

## Country Reports on Political Corruption and Party Financing

### ICELAND

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#### INTRODUCTION

Iceland is a representative democracy. The 63 members of parliament – the *Althingi* – are elected every four years in general elections. With few exceptions, the government is formed by a coalition of two or three parties which hold the majority of seats in parliament. The prime minister is usually the leader of one of these parties. The prime minister is the head of government.

In recent years, the government has consisted of ten to twelve ministers. Usually they all serve as members of parliament, although ministers are not required to be members of parliament.

The president of the republic, who is elected every four years, is the head of state and is entrusted with the power of approving all legislation passed by parliament. He also chairs the meetings of the State Council, where he meets with the ruling government. The role of the president is not seen as a political one, but he does have important formal powers. To date, no president has ever refused to sign a law passed by parliament.

Five parties hold seats in the parliament and these represent most points on the traditional political spectrum, from right to left. In the period 1999–2003, the biggest party was the liberal conservative party, called the Independence Party, with 26 seats. Its coalition partner in government, the centre-liberal Progressive Party, had 12 seats. In opposition, the biggest party was the social democratic, or Alliance Party, with 17 members, the Left-Green Movement had six members of parliament and the new Liberal Party held two seats. This latter party was founded by a former minister (of the Independence Party), who was forced to resign as manager of the National Bank of Iceland following allegations of corruption, and who started a campaign against the Icelandic fisheries system (see below).

In the general elections of 2003, a new electoral system was used for the first time, following changes in the composition of constituencies. There are now six constituencies, three of the biggest of which are located in the capital, Reykjavík, and its surroundings. There are no provisions on political parties in the Constitution of the Icelandic Republic of 1944, which was last revised in 1999. There are no laws or provisions on the practices or legal status of political parties. In the parliamentary session of 1975–1976, an MP proposed a bill on political parties but it was not adopted. The parliament postponed debating another bill on the practices and finances of political parties during every parliamentary session between 1995 and 2003 (the latest debate on the issue was in March 2000 (125. Parliamentary doc.225-193. case) but then it was postponed and not debated again.

In 1995, the Prime Minister created a committee to decide whether legislation regulating political parties was needed. All political parties represented in parliament were requested

to nominate members for that committee. Four years later the committee did not recommend changes to the system already in place and did not propose any legislation on the matter. One of the committee's main arguments was that if donations to political parties did not remain anonymous, there would be a risk that these contributions would be reduced, which would make political parties more dependent on state funding. Another argument of this cross-party committee was that it would contravene the provisions of the Icelandic constitution concerning freedom of association if the parliament were to interfere with internal matters of political parties.

In his opening statement to the last parliamentary session, the Prime Minister nevertheless raised the question of whether it would not after all be necessary to adopt such legislation. Parliament has not debated this issue since and there has been no news of further developments.

Since no laws apply to the practices of political parties it is very difficult to find exact information about campaign spending and it is likewise difficult to verify the sketchy information that can be found. It has been estimated that the four biggest parties spent between ISK 10 and 70 million in the general election campaign of 1999, which amounts to 150,000–850,000 euros. These numbers come from the Alliance Party which, of the four biggest parties, spent the most, and the Left-Green Movement, which spent the least. The leader of the Independence Party has indicated that his party spent around ISK 40 million (500,000 euros) in the 1999 campaign, and the Progressive Party's spending figures were little less than ISK 60 million (700,000 euros) according to information obtained from the party office.

Parties receive financial state support amounting to around ISK 240 million (2.85 million euros) per year, which is mainly from three sources:

a) general support from the budget, according to authorisation given by parliament to the finance ministry. For the year 2003, this support totalled ISK 164 million (2 million euros), divided between the parties according to votes gained in the last general elections. Parties that receive more than 2.5 per cent of the popular vote can apply for such support. There are no provisions for monitoring how this money is spent (the National Audit Office can officially look into the matter as mentioned below, but has not done so to date) and parties do not report on the spending to the finance ministry.

b) Every parliamentary party receives money from the parliament to cover spending on special advisors and publishing. The amount in the annual budget for 2003 is ISK 46 million (550,000 euros). The division of these funds among the parties is decided by the heads of the parliamentary parties and the president of the parliament. The rule has been to give flat support for every parliamentary party and supplement this according to the number of MPs each party has.

c) From the 2001 annual budget onwards, the prime minister's office has provided a special fund to support political parties in adjusting to the new electoral system that emerged after the redrawing of constituency boundaries. The amount for 2003 is ISK 25 million (300,000 euros) in total for all parties.

