

CONTROL OF POLITICAL FINANCE **FROM A TO Z**

The Latvian Experience



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Table of Contents

Introduction	4
Top case of the Latvian political party finance supervision	6
“Outfoxing the Oligarchs: How a tiny Baltic republic succeeded in taking its oligarchs down a peg”	8
“The Foreign Affairs” article by G.Kuris, 2013	
Political party financing control	16
Supervision	17
Independence of the decision making of supervision body	20
Scope of supervision	22
Resources of the supervision body	23
Publication of the supervision body results	24
Transparency of Political Funding	26
Regulating Political Donations	30
Various bans on donations	31
Thresholds	33
Donations in kind	35
Sponsorship, loans and forms of financial activity	37
Rules on donations which differ from one election to the another	37
Membership fees	15
Sanctions and statutes of limitations	38
Administrative penalties	40
Suspending and abolishing a political party	41
Criminal sanctions	41
Failure to comply with the provision regarding accounting	42
Results Latvia	42
Statutes of limitation	43
Public Funding of Political Parties	44
Rules of State budget granting	46
Refusal to grant state budget financing and interruption or suspension of disbursement of state budget financing	47
Spending of state budget financing	47
State budget financing in the event of reorganization, liquidation and establishment of political organizations (parties) and the associations thereof	48

Party Accounts and Third Parties	49
Presentation of accounts	50
Publishing accounts	50
Third parties	53
Distinction between ongoing party expenditures electoral expenditures	54
References	55
Contacts	56

Introduction

Latvia has undergone a profound transition of its economy and governance to become a member of the European Union more than a decade ago. It has accumulated extensive experience, both very successful and at the times less so, in setting up governmental structures, implementing international obligations and carrying out reforms with the aim of prevention and fight against corruption. This knowledge, transferred from the personal experience, can be successfully utilized by other countries with a similar past and shared aspirations.

This handbook shares the best practice from Latvia in one of the key anti-corruption areas – control of political finance.

According to GRECO, Latvia “has a well-developed legal and institutional framework regulating the financing of political parties and election campaigns and supervision thereof.”

In 1995, a few years after Latvia regained independence, the Parliament of Latvia – Saeima – adopted the Law “On the Financing of Political Organizations” (Parties). The National Integrity Study of Transparency International established that “Regulatory framework in Latvia envisages clear and comprehensive public disclosure procedures for both revenue and expenditure and parties are reasonably disciplined in terms of filling in and submitting the reports.” The report stated: “In fact, as far as the legislative framework is concerned, the Latvian party financing system represents a major success story.”

In 2002 Latvia arranged a significant reform introducing transparency of all political donations and handing the task of supervision of political finance to the newly-established **Corruption Prevention and Combating Bureau (KNAB)**. In 2004 Latvia introduced a ban on donations by legal persons and set a campaign expenditure ceiling, in light of significant resources spent during the previous election campaigns. During the 2006 elections KNAB established a major overspending by two government parties and filed a law suit, which was finally resolved in 2011, ordering the parties to pay the government 2.2 million euro. This de facto ended the existence of two leading parties that both had held the position of the prime minister in the previous decade.

Besides the consistency of work in controlling political party finance, one of the best case practices in this area by Latvia was highlighted by the European Commission in its first member state Anti-corruption report¹:

Good practice

Searchable online database of political donations

KNAB's searchable online database of political donations contains up-to-date and complete records of donations to parties, which they are required to disclose within 15 days, including date, value, source and recipient. Similar databases cover membership fees and required financial declarations and annual reports. The accessibility of this information contributes to the prevention and detection of corruption.

European experts have also acknowledged the high level of commitment by the staff of the Corruption Prevention and Combating Bureau dealing with political party finance control. The experts wrote: “the professionalism and commitment of KNAB to enforcing political finance laws appeared to be beyond any doubt.”

The aim of this publication is to give the government and non-government activists tools to assist in the construction of an effective system for the control of political party finance.

This handbook acknowledges the fact that the field of money in politics and controlling political corruption goes beyond controlling political party finances alone, and relates to other areas of anti-corruption work such lobbying, government procurement, transparency of the private sector and election campaign regulation. Some aspects of campaign regulation and its control are also mentioned in this handbook.

The handbook relies on the principles and best practice of political party finance as established by the Group of States Against Corruption of the Council of Europe (GRECO) and International IDEA and its “Funding of Political parties and Elections Campaigns”. This handbook could have not been written without support of the Corruption Combating and Prevention Bureau (KNAB) of Latvia and its energetic leadership of the Department of the Control of Political Party Finance.

The first version of this handbook was prepared during a project between two NGOs – **Transparency International Latvia (Delna)** and **Transparency International Ukraine**, that enabled the sharing of best practices. The financial support of the

¹ <https://www.knab.gov.lv/lv/db/>

Ministry of Foreign Affairs of Latvia, as well as their programmatic support made sure that this handbook project became possible.

Top Case of the Latvian Political Party finance Supervision: Election Campaign Overspending and Million euro Fines

Soon after the Parliamentary elections in 2006 four political parties contested the election results in the Supreme Court of Latvia, claiming that the elections were an infringement of the free and equal election principle.

The main complaint was related to campaigns of two non-governmental organizations that were closely connected to two winners of the elections – the People's Party and the Latvia First Party/Latvian Way. The NGOs ran the so-called positive campaigning giving a favorable boost to the candidates of the two parties. These organizations in their own name placed advertising, thus circumventing pre-election campaign spending limits that were introduced shortly before the elections.

The Supreme Court did not annul the election results. However, both the court and later the Corruption Combating and Prevention Bureau (KNAB) decided that the two NGOs have incurred expenses that should be considered the expenditure of the parties' election campaigns. KNAB ordered the excess amount to be returned to the state budget along a fine for violating campaign legislation, all together 2.2 million euros: 75,000 euro to one party and 1.45 million euros to the other party. The court hearings lasted through three rounds of appeal, finishing in 2011 with the same decision in place.

The Result

The conclusion of the Supreme Court was an important foothold for KNAB to decide on how to assess the campaigns by NGOs, because the Supreme Court elaborated principles for assessing third-party agitation. The Court ruled that third-party campaign expenses must be included in pre-election spending limits of a political party if it can be established that the third party and the political party have direct links, such as founders of and contributors to an NGO are directly linked to the political party, as well if the party does not distance itself from the campaign that is carried out by a third party.

One of the founders and members of the NGO, which heavily supported the prime minister's People's party, was the chief of staff of the Prime minister – Jurgis Liepnieks. The main donors of the NGO were Liepnieks himself (donating 113,000 euros) and the founder of the People's party, the former prime minister Andris Šķēle, who donated 474,000 euro. Given the fact that the NGO's founders and major contributors

were associated with the party in question, and based on the fact the party didn't distance itself from the campaign, the Supreme court of Latvia concluded that the NGO had a direct link with the campaign of the Prime minister's party.

Similar conclusions were reached by the Supreme court about the NGOs linked to the party LPP/LC advertising campaign. In this case the NGO was run by an advertisement professional Ēriks Stendzenieks, who's advertising agency "ZOOM" was the author of the pre-election campaign of the LPP/LC party.

After the actions of KNAB and the court decision a substantially improved third-party campaign regulation law was adopted setting limits to third-party expenditures during election campaigns and an obligation to declare sources of income.

Outfoxing the Oligarchs in Latvia

How a tiny Baltic republic
succeeded in taking its
oligarchs down a peg

“The Foreign Policy” article, 03.05.2013, by Gabriel Kuris



Photo: The newly elected President of Latvia Andris Bērziņš comes out of the Parliament building to face protestors “Against the Oligarch Power”, June 3, 2011

Eager to advance its accession to NATO and the European Union, Latvia established the Corruption Prevention and Combating Bureau (KNAB) in 2002 to take on government corruption, a legacy from decades of Soviet rule. KNAB had a tough task ahead; many of the people who enjoyed power and privilege did not want a strong anti-corruption agency — only the appearance of one. Despite leadership turmoil within the agency, clashes with parliament, and a worldwide financial crisis, KNAB proved its effectiveness in nabbing high-level suspects and spurring popular support for a wave of anti-corruption reforms.

After independence from the Soviet Union in 1991, Latvia rapidly transitioned toward European-style free-market democracy. This abrupt transition opened opportunities for individuals and firms to subvert key state institutions for private advantage, using state assets, the provision of government contracts, and the design of financial regulations, to lock out competitors and cement their own economic advantage. Through such “state capture,” these power brokers undermined democratic processes and citizen trust in government.

Accusations of state capture in Latvia centered on the so-called “oligarchs,” successful business leaders known for their power and wealth, but reputedly tied to corruption. Most prominent were three men — Aivars Lembergs, Andris Skele, and Ainars Slesers — who were leading power brokers within major right-leaning political parties. Until 2011, nearly all of Latvia’s governing coalitions included at least one of these parties.

