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Integrity Watch LV

**Shining a light on the relationship
between money and politics in Latvia**

Transparency International Latvia (Sabiedrība par atklātību – Delna) is a national chapter of the international coalition against corruption Transparency International. It is the leading watchdog organization in Latvia with the main aim of contributing to the formation of an open, just and democratic society, free from corruption in private and public sectors and interpersonal relationships.

Integrity Watch LV – Shining a light on the relationship between money and politics in Latvia

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Executive Summary

This brief analysis is a first demonstration of how the tool *Integrity Watch LV* can be used to identify trends and patterns in the financing of Latvian political organisations (i.e. political parties and political parties' unions) and Members of the Parliament's (MPs) outside interests. In specific, it seeks to: i) provide an overview of political organisations' income from private donations, membership fees and state budget, and understand to what extent they have relied on donations from a small base of private donors; and ii) provide a snapshot of outside interests of MPs who were in office at the end of 2019 and assess how such interests have varied compared to 2018.

Political financing – Among the 20 political organisations covered in our analysis, private donations represented 81% of their aggregate income including membership fees and public funding, ranging from 23% to 100%. Overall, political organisations tended to rely on large contributions by a small base of private donors. At an aggregate level, the 20% of top donors contributed to over 80% of the total amount of private donations. Big and significant donors contributed to around 19% of the total amount of private donations.¹

Recent amendments to the legislation on political financing, which have significantly increased the amount of public funding to political organisations that have received more than 2% in parliamentary elections, are likely to reduce their dependence on private donations. However, in the future, attention must be paid to the impact of the law on citizens' contributions and political pluralism and to the transparency, accessibility and monitoring of political organisations' expenditures.

Interest and asset disclosure – According to the annual declarations for 2019 of the 100 MPs who were in office at the end of the same year, 54 of them held, on average, 1-2 outside positions; 67 of them earned outside incomes for an average value of €10,601, and 36 of them held shares and/or stocks in commercial companies for an average value of around €60,000. While MPs held most of outside positions in civil society and most of the shares and stocks' value in the financial and insurance sector, they earned most of their outside income from the agricultural sector. Compared to 2018, there was a 39% decrease in the total number of outside positions, a 30% decrease in the value of outside income, and a 430% increase in the value of shares and stocks (almost completely due to one outlier).²

These results suggest that MPs had reduced their involvement in the private sector, and recently adopted amendments are likely to further reduce MPs' outside income from civil society and mitigate risks of conflict of interests. However, the absence of a requirement for MPs to declare interests immediately as they arise and the lack of user-friendliness of the State Revenue Service's (SRS) database of declarations make it difficult to monitor such trends in the future.

Policy Recommendations

- ⇒ The CPCB should publish all data on its political financing database, including political parties' financial declarations, in machine-readable format.
- ⇒ Political parties and the CPCB should closely monitor variations in the number of private donors and fee-paying members, and to the emergence of significant income gaps between parties that receive public funding and those that do not.
- ⇒ The Parliament should amend the Law on the Prevention of Conflict of Interest in order to: i) Introduce a mechanism that allows MPs to declare new interests and assets immediately as they arise; and ii) mandate the publication of high-level officials' declarations in machine-readable format.
- ⇒ The SRS should upgrade its public officials' declaration database, by introducing features that allow users to explore, sort, filter and compare declarations across different years, public institutions and categories of public officials.

¹ According to the legislation on political financing into force until the end of 2019, private individuals were allowed to donate a maximum of 50 minimum monthly salaries (€21,500) over one year to a single political organisation. Based on this, we have considered as "significant donors" individuals that in 2018-19 have donated a total amount equal or higher than 50 minimum monthly salaries (MMSs) but lower than 75 MMSs (€21,500-€32,249), and as "big donors" those that have donated a total amount equal or higher than 75 MMSs (€32,250).

² The outlier is one MP who in 2019 acquired stocks for €1.77 million. Without taking this into account, the increase would only be by 3%.

1. Introduction

Widespread perceptions of political corruption and undue influence of private interests in political decision-making are ongoing concerns in Latvia. The latest Eurobarometer survey on corruption, carried out at the end of 2019, has revealed that as many as 76% of Latvians agree that too close links between politics and business lead to corruption in the country.³ The results of the Transparency International's Corruption Perceptions Index (CPI) 2019 showed an increasing country risk linked to this problem, exacerbated by a lack of breakthrough in tackling it in the past decade.⁴

Transparency of and accessibility to high-quality information and data over the financing of political parties and over Members of the Parliament's interests and assets can play a key role in curbing political corruption. By enabling oversight agencies, media and civil society to better monitor channels of influence into public decision-making, they help ensure that political competition is fair and accountable and that elected representatives consistently use their power in the public interests.

