic association for fundraising and financing his campaign. The ODS accepted in 2013 donation from corporation owned by municipality.

Third category is connected with **week control and supervision**, both internal and external, and as well as monitoring of regular operations and during the campaign. The donations from the fake donors and their publication in AFR are a very good example of the fail of internal control mechanisms. However PPs are required to keep accounting and to follow specific laws, the regional and local organizations are pretty independent – the center has not many information about the financial situation and financial operation in the lower parts of the party structure.

Almost the same situation is during the campaign. PPs do not offer many information about running the campaign and campaign expenses before elections. Transparency International Czech Republic (together with other organization and students from Political Science programs) ran a project [transparentnivolby.cz](http://transparentnivolby.cz) (Transparent Elections) to monitor the campaign activities and campaign expenses online just before elections.<sup>9</sup> This online monitoring was successful in several areas – many PPs has opened transparent banking account for the campaigns (but not for regular operations!), many of them send and/or published requested information dealing with campaign, they structured campaign costs and expenses on their web pages. On the other hand, not all parties and not all requested information were delivered and/or voluntary introduce any transparency measures during the campaign.

Annual Financial Reports need special attention too. This statement is supposed to be the only one document to be supervised by Mandate and Immune Committee of the Chamber of Deputies and has to be delivered for the last calendar year latest by April 1<sup>st</sup>. The report offers prescribed structure and very condenses information that does not rather shed light on PPs' finances and financial flows, if we omit the copies of deeds of financial donation. Therefore, the Committee (composed from all parliamentary parties only!) can check the donations and deeds of donation, not the potential non-transparent operations. From the accountancy point of view the Committee has to rely on the auditors' “no problem” statement who only suppose if all accountancy standards were applied and do not deal with any non-transparent and/or suspicious operations either. Moreover, there is no rule

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<sup>9</sup> The project started in 2012 before presidential elections. The rules for presidential elections set many new requirements for the candidates in terms of campaign. During last two and half years all types of elections were held and monitored. Compared to the presidential campaigns, there are no specific rules for other types of campaigns in the Czech Republic. The last election to the municipal councils (Autumn 2014) shows that some parties have very little information about the financing campaigns at lower level (although the 8 biggest cities were monitored only!).

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how the auditors are chosen – no rotation principle, no choosing them by a lot – PPs are free to choose them and keep them for many years, and they really do so.

Information dealing with campaign expenses includes only one number in the AFR – amount of all campaign expenses for all elections held during the year – that makes difficult to state any conclusions about the structure. From that point of view the AFR are not a good source for the public to get any comprehensive information about the PP financing. Moreover, any information about campaign are late – are delivered many months after the election (at the extreme, if the election are held in January, information about the expenses are delivered in the beginning of April next year, almost 15 months later!). The AFR are mostly published on the webpages of PPs, but for a long time they were accessible in Parliamentary library. Another project run by NGO in the Czech Republic PolitickeFinance.cz (Political Finance) tries to offer accessible data on political finance on one webpage, and to access data on donations in user-friendly data format other than scanned .pdf document.

In this respect, Czech system suffers from independent, non-partisan oversight body responsible for deeper check on political finance. Although in mid 1990s the Supreme Audit Office (SAO) had right to oversight PPs, Constitutional Court finally abolished this – PPs are according the Constitution independent on the state and SAO had no competence according the law to oversight PPs. Politicians until today protect themselves (as well as those who are not represented in the Parliament) against any intervention and introduction of transparency mechanisms.

Fourth type is the internal operation of political parties, including the **internal party democracy** at all levels. Several issues are linked to the above-mentioned issues. First, the central administration of the PPs is sometimes not able to control the lower levels. This can bear several issues: the position on the candidate list can be bought according to the value of donation and/or according to the number of donors he/she is able to attract for the PP. Second, in order to finance the campaigns on the local and regional level, the lower structures of PP are strongly dependent on the local business elites (if the business elites are not directly the PP members). After elections, business interests want pay the price back through public ordering, redesigning of urban plan, changing investment priorities and (mis-)using money from European funds etc.<sup>10</sup> Third, the power of control of financial transactions and donations as well as non-written contracts with local elites from the central level of PP.

