Cryptocurrencies and Political Finance

International IDEA Discussion Paper 2/2019

Cryptocurrencies and Political Finance

International IDEA Discussion Paper 2/2019

Catalina Uribe Burcher

International IDEA
Strömsborg
SE–103 34 Stockholm
Sweden
Telephone: +46 8 698 37 00
Email: info@idea.int
Website: ‹http://www.idea.int›

Design and layout: International IDEA
DOI: ‹https://doi.org/10.31752/idea.2019.7›

Created with Booktype: ‹https://www.booktype.pro›

Contents

Acknowledgements

This discussion paper was developed by International IDEA in close cooperation with the United Nations Office on Drugs and Crime (UNODC). The paper benefited from valuable input and feedback from a number of colleagues at International IDEA and UNODC. Special thanks to William Sjöstedt who contributed an important part of the original research that informed this paper. Our appreciation also goes to Sahra Daar, Oleksiy Feshchenko, Yukihiko Hamada, Rumbidzai Kandawasvika-Nhundu, Keboitse Machangana, Coline Mechinaud and Sam Van der Staak. Importantly, the editorial guidance and input we received from Kelley Friel, Lisa Hagman and David Prater helped us improve the paper during the entire production process.

1. Introduction

Cryptocurrencies present several potential challenges and benefits to legislators and oversight agencies working on political finance around the world. There are now more than 1,000 such currencies in the market, which is dominated by bitcoin (Trading View 2018). Their use is increasing in all realms, including political activities such as campaign finance. The main policy concerns regarding their use are anonymity, volatility and a lack of oversight (Bloomberg 2018).

What are cryptocurrencies?

Cryptocurrencies are based on a series of cryptographic protocols that digitally verify financial transactions. The degree of anonymity can vary, however. The origin and destination of transactions (their addresses) are stored in a public ledger that is non-erasable: a full record of all transactions is maintained in perpetuity (CryptoCurrency Facts n.d.). The ledger is a database that contains every transaction and mining action; it is continuously updated and synchronized across a network (OECD 2018). Therefore all activities and transactions can be checked and confirmed at any time. The addresses are typically traceable, although some cryptocurrencies are designed to disguise them. The identity of the people involved in the transactions may not be traceable, depending on the type of cryptocurrency (CryptoCurrency Facts n.d.). Therefore it is critical to understand how each currency is designed in order to assess the threats and opportunities they may present with regard to anonymity, transparency and trackability.

Cryptocurrency transactions are secure and anonymous (see box above). Yet the anonymity of transactions could facilitate the use of such currencies to fund illicit activities. However, blockchain technology can be designed to provide some transparency (see box below). Some cryptocurrencies might have identification requirements that facilitate greater monitoring and auditing than transactions using traditional currencies; while others do not even disclose the transactions' addresses, leaving little evidence of who was involved or where it took place.

What is blockchain technology?

A blockchain is a public ledger of past valid transactions. Bitcoin and other cryptocurrencies validate financial transactions through a process called 'mining' in which distributed computers compete to solve a mathematical problem. The computer that solves the problem receives an award and uses the solution to verify transactions by adding blocks containing multiple transactions to the blockchain.

The protocols are designed to ensure that the computer solving the problem is unaware of whose transaction it is currently working on, and to prevent any predictions regarding the computer that will likely work on a specific transaction. It also ensures that only one person is in possession of a single currency unit at a given time (CryptoCurrency Facts n.d.). This makes it difficult to fake or tamper with transactions.

Thus, there are several questions regarding the risks and opportunities associated with cryptocurrencies' potential use in financing politics, as well as the transparency and oversight of such transactions. For example, since they are currently (relatively) unregulated, it is unclear in many countries whether political finance transactions using cryptocurrencies are allowed. Another question is whether they should be considered a currency like the dollar or euro, or if they should be treated as an asset, or something else altogether. This is an important distinction for political finance purposes, since regulations often differ for in-cash vs. in-kind donations. Furthermore, cryptocurrencies can facilitate the violation of political finance regulations, for example by channelling foreign or anonymous donations to countries where these are banned.

Perhaps more importantly, it is unclear whether cryptocurrencies merit special regulations, as they have yet to become truly mainstream; many remain sceptical about their future in the legal economy (The Economist 2018a). Even political finance experts and practitioners have little understanding of cryptocurrencies in general, and their implications for the financing of politics in particular (International IDEA 2018b). However, they are already used in a host of areas, and oversight agencies tasked with controlling the flow of resources in and out of politics should understand the current and potential future implications of these technologies.

This discussion paper clarifies some of the basic concepts related to cryptocurrencies and their current regulatory state, with their respective virtues and pitfalls. Focusing on the use of cryptocurrencies to finance politics, it also considers their interplay with foreign contributions, anonymous donations, and donation limits from corporations and single sources, as well as reporting, monitoring and oversight systems. It concludes with a series of recommendations directed at legislators and oversight agencies.

This research is based primarily on media sources, and to a lesser extent on academic and policy research; few academic studies have analysed the relatively new phenomenon of cryptocurrencies, and fewer still have done so in the context of political finance. The paper was also informed by an online survey of 46 individuals and institutions working primarily in political finance oversight in 28 countries.

The pros and cons of cryptocurrencies today

The decentralized nature of cryptocurrencies allows people to circumvent the banking system (Kadyrov and Prokhorov 2018), which creates problems for anti-money laundering (AML) efforts, as well as opportunities to reduce transaction costs. When cryptocurrencies are designed to prioritize privacy rather than transparency, oversight agencies face great difficulties in tracking transactions and financial flows. This raises concerns about their potential effects on the flow of money in and out of politics, as well as corruption, money laundering and funding of illicit activities (Gensler 2018). However, cryptocurrencies that prioritize transparency could create great opportunities to track political finance income and expenditure (Wired 2017) and could help automatize anti-corruption work (Aldaz-Carroll and Aldaz-Carroll 2018).

Cryptocurrencies' current levels of price volatility, driven by a series of 'bubbles' and speculation, erodes trust, a key ingredient of any type of financial asset. Yet traditional currencies also experience hyperinflation (Corbeta, Luceyb and Yarovayac 2018; The Economist 2018c; Mandeng and Nagy-Mohacsi 2018). Cryptocurrencies' current inability to purchase 'real' goods and services, as explained above, limits their direct applicability. Given their decentralized nature, the trading process is currently slow and energy demanding, which has caused some cities such as Plattsburgh in New York to ban crypto-mining (The Economist 2018b, 2018d; Villas-Boas 2018). Most worrisome from an oversight perspective, they fail to provide robust verification, security and auditing standards that state-sponsored systems require (Psaila 2018). However, some insurance companies are starting to back up exchangers, which may introduce a modicum of security (Reuters 2018a).

Most early adopters of cryptocurrencies were organized criminals; the shutdown of Silk Road, a digital market for drugs on the dark web, indicates that criminals still use them for business (Demertzis and Wolf 2018: 10; The Economist 2018c). The sheer number of cryptocurrencies has also attracted attention. They are usually financed through Initial Coin Offerings (ICOs), when a company releases a new cryptocurrency and offers it to potential investors (Investopedia 2018); ICOs have presented an opportunity for scammers to create new pyramid-like schemes (The Economist 2018e). The US Securities and Exchange Commission treats ICOs as investment contracts in order to mitigate the risks they entail for fraud and manipulation (US SEC 2018). These problems pose limitations on their potential use in areas such as political finance.

2. Using cryptocurrencies to finance politics

Some practitioners and scholars involved in political finance are confident that cryptocurrencies will soon be more widely used in political finance (International IDEA 2018b), which might pose further challenges to transparency and oversight. However, some countries like Mexico are discussing how issuing their own cryptocurrency and mandating that all political finance transactions use it may help trace and monitor transactions (García 2017). Similarly, Brazil used blockchain technology in recent elections to register donations in real time as part of the 'Voto Legal' project (Voto Legal 2018). The core concern is how candidates and parties use cryptocurrencies to finance campaigns and other political activities.