The number of members registered with political parties varies greatly. The biggest party, the Independence Party, has announced that it has around 30,000 registered members; the Alliance Party has about 15,000 members and the Progressive Party around 10,000 according to information gathered from the offices of the parties.

All parties appeal to private companies to support their activities, but this relationship is covered by a veil of secrecy.

Two of the smallest parties in parliament, the Liberal Party, and the Left-Green Movement, have reported on their income and expenditures during the last general elections and intend to keep on doing so. The Liberal Party publishes the identity of donors giving more than ISK 300,000 (3,500 euros), and the Left-Green Movement publishes the names of donors who contribute more than ISK 500,000 (6,000 euros). The Alliance Party has announced that it intends to publish its accounts from the 2003 elections onwards, including the identities of donors giving more than ISK 500.000 (6,000 euros).

## **I. THE PROBLEM OF POLITICAL FINANCE SINCE 1980**

### **1. The major corruption scandals**

Iceland has fortunately been free from major scandals on the scale faced by many European countries. A small population (280,000 people) gives both advantages and disadvantages when looking at politics and corruption. There can be greater transparency of public activities than in many bigger countries, but there can also be an increased danger of nepotism and cronyism. A few cases involving corruption have erupted during the last 23 years and have led to changes in the political field. In one case the finance minister was replaced, in another the minister for social affairs was forced to resign from office and in a third case an MP resigned and was sent to prison.

In 1987 a powerful and popular politician from the Independence Party, Iceland's biggest party, the finance minister Albert Gudmundsson, was replaced by his party leader, who was Prime Minister at the time. The reason was that Gudmundsson, the supreme official in fiscal matters who was campaigning against tax fraud at the time, did not declare his total income to the tax authorities. Previously he had been involved in a major case as a member of the board of the Icelandic Fisheries Bank, which had lent considerable amounts of money to a shipping company that went bankrupt. The bankruptcy of the company, *Hafskip*, shook Icelandic society and some of the leaders of the company, well-known businessmen some of whom had been active members of the Independence Party, were sentenced to prison. Charges were never filed against Gudmundsson. There is also a lesser known incident where Gudmundsson received money from two shipping companies to pay for a trip for his friend, a leader of a labour movement, who had in fact served as an MP for a left-wing party, the People's Alliance. Gudmundsson received more money than the trip cost and pocketed the difference, according to reliable sources.

After his party leader relieved him from office, Gudmundsson left the Independence Party and founded a new party, the Citizen's Party, which won a few seats in parliament. Later he was rewarded for his service to Iceland by being appointed ambassador to Paris.

In 1994 a series of news reports on cronyism and corruption brought pressure on minister for health and later minister of social affairs for the Social Democratic Party, Gudmundur Arni Stefansson, to resign. When these stories refused to quieten down, Stefansson ran into even more trouble. He was accused of appointing family members and accomplices to various posts and protecting them when their competence was questioned. There were also allegations of malpractice in the finances of the small town where he served as mayor

before taking his seat in parliament. Eventually Mr Stefansson, who had been named as a potential leader of the Social Democratic Party, was forced to resign, but charges were never filed against him.

In the summer of 2001 an MP for the Independence Party, and its leader in one of the country's biggest constituencies, Arni Johnsen, was found to have abused his powers as a member of a number of governmental commissions, by using official funds to buy goods for his own benefit. He had bought building material as a member of the building committee of the Icelandic National Theatre ostensibly for the construction of a stave-church (a present from Norway to Iceland on the 1,000<sup>th</sup> anniversary of Christianity in Iceland), which he used to construct his own homes. His connection with a construction company which received many government contracts was under debate. Illegal activities were not proven in that case and an engineer from the company who was prosecuted in the case was acquitted of any wrongdoing in both the regional and supreme courts.