And for the fifth, the laws do not introduce and address strict **sanctions** for non-compliance. One example to this – if the PP has accepted a donation from a fake donor, the only one “punishment” is to send it back. If not, the double value of the donation is paid as a sanction. No other financial sanctions are levied on PPs in terms of financing.

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<sup>10</sup> The PolitickeFinance.cz tried to link the list of donors of the PPs (2006–2013) with the list of public ordering winners and they have surprisingly find out that 1/3 of donors had won any public contract. Donations then increase the chance of winning public ordering contract in the future (Novinky 2014).

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## Battle for new stricter rules and the amendment of 2016

The analysis above can lead to the only one conclusion – there are too many problems and a new systemic regulation is needed in the light of the fact of dissatisfaction of international community (GRECO) as well as the Czech NGOs (PolitickéFinance.cz, Transparentnívolby.cz, Rekonstrukce státu etc.) and many authors<sup>11</sup>.

First steps in terms of reform the unsatisfied state of political parties funding was prepared by PM Petr Nečas government in 2011. The Ministry of Interior made an analytical material about the possibility of “shining light on political parties transparency” (summer 2011) that resulted in March 2012 of proposal of a new bill on “supervision on political parties financing”. The draft includes following proposals: to create a new supervisory body on political parties financing was proposed; the transparent banking accounts; caps on campaign spending; more information published in AFR. Government finally rejected the idea of creation of a new body and the ministry had to rewrite the proposal – an updated version was never proposed by Ministry again (ÚV 2013). Therefore in April 2013, Government introduced in Chamber of Deputies own draft that left only transparent banking account and changed structuring of income and spending of PP in the AFR as the main “transparency measures”. The proposal passed 1<sup>st</sup> reading but after the fall of Nečas government (PSP ČR 2013), the legislative process was stopped due to the fact of deep political crises and waiting for a pre-term election in the fall.

In March 2013, more than a year before regular election to the Chamber of Deputies, the platform of 20 NGOs called RekonstrukceStátu.cz (State Reconstruction, REST) was created and its goal was to solve nine important niches in the Czech rule of law.<sup>12</sup> The political finance became one of the top issues.

REST addressed several recommendations for the new law update on political finance (REST 2013). It covers:

- transparent banking account for all party transactions;
- all transactions over 20 000 CZK only through banking accounts;
- special transparent banking account for income and expenses on election campaigns and separate disclosures on campaigns;
- disclose all non-financial donations in the AFR together with the common price of those goods/services;
- AFR in electronic format and online;
- if the PP runs a business, it is needed to apply the same rules of auditing them like for the PPs;
- mandatory labeling of all campaign advertising by a logo/name of submitter;
- rotation principle of auditors (same auditor for max. 5 years for one party);

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<sup>11</sup> To name only Bouda, Bureš, Klimešová (2012), Ondračka (2006), Vymětal (2014), Voda, Outlý (2003), Šimíček (2005) etc.

<sup>12</sup> Unfortunately there were preterm elections held in October 2013 after PM resignation in June according to the scandal in the Government Office. Many proposals were stopped for couple months.

- independent control mechanism that will actively screen party financing and campaigns (according information from media and/or citizen's investigation).

And more recommendations can be added – similar and clear rules for campaign financing for all elections (at least those organized at the central level) or specification of what the “common” price is (the market one?). And there are other useful measures that can be taken into consideration in order to limit the potential corruption space – caps for donations for both individuals and the corporations, caps on maximum spending during each election campaigns, online deeds of financial donation, campaign disclosure earlier than in AFS, independent oversight body equipped with competencies for monitoring and enforcement. And many other provisions can be added.

