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Weekly Briefing

Slovenia Political briefing:

Politics developments in Slovenia

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In one year between spring 2018 and spring 2019 Slovenian citizens will vote three times, first on the parliamentary elections in early summer this year, then on local election in autumn and finally on the elections for European Parliament in spring 2019. As for now, the main focus is the first, parliamentary elections and more attention is given to the activities of the political parties. In January, the main opposition party, Slovenian Democratic Party (SDS) was discovered to have taken an illegal loan and this affair opened the debate about the regulations of the financing of political parties in general.

History and background

In the first decade of Slovenian multi-party system, the financial aspect of political organizing was fairly loosely regulated, resulting in a lot of political corruption and the non-transparent relations between politics and companies, including also the media, and financial institutions such as banks and insurance companies. Basically, the general structure of the financing system, which is still in place today, defines the income of the political parties to be coming from two sources: public and private. Public funding is generated directly and indirectly. Directly, political parties that successfully compete in the elections and come above the 1% threshold get funded from the national budget. A smaller amount of the quota allotted for this purpose is divided equally among political parties, and a larger part of the quota is then divided according to the result on elections. This system enables even political parties that did not enter the parliament (threshold for that is 4%) to get financial support from the state. If parties manage to become a parliamentary party, they also get a recommendation for the election campaign. Indirectly, political party can also use the funding obtained from the national budget by their group of Members of the Parliament. Private funding was initially allowed to come both from people and from legal entities, but is today limited to people only and it is also limited by the sum given. The initial regulation or the lack thereof was a source of serious corruption liabilities. This and several other regulations were only added fairly recently while the driving force for the change of this system was coming from abroad.

The main assessment in this regard was provided by the European anti-corruption organization, GRECO, Group of States against Corruption. Slovenian system of funding political parties was thoroughly analyzed and results reported in December 2007. Several critical conclusions were made with recommendations for change. GRECO found that not enough information was given in the yearly reports by the political parties about the sources of their funding and also about the expenses. Even when detailed reports were provided, the reported costs of their campaigns often did not match the actual costs of advertising and other services, the underreporting enabling hidden sponsorship. They also found great irregularities in the domain of loans and discovered that there is no regulation of loans given to the political parties, which is seen as a liability for all types of corruption. Additionally, the role of different associations, related to the political party but without a legal status of a company, is undefined, although they were allowed to participate in campaigns. The funding made by legal entities, enable them to exert too much influence over political decisions of political parties, the biggest state-owned companies which were also biggest donors were later reported to have obtained the most important state tenders. The sanctioning of funding irregularities were also not strict enough, the penalties were also too low to discourage such practices.

The response to the GRECO recommendations in Slovenian politics was very slow. In 2014 finally changes were adopted. The first change concerned the system of public financing, making the equally divided share larger (from 10% to 25%) and the proportionally divided share smaller (from 90% to 25%), thereby preventing the prevalence of the bigger political parties. The ratio of the funding that political parties are able to use from the funding given to their members of the parliament, was also limited (to 50%). The most important change was a complete ban of funding from companies or other legal persons.

The only private funding allowed was to come from individuals, but even in that case the amount was limited by ten times the amount of average gross monthly salary in Slovenia. No contributions regardless of the form are allowed from abroad.

Slovenian Democratic Party Bosnian loan affair and its consequences

According to the *Law on Political* parties, the same regulated amount applies for the loans that a political party takes from a person (and not from a bank or a similar financial institution). In January 2018 this topic was brought up after documents were discovered that the main opposition party, the Slovenian Democratic Party (SDS) took a loan in December 2017, which was against the above-mentioned regulations in several aspects. The loan was not given to SDS by a financial institution, but by a person, who is a foreign resident, namely a resident of Bosnia and Herzegovina, precisely from Republika Srbska part. The amount was exceedingly high; it amounted to 450.000 EUR in three payments, due late 2017, early 2018 and early 2019. The interest rate was also unusually low, which caused a lot of speculations about the source of the money in question and whether the case itself might involve money laundering of some sort. The fact alone that the loan giver was from abroad and that the sum greatly exceeded ten times the amount of average gross monthly salary in Slovenia, already made the loan unacceptable according to the *Law on political parties*. As a guarantee the loan contract includes an option that the loan is converted into a share in a (media) company, which is owned by the SDS political party. All the problematic elements together brought this case in front of the Slovenian Court of Audit, which is now analyzing the elements of the loan. In following days, the political party in question announced that the loan was returned, a gesture that was also seen as unrealistic in the media, since the account of the loan giver was not specified in the contract.

The affair started a big public debate about the financing of the political parties in general and renewed the debate about whether the law regulation for that should be revised. The intention of the regulation from 2014 which completely forbad the financing of political parties from companies was clear, especially in Slovenian framework. The rather limited political-economic environment requires a strict delimitation of possible influences between economy and politics. The committee for prevention o corruption has, for example, discovered, for example, that several big companies in Slovenia have oscillating economic results, in relation with the left/right political option in the government. But even when the donations by companies were allowed before 2014, the amounts given were rather small. There are, however, a lot of other possibilities of bypassing the regulation and after the ban in 2014, this started to happen even more often. The corruptive potential can be found in other aspects of the functioning of political parties especially during election campaigning. This holds especially true for the type of companies which can semi-legally provide their support and thereby extend the influence, but still comply with the regulation. One such practice is providing different services during the campaigning time without charging the expected amount, which was reportedly done by different performers, printers, designers and PR agencies. Another way to bypass the regulation is even more difficult to trace. The financing by a company or an individual is done by paying an invoice for the services used by the political party. The political party therefore benefits from the services paid, but the cost itself and therefore the financial contribution given by the person or company that pays the bill can not be discovered in the financial report of the political party.

Another issue which was also addressed in these debates is the system of public financing of political parties. It can be seen that for most of the existing political parties, the proportion of their income obtained directly and indirectly from the national budget, amounts to over 90%. Despite the correction in 2014 regulation which gave more resources to the equal distribution between all political parties, a large proportion of 75% still relies on the success of the political parties in the previous elections, which causes the stronger political parties to become even stronger, and the smaller ones to have difficulties competing, eventually establishing what was called in media a “cartel” of established political parties.