



Accountability and Transparency in Political Finance: *Why, How and What For?*

Modern democracies require strong party organisations that compete for political power in fair elections. To keep the system functioning, political parties must have the resources to run successful campaigns and support political machines. But parties and their candidates also must reconcile the drive for resources with the risks of distorting political competition and corrupting elected officials. Depending on where they come from, how they are distributed and what they are spent on, resources given to parties and candidates can corrupt elections and democracies.

Table of Contents

1. Corruption risks
2. Past regulations and responses
3. Civil society's role
4. Lessons learned
5. Stakeholders in the fight

Checklist for accountability and transparency in political finance:

Information provided to party members, state agencies and the public must be:

- ☉ **Comprehensive.** All relevant resources must be covered by disclosure policies. Resources include money and what it can buy. For political parties, money refers to their assets, investments, debts and other financial transactions. Non-monetary forms may also be counted as part of the resources provided to parties. Some resources fall in between these classifications, such as special benefits offered by the state (e.g. tax breaks, free airtime) or private actors (e.g. discounts for services delivered, loans).
- ☉ **Detailed.** The public must be able to clearly identify all individual contributions made by donors and parties, including the names of contributors.
- ☉ **Reliable.** State as well as social control heavily relies on having parties and other relevant actors provide the correct information. Given its importance, submitting false data is considered a crime in a number of countries.
- ☉ **Timely.** Reporting should be done as close to when the transaction was completed as possible since time allows for manipulation. Any information provided in the run-up to elections must be made available immediately to citizens.
- ☉ **Intelligible.** Information has to be presented in a user-friendly way. Background on different sources as well as searchable databases is necessary to empower individual citizens and the media to understand, interpret and use political finance data.
- ☉ **Accessible.** Data should not only be available upon request, but disclosed actively through a variety of channels. Modern information technologies allow state agencies to implement automated reporting and online monitoring via searchable datasets.

1. Corruption risks

Political finance can undermine the same democratic values and good governance that it also supports. The two main risks are that resources (monetary and non-monetary) can distort *electoral processes* and may improperly influence the decisions taken by a country's *elected representatives*.¹

Electoral processes. Money can distort the electoral competition when it is unfairly distributed among candidates. When accountability is low, resources are left open to abuse by parties and candidates. Incumbent politicians may abuse state resources to fund their re-election campaigns. Resources for electoral contests may be diverted and the money pocketed by candidates or used for vote buying. When proper controls are not in place, campaign financing can even be converted into a conduit for money laundering, as has been documented in countries like Bosnia and Herzegovina, El Salvador and Haiti.²

Elected representatives. Political financing can perversely shape policy-making after elections are over — particularly when candidates are funded instead of parties. Such claims in the United States recently have forced key members of Congress to step down.³ Unfortunately, poor communities find themselves at the losing end of this money game. An oil company in Nigeria can use campaign contributions to sway votes; poor citizens concerned about related environmental problems cannot.⁴ Domestic policies may not be the only area affected. In countries where contributions from abroad are allowed or have occurred de facto, political finance can also distort a government's foreign policy decisions.

Modern democracies strive to contain these two risks through laws and regulations, including ceilings for campaign spending and contributions, bans on certain funding sources and the use of public subsidies for parties and campaigns. However, these measures are not always sufficient to mitigate the negative impacts that political finance can produce. Either the laws are too lax or enforcement is lacking. Public oversight by citizens, civil society and the media can complement state controls. Yet for both to function, transparency must exist.

Transparency means that comprehensive, detailed and reliable information on the financing of political campaigns is available to the public in a timely, intelligible and accessible way (see sidebar).

There are three interconnected levels across which increased transparency can be promoted to reduce corruption risks related to political finance:

- ☉ **accountability within parties:** the requirement to use proper internal bookkeeping and accounting systems and keep party members properly informed.
- ☉ **accountability to the state:** the requirement of parties and candidates, donors and service providers to report on political finance transactions to state agencies.
- ☉ **accountability to the public:** the requirement to disclose publicly all information on campaign finance.