With or without regulations, candidates and parties are beginning to embrace cryptocurrencies to raise campaign funds. Iceland's Pirate Party, for example, welcomes cryptocurrencies, and famously succeeded in the most recent national election (Dueweke 2018: 2). In Sweden, Mathias Sundin ran for (and eventually won) a seat in Parliament in 2014 accepting only bitcoin donations (del Castillo 2017; Eleftheriou-Smith 2014).

The US case is perhaps the most visible. The country's political finance oversight agency, the Federal Election Commission (FEC), released guidelines on cryptocurrency campaign donations in 2014, according to which federal campaigns can buy and accept bitcoins, albeit under certain restrictions (Orcutt 2017). While the Identity and Payments Association explained during a Senate hearing, 'every state except for Kansas allows Bitcoin contributions' (Dueweke 2018: 2), the situation at the state level seems to be more complicated than that. For instance, Wisconsin, North Carolina and South Carolina have been reviewing whether crypto-donations are legal under their state law. The first two reviews are still ongoing, while in the latter officials concluded that such donations are not permissible under South Carolina law (Bonn 2018; Bryanov 2018). In Oregon, campaign finance regulations prevent campaigns from accepting cryptocurrencies over concerns about their anonymity, although discussions are ongoing (Voorhees 2018; AP 2018). Likewise, legislators in Colorado are considering allowing crypto-donations up to the same limits as cash donations (Frank 2018). Other states remain more sceptical. California's Fair Political Practices Commission has taken a cautious approach by recommending that campaigns abstain from accepting cryptocurrencies due to the difficulties associated with tracing their origins (Dueweke 2018: 3).

Cryptocurrencies began creeping into the US electoral finance system in 2014 when New Hampshire gubernatorial candidate Andrew Hemingway accepted bitcoins to finance his (unsuccessful) campaign, closely followed later the same year by Jared Polis, who also accepted bitcoins during his re-election campaign to the House of Representatives (Nolan 2018). A number of candidates in the country were quick to catch onto the trend. Dan Elder, for example, funded his 2016 campaign for the Missouri House of Representatives entirely in bitcoin (Bryanov 2018). During the 2018 mid-term US elections, US House candidate for California's 45th congressional district Brian Forde made headlines for accepting bitcoin donations (Wilhelm 2018a); he had reportedly raised about 16 per cent of his campaign contributions through bitcoin donations by the end of March 2018 (Dueweke 2018: 3). Likewise, Austin Petersen, who was running in the Republican primary in the state of Missouri, also made waves when he had to return USD 130,000 in bitcoins because the amount surpassed campaign limits (CCN 2018c). The most notorious case is that of presidential candidate Rand Paul, which during his 2016 campaign became the first presidential candidate to accept cryptocurrency donations (Keneally 2018).

The state of cryptocurrency regulation

Existing laws regulating the financial system, including securities and commodities markets, do not seem to apply to the emerging cryptocurrency industry, and law enforcement is struggling to catch up (Henning 2018; OECD 2018; Konash 2018; Treasury Committee 2018). Regulation of cryptocurrencies is mixed, and sometimes contradictory (Nelson 2018; Demertzis and Wolf 2018: 6).

Most of the current discussions on how best to regulate cryptocurrencies are taking place at the national level. While many states have yet to regulate cryptocurrencies, either completely or partially, others have started introducing legislation, mostly seeking to ban them altogether. Most regulators have focused on whether cryptocurrencies in general, or bitcoin in particular, can be considered legal tender (i.e. an official and legal medium of payment) or legal exchange (such as an asset) (Rooney 2018; Thomson Reuters 2017).

Japan was the first country to adopt a national system to regulate cryptocurrency trading. Bermuda, Gibraltar, Liechtenstein and Malta have developed legislation to attract the industry, including by permitting the issuance of ICOs with little or no oversight (Popper 2018). China, by contrast, has banned cryptocurrencies' exchange, as well as ICOs (Cheng 2018). Similarly, Bolivia and Ecuador have banned any potential use of bitcoins (Thomson Reuters 2017). The European Union, through the European Central Bank, has also adopted a sceptical and careful stance on cryptocurrencies, and has forbidden its member states to introduce their own currencies (Mersch 2018; Rooney 2018).

The state of cryptocurrency regulation (cont.)

Most importantly, the borderless nature of cryptocurrencies requires that regulations attempting to control their transactions not only focus on the national level, but are developed internationally and driven by the regions in which the cryptocurrencies market is most developed, chiefly Asia, Europe and North America (CCN 2018a; He et al. 2017: 18; World Bank 2018: 45–47). This is not only important for preventing or mitigating the potential use of cryptocurrencies for illicit activities; the crypto-industry also needs regulation in order to grow, stabilize and gain legitimacy (Dow 2018; OECD 2018; Wilhelm 2018c). Perhaps the most outstanding international regulatory gap relates to AML legislation targeting the overall cryptocurrencies market (Konash 2018). The only existing AML regulation regarding cryptocurrencies is the one issued by the Financial Action Task Force (FATF 2015: 6), which adopted changes to its recommendations to 'clarify how the recommendations apply in the case of financial activities involving virtual assets', making it clear that 'jurisdictions should ensure that virtual asset service providers are subject to AML/CFT regulations [Anti-Money Laundering and Countering Financing of Terrorism]' (FATF 2018). Indeed, the G20 has committed to regulating 'crypto assets for anti-money laundering and countering the financing of terrorism in line with FATF standards' (Mizrahi 2018). Some steps have been taken at the regional level, most notably a new EU directive that extends 'anti-money laundering and counter terrorism financing rules to virtual currencies' (European Commission 2018).

Regulators around the world have an opportunity to mould these currencies to better serve the interests of the electorate and maximize the potential benefits of fighting corruption and illicit political finance. Well-designed regulations could incentivize an ethical approach to money in politics through enhanced transparency and accountability (Lapointe and Fishbane 2018: 23).

Private donations: monetary or in-kind?

Private donations are treated differently depending on their type. Yet classifying cryptocurrency transactions as in-cash or in-kind contributions can be problematic. In-kind donations are typically restricted due to the difficulties associated with tracing and appraising them (Uribe Burcher and Casal Bertoa forthcoming). Yet tracing cryptocurrencies is not necessarily difficult; in fact, it may be easier as the public ledger records of all transactions. Appraising them may not be particularly difficult either, given that numerous exchanges provide up-to-date information on the value of most cryptocurrencies in real time. But this requires clearly establishing the date when the value of the crypto-donation is to be set (e.g. when the donation was received) and what exchanges are recognized to establish the value of the donation on that date.

Cryptocurrency exchanges and custodial wallet providers

A vital aspect of the current discussion on regulating cryptocurrencies centres on how to deal with exchanges and custodial wallet providers. These are companies and service providers that have emerged to facilitate storing and exchanging cryptocurrencies to fiat currency or to other cryptocurrencies. Their regulation is still a matter of debate. The emerging consensus is that, as part of the financial system, they are subject to AML regulations and must comply with the same standards as any other financial service, like 'know your customer' (Demertzis and Wolf 2018: 9; Eich forthcoming: 25). South Korea has taken an alternative approach by requiring wallets to be tied to traditional bank accounts (Kim 2018).

Classifying crypto-donations as in-kind contributions may cause some confusion among political parties and candidates, and among the oversight agencies. In-kind donations are usually associated with assets or services (Falguera, Jones and Ohman 2014: 392). However, people most likely associate cryptocurrencies with money (given their name); where they are not classified as such, the authorities would need to clarify with political parties and candidates to facilitate their correct reporting, and with oversight agencies to facilitate their audits.

Foreign contributions

Almost 68 per cent of countries ban foreign contributions, or foreign donations to political parties, and almost 56 per cent prohibit foreign donations to candidates, as Figure 1 illustrates.

Figure 1: Ban on donations from foreign interests to political parties and candidates

Source: International IDEA, Political Finance Database (Stockholm: International IDEA, 2018), <https://www.idea.int/data-tools/question-view/528>, accessed 14 September 2018

Most countries view foreign donations negatively and therefore choose to outlaw them in order to prevent external influence and protect the principle of self-determination (Uribe Burcher and Casal Bertoa forthcoming). This also means that there is great interest in finding ways to dodge these restrictions (Uribe Burcher and Perdomo 2017). Can cryptocurrencies facilitate undisclosed foreign donations or in-kind contributions?

