Financing Democracy

Supporting Better Public Policies and Preventing Policy Capture

Julio Bacio Terracino, Project Manager
Public Governance Directorate, OECD

Yukihiko Hamada, Policy Analyst
Public Governance Directorate, OECD

INTRODUCTION

1. Money is a necessary component of the democratic processes, enabling representation and facilitating democratic competition. However, if the financing of political parties and electoral campaigns is not adequately regulated, money may also be the means for undue influence and policy capture by narrow private interests, resulting in further erosion of public trust in governments.

2. Certainly, access to resources for political parties and candidates shapes political competition. There is a **correlation between campaign spending and performance in elections**, meaning that well-funded candidates are likely to defeat opponents with fewer resources (Silver, 2013; Speck and Mancuso, 2013). However, did the candidate win because he/she had more money than the opponent, or because he/she was able to mobilize more funds as a result of a greater support from the electorate? There is not yet a consensus on the **question of causality** between donations and election outcomes. Within certain limits, the regulation of money in politics can influence the process of political competition, fostering party organisations, establishing incentives for new competitors or consolidating existing parties.

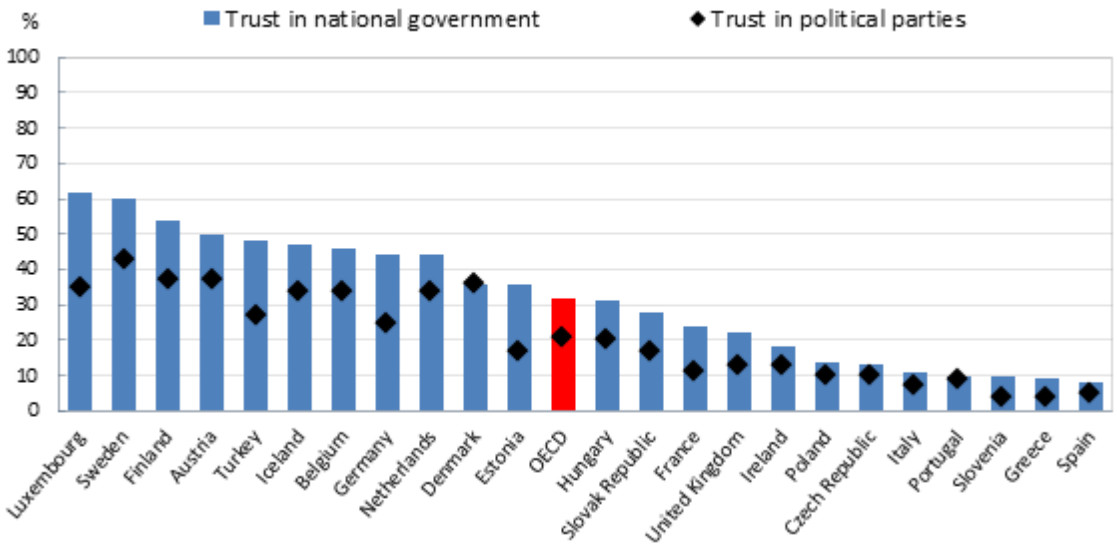
3. Money allows candidates to **communicate** with voters and to challenge traditional political elites, making politics more competitive. In addition, money enables political parties to shape the public debate with policy options, and also recruit and train new political leaders from different social backgrounds, thereby **making the representation of views and policy options more inclusive**.

4. Donating money is also a way to **participate** in the political process - complementary to giving time, expressing an opinion or other forms of collective action. Money plays a role both as a channel for citizens to support their candidates or political parties, and as a means for candidates and political parties to reach out to potential voters in their constituency, thereby encouraging active political participation.

5. Yet, the legitimacy of financing the democratic process can become tainted by risks that threaten to undermine its very purpose. Although money is necessary for political parties and candidates to exist, operate, and reach out to their voters, there is also a **risk that some parties and candidates, once in office, will be more responsive to the interests of a particular group of donors** rather than to the wider public interest. Donors may also expect a sort of "reimbursement" for donations made during an election campaign and to benefit in future dealings with the respective public administration, for instance through public procurement or law-making.

6. Indeed, in a number of countries money is perceived as having undermined the government decision-making process, which has led to decreasing levels of trust in government. The 2013 Edelman Trust Barometer found that 50% of respondents surveyed in 26 countries distrusted government. Amongst the key factors they cited to explain the prevailing distrust were "wrong incentives driving policies" and "corruption/fraud". Together, the two factors accounted for half of all reasons for trusting government less. In addition, the Eurobarometer shows that while levels of trust in government are low, trust in political parties is even lower (Figure 1).

