

# LITHUANIA

## MONEY & POLITICS CASE STUDY

**JEFFREY CARLSON**

**MARCIN WALECKI**

*Beginning in the Spring of 2002, Political Finance Expert and IFES Board Member Dr. Michael Pinto-Duschinsky provided technical comments on draft amendments to laws concerning the financing of political parties, political organizations, election campaigns and referendums with funding from the European Union PHARE program. From September to November, IFES and CEC with support from the ACEEEO took raised the level of political finance information available and encourage debate through its Money and Politics (MAP) Program with funding from USAID. IFES followed up this work by conducting an informal assessment of project activities in June 2003.*

Lithuania has rapidly developed both politically and economically since emerging from the Soviet Union in 1991. While the country has built a functioning parliamentary system of government, has become a member of NATO, and is on the verge of joining the European Union, it still faces many problems associated with the many consolidating democracies around the world. As in all democracies, populations need to trust that those they elect will represent their interests. Problems such as corruption, weaknesses in laws concerning the political financing, and unaccounted for political income and expenditures threaten the credibility of the process and hinder the speed at which democracy is consolidated. Additionally, Lithuania lacks the high level of vibrant debate about the issue of political financing among scholars, journalists and civil society bodies required to promote meaningful reform.

Recognizing this, Lithuania has developed an independent Central Electoral Committee (CEC) and adopted laws requiring detailed and public disclosure of political finance accounts. Prior to conducting Money and Politics programming in Lithuania, the CEC had made a demonstrable interest in making information public. While scanning summary report of accounts and placing them on the internet, the user could not search, not easily compare and analyze the information. Interested parties were required to make an appointment to view more detailed, paper-based information. Further, while the Tax Authorities are required to audit final political party reports, enforcement is widely considered to be weak. Few, if any, cases of political finance violations have been forwarded and investigated, not to mention prosecuted.

By addressing the difficult issues surrounding political finance with the support of IFES in 2002 and 2003, Lithuania is emerging as a model for other consolidating democracy to follow. Significant areas remain to be addressed. While Lithuania has taken concrete steps to reform political finance legislation, open political finance information to public scrutiny and oversight, and encourage debate, further efforts are required to actively enforce laws and regulations and raise the level of debate among the various governmental, legislative, and civil society groups. By addressing these areas, Lithuania has the potential for being an example of best practices while making local expertise and resources to other countries undergoing similar reforms.

## **POLITICAL FINANCE DISCLOSURE SYSTEM**

In general, disclosure is based on regular exposure of the details of the party's or candidate's finances, made public through, for instance, their being publishing in the press. The term 'disclosure' suggests that voters receive information on various financial activities of political actors through publicly exposing large contributions and expenditures. Disclosure of the donor's identity and the amount of the individual donation is meant to control the flow of private money into campaign coffers. The regulations concerning the disclosure of private contributions are a common feature of parliamentary and presidential elections in Lithuania. As far as donations are concerned, the responsibility for disclosure rests with the recipient party, independent parliamentary candidates and presidential candidates.

### ***Reporting***

Reporting is a necessary condition for any system of public control of political finance. An essential element of an accountable political system is the right to know which financial interests are backing each political actor. Voters cannot act unless they have some information about who has given money to their representatives. Reporting is also a prerequisite for the enforcement of expenditure ceilings, contribution bans and limits.

In Lithuania, political parties and political organisations have to submit annual reports disclosing their total receipts, debts and payments. Annual reports have to be initially presented to the Central Electoral Committee and the Ministry of Finance by March 1<sup>st</sup>, covering the period from January 1<sup>st</sup> to December 31<sup>st</sup> of the preceding year. To properly institute transparency in party finance each party is required to submit two separate statements of party assets and liabilities. No later than March 1<sup>st</sup> each year, every political party and organisation is required to submit to the CEC an annual 'report', covering the sources of the party's funding and expenses paid in the previous calendar year. In addition, a political party must prepare a yearly financial statement of the state subsidy received and the expenditures covered by this subsidy, called "information". The party submits, the 'information', covering a calendar year no later than March 1<sup>st</sup> of the following year, to the Ministry of Finance.

In addition, electoral committees and independent candidates are required to file special reports during and immediately after election campaigns. Regulations require that parties, electoral committees, independent parliamentary candidates and presidential candidates submit their initial financial reports ten days before the polling day. Following a general election, they submit to the CEC within 25 days, an election report consisting of receipts, disbursements and financial liabilities of the committee. Additionally, the candidates of the single-member constituencies, within 15 days following the announcement of the official election results, submit their financial reports to the CEC.

