



Party Law in Modern Europe

The Legal Regulation of Political Parties in Post-War Europe

Party Regulation in Latvia: A Relative Success

Jānis Ikstens
University of Latvia

janis.ikstens@lu.lv

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Introduction

Political parties have long been recognized as key to the functioning of modern democracy (Schattschneider 1942). This importance is highlighted by the existence of a burgeoning subfield in comparative politics focussing on political parties from a variety of theoretical perspectives. Despite a renewed interest in institutional explanations of political phenomena, scholars have paid lesser attention to the evolution of legal regulation of political parties and to how this regulation has affected individual parties and party systems. This is even more puzzling in view of an emergence of party regulation that some scholars have deemed 'excessive' as compared to that of other private associations (Katz 2009).

References to legal framework have often been made as part of broader studies of political parties in single country studies or comparative works. It is studies on party and campaign finance that tend to consider regulations in greater detail (Casas-Zamora 2005, Roper and Ikstens 2008, Smilov and Toplak 2007). However, a small number of studies have been devoted primarily to the evolution of party regulation until recently (Karvonen 2007, Müller and Sieberer 2006). Scholarly interest in this issue has exploded owing to researchers at Leiden University who produced a series of country cases along with comparative studies on party regulation and its impact upon party competition.

This paper sets to explore party law in Latvia in its broader sense – a body of legislation that directly affects political parties (Müller and Sieberer 2006) including laws that regulate establishing and maintaining a party, political funding, and campaigning for office. Of particular interest are factors affecting the adoption of particular regulatory regime as well the impact of regulation on parties and party system in Latvia. Given a protracted period of transition from a non-democratic regime in Latvia and partial accommodation of Communist elites within the new system, it is far from clear whether experience of the Communist period will be reflected in the party law. In light of the cartelization theory (Katz and Mair 1995, Katz and Mair 2009) it is expected that incumbent parties would attempt to establish and consolidate institutional arrangements that restrict entry of political newcomers and weaken intra-party competition.

Constitutionalization of parties

Latvia based its struggle for regaining its independence on the principle of legal continuity of the Republic of Latvia that had been occupied by the Soviets in 1940 but never ceased to exist as a legal construct in view of occupation non-recognition policy pursued by a number of Western countries (Blūzma et al. 1998). On May 4, 1990, the newly elected, pro-independence Latvian Supreme Council adopted a declaration claiming a partial restoration of the 1922 constitution, or *Satversme*. When the Soviet Union fell apart a year later, the Supreme Council declared a complete return to that constitution on August 21. That largely defined the framework for further legislative acts of Latvia.

The 1922 constitution was designed to consist of two parts. The first dealt with the basic institutional framework detailing competences of different branches of government and was adopted in February 1922. The other was aimed at codifying rights and obligations of citizens. Those would include a freedom of association. However, the second part of the

constitution failed to obtain the necessary support in the legislature after the right to strike and the cultural autonomy of the eastern part of Latvia were not included in the constitution (Pleps 2008).

Thus, the original version of Latvian constitution contained no references to political parties despite the notable role parties played in structuring the people's political will well before the foundation of the Republic of Latvia in November 1918. On the other hand, parties were not indispensable in the electoral process in the 1920s and 1930s – groups of no less than 100 adult citizens were allowed to file candidate lists for parliamentary elections. A liberal voting system is often blamed for a proliferation of political parties to the extent that many unregistered political groups avoided using words like 'party' and 'political' in their titles (Freivalds 1961).

As the *Satversme* fully re-entered into force in August 1991, Latvia returned to a situation where major political contestants were not even mentioned in the constitution. As in the interwar period, that caused no confusion as parties were regulated by parts of a law on non-governmental organizations but their status in the electoral process was described in the relevant electoral legislation.

It was only in 1998 that political parties were mentioned in the *Satversme* as a consequence of adopting the second part of the constitution that dealt with rights and obligations of citizens. However, political parties are referred to exclusively in the context of freedom of assembly without affording them a special status (such as granted in the 1949 German *Grundgesetz*). Article 102 of the Latvian constitution reads: "Everyone has the right to form and join associations, political parties and other public organisations". There are no further mentioning of political parties in the constitution that would hint at law givers' interpretation of the role of parties in a modern democracy or at the influence of Soviet experience upon constitutional crafting. At the constitutional level, parties are treated similarly to other voluntary associations, which contrasts with Kopecky's (1995) observation about the prevalent role of parties in the legislative thinking in the post-Communist world. Therefore, Latvian parties have experienced only one out of eleven dimensions of constitutionalization distinguished by van Biezen (2009).