Skirting opprobrium, the oligarchs skillfully parlayed their private-sector success into public respect and support. They built extensive networks of influence and intelligence within government, media, and business that intimidated officials and journalists into turning a blind eye towards their dealings.

Recognizing Latvia's problems with state capture, the World Bank released landmark studies highlighting Latvian corruption and setting back their membership process to the European Union and NATO. To demonstrate its commitment to tackling corruption, the government embraced the World Bank's recommendation to follow the model of Hong Kong's Independent Commission Against Corruption by empowering a single agency to handle corruption investigation, prevention, and education. But when they unveiled KNAB in 2002, many reform advocates were skeptical, seeing it as a paper tiger designed to impress the international community rather than achieve real progress.

Designed by a working group under the justice ministry, KNAB had full investigative powers, including the authority to carry out special police activities like undercover work, sting operations, and telecommunications surveillance. "It had to be strong or it wouldn't work," explained Inese Voika, a member of the working group and founder of Delna, Latvia's Transparency International chapter.

The draft law put the bureau under the leadership of a director and two deputy directors, for investigation and prevention respectively. The bureau was responsible to the prime minister, but had broad authority to carry out its mission with limited political interference. The cabinet's primary lever of control over KNAB would be the ability to appoint and, upon legal cause, remove the head of KNAB, with parliamentary confirmation. KNAB would report semiannually to the cabinet and parliament, and make annual budget requests to the finance ministry.

Parliament passed the KNAB creation law in May 2002 without controversy; preoccupied by upcoming elections, politicians did not want to appear soft on corruption. Moreover, foreign governments made clear their support for KNAB. "When the law got to parliament, the Americans played a major role in pushing the committees of the parliament to leave it like it is," Voika said.

Before parliament passed the law, it additionally gave KNAB a responsibility unique among anti-corruption agencies: the power to monitor compliance with campaign finance regulations. This decision was impromptu — parliament had just passed new party finance regulations in response to public outcry, existing agencies did not want responsibility for implementing them, and the KNAB law was open for amendment. But eventually, this power would become a game changer in the fight against corruption, as the bureau sought to stanch the flow of money that expedited state capture.

An independent committee chose Jūta Strike, an experienced police investigator in an elite state security agency called the Constitution Protection Bureau, to be the KNAB's director. However, parliament rejected Strike's candidacy in a secret-ballot vote. Prime Minister Einaris Repše, who had campaigned on an anti-corruption platform, contended the vote reflected legislators' fears about having an assertive leader in the position. Incensed by the defeat, Repše appointed Strike as deputy director of investigation and then made her acting director anyway — a defiant act that prompted the collapse of his government. "This was too much for members of my coalition," Repše recounted. "The three so-called oligarchs made a coalition between themselves that was unthinkable before." Latvia's next three prime ministers all came from oligarch-associated parties.

Alvis Vilks, former head of the State Revenue Service's anti-corruption unit, joined KNAB as a senior specialist and quickly became deputy director of prevention. Vilks and Strike hired most of their staffers through informal processes. Applicants had to demonstrate commitment against corruption, be university educated, and qualify for a security clearance. Eager for the bureau to become operational as quickly as possible, the leadership team eschewed open competitions in selecting its staff members — a decision that proved regrettable.

From the beginning, the agency faced high expectations. Strike lamented the public's beliefs that KNAB would quickly catch "not just one big fish, [but] all the big fish." One of KNAB's early targets was judicial corruption. Strike said judges were too lenient in corruption cases, which often involved oligarchs or their associates. The judges regularly granted suspended or conditional sentences to powerful defendants. Through surveillance and sting operations, KNAB uncovered cases of judicial bribery that reached high-level judges and prosecutors. "When the public saw how the judges were taking bribes to make decisions, it was a very big scandal," Strike later recounted. After a media firestorm, judges began to take corruption more seriously, handing down harsher sentences in corruption cases.

KNAB also achieved early successes in its prevention efforts, particularly in monitoring party finances. The bureau turned up a large number of violations during the first year. Unaccustomed to oversight, parties expected they could flout the law with impunity. "They were so ridiculous, these violations," Dina Spule, a KNAB member, observed. For example, lists of major party donors included low-income individuals, young children, and the deceased.

With Repše out of power, oligarch-associated parties consolidated their control over Latvian politics, confronting KNAB with new political challenges. Repše's successor, Indulis Emsis, had to appoint the bureau's first permanent director. An independent committee named Strike, Vilks, and Aleksejs Loskutovs as finalists. Once again, the committee awarded Strike the most votes, but the cabinet rejected her candidacy as

untenable in parliament. Lembergs, one of the oligarchs, invited Loskutovs to a secret meeting outside the gates of Lembergs' mansion. A soft-spoken lawyer and police academy professor, Loskutovs appeared inexperienced and complacent. During a short stint on KNAB's preventive staff, Loskutovs had feuded with Strike and earned a reputation for absent-mindedness. "It was obvious," Loskutovs said, "that the [ruling coalition's] advisers proposed my candidacy as a theoretical academician who would be more or less easy to manage." Parliament approved the choice in May 2004.

Strike and Vilks were wary of working with Loskutovs because of his tacit support from the oligarchs. However, the new director quickly proved his mettle. Just weeks into his term, the prime minister's party implored Loskutovs to override a KNAB decision to fine the party an unprecedented \$185,000 for campaign finance violations. "All journalists in Latvia were waiting to see what he would do," Strike recalled. "He said that he trusted KNAB's unit on political party funding control and lawyers. He read [the case] through, and he agreed the party had to be punished. It was the first sign for us that he was trustful."

When the prime minister's chief of staff wanted to fire Strike, Loskutovs insisted he could only take that action if "there was a legal basis to do so. [And] of course, they had nothing." For the KNAB staff, the incident showed that Loskutovs was dependable. "It's not a secret that when Loskutovs was selected, politicians thought that he would be sleepy and ineffective," Spule said. "Then it turned out he made a good team with both deputy directors." The trusting relationship between the three leaders eased staff cooperation and encouraged an open, collegial culture.

Loskutovs next had to earn public trust. KNAB communicated regularly about its activities, achievements, and Latvia's corruption problems. Under Loskutovs' leadership, KNAB conducted a series of high-profile investigations from 2004 to 2007, implicating the three most powerful oligarchs in high-level corruption. The first case involved bribery charges related to the March 2005 municipal elections in Jurmala, an upscale beachside suburb outside the capital of Riga. The case resulted in three convictions, including a former Jurmala mayor. (Trial evidence leaked to the media showed all three major oligarchs' involvement, although prosecutors found insufficient evidence to bring charges against them.)

A second case that dominated headlines involved the introduction of digital television in Latvia in 2003; the case charged 20 defendants with fraud totaling tens of millions of dollars. Former Prime Minister and oligarch Skele sat as a witness and many of his close associates were defendants. While the case did not directly implicate the oligarchs, it pointed to lurking corruption.

Most significant was a third case directly targeting Lembergs. Beginning in October 2005, KNAB and other agencies investigated accusations against him including bribery, money laundering, and misuse of his mayoral authority in the town of Ventspils — charges associated with \$15 million in ill-gotten wealth. Police briefly arrested Lembergs in March 2007 and courts in Latvia and the United Kingdom froze \$200 million of assets tied to him and his close relatives.

These courtroom successes won KNAB support from the public and high-level figures like President Vaira Vike-Freiberga and Prosecutor General Janis Maizitis, limiting the government's ability to rein in Loskutovs. By 2007, however, Prime Minister Aigars Kalvitis — coming off the heels of a resounding reelection victory after years of economic growth — sought to scale back KNAB, which had fined his party \$1.9 million for campaign finance violations. Kalvitis called for Loskutovs' dismissal, citing an audit report that found weaknesses in KNAB's internal controls in managing assets and human resources. "These were problems you would find in any public office," contended Liga Stafecka of Delna. "[Kalvitis'] response was very disproportionate."

Kalvitis instructed Prosecutor General Maizitis to investigate the issue, who found no evidence of corruption or serious lapses of duty. Still, Kalvitis submitted Loskutovs' dismissal to parliament, prompting a series of mass anti-corruption protests drawing celebrities, public intellectuals, and business leaders. Confronted by post-communist Latvia's largest protest, Kalvitis' cabinet collapsed. Parliament suspended its vote on Loskutovs, Kalvitis resigned, and the popularity of the oligarch-associated parties began to flag.

Although Kalvitis' effort to oust Loskutovs had failed, the agency soon encountered internal problems that threatened its operations. In March 2008, KNAB discovered it was missing seized assets worth \$300,000. Two staffers were found responsible and convicted, but the funds were never recovered. Maizitis' report faulted Loskutovs for failing to set strong internal controls, spurring parliament to dismiss Loskutovs in June 2008. KNAB adopted several internal regulations in response to the incident, such as new protocols on the management of classified materials, a code of ethics, and an open recruitment process for new hires. However, the episode still tarnished the bureau's reputation.