The usage and footprint of cryptocurrencies

The main value of a currency is the capacity it gives people to buy things. However, the purchasing capacity of some of the most widely used cryptocurrencies, including bitcoin, is still limited. Coinbase, one of the main cryptocurrency exchange companies, noted that while their usage is steadily growing, 'widespread, mass bitcoin adoption for payments is going to be a long time coming' (Bambrough 2018). That explains why the crypto-market is still comparatively small; as the think-tank Bruegel reported, 'on a daily basis, there are around 284,000 bitcoin transactions globally, compared with 330 million retail payments in the euro area' (Demertzis and Wolf 2018: 4). By comparison, Monero—a cryptocurrency that permits the highest level of anonymity and therefore poses the greatest risk of money laundering—recorded an average of only 2,600 daily transactions worldwide as of early 2017 (Statista n.d.).

Yet the usage of cryptocurrencies is growing around the world. Japan currently has the biggest bitcoin market, closely followed by the USA (Jones 2017). Other countries, like Georgia, have welcomed crypto-miners and other industry developers (Timmer 2018). Belarus, Sweden and Uzbekistan are also cryptocurrency hotpots, partly given their welcoming attitude to miners who can exploit the countries' energy abundance and cold weather (Local Client Studio n.d.; Yakubowski 2018; CCN 2018d). Swiss authorities have said they want the country to be a 'crypto-nation' (Blackstone 2018), and Colombia has stated its objective to become a leader in the use of cryptocurrencies and blockchain technology (Betfair 2018).

Usage of cryptocurrencies varies by country as well as by generation. Coinbase recently conducted a survey in the USA, which showed that students were twice as likely as the general population to acquire cryptocurrencies. Young people's appetite for cryptocurrencies may be partly explained by the fact that many of the world's top universities now offer courses on blockchain technology or cryptocurrencies (Coinbase 2018). While university students may not be representative of all young Americans, the survey results suggest that cryptocurrencies' adoption may continue to grow.

Cryptocurrencies indeed appear to have facilitated foreign influence over the 2016 US elections (Shi 2018; Popper and Rosenberg 2018), in part due to gaps in the financial transparency and political finance systems (Krumholz 2018; Murray 2018: 1). According to a grand jury indictment, some Russian funds for this purpose were apparently transferred using cryptocurrency exchange accounts (Murray 2018: 2–3). Testimony before the US Senate Judiciary Committee cautioned that cryptocurrencies may open the floodgates for foreign and illicit sources:

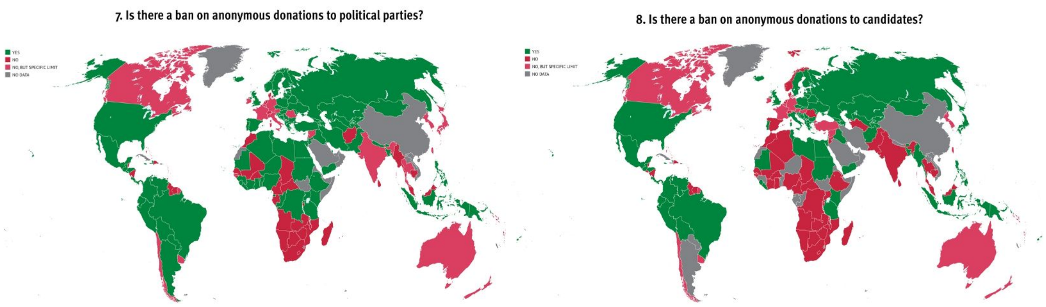
> Political committees may not knowingly accept contributions from foreign nationals … they are required only to take 'minimally intrusive' steps to verify a contributor's true nationality. As long as a contributor provides a donor attestation and uses a U.S. address, the contribution would appear legitimate and not prompt any additional due diligence requirements on the part of the recipient. Foreign-source donations are particularly difficult to detect when a nonintermediated payment method such as a virtual currency is used (Murray 2018: 6).

Moreover, the floodgates are widened when a cryptocurrency permits high levels of anonymity. Most worrisome is that the current US guidelines do not clearly target cryptocurrency donations from super Political Action Committees (super PACs) (Dueweke 2018: 2). These entities 'may raise unlimited sums of money from corporations, unions, associations and individuals, then spend unlimited sums to overtly advocate for or against political candidates', and must report their donors to the Federal Election Commission (FEC) (OpenSecrets 2018). Without knowing who is donating, or where the donation is coming from, cryptocurrencies that allow increased anonymity may allow an unlimited flow of illicit or undue donations to enter the political finance system. While cryptocurrencies may not necessarily be the source of this problem, they can exacerbate it.

Anonymous donations and donation limits

Anonymous donations are almost as unpopular as foreign donations. More than 56 per cent of countries have banned them, and more than 10 per cent limit them with respect to political parties, while almost 44 per cent ban them and 9 per cent limit them with respect to candidates, as Figure 2 illustrates.

Figure 2: Ban on donations from anonymous donations to political parties and candidates



Source: International IDEA, Political Finance Database (Stockholm: International IDEA, 2018), <https://www.idea.int/data-tools/question-view/539>, accessed 14 September 2018

These measures are designed to ensure transparency of party funding and improve compliance monitoring of political finance regulations as a whole; small anonymous donations are sometimes allowed to protect the privacy of small donors (Falguera, Jones and Ohman 2014). Anonymous donations are also usually forbidden because they may allow organized crime to inject resources into political campaigns, parties and elections (Briscoe, Perdomo and Uribe Burcher 2014; Villaveces-Izquierdo and Uribe Burcher 2013; Briscoe and Goff 2016a; Briscoe and Goff 2016b).

Cryptocurrencies' shape and form

Cryptocurrencies can be designed by private or public entities, including a central bank (Chen 2017). Estonia has considered introducing 'estcoins' to use as a token 'within the government-backed "e-residency" ID program' (Browne 2018). Similar experiments are taking place in Sweden and Uruguay, and in cities like Dubai (Galeon 2017; Skingsley 2016).

Most visible is perhaps the case of Venezuela's 'petro' (The Economist 2018f; Reuters 2018b; Wilhelm 2018b), as well as an apparent effort in Russia to create a state-issued cryptocurrency (Dueweke 2018: 4). Some scholars have warned that the current advantages of creating state-sponsored cryptocurrencies are minimal, given the weaknesses of the crypto-market (Fatás and di Mauro 2018).

The first and most popular cryptocurrency to date is bitcoin. 'Altcoins' refer to all other cryptocurrencies, including Ethereum, Zcash and Monero. They differ mostly in levels of privacy and anonymity. Depending on their blockchain design (i.e. the digital platform under which cryptocurrencies operate), some of them—like Zcash and Monero—allow for unprecedented privacy and anonymity (Kadyrov and Prokhorov 2018; Smith 2018). Others offer more transparency, while still others (including bitcoin) feature a mixed approach that protects certain information while disclosing other details. The most common assumption regarding bitcoins is that they prioritize anonymity; however, 'if a pile of it can be tied to a user's real identity, the blockchain will reveal every transaction in which he received those coins' (The Economist 2018f). Even those with the highest levels of anonymity are susceptible to tracing the users' identity (Kappos et al. 2018).

By contrast, 'stablecoins' prioritize stability rather than anonymity, largely by linking the value of their currencies to a fiat currency like the US dollar. Finally, some altcoins differ from bitcoin in that they are more than just 'coins'. Ethereum, for instance, allows its blockchain to provide the platform and process for cash, smart contracts and other blockchain-based products (The Economist 2018f).

Against this backdrop, the presence of cryptocurrencies may be a reason for concern, as they were created to be anonymous (Peterson 2018; Ross and Beyoud 2018). In countries that forbid anonymous donations, crypto-donations that do not provide information about the identity of the person originating the transaction are, by default, illegal. The same principle would apply to donation limits from corporations and single sources. If a donor is anonymous, it is impossible to tell whether it is a corporation or a human, and whether one entity is the source of multiple transactions to the same party or candidate that surpass the individual limit.