Mr Johnsen was found guilty of falsifying notes and accounts. He allegedly took bribes from a man who ran a club in the national theatre in exchange for sorting out accounts to their mutual benefit. When the media found out, he became entangled in a web of half-truths and lies. He had to resign from parliament, the first MP to have to do so in the history of Iceland, and was, in February 2003, sentenced to two years in prison by the Icelandic supreme court. In the same case, a man who ran a club in the national theatre was sentenced to three months in prison for bribery. Three other men who were prosecuted for bribery, and for taking part in the Johnsen's crimes were acquitted.

## **2. The major changes in legislation on political finance**

There has never been any legislation on political parties and their finances, and there are no provisions requiring candidates to declare their assets or interests. An opposition MP since 1995, Johanna Sigurdardottir of the Alliance Party, has presented, along with eight other members of the opposition, her own version of a bill on political parties and their funding in every parliamentary session for the last eight years. The bill has not received support. The last debate on her motion was in the spring of 2000.

In 1993 parliament approved a change to the existing laws pertaining to the income tax deductions allowed for contributions to political parties. Deductions for contributions by legal persons would not exceed 0.5 per cent of their income (Law No.75/1981). Such tax exemptions are now also allowed for contributions to religious groups, charity organisations, cultural activities and scientific research.

In each annual budget there is a certain amount of money allocated to political parties by the finance ministry (support to all parties that got more than 2.5 per cent of the vote in last elections in accordance with their parliamentary support), and by parliament (to use for publishing and buying special advice). These amounts are decided in parliament during the debate on the budget and have increased in recent years. Two years ago, a new category was created in the budget under the prime minister's office, to support political parties as they adapt to the new constituencies boundaries of the new electoral system.

## **3. The major recent court decisions**

No decisions.

#### **4. The public debates**

There was much debate in Iceland related to the case of former MP Arni Johnsen, mentioned above. The debate included a call for stricter rules and better enforcement pertaining to those government committee members (who are often political appointees) who have access to official funds. Also, in late 2001 and early 2002, there was much debate on corruption following a few cases of alleged corruption within state institutions where political appointees were accused of corruption.

There was a story in the media about shady deals between the minister for communication and the chairman of the state telephone company, *Landssiminn*, and between the minister and the managing director of the same company. The company chairman and managing director have been active members of the Independence Party. The managing director was forced to resign, although no one has announced exactly why. The chairman however, who had taken on some private projects for the company as a consultant in a special agreement with the minister of which other board members were not informed, decided to step down at the next annual meeting 'due to other responsibilities'. The authorities have not looked into these cases.

During the last few years, the opposition has voiced louder criticism that ministers in the government, especially the Prime Minister, use their influence to punish or reward business people, favouring certain companies over others. This has raised suspicions that those companies that ministers allegedly favour are also those that support their respective political parties. The manager of Iceland's biggest company, the retailer *Baugur*, has stated that this interference has influenced banks, which until very recently were owned by the state and run by commissions appointed by political parties, to decide along political lines in their decisions to give certain companies more favourable treatment. In early 2003 it was revealed in a media report that people close to the Prime Minister intervened in a fight over the privatisation of a state-owned investment bank when unfriendly forces plotted, and succeeded in, a takeover.

In February 2003 the board of *Baugur* was reported to have discussed the influence of the Prime Minister on the business sector at a board meeting held in 2002. Reportedly, the board feared that the company would come under increased scrutiny by official watchdogs due to the displeasure of the Prime Minister and his colleagues. When these stories erupted, the Prime Minister said publicly that he had been told by the company's chairman that the company's CEO had discussed the possibility of offering him a bribe worth ISK 300 million (3.2 million euros) in an attempt to gain more favourable treatment from him. In response, a libel case against the Prime Minister was initiated on behalf of the CEO of *Baugur Group*. The managing director of *Baugur* acknowledged that his company had given money to all political parties, but that most had gone to the Independence Party. This led to a new debate on political party financing and the relationship between the parties and the business sector.

