



'Openly about the 8th Saeima electoral campaign finances'
Soros Foundation Latvia and Transparency International "Delna"

'A Reflection of the Shortcomings in Legislation on Party Financing in the 2001 Finance Declarations'

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List of abbreviations

Latvia's Way- LW
People's Party - PP
New Christian Party - NCP
For Fatherland and Freedom - FFF
Latvia's Social Democratic Workers' Party - LSDWP
Political Association for Human Rights in a United Latvia - PAHRUL
Latvia's Democratic party - LDP
Centre Party Latvia's Farmers' Union - CPLFU
Latvia's' Green Party - LGP

Cabinet of Ministers - CM

Summary

Political parties submitted their financial declarations for 2001 on 1 March 2002. Municipal elections took place on 11 March 2001, but information on who contributed to political parties was only disclosed to the public one year later. Additionally, the submitted financial reports do not provide a clear picture of political parties' expenditures before and after the municipal elections. These declarations once again confirm that the existing legislation on political party financing does not allow society to obtain clear and current information on the income and expenditures of political parties.

The law currently regulating political party finances states that political parties must submit reports on contributors only once per year – 12 months after municipal elections and five months after Saeima (parliamentary) elections. This means that when voting for a political party, society is not informed about the sources of parties' finances. Further, parties' expenditures rise significantly in election years. This usually takes place in the form of pre-election campaign expenditures, which comprise about 65% of political parties' expenditures in election years. An expensive election campaign may directly affect election results, therefore it is necessary to require political parties to provide detailed information regarding how much money was spent on pre-election campaigns before the elections take place. Changes in political party financing legislation that would require regular accounting of party income and a detailed list of expenditures must be made without delay. Otherwise, the 8th Saeima elections will be just as secretive as all the previous ones.

It must be admitted that legislation on flows of political party finances cannot resolve everything, because in and of itself it does not guarantee that the information submitted by political parties is accurate. Considering the great deal of illegal money flows in the economy¹, it must be assumed that a lot of that money goes toward political party financing and is not reflected in official company or party reports. Additionally, even if regulation of party finances is entrusted to a particular institution, this is not always done effectively, because it is difficult to guarantee this institution's independence and political non-involvement.

Of all political parties' expenditures in election and non-election years, advertising is the greatest expenditure and merits special attention. In this situation,

¹According to Latvian officials, Latvia's shadow economy is 25 - 43% of GDP, LETA 14.03.2002

conducting an independent accounting of advertising, the project 'Openly about the 8th Saeima electoral campaign financing' managed to document almost 2/3 of all political parties' expenditures². In a situation where political party finances are practically unregulated and in which official reports do not include all money flows, these calculations provide a rather clear picture about political parties' funds and underscore the importance of independent observation.

This effort is even more important when one considers that this study found that party finances are concentrated in the hands of the largest parties. The report concludes that in the 2001 municipal election campaign efforts, 87% of all expenditures or about 1 960 000 lats were spent by the three largest parties: PP (People's Party), FFF (For Fatherland and Freedom) and LW (Latvia's Way) (out of 2 250 000 lats). PP spent the most, 44%. LW came in second place, with 25% of total expenditures, and FFF spent 17% of total expenditures. These numbers confirm that contributors are most attracted to parties with Saeima representation and which control politics and economics. By contrast, a political party's ideological affiliation has much less meaning. The stark difference in the amount of money in the hands of large and small parties could lead one to conclude that large parties may potentially be much more subject to contributors' influence. Only by drawing the attention of society and the media to the amounts of money involved and its proportionality is it possible to ensure fair play by all political parties.

² See Chart 4 on p. 12

I. Introduction. Aim of Report.

Initially, this report was intended as a supplement to the 2001 report, in the hope that the financial declarations submitted by political parties in 2002 could fill in the "gaps" of the previous report. In 2001, under the auspices of the project "Openness in Political Party Finances", Soros Foundation Latvia (SFL) and Transparency International "Delna" invited political parties voluntarily to submit information about their income and expenditures before the deadline set by law. Only nine parties submitted information regarding pre-election campaign expenditures. Of those represented in the Saeima, only Latvia's Way (LW) and the People's Party (PP) complied.

1. PARTIES' WILLINGNESS TO FILL OUT DECLARATIONS AND FULFILLMENT OF PROMISES

	Promise to submit	Report received by 1 June 2001
(a) Parties that submitted reports		
1. Latvia's Green Party	Yes	Yes
2. Latvian Farmers' Union	Yes	Yes
3. Mēs savam novadam	Yes	Yes
4. National Progress Party	Yes	Yes
5. Latvia's Democratic Party	Yes	Yes
6. Latvia's Farmers' Union	Yes	Yes
7. People's Party	Yes	Yes
(b) Parties that submitted partial reports		
8. Christian Democratic Union	Yes	Partially (contributors not indicated)
9. Latvia's Way	Yes	Partially (contributors not indicated)
(c) Parties that did not submit reports		
10. Daugavpils City Party	Yes	No
11. New Christian Party	Yes	No
12. For Fatherland and Freedom	Yes	No
13. People's Harmony Party	Yes	No
14. Our Land	Yes	No

Source: Project "Openness in Financing of Political Parties", SFL and "Delna", October 2001

Upon analysis of the reports submitted by political parties, the report's authors concluded that existing legislation regulates the procedure for submission of declarations by the parties so inadequately that to subject the declarations to a reliable analysis is practically impossible. Thus, the aim of this report is again to indicate the shortcomings of existing legislation and to prove with the help of examples that it is impossible to acquire an accurate picture of political parties' expenditures on the basis of the financial declarations currently being submitted by the parties.

II. Legislation regulating political party finances – outdated and incomplete

1. A comparison of legislation regulating party finances in Latvia and Estonia

Legislation regulating Latvia's political parties' finances was passed in 1995, a time when Latvia's democracy was still "young". For this or some other reason, parties' finances today are regulated by a law that fails to attain at least two its three aims: to ensure "openness, legality and accordance with a parliamentary democracy in the financial activity of political organisations (parties)"³. The law regulates political parties' finances poorly – political parties are only required to submit declarations on financial activity once a year, the section on income is regulated inadequately, and the section on expenditures remains essentially unregulated.

For the sake of comparison, let us look at Estonia's parliamentary legislation on political parties' finances passed already in 1994. Here we see that already then, Latvia's neighbour country approved much stricter laws concerning openness in political parties' finances. The Estonian legislation contains the regulation that:

1. Political parties must submit to the public information on all bank accounts opened in the party's name in Estonian as well as foreign banks, indicating the name of the bank, account number and other identification data;
2. Political parties must issue three times a year reports on funding received for the preceding four months, indicating date of receipt of the contribution, contributor's name, the pecuniary value of the contribution, and its source;
3. Estonia's law on political party financing indicates that parties' money flows before elections merit particular attention. For this reason, during the three-month period before municipal or parliamentary elections, political parties are required each week by the end of the following week's first working day to submit information on contributions received during the previous week;

³ Latvia's "Law on Financing of Political Organisations (Parties)", 02/08/1995

4. Thirty days after elections political parties must submit to the National Election Committee reports on pre-election campaign expenditures and the sources of monies received⁴.

Despite these regulations, the necessity to amend these regulations is widely debated in Estonia as parties have already found a way to circumvent and not observe the law.