Reasons for the seeming constitutional neglect of parties remain to explored in depth. Yet, two immediate explanations could be offered. First, the Latvian constitution has been very concise and the post-Soviet legislators have honoured this style. Only the principal elements of the institutional structure have been included in *Satversme*, and more detailed regulation is provided in the ordinary law. Second, the 'restorationist' approach to the Republic of Latvia has found its expression in constitutional matters, including the adoption of the second part of *Satversme*, contents of which partly overlaps with the norms envisaged by the constitution's founding fathers. Yet, the brevity of constitution may well be compensated by a variety of laws regulating party activities in Latvia.

Party law

Party law (as defined above) covers a broad range of party activities. Several approaches have been taken to classify those regulations. Katz (2004) emphasizes three

areas: (1) legal recognition of parties, (2) party activities, and (3) party organizational life. Van Biezen and Rashkova (2012) develop further this functional approach as they distinguish between party finance, party organization, media access, and party activity and identity. Casal Bertoa, Piccio and Rashkova (2012) attempt to utilize a detailed classification scheme developed by van Biezen and Borz (2012) for a slightly different purpose but find many empty cells.

For the purposes of this paper, a functional yet slightly more detailed classification of areas of party law was developed: (1) party definition and registration; (2) party routine activities; (3) party election activity; (4) regulations pertaining to party parliamentary groups; (5) party and campaign finance; (6) disclosure and oversight; (7) cessation of party.

Party law in Latvia developed gradually and partly in reaction to the evolution of party competition. The 1992 law on non-governmental organizations laid legal ground for the existence of political parties that were mentioned in a special section of that law. The founding elections of 1993 highlighted key areas that remained virtually unregulated and laws on party finance and pre-election campaigning in media were adopted on the eve of the 1995 elections. Tighter rules for financial disclosure were adopted in 2002 in reaction to the public pressure to weaken the role of money in politics. Limitations on spending and donations were introduced in 2004 but third-party campaigning was legally regulated since 2009 after two incumbent parties outspent their competitors via use of third-party advertising. A 30-day period without paid-for TV political advertising prior to elections was introduced in 2012. As a new law on non-governmental organizations replaced the 1992 law in 2004, a separate law on political organizations entered into force on January 1, 2007, but it did not bring along fundamental regulatory changes except for a requirement for parties to re-register. A restriction for an eligible citizen to run in one electoral district only was introduced in 2009.

Definition and registration of party

The 1992 law on NGOs and their unions was the first to legally define political parties. They were seen as organizations established by citizens of Latvia in order to carry out political activities (participation in election campaigns; fielding of candidates; oversight of elected representatives; build-up of public institutions) on the basis of shared political aims. In accordance with the 1992 law, although being essentially seen as NGOs, parties nevertheless enjoyed a special status as they were subjected to a slightly more stringent regulation - parties were required to have a program, to limit membership to adult persons, and to deny membership to prosecutors, judges, and military persons.

The *Saeima* adopted a new and separate law on political parties that came into effect in 2007 after a new law on NGOs was promulgated in 2004 and parties were deliberately excluded from it. The 2007 law did little to change the legal definition of a political party: "Party is an organization that is established with the aim of carrying out political activities, participating in the election campaign, fielding candidates for elected offices, taking part in the functioning of *Saeima*, municipalities and the European Parliament,

implementing party program as well as building up institutions of public administration”¹. The new law also made only minor changes to the existing party registration procedure, requiring slightly more detailed party by-laws to specify a minimum number of party members to maintain a party officially registered, and to somewhat restrict business activities of political parties in order to make party financing more transparent. Issues falling under the broad category of party finance are addressed in a separate law on party financing.

According to the 2007 law, no less than 200 adult citizens of Latvia are required to establish a political party. Participants of the inaugural event must adopt party by-laws and program that are submitted to the Registry of Enterprises (RE) along with signatures of participants. It is RE that checks the authenticity of signatories as well as the compliance of party documents with the constitution and other current legislative acts. If documents are found to be in compliance with legal requirements, the party is registered and entered into the Registry of Political Parties. This gives the party a key right to field candidates in various elections.

The 2007 party law sets guidelines for party by-laws requiring them to contain the name and symbols (if any) of the party; aims and goals of the party; the expiration date of the party (if any); party membership rules; rights and obligations of party members; rules governing the convocation and conduct of the general meeting of party members; the term and modes of selection of the governing bodies of the party; procedures for internal and external financial audit; procedures for amending party program and by-laws; procedure for approving candidate lists to municipal, parliamentary and European elections. According to the law, any general meeting of party members is open to the public while meetings of governing bodies are open to any member of the respective party. Parties are not allowed to maintain militarized units and/or pursue aims that contradict Latvia’s constitution, its laws or international treaties ratified by Latvia. If such contradiction emerges after a party is registered, a court may rule to shut down the respective party.

RE is obliged to make a decision on registration of a party within seven working days since the receipt of all necessary documents from the aspirant organization. Should RE decide to postpone a party’s registration (typically on technical grounds), it is given time to iron out problems. RE may deny registration if it believes that the procedure of founding a party was violated, or if a party’s aims contradict aforementioned legal documents, or a party failed to submit corrected documentation after its registration was postponed. Any RE decision can be appealed in the administrative court.