In 2019 and 2020 Transparency International Latvia (TI Latvia) has updated the website *Deputati uz Delnas*, first launched in 2010 to provide information on the background, political experience and parliamentary work of current and candidate MPs. The new version, called *Integrity Watch LV* (IW LV) in English, harvests publicly available data on political financing and MPs' interest and asset declarations and allows users to explore them through interactive databases and visualisation tools.⁵

As a first demonstration of how IW LV can be used to identify trends and patterns with regard to political financing and MPs' declared interests, in this report we provide an overview of Latvian political organisations' income from private donations, member fees and public funding in 2018-19, and seek to understand to what extent they have relied on a small number of private donors to finance their activities. Furthermore, we provide a snapshot of MPs' outside interests and their links to different sectors of the economy, assessing how these have varied between 2018 and 2019.

In the next section, we outline the methodology used to carry out the analysis. Then, we present findings on political financing and interest and asset disclosure. Finally, we provide some conclusions, recommendations and guidelines for further analysis with IW LV.

IW Latvia is part of the broader project "Integrity Watch Europe", financed by the European Commission and led by the Transparency International Secretariat (TI-S) and Transparency EU (TI EU). The project envisages the development of digital tools to foster political across other seven EU countries and two EU institutions. While users can access all other tools from IW LV, TI-S and TI-EU have recently published a regional report covering findings from data analysis in Latvia and other countries. We encourage readers to get acquainted with it to get a more comprehensive view of the situation with regard to open data for political integrity in Europe.⁶

³ <https://ec.europa.eu/commfrontoffice/publicopinion/index.cfm/survey/getsurveydetail/instruments/special/surveyky/2247>

⁴ <https://delna.lv/lv/2020/01/23/latvijai-lejupslide-2019-gada-korupcijas-uztveres-indeksa/>

⁵ www.deputatiuzdelnas.lv

⁶ See <https://transparency.eu/project/integrity-watch-europe/>. The other countries involved in the project are France, Greece, Italy, Lithuania, Netherlands, Slovenia and Spain. All the tools were inspired by the platform "Integrity Watch EU", launched by TI EU in 2014 to monitor lobbying meetings and incomes of EU Commissioners and Members of the European Parliament. See <https://www.integritywatch.eu>

2. Methodology

This report explores major trends and patterns with regard to political financing and interest and asset disclosure in order to provide recommendations for the improvement of related legislative and data disclosure frameworks as well as guidelines for future analysis using Integrity Watch Latvia.

Political financing – With regard to political financing, the report aims to: i) provide an overview of political organisations' income from private donations, membership fees and public funding in 2018-19; and ii) understand to what extent Latvian political organisations have relied on large contributions by a small base of private donors, including big and significant donors and MPs currently in office.

To carry out the analysis, we have used data that are publicly available on the Party Financing Database of the Corruption Prevention and Combating Bureau (hereafter, CPCB)⁷. These include data on private donations, membership fees and funding from the State as well as data on political organisations' expenditures as declared in their annual financial statements to the CPCB. To give focus to our analysis, we have covered the 20 political organisations with the highest income from private donations.

Interest and asset disclosure – With regard to interest and asset disclosure, the report aims to i) provide a snapshot of outside interests (i.e. interests that are not related to the position of public official) of the 100 MPs who were in office at the end of 2019; and ii) assess how such interests have varied between 2018 and 2019 among selected groups of MPs (re-elected MPs, former local politicians and former private individuals).

To answer these questions, we have analysed MPs' annual declarations covering the whole of 2018 and 2019. These are available on the database of public officials' declarations of the State Revenue Service (SRS).⁸ It must be noted that in the case of MPs who were private individuals before being elected in November 2018, their annual declarations for 2018 cover only interests incurred while being in office that year (that is, from 6 November to 31 December 2018). In the case of former local politicians who took up the MP mandate in 2019 to replace other MPs serving as government ministers, we retrieved annual declarations for 2018 which they filed as local officials.

To gain a fair picture of MPs' outside interests, we have looked exclusively into three types of declared items: 1) positions and 2) incomes related to entities in private sector and civil society, public academic institutions, foreign institutions, self-employment activities (hereafter, outside positions and incomes); 3) shares and stocks held in Latvian and foreign commercial companies. To determine the sectors of the economy associated with each legal entity, we have retrieved their assigned NACE code (the official code used in Europe for the statistical classification of economic activities) available on Latvian and foreign company registers.⁹

Limitations – As this is an explorative analysis and aims more to provide an overview of general trends and patterns rather than an in-depth assessment, some limitations must be taken into account. With regard to political financing, the analysis covers a short time span, which means that a more long-term assessment might deliver a different picture of political organisations' sources of income.

Concerning interest and asset disclosure, we have NOT included a number of declared items whose assessment, even if relevant, would have gone beyond the scope of our analysis, namely: i) positions in political parties and public institutions other than public academic institutions; ii) income earned from private persons, political parties and public institutions other than academia; iii) financial instruments other than shares and stocks in commercial companies (e.g. investment funds, obligations, etc.). While most of these data will progressively be made available on IW Latvia, we encourage readers to get acquainted with the original declarations to gain a fuller picture.