2. Shortcomings in the regulation of the date for submission of financial declaration

In accordance with existing legislation, political parties submit reports on their financial activity once per year, by 1 March. Only an entire year after elections was society able to obtain information on political parties' money flows before and after municipal elections, which took place 11 March 2001. By this time the significance of the information had substantially decreased and only journalists and researchers were still interested in information on funds at political parties' disposal, since voter choice could realistically no longer be influenced by this information. Similarly, declarations on financing in the year of Saeima elections will only be submitted by the parties five months after elections. For the 8th Saeima elections on 5 October this means 1 March 2003. Such legislation bars effective control of political parties' finances. Political party researcher Pinto-Duschinsky admits:

'If the time lapse between a contribution and its disclosure is too long, the act of disclosure loses its meaning. What is the point of a regulation that permits political parties to receive large amounts of money right before elections, but that require contribution disclosure long after the elections?'⁵

Recently media representatives investigated that last year several political parties received contributions from possibly falsified contributors⁶. The impact of such a conclusion would be far greater if it could be ascertained before elections. In order for that to be possible, the law needs to be changed so that a far more detailed accounting of income of political parties and identification of regular contributors would be required.

⁴ 'Political Parties Financing Act', Estonia, adopted 11 May 1994, effective 16 June 1994, www.legaltext.ee

⁵ Michael Pinto-Dushinsky 'Handbook on Funding of Parties and Election Campaigns', International IDEA, www.idea.int [data gleaned: 12.04.2002]

⁶ LTV 'Tādi esam' 14.03.2002/21.03.2002/28.03.2002

3. Shortcomings in the regulations on finance declarations content

The liberal approach that applies to the dates for submission of finance declarations is directly reflected in the contents of the declarations. Several shortcomings are evident here.

(a) Disclosure of Income

1. Legislation

The required contents of financial declarations in the political party financing law currently in effect are defined very broadly and vaguely. The law states that each year political parties' financial declarations must include 'financial means received in the form of a gift (contribution), indicating all gift givers (contributors)', and 'all immovable and movable property received in gift (contribution) form, if its value exceeds 1000 lats, indicating the giver (contributor) of each item of property and its value'⁷. The law does not require proof of contributors' identities (registration number or personal identification number). The law also does not state that the declaration must indicate the date the contribution was received.

2. Cabinet of Ministers' regulations

The law is supplemented by the Cabinet of Ministers' (CM) regulations 'On Annual Reports of Social Organisations and Associations and Unions thereof', which state that declarations must include the legal person's taxpayer registration code⁸. However, the regulations contain no requirement that the date of contribution was received must be indicated. As a result, parties submit information on date of contribution receipt in annual reports as they see fit. For example, in LSDWP's declarations it is impossible to glean when any given contribution was received. In this case this detail is of great importance, as the LSDWP's role changed substantially in 2001 when it became the ruling party in the Riga City Council.

⁷ Latvia's 'Law on the Financing of Political Organisations (Parties), 02/08/1995

⁸ Cabinet of Ministers' regulations 'On Annual Reports of Social Organisations and Associations and Unions thereof' No. 251, 01/08/2000, Riga, Latvia

2. THE LARGEST PARTIES THAT INDICATE/DO NOT INDICATE DATES OF RECEIPT OF CONTRIBUTIONS

Indicate contribution date	Do not indicate contribution date
1. Latvia's Way 2. Latvia's Farmers' Union 3. Latvia's Green Party 4. People's Party	1. For Fatherland and Freedom 2. New Christian Party 3. PAHRUL 4. LSDWP

Source: Political parties' financial reports www.ur.gov.lv

The truth that the financing law and the CM's regulations regarding financial declarations are often considered a mere formality is confirmed by another fact. Both the political parties' financing law and the CM's regulations state that political parties in their financial declarations must report contributions-in-kind with a value exceeding 1000 lats. The 2001 declarations indicate that *Latvia's Way* has received no contributions-in-kind, the *People's Party* does not separate contributions-in-kind as a category, also *PAHRUL* lists all contributions under one category: 'Contributions and Gifts Received', and *For Fatherland and Freedom* does not indicate receipt of any contributions-in-kind. Similarly, *LSDWP* reports only "contributions and gifts received". Only the *New Christian Party's* submission reflects that it has received contributions and gifts "in the form of property". In fact, such contributions-in-kind comprise 99% of *NCP's* LVL 94 728 in total contributions received (94 228: 500). The *Centrist Party Latvia's Farmers' Union* incorrectly reports that its contributions-in-kind and financial contributions are identical in value – LVL 4956.92, which is also the total contributed. Interesting conclusions may be made regarding *Latvia's Green Party's* report. As *LGP* co-chairman Askolds Kļaviņš informed SFL and "Delna" during last year's project, last year *LGP* received significant contributions in the form of free advertising time. In its 2001 report, *LGP* does not declare such contributions-in-kind at all, although they are required to do so by law. *LGP* only indicates that the total amount contributed is 4502 – the total amount of money contributed.

From the above we may draw two conclusions. First, legislation and the CM's regulations must be amended so that parties would be required to declare contributions received by specifically indicating what information on contributions received must be submitted, indicating that date of receipt of contribution must be declared, the form (contribution-in-kind, money, or service), contributor's name and identity, as well as the aim of the contribution, if indicated by contributor. Second, political parties view as a mere formality the law's language requiring parties to report all contributions-in-kind. If the first is an issue of appropriate legislation, then the second is one of a regulatory institution for political parties' finances.

(b) Disclosure of Expenditures

In discussions linking so-called 'state capture' with financing of political parties, where narrow business interests influence the actions of political parties and thus of legislators⁹, it seems logical to keep track of parties' income to see which businesses and economic groupings influence parties' legislative initiatives and decision making. However, there are several reasons why regulation of the expenditure side is similarly important. As Pinto-Duschinsky emphasises:

'[...] Limitations on expenditures limit political expenditures. That limits the possibilities for corruption and creates more equal conditions for both wealthy and poor parties'¹⁰.

The importance of regulation of expenditures is proven by the fact that in election years political parties' expenditures rise significantly. This tendency may be observed by comparing that which most parties spent in 1999 and 2001. Altogether, it turns out that in 1999, when neither Saeima, nor municipal, elections took place, the largest political parties spent only 30% of what they spent in 2001.

3. INCREASE IN POLITICAL PARTIES' EXPENDITURES COMPARING ELECTION/NON-ELECTION YEARS

Expenditures	1999**	(2000***)	2001	Difference in expenditures in 1999 vs. 2001
Latvia's Way	305 216 Ls	(567 948 Ls)	431 316 Ls	+30%
People's Party	50 382 Ls	(549 010 Ls)	718 202 Ls	+ 93%
FFF	60 450 Ls	(217 667 Ls)	268 892 Ls	+ 78%
LSDWP*	61 056 Ls	(51 548 Ls)	208 113 Ls*	+ 70%
Total increase in expenditures:				+ 67%

Source: Political parties' financial reports www.ur.gov.lv

*LSDWP's declaration indicates that its expenditures in 2001 were 112 217 Ls. However, tallying the data provided by LSDWP itself, this amount is actually **208 113**.

**1999 data were used for purposes of comparison due to the fact that municipal elections took place in the beginning of 2001, and parties incurred pre-election campaign expenditures already in 2000.

*** Data provided for illustration only; these figures not included in calculations

Furthermore, of all expenditures by political parties in both election and non-election years, advertising makes up approximately 65% of total expenditures and therefore merits particular scrutiny. In turn, this means that within the confines of

⁹ 'Seize the State, Seize the Day', State Capture and Influence in Transition, Policy Research Working Paper, World Bank, No. 2444, September, 2000

¹⁰ Michael Pinto- Dushinsky 'Handbook on Funding of Parties and Election Campaigns', International Idea, www.idea.int [data gleaned: 12.04.2002]

the project 'Openly about the 8th Saeima pre-election campaign finances' almost 2/3 of all political party expenditures may be documented. Under conditions where political party finances are poorly regulated and where money flows exist that never make it into official party coffers, these calculations provided a relatively clear idea of funds actually at the disposal of political parties.