These internal and external dimensions of accountability are essential to ensure that electoral processes and elected officials are not compromised by uncontrolled and unaccountable campaign funding.

2. Past regulations and responses

In response to previous political finance scandals, modern democracies have passed laws that use state regulatory incentives and sanctions to:

Prevent the abuse of state resources. Virtually all countries have banned government institutions from making contributions to political parties or candidates (apart from authorised public subsidies). However, the abuse of government resources during election campaigns is still a major challenge in many countries. Governments from Mozambique to Venezuela have been accused of blurring the line between state and party politics, using national resources to fund and influence elections. In response, countries have introduced regulations to cap government spending during election campaigns.⁵ Specific rules have been passed on public procurement, the employment of civil servants, government advertising in election years and general fiscal responsibility rules. In addition, many countries have limited the consecutive re-election of governments — although nations like Argentina, Brazil and Colombia have more recently loosened their once stringent laws.

Control private donations. Large private donations are often a risk for democracy. While they may allow the opposition to gain a foothold in countries dominated by the government's official parties, regulations are still needed to ensure checks and balances are put in place. These include bans on corporate financing or other undesirable sources as well as limits on large contributions from individual donors. Similarly, some countries have set ceilings on campaign costs to rein in the role of money and level the playing field for candidates. However, the private funding of candidates and parties continues unrestrained in large democracies such as Brazil, Germany and India. In other countries like Argentina, Japan and Russia, strict limits are widely ignored through loopholes or lax oversight.

Provide public funding for parties and election campaigns. Many countries have introduced public subsidies as a means to curb outside influence and strengthen political parties. Most member states of the European Union offer considerable support to their political parties while countries like Israel and Mexico use public resources to cover more than 80 percent of election expenses. For new democracies, similar levels of subsidies can help to balance political competition and foster the integrity of officeholders.⁶ However, when trust in politicians is low and the budget for essential needs short, the public funding of parties may suffer fierce criticism and simply bankroll the political elite in power — in both old and new democracies. Moreover, subsidies are not a universal solution for remedying corruption risks, as seen by scandals in Germany and Spain.⁷

Regulate the media's role in campaigns. The media can serve as a key channel for keeping the electorate informed. By carrying campaign ads, the local media (print, radio and television) help to promote political competition and voter understanding of the issues. While in some countries like the United States regulating the media conflicts with the constitutional principle of free speech, in many others these regulations have been at the heart of political finance reforms. Legislative changes have involved capping the price of campaign ads, providing equal and free airtime to all candidates and regulating the type of political advertisements allowed.⁸ Given the high cost of media spending, regulating its role in elections can help to reduce the pressure parties feel for increased financing. Countries such as Brazil, Chile and Sri Lanka have attempted to

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Civil society and citizens have to take an active role in dealing with the complex issue of political finance.

CSOs — including Transparency International (TI) chapters in Argentina, Colombia, India and Indonesia, as well as other countries — have a long record of regularly informing voters on the profile of candidates, parties, donations and expenses during election time.¹⁰

Citizens must not only demand information but use it to shape their votes when misdoings by parties and candidates are found out — as has been done in countries from Brazil to Venezuela, from Australia to Poland.

balance media coverage by closely regulating campaign ads, providing free airtime to parties and/or banning paid advertising.

Establish independent state monitoring agencies. Autonomous agencies vested with the power to oversee political finance rules and impose suitable sanctions have been set up in many old and new democracies. Even in established political systems like Australia and France, their role has received recognition only in the last few decades.⁹ The challenge for agencies is having truly independent operations, the appropriate technical preparation, sufficient resource allocation and ample legal powers to investigate and sanction actions. In many countries, these agencies are still widely dependent on the president or party in power, including who is nominated to oversee the office — as is the case in Nicaragua and the Dominican Republic. However, only a strong state agency can enforce the reporting and disclosure requirements needed and promote the transparency required.