⁷ <https://www.knab.gov.lv/lv/db/>

⁸ <https://www6.vid.gov.lv/VAD>

⁹ As the Latvian Enterprise Register currently does not provide the NACE classification code of Latvian legal entities, we used the private databases "Lursoft" and "Firmas.lv".

3. Political Financing

The financing of political organisations plays an important role in modern democracies. Political organisations need resources to carry out their basic functions, such as reaching out to their constituencies and running election campaigns. Private contributions are an important form of political participation, but rules over their transparency and limits must be in place so that they do not become a means for resourceful interests to unduly influence political decision-making. Likewise, public funding to political organisations is also necessary to ensure fair and equitable competition among them.

In Latvia, it has been widely acknowledged that political organisations have been too much dependent on private donations to carry out their tasks, with risks of undue influence on decision-making. According to the 2019 EU Flash Eurobarometer on Business Attitudes towards Corruption, about half (49%) of firms in Latvia believe that the awarding of public contracts in exchange for funding to political parties is the most widespread corruption practice when operating in the country, which is higher than the EU average (35%).¹⁰

To mitigate such risks, over time, Latvia's authorities have put in place comprehensive regulation on political financing. The Law on the Financing of Political Organisations (Parties) includes bans on anonymous, corporate and foreign donations as well as strict limits to private contributions. Political organisations must report all private contributions and submit financial declarations to the CPCB, which audits the information and makes it publicly available on its website. Political organisations are also entitled to receive public funding based on votes received in elections.¹¹

Although the prohibition of donations from legal entities has made it difficult to identify any major corporate sponsors who might have been behind election campaigns, CPCB's data allow to get an overview of political organisations' main sources of income as well as their reliance on different groups of private donors.

A bird-eye view on Latvian political organisations' incomes

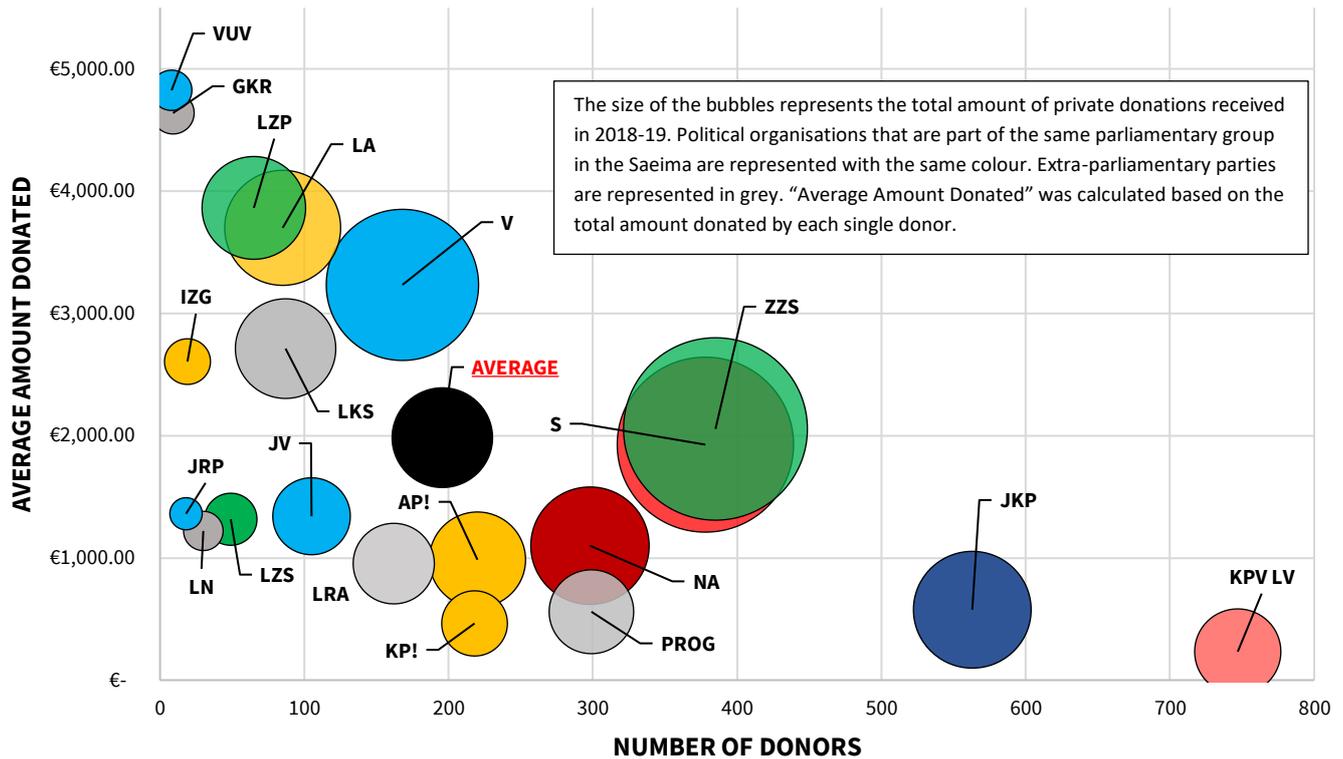
In 2018 and 19, years in which Parliamentary and European elections respectively took place, private donations, amounting to €4.72 million, constituted the bulk of income for the twenty Latvian political organisations covered in our analysis. Among them, nine political organisations also received public funding for a total of around €990,000, and ten political organisations received a total around €652,000 in membership fees. On average, private donations constituted 81% of the political organisations' aggregated income from the three sources, ranging from 23% to 100%.