By contrast, and as mentioned above, cryptocurrencies that prioritize transparency could create great opportunities to track political finance income and expenditure. With that in mind, regulators in the future can exploit blockchain's transparency features to require financial transactions involving political parties, candidates and public officials to be registered in an open or closed ledger, to be monitored by the state's oversight agency or to be made public.

Reporting, monitoring and oversight

Reporting, monitoring and oversight are arguably the most important components of any political finance system. Limits, bans and public funding are aspirational at best if data are not reported, if compliance is not monitored, and if violations do not trigger investigations or punishment. But despite their importance, many countries lack adequate mechanisms to enforce their political finance regulations, or robust oversight agencies with clear mandates and sufficient resources and political independence (Uribe Burcher and Perdomo 2017: 138–39). Nor does every country require regular political party finance reporting; those reports are supposed to be made public in only 60 per cent of countries that require them, and only 52 per cent require the reports to reveal the identity of donors (International IDEA 2018a).

Depending on their level of anonymity or transparency, cryptocurrencies may further hamper or facilitate reporting, monitoring and oversight (Ross and Beyoud 2018). When cryptocurrencies allow for increased anonymity, they complicate the work of oversight actors that need to track the flow of resources in and out of politics. For example, such concerns were raised when Mauricio Toro, then a candidate for Colombia's House of Representatives, accepted bitcoin and ether contributions, although 'his cryptocurrency wallet addresses are not available publicly' (Dueweke 2018: 3).

Yet cryptocurrencies that favour transparency over anonymity may support the role of oversight agencies. In this respect, the potential use of a public ledger may help them track the sources of funds. For this reason, some organizations in Mexico advocate channelling all political finance transactions through cryptocurrencies, or otherwise promoting identification through a public ledger (García 2017). Another way of tracking the identity of donors involved in cryptocurrency transactions is to require their online wallet to be tied to a traditional bank account. In addition, the role of virtual currency exchangers is decisive in effectively enforcing political finance reporting requirements since, as financial intermediaries, they provide a location data point for campaigns to identify foreign donors. Witnesses in a hearing before the US Senate Judiciary Committee on the matter noted that in the USA these exchanges are considered 'money services businesses subject to the Bank Secrecy Act … even foreign-located virtual currency exchangers when they serve U.S. customers' (Murray 2018: 5–6). As such, they are subject to AML requirements.

Finally, it is important to underline that the role of oversight agencies usually goes beyond simple monitoring and includes guidance to parties and candidates on how to comply with the law. It is therefore paramount for oversight agencies to play an active role in guiding political parties and candidates on how to report on the crypto-donations they receive. The US FEC has taken active steps in this direction, as explained above regarding Advisory Opinion 2014-02 (FEC 2014). The FEC reporting guidelines clearly state that 'holding bitcoins in a bitcoin wallet does not relieve the committee of its obligations to return or refund a bitcoin contribution that is from a prohibited source, exceeds the contributor's contribution limit, or is otherwise not legal' (FEC n.d.). Most importantly, the fact that the committee received bitcoins, the FEC explained, does not exempt it from disclosing the receipt of the contribution, including 'the contributor's mailing address, employer and occupation' (FEC n.d.).

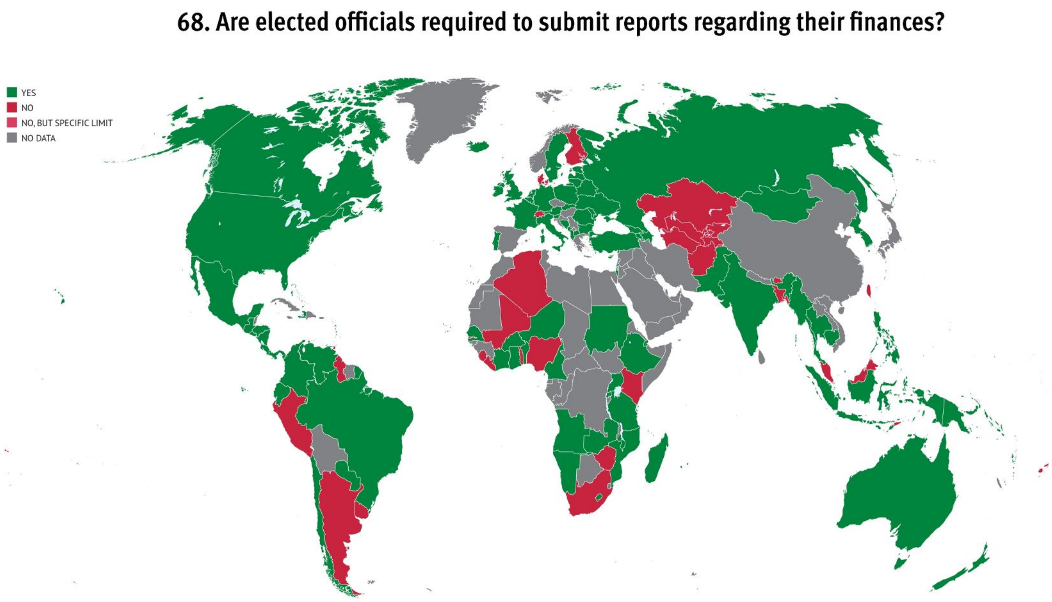
Asset declarations for elected and public officials

Understanding the influence that cryptocurrencies have, and may potentially have, in the financing of politics must go beyond looking at the resources that donors pour into political parties and election campaigns. It also involves understanding how much money elected officials and civil servants receive once in office through these methods. Asset declarations, where available, provide a valuable source of information with regards to the extent to which digital currencies are becoming an important trading commodity for politicians and public officials.

In Ukraine, for example, a study on public officials' asset declarations 'reveals that 57 officials have declared over 21,000 bitcoins with the majority of cryptocurrency holders in the Odessa regional council and the country's Parliament. A second study shows that in 2017 the largest amount of cryptocurrency declared by a Ukrainian official was in bitcoin cash' (Crypto News Monitor 2018). The fact that Ukrainian officials are required to declare assets through an official electronic platform provides much-needed transparency, especially considering that cryptocurrencies are not yet regulated in the country.

Requiring elected officials to submit asset declarations is an important first step, which only 53 per cent of countries have taken (see Figure 3). But oversight agencies must also be equipped to verify that public officials are accurately declaring (particularly anonymous) cryptocurrency donations, and to investigate and limit money laundering.

Figure 3: Asset declarations from elected officials



Source: International IDEA, Political Finance Database (Stockholm: International IDEA, 2018), <https://www.idea.int/data-tools/question-view/284667>, accessed 11 December 2018

Additional political finance considerations: stability and a level playing field

While the value of cryptocurrencies has increased over time, and some analysts have noted their potential to increase transparency and accountability (Roberts 2018; Huberman, Leshno and Moallemi 2017), they also face high levels of volatility (CCN 2018b) that may create risks for political campaign transactions, as parties and candidates face additional financial instability. In addition, there are still challenges associated with transforming cryptocurrencies into traditional (fiat) currencies—especially when these involve large sums of money, which may create problems for candidates and parties that are unable to use donations to pay for campaign activities where cryptocurrencies are not yet accepted.

It is also important to remember that a lack of access to campaign finance is one of the main obstacles preventing more women from running for and obtaining political office, given that they are typically excluded from existing fundraising networks (International IDEA and NIMD 2017). Minority and indigenous groups experience similar barriers (IPU and UNDP 2010: 16–7). Thus, regulating the use of cryptocurrencies in political finance should take into account the fact that they remain relatively user unfriendly: 'All participants have to download specialist software, and getting traditional money into and out of bitcoin's ecosystem is fiddly' (The Economist 2018c). Marginalized groups may have problems accessing the technology required for these transactions, which may exacerbate the already unbalanced playing field. Efforts to diversify the crypto and blockchain industries should therefore consider female politicians and their capacity to leverage the advantages the industry can provide (Bowles 2018).

Conclusions and recommendations

The impact of cryptocurrencies in the field of political finance is still a matter of debate, and most oversight agencies are yet to develop clear guidelines on their use. Yet they are already being used to finance politics, even though it is still largely unclear what they are, how they are (or should be) regulated, and how parties and candidates need to report on them.