The CEC issues forms for financial reports, subscription lists and accounting sheets, as well as a list of documents, which should be included to enable the verification of the information delivered. In-kind contributions, i.e. goods and services offered free of charge, must be registered and included in the expenditures of election committees and candidates.

Yet, another important issue that should be stressed is the timing of reporting and disclosure. Effectiveness of public control may be significantly decreased if the information is not published in a timely and comprehensible manner. Electors should be able to make their decision on the basis of the 'best available information' on the party or candidate. Comprehensive pre and post-election disclosure is essential for such agents as the press, non-governmental organizations, so-called "watchdogs" and political finance scholars. Without the necessary financial data their independent scrutiny could not be performed.

### ***Enforcement Agency***

Currently the agency responsible for the enforcement of campaign rules is the Central Electoral Committee. It plays a significant role in electoral administration and in the system of campaign finance. The CEC has three major responsibilities:

- 1) Ensuring that political parties and independent candidates comply with the legal requirements concerning limitations, prohibitions, disclosure and reporting;
- 2) Providing public disclosure of funds raised and spent during parliamentary and presidential elections; and
- 3) Being an advisory body for political parties and candidates about matters under its jurisdiction.

An enforcement agency, dealing with the political finance regulations, cannot function properly unless it remains independent. Its autonomy might result from many factors, including: the CEC's membership, terms of appointment and funding.

The simplicity with which members of the public are able to assess accounts and lists of contributors has a significant impact on the degree of the system's openness. In this respect, Lithuania maintains a relatively transparent system, with parties' accounts and the donors' list being published annually as official papers. The financial reports, including the findings of the State Tax Inspection, are published by the CEC in the Official Gazette "Valstybes Zinios" within 90 days after the elections or referendum. The Central Election Committee also placed this information on the internet along with other campaign related information. Although this represents a significant and exemplary step towards transparency, the information remains difficult to understand and use by many in political parties, the media, civil society, and academia.

In addition, within 15 days after the presidential elections, the CEC announces the financial reports on use of the state funding for presidential campaign and, not later than 30 days after presidential elections, candidates publish in the press their financial reports.

### ***Accounting of the funds and gifts received***

Each political party and political organisation registers all received funds and in-kind donations. Amounts, as well as personal data of the donors having donated more than 100 litas, should be indicated. Donations exceeding 1000 litas should be transferred to the bank account of a political party or a political organisation.

In addition, under the current legislation, applying to both presidential and parliamentary elections, each electoral committee and candidate is required to have

a special bank account. All payments have to be made through a bank account, and any payment must be registered according to the financial accounting procedures.

### ***Review of financial reports***

To enforce public control of political money, professional scrutiny has been employed for review of the campaign and the party's financial reports. After the elections, the financial reports submitted to the Central Electoral Committee are inspected by the State Tax Inspection. The annual party's financial reports are also scrutinized before being sent to the CEC (needs to be submitted to the STI by February 1<sup>st</sup>). The State Tax Inspection has a right of access to all the financial documents, request additional documents and explanations. As a result of an inspection an opinion with its findings is send to the CEC. As mentioned earlier, the submitted information is published and open to public inspection and to external control.

### ***Public access and external control of political finance information***

According to one observer, "The French [disclosure] system is not intended to inform the public about who finances the electoral process, but to ensure that contribution and expenditure limits are respected."<sup>1</sup> In fact, a number of political finance systems almost completely depend on administrative scrutiny to identify irregularities and violations. However, an effective external monitoring of political finance is a necessary condition for any successful system of enforcement. The media and the non-governmental organisations play an important role in public control of political finance. The significance of civic society's role in the fight against political corruption should not be underestimated.

## **MONEY & POLITICS DATABASE: PROMOTING TRANSPARENCY**

As part of its Money and Politics Program, IFES received funding from USAID to partner with the Central Electoral Committee of the Republic of Lithuania to develop a web-based database designed to promote transparency and accountability. After concluding a detailed Memorandum of Understanding with the CEC that detailed long and short-term expectations from both sides (Attachment One), IFES presented the CEC with the Model MAP Database designed to make political finance reports publicly accessible and searchable. The database was adapted by IFES and the IT department in the Parliament to conform to Lithuanian law and procedures.