4. PROPORTIONALITY OF PRE-ELECTION CAMPAIGN EXPENDITURES TO TOTAL PARTY EXPENDITURES

Approximate proportionality of pre-election campaign expenditures to party expenditures, 2000 – 2001							
	Expenditures, 2000	Campaign	Proportion- ality	Expenditures, 2001	Campaign	Proportion- ality	Average
Latvia's Way	567948 Ls	284563 Ls	50%	431316 Ls	281342 Ls	65%	58%
People's Party	549010.56 Ls	476719 Ls	86%	718202.38 Ls	522813 Ls	73%	80%
FFF	217667 Ls	178327 Ls	82%	268892 Ls	206112 Ls	77%	79%
LSDWP	51548 Ls	21789 Ls	42%	208113 Ls	125391 Ls	60%	51%
NCP	20212 Ls	0	0	100225 Ls	52089 Ls	52%	52%
CP LFU	14253.32 Ls	7026 Ls	49%	6317.72 Ls	4082 Ls	64%	57%
Total:							63%

Source: Political parties' financial reports www.ur.gov.lv

In addition, all pre-election campaign expenditures are aimed at garnering the support of the public to some party or other. A skilfully planned and lavish pre-election campaign may greatly affect voters' selection, and thus determining which political power will emerge victorious in the shift in democratic power. For this reason, data regarding the amounts of funds that political parties designate to pre-election campaign is an important criterion in voter selection. That is why SFL and 'Delna' have issued an initiative for legislative amendments that would require divulging information on expenditures 20 days before elections, including pre-election campaign expenditures already incurred and anticipated by election day.

1. Legislation

Though income disclosure in the law on financing of political parties is regulated, reporting on expenditures is left up to the discretion of the parties. The law on financing of political parties states that parties are required to declare real

property, transportation vehicles and other property acquired whose value exceeds 1000 lats, *as well as other expenditures amounting to over 1000 lats*¹¹. This regulation permits parties to define expenditures as they see fit.

2. CM Regulations

The CM regulations ease parties' responsibility even further, because they include a category very convenient for political parties: 'expenditures incurred in the implementation of the charter's aims and goals', which may be interpreted to mean any activity engaged in by a political party. And the parties take advantage of this, declaring up to 70% of total expenditures under this category. In addition, the CM regulations set forth that 'appointments may be further subdivided, combined, and new appointments may be created', which provides political parties with additional possibilities for interpretation.

The set of issues examined above actually relates to the far broader issue of whether political parties, considering their central role in the functioning of democratic politics, may be compared to social organisations. Currently, they are grouped together under the CM regulations. Far stricter regulation of income and expenditures needs to be imposed upon political parties. Several members of parliament have called for such an initiative, and, as a result, legislative amendments are being drafted for a second reading in the parliament.

¹¹ Latvia's 'Law on Financing of Political Organisations (Parties)', 02/08/1995

III. Analysis of Political Parties' Financial Declarations

In this section we shall examine and analyse the 2001 financial reports political parties submitted to the State Revenue Service and the Ministry of Justice on 1 March 2002, and the figures shall be compared to the amounts recorded for advertising expenditures as provided in the 2001 project by SFL and 'Delna'. Drawing conclusions from this comparison is, however, hindered by the following circumstances:

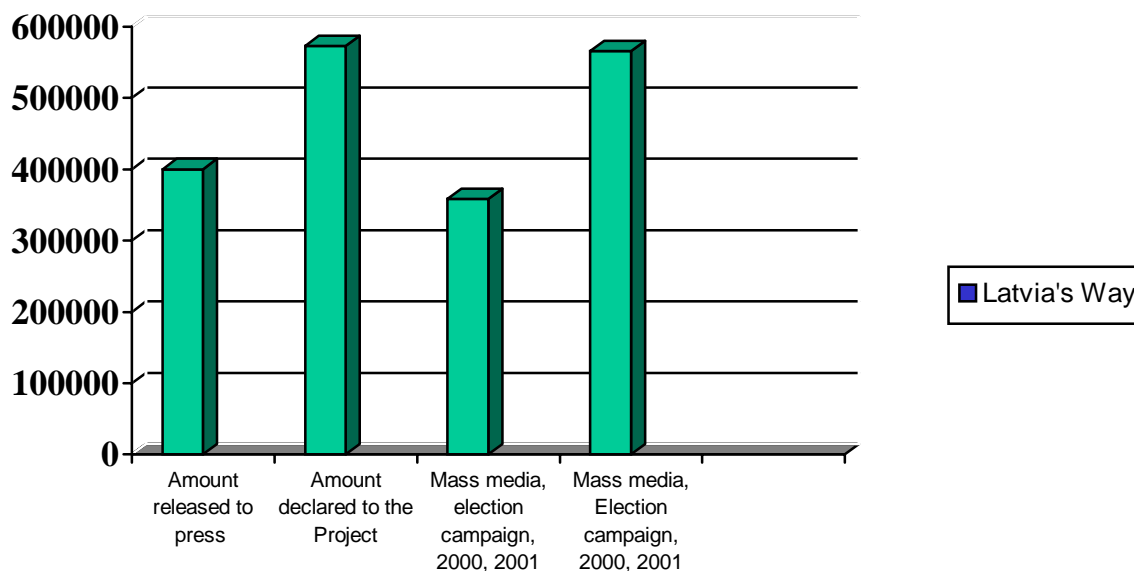
1. The project only conducted an accounting of pre-election expenditures for a period of three months – from January 2001 until election day¹². Political parties' financial declarations indicate that parties incurred considerable pre-election campaign expenditures already in 2000.
2. In accordance with the legislative shortcomings noted in Section 2, it is not possible to determine how much money political parties spent on political advertisements.
3. SFL and 'Delna' only published their findings on political parties' expenditures in October 2001, thus parties had sufficient time to 'adjust' declared expenditure figures so that figures accounted for by the project would better coincide with those the parties declared to the project.

What follows is an analysis of the largest parties' expenditures and comments on inconsistencies between amounts declared by political parties and those accounted for by the project. This report analyses the seven largest political parties having the greatest income and expenditures in 2000 and 2001.

¹² Within the confines of the project "Openness in the Financing of Political Parties", SFL and 'Delna' concluded an agreement with media research agency *Baltic Media Facts*, which recorded the amount of and approximate expenditure of political advertisements in the media.

1. Parties that disclose pre-election campaign expenditures
 (a) Latvia's Way

5. LATVIA'S WAY. PRE-ELECTION CAMPAIGN EXPENDITURES.



Pre-election expenditure estimate announced to the press¹³: 400 000 Ls
 Amount declared to the project "Openness in the financing of political parties": 572 888 Ls
 Amount accounted for by the project, BMF, 1 January – 1 March 2001: 358 489 Ls
 Total pre-election campaign expenditures: **565 905** Ls (Declaration, 2000 (mass media, election campaign): 281 342 + declaration, 2001 (mass media, election campaign): 284 563¹⁴)

Comments: LW incurred pre-election campaign expenses already in 2000. The amounts spent in 2000 and 2001 are similar: in 2000, a non-election year, the amount spent was Ls 3221 greater than in 2001. LW's total expenditures in 2001 were less than in 2000 (see Chart 3). The project found that LW spent 358 888 lats on pre-election advertising from 1 January 2001 until 1 March 2001. That is less than the 477 460 lats that LW declared to the project. Reviewing the report that LW submitted to the Company Register for 2000 and 2001, it turns out that LW spent 284 563 and 281 342 lats on pre-election campaign, respectively, a total of **565 905** lats spent on pre-election campaign, which is close to the amount declared to the project.