Understanding the implications of cryptocurrencies in the field of political finance requires taking stock of their most salient features, and what these mean for the way resources flow in and out of politics:

- Cryptocurrencies' volatility and limited purchasing value mean that parties and candidates should be mindful when using them, avoid speculators, and remain focused on political competition rather than the ups and downs of the crypto-market.
- Cryptocurrencies' increasing usage means that policymakers should consider how to best regulate them and guide all parties involved on how to follow the new regulations.
- Cryptocurrencies' capacity to bypass the banking system means the intermediaries that provide gateways to the regulated financial system (cryptocurrency exchangers in particular) should be subject to AML/CFT regulation. Regulators should then consider if (and how) to require transactions to go through intermediaries.
- Cryptocurrencies' immutability means that transaction records cannot be tampered with, which offers an important layer of security that cash transactions, for example, lack. These records can help oversight agencies follow the trail of resources and donors behind political campaigns.
- Cryptocurrencies' anonymity, when they are designed to prioritize privacy rather than transparecy, may hamper the work of oversight agencies and allow illicit donations to enter the system—whether it is foreign, anonymous or other types of donations banned in a given country—as well as undeclared

assets of public and elected officials. These cryptocurrencies should therefore be limited, if not outright forbidden, for parties and candidates to use.

- Cryptocurrencies' increased transparency, when they are designed with an open ledger and allow the identity of people involved in the transactions to be tracked, could facilitate the work of oversight agencies.
- Cryptocurrencies' could present an additional obstacle for marginalized groups to access funds on an equal basis, which merits mechanisms to ensure that these groups can benefit from this technology.
- Cryptocurrencies' poor (and sometimes contradictory) regulations mean that candidates and parties need adequate guidelines on how to apply existing political finance requirements to cryptocurrency transactions, including the basic premise of whether they should be considered assets or money.

Most importantly, potential regulations should ideally be debated at both the national and international levels, involving all parties (e.g. political parties, oversight agencies and the tech industry), as well as women and other marginalized groups. These discussions should aim to ensure that these technologies open, rather than limit, the avenues for political fundraising and enhance transparency in the discussion of money in politics.

References

Aldaz-Carroll, E. and Aldaz-Carroll, E., 'Can cryptocurrencies and blockchain help fight corruption?', *The Brookings Institution*, 1 February 2018, <https://www.brookings.edu/blog/future-development/2018/02/01/can-cryptocurrencies-and-blockchain-help-fight-corruption/>, accessed 29 August 2018

The Associated Press (AP), 'Ethics Commission asks Legislature to decide bitcoins', 4 May 2018, <https://www.apnews.com/f6b7b095f3bb40b2a15751eed9eb4836/ Ethics-Commission-asks-Legislature-to-decide-bitcoins>, accessed 7 September 2018

Bambrough, B., 'Blow to bitcoin as Coinbase CEO Makes Stark warning', *Forbes*, 15 August 2018, <https://www.forbes.com/sites/billybambrough/2018/08/15/blow-to-bitcoin-as-coinbase-ceo-makes-stark-warning/#28a5f8c92d55>, accessed 4 September 2018

Betfair, 'Cryptocurrency latest: Colombia embraces while China cracks down', 3 September 2018, <https://betting.betfair.com/financial-betting/market-briefing/cryptocurrency-latest-colombia-is-embracing-while-china-is-cracking-down-030918-699.html>, accessed 4 September 2018

Blackstone, B., 'Switzerland wants to be the world capital of cryptocurrency', *The Wall Street Journal*, 28 April 2018, <https://www.wsj.com/articles/switzerland-wants-to-be-the-world-capital-of-cryptocurrency-1524942058>, accessed 13 September 2018

Bloomberg, 'Coinbase CEO Armstrong on the future of crypto' [video], 15 August 2018, <https://www.bloomberg.com/news/videos/2018-08-15/coinbase-ceo-armstrong-on-the-future-of-crypto-video>, accessed 4 September 2018

Bonn, T., 'Politicians are getting in on the cryptocurrency craze to fund campaigns', CNBC, 2 March 2018, <https://www.cnbc.com/2018/03/01/cryptocurrency-candidates-politicians-embrace-bitcoin.html>, accessed 29 August 2018

Bowles, N., 'Women in cryptocurrencies push back against "blockchain bros"', *The New York Times*, 25 February 2018, <https://www.nytimes.com/2018/02/25/business/cryptocurrency-women-blockchain-bros.html>, accessed 6 September 2018

Briscoe, I., Perdomo, C. and Uribe Burcher, C., *Illicit Networks and Politics in Latin America* (Stockholm and The Hague: International IDEA, NIMD and the Clingendael Institute, 2014), <https://www.idea.int/publications/catalogue/illicit-networks-and-politics-latin-america>, accessed 6 September 2018

Briscoe, I., and Goff, D., *Protecting Politics: Deterring the Influence of Organized Crime on Elections* (Stockholm and The Hague: International IDEA and the Clingendael Institute, 2016a), <https://www.idea.int/publications/catalogue/protecting-politics-deterring-influence-organized-crime-elections>, accessed 6 September 2018

—, *Protecting Politics: Deterring the Influence of Organized Crime on Political Parties* (Stockholm and The Hague: International IDEA and the Clingendael Institute, 2016b), <https://www.idea.int/publications/catalogue/protecting-politics-deterring-influence-organized-crime-political-parties>, accessed 6 September 2018

Browne, R., 'Estonia says it won't issue a national cryptocurrency and never planned to', CNBC, 4 June 2018, <https://www.cnbc.com/2018/06/04/estonia-wont-issue-national-cryptocurrency-estcoin-never-planned-to.html>, accessed 13 September 2018

Bryanov, K., 'Bitcoin for America: cryptocurrencies in campaign finance', *Coin Telegraph*, 31 May 2018, <https://cointelegraph.com/news/bitcoin-for-america-cryptocurrencies-in-campaign-finance>, accessed 11 September 2018

CCN, '"We need an international discussion on cryptocurrencies": OECD's Medcraft', 21 March 2018b, <https://www.ccn.com/we-need-an-international-discussion-on-cryptocurrencies-oecds-medcraft/>, accessed 31 August 2018

—, 'Federal Reserve governor: we're monitoring "extreme volatility" of cryptocurrencies', 4 April 2018a, <https://www.ccn.com/federal-reserve-is-monitoring-extreme-volatility-of-bitcoin-prices/>, accessed 29 August 2018

—, 'Crypto-loving US Senate candidate forced to return $130,000 bitcoin donation', 18 June 2018c, <https://www.ccn.com/crypto-loving-us-senate-candidate-forced-to-return-130000-bitcoin-donation/>, accessed 7 September 2018

—, 'Uzbekistan opens door to cryptocurrency exchanges, offers tax benefits', 8 September 2018d, <https://www.ccn.com/uzbekistan-opens-doors-for-cryptocurrency-exchanges-with-tax-benefits/>, accessed 10 December 2018

Chen, Q., 'Next stop in the cryptocurrency craze: a government-backed coin', CNBC, 30 November 2017, <https://www.cnbc.com/2017/11/30/cryptocurrency-craze-springboards-government-backed-coin.html>, accessed 29 August 2018

Cheng, E., 'China clamps down on cryptocurrency speculation, but not blockchain development', CNBC, 3 September 2018, <https://www.cnbc.com/2018/09/03/china-clamps-down-on-cryptocurrency-speculation.html>, accessed 3 September 2018

Coinbase, 'The rise of crypto in higher education', 28 August 2018, <https://blog.coinbase.com/the-rise-of-crypto-in-higher-education-81b648c2466f>, accessed 4 September 2018

Corbeta, S., Luceyb, B. and Yarovayac, L., 'Datestamping the Bitcoin and Ethereum bubbles', *Finance Research Letters*, 26 (September 2018), pp. 81–88, <https://doi.org/10.1016/j.frl.2017.12.006>, accessed 25 February 2019