In January 2009, outgoing Prime Minister Ivars Godmanis appointed Normunds Vilnitis as Loskutovs' replacement, with parliamentary approval. A former law professor and law enforcement official, Vilnitis quickly aroused controversy. KNAB Deputy Director Vilks cited "rumors [that Vilnitis] was sent by politicians simply to make the work of KNAB worse." Vilnitis exerted authority over long-time KNAB staff, issuing formal complaints against Strike and Vilks for insubordination and incompetence, and accusing them of foreign espionage. Both Prosecutor General Maizitis and Delna

lobbied to remove Vilnitis, but the new prime minister, Valdis Dombrovskis, was reluctant to intervene.

Seeing Vilnitis as an internal threat to KNAB, bureau veterans defied his orders and cut him out of sensitive operations. Under Vilnitis' nose, they pursued their high-level investigations, despite security threats such as the discovery of a Russian smuggling syndicate's assassination plot against Strike, which briefly forced her to leave the country.

KNAB's efforts paid off in May 2011 with the first search raids and arrests in a massive operation that the press dubbed the "Oligarchs Case." The case ensnared 26 companies and 11 defendants, including six officials, in a complex web of kickbacks and hidden assets. All three oligarchs faced serious charges. The case added fuel to public fury over state capture, becoming a public symbol of oligarchic excess against the backdrop of a painful economic crisis.

When KNAB's investigations reached Slesers, his parliamentary immunity protected his property from search and seizure. Public outrage exploded. On May 28, President Valdis Zatlers called for a referendum to dissolve parliament, specifically naming the three oligarchs as threats to Latvian democracy. "In a sense, everyone knew it, but it was brave that he said it so decisively," said Rasma Karklina, a Latvian parliamentarian. Delna organized a rally outside of parliament that attracted thousands to protest the oligarchs, and proposed a list of "The First 10 Steps to Recover the Stolen Country." The first step was to dismiss Vilnitis as KNAB director.

Parliament conceded and dismissed Vilnitis. According to Karklina, "parliament was getting dissolved, so deputies who previously had been reluctant [to dismiss him] were trying to position themselves as good guys before the [September 2011] election." Election results gave Lembergs' party 13 percent of parliament; Slesers' party won no seats; and Skele's party was bankrupt after losing court battles with KNAB over campaign finance violations. For the first time, a government coalition formed that involved none of the oligarchs' parties.

The anti-oligarch wave that began in 2010 opened a window of opportunity for KNAB to push long-stalled legal reforms, including the criminalization of campaign finance violations, judicial reforms to expedite trials, whistle-blower protections, and the lifting of parliamentary immunity for administrative offenses. Perhaps the most ambitious reform was the 2012 passage of the Zero Declaration Law, which required all residents of Latvia to declare all assets valued at more than \$18,500 (including assets abroad), to curtail the underground economy, and prevent public officials from hiding tainted assets by transferring ownership to friends and relatives.

KNAB's successes depended on a strong leadership team. The agency performed best, and built its strongest public credibility, when the leadership team worked in an atmosphere of harmony and mutual trust. This trust required strict controls and management of internal corruption risks, preventing the lapses that led to Loskutovs' dismissal and blemished KNAB's reputation.

KNAB's experience showed the important roles played by the public and by powerful allies like the president and prosecutor general. KNAB won this support by strengthening media relations, achieving tangible results, and demonstrating independence and integrity. Ultimately, KNAB's survival and entrenchment within the Latvian state helped curtail high-level corruption and drive a broad-based wave of reform that helped level the playing field of Latvian democracy.

Political party financing control

Supervision

Supervision

Independence of the decision making of supervision body

(page 20)

Scope of supervision (page 22)

Resources of the supervision body (page 23)

Publication of the supervision body results (page 24)

To manage the role of money in politics the work of numerous stakeholders is required. Politicians and their parties play a crucial role in adhering to the rules and ensuring good management of party organizations. Politicians must also ensure that law enforcement and the judicial system are ready to interfere when necessary to insure the integrity of the political process. Voter demand, work of the media and expert NGOs is one of the vehicles moving forward.

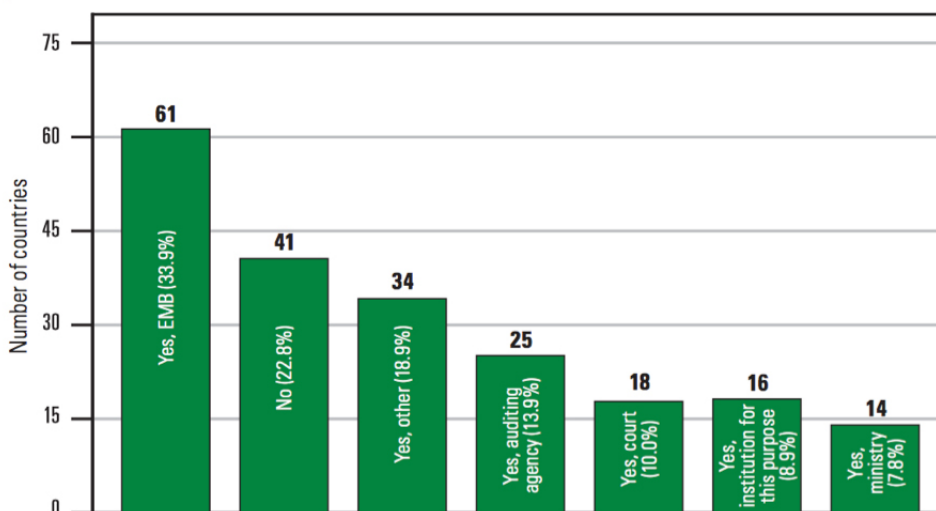
In the middle of the system lies a body whose primary task is to ensure that political finance regulations can be effectively implemented.

The requirements for a political finance oversight body are similar to those for institutions that manage electoral processes as a whole. These requirements include:

- a clear and sufficient mandate that does not overlap with that of other institutions;
- an inclusive and transparent process of leadership appointments that ensures public confidence and independence from political pressures;
- secured tenure of leadership and staff to protect against undue influence;
- sufficient funding and control over the budget of the institution; and
- the adoption of an attitude within the institution that it will act impartially and transparently and engage with the regulated community to (wherever possible) encourage compliance and prevent violations.²

² *IDEA Handbook*

Figure 2.5. Is it specified that a particular institution(s) is responsible for examining financial reports and/or investigating violations?



Source: International IDEA. This chart is based on data collected up to February 2014. Data are continuously updated on the International IDEA Political Finance Database. See <http://www.idea.int/political-finance/question.cfm?field=294®ion=-1>

Note: EMB = electoral management body

The effectiveness of a political finance oversight body may be judged looking at:

- 1) the status of the competent body
- 2) the scope of the oversight
- 3) the available resources

Independence of the decision making of supervision body

The Council of Europe is calling for a supervisory body that would be as independent as possible from the political parties and the government. It is also important to have a single supervisory body rather than divide the task between several.

In several European countries, such as Estonia and the Czech Republic, supervision is entrusted to the parliamentary committees that are both reluctant and lack resources to engage in real scrutiny of the financial accounts of the political parties. In Finland, until recently the supervision was entrusted to the Minister of Justice.

In many European countries, such as Lithuania, the Republic of Moldova, Romania, Slovakia and others oversight is the responsibility of several bodies. This often leads to diluted responsibilities and that no specific institution has taken the lead in the control process. In Lithuania supervisory responsibilities are shared between the Central Electoral Commission and the State Tax Inspectorate.

The Council of Europe argues: “Whatever legal form a supervisory institution takes, their independence is open to question when they have an exclusively political membership and when they are very unwilling to exercise their authority.”³

Latvia

In Latvia there is one supervisory body that covers political party finances, election campaign oversight and the distribution and control of government funds.

The Law “On Corruption Prevention and Combating Bureau” (KNAB) provides that KNAB is “an institution of state administration under supervision of the Cabinet of Ministers”. The main source of KNAB’s independence is its’ governance mechanism and the appointment and dismissal procedure of the head of KNAB. The Director of KNAB can only be appointed and dismissed by Saeima upon a recommendation of the Cabinet of Ministers that must set up a special committee consisting of non-politicians for both procedures.

The supervision exercised by the Prime Minister is rather limited, as he/she can only interfere in the situation when the legality of decisions taken by the Bureau is in question. But the Prime Minister can’t revoke administrative acts, i.e. decisions regarding administrative infringements regarding the funding of political parties (or other violations of administrative Penalty Code under KNAB’s supervision). The Prime Minister doesn’t have the power to supervise criminal cases investigated by KNAB. The supervision of criminal cases is done by the Prosecutor General’s office. KNAB’s budget is decided by Saeima on the basis of a proposal by the Cabinet of Ministers.

³ *Doublet*

According to the law KNAB has an internal governance council that consults on the strategy of the bureau and other agenda items proposed by members. The head of the Political Party Finance Supervision Department is a member of the internal council.