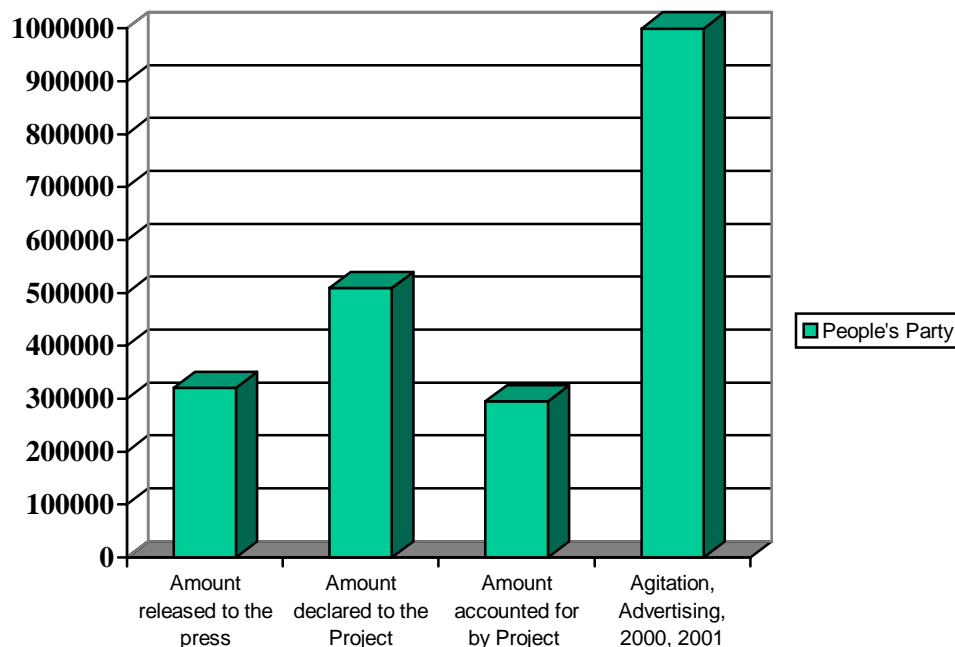
Further, it must be noted that before municipal elections, LW informed the press that it will spend less before municipal elections than it indicated in its 2000 and 2001 financial declarations (a difference of 165 905). In terms of funds at its disposal, LW comes in second place.

¹³ Approximate advertising expenditures that political parties claimed to the press that could have been spent before municipal elections. Baiba Lulle, 'Don't Hope for Party Openness', 'Neatkarīgā Rīta Avīze', 27 February 2001, p. 1

¹⁴ Financial reports submitted by Latvia's Way to the Company Register for 2000 and 2001

(b) People's Party

6. PEOPLE'S PARTY. PRE-ELECTION CAMPAIGN EXPENDITURES.



Pre-election expenditure estimate announced to the press¹⁵: 320 000

Amount declared to the project "Openness in the financing of political parties": 509 542

Amount accounted for by the project, BMF, 1 January – 1 March 2001: 294 885

Pre-election campaign expenditures in total: **999 532** (Declaration, 2000 (advertisement, advance payment for advertisement): 476 719 + declaration, 2001 (daily campaign for municipal elections and preparing for the 8th Saeima elections):522 813¹⁶)

Comments

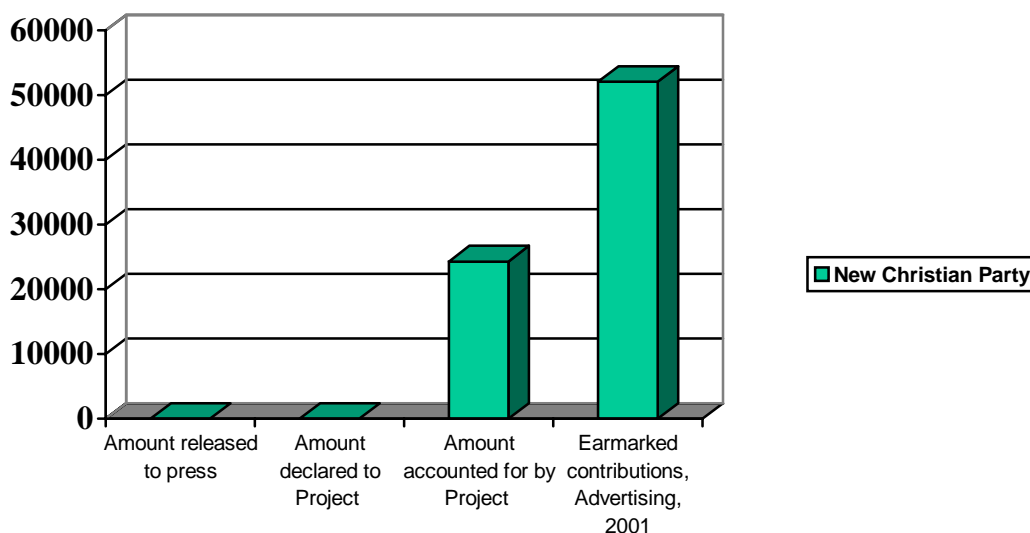
In 2000 and 2001 PP spent **999 532** on pre-election campaign. This amount is almost twice the amount that PP declared as its pre-election campaign expenditure (509 542). Further, this amount is three times greater than the amount that PP announced in the press as the amount intended for pre-election campaign expenditures. By spending **999 532** in 2000 and 2001, among political parties PP comes in first place in pre-election campaign expenditures. In its financial declaration the People's Party states that part of this amount was spent preparing for the 8th Saeima elections. Unfortunately, precise information on how amounts were divided is not available.

¹⁵ Approximate advertising expenditures that political parties claimed to the press that could have been spent before municipal elections. Baiba Lulle, 'Don't Hope for Party Openness', 'Neatkarīgā Rīta Avīze', 27 February 2001, p. 1

¹⁶ Financial reports submitted by the People's Party to the Company Register for 2000 and 2001

(c) New Christian Party

7. NEW CHRISTIAN PARTY. PRE-ELECTION CAMPAIGN EXPENDITURES



Pre-election expenditure estimate announced to the press¹⁷: 0

Amount declared to the project "Openness in the financing of political parties": 0

Amount accounted for by the project, BMF, 1 January – 1 March 2001: 24 302

Contributions intended for advertising in 2001¹⁸: 52 089

Comments:

Although the NCP expressed to the project its agreement to co-operate, the project never received a report on advertising expenditures. As indicated in NCP's financial declaration for 2001, the political party incurred no pre-election campaign expenditures in 2000, but in 2001 NCP spent 52 089 lats from funds contributed for advertising expenditures on pre-election campaign. This amount coincides with the amount spent on 'expenditures incurred in the implementation of the charter's aims and goals'. The reliability of this figure is lessened by the fact that the NCP made a mistake in its 2001 financial declaration – NCP's financial declaration states that its 'total amount of contributions and gifts' is 94 607 lats. However, when adding up its total expenditures, it turns out that NCP expended 100 225. This party's financial declaration states that it spent two times the amount disclosed to the project on pre-election campaign. Considering the fact that the project monitored advertising during the first three months of 2001 and that NCP does not indicate any pre-election expenditures for 2000, one is led to conclude that the striking difference in the amounts stems from the fact that NCP advertised in media other than those monitored by the project – TV, radio, the press, posters/billboards, and the Internet – (though it is difficult to say what remains), or that NCP has advertised at rates twice as high as average net media rates.