Many countries get trapped in a political finance limbo when they try to start legislating and enforcing the different types of policies discussed. Some countries, such as Argentina, have quickened the pace of passing regulations while failing to sway different actors to demand and adopt more sophisticated social oversight controls. In other cases, the peril countries face is the lack of political will to pursue reforms due to the conviction that money will circumvent any regulations. The unrestrained influence of money on politics and paper-thin rules ultimately undermines transparency and can cause political cynicism among citizens, as has happened in Brazil.

3. Civil society's role

Despite improvements in funding parties and elections, corruption risks in political finance remain a present threat for democracies. In addition to having state regulation and enforcement, civil society and citizens must take an active role in dealing with the complex issue of political finance. Two areas of activities are:

- 🌐 Civil society oversight of campaign finance. Civil society organisations (CSOs) have helped to empower citizens to cast informed votes. Many CSOs with longstanding experience as election observers have broadened the scope of electoral monitoring to cover different dimensions of political finance. For example, CSOs in Brazil work with the private sector to keep companies informed about donation rules and responsible behaviour.¹¹ In other countries, CSOs track advertising costs as a proxy to assess campaign spending and reveal the imbalance of media access among parties.¹² Given these expertises, some CSOs also have played an important role in shaping related regulatory reforms in their countries.
- 🌐 Empowerment of citizens to hold elected officials accountable. Organisations concerned with good governance are investigating the connection between private donations, the elected officeholders that they support and the degree to which policy decisions get twisted towards donor interests. For example, civil society organisations in the United States have linked data on private political contributions to the approval of policies and contracts that benefit specific donors.¹³

Empowering citizens in these matters can prove more exacting than state sanctions since the public response is to withdraw their support when misconduct is suspected. For social oversight to function, citizens must have access to this information and be able understand and use it when casting their ballots. However, an impact on voting may not materialise, such as in the case of Bosnia and Herzegovina when allegedly corrupt candidates still carried the popular vote.¹⁴ When data on campaign donations is successfully leveraged by the media and other organisations, it can help to expose who is funding which politicians and whether either of them are considered corrupt.¹⁵

For civil society to take action, transparency of political finance is essential. Citizens have the right to know who is funding their political representatives given the use of public resources and the implications of private donations on policy-making. Parties, whether they are receiving public or private funding, must be held responsible for the resources received. Any funding raised independently by candidates also needs to be accounted for. At the same time, governments must disclose information, particularly when they are subsidising parties, to give citizens the opportunity to hold political actors accountable.

4. Lessons learned

Transparency is not just about the supplying and disclosing of information. There must be a demand for it and the information shared needs to be utilised as part of making the political system more accountable. CSOs, the media, citizens and political competitors must take up their responsibility as watchdogs over the process. Even if transparency is achieved on all sides, there are still other obstacles to controls on political finance.

First, greater transparency can mean greater costs, particularly when many smaller parties make up the political landscape. Reporting requirements add expenses. However, low-cost information technology and public subsidies can help to overcome this challenge.

Second, transparency does not always mean accountability for actions. While linkages can easily be traced back to donor influence in elections, it is usually difficult to prove that donations have corrupted officeholders once they are elected. Few politicians have been convicted for selling influence given the difficulty of establishing a causal link in their voting patterns.

Third, greater transparency in itself can be an obstacle if abused. Transparency can undermine democracy or conflict with democratic values rather than promote them. Where political freedom is severely hampered, transparency might not be the best first step. Under authoritarian regimes, any donors funding opposition parties and candidates may come under pressure from the government as well as leave the opposition vulnerable to attacks. In countries with organised crime, the disclosure of who has donated what and how much might also be used to target wealthy citizens and companies.

Finally, transparency and accountability do not resolve the equality questions surrounding political finance. All parties and candidates may be reporting as required but funding still might be skewed without additional government regulations. Transparency and accountability can help to expose unequal funding but they cannot make it more fairly distributed.