Figure 1. Trust in government and trust in political parties in 23 European OECD countries (2013)



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Notes: Trust in national government: % of "tend to trust" answers to the question: I would like to ask you a question about how much trust you have in certain institutions. For each of the following institutions, please tell me if you tend to trust it or tend not to trust it. Trust in political parties: % of "tend to trust" answers to the question: I would like to ask you a question about how much trust you have in certain institutions. For each of the following institutions, please tell me if you tend to trust it or tend not to trust it? Political parties.

Source: Eurobarometer.

7. **The 2014 Meeting of the OECD Council at Ministerial Level** reaffirmed that the OECD would focus on a comprehensive effort to promote integrity and anti-corruption measures, improve the effectiveness of policy formulation and implementation in areas where trust is particularly relevant and help governments strengthen the inclusivity, transparency and credibility of their policy-making process. The **OECD Strategy on Trust**, includes a module on "Securing fairness in policy making" in which curbing policy capture by private interests and ensuring political participation is one of its main elements. This paper builds on the discussions and findings of the *2013 OECD Policy Forum – Restoring Trust in Government: Addressing Risks of Influence in Public Decision Making* and presents a framework of policy objectives and options to adequately regulate the financing of political parties and electoral campaigns and thus strengthening the integrity and credibility of the government decision- making process (Table 1).

Table 1. Financing political parties and electoral campaigns: Framework for preventing policy capture and undue influence and supporting better public policies

Policy Objective	Policy options	
Promoting a level playing field	Balancing funding through direct and indirect public contributions	Direct funding which entails a monetary transfer to parties, candidates: • Clear and equitable criteria such as equal access and proportionality.
		Indirect funding, including tax exemptions, subsidized access to media, meeting rooms, etc.
	Framing private funding	Banning certain types of private contributions, in particular: • Foreign interest. • Corporations with government contracts or partial government ownership. • Corporate donations, trade unions, etc. Limiting anonymous donations.
	Applying spending limits	Clear limits based on absolute amount, % of total public funding, certain amount per citizen in the electoral district, etc.
	Limiting privileged access to state resources	Controlling abuse of state resources: • Ban the use of state resources for political purposes. • Ban state resources being given to or received by political parties or candidates (except regulated public funding). • Ban disproportionate government spending on advertising before or during campaigns, hiring new public servants and signing large public contracts.
		Preventing the reimbursement for donations or retaliation against opposition: • Bans on state resources being used in favour or against a political party or candidate. • Reforming vulnerable sectors to ensure that campaign donations do not generate kickbacks to donors (e.g. through public procurement, PPP, licenses, privatisations, concessions, public loans, tax benefits).
Ensuring transparency and accountability	Requiring disclosures	Requiring comprehensive reporting, including: • Timely provision of information. Not limiting reporting to how public funds have been spent, but also include private donations.
	Enabling scrutiny	• Timely, reliable, accessible and intelligible public disclosure of reports. • Promote media and civil society scrutiny.

Fostering a culture of integrity	Applying the integrity framework in the public sector	• Code of conduct. • Conflict of interest and asset disclosure provisions. • Disclosure on lobbying. Inclusive policy making, public consultations, etc.
	Promoting standards of professionalism, integrity and transparency in private donors	Self-regulation of financing of political parties and electoral campaigns: • Private sector codes of conduct. • Responsible lobbying.
Ensuring compliance and review	Assuring independent and efficient oversight	Strengthen independence of monitoring body and process: • Independent appointment of members • Ensure security of tenure to members • Independent budget for the body to conduct monitoring Provide capacity: • Sufficient resources • Specialised auditing capacities and methodologies
	Providing for dissuasive and enforceable sanctions	Proportionate and dissuasive sanctions, for example: • Lose public subsidies. • Confiscation of illegal donations or funds. • Fines. • Criminal charges such as imprisonment. • Ineligibility: loss of elected office, forfeiting right to run for elections. • Deregistration or suspension of a political party. Enforcement of sanctions in a timely manner.
	Appraising the system	Reviewing periodically (with the involvement of stakeholders) the functioning of the system and making necessary adjustments: • Identify new risks to the policy objectives of the system. • Identify mitigation strategies.
	Support to political parties	Providing support to political parties to help them comply with regulations: • Setting up a support agency or unit within the monitoring agency focused on supporting compliance. • Dialogue between parties and monitoring agencies in order to facilitate adherence to the rules and allow for better understanding of political finance.