CryptoCurrency Facts, 'How does cryptocurrency work?', n.d., <https://cryptocurrencyfacts.com/how-does-cryptocurrency-work-2/>, accessed 30 August 2018

Crypto News Monitor, '57 Ukrainian Officials Declared Over 21,000 Bitcoins', 25 January 2018, <https://cryptonewsmonitor.com/2018/01/25/57-ukrainian-officials-declared-over-21000-bitcoins/> accessed 11 December 2018

Del Castillo, M., 'Why a Swedish MP is joining Bitcoin Exchange BTCX', *Coindesk*, 5 June 2017, <https://www.coindesk.com/why-a-swedish-mp-is-joining-bitcoin-exchange-btcx/>, accessed 12 September 2018

Demertzis, M. and Wolf, G. B., *The Economic Potential and Risks of Crypto Assets: Is a Regulatory Framework Needed?* (Brussels: Bruegel, 2018), < http://bruegel.org/wp-content/uploads/2018/09/PC-14_2018.pdf>, accessed 12 September 2018

Dow, S., 'What's the future of cryptocurrencies?', World Economic Forum, 15 August 2018, <https://www.weforum.org/agenda/2018/08/cryptocurrencies-are-useful-but-will-not-save-us>, accessed 7 September 2018

Dueweke, S., 'Witness testimony', *Protecting Our Elections: Examining Shell Companies and Virtual Currencies as Avenues for Foreign Interference*, US Senate Judiciary Committee Hearing (Washington, DC: Identity And Secure Transactions DarkTower, 2018), <https://www.judiciary.senate.gov/imo/media/doc/06-26-18%20Dueweke%20Testimony.pdf>, accessed 11 September 2018

The Economist, 'Bitcoin and other cryptocurrencies are useless', 30 August 2018a, <https://www.economist.com/leaders/2018/08/30/bitcoin-and-other-cryptocurrencies-are-useless>, accessed 5 September 2018

—, 'What to make of cryptocurrencies and blockchains', 30 August 2018b, <https://www.economist.com/technology-quarterly/2018/08/30/what-to-make-of-cryptocurrencies-and-blockchains>, accessed 6 September 2018

—, 'How to put bitcoin into perspective', 1 September 2018c, <https://www.economist.com/technology-quarterly/2018/09/01/how-to-put-bitcoin-into-perspective>, accessed 6 September 2018

—, 'Mining cryptocurrencies is using up eye-watering amounts of power', 1 September 2018d, <https://www.economist.com/technology-quarterly/2018/09/01/mining-cryptocurrencies-is-using-up-eye-watering-amounts-of-power>, accessed 6 September 2018

—, 'Initial coin offerings have become big business', 1 September 2018e, <https://www.economist.com/technology-quarterly/2018/09/01/initial-coin-offerings-have-become-big-business>, accessed 6 September 2018

—, 'From one cryptocurrency to thousands', 1 September 2018f, <https://www.economist.com/technology-quarterly/2018/09/01/from-one-cryptocurrency-to-thousands>, accessed 6 September 2018

Eich, S., 'Old utopias, new tax havens: the politics of bitcoin in historical perspective', in Philipp H. et al (eds.), *Regulating Blockchain: Political and Legal Challenges* (Oxford: Oxford University Press, forthcoming), <http://www.academia.edu/37248021/Old_Utopias_New_Tax_Havens_The_Politics_of_Bitcoin_in_Historical_Perspective_in_Regulating_Blockchain_OUP_2019_>, accessed 12 September 2018

Eleftheriou-Smith, L., 'Sweden's Mathias Sundin: "The world's first political Bitcoin only candidate"', *Independent*, 12 July 2014, <https://www.independent.co.uk/news/world/europe/swedens-mathias-sundin-the-world-s-first-political-bitcoin-only-candidate-9602190.html>, accessed 12 September 2018

European Commission, 'Strengthened EU rules to prevent money laundering and terrorism financing', 9 July 2018, <http://ec.europa.eu/newsroom/just/document.cfm?action=display&doc_id=48935>, accessed 4 September 2018

Falguera, E., Jones, S. and Ohman, M., *Funding of Political Parties and Election Campaigns: A Handbook on Political Finance* (Stockholm: International IDEA, 2014), <https://www.idea.int/sites/default/files/publications/funding-of-political-parties-and-election-campaigns.pdf>, accessed 14 September 2018

Fatás, A. and di Mauro, B. W., 'Here's why central banks shouldn't play cryptocurrencies at their own game', World Economic Forum, 17 May 2018, <https://www.weforum.org/agenda/2018/05/this-is-why-central-banks-shouldnt-play-cryptocurrencies-at-their-own-game>, accessed 6 September 2018

Financial Action Task Force (FATF), *Guidance for a Risk-Based Approach: Virtual Currencies* (Paris: FATF, 2015), <http://www.fatf-gafi.org/media/fatf/documents/reports/Guidance-RBA-Virtual-Currencies.pdf>, accessed 13 September 2018

—, 'Regulation of virtual assets', 19 October 2018, <http://www.fatf-gafi.org/publications/fatfrecommendations/documents/regulation-virtual-assets.html> accessed 10 December 2018

Frank, J., 'Colorado wants to allow political donations in bitcoin and other cryptocurrency', *The Denver Post*, 17 May 2018, <https://www.denverpost.com/2018/05/17/colorado-cryptocurrency-bitcoin-political-contributions/>, accessed 11 September 2018

Galeon, D., 'This city now has its very own cryptocurrency', World Economic Forum, 4 October 2017<https://www.weforum.org/agenda/2017/10/dubai-has-its-very-own-official-cryptocurrency>, accessed 7 September 2018

García, C., 'Plantean "bitcoin" para elecciones' [Proposal for 'bitcoin' for elections], El Universal, 5 December 2017, <http://www.eluniversal.com.mx/elecciones-2018/plantean-bitcoin-para-elecciones>, accessed 12 September 2018

Gensler, G., 'Keynote address' [video], Workshop on Digital Financial Assets: Opportunities and Challenges, OECD, 15 May 2018, Paris, <https://youtu.be/LBad6zU1ok4>, accessed 7 September 2018

He, D. et al., *Fintech and Financial Services: Initial Considerations* (Washington, DC: IMF, 2017), <https://www.imf.org/en/Publications/Staff-Discussion-Notes/Issues/2017/06/16/Fintech-and-Financial-Services-Initial-Considerations-44985>, accessed 7 September 2018

Henning, P. J., 'Policing cryptocurrencies has become a game of whack-a-mole for regulators', *The New York Times*, 31 May 2018, <https://www.nytimes.com/2018/05/31/business/dealbook/bitcoin-cryptocurrencies-regulation.html>, accessed 6 September 2018

Huberman, G., Leshno, J. D. and Moallemi, C., *Monopoly Without a Monopolist: An Economic Analysis of the Bitcoin Payment System* (Helsinki: Bank of Finland, 2017), <https://helda.helsinki.fi/bof/bitstream/handle/123456789/14912/BoF_DP_1727.pdf;jsessionid=2F1E2EDBF1180739B5 C13906CA99260E?sequence=1, accessed 7 September 2018

International IDEA, Political Finance Database (Stockholm: International IDEA, 2018a), <https://www.idea.int/data-tools/data/political-finance-database>, accessed 11 December 2018

—, Survey on the Use of Cryptocurrencies to Finance Politics, conducted online in Arabic, English, French and Spanish among 46 academics and political finance experts, November to December 2018 (Stockholm: International IDEA, 2018b), unpublished

International IDEA and the Netherlands Institute for Multiparty Democracy (NIMD), *Women's Access to Political Finance: Insights from Colombia, Kenya and Tunisia* (Stockholm and The Hague: International IDEA and NIMD, 2017), <https://www.idea.int/publications/catalogue/womens-access-political-finance-insights-colombia-kenya-and-tunisia>, accessed 21 August 2018

Inter-Parliamentary Union (IPU) and United Nations Development Programme (UNDP), The Representation of Minorities and Indigenous Peoples in Parliament: A Global Overview (Geneva and New York: IPU and UNDP, 2010), <https://www.ipu.org/resources/publications/reports/2016-07/representation-minorities-and-indigenous-peoples-in-parliament-global-overview>, accessed 18 December 2018