In reality, RE takes a rather legalistic position and does not attempt to verify whether the inaugural meeting of a party took place and it met the minimum participation requirement as set in the law. The case of Movement of January 13 illustrates the problem.

RE received a request in December 2009 to register a radical left political party entitled ‘Movement of January 13’ along with party program, by-laws and signatures of 212 eligible citizens who presumably participated in the inaugural meeting of that party. RE was

¹ Law on Political Parties, Article 2, adopted 22.06.2006.

prepared to register the party but a delay of several months occurred after the Security Police questioned the number of participants in the inaugural meeting. RE finally registered the organization after Ringolds Balodis, the Chief Notary of RE, issued a statement that RE merely verified whether the submitted documents met legal requirement, not the actual circumstances of party inauguration.

The law makes no distinction between national parties, local/regional parties operating within a restricted area or parties of any minorities – all parties are subject to the same registration process and other rules. Also, local branches of parties do not enjoy a special legal standing.

In recent years, a discussion about politically active NGOs has ignited in response to activities of anti-corruption organizations in Latvia. Opponents of the anti-corruption organizations complain that the mentioned NGOs are directly involved in politics and affect voter opinions by their research, social activism and public campaigns. Moreover, those NGOs are free to receive funding from any source (including foreign sources) and spend unlimited amount on their activities. Given their (assumed) political impact, those NGOs should be subjected to the restrictions applied to political parties. Analysts fearing excessive Eastern influence upon Latvian politics use a similar reasoning to restrict influx of Russian funds for NGOs advocating interests of Slavic minorities. However, these discussions have not resulted in any changes of the regulatory regime.

A debate that originated in the 1990s is related to tightening registration requirements, in particular the minimum membership a party needs to maintain. This largely reflects the public skepticism about a large number of parties that are thought to blur political differences and obscure political accountability. Occasional references are made to the Estonian legislation that requires of a party a minimum of 500 members and regular contestation of elections. Yet, this debate has not yielded any legislative changes. Although the registration procedure may have marginally become more demanding, that has not stopped proliferation of political parties in Latvia. The Registry of Political Organizations has records of 71 parties and their alliances as of June 1, 2013.

Party routine activity

Since the 1992 law on NGOs, only adult (18 years or older) citizens of Latvia (as opposed to permanent residents without Latvian citizenship) may establish a political party. However, once a party is officially registered, adult non-citizens of Latvia may join that party not in excess of 50% of total membership. This restriction is apparently aimed at parties claiming to advocate interests of ethnic minorities.

This citizen/non-citizen ratio restriction was *de facto* impossible to enforce, and the 2007 law obliged each party to keep a registry of party members containing name, address and the personal identification number of each member. The data of the registry are in theory available to party members, sworn auditors and public authorities (as defined in the law). However, there have been cases when party internal opposition has been denied access to membership data.

In view of Latvia's accession to the European Union, the 2007 law broadens the circle of persons eligible to become party members to include citizens of another EU member country residing in Latvia. However, the minimum 50% share of Latvia's citizens is maintained. Each person is allowed to be a member of only one political party. The procedure of becoming a party member has to be clearly defined in the by-laws, and the 2007 law recommends that the board of the party, the highest executive institution, take a decision on membership issues. Yet, a party may design a different mechanism in its by-laws. Holding of certain positions are deemed incompatible with party membership: prosecutors, justices, military persons. It is the Anti-corruption Bureau that oversees the compatibility issue.

In 2012, party membership restriction on professional grounds was challenged in the Constitutional Court by a Supreme Court judge who claimed that the restriction was excessive and it contradicted the freedom of association. The Constitutional Court, however, upheld the restriction in its May 2013 decision arguing that party membership endangers judicial independence and, in a devastating blow to political parties, undermines the authority of the judicial systems. Yet, it is difficult to see how restrictions of party membership for certain professions have affected party development.

Most parties currently represented in the *Saeima* have adopted a "gradual" approach to party membership. First, a person submits a written request to become a party member, and the party usually requires recommendations/endorsements by 1-2 party members. Then, the hopeful becomes a candidate member who may participate in the meetings of the party but does not have a right to vote. After the candidate has passed a 3-6 month trial period, he becomes a full-fledged party member if the board of the party accepts him.

The law endows each party member with the following privileges: (1) to take part in the decision making within the party in accordance with by-laws; (2) to vote for the board of the party and other institutions; (3) to run for an elected party office; (4) to obtain information about party activities and freely express own opinions; (5) to contest party decisions in accordance with by-laws; (6) to leave the party; (7) to vote on party candidates for municipal, parliamentary and European elections in accordance with by-laws. The list of member obligations is shorter: (1) to observe party by-laws; (2) to take part in the work of the party; (3) to pay membership dues (if those exist). Any party may extend the list of rights and obligations if they do not contradict the existing legislation.