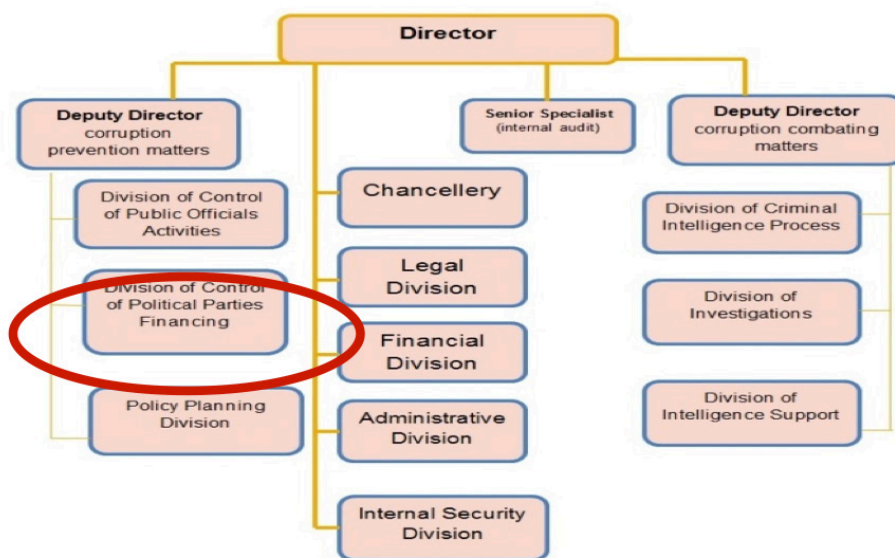
Recruitment of the head of the department responsible for control of political party finance should happen in a transparent and accountable manner, but has not happened since the first head of the department took the office.

Inese Voika, anti-corruption expert

“Despite the criticism from international experts, during 12 years there have been no visible signs of problems for the independence and impartiality of the supervision function. Safeguards are ensured through the head of the agency, who is appointed by Parliament and has been in the spotlight of political controversies for most of the 12 years, for many different reasons. The relatively low public visibility of the Political Finance Control Division has helped to ensure high quality work. Also, clear legislation and systemic implementation of the law has earned the Political Party Finance Control Division of KNAB a non-biased and principled watchdog reputation.

If the head of the department were to change, I would expect an open competition to be launched and a selection procedure carried out transparently, including NGO observers into the selection panel.”

Structure of KNAB, 2016 ⁴



⁴ From the Presentation materials of the KNAB, 01.07.2016

Scope of supervision

The mere fact of having a supervisory body is not in itself a guarantee of effectiveness.⁵ The oversight exercised by the relevant public body to ensure compliance with political financing legislation often fails to extend beyond the information supplied by the political institutions, parties and the candidates themselves.

The scope of the supervisory body's oversight will of course vary according to whether it covers all or just part of the political funding process. A more limited scope will fail to meet the requirements of Article 14 of the Council of Europe Recommendation. In the Netherlands the Interior Ministry's Audit Service covers political parties' financial reports, but in practice mainly checks whether state subsidies have been properly used. Sometimes financing of certain campaigns is not subject to any controls, for example, the presidential elections in Croatia, Iceland and Turkey. It may also happen that only election expenses and not income is subject to audit.

Examples of effective supervisory bodies which have significant investigative resources are rare. The Council of Europe praises the Irish Standards Commission, which monitors payments to political parties, political donations and election expenditure and has real supervisory powers. The law authorizes it to carry out their own inquiries or following an individual complaint, and cases may then be referred to the Director of Public Prosecutions or the police for further action.

Latvia

KNAB's Division of Political Party Control is carrying out full monitoring of political party accounts.

The Law provides that KNAB is to carry out a broad array of tasks in the area of party funding:

- monitor compliance with the party financing regulations of political parties;
- hold persons administratively liable and impose penalties;
- carry out investigations and operational activities to detect those offences foreseen in the Criminal Code that are related to violations of the rules related of financing of political organizations (parties) and which according to the law are not in the field of competence of security institutions (for example, financing of the parties from foreign countries would fall into this domain);
- check complaints and reports, as well as conduct enquiries on proposal of the President, Saeima, Cabinet of Ministers or the Prosecutor General;
- centralize and analyze information on declarations of financial activities of political organizations (parties)/unions, violations detected in the submission of these declarations and failure to respect the limits imposed by the law;

⁵ *Doublet*

The task of KNAB is to verify election income and expenditure declarations and annual reports of political parties (including the statement by the certified auditor on the financial and economic activities of the party for those parties with an annual turnover of more than 10 times the minimum monthly wage).

KNAB has full access to all the financial information and accounting records of political parties.

Rights of KNAB in receiving information about donations:

- KNAB has the right to request and receive information, documents and other materials free of charge from state and municipal bodies, companies, organizations, officials and other persons, regardless of the level of confidentiality of the requested information.
- If KNAB requests, a donor is obliged to provide documents attesting the legality of the sources of financing s/he has provided, as physical persons can donate only from their sources of legal income of the last three years (this request is synchronized with the Tax Administration law that allows testing the legality of the income of the last three years).
- The Director of KNAB (or a person specially authorized by him/her) can apply to the Chief Justice of the Supreme Court (or a Justice of the Supreme Court authorized by him/her) to access bank account information of any natural person.

Resources of the supervision body

The Council of Europe has expressed concern on a number of occasions about the resources allocated to supervisory bodies. The concept of supervision resources covers several things. It refers to the statutory framework governing supervision and the human and financial resources required. There may, for example, be no indications as to how the procedure for verifying parties' financial reports is to be carried out.

The evaluation reports frequently refer to an insufficient number of staff to carry out this monitoring. For example, monitoring compliance with the relevant German legislation is the responsibility of a unit of the Bundestag composed of just eight persons. In Estonia the select committee is supported by just two officials.

This problem of supervisory bodies' resources can have an effect on the monitoring process. For example, the report on political party funding issued by the Spanish Court of Audit in 2008 refers to the 2005 financial year.

Latvia

Supervision of political funding is merely one of the many tasks KNAB – which has a staff of about 140 persons – is to carry out: its mandate also includes criminal investigations of corruption offences (in the public sector), prevention of conflicts of interest, risk assessments, awareness-raising and educational activities.

Monitoring compliance with the party finance regulations is the responsibility of the relatively small Division of Control of Financing of Political Organizations, which is staffed by eight people. The division is, in appropriate cases, assisted by the Legal Division and some cases are handed over to the criminal investigation division.

The division also runs the website with all the donations of political parties and outsources media monitoring during the election period.

KNAB submits its budget proposal to the Cabinet of Ministers, which forwards it to the Parliament. Although de jure KNAB is dependent on the government and parliament for their finances, no significant interference in KNAB functions has been observed. The annual budget of KNAB is 5 million euro, of which about half is spent on remuneration and taxes of the employees.

International experts have welcomed the scope of reach the KNAB divisions have, including the ability to access the bank accounts of people in question and their powers to dissolve a political party, and that bank accounts can be assessed with the consent of the Chief Justice of the Supreme Court, in light of protection of privacy and human rights.

Publication of the supervision body results

Since publication of the supervisory body's reports lends it credibility, failure to publish is detrimental to its reputation.⁶

In Cyprus, the supervisory body's conclusions on the campaign expenditure of candidates for national and European elections are not made public. In Greece, the auditors' reports, on the basis of which the Control Committee reaches its conclusions, are not published nor are the minutes of its meetings, and its report is submitted solely to the Speaker of Parliament and the Minister of the Interior.

Latvia

All reports by KNAB are made public on the organization's web site.

Twice a year KNAB makes a report to the Parliament of Latvia. Both the parliamentary committee meetings and the reports are public.

⁶ *Doublet*

According to the law, KNAB is required to inform the parties and the public about all breaches of party finance regulations it has identified in the aforementioned election income and expenditure declaration and annual report, and on measures carried out for the prevention of these breaches, respectively, by 1 April the following year. The obligation to inform the public is specifically mentioned in the law.

Transparency of Political Funding

Transparency of Political Funding

A cornerstone of any political finance regulatory system is the requirement for those involved in politics to submit information about how they raise and spend money.

Such reporting has two main purposes:

- 1) help voters to make informed decisions when they go to the polling station.
- 2) to make it easier to control restrictions on donations and spending. Requiring politicians to provide financial accounts provides a paper trail that can assist further investigations.

At least some form of reporting requirements exists in nearly 90 per cent of countries. Ideally, they should be made available online in an easily digestible and searchable format. Unfortunately, around 20 per cent of countries have no requirement to make financial reports publicly available. Others make it difficult to access the reports. That is against the spirit of the UN Convention Against Bribery that calls for transparency of donations.

Latvia

Latvia has one of the most transparent reporting systems in the world. All donations and party reports are available in a searchable online database dating back to 2002, when the data base was started. Each donation is published online by KNAB within 15 days after reaching the account of the political party, allowing media and the public to conduct their own studies besides the KNAB supervision.