Investopedia, 'Initial Coin Offering (ICO), 2018, <https://www.investopedia.com/terms/s/security.asp>, accessed 31 August 2018

Jackson, R., 'Bitcoin 101: everything you need to know about investing, buying, and mining digital currency', Big Think, 2 September 2018, <https://bigthink.com/reuben-jackson/bitcoin-101-everything-you-need-to-know-about-investing-buying-and-mining-digital-currency>, accessed 4 September 2018

Jones, B., 'The US is no longer the world's largest bitcoin market', *Business Insider*, 18 September 2017, <https://www.businessinsider.com/japan-worlds-largest-bitcoin-market-2017-9?r=US&IR=T&IR=T>, accessed 13 September 2018

Kadyrov, R. E. and Prokhorov, I. V., 'Regulating cryptocurrencies: new challenges to economic security and problems created by individuals involved in the schemes of laundering cryptocurrencies-generated profits', *Knowledge E*, 13 February 2018, <https://knepublishing.com/index.php/Kne-Social/article/view/1568/3703>, accessed 29 August 2018

Kappos, G. et al., 'An empirical analysis of anonymity in Zcash', *27th USENIX Security Symposium* (2018), <https://arxiv.org/abs/1805.03180>, accessed 6 September 2018

Keneally, M., 'Bitcoin is gaining currency in political campaign donations', ABC News, 7 February 2018, <http://abcnews.go.com/Politics/bitcoin-popular-political-campaign-donations/story?id=52873921>, accessed 29 August 2018

Kim, C., 'South Korea to ban cryptocurrency traders from using anonymous bank accounts', Reuters, 23 January 2018, <https://uk.reuters.com/article/us-southkorea-bitcoin/south-korea-to-ban-cryptocurrency-traders-from-using-anonymous-bank-accounts-idUKKBN1FC069>, accessed 13 September 2018

Konash, M., ‘Cryptocurrencies need regulation to survive, Mistertango survey reveals’, *Coinspeaker*, 3 September 2018, <https://www.coinspeaker.com/2018/09/03/cryptocurrencies-need-regulation-to-survive/>, accessed 4 September 2018

Krumholz, S., ‘Witness testimony’, *Protecting Our Elections: Examining Shell Companies and Virtual Currencies as Avenues for Foreign Interference*, US Senate Judiciary Committee Hearing (Washington, DC: Center for Responsive Politics, 2018), <https://www.judiciary.senate.gov/imo/media/doc/06-26-18%20Krumholz%20Testimony.pdf>, accessed 11 September 2018

Lapointe, C. and Fishbane, L., *The Blockchain Ethical Design Framework* (Washington, DC: Georgetown University, 2018), <http://beeckcenter.georgetown.edu/wp-content/uploads/2018/06/The-Blockchain-Ethical-Design-Framework.pdf>, accessed 7 September 2018

The Local Client Studio, ‘Mining the future: why Sweden is leading the cryptocurrency revolution’, *Business Sweden*, n.d., <https://www.business-sweden.se/en/Invest/industries/Data-Centers-By-Sweden/news-and-downloads/investment-news/nyhet-13-okt/>, accessed 11 September 2018

Mandeng, O. J. and Nagy-Mohacsi, P., ‘This is how cryptocurrencies challenge the status quo’, World Economic Forum, 19 March 2018, <https://www.weforum.org/agenda/2018/03/cryptocurrencies-challenge-the-status-quo>, accessed 6 September 2018

Mersch, Y., *Virtual currencies ante portas*, Speech by Yves Mersch, Member of the Executive Board of the ECB, 39th meeting of the Governor’s Club, Bodrum, Turkey, 14 May 2018, <https://www.ecb.europa.eu/press/key/date/2018/html/ecb.sp180514.en.html>, accessed 7 September 2018

Mizrahi, A., ‘G20 leaders declare commitment to regulate crypto assets’, News, 2 December 2018, <https://news.bitcoin.com/g20-leaders-declare-commitment-to-regulate-crypto-assets/>, accessed 10 December 2018

Murray, D., ‘Witness testimony’, *Protecting Our Elections: Examining Shell Companies and Virtual Currencies as Avenues for Foreign Interference*, US Senate Judiciary Committee Hearing (Washington, DC: Financial Integrity Network, 2018), <https://www.judiciary.senate.gov/imo/media/doc/06-26-18%20Murray%20Testimony.pdf>, accessed 11 September 2018

Nelson, A., ‘Cryptocurrency regulation in 2018: where the world stands right now’, *Bitcoin Magazine*, 1 February 2018, <https://bitcoinmagazine.com/articles/cryptocurrency-regulation-2018-where-world-stands-right-now/>, accessed 29 August 2019

Nolan, L., ‘Congress investigating influence of cryptocurrencies on elections’, *Bitsonline*, 24 June 2018, <https://bitsonline.com/congress-investigating-influence-of-cryptocurrencies-on-elections/>, accessed 11 September 2018

OpenSecrets, *Super PACs* (Washington, DC: Center for Responsive Politics, 2018), <https://www.opensecrets.org/pacs/superpacs.php>, accessed 14 September 2018

Organisation for Economic Co-operation and Development (OECD), 'Blockchain Policy Forum' [video], 4–5 September 2018, <https://ocde.streamakaci.com/blockchain/>, accessed 4 September 2018

Orcutt, M., 'Should politicians accept campaign contributions in bitcoin?', *The Download*, 31 October 2017, <https://www.technologyreview.com/the-download/609285/should-politicians-accept-campaign-contributions-in-bitcoin/>, accessed 29 August 2018

Peterson, B., 'This is what Bill Gates thinks about cryptocurrencies', World Economic Forum, 28 February 2018, <https://www.weforum.org/agenda/2018/02/bill-gates-says-cryptocurrency-is-a-rare-technology-that-has-caused-deaths-in-a-fairly-direct-way>, accessed 6 September 2018

Petersen, C., 'Almost half of the world's top universities offer cryptocurrency or blockchain courses', *News BTC*, 28 August 2018, <https://www.newsbtc.com/2018/08/28/almost-half-of-the-worlds-top-universities-offer-cryptocurrency-or-blockchain-courses/>, accessed 4 September 2018

Popper, N., 'Have a cryptocurrency company? Bermuda, Malta or Gibraltar wants you', *The New York Times*, 29 July 2018, <https://www.nytimes.com/2018/07/29/technology/cryptocurrency-bermuda-malta-gibraltar.html>, accessed 6 September 2018

Popper, N. and Rosenberg, M., 'How Russian spies hid behind bitcoin in hacking campaign', *The New York Times*, 13 July 2018, <https://www.nytimes.com/2018/07/13/technology/bitcoin-russian-hacking.html>, accessed 6 September 2018

Psaila, S., *Cryptocurrency Security Standard (CCSS)* (Malta: Deloitte, 2018), <https://www2.deloitte.com/content/dam/Deloitte/mt/Documents/technology/dt_mt_article_Cryptocurrency_Security_Standard-sandro-psaila.pdf>, accessed 18 December 2018

Reuters, 'Cryptocurrency storage firm Kingdom Trust obtains insurance through Lloyd's', *The New York Times*, 28 August 2018a, <https://www.nytimes.com/reuters/2018/08/28/business/28reuters-cryptocurrency-lloyds-of-london-insurance.html>, accessed 6 September 2018

—, 'Special report: in Venezuela, new cryptocurrency is nowhere to be found', *The New York Times*, 30 August 2018b

Roberts, B., 'The top 3 cryptocurrencies (and why they cost so much)', *Forbes*, 4 April 2018, <https://www.forbes.com/sites/brianroberts/2018/04/04/the-

top-3-cryptocurrencies-and-why-they-cost-so-much/#32876f573ceb>, accessed 30 August 2018

Rooney, K., 'Your guide to cryptocurrency regulations around the world and where they are headed', CNBC, 27 March 2018, <https://www.cnbc.com/2018/03/27/a-complete-guide-to-cyprocurrency-regulations-around-the-world.html>, accessed 31 August 2018