All parties represented in the *Saeima* have set some level of membership dues but the actual collection of dues varies across time and parties, with a rather careless attitude by party organizations being prevalent. Nevertheless, the failure to pay dues is at times used as a pretext to expel a party member. Thus, membership due payments could occasionally be used as an instrument against rebels within party.

A party may also establish different categories of membership apart from standard full membership. Those usually include honorary categories such as old members, honorary members, associate members etc. Their rights and obligations are to be defined in the by-laws. Echoing the Soviet-era experience, organizations are not allowed to become collective

members of a political party and party organizations are not to be established at workplace. Despite a tiered approach to membership, affiliation with parties in Latvia remains low and a 2011 opinion poll indicates that party membership does not exceed 1.5 per cent of population.

The 2007 law introduced some organizational skeleton for political parties. The law requires holding an annual general meeting of all party members or their representatives (a congress) and makes it the highest formal decision making body within a party. The law also provides that it is an exclusive discretion of the general meeting to amend party program and by-laws, to elect highest party officials including board members of the party, to decide on reorganization or shut down of the party, to approve party political platform for parliamentary and European elections (if by-laws do not provide for a different procedure). The board of the party is its highest executive body consisting of at least three board members elected for a term not in excess of two years. However, there are no term limits. Major parties typically have boards consisting of approximately a dozen of members and the tendency has been towards a smaller number in recent years. Board members are responsible for fulfilling the party's obligations vis-à-vis public authorities as well as for a broad management of party affairs. Parties have introduced in their structure a position in charge of daily management of the party often called Secretary General that is chosen by and is responsible to the board. A party may have additional bodies but their existence and governance have to be mentioned in the party's by-laws. Local or auxiliary organizations of a party cannot be not separate legal persons.

All major parties have a network of local organizations but its density varies from party to party. Major parties tend to cover major cities and district centers of Latvia while party presence in other localities depends purely on an existence of party activists on site. Most major parties have some sort of youth organizations but often those are formed as separate NGOs having a cooperation agreement with the respective party. Separate women's organizations have become extinct.

The 2007 law is somewhat vague about internal democracy of parties and does not use this term explicitly. Although the law requires an internal mechanism for redress of grievances and disputes, internal disagreements cannot be taken to the court unless civil or criminal charges can be brought against a person or a group of party members. Party by-laws is where the formal degree of internal democracy in each party can be located but the actual practice points towards a lower level of internal democracy as many decisions are taken within a narrow circle of party leadership, at times in consultation with persons having no formal status in the respective party. Latvian parties do not have any gender quotas but some parties may afford a seat on the party board to a representative of their youth organization.

Party election activity

Latvia has a flexible-list proportional electoral system for municipal, parliamentary and European elections. A five-percent threshold for all lists is introduced in parliamentary elections and municipal elections in localities with more than 5'000 residents (less than a

third of municipalities have fewer inhabitants as a result of the 2009 administrative reform). Only registered political parties or alliances thereof may field their candidates in European and parliamentary elections as well as municipal elections in localities with more than 5'000 residents. In smaller municipalities, associations of citizens (no less than 20 persons who have declared their place of residence in the respective municipality) with no formal status may also submit candidate lists.

The electoral threshold was designed to bar miniature parties from entering the parliament, which would fractionalize parliamentary decision making to the point of breakdown (it is still widely believed that the 1934 authoritarian coup d'état resulted from a legislature torn between numerous souvenir parties). This institutional deterrent has produced the intended consequences as compared to the inter-war period. Moreover, the average effective number of parties prior to the 2002 parliamentary elections was higher than the average after the 2002 elections.

All candidate lists submit the same package of documents including a list of all candidates and their personal identification numbers; election platform (not to exceed 4'000 characters) to be freely distributed in advance at the polling stations and in the media; a statement on inapplicability of restrictions to run for office (as defined in electoral legislation) and on refusal to run on another candidate list signed by each candidate. A security deposit of 1'000 Lats (approximately 1'500 Euro) is set for each slate in the parliamentary and European elections while the deposit for municipal elections varies depending on the size of municipality. The candidate list bears the name of the party or the association of parties that submitted the list. A party is allowed only one list per district.

Since 2009, a candidate may run in only one district in parliamentary elections (for the European elections, Latvia constitutes a single electoral district). Although a reaction to public discussions about the need to minimize 'band-wagon effect' when little-known candidates get elected on coattails of popular party leaders, the amendment was expected to weaken single-leader parties and required much more careful campaign planning to maximize electoral chances of key party candidates.