But not everything is necessary to be solved by the law. The experience of [Transparentnivolby.cz](http://Transparentnivolby.cz) shows that some parties voluntarily have introduced transparency measures – transparent accounts for campaigns, online publication of AFR, final statements of campaigns. But it seems that this can't be working without vibrant internal mechanisms inside the PPs, especially in terms of control mechanisms – the transparency and accountability principles in practice.

The new coalition cabinet of Bohuslav Sobotka proposed in its Policy Statement the commitment to ensure “citizens’ control over the political parties funding” (Vláda ČR 2014, p. 15) that follows by the commitment to propose a new bill on political parties funding in the The Anti-corruption Action Plan for 2015 (ÚV 2014, p. 10). The Ministry of Interior created new drafts (it was the general law on political parties funding, and the amendments of all “election bills”) in May 2014, but the Government took it on the agenda in April 2015. After passing the Government in July 2015, in the Chamber of Deputies the draft was slightly changed and the process was closed in June 2016 (PSP ČR 2015), it passed the Senate in August, and in September 2016 was signed by the president and published in the Collection as the Act no. 302/2016 Coll.

The new legislation in terms of political parties financing seems to be the most important change of the law in the last 25 years. As written above, the amendments can be divided in two groups – the update of general rules on political parties financing, and the updates of so called “election legislation” that provide rules on each type of elections held in the Czech Republic.

The **main rules on political parties** were amended as follows. First, the activities of political parties were extended by the possibility to establish and run and/or be a member of the **political institute** (PI) (§ 17). PI is a legal person focusing on research, publication, education and culture activities in various topics (human rights, civil society, public life, political culture, international cooperation) and can accept contributions that cannot be used for any election campaign. Second, the **income and spending** of PP were changed slightly – PP can accept gratuitous performances (free goods and services), but they have to be published in the AFR and the slightly (and technically) redefined were the income from lease, and income from loans and borrowings.

Third, the basic **state contributions** to the political parties were moderately increased: permanent contribution for mandate of MP (to 900 000 CZK annually) and for the mandate of representative of regional assembly and the Prague's assembly (to 250 000 CZK annually). The contributions are paid in the quarter amount 4-time a year after the Office confirms the AFR are delivered on time and contains all information in it (§ 20 and §20a).



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Fourth, the main “fight” and “revolution” in the law was about creation of a **new supervisory body** – Office for the Surveillance of the Political Parties and Political Movements (hereby “Office”). It has a President and four members of the Office appointed by the President of the Czech Republic from two candidates from the House of Deputies and the Senate; the members of the Office are elected by Senate (2 nominated by House of Deputies, 1 by Supreme Audit Office, 1 by Senate). The Office and its employees supervises the audited AFR of political parties that have to be submitted to the Office especially, campaign limits, has access to all transparent banking accounts of parties.

Fifth, all transactions over 5.000 CZK have to be done through the political parties have to done through **transparent banking accounts**. Political parties have to establish 4 types of transparent banking accounts: a) for contributions from the state budget and private donations; b) for transactions resulting from labour code and contracts; c) campaign funding; d) other income and spending (§ 17a, Section 2). The Office has access to all accounts, and only the first one is publicly accessible! All transactions have to be labelled by the name of the subject sending money and the purpose of the transaction made, otherwise the penalty can reach up to 2 mil. CZK (§ 19i and §19j).

Six, the caps for individuals’ and legal persons’ **donations** were set. The cap for financial donations and gratuitous performances from one subject in total could not exceed 3 mil. CZK per year and all have to be documented by a signed contract (§ 18).

Seventh, the main changes are connected with the party **spending**, especially the reporting system. Parties are required to close accounts to each election held separately, to publish information about non-financial donations (in the common value) and gratuitous performances over 50 000,- CZK and the contracts signed wit donors (§ 19h). Also all promotion has to be labeled by the name of the submitter and the processor. Moreover, the third parties that contribute to the campaign for and/or against any political party and candidate have to register and are limited in terms of total amount of money spent (Act no. 322/2016 Coll., § 16e, Section 8).