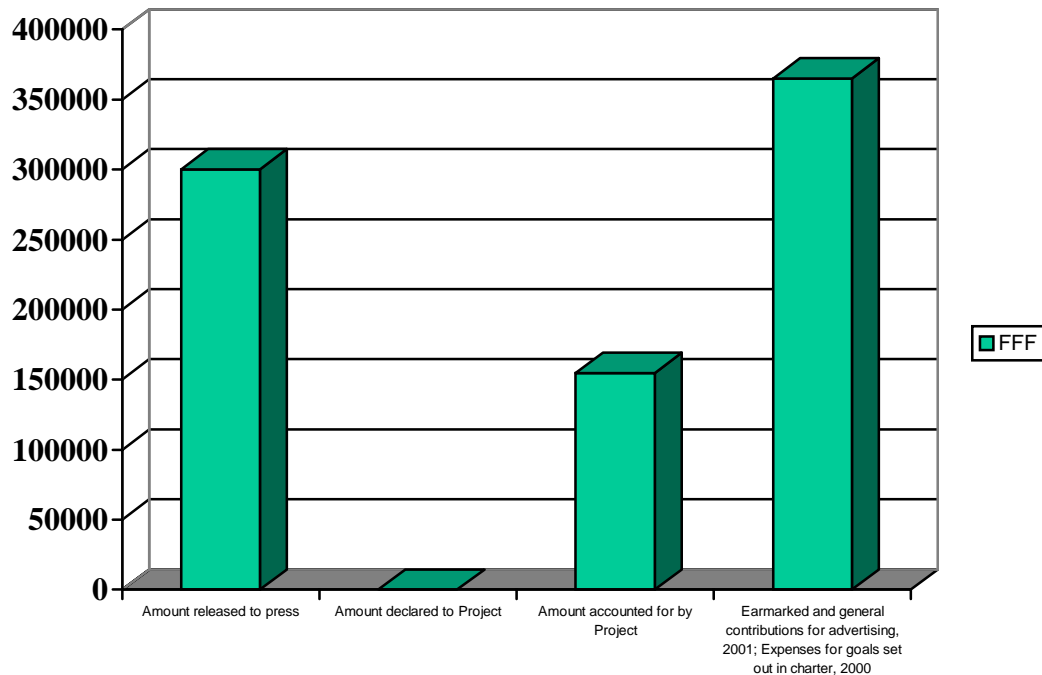
¹⁷ Approximate advertising expenditures that political parties claimed to the press that could have been spent before municipal elections. Baiba Lulle, 'Don't Hope for Party Openness', 'Neatkarīgā Rīta Avīze', 27 February 2001, p. 1

¹⁸ Financial reports submitted by the YCP to the Company Register for 2000 and 2001

2. Parties that partially disclose pre-election campaign expenditures

(d) For Fatherland and Freedom

8. FFF. PRE-ELECTION CAMPAIGN EXPENDITURES.



Pre-election expenditure estimate announced to the press¹⁹: 300 000

Amount declared to the project "Openness in the financing of political parties": 0

Amount accounted for by the project, BMF, 1 January – 1 March 2001: 154 691

Contributions intended for advertising and general contributions, 2001; financing and expenditures in accordance with goals described in charter, 2000: **365 215** (Declaration, 2000: 178 327 + declaration, 2001: 186 888²⁰)

Comments

In 2001 FFF did not submit to the project a report on advertising expenditures. In its 2000 expenditures, FFF vaguely declared that in 2000 its largest expenditure category was listed as 'financing and expenditures in accordance with those goals described in the charter', thus one may only conjecture about FFF pre-election campaign expenditures. From the financial declaration it can be deduced that FFF spent 65 215 lats more on municipal election campaign that it reported to the press.

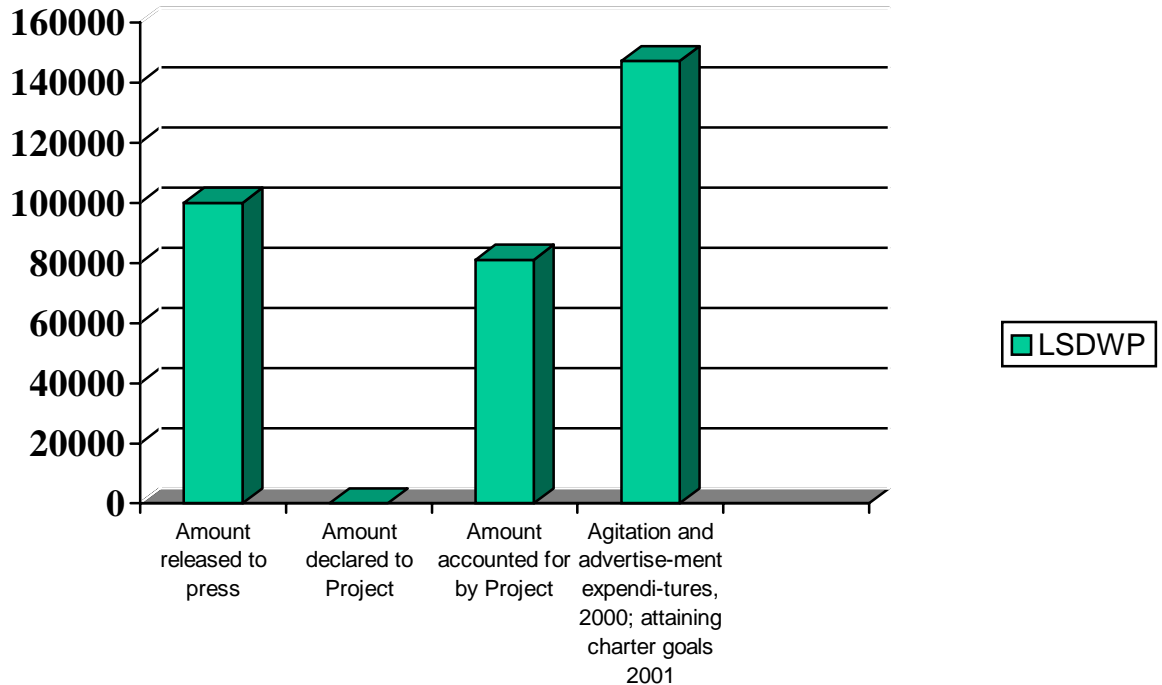
In terms of funds at its disposal, FFF comes in third place.

¹⁹ Approximate advertising expenditures that political parties claimed to the press that could have been spent before municipal elections. Baiba Lulle, 'Don't Hope for Party Openness', 'Neatkarīgā Rīta Avīze', 27 February 2001, p. 1

²⁰ Financial reports submitted by the FFF to the Company Register for 2000 and 2001

(e) Latvia's Social Democratic Workers' Party

9. LSDWP. PRE-ELECTION CAMPAIGN EXPENDITURES



Pre-election expenditure estimate announced to the press²¹: 100 000
Amount declared to the project "Openness in the financing of political parties": 0
Amount accounted for by the project, BMF, 1 January – 1 March 2001: 81 121
Campaign and advertising expenditures, 2000; implementation of the charter's goals, 2001: **147 180** (Declaration, 2000: 21 789 + declaration, 2001: 125 391²²)

Comments:

LSDWP did not submit to the project a report on advertising expenditures. The project concluded that LSDWP spent 81 121 lats on political advertising from 1 January 2001 until election day on 11 March 2001. In its 2001 report, LSDWP states that 'in the implementation of the charter's aims and goals' it spent 125 391. In its 2000 declaration, under this same section there is a subsection titled 'political advertising and campaign expenditures' in the amount of 21 786 lats. The 2001 declaration does not contain such a subsection. The total amount LSDWP spent on pre-election campaign cannot be discerned precisely, but it may be estimated that it may have been approximately 140 000 lats, more than the project could account for. LSDWP notified the press that it would spend 100 000, about 40 000 less than the expenditures stated in the financial declaration.