As noted above, only political platforms for parliamentary and European elections may be up for approval by the general meeting of party members. However, such a practice is rather rare. Decisions on both the platform and candidates are usually taken by the board on the basis of polling data, strategic considerations and backroom bargaining. It is unusual that a person who is not a full member or a candidate member of a party finds a place on the candidate list for parliamentary and European elections. Some parties have introduced a formal requirement of minimum membership term for candidates. Candidate lists for municipal elections normally are left at the discretion of local party organizations (Aylott, Ikstens and Lilliefeldt, 2012).

It is parties (or associations of parties or of citizens) that define the initial sequence of candidates in list. However, any voter may express his own preferences by crossing out a candidate or giving a candidate a "+". No write-ins are allowed. Data from elections since 2006 demonstrate that more than half of voters use this opportunity. Consequently, the final sequence may be substantially altered and a number of prominent politicians have lost

their parliamentary seats because many supporters of their parties did not approve of the politicians' behavior between elections². These cases gained wide publicity and often signaled an end to the politician's career.

Campaigning is the most regulated area of party activity in Latvia and several legislative acts pertain to that. The 1992 law on NGOs was vague on the issue of party funding and ignored campaigning altogether. The 1995 Law on Party Financing and the 1995 Law on Parliamentary Pre-Election Campaigns laid out more detailed regulations.

The 1995 Law on Party Financing introduced a number of important limitations on the previously almost unregulated field of political finance and campaigning. *Inter alia*, the law stipulated that campaigning expenses are to be covered from party accounts only. The legislation specifically prohibited setting up foundations for the purpose of financing party activities.

The Law on Parliamentary Pre-election Campaigns laid out basic rules regulating the use of advertising in public media during parliamentary election campaigns. Most importantly, it stipulated that a limited amount of free air-time on national TV and radio was to be equally allocated to all slates registered for the respective parliamentary elections. The law explicitly strived for equalizing opportunities and minimizing unfair campaign practices by means of demanding an adequate compensation to other slates if one of the slates had been given free air-time on public or commercial channels in addition to the amounts specified in the law. Another form of indirect state support was a free-of-charge publication of the political platforms of parties running for elections.

However, the equal access to public media has recently been questioned by public broadcasters that organize pre-election debates with representatives of most popular parties. Broadcasters claim to prioritize a majority of viewers who are believed (!) to have no interest in stances of marginal political contestants. Several minor parties contested this position in the Supreme Court in 2006 but their petition was dismissed as the court upheld the view that a public broadcaster may apply the principle of proportional equality as described in the Code of Good Practice in Electoral Matters issued by the Venice Commission.

Party and campaign legislation did not address spending by individual candidates until 2004 when campaign spending limits were introduced. Since, a party is fully responsible for keeping its total campaign spending within limits including spending by individual candidates.

The issue of third-party campaigning also came to the fore after the spending limits were introduced. In early 2009, amendments to the law on election campaigns finally introduced the term of "third-party campaigning" and set the financial limit for each third party at 15 minimum monthly wages³. However, the wording of amendments is so vague

² Two most prominent cases date back to 2006 when Saeima Chairperson Ingrīda Ūdre (Union of Greens and Farmers) and Jānis Straume, one of most influential politicians of „For Fatherland and Freedom"/LNNK lost their mandates, which derailed their political careers.

³ As of 1 January 2013, the minimum monthly wage is set at 200.00 Lats (approximately 285.00 Euro).

that even party members who do not run on a candidate list can be regarded as third parties vis-à-vis the candidate list of their own party.

In a latest modification of campaign regulation, paid-for political advertising was prohibited on television 30 days prior to elections. This stipulation was effective for the 2013 municipal elections, and some decision makers have already claimed that the record low turnout was linked to poor awareness of elections among the citizenry stemming from 'the period of silence' on TV. At a glance, the prohibition advantages incumbents but its effects require further exploration, particularly under the circumstances of parliamentary elections.

Women and minority groups are not specifically recognized in the current legislation on parties and campaigns. Party by-laws typically do not afford special status to women or minority groups although politicians recognize a need to have a gender-balanced candidate list for electoral purposes (Aylott, Ikstens and Lillienfeldt, 2012). Given the deep ethnic cleavage and the system of flexible lists, it has been noted that bearers of Latvian names and surnames are typically crossed out on list of parties claiming to represent Eastern Slavic interests while Russian names tend to be crossed out on Latvian slates.

Parliamentary group regulation

A concise section in the Rules of Procedure of the Saeima is devoted to political parties and factions. It stipulates that no less than five deputies are required to establish a parliamentary faction. Moreover, the five have to be elected from the same list or represent the same political party (if it was established after the elections). However, there are no restrictions on splits and mergers of groups in the parliament. Factions may form political blocs, and independent deputies may join the blocs. Factions and blocs form the Council of Factions to resolve matters not discussed in the Rules of Procedure. Decisions by the Council are of purely advisory nature and are not binding for factions.