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Increasing transparency and accountability is one of the first steps towards restoring citizens' trust in the political system.

5. Stakeholders in the fight

While different stakeholders can spearhead political finance reform, legislators are the actors that must approve and implement the initiatives. Contrary to other areas of public interest, regulating political finance means that elected officials are making the laws that will affect their own behaviour. This intrinsic conflict of interest makes the voice of civil society all the more necessary.

There are many good reasons for parliamentarians and other stakeholders to support the cause of transparency in political finance.¹⁶ Each of these groups, their motivations and areas for action are outlined below:

- 🌐 **Political parties.** Around the world, parties have seen their reputations and credibility decline in numerous indices and public opinion surveys. Transparency would address these problems by providing parties with the ability to monitor candidates running on their tickets as well as opponents' campaign budgets. Disclosure also would protect parties and candidates from being pressured into accepting private or criminally linked donations.
- 🌐 **Electoral agencies.** Government agencies involved with overseeing compliance depend on information. While previously parties and candidates have been asked to provide their finances upon request, the requirement now should include the regular submission of information to the state agency. In turn, disclosing this information will enable civil society, the media and political opponents to identify and report unlawful behaviour, assisting state agencies in their work.
- 🌐 **Private sector.** Companies usually have an incentive for not disclosing donations in order to prevent clients and investors from knowing who they support. But disclosure can help to protect rather than to make them more vulnerable. It can serve as a safeguard against politicians demanding excessive donations or extortive favours and give companies a better means to monitor the funding practices of their competitors — and any preferential treatment they might receive. Finally, increased transparency helps to reduce companies' reputational risk and improve their image as a committed partner in building accountable democracies where they work.
- 🌐 **Voters.** Voters are able to use increased transparency and disclosure on political financing to back certain candidates or withdraw support. The information gathered and shared should help them identify the answers to such questions as: Which donors have a large influence on politics? Who have they financed? How close is the relationship between donors and candidates? Do some candidates depend excessively on a few donors? Do donors make contributions to all candidates?
- 🌐 **Media.** In most cases, journalists will be allies in promoting transparency in political finance. Increased disclosure will provide the media with greater access to information to facilitate their reporting. In many countries, however, journalists have not yet focused on political finance issues and their implication for a nation's democratic processes. It is important to involve them more in the work through alliances with other stakeholders (e.g. electoral agencies and CSOs).

Encouraging collaboration and cooperation among these different actors can create the incentives needed to change the behaviours, attitudes and practices that promote greater transparency and accountability. These shifts must be embedded in the context of stronger state oversight, limitations on private funding and the provision of public support to political parties. However, enhancing transparency and accountability in political finance is not a panacea to solve all problems linked to the role of money in politics. They must be embedded in a broader range of reforms that increase public oversight if they are to rebuild citizens' trust in a political system's integrity. 

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To learn about TI's work on political finance corruption, visit: www.transparency.org/global_priorities/corruption_politics/political_finance

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¹ Many of the recommendations and experiences cited are a result of the Crinis Project, an eight-country study on political party and electoral campaign financing in Latin America that Transparency International (TI) did in partnership with the Carter Center.

www.transparency.org/regional_pages/americas/crinis. TI also has published standards on political finance and has developed a tool for benchmarking the transparency of political finance in countries and campaigns. Other organisations — such as the Carter Center, International Foundation for Election Systems, Institute for Democracy and Electoral Assistance and the Organisation of American States — have engaged in likeminded projects.

² For more information see: Jeff Fischer, Marcin Walecki and Jeffrey Carlson (eds.), Political Finance in Post-Conflict Societies (Washington, DC: IFES and USAID, May 2006).

www.ifes.org/publication/0b087c527792ae130507f80957ad3f2b/Political%20Finance%20in%20Post-Conflict%20Societies-small.pdf.

³ Two high profile cases include former US House of Representatives Majority Leader Tom Delay (Republican - Texas) and Louisiana Congressman William Jefferson (Democrat). For more information on current US campaign finance reform, see the McCain-Feingold-Cochran Bill (2002).

www.campaignfinancesite.org/legislation/mccain.html.