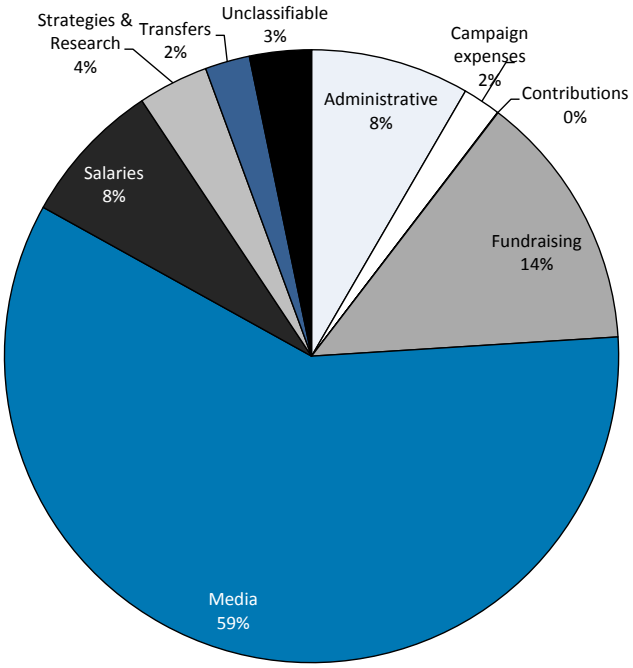
ENSURING A LEVEL PLAYING FIELD

8. Political parties are at the centre of the representative process. They aggregate and voice citizens demands and concerns, nominate candidates for office, run government when they are in office and hold government accountable when they are in opposition. Money is a critical tool for parties to organise collective actions, and reach out to voters.

9. Financing political parties and election campaigns is influenced by – and has influence on - relations between parties, politicians, businesses and the electorate. Political financing includes financial resources raised and spent by parties or candidates in the process of political competition. Money plays an important **enabling and empowering role**, regulations principally aim to limit its distorting effects on political competition and **curb risks** of undue influence stemming from money in politics.

10. Where strong party organisations exist, the demand for resources comes to cover recurring **annual expenses** of political party administration, public outreach as well as selecting and grooming candidates. In addition, the mobilisation of resources is needed during election campaigns for professional campaign management, including public relations, the expertise of consultants, and communication with voters (see for example Figure 2 for expenditure during the 2012 election cycle in the United States).

Figure 2. Expenditures during the 2012 election cycle in the United States



Note: The information in this graph is based on Federal Election Commission data released electronically on Monday, March 25, 2013. Total expenditure during the 2012 presidential campaign was USD 1,292,161,284. A detailed breakdown of the categories presented in the graph is available online at http://www.opensecrets.org/pres12/expenditures.php

Source: Center for Responsive Politics, http://www.opensecrets.org/pres12/expenditures.php

11. Recognising the risks associated with vested interests influencing policy making, a combination of measures to ensure a level playing field among actors has been introduced by OECD countries in political finance regulations. This includes, in particular, the balancing of public and private funding, the regulation of direct and in-direct state contributions, and spending limits for political campaigns.1 In addition, other related issues such as conflict of interest and lobbying have been regulated in order to ensure the fairness of the democratic process.

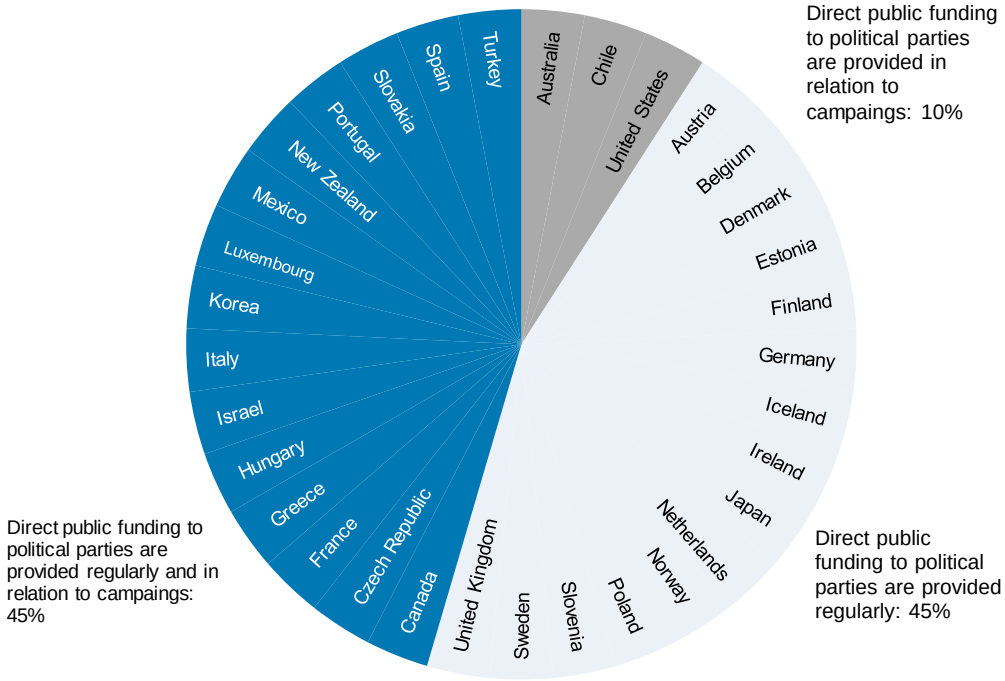
The financing of political parties and election campaigns: Private or public?