## **II. TRANSPARENCY**

### **1. Reports on finance by parties and candidates**

There are no obligations of transparency on behalf of the parties or the candidates. In addition to there being no rules requiring parliamentarians to declare their assets and interests, there has been growing concern over the trend toward growing expenditures by candidates in primary elections, to ensure better placement on lists. These campaigns have become more common and candidates are not obliged to declare who gives them financial aid.

## **2. Access to reports**

There are no reports to get access to and it is very difficult for anyone to find out anything about the finances of political parties. Some parties have in the past declared their income and expenditures, but these reports have been seriously incomplete. Some parties publish their accounts to their members, but these reports are never detailed and are not public documents.

## **3. Published Sources and Amounts of Donations to Parties/Campaigns**

Two parties, the smallest two, did publish their accounts following the 1999 campaign. The Left-Green Movement and the Liberal Party published their accounts after the last elections, and the Alliance Party has declared that it will publish the accounts from the 2003 election campaign. It is very difficult to verify the information provided and the Alliance and Left-Green Movement are going to declare only the names of the donors that give more than ISK 500,000 (6,000 euros), while the Liberal Party will identify those donating more than ISK 300,000 (3,500 euros).

## **4. Declaration of assets of elected representatives**

No declaration required.

# **III. FINANCE**

## **1. Donations**

### **a) Limits on individual donations to candidates or political parties**

The only limits are that, according to law No.62/1978, foreign individuals, institutions and embassies are not allowed to support political parties in Iceland, to support any publication published by them or to give presents or goods to Icelandic parties.

Party membership has gone down in recent years. Only one party, the Independence Party, has a considerable number of individual members and keeps a thorough register. Other parties have been looking for ways to engage individuals to participate more in their activities. Loyal supporters give money to their parties, especially prior to elections, and some volunteer for help during the campaign. The most common form of support from

individuals to party campaigns is buying lottery tickets, where they try to win goods provided by corporate donors.

**b) Limits on corporate donations to candidates or political parties**

As in previous answer, the only limits are, according to law No.62/1978, that foreign individuals, institutions and embassies are not allowed to support political parties in Iceland or any publication published by them, and are not allowed to give presents or goods.

Otherwise all donations are discrete and secret. Some big companies support all parties, but others support only certain parties. The amounts given in support vary. The Independence Party has a financial committee, on which many influential business people hold seats. Other parties have similar systems, creating a committee to attract funds from corporations. Ordinary party members are usually not aware of the practices of these committees. There are all sorts of suspicions about who supports whom, and how much certain companies and individuals have paid to parties in order to attain influence, but it is very difficult to verify any such information.

**c) Legislation and/or Court Decisions on Lobbying or Trading in Influence**

No legislation is in place.

**2. Public finance and media**

**a) Direct State Subsidies to Parties**

Presently state support for political parties can be found in three places in the annual budget. First, under the finance ministry there is a category of state support to any political party that received more than 2.5 per cent of the parliamentary vote in the last general elections. The money, which in 2003 amounted to ISK 164 million (about 2 million euros), is distributed to the parties according to their parliamentary strength. The state also gives ISK 25 million (around 300,000 euros) to parties to help them adjust to the new electoral system. Finally, parliamentary parties receive financial support through the parliament to buy special advice. The distribution of the money, ISK 46 million (550,000 euros in 2003), is decided between the chairmen of the parliamentary parties and the president of the parliament according to law No.56/1971. The share depends on the parliamentary strength of the party.

**b) Indirect State Subsidies to Parties**

In 1993 the laws on income tax no.75/1981 were changed so that contributions by legal persons to political parties could be subtracted from income.

MPs have frequently been accused of sending party political material through parliament on official parliamentary letterheads. This kind of activity is discouraged and usually proves counter-productive when the media find out.