Though the analysis points to a significant variation in terms of number of private donors and average total amount donated by each of them (see Chart 1), in general, political organisations have tended to rely more on conspicuous donations from a small base of donors. At an aggregate level, the 20% of top donors (728 individuals out of 3,638), contributed to 83.2% of the total amount of private donations. Within single political organisations, the top 20% private donors donated an average of 75% of the total amount of private donations, ranging from 93% to 45%.

¹⁰ <https://ec.europa.eu/commfrontoffice/publicopinion/index.cfm/Survey/index#p=1&instruments=FLASH>

¹¹ <https://likumi.lv/ta/id/36189-politisko-organizaciju-partiju-finansesanas-likums>.

Chart 1 - Private donations to Latvian political organisations, 2018-19



Source: Party Financing Database of the Corruption Prevention and Combating Bureau

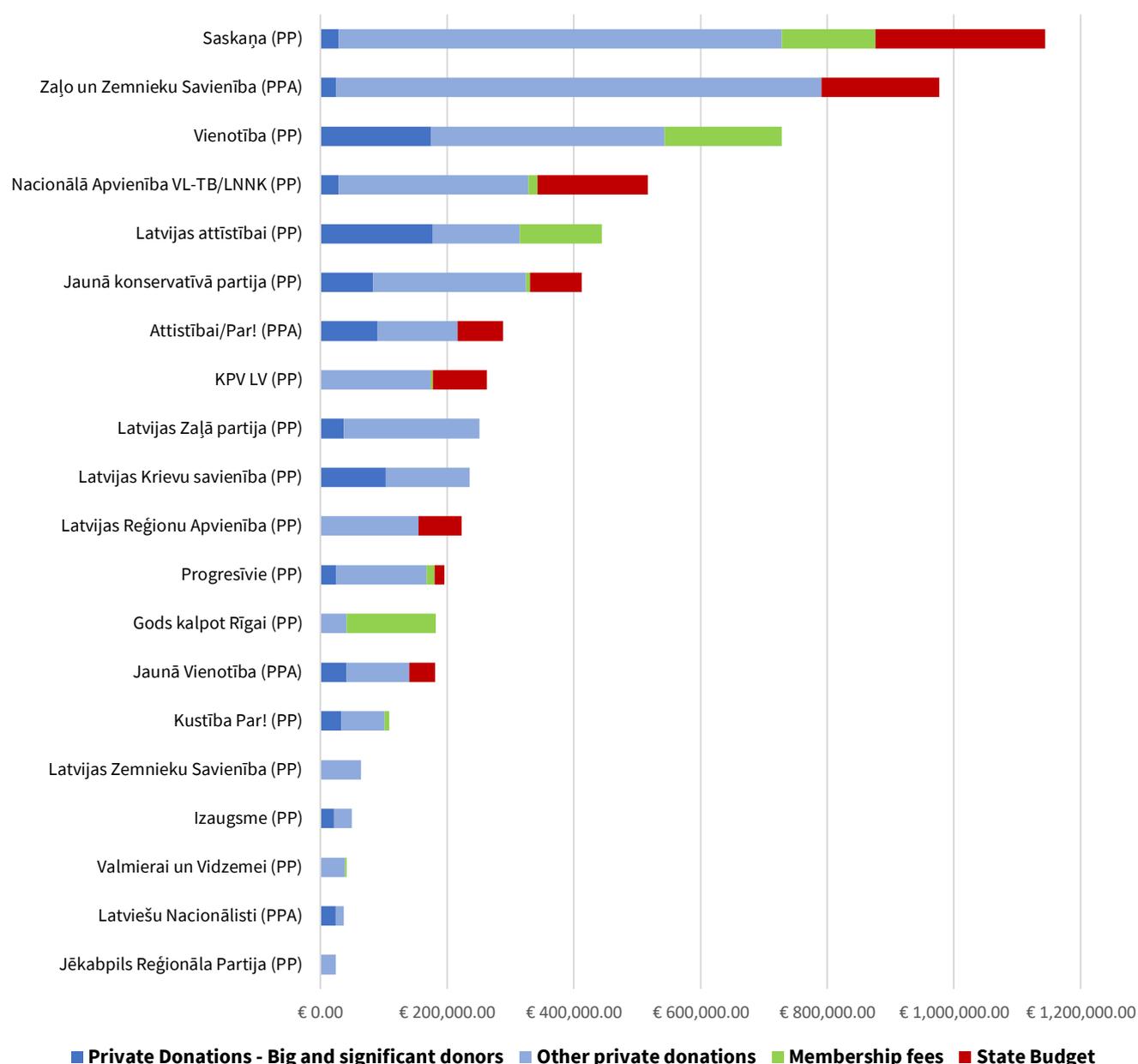
Around one fifth (19% or €894.500) of the total amount of private donations has come from 26 individuals – 14 “big donors” and 12 “significant donors”¹² – who have contributed to an average of 28% to 15 out of 20 political organisations covered in our analysis, ranging from 0.3% to 65% (see Chart 2 on the next page). Among big and significant donors, we found major entrepreneurs in agriculture, telecommunications, energy and financial sector as well as prominent party leaders, government officials and elected representatives in national and EU institutions.