Ross, M. and Beyoud, L., 'Bitcoin campaign donations pose potential fraud risks', Bloomberg News, 28 March 2018, <https://www.bna.com/bitcoin-campaign-donations-n57982090524/>, accessed 7 September 2018

Shi, M. M., 'US Senate hearing will look at crypto's impact on elections', *Coindesk*, 22 June 2018, <https://www.coindesk.com/us-senate-hearing-will-look-cryptos-impact-elections/>, accessed 7 September 2018

Skingsley, C., *Should the Riksbank issue e-krona?* (Stockholm: FinTech, 2016), <http://archive.riksbank.se/Documents/Tal/Skingsley/2016/tal_skingsley_161116_eng.pdf>, accessed 7 September 2018

Smith, K. A., '13 types of cryptocurrency that aren't bitcoin', *Bankrate*, 30 August 2018, <https://www.bankrate.com/investing/types-of-cryptocurrency/>, accessed 5 September 2018

Statista, 'Average number of Monero transactions daily worldwide from 1st quarter 2016 1st quarter 2017', n.d., <https://www.statista.com/statistics/730827/average-number-of-monero-transactions/>, accessed 10 December 2018

Thomson Reuters, 'Cryptocurrencies by country', 25 October 2017, <https://blogs.thomsonreuters.com/answerson/world-cryptocurrencies-country/>, accessed 12 December 2018

Timmer, H., *Cryptocurrencies and Blockchain: Europe and Central Asia Economic Update* [video] (Tbilisi: World Bank, May 2018), <http://www.worldbank.org/en/news/video/2018/05/07/eca-update-video>, accessed 7 September 2018

Trading View, 'Cryptocurrency market', n.d., <https://www.tradingview.com/markets/cryptocurrencies/prices-all/>, accessed 3 September 2018

Treasury Committee, Parliament Live, *Economic Crime* [video], 4 July 2018, <https://www.parliamentlive.tv/Event/Index/d90d3055-4105-4f2b-bf62-18fa0a1336b9>, accessed 6 September 2018

Uribe Burcher, C. and Casal Bertoa, F., *Best Political Finance Design Tool* (Stockholm: International IDEA, forthcoming)

Uribe Burcher, C. and Perdomo, C., 'Money, influence, corruption and capture: can democracy be protected?', *The Global State of Democracy 2017: Exploring*

Democracy's Resilience (Stockholm: International IDEA, 2017), <https://www.idea.int/gsod>, accessed 14 September 2018

US Federal Election Commission (FEC), 'How to Report Bitcoin Contributions', n.d., <https://www.fec.gov/help-candidates-and-committees/filing-reports/bitcoin-contributions/>, accessed 7 September 2018

—, *Advisory Opinion 2014-02* (Washington, DC: FEC, 2014), <https://www.fec.gov/files/legal/aos/2014-02/2014-02.pdf>, accessed 7 September 2018

US Securities and Exchange Commission (SEC), 'Initial coin offerings (ICOs)', 21 August 2018, <https://www.sec.gov/ICO>, accessed 10 December 2018

Villas-Boas, A., 'This US city is the first to ban the mining of cryptocurrencies', World Economic Forum, 19 March 2018, <https://www.weforum.org/agenda/2018/03/for-the-first-time-a-us-city-has-banned-cryptocurrency-mining>, accessed 7 September 2018

Villaveces-Izquierdo, S. and Uribe Burcher, C., *Illicit Networks and Politics in the Baltic States* (Stockholm: International IDEA, 2013), <https://www.idea.int/publications/catalogue/illicit-networks-and-politics-baltic-states?lang=en>, accessed 6 September 2018

Voorhees, C., 'Campaign contributions by bitcoin? Oregon elections chief favors "yes"', *The Oregonian*, 20 June 2018, <https://www.oregonlive.com/politics/index.ssf/2018/06/campaign_contributions_by_bitc.html>, accessed 7 September 2018

Voto Legal, 'Confiança via blockchain' [Confidence via blockchain] (Sao Paulo: Voto Legal, 2018), <https://blockchain.votolegal.com.br/>, accessed 11 December 2018

Wilhelm, C., 'Trump sanctions Venezuelan cryptocurrency', *Politico*, 19 March 2018a, <https://www.politico.com/story/2018/03/19/trump-sanctions-venezuelan-cryptocurrency-424550>, accessed 6 September 2018

—, '"Bitcoin's candidate" takes heat for cryptocurrency donations', *Politic*o, 29 May 2018b, <https://www.politico.com/story/2018/05/29/bitcoin-candidate-cryptocurrency-donations-566833>, accessed 6 September 2018

—, ‘In surprise move, cryptocurrency exchanges embrace regulation’, *Politico*, 6 August 2018c, <https://www.politico.com/story/2018/06/08/in-surprise-move-cryptocurrency-exchanges-embrace-regulation-607184>, accessed 6 September 2018

Wired, ‘Blockchain expert explains one concept in 5 levels of difficulty’, 28 November 2017, <https://www.youtube.com/watch?v=hYip_Vuv8J0>, accessed 29 November 2018

World Bank, *Cryptocurrencies and Blockchain: Europe and Central Asia Economic Update* (Washington, DC: World Bank, 2018), <https://openknowledge.worldbank.org/bitstream/handle/10986/29763/9781464812996.pdf?sequence=2&isAllowed=y>, accessed 7 September 2018

Yakubowski, M., ‘Belarus: high tech park releases “complete legal regulations” for cryptocurrencies’, *Cointelegrap*h, 30 November 2018, <https://cointelegraph.com/news/belarus-high-tech-park-releases-complete-legal-regulations-for-cryptocurrencies>, accessed 18 December 2018

About the author

Catalina Uribe Burcher is a Senior Programme Officer in International IDEA's Political Participation and Representation Programme. Uribe Burcher focuses on money in politics, integrity, conflict and the threats that transnational illicit networks pose to democratic processes. She has also worked as an independent consultant for the Colombian Ministry of Foreign Affairs and as coordinator of a programme caring for victims of the armed conflict in Colombia. She is a Colombian and Swedish lawyer with a specialty in criminal law, and holds a master's degree in international and comparative law from Uppsala University, Sweden.

About International IDEA

The International Institute for Democracy and Electoral Assistance (International IDEA) is an intergovernmental organization with the mission to advance democracy worldwide, as a universal human aspiration and enabler of sustainable development. We do this by supporting the building, strengthening and safeguarding of democratic political institutions and processes at all levels. Our vision is a world in which democratic processes, actors and institutions are inclusive and accountable and deliver sustainable development to all.

What do we do?

In our work we focus on three main impact areas: electoral processes; constitution-building processes; and political participation and representation. The themes of gender and inclusion, conflict sensitivity and sustainable development are mainstreamed across all our areas of work.

International IDEA provides analyses of global and regional democratic trends; produces comparative knowledge on good international democratic practices; offers technical assistance and capacity-building on democratic reform to actors engaged in democratic processes; and convenes dialogue on issues relevant to the public debate on democracy and democracy building.

Where do we work?

Our headquarters is located in Stockholm, and we have regional and country offices in Africa, the Asia-Pacific, Europe, and Latin America and the Caribbean. International IDEA is a Permanent Observer to the United Nations and is accredited to European Union institutions.

<http://idea.int>

Cryptocurrencies are a new form of digital money or asset that could drastically change the flow of resources around the world. As their number keeps on growing, also do the questions about their implications on the financing of politics and integrity more broadly. Does their anonymity, volatility and a lack of oversight create a potential for abuse? Or does the technology behind cryptocurrencies—blockchain—create a breeding ground for innovations in the anti-corruption realm?

This discussion paper presents some of the basic notions behind cryptocurrencies and their regulation, especially targeting their use in the financing of political parties and election campaigns. The author pays special attention to how cryptocurrencies can allow foreign contributions and anonymous donations to enter politics unnoticed, while analyzing their capacity to improve political finance reporting, disclosure and oversight.

International IDEA
Strömsborg
SE–103 34 Stockholm
Sweden
Telephone: +46 8 698 37 00
Email: info@idea.int
Website: <http://www.idea.int>