The searchable data base includes:

- Donations, both monetary and in-kind, indicating its value, date of receipt and the identity of the donor
- Membership fees, indicating its value, date of receipt and the identity of the donor
- Annual declarations of political parties

Picture of the online date base at www.knab.gov.lv ready for a search of gift and donations according to the party, name of the donor, time period and amount of donations, in euros.

The Latvian Law on the Financing of Political Organizations (Parties) imposes a variety of reporting requirements on political parties/coalitions:

- 1) All donations and membership fees that are received or rejected by the party are to be reported within 15 days of the receipt, whereas KNAB makes this information publicly available.
- 2) a report 30 days after the elections on all income and expenditure incurred in the period of 120 days before the elections (the official campaign period), regardless of when the payments were made or when the document certifying that a transaction has been made (invoice, contract or other) was issued.

The law requires this declaration explicitly to include the following expenditures:

- advertising (on television, radio, internet with the exception of the party's own web-site, in written media and in premises and public spaces);
- use of mail services (including e-mail) to distribute election materials;
- producing and distributing the advertising materials;
- planning, preparation and organization of the election campaign;
- salaries of staff involved with the election campaign;
- rent of moveable property and real estate for the needs of the election campaign;
- costs of publications produced for the election campaign;

- financing charity events connected to the election campaign, paying benefits and making donations, and;
- other expenditures arising from the election campaign (which are to be disclosed under separate item headings).

3) Parties submit an annual report on their income and expenditures.

KNAB makes the party reports available to the public on their website within 10 days of receiving them.

Regulating Political Donations

Regulating Political Donations

Various bans on donations ([page 31](#))

Thresholds ([page 33](#))

Donations in kind ([page 35](#))

Sponsorship, loans and forms of financial activity ([page 36](#))

Rules on donations which differ from one election to the another ([page 37](#))

Membership fees ([page 37](#))

Various bans on donations

In the same way that in most countries the right to vote is limited to adult citizens of the country in question, regulations are often imposed on who has the right to make financial contributions to political parties and candidates. The purpose of donation bans is to completely stop contributions that are seen as particularly damaging to the democratic process.

Around one in five countries in the world ban corporate donations and donations from trade unions.

Banning private donations altogether is exceptionally rare. However, over 40 per cent of countries use some form of limit on how much eligible donors are allowed to contribute.

More common are limits on how much political parties and candidates are allowed to spend in election campaigns. Unlike limits on donations, the purpose is not to regulate the influence of individual donors but rather to reduce the advantages of political parties and candidates with access to large amounts of money.

Special cases include candidates who fund their campaigns using their own money, or when party leaders provide the bulk of funding for the party they lead—two phenomena that are common in emerging and some established democracies alike. Although candidates and party leaders can arguably not unduly influence themselves, the advantage they get from their personal wealth can be limited either by extending donation limits to use of own funds or by imposing a spending limit.

Around 30 per cent of all countries limit the amounts that political parties may spend.

Table 2.1. The rationale behind different types of donation bans

Type of donation ban	Rationale
Foreign entities	To prevent external/foreign influence; principle of self-determination.
Corporations	To limit influence on financing from vested interests; ensure independence of candidates/parties from special interests.
Public and semi-public entities	To avoid use of public funds for political purposes.
Trade unions (sometimes all forms of legal entities)	To avoid improper influence from organized interest associations, a ban on trade union donations is sometimes used to balance a ban on corporate donations in systems where some parties depend on corporate contacts and others are close to the trade union movement.
Corporations with government contracts	To reduce the risk of quid pro quo donations (i.e., companies make donations in the hope of being awarded government contracts).
Anonymous sources	To ensure transparency of party funding and a greater chance to monitor compliance with political finance regulations.
Indirect donations	To make control of other bans easier to monitor, some countries explicitly ban donations given through another person or entity.

Latvia

A number of restrictions apply to the sources of private funding in Latvia.

Political parties may not receive donations from:

1. Legal persons, including state and municipal bodies,
2. Foreign natural and legal persons and
3. Anonymous donors.
4. Natural persons may not donate to political parties through intermediaries or by lending money from a third person (nor may the party itself take out loans or credit to finance its activities or provide any financial guarantee itself).
5. Natural persons who have had a sentence imposed upon them, prohibiting them from being a candidate for elections to Saeima, the European Parliament or local councils (with the exception of persons who have had their conviction overturned or had their criminal record erased or annulled), are not permitted to finance political parties by gifts and donations.

The ban on donations by legal persons was introduced in 2004 after the first round of control efforts by KNAB during the Parliamentary election campaign of 2002. KNAB experts found that it would be impossible to enforce the ban on third-party donations or the ban on intermediaries if corporations would still be allowed to donate. A physical person's income is easier to track and thus easier to track money which didn't belong to the actual donor. In order to ensure that the change in legislation would achieve its goal an additional restriction was introduced to donations by physical persons. It was established that a political donation may not exceed the official income of the donor in the last three years.

Thresholds

The real-life impact of donation limits varies based on their level; if the limit is very high it will have no impact, since it will not reduce donations in practice, while if the limit is very low, donors, political parties and candidates will find ways to get around it. A donation limit that everyone ignores risks undermining confidence in the entire political finance regulatory system.

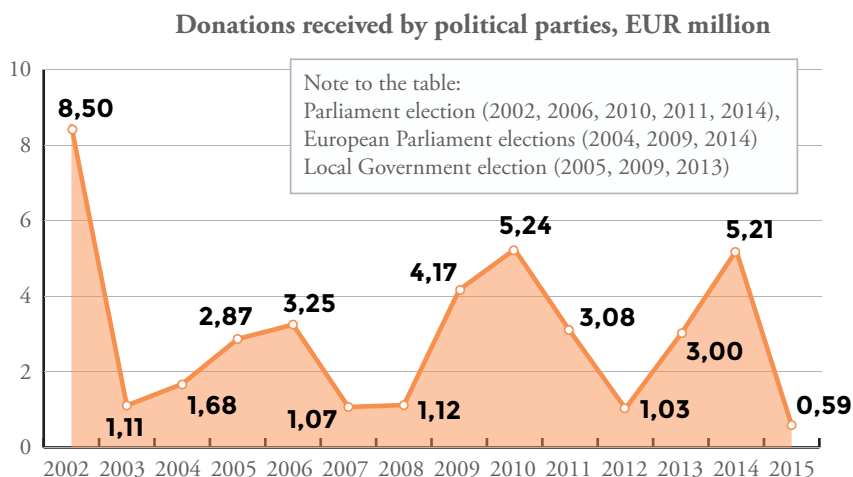
If the purpose of the thresholds to donations is to decrease influence of the money, then the donation limits should be low. For such a system to work a high level of support culture for political parties is needed. One of the countries with low donor thresholds is Canada, where an annual limit for one person is 1130 euro.

Latvia

The first limit introduced with the first law in 1995 was €35,500 (25,000 lats), with little control over who the real donors were and what the parties were spending their money on. The reform of 2004 moved the threshold down to €14,200 (10,000 lats). After the win in the 2006 parliamentary elections, when the governing coalition retained power, they managed to raise the threshold to 100 minimum wages or €22,800 in 2008. In 2017 the maximum amount of total donations by one person is limited to 50 minimum wages, or €19,000.

Limits on campaign spending

Until 2004 there were no campaign spending limits in Latvia and since 1995, with each election the money spent on election campaigns, especially TV advertising, was growing exponentially and Latvia was easily becoming a country with the most expensive political campaigns per capita. In 2002 all donations received by political parties equaled €8.5 million. When the ban was introduced the amount of donations fell more than 2.5 times.



Limits and restrictions on the expenditure of political parties in Latvia exist in the context of an election campaign.

The campaign expenditure ceiling has been up and down since 2004, and is currently “the average gross salary of the year before the last year published by the Central Statistical Bureau, rounded, by applying a coefficient of 0.0004” per person who has voted in the previous Saeima elections (i.e. the expenditure ceiling is calculated on the basis of the number of voters who participated in the previous elections).

The parties have to report on election campaign expenses in their **election income and expenditure declaration**. The campaign expenditure ceiling has been limited to expenditures incurred by parties for advertising and use of mail services and charity events connected to the election campaign (paying benefits and making donations). There is no longer a cap on any other expenses on preparing the campaign.

The expenditure ceiling applies to costs incurred (for advertising and use of mail services and charity events) for the period from the 120th day before to the day of the elections (regardless of when the invoice or contract has been issued or payment has been made).

KNAB is monitoring expenditures during the election campaigns and is requesting official price lists from media organizations. KNAB warns the political party during the election campaign if they are reaching the imposed limit and may also stop the advertising if the party has reached the ceiling.

