

# Transparency and accountability in party financing

## Conference summary

**H**ow Can the Transparency and Accountability of the Financial Management and Campaign Financing of Parties Be Improved? – This was the title of the programme held on September 9, 2011, which was the first in the conference series titled “Transparency and Accountability in Pivotal Bills” as organised by the State Audit Office of Hungary.

The goal of the SAO conference series – held in connection with the preparation of pivotal acts – is to communicate the SAO’s audit experiences acquired in the topic of the given acts with those participating in their preparation. At the same time, it also wanted to provide an outlet where scientific researchers and NGOs can voice their opinions on the important issues of the regulation, including the possibilities of resolving the problems uncovered by the SAO.

The conference saw lectures held by *László Domokos*, President of the SAO; *Ádám Földes*, Managing Director of Transparency International Hungary; *István Fodor*, former member of the Committee of Wise Men; *Balázs Horváth* Supervisory Manager and Deputy Director of the SAO; and *Gusztáv Bienerth*, Head of the Board of Nézőpont Intézet. Besides politicians and economists, the conference was attended in great numbers by SAO associates as well as other interested parties.

In his opening address, **LÁSZLÓ DOMOKOS**, President of the State Audit Office of Hungary said that the conference has been a long awaited event as the financial management and campaign financing of parties or the improvement of transparency and accountability therein has been a topic of conversation for the last twenty years. Today, technical and political conditions are given to allow the resolution of this highly important issue through the drawing up of this two thirds majority act. Hopefully the new regulation shall appropriately expand the SAO’s currently quite limited opportunities – said the SAO president, adding that the conference wishes to contribute to the technical foundation of the act and is not looking to achieve an agreement between the parties.

In his lecture titled *The Rules of the Operation, Financial Management and Campaign Financing of Parties in the Light of Audits Performed By an Audit Institution*, **BALÁZS HORVÁTH**, Supervisory Manager of the SAO gave information on the fact that the state audit office, through the utilisation of experiences acquired during the regular legality audits of parties and campaigns, has been recommending to the government an amendment of law with the objective of making party and campaign financing more transparent.

He spoke of how, according to SAO findings, the annual financial statements that are required of parties by law do not ensure the transparency, comparability and evaluability of financial management as the provisions of the Party Act do not take the standardised requirement of the Accounting Act into account. Electoral financing is not separated from the financial management of parties, there are no rules that would guarantee closedness and identifiability and no provisions regarding the reporting of funds and their utilisation.

The SAO Supervisory Manager, in his lecture, listed the infringements of the law that can be committed in this field without consequences as well as the loopholes that can be easily taken advantage of during campaign financing. As an example he mentioned that, in the absence of appropriate sanctions, parties do not publish their reports by the deadlines set and that said reports, with the exception of one or two parties, are neither truthful nor reliable.

He presented the SAO's proposals regarding the Party Act, as well as motions on campaign financing.

Based on audit experiences, the SAO recommends the establishment of a transparent statutory background for party reporting based on reliable, truthful foundations; placing audit powers on wider foundation and creating a system of deterrent sanctions. With respect to parties that have missed reporting obligation deadlines by six months, the SAO could initiate the termination of the defaulting party at the public prosecutor's office. Parties that do not receive budget subsidies should be required – as a sanction – to pay double the amount of prohibited revenues from their own funds into the central budget. Among the proposals, special emphasis was placed on the introduction of a declared and reported campaign account that contains comprehensive information. With respect to political advertisements and billboards, the speaker feels that provisions

relating to precise identifiability, the recording of quantity data and the standardisation of media appearance tariffs as well as the reporting of election meetings are necessary.

DR. GUSZTÁV BIENERTH, Head of the Board of Nézópont Intézet gave a lecture with the title *The Elimination of Support Provided by the Business Sector to Parties and the Possibilities of Making This Support More Transparent*, in which he told the audience that the representatives of the business sector already suggested holding such a conference first in 2004, then in 2005 and 2006 as well, however, this proposal was sidelined at the time. Five years ago, 21 significant companies of this very same business circle drafted a manifesto, in which they declared that comprehensive reforms were required in this field and also made recommendations on how to resolve this problem. However, at the time these initiatives did not bring results.

According to Dr. Gusztáv Bienert, the proposals of the business circles from five years ago are still topical today and currently – though under more difficult economic circumstances – there is an opportunity to resolve these issues. During this, substantive issues must have priority over formal issues, and in many cases 'common sense' should overwrite behaviour that sticks to the 'rules are rules' principle. The business world is looking forward to the new statutory provisions with great excitement – he added.

Orderly party financing appears not only as a pivotal act to be, but also as a 'pivotal interest' with respect to politics, the business world and domestic conditions.

It is his opinion that in Hungary, in light of the role and importance of the state, it would not be a wise decision if parties were directly supported by players of the business sector. This would be harmful, even dangerous for Hungarian democracy as this would allow companies to gain direct political influence and this is why state subsidies must be considered a priority.

Summing up the recommendations of the Head of the Board of Nézőpont Intézet, we can state that the cash flow audits of parties is a task of major importance, and furthermore, the introduction of a campaign account reviewed by the civil sector is something to be considered. As a possible method of reducing campaign costs he mentioned the issue of campaign periods shorter than 60 days and single-round elections. In his opinion, the relationship of media owners and political advertisers must be reviewed as well. Public media should provide proportionate and free of charge services and should also ensure that owners of commercial stations do not give discounts on advertising to certain parties (list price). He also called attention to the fact that in the future the regulation regarding the supervision of online campaign activity must also be prepared. The State Audit Office must be given greater powers, or ‘teeth’ if you like, with respect to party and campaign financing – explained Gusztáv Bienérth. We have to accept that we cannot fully get rid of irregularities and corruption phenomena related to party support and campaign financing, this is quite frequent in developed Western countries as well, however, prevalence and extent can be reduced – said Dr. Bienérth.