Contributions from MPs seem also to have played a relevant role in the funding to political organisations. In 2018-19, 94 out of 100 MPs that were in office at the time of this analysis (early November 2020) contributed to a total of around €339,000 in private donations (slightly over 7% of the total) to 12 different political organisations covered in our analysis. MPs have donated an average of around €3,640, ranging from €3 to €21,800. Within single political organisations, MPs have contributed an average of around 11% of the total amount of private donations, ranging from 0.02% to 30.9%.

In contrast to private donations, public funding and membership fees constituted a much smaller share of political organisations’ incomes. Among the nine political organisations that have received funding from the State Budget in 2018-2019, this has constituted, on average, only 24% of their aggregated income including private donations and member fees, ranging from 8% to 33,6%. Membership fees, on average, constituted 17% of the aggregate incomes of ten political organisations receiving them, ranging from 1,3% to 77% (see Chart 2 on the next page).

¹² According to the legislation on political financing into force until the end of 2019, private individuals were allowed to donate a maximum of 50 minimum monthly salaries (€21,500) over one year to a single political organisation. Based on this, we have considered as “significant donors” individuals that in 2018-19 have donated a total amount equal or higher than 50 minimum monthly salaries (MMSs) but lower than 75 MMSs (€21,500-€32,249), and as “big donors” those that have donated a total amount equal or higher than 75 MMSs (€32,250).

Chart 2 - Political organisations' income from private donations, membership fees and State budget, 2018-19



Source: Party financing database of the Corruption Prevention and Combating Bureau

Overall, political organisations' aggregated income from private donations, member fees and public funding in 2018-19 was not enough to cover their expenditures in the same period. Political organisations' financial declarations submitted to the CPCB show that, on average, political organisations spent 138% of the income from the three sources, and, as a consequence, they were led to indebt themselves.¹³ Over 80% of the aggregate expenditures were associated to only five categories: advertising services (42%); "other expenditures" (16%); salaries (10%); "other services" (9%); and room rentals and related services (6%).

¹³ According to the CPCB's Operational Strategy 2020-22, political organisations concluded 2018 with significant liabilities (€1,3 million) for received services and goods. https://www.knab.gov.lv/upload/2020/operational_strategy_2020-2022_eng.pdf

The reform of the political financing model

On 1st January 2020, amendments to the Law on the Financing of Political Organisations (Parties)¹⁴ came into force, seeking to change the political financing model to one that is more independent from private contributions. The public funding allocated to political organisations that received more than 2% of the votes in the last parliamentary elections was increased six-fold¹⁵, and those that received more than 5% of votes will also receive additional €100.000 annually until the next parliamentary elections. Political organisations will also be allocated public funding for votes received in local and European elections.¹⁶

At the same time, while the total amount public funding to a political organisation over one year cannot exceed €800.000, the amendments significantly lowered the limit on the total yearly amount that individuals can contribute, either in the form of private donations or membership fees, to political organisations that have received public funding.¹⁷ Moreover, political organisations are now prohibited to take loans to finance their activities.

The amendments to the law are likely, at least in the short-term, to make political organisations less dependent on private donations and more capable to fully finance their activities, thus contributing to the stabilisation of Latvia's notoriously fragmented political party landscape. However, there have also been concerns that the additional funding granted to political organisations that have won over 5% of the vote might disproportionately favour them, with negative impacts on electoral competition and the emergence of new political alternatives.¹⁸

Though it is still too early to fully understand the impact of the reform, the OSCE Office for Democratic Institutions and Human Rights (ODIHR) provides guidance in this sense. According to the *Guidelines on Political Party Regulation*, effective political financing legislation should aim to achieve a balance between private and public funding. Political organisations should be granted sufficient public financial resources to carry out their basic functions, but, at the same time, this should not result in a decrease of financial contribution and/or participation from citizens.¹⁹

Following this principle, in the case of Latvia it will be important to monitor variations in the total number of small donors and fee-paying members, and to verify whether any significant income gap emerges between political organisations that receive public funding and those that do not. These might be useful initial indicators about whether increased public funding to political organisations will translate in increased participation from citizens and/or distortions of political competition.

Furthermore, given the significant increase of public funds available to political organisations, more attention should be given to transparency and monitoring of their expenditures, and user-friendliness of related data and information. As TI Latvia could ascertain while writing this report, at present, political organizations' annual and election-related financial declarations, where expenditures are reported, are only available as scanned PDF documents, which makes it difficult to explore, collect and/or compare the information.²⁰

¹⁴ <https://likumi.lv/ta/id/36189-politisko-organizaciju-partiju-finansesanas-likums>

¹⁵ Public funding was increased from €0.71 to €4.5 per vote in parliamentary elections.