⁴ TI and the broader anti-corruption coalition have pursued the issue of oil, gas and mining companies' payments to host governments as part of the 'Publish What You Pay' campaign (www.publishwhatyoupay.org), the Extractive Industries Transparency Initiative – EITI (<http://eitransparency.org>) and the Promoting Revenue Transparency Project (www.transparency.org/policy_research/surveys_indices/promoting_revenue_transparency).

⁵ The following countries have introduced fiscal responsibility laws: Argentina, Brazil, Bulgaria, Chile, Colombia, Ecuador, Estonia, India, New Zealand, Peru, Poland, Sweden, United Kingdom, Venezuela and other countries that have adopted the Euro. For more information, see: George Kopits, Fiscal Responsibility Framework: International Experience and Implications for Hungary, MNB Occasional Papers 2007/62 (Budapest: Magyar Nemzeti Bank/The Central Bank of Hungary, 2007). ideas.repec.org/s/mnb/opaper.html.

⁶ This holds true when public funding is combined with rules to limit the influence of private money, allowing state resources to replace (rather than complement) other funding sources. In many countries, the suspension of public subsidies for noncompliance with political finance rules has proven an effective means of enforcement.

⁷ Significant public funding did not hinder political parties in Germany from getting involved in the Flick affair in the 1970's or being accused of using unregistered accounts in the 1990's. Despite receiving state support, Spain's Socialist party, the SOE, became involved in a similar scandal in the 1980's after it accepted illegal corporate donations from Fielsa and SEAT.

⁸ For an overview of media regulation on political campaigns see: Steven Griner and César Arias, 'Medios de comunicación y partidos políticos en América Latina: una aproximación mas allá de la obsesión de controlar el gasto electoral', in: El triangulo de las Bermudas. El financiamiento de la política en México (México City: Friedrich Ebert Stiftung, September 2007).

⁹ For more information and examples, see: U4 Help Desk, Corruption in Political Party Financing and Electoral Campaigns (Bergen, Norway: U4 Anti-Corruption Resource Centre, 16 April 2003). www.u4.no/helpdesk/helpdesk/queries/query8.cfm.

¹⁰ For more information on countries in Asia and the Pacific, see:

www.transparency.org/regional_pages/asia_pacific/priority_areas/politics. For Latin America, refer to: www.transparency.org/regional_pages/americas/financiamiento_politico/guia.

¹¹ See: Instituto Ethos, A responsabilidade social das empresas no processo eleitoral (Sao Paulo, Brazil: Instituto Ethos, 2006).

¹² Fundación Poder Ciudadano in Argentina has been one of the leaders of this work, which has been used in other countries in the region and Eastern Europe. For more information, see:

www.poderciudadano.org/index.php?do=temas&id=93.

¹³ For more information, see the Center for Responsive Politics: www.opensecrets.org/.

¹⁴ For more information on Bosnia and Herzegovina, see: Jeff Fischer, Marcin Walecki and Jeffrey Carlson (eds.), Political Finance in Post-Conflict Societies (Washington, DC: IFES and USAID, May 2006).

¹⁵ In Brazil, data on campaign donations are widely accessible through the electoral justice agency www.tse.gov.br, the body responsible for overseeing political finance. The press has used its findings to expose companies funding corrupt politicians and politicians funded by rogue companies.

¹⁶ Transparency on political finance is equally being championed by international actors. The Council of Europe and conventions against corruption approved by the United Nations and African Union mention political finance transparency as a cornerstone for improving the integrity of the public sector.

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Transparency International (TI) is the civil society organisation leading the global fight against corruption. Through more than 90 chapters worldwide and an international secretariat in Berlin, Germany, TI raises awareness of the damaging effects of corruption, and works with partners in government, business and civil society to develop and implement effective measures to tackle it. For more information go to: www.transparency.org