Eighth, significant **sanctions** were introduced first time in the history in Czech Republic. Financial sanctions for breaking law varies from 200 000,- CZK up 2 mil. CZK depending on the weight of the breach or double value of the donation and/or gratuitous performances. The PIs can be also penalized up to 200 000,- CZK (§ 19j, § 19k, § 19l).

Subsequently to this bill, the **election legislation** was amended too and deals with campaigns especially. First, the law finally defines when the campaign starts (by declaration of the Election Day by President) and ends (publication of the election results) that also demarcate the time when the spending is counted into the limit. Second, all parties are required to run a campaign transparent banking account where all transaction have to be recorded and labeled.

Third, the bills also defined the spending limits for some type of election: to the House of Deputies up to 90 mil. CZK, to the Senate up to 2 mil. CZK for the first round (2,5 mil. CZK for both rounds), for presidential office up to 40 mil. CZK for the first round (50 mil. CZK for both rounds), to the European Parliament up to 50 mil. CZK, and to the regional assemblies up to 7 mil. CZK per region. There are no limits for the local governments election. Fourth, parties are required to publish financial report about the campaigns within 90 days after the Election Day on their webpages and deliver it to the Office.



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## Current state for political party funding and campaign financing in the Czech Republic

The issue of political finance is regulated by several norms. The basic regulation is in the Constitution (Art. 5 and 9 dealing with free establishing and competition of political parties) and the Charter of Fundamental Human Rights (Art. 20 to 22 dealing with right to free establishment and assemble in political parties, that are separated from the state but the free competition is protected by the state) (Act no. 1/1993 Coll., Act no. 2/1993 Coll.).

The key regulation of PPs is the Act no. 424/1991 Coll. named here above and during the time it was 24 times updated and 9 amendments changed party funding.<sup>13</sup> From the beginning the law was very soft and does not address many requirements to be met for political parties. The change in 2016 made a significant shift forward. The following paragraphs summarize current rules applied on the political parties in the Czech Republic. We also omit the issue of establishing political parties, and the focus here is given to the funding only. For the simplification the rules are classified into five groups: income, spending, reporting, monitoring and the sanctions.

First group of issues deals with the **income** side of political parties' funding. The parties are financed by the state, as well as from the private sources and its own activities. The **state contributions** are divided into three forms – permanent contribution, contribution for a mandate, and contribution for election (campaign) expenses. *Permanent contribution* is derived from the result of election to the Chamber of Deputies if they reach at least 3 % of votes (6 mil. CZK + 200 000 CZK for each 0,1 %, max. 10 mil. CZK). The *contribution for mandate* of Member of Chamber of Deputy and Senator is 900 000 CZK per seat and 250 000 CZK for seat of regional assembly and member of municipal assembly of the Capital city (§ 20, Sections 3–6), paid four times a year in the quarter value (§ 20a, Section 1)<sup>14</sup>. The third type *contribution for election (campaign) expenses* varies according to the elections: Among that, each party can receive a *contribution for campaign expenses*: 100 CZK for each vote for parties exceeding 1,5 % of support in the Chamber of Deputies election (§ 85 of Act no. 247/1995 Coll.) and 30 CZK for each vote for parties exceeding 1 % of support in the European parliament election (§ 65 of Act no. 262/2003 Coll.). There is no similar support in regard of other types of elections.

The last form of state support is the *free time in radio and television* before elections to Chamber of Deputies (free 14 hours in total for all parties in radio and in television) (§ 16 of Act no. 247/1995 Coll. and § 59 Act no. 262/2003 Coll.). There is neither specific regulation or limits for campaign spending nor any supervisory body on political finance in the Czech Republic.

The parties can receive **private donations**. The new law from 2017 set up limits for both individual and companies' donation and newly added gratuitous performances up to 3 mil. CZK annually from

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<sup>13</sup> The particular regulation can be found in *Act no. 247/1995 Coll. on election to the Parliament of the Czech Republic*; *Act no. 62/2003 Coll. on election to the European Parliament*; *Act no. 166/1993 Coll. on Supreme Audit Office*; *Act no. 238/1992 Coll. on particular measures dealing with protection of public interest*; *Act no. 90/1995 Coll. on Rules of Procedures of Chamber of Deputies*; *Act no. 231/2001 Coll. on radio and television broadcasting*.