²¹ Approximate advertising expenditures that political parties claimed to the press that could have been spent before municipal elections. Baiba Lulle, 'Don't Hope for Party Openness', 'Neatkarīgā Rīta Avīze', 27 February 2001, p. 1

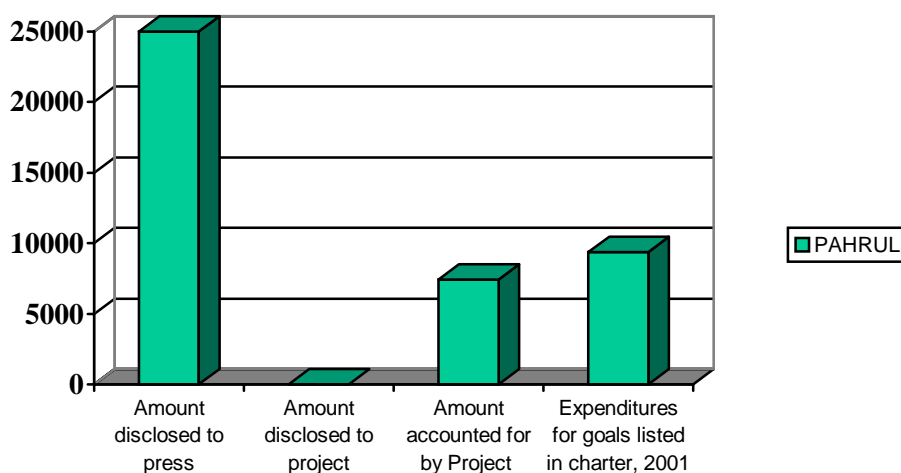
²² Financial reports submitted by the LSDWP to the Company Register for 2000 and 2001

In its financial declaration, LSDWP states that the party's total expenditures in 2001 were 112 217 lats, but adding total expenditures group by group, it turns out that the party's expenditures were in fact **208 113** lats. This most likely indicates a careless approach in filling out the financial declaration.

3. Parties that do not disclose pre-election campaign expenditures

(f) Political Association for Human Rights in a United Latvia

10. PAHRUL. PRE-ELECTION CAMPAIGN EXPENDITURES.



Pre-election expenditure estimate announced to the press²³: 25 000

Amount declared to the project "Openness in the financing of political parties": 0

Amount accounted for by the project, BMF, 1 January – 1 March 2001: 7432

Expenditures incurred in the implementation of the charter's aims and goals²⁴: **9384**

Comments:

PAHRUL refused to co-operate with the project and to submit information on funds earmarked for pre-election campaign. It is interesting to note that before municipal elections, PAHRUL informed the press that it would spend 25 000 on its pre-election campaign and pre-election advertising, though the actual amount spent, as indicated by both its financial declaration and as accounted for by the project, are much smaller (the amount stated in the financial declaration is only 37% of that stated to the press). In its 2000 financial declaration, PAHRUL does not indicate any expenditures or income²⁵. Similarly, in all of 2001 PAHRUL incurred only 21 lats in 'administrative and economic activity expenditures'. PAHRUL's greatest expenditures in 2001 went toward 'expenditures incurred in the implementation of the charter's aims and goals'.

²³ Approximate advertising expenditures that political parties claimed to the press that could have been spent before municipal elections. Baiba Lulle, 'Don't Hope for Party Openness', 'Neatkarīgā Rīta Avīze', 27 February 2001, p. 1

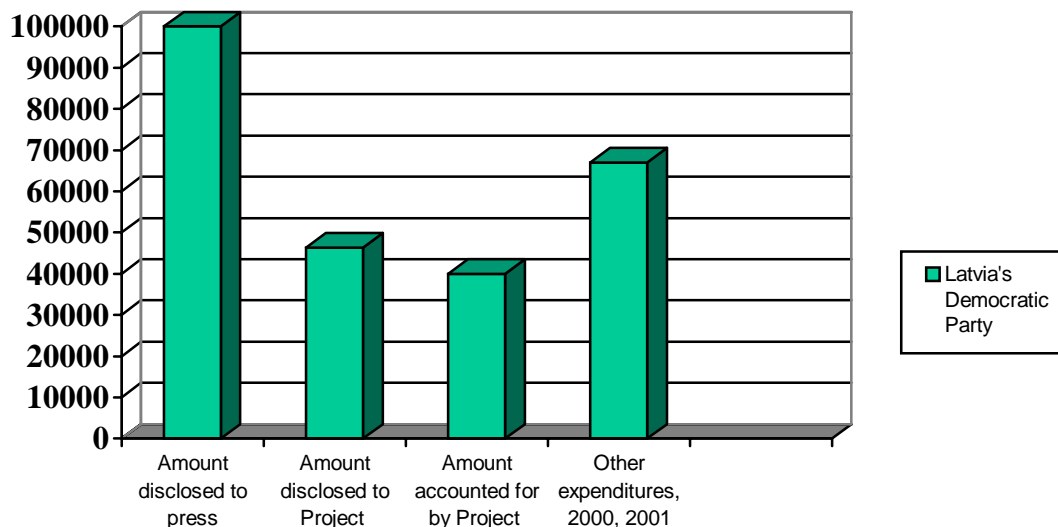
²⁴ Financial reports submitted by PAHRUL to the Company Register for 2000 and 2001.

²⁵

	Ttl. exp., 2000	Ttl exp., 2001
People's Harmony Party	2818 Ls	4274 Ls
Party 'Equal Rights'	1158 Ls	2091 Ls
Latvia's Socialist Party	3274 Ls	2347 Ls

(g) Latvia's Democratic Party

11. LDP. PRE-ELECTION CAMPAIGN EXPENDITURES



Pre-election expenditure estimate announced to the press²⁶: 100 000

Amount declared to the project "Openness in the financing of political parties": 46 342

Amount accounted for by the project, BMF, 1 January – 1 March 2001: 39 976

'Other expenditures', 2000, 2001: **66 963** (Declaration, 2000 – 35 525, declaration, 2001 – 31 438²⁷)

Comments:

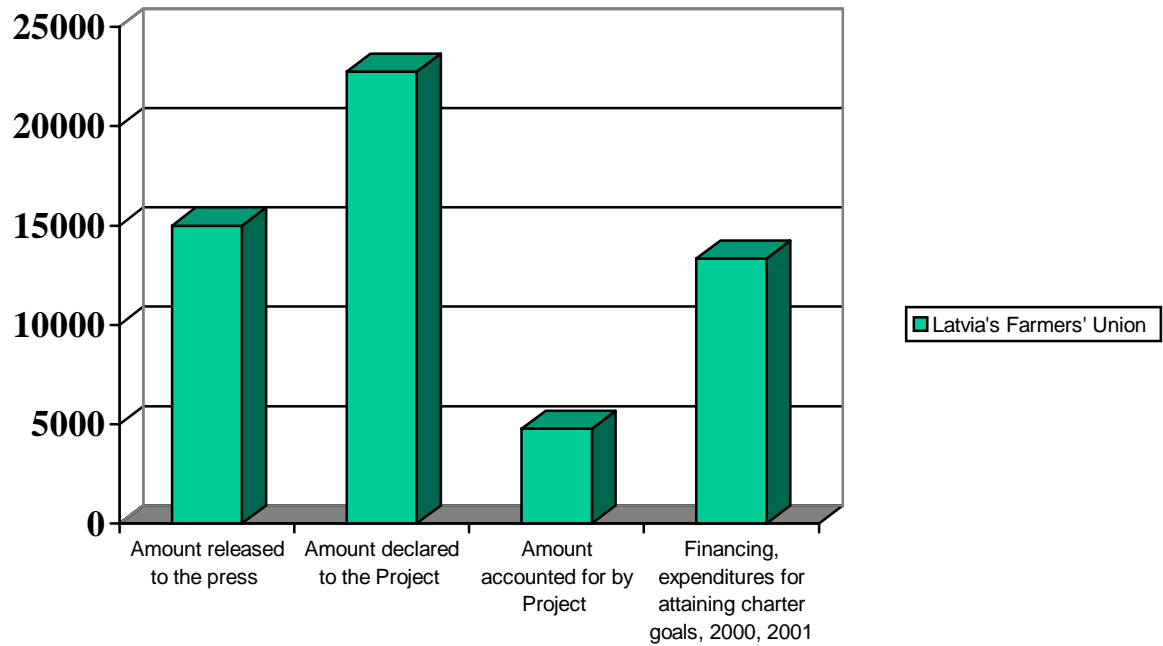
LDP declared 73% of all its expenditures (48 081 – in total, 35 525 – other expenditures) under 'administrative and economic expenditures', subdivision 'other expenditures'. Similar to PAHRUL, Latvia's Democratic Party also notified the press before elections that it would spend significantly greater funds on its pre-election campaign than disclosed in its declaration on party finances (a difference of 33 037).

²⁶ Approximate advertising expenditures that political parties claimed to the press that could have been spent before municipal elections. Baiba Lulle, 'Don't Hope for Party Openness', 'Neatkarīgā Rīta Avīze', 27 February 2001, p. 1

²⁷ Financial reports submitted by the LDP to the Company Register for 2000 and 2001

(h) Centre Party LATVIA'S FARMERS' UNION

12. CP LFU. PRE-ELECTION CAMPAIGN EXPENDITURES



Pre-election expenditure estimate announced to the press²⁸: 15 000

Amount declared to the project "Openness in the financing of political parties": 22 747

Amount accounted for by the project, BMF, 1 January – 1 March 2001: 4772

Financing and expenditures in accordance with the charter's goals, 2000, 2001²⁹: **13 343**

Comments:

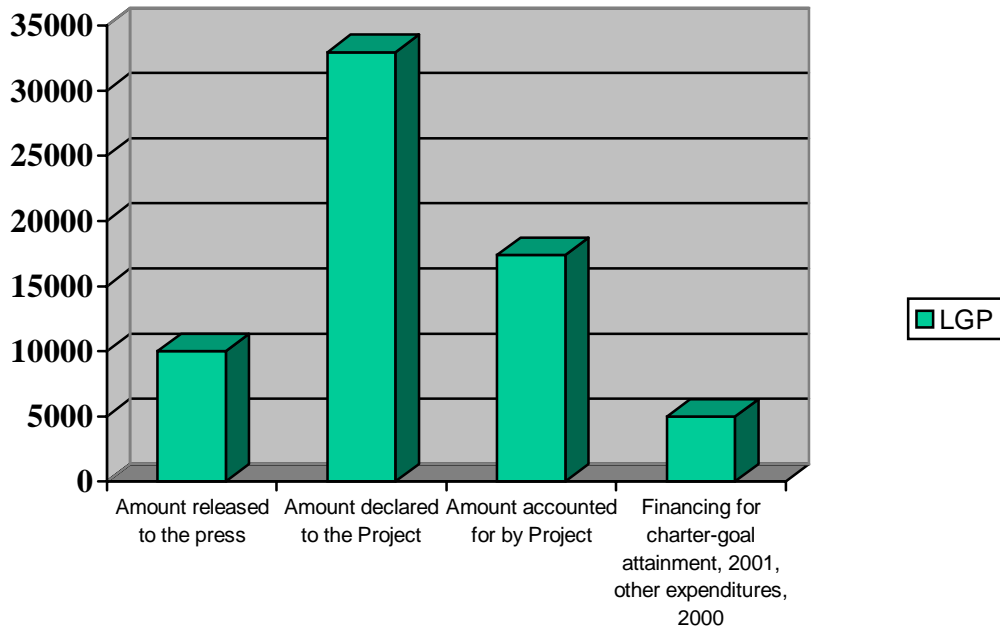
In its 2001 declaration LFU defines 64% of its expenditures as 'financing and expenditures in accordance with the charter's goals'. In its 2000 declaration these expenditures comprise 65% of total expenditures. Thus, it may be concluded that on political advertising LFU spent actually half the amount it declared to the project and less than it stated to the press before the elections.

²⁸ Approximate advertising expenditures that political parties claimed to the press that could have been spent before municipal elections. Baiba Lulle, 'Don't Hope for Party Openness', 'Neatkarīgā Rīta Avīze', 27 February 2001, p. 1

²⁹ Financial reports submitted by the CP LFU to the Company Register for 2000 and 2001

(i) Latvia's Green Party

13. LATVIA'S GREEN PARTY. PRE-ELECTION CAMPAIGN EXPENDITURES



Pre-election expenditure estimate announced to the press³⁰: 10 000

Amount declared to the project "Openness in the financing of political parties": 32 938

Amount accounted for by the project, BMF, 1 January – 1 March 2001: 17 386

Financing, expenditures in accordance with the goals set forth in the charter, 2001, other expenditures, 2000³¹: **4 973**

Comments:

The figures LGP submitted to the project and those accounted for by the project are much larger than the expenditures stated in LGP's financial declaration for 2001. LGP's financial declaration indicates that the party's total income in 2001 was 5834 lats and that its expenditures were 5763. That is three times less than the pre-election campaign expenditures the project accounted for. In 2001, LGP Co-chairman Askolds Kļaviņš informed project personnel that LGP had received many contributions in the form of contributions-in-kind, i.e., in free advertising time. Although the law on financing of political parties states that political party reports must also include contributions-in-kind, in its 2001 reports LGP does not indicate such contributions.