¹⁶ Political organisations will receive €0.5 per vote in both local and European elections.

¹⁷ The donation limit was reduced from 50 MMSs (€21,500) to 5 MMSs (€2,150) for political organisations that have received more than 5% of the votes, and to 12 MMSs (€5.160) for political organisations that have received between 2% and 5% of the votes. In case public funding was received by a union of political parties, the limits also apply to the political parties that are part of it.

¹⁸ <https://www.leta.lv/eng/home/important/333842C8-6F73-4D14-8634-5211B44FD1C8/>

¹⁹ OSCE Office for Democratic Institutions and Human Rights (ODIHR) (2016), *Guidelines on Political Party Regulation*

²⁰ <https://www.knab.gov.lv/lv/db/declaration/>

4. Interest and Asset Disclosure

Interest and asset disclosure regimes for public officials, now commonplace across the world, are key to prevent, detect and investigate potential conflicts of interest and/or illicit enrichment, and to bolster public confidence in the integrity of the political system. With the development of new technologies and increased capacity to connect data across different government databases (e.g. registers on corporate ownership, public procurement and taxes) their potential has grown even further in recent years.

In Latvia, the Law on Prevention of Conflict of Interest requires all public officials (including MPs) to declare a wide range of interests and assets, including positions, movable and immovable assets, shares and stocks, financial instruments, cash and non-cash deposits, outside income and significant liabilities. Officials must file declarations to the SRS when taking and leaving office as well as annually. While the SRS verifies the accuracy of the information contained in the declarations by cross-checking it with other databases at its disposal (e.g. tax register), the CPCB examines potential breaches of the law.²¹

Though, as we explain further below, the Public Officials' Declarations' Database has some shortcomings in terms of accessibility and user-friendliness, the level of detail of single declarations allows to gain a fair picture of Latvian MPs' outside interests, and to assess how these have varied in last two years.

Our analysis shows that, among the 100 MPs who were in office at the end of 2019, it was fairly common to have outside positions and incomes and shares/stocks in commercial companies, with great variation in terms of economic sectors. According to their annual declarations for 2019, 54 of them held at least one outside position (average of 2, ranging from 1 to 7); 67 of them earned outside incomes for an average value of €10,601 (ranging from €0.01 to €91,725), and 36 of them held shares and/or stocks in commercial companies for an average value of around €60,000 (ranging from €4 to €1,77 million).²²

While most MPs held outside positions as board members in civil society organizations active in the field of politics and culture, they held most of the shares and stocks' value in financial and insurance activities (€1.77 million), manufacturing (slightly over €193,000), and accommodation/food services (slightly over €100,000). MPs received most of their outside income from agriculture, wholesale and retail trade and education (including public academic institutions). Around 60% of the total outside income was earned as salary and the remaining as income from occasional activities and transactions (see Chart 3).

Compared to 2018, there was an overall decrease in the number of outside positions (-39%) and value of outside income (-30%). The value of stocks and shares increased by 430%, but this was mostly due to one outlier²³ (if this is not taken into account, the increase is only by 3%). The decrease in outside positions and incomes was most significant among 24 former local politicians (see charts 4 and 5). The value of stocks and shares also decreased among former local politicians (-50%) and 28 former private individuals (-24% if one outlier is not taken into account),²⁴ but increased by 65% among 35 re-elected MPs.

Although these results suggest an overall reduction of MPs' interests and activities in the private sector, further analysis will be needed to find the reasons behind such variations and to explore other groups of MPs, including former officials in the government and/or public administration.

²¹ <https://likumi.lv/ta/en/en/id/61913-on-prevention-of-conflict-of-interest-in-activities-of-public-officials>. Section 24 of the law provides a full list of interests and assets that public officials must declare.

²² The high average value of stocks and shares is due to the presence of two outliers in the analysis – one MP who declared stocks worth €1.77 million and another MP who declared shares worth €220,000. If these two outliers are not taken into account, the average value is €5,820.

²³ The outlier is one MP who in 2019 acquired stocks for €1.77 million

²⁴ Including the outlier, the MP who in 2019 acquired stocks for €1.77 million, the variation would be +4,305%

