

Funding of political parties and elections: Getting the system right

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The way that parties and candidates access their funding greatly affects how the political system functions and how democratic politics is conducted. Money is necessary for a democracy to function well and it helps strengthen the core components of democracy, establish sustainable party organisations and provide the opportunity to compete on (more) equal terms. Yet it also poses serious challenges and threats to the political process.

Findings from Transparency International's 2013 Global Barometer report reveal that political parties are perceived to be the most corrupt institution of those surveyed, ahead, for example, of the police, public officials, parliament and the judiciary (TI, 2013).¹ Regional surveys such as the Latino- and Afrobarometers reveal a similarly bleak picture, with low levels of trust in political parties.² Such distrust can be explained in part by the exposure of financial misconduct of parties and politicians in a wide range of countries.

The challenge for policy-makers and politicians is to strike the right balance: limiting the negative effects of money while encouraging democratic consolidation through pluralistic political competition. In this effort, it is important to view both the use and control of money in politics as the means to an end rather than an end in itself.

Levers of change

In general terms, *political finance* refers to all money in the political process – legal and illegal. In this article we focus on financing of ongoing political party activities and electoral campaigns, particularly campaigns by candidates and political parties but also by third parties.

What is the best way to regulate political finance? Political traditions and culture vary between countries, and it should not be assumed that what is considered the ideal solution in one country would even be acceptable in another. To put it differently, since there is no form of democratic governance that is preferred everywhere, there is no ultimate method of regulation. Reform does not always have to involve the legal system. In many cases, the most relevant reforms may involve ways to strengthen the capacity, independence and/or political support of the enforcing institution so that it can better implement existing legal provisions.

Any reform-minded person must start by considering how they would like democratic politics to be organised, what political system should exist and what form of democratic process is desired. Too often, political finance regulations are the result of reactive measures to crisis situations and so reform discussions start

with whether a particular regulation should be used, rather than a more holistic consideration of broader issues such as the role of political parties and election candidates, and that of the state in controlling these actors.

Second, the specific context of each country must be taken into account. Regulations are not created in a vacuum but in real-world situations. Two aspects are included here under the notion of context. The first is the *political system* as a whole. This includes structural and institutional factors that must be taken into account, as they often have a significant impact on the suitability and effectiveness of different political finance regulations – examples of important structures are the electoral system and presidentialism versus parliamentarism.³ The other aspect is the particular set of *challenges* faced by each country relating to money in politics.

Regional trends: Public funding

Since the early 1990s there has been a movement towards increasing levels of regulation (but not necessarily increased enforcement) in most of the regions examined. This development has gone hand in hand with increased levels of overall democratisation and legislation⁴ to shape and regulate new democratic systems.⁵ All of the (180) countries surveyed have some rules in place, and more and more countries are creating single Political Finance Acts.⁶

Although all African countries have regulations on how money is allowed to flow in and out of politics, these formal regulations play a very limited role in how politics function. This also relates to public funding, which is used in more than two-thirds of African countries but which almost universally has no more than a symbolic meaning. African electoral campaigns are largely funded through candidates rather than political parties, although there are some exceptions, and are frequently influenced by clientelistic networks.

In many Asian countries there has been a commercialisation of politics that has strengthened ties between the political sector and business interests. Public funding for political parties is less widespread in Asia overall than in other regions. There are a number of countries in South Asia, such as Afghanistan, Nepal and Pakistan, which do not provide public funding at all. These countries' rationale for choosing not to do so requires further analysis. The most generous public financing schemes in Asia are found in the north-east.

A combination of public and private funding is preferable as recommended, for example, by the Council of Europe.⁷ However,

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many Western European countries display a worrying trend related to public funding. Political parties in this region have become extremely dependent on this revenue, which forms up to an average of two-thirds of their total income and in some countries more than 80 per cent. The gradual increase in the amounts of public subsidies that parties have effectively granted themselves through legislation could be interpreted by some as self-interest. To counteract this high dependence, innovative mechanisms to find a better balance should be encouraged.⁸

The suitable balance should be determined by context. If used, public funding should, however, provide for at least the basic needs of any party that has passed a certain threshold of public support so that it can perform its core functions of citizen participation and representation.