### ***Building Consensus for Change***

IFES and the CEC launched the MAP Program in Lithuania with a one-day seminar in the Parliament for parliamentarians, anti-corruption agencies (STT), tax authorities, NGO leaders, academics, and journalists. The main point of the event was to discuss comparative approaches to political finance in Europe, highlighting public and accurate disclosure of information, and introduce the MAP Database as a mechanism to promote this disclosure. The seminar also allowed the CEC to demonstrate that such a database was desired by groups in the international community such as IFES and the ACEEEO. IFES followed up the seminar with its Training & Consultation Agenda (Attachment Two) that included consultations with representatives of each of these groups to highlight the importance of these issues. With funding from the

---

<sup>1</sup> Don Padget (1992), p. 78

UNDP, the CEC and STT undertook to conduct a series of events over the year to promote transparency in political finance.

### ***Developing the Database***

At the request of the CEC, IFES worked with the Parliaments IT department to adapt database template to their political finance requirements and their IT system. IFES first completed an assessment of Lithuania's political finance legislation, regulations, and forms in order to provide advice on the structure of the new database. The CEC also desired to convert the template from MS Access to Oracle so that the final audited political finance reports can be easily migrated from the Tax Authorities to the CEC's website. Based on a Short Term Implementation Strategy (Attachment Three) developed by IFES and the CEC, the database was accepting data and available to the public within three months.

The CEC further enhanced the capacity of the database to collect information and avoid clerical mistakes, by establishing an electronic data entry system. For the first time in Lithuania, candidates and political parties can input their political finance accounts into an electronic form, either on a secured website or onto a diskette, and send it to the CEC. The system is user-friendly and, although not required by law, it is widely used allowing the CEC to post reports almost immediately. By simplifying reporting and data entry procedures, the CEC increased accuracy and reduced administrative costs.

Finally, the CEC has committed to making the database available to interested parties who make a formal request. While the internet-based version is searchable, its capacity is limited. Downloading the database onto a PC allows journalists, NGOs, academics, and political parties to conduct a variety of sophisticated searches and analyses. Through consultations and a brief memo titled MAP Project Implementation Suggestions (Attachment Four), IFES worked with the CEC to identify long-term goals over the next three years concerning the implementation and public use of the database.

### ***Training to Use the Information***

With support from IFES, the CEC adapted IFES Model Guide "Navigating Money and Politics: Using the MAP Database" (Attachment Five) to provide information specific to the Lithuanian context and development outreach materials. In addition to providing information on the MAP Database, the Guide informs users about legal and administrative reporting requirements and how to effectively analyze this information. The Guide and outreach materials were distributed widely among government bodies, political parties, journalists, NGOs, and academics.

IFES assisted the CEC to develop a program to facilitate use of political finance reports by governmental and civil society groups to hold parties and candidates accountable. The CEC coordinated with STT through funding from the UNDP to carry out a series of related activities. Finally, IFES encouraged local groups to submit proposals to the US Embassy to conduct follow on training and education for journalists and academics. Unfortunately, only one group filed an application which, despite the quality of proposal, was subsequently denied due to funding constraints.

## **FINDINGS, SUCCESS STORIES AND IMPACT**

The MAP Database achieved its primary objective in advance of and following the 2002 presidential and local governance elections – increasing the level of publicly available political finance information to political parties, journalists, NGOs, academics, and, ultimately, the voters. The database also provided campaign finance information for the June 2003 parliamentary by-elections. However, questions were widely raised about the accuracy of the available information and the enforcement of possible violations continued to be non-existent.

### ***MAP Database Implementation***

According to one member of the CEC – “We...could not imagine our work without MAP.” The MAP Database has indeed allowed the CEC to more effectively fulfill their mandate to collect and make public political finance information, while reducing administrative burdens.

The IT department was advanced and found the template easy to understand and use. They were pleased with the level of support provided by IFES. The IT department was not only able to adapt the database to their own context, but they were able to build on it to include electronic filing.

While the database was successfully implemented and it complies with the law, the available information did not appear to be used to successfully investigate potential violations of the law. For example, using the database, journalists reported incidences where several maximum allowable contributions were made on the same day raising the possibility that a single donor had made several donations in different persons name – a clear violation of the law. Such cases are rarely, if ever, referred to the proper investigative authorities. There appears to be a clear lack of political will among all relevant government bodies to investigate and prosecute political finance violations.