Before the 2008 amendments to the Law “On the Financing of Political Organizations” (Parties) a political party (or coalition of parties) which had submitted a list of candidates in all five electoral districts for **Saeima elections** was not allowed to spend more than €0.28 per person who had voted in the previous Saeima elections in the period from the 270th day before to the day of the elections (irrespective of the moment at which the invoice or contract had been issued or payment was made) on the following items:

- advertising (on television, radio, internet – except for the party’s own website –, in the press and in premises and public spaces);
- use of mail services (including e-mail) to distribute election materials;
- producing and distributing advertising and election materials;
- the planning, preparation and organization of the election campaign;
- salaries of staff involved with the election campaign;
- renting moveable property and real estate for the needs of the election campaign;
- publications produced for the election campaign;
- charity events connected to the election campaign, paying benefits and making donations, and;
- other expenditures arising from the election campaign.

In the Saeima elections of 5 October 2002 there were 1,398,156 registered voters. The campaign expense ceiling for the most recent elections in 2006 was therefore approximately €400,000 per party (or coalition of parties) having submitted lists of candidates for all 5 electoral districts. In the 2006 Saeima elections most parties in parliament would meet (or even surpass) this campaign expenditure ceiling.

Donations in kind

Article 2 of the Council of Europe Recommendation defines donations in fairly broad terms as “any deliberate act to bestow advantage, economic or otherwise, on a political party”. This therefore includes financial donations and donations in kind. UK regulations, for example, consider that the free supply of office space or equipment to a party and the sponsorship of events amount to contributions in kind. In Romania, discounts above 20% of the value of products or services provided to parties or independent candidates are deemed to be donations.

Bulgarian legislation does not clearly address the use of public facilities during election periods. In Greece no fewer than 857 public servants remunerated by the administration were seconded to members of the national parliament or the European parliament, to the benefit of the political parties to which these elected representatives belong.

Some states regard the provision of services, goods, property or non-property rights to a political party as concealed donations prohibited under their domestic legislation.

In the absence of clear guidelines in the legislation, there can also be doubts about whether declarations of such donations in kind reflect their real value.

For example, Finland was invited to ensure that contributions in kind to political parties, other than voluntary work by non-professionals, were assessed and valued at market rates. In France, there is a ban on donations in kind to parties at prices below the market rate and candidates must take them into account for the financing of election campaigns in campaign accounts.

Legislation may also be strict, but only applied in a very limited fashion. For example, Section 2 of the Lithuanian law on political parties defines donations to parties in very broad terms. It includes cash, shares and other securities, moveable and immovable property, property rights, intellectual activities, goods and services provided free of charge, voluntary work and activities and the products of these activities. In practice, however, such forms of donation appear not to have been declared in order to avoid exceeding the thresholds.

Latvia

The Latvian legislation on the funding of political organizations defines donations as “any property or other benefit gained without remuneration, including services, transfer of rights, exempting a political party from certain obligations, giving up rights to a certain benefit in favor of the party or other actions through which some benefit is given to a political party”.

In addition, it is provided that the “transfer of real estate or moveable property in the ownership of the party and the rendering of services to a political party against payment which is lower than the real market price of the respective real estate or moveable property or service” is also to be considered a gift.

The donations in kind have to be declared in the same procedures as financial donations and memberships fees. Information about the donation in kind, its monetary value and person, as well as the date of making the gift appear publicly in the KNAB data base within 15 days of making the gift.

Sponsorship, loans and forms of financial activity

The problems associated with the sponsorship of political parties are quite similar to those of donations in kind. There are a number of possible examples.

Sponsorship may be seen as an alternative to the ban on donations from legal persons, which then renders this prohibition ineffective. In Belgium, for example, the ban on donations from businesses to political parties does not prevent sponsorship, a practice that is moreover accepted by the federal control commission.

This problem is not properly dealt with in legislation, even though this may be a considerable source of political party funding in Spain and Poland, and be seen as a means of avoiding the thresholds on donations to political parties.

However, simply mentioning this form of funding in political parties' financial reports is no guarantee, by itself, of transparency. For example, Spain's law on the financing of political parties requires the conditions of contracted loans to be specified in the parties' financial reports. However, the law does not specify the terms and conditions for granting loans, including their maximum value, permissible lenders, terms of repayment and so on.

It may happen that loans are not among the permissible sources of funding, but this prohibition may not cover other types of funding which are very similar to loans, such as credit lines and cash advances.

The loans were prohibited in 2004 after KNAB discovered discrepancies in the annual reports of some political parties. One political party, for example, listed a loan in their pre-election statement that came from the founder of the party and was almost 10 times larger than the allowed threshold. In their annual report after the same election this loan was not listed, but neither could one track the way in which it was paid back, if at all.

Rules on donations which differ from one election to the another

Having different rules on donations, depending on the type of election or which differ between election campaigns and political parties, weakens the overall consistent nature of political funding legislation, not least when several elections with different rules are taking place at the same time.

Latvia

The same basic rules apply to national, municipal and European Parliament elections for the financing and election campaign legislation, as well as reporting about it.

Membership fees

When a party member pays a higher membership fee than the statutory amount, the difference may be registered as a membership fee and not as a donation, even in cases where it exceeds the donation ceiling. Donations may also be classified as membership fees, by splitting them in order to remain below the disclosure threshold.

Latvia

The Latvian law in the article covering membership fees clearly states that the donation of one person for membership fees, 'joining fees' and donations all together cannot exceed 50 minimum wages in one year. This means that a member can donate to his/her political party the same amount of money as any other donor who might not be connected to the political party.

The law was clarified after 2008, when KNAB noticed a loophole allowing members of a party pay double the sum of that time, one limit as the donation and another as the membership fee.

All membership fees that are higher than one monthly minimum wage (€380 in 2017) have to be transferred to the party through a bank account. All payments of membership fees have to be declared to KNAB and all payments of membership fees above €380 have to be declared in the public data base. The reality is that parties declare to the public data base the membership fees that are lower than the minimum wage.

Sanctions and statutes of limitation

Sanctions and statutes of limitation

Administrative penalties (page 40)

Suspending and abolishing a political party (page 41)

Criminal sanctions (page 41)

Failure to comply with the provision regarding accounting (page 42)

Results Latvia (page 42)

Statutes of limitation (page 43)

Countries are called to have effective, proportionate and dissuasive sanctions, three terms that traditionally appear in the wording of international documents.

Fines, loss of public funding and even imprisonment may be required to deter more serious legal infringements. Almost all countries have sanctions, at least on paper; fines are the most common form. A wide range of sanctions does not necessarily equate with clarity. Mere confiscation of illicit funds or the imposition of modest fines could fail to have the desired dissuasive effect.

While some countries apply very weak penalties, too narrow a range of or excessively severe sanctions may also be inappropriate to deal with relatively minor breaches of the law. Croatia, for example, provides for several criminal penalties, but there are no administrative or civil ones. Iceland provides for criminal penalties of up to six years' imprisonment, which leads GET to fear that such a sentence would never in fact be handed down.

Political parties are unhappy about the fact that sanctions are not proportional to the size of the party, since they can be extremely severe for small parties and insignificant for larger ones.

Latvia

Political parties in Latvia are subject to a wide range of both **administrative and criminal liability**. The administrative sanctions are applied by KNAB and appealed in court. The criminal investigations might be carried out by KNAB's investigative department or handed over to the police.

The results of the criminal investigation are evaluated and the charges brought forward to the court by the Prosecutor's office.

Administrative penalties

KNAB may impose administrative fines on a political party in an amount:

1. up to €7000, confiscating the objects of the administrative violation or without confiscation,
2. up to €14,000 (for repeated offenses), confiscating the objects of the administrative violation.

There are administrative penalties for violation of all rules under the Law “On Financing of Political Organizations” (parties). The fines are imposed for accepting illegal donations, failing to hand in reports and for overspending the limits during the pre-election campaign. On top of the fine the parties are also obliged to repay the amount for which they have overspent the campaign limit.

Fines for physical persons:

- Penalties for people who have financed political party overstepping the donation regulation (for example, over the yearly limit) from €30–700.
- For using someone else’s money (intermediary) for a donation to the political party €280–700,
- For allowing one’s money to be used for a donation under someone else’s name – €140–280.

A political party can be ordered by the director of KNAB to transfer assets acquired in violation of the law to the State for the following offences:

- failure to include all the information required by law in the aforementioned declarations and notification;
- provision of false information in the aforementioned declarations and notification;
- financing parties from non-permitted sources (for example, by accepting donations from legal persons);
- acceptance of membership fees, ‘joining’ fees and donations made by an individual member in excess of 50 times the minimum monthly wage in a given year;
- acceptance of donations made by an individual donor in excess of 50 minimum monthly wages in a given year;
- failure to respect the rules on the publication of gifts (donations) which have been received (including those which have not been accepted by the party);
- failure to transfer gifts (donations) in excess of one minimum wage to the bank account of the party;
- acceptance of a loan;
- giving any kind of loan or guarantee;
- financing a party through anonymous donations;
- failure to transfer anonymous donations to the state budget;
- exceeding the campaign expenditure ceiling;
- failure to maintain accounting records in accordance with accounting regulations.