A faction has access to additional resources such as staff, additional office space, communications equipment and transportation that are not available to independent deputies outside factions. Even if an independent has joined a bloc, (s)he has no access to additional resources. Given the majoritarian style of politics in Latvia, the governing coalition largely controls appointments to committees and attempts to gain control over the leadership positions in each committee. The only restriction noted in the Rules of Procedure is that each deputy may serve on no more than two parliamentary committees simultaneously. If the governing coalition is numerically small, it may lack enough deputies to overwhelm all committees.

Party switching has been a long-standing issue for the general public as it further blurs political accountability and strengthens the impression of chaos in the parliament. Since 1991, two attempts had been made to restrict party switching but both were defeated on grounds of basic political freedoms. Existing parliamentary rules of procedure hardly deter (potential) defectors, and splits of parliamentary groups have occurred in each parliamentary term except the short-lived 10th Saeima.

Party and campaign funding

Owing to public pressure, the model of party finance in Latvia has evolved from a notably liberal one to a considerably regulated and transparent system. However, direct state subsidies to political parties were introduced only in 2012.

The field of party finance was nearly unregulated until 1995 when the Law on Party Financing was adopted. According to the law, the legal sources of income for a party were membership dues, donations (by both natural and legal persons), profit from party enterprises, and other incomes not prohibited by the current legislation. Parties were prohibited to receive donations from enterprises where the state or a municipality holds fifty percent of shares or more, from state or municipal institutions, from religious organizations, from non-citizens, as well as from any foreign or anonymous sources. The annual maximum amount of donations was lowered from 25'000 Lats in 1995 to 10'000 Lats in 2002 (regardless of the number of elections in a year). The total amount of membership dues could not exceed 10'000 Lats per year per member. Furthermore, donations by legal persons (corporations, trade unions, churches, NGOs) were banned in 2004. Any loans to political parties were prohibited in 2004. As local party organizations do not enjoy an autonomous legal status, any intra-party transfers do not count as spending or donation. Parties have to account for in-kind contributions as well and they fall under the same restrictions as donations of money.

Membership dues normally did not constitute a considerable source of income up until 2003, although the amount of membership dues was unrestricted until 2004. More than a third of all registered parties declared no income from membership dues between 1995 and 2006. A significant increase in membership dues collected can be observed since 2003, and that coincides with introduction of new restrictions on the amounts and types of donations.

Parties tend to avoid entrepreneurship in order to fund their political activities despite the fact that the current legislation does not prohibit entrepreneurship merely stating that it cannot be aimed at profit making. Parties do not pay corporate income tax if there is a surplus from their business activities. The year of 1998 saw a discovery of a new way of financing – bank loans, which account for the rapid increase of 'other' sources of income in that year. However, amendments to the legislation in 2004 put an end to this kind of party funding.

Direct public funding of parties was introduced only in 2012 after extensive public discussions of the usefulness of the move⁴. Parties obtaining no less than 2 per cent of votes cast are eligible to receive an annual subsidy of 0.50 Lats per vote. This clearly advantages

⁴ At the time of parliamentary debates of the 1995 Law on Party Financing, the issue of introducing direct state subsidies was never substantially discussed. Jānis Lagzdīņš, Chairman of the *Saeima* Public Administration and Local Government Committee and the chief author of this law, mentioned the idea of subsidies but dismissed it for two reasons – lack of money in the state budget, and the failure of parties to fulfill their educative and informative functions. More than a decade later, Lagzdīņš admitted in an interview to the author that this law was groundbreaking *per se* and that he did not want to jeopardize its chances of being adopted by including the provision of state subsidies.

larger parties but the actual effects upon parties and the party system remain to be seen, particularly because the amount of public funding barely covers routine expenses of electorally largest parties and private funding is likely to remain a key source for funding democracy.

Parties fielding their candidates in municipal, parliamentary or European elections receive indirect public support in the form of having their 4'000 character platforms printed and made available to the public free of charge. In addition, parties running in the parliamentary and European elections receive a limited and rigidly divided amount of free air time on public radio and public television (two 10-minute slots on radio and also on TV). Parties represented in the parliament benefit from administrative resources such as aides to deputies, aides to faction, office space, communications equipment, transportation etc. The amount of the "parliamentary resources" roughly corresponds to the numerical strength of each faction and some resources are available to factions only (such as cars, aides to faction, and faction premises).

In response to this environment, parties had developed extensive system of patronage by means of placing some of their staff on the payroll of state- or municipality-owned companies. Patronage positions were almost exclusively available to the governing coalition. However, the current economic crisis made politicians restrict this practice heavily and abandon councils in most of the publicly owned companies where such sinecures were available. Another form of support extracted from publicly-owned companies is related to arranging services of a particular company on preferential terms in exchange for donation. If legally proven, this would constitute a criminal offence.