Gender and public funding

Today there is a small but growing group of countries that link the provision of public funding to increased gender equality within parties and among candidates, either by earmarking public funding for activities relating to gender equality or by increasing (or decreasing) public funding to parties that fulfil (or do not fulfil) legislated quotas of female candidates. Such initiatives are important as they aim to address the shortage of funds for women, which is often seen as one of the main obstacles for women entering politics. However, most countries have not linked public funding of political parties to gender equality.

Since these reforms are quite recent it is hard to establish their impact thus far. Yet it is fair to assume that, in order for these measures to be effective, the party should incur a substantial financial penalty for non-compliance. Linking public funding to nominating the under-represented sex is, however, often not substantive enough to have this effect. As long as parties feel that it may be more worthwhile to field a male candidate, despite the financial sanctions, this type of reform initiative is likely to serve only as window dressing. It also follows that regulations of this kind will be more effective in countries where parties are highly dependent on public funding.

Integrity of elections

The need to regulate uncontrolled, undisclosed and opaque political finance was identified by the Global Commission on Elections, Democracy and Security as a major challenge to the integrity of elections in emerging and mature democracies alike... Indeed, a failure to regulate political finance threatens to hollow out democracy and rob it of its unique strengths.

Citizens all over the world want political parties and governments to represent their views and be responsive to their needs... There is clearly an urgent need to better control political finance. Governments should regulate political donations and expenditures effectively. This will require full transparency and disclosure of donations, with penalties for non-compliance. Effective monitoring and enforcement of regulations are also crucial.

Kofi A. Annan

Chair, Global Commission on Elections, Democracy and Security



Women voting in the 1997 Pakistan elections

Conclusions

Although each country examined thus far has its own unique challenges related to money and politics, there are a number of challenges that span virtually all the regions and which motivate the recommendations listed in the conclusion. They include:

- High costs of campaigning that are prohibitive for many political actors
- Lack of grass-roots support that could translate into funding streams
- Illicit funding and criminal sources of funding that politicians may be unwilling or unable to confront
- Business and politics: donations that are seen as an investment by corporate interests have been reported from virtually all of the regions
- Abuse of state resources for partisan purposes: blurring of lines between (usually ruling) party and state resources
- Lack of enforcement⁹
- Self-regulation of parties and politicians
- Lack of independent oversight/enforcement agencies¹⁰

Although political parties are ultimately responsible for adopting political finance laws, the creation of rules governing money in politics should be agreed upon through wide consultation involving a broad section of stakeholders. This includes not only the government, parliament and political parties, but also the enforcement agencies, the judiciary and civil society.

Civic participation in regulating political finance does not have to mean an 'anti-political' vision of non-competitive politics; rather it should be a counterpart to sound public administration and an instance of accountability and transparency. The public goods and resources at stake go beyond the financial to include the rule of law, social trust and confidence in democratic institutions.

Recommendations

Context is key. Political finance regulations that are tailor-made to a given country's context stand a better chance of successful implementation and compliance. A country's political system and



Tom Baird

Some countries offer more funding to parties fielding female candidates

culture – in particular how its people view politics and the role of political parties – should shape its political finance regulatory framework and how it addresses its challenges.

Laws matter, but accomplish little on their own. The legal framework is the starting point for the role that money ought to

The IDEA handbook

The huge amounts of money involved in some election campaigns make it impossible for those without access to large private funds to compete on the same level as those who are well funded. There is no doubt that political parties need access to funds in order to play their part in the political process. At the same time, the role of money in politics is arguably the biggest threat to democracy worldwide today.

This threat is clear across all continents – from huge corporate campaign donations in the United States and drug money seeping into politics in Latin America, to corruption scandals throughout Asia and Europe. Women candidates in particular suffer disproportionately from lack of access to campaign finance. In many countries, unfair allocation of public funds distorts the playing field in favour of ruling parties.

Attempts to tackle these challenges through political finance laws and regulations are often undermined by a lack of political will or capacity, as well as poorly designed and enforced measures. Recognizing the many challenges of money in politics and the gap in comparative knowledge, International IDEA has been focusing on the topic for over a decade. The 2014 handbook builds on the 2003 International IDEA handbook, Funding of Political Parties and Election Campaigns, and is unique in its global scope. An important basis for this work has been International IDEA's Database on Political Finance, which received a major revision and update in 2012.

