

Political Party Financing:
problem, solutions and action

The problem

1. Political party financing can distort the electoral process and is a major motive for grand corruption. Such corruption is a significant problem in many countries including both developed and developing countries. The particular pressures for corrupt financing in developing countries are related to the lack of legitimate sources of finance, such as business, trade unions and party membership, coupled with expensive and anti-democratic party activities, such as vote buying.

2. In many countries, both developed and developing, the policing of party financing has proved difficult even where there are regulations, independent electoral commissions and parliamentary ethics committees. The effectiveness of these watchdogs depends on the commitment of the main political parties and the electorate to more ethical behaviour. That commitment is often absent.

3. Corruption in party financing can occur in both multi-party and one party election systems. Under both systems the electorate can develop the expectation that their vote will be bought. Multi-party competition can also lead to a spending rat race between parties.

4. The pressures on parties to raise money increases the power of monied interest groups and individuals to influence party behaviour in exchange for financial support. Ruling parties may also abuse their access to state resources, putting opposition parties at a substantial disadvantage.

5. We quote below a World Bank internal paper that summarised the problem for politicians and democratic politics. The paper is reporting on Uganda around the 1996 elections. It could be referring to any number of countries in most regions of the world.

“This paper considers two links between corruption and political finance that are associated with competitive elections. The first is the demand of the electorate for payment for their votes in terms of private and public goods, which drove the high cost of campaigns. Although the country had a number of laws in place during the elections designed to prevent such payments and cap campaign expenditure, they were effectively unenforceable. These demands (from private citizens) continue as constituency service demands once candidates are in office. The second link is campaign finance corruption, in which government actors divert state resources to their own campaigns, or those of their friends, family or clients; or where candidates sell political influence.

The mission estimated the average cost of campaigning for a 1996 legislative seat to be between \$40,000 and \$60,000. Many members of parliament are heavily in debt.”¹
(NB This is not for publication or wider circulation).

Experience of tackling the problem

6. Attempts to tackle the problem of party political financing have followed two main routes: regulation and financial subsidies. The statistics below² suggest that neither approach is applied comprehensively in Commonwealth countries which are generally the countries with which DFID has the closest development partnerships.

¹ Thomas, M.A. and Barkam, Joel D. "Corruption and Political Finance in Uganda: final report". PREM & Africa Region, World Bank. Released to DFID on the understanding that it would not be published or given wider circulation.

² The statistics have been taken from "Political Financing in the Commonwealth" by Michael Pinto-Duschinsky which is as yet unpublished and not for wider circulation

The four most common regulations in countries with populations over 2 million:

	Commonwealth	Non- Commonwealth
Disclosure	67%	90%
Ban on foreign donations	35%	63%
Candidate campaign limits	43%	32.5%
Ban on political advertising	22%	37%

The incidence of subsidies in countries with populations over two million:

	Commonwealth	Non- Commonwealth
Grants to legislators	71%	66%
Direct public subsidies	24%	86%
Tax relief and indirect subsidies	10%	69%
Free broadcasting	69%	91%
Subsidies in kind	25%	67%

Public subsidies where they exist in the Commonwealth are most commonly found in African states.

7 There is no consensus on the measures that would be most effective in tackling the abuses of party financing. And we have not seen any reliable evidence on the relative effectiveness of measures. The measures currently in place seem to be related (but not very strongly) to the type of democratic system - countries with first past the post systems favour regulation while those with proportional voting systems favour subsidies.

8. Given that democracy is well rooted in countries like the UK, Germany and USA, it is surprising, not only that their own record is so poor, but that the problem has been tolerated so complacently until the last few years. The fact that developed countries have major problems makes the problems in developing countries look particularly daunting. The following quote is about the UK:

“The problem of the three main political parties exceeding the legal expenditure limits is a big problem in Parliamentary by-elections and also in many seats at the General Election. The abuse in some cases is on quite a breathtaking scale.”
(Michael Crick, BBC Newsnight, evidence to the Neill Committee 1998, II, 159)

9. There may be a case for further research. We are waiting to see whether research conducted for the International Institute for Democracy and Electoral Assistance (IDEA) adds anything substantive. It has been in gestation for at least four years and so far looks rather disappointing. DFID ESCOR are also considering proposals for research by the American based International Federation for Election Systems (IFES).