Donations to individual candidates are not explicitly regulated but the controlling authority may regard such donation as an act of mediation which is a criminal offence. Furthermore, the 2002 Law on Eradication of the Conflict of Interests sets restrictions on accepting donations to public officials and stipulates that all officials (including *Saeima* and municipal deputies) have to file annual declarations indicating any income.

Spending limits were introduced in 2004 and apply to campaign spending only. The limits were initially set at constant 0.20 Lats (EUR 0.30) per registered voter in a given election district. Campaign spending would start 270 days before the election day and includes any expenses of the party apart from the routine administrative expenses. In 2008, the campaign period was reduced to 120 days and items such as campaign planning, salaries for campaign workers, printing of publicity materials (leaflets, newspapers etc.) were excluded from the limits. At the same time, the limit was tied to the average salary so that the actual amount increased in comparison to the previous limit. Third-party spending is limited to 15 minimum monthly wages.

The ever-changing regime of party finance reflects an evolution of methods Latvian parties use to compete in elections. Despite the numerous revisions of legislation, a key aspect of party finance has remained stable – parties continue to rely on private money. That has likely facilitated creation of new parties vying for support of disenchanted voters. While the rapid turnover of parties at the parliamentary level (partly linked to the regime of party finance) contributed to inter-party competition, continued dominance of large

donations (another aspect of party finance in Latvia) has not freed parties from serving narrow interests.

Disclosure and oversight

Latvia has developed an advanced system of party financial disclosure and a reasonably effective enforcement mechanism. While the former emerged somewhat inadvertently but, in theory, bode well with a heavy reliance on private sources in party funding, the latter resulted from domestic and international pressure to combat high level corruption that amounted to state capture (Hellman, Jones and Kaufmann, 2000).

Since 1995, parties have to file annual financial declarations reflecting all their income and spending. Repeated failure to submit the declaration could result in dissolving the party by a court order. Declarations follow a format set by the Cabinet of Ministers and are published in the official gazette and, since 2002, are made available on the internet. However, the State Revenue Service entrusted with the collection and verification of these declarations made no serious attempts to check them against reality. The 2002 amendments to the law on party financing broadened the extent of disclosure as the Anti-corruption Bureau (KNAB)⁵ was entrusted with checking the declarations and financial operations of parties, and any donation and its source had to be disclosed within 15 days of receipt. This information is stored in a searchable KNAB database that is freely available online.

In addition to the annual declarations, parties have to submit detailed post-election financial declarations no later than 30 days after any elections. These declarations reflect campaign income and spending only. Pre-election declarations on intended spending were abolished in 2008 as rather useless. All declarations are made public via internet within 10 days of receipt by KNAB.

The Penal Code of Latvia did not contain sanctions against violations of party finance legislation up to 2004. However, parties could be called to justice for violating accounting procedures or similar minor offences. The enforcement mechanism was far from complete.

Yet, the transfer of party finance oversight to KNAB in combination with more sanctions have led to more transparency and lawfulness. For example, criminal charges can be brought against mediators of donations. If a party fails to submit a declaration in time, it is imposed an administrative fine. If a party fails to submit a declaration after an official reminder issued by KNAB, it may shut down by a court order. If a party exceeds spending limits, it has to transfer the amount in excess to the state treasury within 30 days of the final decision by KNAB or the court (even if the excess amount has been spent by rank-and-file member without explicit consent of the central office). If a party has accepted an illegal

⁵ KNAB is a notably autonomous public institution led by a parliament-elected head and placed under a formal supervision of the Prime Minister. It was modeled after the Singapore Corrupt Practices Investigation Bureau. KNAB has the right to conduct its own investigation and use a wide range instruments including tapping phone conversations etc. Any citizen may file a claim with KNAB to investigate suspicious transactions. An attempt to dismiss the head of KNAB in 2007 led to public unrest and the fall of the cabinet led by Aigars Kalvītis (People's Party).

donation, it has to transfer it to the state treasury within 30 days of the final decision by KNAB or the court.

A drastic control measure was given to KNAB after the massive third-party campaigns of 2006 elections. Not only third-party advertising was legally recognized but KNAB was given the right to put an end to media campaigns if it believed that spending limits had been exceeded by any political organization or third party. Yet, all KNAB decisions may be appealed in the court.

The use of public resources for party purposes is explicitly permitted in form of using public buildings for public campaign meetings and free broadcasting time on public radio and TV. Some aspects of abuse of public resources are touched upon in the 1995 Law on Prevention of Squandering of the Financial Resources and Property of the State and Local Governments and the 2002 Law on Eradication of the Conflict of Interests. However, resources such as cars, communications equipment and publicity opportunities are exploited notably during parliamentary campaigns, giving incumbents an advantage vis-à-vis newcomers.