The director of KNAB can order a political party to return illegally acquired financial assets to the donor within a period of 30 days, if the donation:

- does not come from the donor's income over the previous 3 years in accordance with Section 8 and 9 of the Law "On Personal Income Tax", or if the membership or 'joining fee' does not derive thereof;
- is from a non-permitted donor (for example, a foreign citizen);
- is a gift or loan of another person or by someone who has been disqualified from being a candidate in elections for Saeima, the European Parliament or local council.

These administrative sanctions can be imposed by KNAB officials on political parties. Decisions taken by KNAB officials imposing administrative sanctions can be appealed to the Director of KNAB. Decisions taken by the Director of KNAB can be appealed in Administrative Court.

Suspending and abolishing a political party

If a political party repeatedly fails to submit its annual report or election income and expenditure declaration, the Director of KNAB will issue a written warning to the board of the political party within two weeks of the deadline for submission of the annual report/election income and expenditure declaration. If, in spite of the warning, the political party still does not submit the aforementioned report and/or declaration, within the deadline set by KNAB or if it fails to comply with the above-mentioned order of the Director of KNAB to transfer illegally acquired assets/property to either the State or the donor, the Director of KNAB is to apply to the court to **suspend the activities** of the political party in question. If the court orders a suspension of the activities of the political party, but the party nevertheless continues its activities, the Director of KNAB is to apply to the court to abolish the party.

Criminal sanctions

Amendments to the Criminal Law, which foresee criminal liability **for offences of illegal financing of political parties** on a large scale, entered into force on 4 October 2011. The authorities stated that these amendments have contributed to strengthening the system of control of financing of political parties, as they "involve more severe sanctions, higher limitation periods and enable the use of criminal investigation techniques, which will allow KNAB to deal even with particularly complex cases."

The Criminal Law also provides for certain criminal sanctions **for physical persons** in the context of party financing. A maximum of 2 years' imprisonment, custodial arrest, community service or a fine of between 30 and 200 minimum monthly wages can be imposed upon a natural person for financing a political party through an intermediary.

Violation of accounting regulations or forgery of documents can lead to sanctions with a maximum of 3 or 2 to 4 years' imprisonment, respectively, or custodial arrest or community service or a fine of a maximum of respectively 20 to 80 or 40 to 60 minimum monthly wages.

Failure to comply with the provision regarding accounting

With regard to accounting offences, failure to comply with the provisions of keeping the party accounts according to the law on accounting is subject to administrative liability pursuant to the Administrative Violations Code. Failure to submit reports and statistical data within the time period specified in the relevant regulations and provision of incomplete information to the relevant state institutions is subject to a €70 to €430 fine, with or without the suspension of the right for the member of the board to hold certain offices in commercial companies.

In case of non-submission of the aforementioned documents and/or information, a fine of €140 to €350 can be imposed.

Results Latvia

No criminal sanctions have yet been imposed upon a political party, but political parties have been held (administratively) liable for violations of accounting provisions pursuant to the Administrative Violations Code.

In the first three years of operations (2003–2006) KNAB checked approximately 300 declarations and 2093 reports about donations, and has issued 85 warnings in this context.

From 2003 to 2007 KNAB has applied to the court to suspend or terminate the activities of political parties in 30 cases; in 16 cases the court decided to suspend the activities of the political party and in 8 cases the activities of the political party were terminated altogether.

Work of KNAB, 2003–2006

	2003	2004	2005	2006
Decisions imposing administrative sanction on a political party	1	15	57	46
Decisions asking to pay to the state budget illegally acquired funding	15	22	8	17
Administrative fines imposed on political parties	-	6,111	29,951	52,034
Administrative fines paid by political parties	-	4,090	8,679	31,865

Detected illegal funding of political parties	195,177	189, 571	21, 939	82,961
Illegal funding paid to the state budget by political parties	120,754	19,029	16,1104	24,129

Statutes of limitation

The Administrative Violations Code of Latvia provides that sanctions for violations of the Law “On the Financing of Political Organizations” (Parties) are to be imposed no later than 4 months after the day the violations of the law have been detected, but no later than 2 year after the violation has been committed. For other administrative violations the statutory limitation period is much shorter: 4 months from the day the violation was committed and/or 4 months from the day when it was discovered. Prior to 2012 there was a one year limit since the violation for the authorities to impose the fines, which was criticized by international experts.

As for the obligation to transfer assets acquired in violation of the law to the state, there is no limitation period.

As regards the criminal offences of financing a political party, violations of accounting provisions and forgery of documents, the Criminal Law provides that these are “misdemeanors” and so-called “less serious crimes”. The limitation period for misdemeanors is 2 years from the day of commission of the offence and 5 years for a less serious crime.

Public Funding of Political Parties

Public Funding of Political Parties

Rules of State budget granting (page 46)

Refusal to grant state budget financing and interruption or suspension of disbursement of state budget financing (page 47)

Spending of state budget financing (page 47)

State budget financing in the event of reorganization, liquidation and establishment of political organizations (parties) and the associations thereof (page 48)

If it is done right, the provision of public funding can have a significant positive impact on the role of money in the political process.

The purpose of providing public funding is:

- 1) To ensure that all relevant political forces have access to enough resources to reach the electorate.
- 2) To limit the advantage of competitors with access to significant resources by giving everyone access to funds for campaigning. This idea is unlikely to work unless public funding is combined with limits on donations and/or spending.
- 3) There is a third potential advantage of providing public funding: the threat to withhold it if political parties fail to follow other rules, such as spending limits or reporting requirements, can prove a highly effective incentive to obey the rules. This will only work if the amount provided is high enough that recipients will adhere to the rules to avoid the risk of losing it.

Most countries therefore use a threshold of support that a party must have to gain access to public funding—normally a certain share of the vote in an election or of seats won.

Globally, 21 per cent of countries with direct public funding use a threshold for all such funding based on votes received (on average 3.5 per cent), while 18 per cent limit funding to parties with representation in parliament, and 15 per cent use a combination of these two criteria.

Most countries also provide indirect public funding to political parties (and sometimes to candidates). The most common form is free or subsidized access to public media for campaigning purposes, but other examples include tax relief for parties/candidates or their donors, access to public buildings for campaign events and subsidized postage.

Latvia

In Latvia state funding of political parties was introduced relatively late in the process of reforms – the law was adopted in 2010 to enter into force during the round of the extraordinary parliamentary elections in 2011.

Since the first version of the law on political party finance in 1995, three significant rounds of amendments have been passed without introducing public finance to the political parties, although Latvia was one of the few countries in Europe that was left to finance its political process almost entirely from private sources. Under guidance from EU experts and the Latvian Anti-corruption strategy there was a working group established in 2000 to draft the law about public funding to political parties, but it didn't finish its work.

Given the very low trust in political parties in Latvia and several corruption cases touching the highest political elite in the early 2000s, experts considered this a positive course of events.

By 2011 KNAB had established itself as a principled monitor of political finance, so KNAB experts could suggest practical implementation of public funding to political parties and ensure its monitoring.

In June 2013, KNAB for the first time used its authority to discontinue payment of state funding to a political party. The government coalition party had not disclosed transactions of EUR 54,137 in its 2011 election revenue and expenditure declaration. According to the party, the expenditure was incurred by candidates who had left the party.

Rules of State budget granting

- State budget financing is granted to a political organization (party) for which more than 2% (two percent) of voters have voted in the previous parliamentary elections,
- the amount is EUR 0,71 in a calendar year for each vote acquired
- The State budget financing shall be granted for four years and paid commencing from the next calendar year after the Saeima elections.
- Payments shall be performed four times a year – by 15 January, 15 April, 15 July and 15 October.
- In order to receive State budget financing, a political organization (party) shall open a separate account in a credit institution registered in Latvia and within 20 days following the day of the announcement of the voting results, lodge a submission to KNAB. Submissions after the referred to time period shall not be accepted.

Refusal to grant state budget financing and interruption or suspension of disbursement of state budget financing

KNAB shall take a decision on refusal if, when examining a submission, it is determined that in the last four years:

- 1) the political organization (party) has been punished for exceeding the amount of pre-election expenses by more than 10 per cent and the decision has come into effect;
- 2) the political organization (party) has been punished for transactions or gifts (donations) received but not indicated in the annual report or declaration of income and expenses of elections, the total amount of which exceeds 100 minimum monthly salaries, and the decision has come into effect;
- 3) in accordance with the Criminal Law the political organization (party) has had a coercive measure applied and the court adjudication has come into effect.

The Corruption Prevention and Combating Bureau shall take a decision to suspend the disbursement of State budget financing, if:

- 1) the operations of a political organization (party) are suspended – for the period of the suspension of the operations of the political organization (party);
- 2) the political organization (party) has not submitted its annual report or declaration of income and expenses of elections for the previous year – for the next calendar year;
- 3) violation of the provisions of the law is determined and the decision to apply a punishment has come into effect – for one year.

A political organization (party) may appeal the decision in accordance with the procedures laid down in the Administrative Procedure Law. Appeal of the decision shall not suspend the operation thereof.