<sup>14</sup> If the law is not specifically listed, all paragraphs below is a part of the Act no. 424/2016 Coll. amended by the statutory text of the Act no. 302/2016 Coll.

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one subject. But there are some limitations – PPs are prohibited to accept donations from public entities incl. state companies, municipalities and foreign legal persons (excluding political foundations) and foreign citizens without permanent residency of the Czech Republic, from trusts, association of municipalities, non-for-profit organizations, political institute and institutes (§ 18 Act no. 424/1991 Coll.). All donations and gratuitous performances are counted to the limit. If a party member pays more than 50 000,- CZK as s membership fee, the amount exceeding the 50 000,- CZK limit for fees is supposed to be a donation or gratuitous performance. All donations and gratuitous performances over 1 000,- CZK have to be documented by signed contract (§ 18). It is not clear, how this rule will be applied in the case that an individual own a company.

Moreover, parties can have their **own income** based on their activity. It is the membership fees, rent and lease of their possession, but also they can be partners and/or run own company in publishing, printing and broadcasting, advertisement, organization of cultural, sport, societal, recreational, educational and political actions and production of goods advertising the party (§ 17, section 3). Parties are allowed also to establish a Political Institute developing mainly the research, publication, education and/or culture activities in the field of human rights, civil society, public life, political culture, international cooperation (§ 17, Section 4). The PI is banned to contribute to any political campaign of any candidate (§ 17, Section 7).

Second group is connected with **spending and expenditure** of the political parties. First, all transactions over the 5 000 CZK have to be done through banks on the non-cash basis. For that purpose parties have to establish four types of transparent banking accounts at the bank with the seat or a branch in the Czech Republic (§ 17a, Section 1 and 2):

- a) for contributions from the state budget and private donations;
- b) for transactions resulting from labour code and contracts;
- c) campaign funding;
- d) other income and spending.

Only the first account is fully accessible for the public, all are accessible for the Office at least for 3 years back. All transactions have to be labeled (at least the name of the sender/recipient and the purpose of the payment) (§ 17b). Parties are obliged to establish transparent banking account to all types of election separately, and after closing down the accounts to publish the financial data (see below).

The special attention is also given to the campaign transparent banking account in the **election laws** (Act no. 322/2016 Coll.). The account should be established not later than 5 days after the announcement of the Election Day by the President and should be publically accessible at least 180 days after the final election results were declared. After passing the 180 days after announcement of the final result, the rest of the money left on this account can be transferred within 60 days: a) to the transparent account of political party; b) in the case of independent candidate to the social, health, sport, environmental, culture or other public welfare purpose (Act no. 322/2016 Coll., § 16a, § 56b, § 59a). Moreover, also **third parties** can spent money for the campaigns too (see below).

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There are new **limits** for election campaign financing in place. First, the election laws specifies what campaign is – it is “any promotion or electoral agitation in favor of a candidate, political party, movement, coalition or independent candidate, and/or any public announcements and supporting activities in favor of candidates for which funds are spent”. Moreover, also negative campaign (announcement disadvantaging any candidate) is supposed to be a campaign. All such announcement has to bear information on the submitter and processor.

The election laws set spending limits for some type of election that are check by the Office later:

- a) House of Deputies election up to 90 mil. CZK;
- b) Senate election up to 2 mil. CZK for the first round (2,5 mil. CZK for both rounds);
- c) presidential election up to 40 mil. CZK for the first round (50 mil. CZK for both rounds);
- d) European Parliament up to 50 mil. CZK;
- e) regional assemblies election up to 7 mil. CZK per region.