Yves Leterme

Secretary General, International IDEA

Funding of Political Parties and Election Campaigns: A Handbook on Political Finance is an overview of political finance in law and in practice, with chapters on different global regions.

have in political life. However, formal rules alone cannot have a significant impact. Far too often, rules are circumvented or even used as a tool for political oppression. Factors, such as a reasonably democratic environment with overall respect for the rule of law, greatly affect the possibility of controlling finance – more so than the legal provisions themselves.

Enforcement is the weakest link. Although there is a lot of knowledge today about the various problems related to money in politics, and a large majority of countries have legal frameworks in place, the system of ensuring compliance is often weak. The starting point for improvement should be a thorough analysis of the specific needs per agency – identifying whether there is a lack of political will expressed as a lack of force and mandate for the agency, a lack of technical know-how or a lack of independence from the parties and candidates they are supposed to monitor.

The gender funding gap needs to be addressed. Women face more obstacles to raising or accessing funds than men. Given that there are many reasons for these structural obstacles, any solution should be multifaceted. Political finance legislation needs to address these inequalities, and public funding can provide incentives and support for female candidates. Political parties have a key role to play in addressing this gender funding gap; in addition to adhering to political finance regulations they can (and should) show initiative by introducing voluntary internal reforms to promote women's participation and raise funds on their behalf.

Peer networks are an effective way to encourage reform.

There is a general dearth of regional initiatives through which countries develop joint standards for political finance and monitor overall compliance.¹¹ Establishing such regional initiatives would help countries identify weaknesses in national political finance policies and pressure each other to undergo necessary legislative and institutional reforms. Creating regional peer networks would hopefully have a positive effect on the quality as well as the enforcement of the laws.

Broader involvement in the development of political finance regulations is needed.

Politicians themselves design the rules they are supposed to obey. Thus regulation continues to include loopholes, enforcement agencies are not sufficiently empowered and parties do not adequately account for their finances. One way to ensure that political finance regulations do not exclusively serve the short-term interests of politicians is to involve a wide range of stakeholders in their development. In doing so, care should be taken to avoid regulatory frameworks that are so restrictive that they weaken the vitality and dynamism of party politics.

Party and candidate finance information needs to be clear and accessible.

As the result of the media uncovering political finance scandals, including corruption and bribes, laws and regulations have been instigated or revised over and over again. In spite of this, there is surprisingly little systematic documentation about the income and expenditures, very few monitoring agencies can provide comprehensive records, few civil society organisations have a well-developed monitoring methodology and perhaps even fewer political parties have thorough bookkeeping available to the public. Until very basic information about party and candidate finances is provided in a systematic and easily accessible way, true transparency regarding money in politics will be difficult to achieve.

Endnotes

- 1 Respondents reported that political parties were the most corrupt institutions in 51 of 107 surveyed countries.
- 2 The Afrobarometer report found that an average of 58 per cent of respondents had little or no trust in opposition parties and 42 per cent had little or no trust in the ruling party (Bratton, 2008). In Latin America, 23 per cent of respondents were reported to have trust in political parties (Corporación Latinobarómetro, 2010), which (while low) represents an increase from its nadir in 2003 (11 per cent) but a decrease from its highest point of 28 per cent (in 1997) since the surveys began in 1996.
- 3 Political parties are generally weaker in presidential systems and play a more central role in parliamentary systems, which is significant for the regulation of political finance.
- 4 Others may feel that, instead of a highly regulated but poorly enforced system, it may be better to adopt a system focused on transparency with fewer limitations. For example, unreasonably low donation and spending limits are likely to reduce accuracy in financial reporting.
- 5 This might also relate to the changing public perception of political parties, which are increasingly perceived as being closer to bodies of government than the older style mass-membership citizen groups that aim to mobilise scores of citizens on a voluntary basis in political decision-making processes.
- 6 The International IDEA Political Finance Database is available at www.idea.int/political-finance [Accessed on 21 November 2014].
- 7 Council of Europe recommends that state support must be limited to 'reasonable contributions' and must not 'interfere with the independence of political parties' (CoE, 2003).
- 8 In this regard, Germany provides an interesting case. It has worked to encourage party fundraising through a 'matching grants' mechanism in which public subsidies can never be higher than the amount raised by the party itself.
- 9 In the African context there are very few reports of sanctions being imposed in relation to political finance violations.
- 10 A further challenge is that the responsibility of controlling party and candidate finance is often spread across several different institutions, making holistic oversight difficult.
- 11 The main exception to this is the Group of States Against Corruption (GRECO), which has 49 member states (48 European plus the USA).

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