Between January 2003 and January 2012, KNAB has examined more than 3'500 donors and their financial capacity to give money to the parties. As a consequence, the State Revenue Service was asked to audit 155 natural persons, which led to collecting additional 589'840 Lats (EUR 839'300) in revenue. KNAB has issued 256 decisions about penalizing political parties and has collected 58'550 Lats (EUR 83'300) in administrative fines. In addition, the Bureau has discovered 113 cases of illegal funding totaling 2'082'200 lats (EUR 2'962'700). Importantly, both the number of cases and the total amount of illegal funding has sharply diminished over the nine-year period. The courts have ruled to close down ten political organizations due to non-compliance with financial reporting requirements. Fines imposed by KNAB contributed palpably to a voluntary dissolution of two erstwhile political heavyweights – the People's Party and the LPP/LC party. The downside of tighter regulation and oversight is the search of parties for alternative ways of channeling money into party political activities at the expense of transparency.

Cessation of party

According to the 2007 law, a party can be excluded from the Registry of Political Organizations (RPO) in four cases only: (1) if a party itself submits a corresponding request; (2) if it is requested by the administrator of an insolvent party (the administrator is appointed by the court and acts in accordance with the Insolvency Law); (3) if a party is voluntarily reorganized into a different organization(s); (4) following a court order. Exclusion from RPO is a consequence of other actions and it involves a loss of privilege to field candidates in elections.

Several institutions are involved into oversight of parties: the Anti-Corruption Bureau; the State Revenue Service; the Registry of Enterprises. Each of them monitors a particular sphere of party activity and may request to iron out irregularities in no less than 15 days and no more than 180 days. It is only these three institutions that have the right to turn to the court with the request to suspend a party if that party has not complied the

institution's decision or contested the decision in the court. The court may also suspend a party for a term of up to six months if (1) the party in question has failed to convoke its annual general meeting of members (a congress), (2) the number of party members has fallen below 150 persons; (3) the party has failed to transfer to the state budget the money defined as illegally acquired (on the basis of a decision by the Anti-Corruption Bureau that can be contested in the court).

A party has to end its public activities after a suspension decision but is expected to work on problems that led to the suspension. If the outstanding issues are not solved within a timeframe afforded by the court, a court may rule to shut down a political party. Other ways of shutting down a party include: (1) a decision by the general meeting of members; (2) bankruptcy of party (in accordance with the Insolvency Law); (3) decision by the party board if the number of party members has fallen below 150; (4) deadline of party existence (if such is stipulated in the by-laws); (5) other reasons that are stipulated in the party by-laws.

Concluding remarks

In 1991, Latvia restored its 1922 constitution that, in line with the tradition of its epoch, made no mention of political parties. Subsequent expansion and update of the basic law made only a passing reference to political parties in the context of freedom of association. The Latvian constitution does not support the expectation of reflection of the Communist experience in the basic law in the form of, for instance, a clear separation between the state and parties. The seeming neglect apparently stems not only from the generally concise form of expression in *Satversme* but also from a 'restorationist' approach of post-Communist lawmakers to the Latvian constitution.

A near absence of parties from the constitution has not precluded lawmakers from developing party regulations, particularly in the area of party and campaign finance. Sophistication of the legal framework grew along with recognition of the scope and role of parties in a democratic system. If parties in 1992 were seemingly regarded as slightly modified non-governmental organizations that barely required additional regulation, they had become tightly regulated and closely overseen entities of political competition by 2007 when a separate law on political parties entered into force.

The rules for registering and maintaining a political party have remained largely stable since the early 1990s, with the exception of requirement to keep a registry of party members in order to avoid an overlap of membership and do away with defunct organizations. The 2007 law set clearer guidelines for day-to-day operation of political organizations but did little to foster internal party democracy. Proliferation of political parties by means of frequent splits and mergers of parliamentary groups and the degree of instability associated with that process did not prompt lawmakers to amend the Saeima Rules of Procedure to discourage political migration of members of parliament. Although the Law on Party Finance stipulates that if a political organization splits away from a recipient of direct state subsidies, the former is not entitled to a share of subsidy, the effect of this limitation is too early to judge.

It is the rules of political competition that have seen larger modifications. Most often, changes occurred in laws regulating campaigning and party and campaign finance, which serves as an indication of what areas of party life are considered key by political elites. Moreover, those changes involved increasing regulation and further limitations for party campaign and finance activity with an expressed aim to limit the role of large benefactors in politics and provide a level playing field. Although some of the institutional modifications benefit incumbents, party turnover at the parliamentary level remained notable and political newcomers could enter parliamentary arena.

A sophisticated system of disclosure and oversight was gradually developed in response to domestic and external pressures. That forced parties (1) to become more orderly at managing party organizations and (2) to employ increasingly ingenious methods to conceal parts of their cash flow. In view of notable public disappointment with government performance, the existing regulatory framework is unlikely to prevent new parties from successfully entering political competition in Latvia.

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