The election bills amendment (Act no. 322/2016 Coll.) also require third parties to register when contributing to the campaign in favor and/or disadvantaging party or candidate. Third party can be an individual or a legal entity except those defined by the laws (state companies, foreign persons etc.) and has to be registered by the Office and open a transparent banking account. The **limits for campaign contribution by third parties** is set to 1,8 mil. CZK incl. VAT in election to the House of Deputies and for the Senate election 40 000 CZK incl. VAT in the first round (50 000 CZK incl. VAT for both rounds) (§ 16e, Section 8), for the regional assemblies election the limit is set to 140 000 CZK incl. VAT multiplied by number of regions in which the third party conducted a campaign (§ 56f), for the elections to the European Parliament the limit is 1 mil CZK incl. VAT (§ 59e), and for the presidential election the limit is 800 000 CZK incl. VAT for the first round (1 mil. CZK incl. VAT for both rounds) (38a). There are no limits for the election to the local/municipal assemblies.

Third parties has to register and file all transactions in 4 basic categories (§16e Section 10, § 56f Section 10, § 59e Section 10, § 38a Section 10): a) spending on pre-election polls; b) spending on advertisement in printing media; c) spending on outdoor advertisement; d) other spending.

Third group of issue focuses on **reporting and disclosure** made by political parties. The basic report prepared annually by political parties, is the **Annual Financial Report** delivered latest by 1<sup>st</sup> April for the past year to the Office. The scope of information published in AFR has been extended and covers (§ 19h):

- a) final accounts;
- b) Auditor’s report with the statement “without reserve”;
- c) summary of total incomes (especially identifying income from business companies partnerships, and list of loans and borrowings identifying the provider);
- d) summary of salaries paid and the number of persons paid;
- e) summary of total spending on taxes, fees and other financial performances;
- f) summary of spending on each election separately for the past year;
- g) summary of donors, amount of financial donations and common price of non-financial donations, name, address and/or seat, date of birth and/or identification number;

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- h) summary of gratuitous performances if the common price exceeds 50 000 CZK with identification data (as in letter f);
  - i) summary of property acquired by inheritance or by reference; if the value exceeds 50 000 CZK also the identification data of donor is required;
  - j) summary of all members paying more than 50 000 CZK membership fee with their identification data and the value of the fee of those members;
  - k) name and the seat of Political Institute established by political party and the spending on its activity (at least the contribution for its operation).

All AFR are open to the public and it would be accessible at least on the Office webpages within 7 days after delivery.

Second, the political parties are obliged to **keep accounting** according to the special Act no. 563/1991 Coll. on accounting. Moreover, parties have to have all accounting and final accounts **audited** by a certified auditor that has to be changed at least each 5 years (§ 17, Section 10). All corporations established by political parties have to be audited as well as. Auditor finally issues the statement on political parties accounting that has consequences for receiving the state contributions.

Parties are also required to publish within 90 days after publishing the final election results the **data on campaign financing** on their webpages and to send a copy of it to the Office for supervision (Act no. 322/2016 Coll., § 16d, § 56e, § 59d).

The **third party** are also required to publish within 10 days after the end of election campaign to publish the summary of the spending registered and filed in four categories at its webpages for next at least 3 months. It is also obliged to keep all account statements of the transparent banking account and the registered and filed transactions on it at least 5 years and to be ready to submit it to the Office (Act no. 322/2016 Coll., §16e Section 11 and 12, § 56f Section 11 and 12, § 59e Section 11 and 12, § 38a Section 11 and 12).

Fourth group of problems regulated by the new law is the strengthening the **monitoring** system. The control, monitoring and supervision over the political finance (that is political parties funding and campaign financing) was transferred to the new independent body – *Office for the Surveillance of the Political Parties and Political Movements*. The Office publish all AFR on its webpages together with the conclusions observed during the control, and communicate with Ministry of Interior in terms of parties misconduct to deliver a AFR (that can have consequence for party's dissolution). Office also discusses administrative offences and imposes sanctions (§ 19f).

Another type of public control is the **transparent banking accounts**, at least that for state contributions and the campaign.