Solutions

10. It is for governments, parliaments and civil societies of developing and transitional countries to take the lead in defining solutions for their own countries. Developed countries do have a clear responsibility as a major source of the grand corruption that funds illegal party financing. Developed countries also have an interest in curbing other illicit activities linked to party finance, such as drugs trafficking. Those developed countries that are major supporters of the development process are concerned about the impact of the corruption and distortions associated with political financing.

11. In the absence of a consensus on the most effective approach, a possible solution is a package of measures which look desirable in themselves and can tackle the problem from a number of angles. The most favourable environment in which to pursue these may be campaigns to combat corruption as those campaigns already have legitimacy and some momentum. **We propose therefore a new strategic programme within anti-corruption activities consisting of some or all of the measures set out below.**

Within developing countries

Development of effective regulatory frameworks

12. Support can be given to the development, where they do not exist, of effective regulatory frameworks within developing countries which include clear rules and legislation on political party funding. Regulatory frameworks might include limits to party finance, disclosure of funding sources, individual contribution limits and bans on foreign donations.

13. Such regulations are unfortunately only a partial solution, as ways are often found of evading or exploiting loopholes in regulations. For example, if only a few direct channels of political money are subject to disclosure rules, those wishing to exert influence through secret funds will naturally seek out those channels which remain unregulated. In addition, certain types of expenditure are difficult to monitor.

Support to electoral commissions and civil society

14. It is important therefore that there is effective and independent scrutiny of the implementation of regulations. In part in response to the criticism mentioned above the UK has belatedly created an electoral commission³. Long term assistance can be given to raise the capacity and profile of such commissions so that they can monitor party activities and the electoral process.

15. It is unlikely that support to electoral commissions on its own will significantly improve their ability to effectively enforce regulations. Only where political parties and especially the ruling party are supportive and respect their autonomy can electoral commissions play their role as champions of democratic values and improve transparency within the system.

16. Political parties need to agree on and set out publicly the rules of the game and their understanding what is legitimate and off-limits in their roles. DFIDSEA financed such an initiative in Indonesia before their elections using the Westminster Foundation for

Democracy. Investigative and advocacy groups and the media have policing roles as well. Action on all these measures could have a greater impact if pursued simultaneously as part of an integrated package.

State subsidies and support for party development

17. Many countries have chosen to level the financial playing field between political parties through the introduction of state subsidies. Some of these measures are clearly justified in their own right; others are more controversial and their impact on illegal party financing is not clear.

18. Clearly desirable subsidies include fair access to state media (national television remains state-controlled in most countries) or direct public funding for certain activities such as policy research. As ruling parties invariably use public vehicles and premises, these too might be shared more equitably.

19. On the other hand, cash payments to political parties to finance their campaigning or other political activities do not seem to guarantee probity in party financing. Even state financed parties, especially those in power, are tempted to take advantage of opportunities to corruptly acquire additional illegal contributions. Germany provides a recent example of this.

20. State financing has other risks. For example, where poorly conceived, state funding can lead to a multiplication of small and weak parties, have a negative effect on party development and lead to a 'freezing' of the political party landscape. In South Africa for example the UDF party threatened to challenge the Public Funding of Represented Political Parties Act 1998, arguing that it was unconstitutional as it discriminated against non-represented parties.

21. However, do poor countries have adequate sources of legitimate financing? Certainly state funding of parties in Africa has resulted from pressure from opposition parties since the emergence of multiparty systems during the 1990's. It is argued that party members are too few in number and too poor to contribute. National business and

³ Annex 1 gives details of the new UK legal framework for party finance.

trade unions too underdeveloped to provide support to a broad platform of opinion. In these cases state financing, like raising pay to a living wage, might be a necessary, but not a sufficient condition for replacing illegitimate sources with legitimate sources of funding.