### ***Accessing and Using Political Finance Information***

Political parties, journalists, NGOs, and academics were all pleased with the availability of information. While most received the Guide and outreach materials, those who used the database also complained about the lack of complete information and insufficient number of reports published.

The level and terms of the debate were more precise. Whereas in previous debates politicians often used inaccurate and general campaign finance numbers, the database allowed them to press their political opponents on specific contributions. The information in the debate was thus more accurate, specific, and to the point allowing voters to make more educated decisions.

Making campaign finance information available on the MAP Database prior to the presidential and municipal elections allowed journalists a unique opportunity search, compare, and scrutinize information, resulting in more detailed and informative reporting. According to reports in the media, the elected presidential candidate, Rolandas Paksas, was accused in the mass media of concealing donations and expenditures of campaign finances leading to investigations by the tax authorities, which are responsible for auditing final reports. The investigations, while an important step for Lithuania, did not lead to prosecutions. Thus, by raising the level

of information available to the media, they have been able to conduct more thorough investigative reporting.

Perhaps the most noteworthy story about the recently elected president concerned the nearly one-third of his campaign contributions he receive from a single company according to his official campaign finance reports posted by the CEC. While such a large sum is significant in and of itself, the apparent quid pro quo revealed itself after Paksas assumed the presidency and provided the Russian citizen with dual Lithuanian citizenship. Despite being aware of this information, the voters still elected him in free and fair elections.

There remains widespread cynicism amongst the voters and journalists about issues relating to money and politics. Accuracy of the information provided to the CEC is called into question because the candidates and political parties themselves provided the information to the CEC. Further, many journalists do not feel that the information, which is published twice before and once after an election, is made available in a timely enough fashion.

Adding to the cynicism is the capacity of the media and the populace to “know” what is being spent and not reported, while at the same time neither the CEC nor other relevant government bodies appear to have the political will to enforce violations of the law. An example of this “knowledge” was the widely reported and not contradicted accounts of vote buying among city council members for the election of mayor of Vilnius. Elected by the city councils, different factions were reportedly being offered between \$10,000 and \$30,000 for their vote.

Illegal campaign financing as it pertains to the media is for obvious reasons unreported, yet it plays a significant role in both campaigning and financing media outlets. Unreported funds are often used to purchase favorable articles in newspapers without attribution as an advertisement. This practice appears to be widespread in Lithuania affecting articles about everything from architecture to business; however, it is particularly disturbing in the context of campaigning. It also appears to be more widespread among local rather than national outlets, which often rely on such financing to keep their newspapers afloat. Further, political parties try to have journalists on their lists. In doing so, it adds to the cynicism brought about by paid articles concerning balanced coverage.

Finally, different groups involved in covering, monitoring, and analyzing political finance information often fail to share their findings. For example, journalists, NGOs, and academics often constrain themselves to their own field, while a great deal can be learned from each other. It is perhaps, precisely this sharing of information that can have one of the greatest impacts in promoting more effective disclosure.

## **LESSONS LEARNED**

The following lessons learned from the Lithuanian experience are designed to assist IFES program staff and others to conduct money and politics programming in other countries:

- By simplifying reporting and data entry procedures, the CEC increased accuracy and reduced administrative costs. While the database template is sufficient for a strong IT department to implement with proper assistance, it would be very useful to have a clearer and more coherent database template.

Such a revised template should include component for electronic report submission. Nevertheless, the current database structure in MS Access is easily transferred to other database programs such as Oracle.

- Effective training and public information events and materials raise the awareness of the disclosure mechanism. As the topic is complex and often new, it is important to order the presentations at these events to generate interest and hold the attention of the participants. The target audience was aware and regularly consulted the database. However, greater efforts need to be made to ensure that journalists, NGOs, and academics more effectively share information and analyses.
- By increasing the level of political finance information, the MAP database enhanced the level of the political debate and media coverage, and provided the government with more detailed information on accounts. The database, however, is open to criticism in that it does not capture all or possible even most political finance account spending. Increased enforcement is required to raise the level of accuracy of reported information.
- Countries such as Lithuania which are clearly emerging as market democracies run the risk of institutionalizing corruption in the area of political finance. Changes in political finance laws and enforcement in such countries require international support due to the lack of political will. However, funding for such support is limited and requires innovative ways of working with and supporting local groups. This support needs to be maintained.