Five group of problems covered by the bill is the issue of **sanctions** for breaking the rules. The bill addresses various sanctions (mostly financial) for various types of misconduct. Mostly administrative breaches cover can be grouped into three problems. First, there are sanctions *for individuals and companies* if they fail to label all financial transactions between them and political parties – the penalty is up to 2 mil. CZK (§ 19i, § 19j Section1). Second, for *political parties* the penalty varies – if the rules on transparent banking accounts are not obeyed, if parties fail in terms of AFR (late disclosure, does not remove deficiencies) and/or accept donations and gratuitous performances contrary to the law and do not return it back in time, the penalty is up to 200 000 CZK. If party does not remove all

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deficiencies in the AFR and/or if the transaction on the transparent banking account is not labelled, the penalty is up to 2 mil. CZK. If the donation and gratuitous performance is not return back and/or they are not transferred to the state budget, the penalty can be a double value of the donation and gratuitous performance (§19j, Section 2). Third, the *Political Institute* can be sanctioned for using the contribution for functioning in a different way as described above, does not have separated transparent banking accounts and/or does not provide this information to the Office, and/or does not inform the Office about the PI's webpages, the fine is up to 200 000 CZK (§ 19k).

All the sanctions can be imposed only if the administrative body starts the sanctioning procedures latest 2 years when the breach was reported, latest 3 years from the date when the breach of the law was committed.

A specific sanctions result also from breaching the ***election laws*** (Act no. 322/2016 Coll.) and are much broader – the offences deals with the non-registration, political propagation by media owned by the region or municipality, and/or legal person controlled by region or municipality, non-listing the submitter and processor and/or the third party, publish the election polls less then 3 days before election (all for individuals and legal persons), third party does not establish the campaign transparent banking account, does not prove the ownership of the account by the third party, exceeds the financial limits for the campaign, does not register and file spending according the law, does not submit the account statements and/or registered and filed spending, and does not publish summary of the registered and filed spending on the website. For those breaches the penalty is set to 10 000 CZK up to 100 000 CZK. There are much broader provisions in the similar way for the independent candidates and political parties too and the penalty varies from 20 000 CZK up to 500 000 CZK and in the case of exceeding the spending limits for the campaign, the fine is set to 10 000 CZK up to 1,5times of the amount above the limit. About the penalty mostly decides the Office (§ 16g–§ 16i, § 56g–§ 56i, § 59g–§ 59i, § 62–63).

The other type of penalty is the ***stopping the state contributions***, if the party fails in reporting (§ 20, Section 9) – the AFR is not published, the AFR does not have all obliged information and/or the procedure on banning the political party was initiated (§20a, Section 2), but parties have the right to ask the “stopped” contributions if the remove the problems.

The tightest penalties in terms of political parties are two: ***temporal suspension*** and ***dissolution***. Both penalties can be applied only according to the court's decision for several reasons: they are not officially registered, citizens are members of more political parties and/or members are also persons to which the membership is banned by other laws (judges etc.) (§ 2), members are not free to enter or exit party and the members rights are limited (§ 3), parties break the Constitution, bills and democratic system; do not have democratic statutes; want to limit equality of other parties and citizens, or their behaviour break rule of law, ethics and liberty (§ 4), they are not separated from the state, are armed and run a private army and/or are not organized on territorial basis (§ 5) and do not follow the rules on financing.

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## PËRMBLEDHJE EKZEKUTIVE

Gazeta merret me financat politike në Republikën Çeke, veçanërisht me rregullimin e financimit të partive politike dhe financimin e fushatës politike. Fokusi kryesor është në prezantimin e hapësirës jo transparente dhe potenciale të korrupsionit në legjislacionin që ka të bëjë me financimin e partive politike në Republikën Çeke.

## Резиме

Рад се бави политичким финансијама у Чешкој, посебно са регулацијом финансирања политичких партија и финансирања политичких кампања. Основни фокус је на презентацији нетранспарентног и потенцијалног корупционог простора у законодавству које се односи на финансирање политичких партија у Чешкој.

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