22. We have not found any evidence to show that state funding reduces abuses. And state subsidies make little sense unless expenditure is also regulated. But State funding may level the playing field to some degree between parties. A justifiable example was AGHCD's support with the Secretary of State's agreement through the National Elections Board in Ethiopia. A multi donor group provided support to parties other than government to campaign during the election period in 2000. The total donor contribution was £500,000; DFID's share was £100,000. The mechanism worked fairly well. And most importantly the country began an evolution to a more pluralistic political system, even if the election was not trouble free.

23. In the longer term political party development is probably part of the solution. We can assist through the Westminster Foundation with building party capacity to develop membership, improve management, campaign efficiently and effectively, enhance policy formulation and raise resources.

Civic education

24. People's experience of politics in developing countries owes more to informal traditions than the formal rules. Their expectations are low but include receiving favours at elections and from their elected representative on their election. The failure of state service delivery reinforces these expectations. Indeed favour seeking may seem a rational response to their predicament.

25. The better prospects now of improving services and tackling corruption more widely creates the possibility of changing expectations. Civic education, improved advocacy and political organisation around issues could change poor people's demands of politicians. The aim should be to persuade people to explore new kinds of demands, for example, for honest and effective public services in place of vote-buying, welfare or the small investments financed by politicians.

International action

26. Our objectives at the international level should include action to introduce constraints on bribery that originates from developed countries and goes into politics in developing countries. We can increase the pressure for action on party political financing and mobilise international organisations to support such action.

OECD Convention on bribery

27. Developed countries should extend their collective commitment against corruption to cover bribes by their nationals that go towards political party financing. The OECD Convention currently covers only the bribery of foreign public officials which includes Members of Parliament and local councils (“any person that holds a legislative office”) but does not extend to political party financing. OECD members could not agree in 1997 on extending their action into the party political sphere and decided to postpone consideration of the subject. DFID subsequently provided the Secretariat additional financial resources which they have used in part to advance this agenda. Following a TI sponsored meeting in October 2000, the OECD Bribery Working Group held an informal session in February 2001 on ‘Bribery acts in relation to Foreign Political Parties’. The US favoured early action; Japan seemed reluctant to address the issue; and France, the Netherlands and some others favoured a slower, more investigative approach. The DTI (representing the UK), who had not alerted us to the session in advance, stayed silent.

28. The Secretariat’s opinion (offered directly to us subsequently) is that the ground is moving. There has been a positive shift from an earlier general view held by member states that this was a non-problem (other than for the US) to a wider acceptance that the subject needs close consideration and a clear decision that, if the Convention is not the right vehicle to address the issue, what avenue should be pursued. The Secretariat are however constrained by the current wide range of opinions from pressing ahead as rapidly as we would like. The present proposal is for more investigation by questionnaire which would not be completed until mid-2002.

29. There is an opportunity at the May OECD council meeting to shift the debate forward. We will consult with DTI on the UK adopting a forward position and the prospects of building an alliance with the US and others.

The Commonwealth

30. The Commonwealth Heads of Government agreed on 'Commonwealth Framework Principles on Combating Corruption' at Durban in 1999. These included a proposal that within national strategies there should be rules on the funding of political parties which served to:

- prevent conflicts of interest and the exercise of improper influence;
- preserve the integrity of democratic political structures and processes;
- proscribe the use of funds acquired through illegal and corrupt practices to finance political parties; and
- enshrine the concept of transparency in the funding of political parties by requiring the declaration of donations exceeding a specified limit.

The Secretariat is running a seminar on the issue in June 2001 as part of a series on deepening democracy. We have expressed interest in helping them build on this initiative.

UN Convention on Corruption

31. Discussion of the proposed UN Convention is just beginning. There has been some debate in the G7 and preparation in Whitehall is underway for the Global Forum on Corruption to be hosted by the Dutch in May. The Dutch are positioning the Forum to be the first international discussion of what the UN Convention should contain. DFID has shifted the UK position so that it includes a substantial development perspective. This includes support for action on political financing - the Commonwealth principles are a possible starting point. We will work with Dutch development officials and others at the May forum.