Chart 3 - Latvian MPs' outside income, Top 10 sectors, 2019

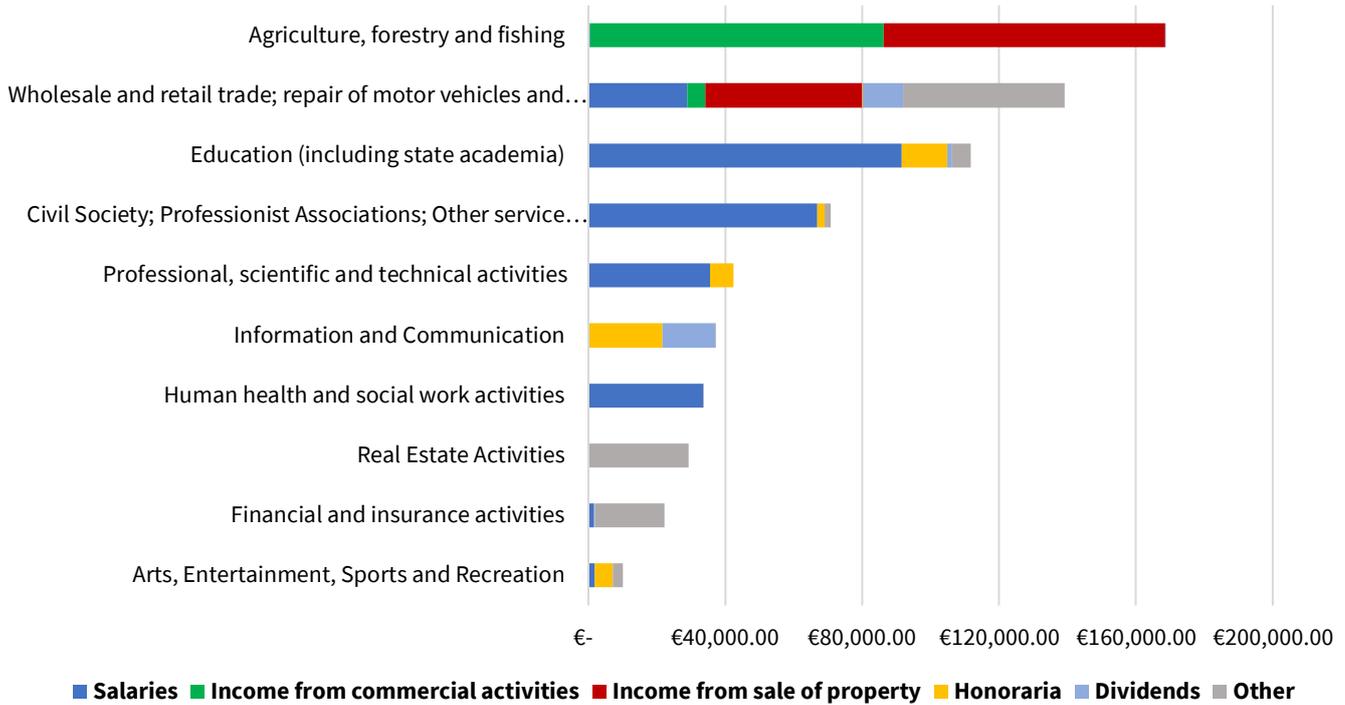


Chart 4, Outside positions, selected groups of MPs, 2018-19

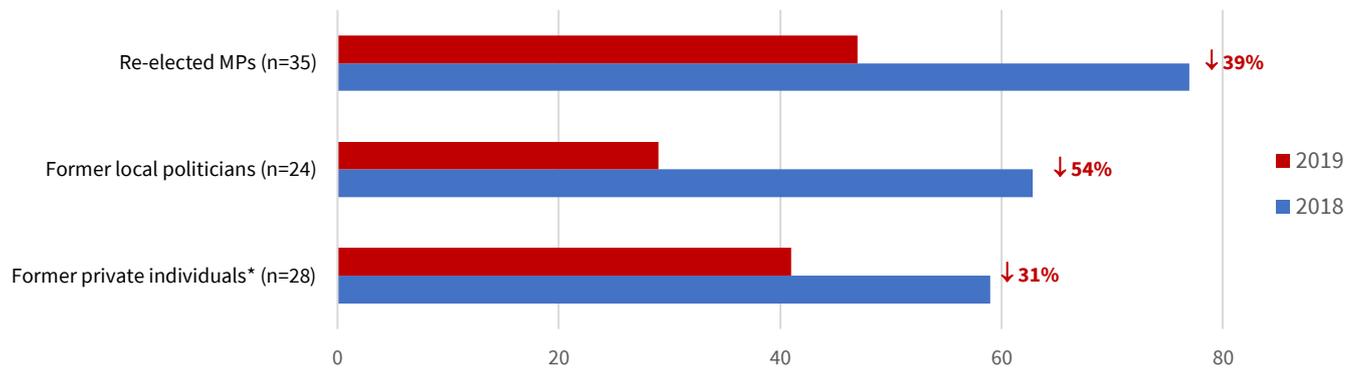


Chart 5, Outside income, selected groups of MPs, 2018-19



Sources charts 3, 4 and 5: State Revenue Service's Database of Public Officials' Declarations

*Data on former private individuals for 2018 only cover the period from 6 November to 31 December 2018 (see Note on Methodology, p.6)

Shortcomings in the interest and asset disclosure regime in Latvia

In October 2019, the Latvian Parliament passed amendments to the Law on the Prevention of Conflict of Interests, which now prohibits public officials from receiving remuneration from positions held in civil society organisations, foundations or social enterprises (the amendments entered into force in July 2020). Taking into account the results of our analysis, this measure is likely to contribute to a further reduction in MPs' outside income and mitigate the risk of conflict of interests. However, it is hardly enough to ensure a significant improvement to the current framework.