**c) Media Space and State Subsidies**

There are no specific provisions on media space or state subsidies, but according to the law on broadcasting (No.53/2000), all radio and television stations are bound by the basic

rules of democracy and freedom of expression. They are encouraged to air different opinions on controversial issues.

Issues of the ownership of the media have been discussed and debated in Iceland. The state runs a National Broadcasting Service, one television channel and two radio channels. The National Broadcasting Service is chaired by a politically appointed council, in which the majority usually reflects the majority in parliament. The council discusses, debates, and votes for candidates running for positions at the NBS, but the director has the final word. He is appointed directly by the minister of education and culture. The state news desks struggle to keep their independence and integrity, and to be free from political interference. There is one privately owned television channel which broadcasts news, and three others that don't. There are three daily newspapers, the biggest of which, *Morgunbladid*, used to reflect the official position of the Independence Party during the Cold War period when most Icelandic newspapers were political mouthpieces for particular parties. *Morgunbladid* still keeps close relations with the Independence Party although it is independent in the way it operates. One newspaper is owned by a group of businessmen, one of whom is the chairman of the Independence Party, and its senior editor is close to the party. The third newspaper is a relatively young paper, which is sometimes critical of the government. The ownership of this newspaper is unknown.

Most news agencies are underfinanced which means, for example, that there are few examples of investigative journalism following Western European standards. There is little scope for journalists to undertake investigative research and no slots for such work at the broadcasting services.

#### **d) Provisions Against the Influencing of Elections Through Abuse of Power and Government Resources**

No such provisions in place.

##### **1. Limits on Expenditure**

No limits. In certain cases the parties have tried to make agree to limit expenditure, e.g. by limiting or ruling out advertising on television before general elections, but such agreements have not been made in recent elections.

#### **IV. OVERSIGHT, SANCTIONS AND ENFORCEMENT**

##### **1. Oversight institutions**

There are no institutions to oversee the practices of political parties. The Icelandic National Audit Office declared, in an opinion of 26 September 1995, that it did not consider it its role to audit the accounts of political parties. It can however, demand the accounts of political parties to check how official funds have been used (law No. 86/1997).

In an opinion from the highest tax authority, the Internal Revenue Directorate, from 1 September 1995, political parties have an obligation, like any other organisation, to provide financial accounts of their activities. Moreover, the local tax authorities are supposed to supervise the contributions made by legal persons to political parties where tax deductions have been applied for. In this opinion, the directorate called for legislation concerning the finances of political parties.

## **2. Independence of Prosecutors and Judges**

There are provisions in the Icelandic constitution for the independence of the judiciary.

## **V. CONCLUSION**

According to the annual Corruption Perceptions Index, Iceland is one of the least corrupt countries in the world. There is, however, a need for certain reforms. In 2002 GRECO (Group of States against Corruption) published a report which confirmed Iceland's status. The GRECO evaluation team however made some comments on the need for improvements, such as:

- The national legislation should be changed in accordance to international conventions. Two conventions of the Council of Europe are especially mentioned.
- The Icelandic authorities take a narrow view towards corruption. A more pro-active and broader approach would be required to effectively prevent corruption in the country.
- Regulations on the financing of political parties are lacking; it was suggested that such legislation should be placed on the agenda for parliament.

This sums up some of the steps needed in order to campaign against political corruption. Furthermore, there is a need to research and investigate the connections between business, media and politics.

The good news is that members and leaders of most parties have now endorsed the idea that there is a need for legislation on political parties and their finances, whatever they may have said in the past. The struggle will be to make sure that this law, when it comes into existence, and its implementation and enforcement, are of the highest quality.

## **SOURCE MATERIAL**

The websites of the Icelandic Parliament, ([www.althingi.is](http://www.althingi.is)), the Government of Iceland ([www.government.is](http://www.government.is)), the Icelandic National Audit Office ([www.rikisend.is](http://www.rikisend.is)), the Internal Revenue Directorate ([www.rsk.is](http://www.rsk.is)).