Multi-lateral partners

32. We are pressing the EU Development Working Group to include a specific reference to anti-corruption measures in the draft of the Council Conclusions on EU Electoral Assistance and Observation. We have encouraged UNDP to include a political corruption component under their elections and political party programme.

Research & dissemination

33. More research, and dissemination of the results, is required in this area. The International IDEA has invited DFID to support the roll-out of its handbook by financing a series of seminars in developing countries. We propose that we should do so if we are satisfied about the quality of the research. The American-based International Federation of Election Systems (IFES) are developing a proposal for further research and dissemination work is being developed by which will include the development of a compendium of campaign finance laws and reform efforts and the dissemination of the compendium amongst a range of relevant actors including politicians and party leaders.

Conclusion

34. Corruption in political financing is a central issue for the deepening of democracy and combating corruption. There is no certain prescription but there is scope for extending self-evidently important measures more comprehensively amongst developing countries. DFID has not been engaged at country level in a systematic way hitherto but there are measures that merit support and would be best pursued as part of a coherent programme in collaboration with other development agencies. Action at international level is in hand but at an early stage. Governance Department is in the process of forming international partnerships to advance the international agenda and to identify the best expert support for developing countries.

ANNEX 1

UK Legal Framework surrounding political party funding and election finance

The UK legal framework surrounding political party funding is contained within the Political Parties, Elections and Referendums Act 2000 which follows recommendations from the Committee for Standards in Public Life.

The key elements of the Act are as follows:

1. The Establishment of an **Electoral Commission** with the following functions:

- * Reports on elections and referendums.
- * Reviews of electoral and political matters.
- * Commission to be consulted on changes to electoral law.
- * Powers with respect to elections exercisable only on Commission recommendation.
- * Involvement of Commission in changes in electoral procedures.
- * Giving of advice and assistance.
- * Broadcasters to have regard to Commission's views on party political broadcasts.
- * Policy development grants.
- * Education about electoral and democratic systems.
- * Boundary committees.

2. The **Registration of Political Parties** and the establishment of a scheme of registration which brings political parties within the Act's controls on accounting and funding.

3. **Accounting Requirements for registered parties** with a requirement for registered parties to maintain accounts of their income and expenditure and to submit an annual statement of accounts to the Electoral Commission

4. **Control of Donations** with a prohibition on foreign donations and a requirement for **disclosure** of donations to the party over £5,000 (and locally £1,000)

5. **Control (limits on) of campaign expenditure** (Westminster, European and devolved elections (distinct from limits on candidate expenses introduced in 1993). The maximum limits are £30,000 multiplied by the number of constituencies contested. There is a minimum limit of £810,000 in England, £120,000 in Scotland and £60,000 in Wales (for those only contesting a small number of constituencies).
6. There are controls of election expenditure by third party individuals and organisations.
7. **Rules on the fair conduct of referendums** are introduced including grants of up to £600,000 to campaign bodies
8. **Controls remain on candidate expenses** as per the 1983 Representation of the people Act.
9. **Shareholder consent** for company donations.
10. **Enforcement** is undertaken by the Electoral Commission and the Civil and Criminal Courts.

People consulted on Political Party Financing

Donors and Multilateral Organisations:

Netherlands Ministry for Foreign Affairs: Buitenlandse Zaken, Policy Officer
Peacebuilding and Good Governance Division

USAID: Michelle Schimp, Susan Kosinsky, Gene Ward

Commonwealth Secretariat: Chris Child

UNDP: *Phil to add*

OECD Secretariat: *Phil to add*

Non-Governmental

International IDEA: V J Pattedar, Patrick Molutsi

IFES: Helen Chauncy

Transparency International: Carolin Schlippe

Westminster Foundation for Democracy: Andrew Bache

OSCE - Eastern Europe: Harair Balian

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