In its 5th Evaluation Round report (2018), GRECO noted a number of shortcomings when it comes to submission and verification of high-level officials' declarations and encouraged Latvia's authorities to re-think the overall rationale and functioning of the system of asset disclosure in order to make it more relevant and effective.

One of the main shortcomings in the legislation is the lack of requirement for MPs to declare private interests immediately as they arise (so-called *ad hoc* declarations), which prevents observers from having a "real-time" picture of what interests might affect MPs' as they make decisions. Another is the lack of systematic in-depth verification of high-level officials' (including MPs) declarations by the CPCB. Each year the CPCB checks declarations of around 1,000 officials (out of 60,000) and, of these, only around 150 undergo in-depth verification, mostly following complaints and media reports.²⁵

Furthermore, TI Latvia identified other problems related to user-friendliness, searchability and comparability of the SRS' database. Declarations are not downloadable in machine-readable format, and it is only possible to check them one at a time, by inserting name and surname of the public official. In terms of structure of the information, the declarations make no distinction between positions and incomes related to public office and those related to private interests, nor they explicitly indicate what income stems from what position. Observers must infer this by themselves.

These shortcomings reduce the effectiveness of the interest and asset disclosure regime in Latvia. The CPCB has acknowledged the need for systematic in-depth verification of high-level public officials, and as part of its strategy for 2020-22 is laying down internal procedures for carrying out such exercise on an annual basis.²⁶ However, the lack of user-friendliness of the SRS' database reduces the capacity of the media and public at large to monitor and report potential breaches of the law, despite this has been of crucial importance to the CPCB's work.

To tackle such problems the Parliament should consider amending the law in order to: i) introduce a mechanism for high-level public officials to declare interests and assets immediately as they arise; and ii) mandate the publication of declarations in machine-readable format. To complement such measures, the SRS should enhance the user-friendliness of the declarations' database, by introducing features that allow users to explore, sort, filter and compare declarations across different years, public institutions and categories of public officials.

These measures would contribute to enhance the effectiveness of Latvia's interest and asset disclosure regime and transform the SRS database in a more valuable resource for oversight authorities, media and civil society to detect potential conflicts of interest and illicit enrichment.

²⁵ GRECO (2018), 5th Evaluation Round Report on Latvia: "Preventing corruption and promoting integrity in central governments and law enforcement agencies"

²⁶ Operational Strategy of the Corruption Prevention and Combating Bureau 2020-22, https://www.knab.gov.lv/upload/2020/operational_strategy_2020-2022_eng.pdf

5. Conclusions and policy recommendations

This brief analysis has provided an overview of general trends with regard to political financing and MPs' interests and assets declarations in Latvia in 2018 and 2019.

With regard to political financing, the analysis showed that Latvian political organisations were overly dependent on private donations to carry out their functions and tended to rely more on conspicuous donations from a small base of donors. In addition, their overall income including membership fees and public funding was not enough to cover their expenditures, leading them to indebtedness. Recent amendments to the political financing legislation, which have considerably increased the amount of public funding will likely make political organisations less dependent on private donors, but attention must be paid to potential impacts on political competition and citizen participation in politics, as well as to the monitoring of political organisations' expenditures.

With regard to interest and asset disclosure, the analysis found that, among the MPs who were in office at the end of 2019, a majority of them held outside positions and earned outside income, and slightly more than one third also held shares and stocks in commercial companies, with great variation in terms of economic sectors. At the same time, compared to 2018, there was a significant decrease in the overall number of outside positions and value of outside income indicates a reduction of their involvement in the private sector. Latvia has a comprehensive interest and asset disclosure regime, but shortcomings in declaration requirements and data disclosure make it hard to harness its potential.

Recommendations

- ⇒ **The CPCB should publish all data on its political financing database, including political parties' financial declarations, in machine-readable format.** This would make it easier for journalists, civil society and researchers to gather the data for further analysis, better monitor political parties' financial flows and identify potential cases of misreporting or breaches to the law.
- ⇒ **Political parties and the CPCB should pay close attention to variations in the number of private donors and fee-paying members, and to the emergence of significant income gaps between parties that receive public funding and those that do not.** This would help better understand whether the impact of the new political financing model on citizen participation and political pluralism.
- ⇒ **The Parliament should amend the Law on the Prevention of Conflict of Interest in order to: i) Introduce a mechanism that allows MPs to declare new interests and assets immediately as they arise; and ii) mandate the publication of high-level officials' declarations in machine-readable format.** This would allow for real-time monitoring of MPs' interests that might influence decision making and would make it easier to cross-check data with other relevant sources.
- ⇒ **The SRS should upgrade its public officials' declaration database, by introducing features that allow users to explore, sort, filter and compare declarations across different years, public institutions and categories of public officials.** This would greatly enhance the user-friendliness of the database and empower media and civil society in their watchdog function.



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