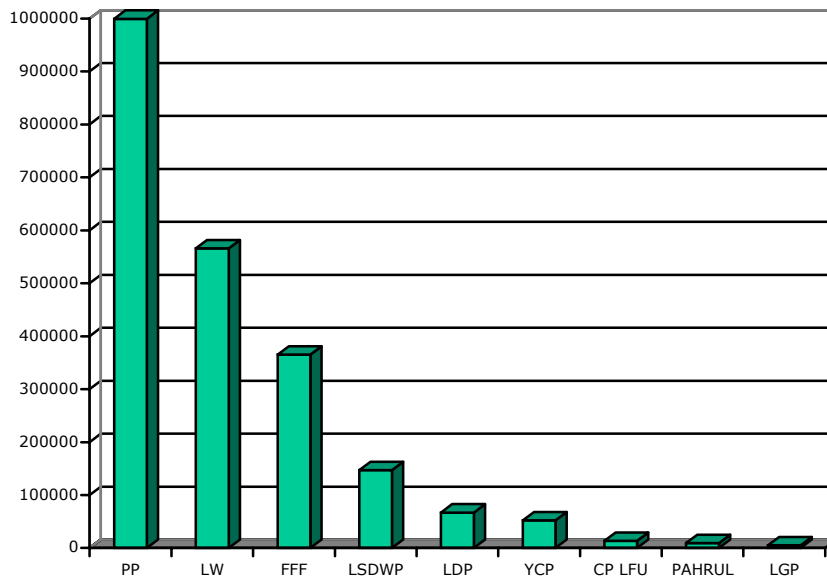
³⁰ Approximate advertising expenditures that political parties claimed to the press that could have been spent before municipal elections. Baiba Lulle, 'Don't Hope for Party Openness', 'Neatkarīgā Rīta Avīze', 27 February 2001, p. 1

³¹ Financial reports submitted by the LFU to the Company Register for 2000 and 2001

IV. Conclusions and Recommendations

1. Approximate pre-election campaign expenditures by political parties before the municipal elections in 2001

14. PROPORTIONALITY OF PARTIES' PRE-ELECTION CAMPAIGN EXPENDITURES



Upon analysis of the financial reports submitted to the Company Register by political parties, in all, the nine largest parties spent a total of **2 250 000** lats on pre-election campaign before municipal elections³².

The leader in terms of money spent was the People's Party, which spent **44%** of this amount. Latvia's Way was second with **25%**, and FFF spent **17%** of the total amount. The parties' pre-election campaign expenditures demonstrate the concentration of wealth in the hands of the three largest parties – **87%** of all parties' expenditures were by the three largest parties – PP, FFF and LW. The partners of the ruling coalition spent **90%** of all expenditures, and the parties represented in the 7th Saeima elections comprise **96%** of all expenditures.

³² Due to the fact that there is no unified standard for declaration of political party finances, it is not possible to get a precise picture of the amounts political parties actually spent on pre-election campaign in 2000 and 2001 (see above).

These figures indicate that the concentration of funds enables the ruling-coalition partners to use these funds to increase their chances to express their political views and opinions, compared to opposition parties not represented in the Saeima. This markedly strengthens the positions of the parties with Saeima representation.

2. Legislation regulating political party finances

The law on financing of political parties currently regulates political parties' finances poorly – political parties are only required to submit reports on financial activity once per year. Parties' income is not comprehensively regulated, and parties' expenditures remain essentially unregulated. Changes in political party financing legislation that would require a far-more detailed accounting of parties' income and a periodic disclosure of contributors may not be delayed. Further, parties' expenditures in election years increase approximately 65% compared to non-election years. This is usually due to the increase in pre-election campaign expenditures, which in election years comprises approximately 65% of political parties' expenditures. An expensive election campaign entails professional PR involvement. In this manner funds at parties' disposal may directly affect election results. For this reason it is imperative that political parties provide before elections detailed information about how much money is spent on pre-election campaign preparation, advertising in the media, and other action to garner publicity. These measures need to be amended to legislation on financing of political parties and need be set forth in a CM declaration form (see recommended declaration form in Chart 15 and SFL and 'Delna' 's recommended legislative amendments, Table 16).

It must, however, be admitted that political parties' financial flows in the respective legislation cannot resolve everything, because legislation does not in and of itself ensure that information submitted by political parties regarding income and expenditures is accurate. Due to the great amount of illegal money flowing in the economy, it must be assumed that a portion of it is used for financing of political parties. Of course, this money never appears in any official company or party reports. Furthermore, even if regulation of political party finances is entrusted to a given institution, this does not always occur effectively, because this institution's independence and political non-involvement cannot be guaranteed. For this reason, the role of social organisations in the monitoring of political party finances is necessary.

(a) Proposed finance declaration form for political parties

I. Income

1.	Membership funds and joining fees		
2.	Contributions		
	2.1.	From physical persons	
		2.1.1.	Cash
		2.1.2.	Contribution-in-kind
		2.1.3.	Services
	2.1.	From legal persons	
		2.2.1.	Cash
		2.2.2.	Contribution-in-kind
		2.2.3.	Services
3.	Income from economic activity		
4.	Other income permitted by law		
	TOTAL INCOME		

II. Expenditures

1.	Election campaign planning		
2.	Election campaign preparation		
3.	Placement of advertisements		
	2.1.	TV (total)	
		2.1.1	Channel 1
		2.1.2	Channel 2
		2.1.3	Channel 3
		2.1.4	Others (indicate)
	2.2.	Radio (total)	
		2.2.1	Radio 1
		2.2.2	Radio 2
		2.2.3	Radio 3
		2.2.4	Others (indicate)
	2.3.	Press (total)	
		2.3.1	Newspaper 1
		2.3.2	Newspaper 2
		2.3.3	Newspaper 3
		2.3.4	Others (indicate)
	2.4.	Billboards and posters (total)	
		2.4.1	In Riga
		2.4.2	Elsewhere
	2.5.	Internet (total)	
		2.5.1	Resource 1
		2.5.2	Resource 2
		2.5.3	Resource 3
		2.5.4	Others (indicate)
	2.6.	By mail (total)	
		2.6.1	By email
		2.6.3	Others (indicate)
3.	Sponsorship funds		
4.	Charity funds		
5.	Funds for the organisation of other public relations events		
6.	Rent		
7.	Rent for campaign needs		
7.	Labour costs		
8.	Labour costs for campaign needs		
	TOTAL EXPENDITURES		

(b) SFL and "Delna's" recommended amendments to the Law on Political Party Financing

Law on the Financing of Political Organisations (Parties)

Clause 1. (1) To amend Clause 8 of the law with new Articles 3, 5 and 5 with the following text:

"(3) **(20) days** before Saeima and municipal election days political organisation submits to the Ministry of Justice and State Revenue Service a declaration of financial activity, signed by the respective political organisation's leader, indicating all funds at the political organisation's disposal, as well as immovable and movable property as of the time of submission of the declaration. The declaration must also include information regarding funds earmarked for the pre-election campaign, as well as regarding the sources of these funds. These declaration forms must be approved by the Cabinet of Ministers.

(4) Within **one month's (30 days)** time after Saeima and municipal election days, the political organisation must submit to the Ministry of Justice and State Revenue Service a declaration of financial activity signed by the respective political organisation's leader, indicating all expenditures incurred by the political organisation from participation in the elections, as well the sources of the funds used to pay these expenditures. These declaration forms must be approved by the Cabinet of Ministers.

(5) The declarations referred to in Articles 4 and 5 must include information set forth in the second part of the Clause regarding the time period since submission of the last declaration. If no declaration has been submitted earlier, then a declaration covering the political organisation's (party's) entire time of activity must be submitted.

(2) Clause 8, Article 3 shall now be Clause 8, Article 6.

Clause 2. (2) To strike the following language from Clause 8, Article 2, Subarticle 8: "other expenditures exceeding 1000 lats", and to amend it with the following subarticles:

8) Expenditures for **pre-election campaign planning** for Saeima and municipal elections;

9) Expenditures for placement of advertisements in the media, separately indicating television, radio, press, billboards and posters, the Internet, mail; and indicating media names. Regarding billboards and posters, separately indicating whether advertisements in Riga or elsewhere.

10) Expenditures for **garnering publicity**, incurred for sponsorship, organisation of charitable activities, and other similar activities.

(3) To express Clause 8, Article 2, Subarticle 2 as follows:

2) "all funds received in the form of gifts (contributions), indicating all givers (contributors) and separating contributions received from legal and physical persons, indicating contributor's name, identification number, type of contribution and date of receipt of contribution" (current language: "funds received in the form of a gift (contribution), indicating all givers (contributors)").