Spending of state budget financing

A political organization (party) shall spend the State budget financing for the provision of political and economic activity thereof and is entitled to spend it for:

- 1) premise hire, including the organization of meetings, and services related to premise hire, including public utility services;
- 2) communication and Internet services;
- 3) work remuneration and other payments to natural persons connected with the operations of the relevant political organization (party) or the operations of the association of the relevant political organization (party);
- 4) sworn auditor services;
- 5) research work, polling and consultations;
- 6) the organization of educational events intended for inhabitants, including public

events, seminars, charity events, and the publication and distribution of books, informative materials, excluding the ensuring of catering services;
7) political campaigns.

Payments shall be performed using payment from the account set for the purposes of receiving public funding.

KNAB has the right to request a party to submit documents justifying the spending of the State budget financing thereto.

State budget financing in the event of reorganization, liquidation and establishment of political organizations (parties) and the associations thereof

Latvia has a volatile political party scene where new parties are established and old ones closed down or reorganized every year. Therefore the law foresees such situations as to not leave room for legal disputes when parties discontinue to receive state financing.

Party Accounts and Third Parties

Party Accounts and Third Parties

Presentation of accounts (page 50)

Publishing accounts (page 50)

Third parties (page 53)

Distinction between ongoing party expenditures and electoral expenditures (page 54)

Several points require particular attention: maintaining accounts, their standardized presentation, content and scope, their presentation and publication.

A standardized presentation of accounts makes it possible to compare them over time and between different entities. Full overview of the party's assets and its income and expenditures to provide for the production of meaningful information.

The Council of Europe has criticized the failure to consolidate political party accounts on a number of occasions. Article 11 of the Council of Europe Recommendation calls on member states to ensure that the accounts of political parties are consolidated and include, as appropriate, the accounts of their directly or indirectly related entities.

Presentation of accounts

This obligation, as embodied in Article 13 of the Council of Europe Recommendation, is essential for ensuring the transparency of party and election campaign financing. It is important that accounts must be presented within sufficient time to be of use. There are countries where the law does not specify any deadline for such presentation.

Too tight a deadline for submission of campaign accounts in relation to polling day – ten days – is unrealistic in view of the requirement to maintain proper accounts, for example, in Serbia.

Publishing accounts

Countries cannot lay claim to transparency of party accounts, if these are not published and are therefore inaccessible. Certain countries do not require publication at all. Other countries have limited access to the accounts. For example, in the Czech Republic publication is limited to the deposit of a single copy of the annual financial report of each party in the library of the Chamber of Deputies.

In Georgia political parties publish only a summary of their declarations, containing only the main categories of income and expenditure, amounting to no more than half a page of information.

It may also happen that the supervisory authority may not have the resources to publish the political parties' financial statements.

In the UK the registered party treasurer must ensure that accounting records are kept in a way that is sufficient to show and explain the party's transactions – at any time – with reasonable accuracy.

Many countries' legislation either ignores local parties or considers that they are in some ways self-governing in practice, although they may well be more exposed to corruption than their central counterparts.

Slovakian Law makes no distinction between the central party organization and local and regional branches. Accordingly, the party's annual accounts should include all income and expenditure of such branches. In practice, however, the local and regional branches use and administer their own funds independently and not all information on income and expenditure in the context of local elections would be disclosed by parties.

In Lithuania parties are largely free to decide whether or not to incorporate their regional or local branches and the legislation has nothing to say about movements of funds between party components.

In Estonia, political parties are not obliged to include the accounts of related entities in their own accounts and records, the only exception being election funding reports, which must include expenses incurred and funds used by not-for-profit associations of which the political party is a member.

The financial reports supplied by Slovenian political parties contain no information on the various entities associated with those parties, be they organizations within the party structure, such as youth, women's, labor and agricultural organizations, or societies and associations that actively participate in election campaigning and funding.

Latvia

In Latvia there is a comprehensive reporting system that has been fine tuned over time to cover the entirety of financial information about the parties' activity that is relevant to clean and fair elections, as well as running the party organization according to the law on a daily basis.

KNAB has worked on improvement of the reporting system as they lift an unnecessary burden from the the parties with too many reporting forms.

From 2004 till 2008, political parties were required to provide to KNAB the following:

- 1) information on individual donations/gifts on an everyday basis;
- 2) an annual declaration of financial activities;
- 3) a declaration on pre-election campaign expenditures;
- 4) a notification of planned election campaign expenditures;
- 5) an election expenditure declaration;
- 6) an annual report, with income and expenditures.

Under the amended reporting obligations political parties now have to disclose:

1. individual (accepted and non- accepted) donations/gifts, as before - on an everyday basis;
2. submit an election income and expenditure declaration at the time of elections;
3. an annual report.

They are no longer required to provide KNAB with an annual declaration of their financial activities, a declaration on pre-election campaign expenditures or a notification of planned election campaign expenditures.

The first-mentioned form of disclosure – individual donations/gifts - a political party must, within 15 days of receiving a gift (donation), publish information about this gift (donation) on a separate internet page, indicating the nature, value, date of receipt and the identity of the natural person who provided the gift (donation).

In practice, the information is published by KNAB in its Parties Finances Data Base on its web site. The information in this database is publicly accessible and reportedly updated on a daily basis.

Secondly, within 30 days of the relevant Saeima, municipal council or European parliament elections, a political party having participated in the respective election is required to submit to KNAB an **election income and expenditure declaration**, signed by the Board of the party or a person authorized by it. This declaration is to include all income and expenditures incurred over the period from 120 days before elections to the day of elections, regardless of when the payments have been made or when the document certifying that a transaction has been made (invoice, contract or other) has been issued.

Any donation not returned to the donor within 30 days of its receipt shall be deemed to have been accepted. Information about gifts (donations), which have not been accepted, also has to be published on the internet.

Political parties also have to submit a copy of their **annual report**, prepared in accordance with the law on accounting, to KNAB and the State Revenue Service no later than by 31 March the following year.

Latvian authorities indicate that this is a comprehensive report that includes the most relevant information on party accounts.

If the party has an annual turnover of more than 10 times the minimum monthly

wage (€ 3700 in 2016) the annual report is also to include a statement by a certified auditor.

Since the 2008 amendments to the Law “On the Financing of Political Organizations” (Parties), a standardized format – in the form of a regulation of the Cabinet of Ministers – is in place.

Third parties

Article 10 of the Council of Europe Recommendation covers the situation of third parties. Member states are required to ensure that records are kept of all expenditures, direct and indirect, on electoral campaigns in respect to each political party, each list of candidates and each candidate.

Setting a ceiling for party spending on election campaigns is not likely to be effective if, at the same time, other groups such as interest groups, trade unions and associations can spend unlimited amounts of money on behalf of or to oppose a particular political cause.

Under UK law, individuals or organizations that campaign for or against one or more registered political parties or for a certain category of candidates are considered to be third parties.

Latvia

The evaluation of Latvian legislation over the last 15 years offers a good illustration of the “perverse effect” of the absence of a ceiling on electoral expenditure by third parties that occurred during 2006 elections. Campaigns organized by third party organizations on behalf of certain parties enabled the parties to get round the ceiling on election expenditures, in one case even doubling the amount of money above the threshold.

New regulations for the third parties

The new chapter dealing with “Campaigns of persons not related to political parties and associations thereof” was introduced in the Law “On Pre-election Campaigning for Saeima and European Parliament Elections” in January, 2009. The Law “On Pre-election Campaigning before Municipal Elections” entered into force into at the same time.

According to this new chapter, a person engaging in campaigning is to be either considered as linked to a political party – in which case his/her related expenses are considered as the party’s expenditure – or as an independent subject in campaigning.

In the latter case, this person is subject to the new chapter of the law, which sets out the principle that third parties paying for campaign activities must be identified. The chapter also defines campaigning activities, establishes fixed prices for media

advertising and provides for expenditure ceilings amounting to 15 minimum wages (€5500 in 2016).

The implementation of these provisions is overseen by KNAB, which may issue warnings and prohibitions to conduct further campaign activities, which are published on its website. These decisions are subject to appeal before the Administrative District Court following a special, expedited procedure.

The supporting amendments to the code of administrative violations were adopted by the Parliament in September 2009. These amendments established administrative liability, with sanctions ranging from warnings to fines of €1,400 to legal bodies for breaches of pre-election campaign regulations, which apply to entities outside party structures.

Distinction between ongoing party expenditures and electoral expenditures

This is an area where it becomes particularly difficult to ensure that political expenditures are accounted for accurately and transparently. In Latvia the period of four months (120 days) is considered to be reasonable. Prior to these changes the period was 270 days, which proved to be ineffective to oversee.

Inese Voika, anti-corruption expert:

"The sum of three types of reporting existing in Latvia, ensures that all the relevant funding areas are covered by the required reports: annual reporting, everyday reporting on each donation and membership fee received, combined with the detailed campaign expenditure reporting gives a solid ground for the supervision body."

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