**DR. ÁDÁM FÖLDES**, Managing Director of Transparency International Hungary, gave a lecture entitled *Transparency International Proposals in the Interest of Making Party Financing More Transparent* in which he said that they have been concerned with this particular issue since the establishment of the organisation in Hungary. They have conducted research, prepared proposals and the examination of party financing – as a part of political corruption – has been an important part of their activities.

According to their findings, party revenue sources fall into one of three categories: ‘legal’, ‘illegal’ and ‘prohibited’. ‘Legal’ sources reflect the power relations of parties and groups

within the parties, while the other two sources are hotbeds of corruption and cause serious damage. ‘Prohibited’ sources include donations from other states or unreported donations which companies use for lobbying. Upon the acceptance of these we can rightfully ask: in the end who does a Member of Parliament accepting these donations really represent in legislature? In the case of ‘illegal’ donations, MPs can accept money not just for their party, but for themselves as well. These are clear cases of corruption and occur most frequently in relation to public procurements, governmental (municipal) fund management, in the form of blackmail related to inspections by the authorities or permits or through the transferring of the assets of a company in liquidation – in such cases ties to organised crime is also a possibility.

Besides making the revenue side of the parties’ financial management and campaign financing more transparent, the transparency of the expenditure side is also very important. Transparency International Hungary conducted a research at the time of the last parliamentary elections and found that the parties that gained entry into Parliament spent several times the amount officially permitted for their campaigns; spending a total of at least HUF 3,260 million and this was very probably the case with previous elections as well.

In 2009, Transparency International Hungary prepared a draft bill that never became a law due to a lack of consensus between the parties. The draft in question is public and can be accessed by anyone, and the majority of proposals contained therein regarding revenues, expenditures and transparency are still valid today and should be re-examined – said Ádám Földes.

Proposals of Transparency International include, amongst others, a shorter campaign period, the introduction of the campaign account, the registration of advertisements and organisations campaigning for political parties,

raising the campaign limit per MP, and the application of market prices in relation to political advertisements. In their opinion, not just campaign expenditures, but all revenues and expenditures of the parties – as organisations looking to exercise executive power – should be public, and on a related note, cash handling should also be pushed back to the minimum level. They also have methodological recommendations with respect to the precise definition of campaign expenditures and campaign elements.

They are planning to give the SAO a highlighted role in the field of party and campaign financing by strengthening audit mandates and introducing an efficient system of sanctions, which would be reinforced by complete transparency and the publicity of the internet.

► In his lecture entitled *The Risk of Mistaken Proportions*, **ISTVÁN FODOR**, former member of the Committee of Wise Men talked about how party and campaign financing should be examined with a wider view, within the context of the whole fight against corruption. Within this task, the creation of the national institutional system and the correct determination of objectives are the most important elements. Besides investigative authorities, the so-called ‘beacon’ institutions of the institutional system, including the SAO, also play a key role in the fight against corruption, as preventative activity is perhaps even more important than reactive activity – said the lecturer.

It is his view that in order to successfully fight corruption, a well-thought out programme that looks ahead for a period of ten years, the establishment of an appropriate institutional system and the creation of necessary laws are essential. These must cover all fields, and limiting them to the sub-field indicated in the conference title is insufficient.

The determination of appropriate objectives is very important; objectives that can be implemented during such a ten-year programme and

contain specific tasks. Such a goal could be for example to reduce the extent of Hungarian corruption to Slovenian levels over the next ten years – said the expert.

In the lecture, István Fodor said: it would be a case of mistaken proportions to think that the elimination of party financing anomalies would be the greatest achievement in the fight against corruption – as here we are talking about HUF 3-6 billion, while within public procurement, corruption amounts are in the hundreds of billions of forints. Of course from a moral point of view, it could have great impact, however, economically it has less significance. Only a complex programme could work, and it would be a grave error if the fight against corruption would not extend to other areas besides party and campaign financing.

His proposals in relation to party and campaign financing were the following:

- limitation of costs,
- party-founded foundations using public funds should not be able to finance campaigns,
- introduction of public campaign accounts,
- bank loans and credits should be booked,
- parties should not be able to accept donations from neither domestic nor foreign business organisations or independent political foundations,
- private donations of smaller amounts (HUF 100,000) should be acceptable,
- private donations of greater amounts may not be prohibited, however, donor data should be made public,
- parties should not engage in business activities,
- parties should not be able to accept donations from churches, state institutions, charity or professional organisations,
- prohibited donations should be paid into the central budget in double amounts,
- the range of controllable in-kind dona-

tions (such as media surfaces) should be expanded.

His proposals regarding the election procedure:

- the development of an efficient legal remedy system (due to the proximity in time of two election periods),
- legal sanctioning of breaches of campaign regulations,
- in case of election fraud, strict sanctions for all MPs involved.

▶ In his closing speech, **LÁSZLÓ DOMOKOS**, said that with regard to this important issue, the

two thirds majority in Parliament not only ensured greater opportunities for decision makers, but also placed greater responsibility on them. It was in this spirit that the State Audit Office organised the conference, and hopefully the valuable lectures heard have provided useful knowledge and thoughts to all those present – said the SAO president.

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- 6 figures.

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▶ Articles published in periodicals: Osipian, A. L. (2009): Corruption hierarchies in higher education in the former Soviet Bloc. *International Journal of Educational Development*. 29. pp. 321–330

▶ Websites: World Bank Institute (2010): Governance matters 2009. *Worldwide Governance Indicators, 1996–2008*. Online: <http://info.worldbank.org/governance/wgi/index.asp>

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