Balancing funding through direct and in-direct public contributions

12. Public funding sustains the institutionalisation of political parties in democracies as they benefit from the necessary financial support to conduct their daily activities. It also reduces their dependence on private funding. Such support strengthens the capacity of political parties and to level the electoral playing field.

13. All OECD countries provide direct public funding to political parties except Switzerland. Among the 33 OECD Members, direct public funding to political parties are provided regularly in 15 countries, in 3 countries direct public funds are provided only if it is related to campaigns. 15 OECD Members provide regularly funding to political parties and provide funds in relation to campaigns (Figure 3).

Figure 3. Direct public funding to political parties



Source: IDEA International Institute for Democracy and Electoral Assistance.

14. However, the eligibility criteria for receiving public funds may depend on the votes in previous election, representation in elected body, share of seats in previous election among others (see Table 2).

1 For more detailed discussion on political finance regulations in OECD countries see OECD (2013), Investing In Trust: Leveraging Institutions For Inclusive Policy Making.

Box 1. The eligibility criteria for receiving public funds

- In **Austria**, parties are eligible for public funding if they have obtained at least 1% of the votes in the previous election.
- In **Turkey**, parties must obtain at least 7% of the votes in the past election.
- In **Belgium** funding is only available to parties with Parliamentary representation.
- In **Chile** funding is available to all political parties that nominate candidates in elections.

Table 2. Eligibility criteria for direct public funding to political parties

Country	Share of votes in previous election	Representation in elected body	Share of seats in previous election	Participation in election	Number of candidates	Registration as a political party	Other
Australia	x						
Austria	x	x	x				
Belgium		x					
Canada	x						
Chile				x			
Czech Republic	x	x					
Denmark	x						
Estonia	x	x					
Finland		x					
France	x						
Germany	x						
Greece	x	x			x		
Hungary	x	x		x			
Iceland	x	x					
Ireland	x						
Israel		x					
Italy		x					
Japan	x	x	x				
Korea	x	x	x				
Luxembourg	x				x		
Mexico	x					x	
Netherlands		x					x
New Zealand		x				x	x
Norway	x	x					x
Poland	x						
Portugal	x	x		x	x		
Slovakia	x	x					
Slovenia	x						
Spain		x					x
Sweden	x	x					
Turkey	x						
United Kingdom	x	x					x
United States	x						x
OECD 33	25	20	3	3	3	2	6

Notes: Other refers to numbers of party members in the Netherlands; Party must give notice in New Zealand; For part of the funding there is no threshold in Norway; Not having in leading position someone found guilty of serious offence in Spain; Share of seats in next election in the United Kingdom and Share of votes in next election as well as Limit campaign expenses and private contributions; providing closed captioning in TV commercials for hearing impaired individuals in the United States.

Source: IDEA International Institute for Democracy and Electoral Assistance.

15. Furthermore, the calculation of the allocation of direct public funding to political parties varies across OECD countries (Table 3), amongst equal access and proportionality are the dominant policy options.

Table 3. Allocation calculation of direct public funding to political parties

Country	Equal	Proportional to votes received	Proportional to seats received	Flat rate by votes received	Share of expenses reimbursed	Other
Australia				x		
Austria	x	x		x		
Belgium	x	x				
Canada				x	x	
Chile				x		
Czech Republic	x	x		x	x	
Denmark				x		
Estonia	x	x	x			
Finland			x			
France		x	x			
Germany				x	x	x
Greece	x	x				
Hungary	x	x				x
Iceland	x	x				
Ireland		x				
Israel	x			x		
Italy		x				x
Japan		x	x			
Korea	x	x			x	
Luxembourg	x	x				
Mexico	x	x				
Netherlands	x		x			
New Zealand		x	x			
Norway		x				
Poland		x				
Portugal	x	x				
Slovakia		x	x			
Slovenia	x	x				
Spain		x	x			
Sweden	x	x	x			
Turkey		x				
United Kingdom		x	x			x
United States	x					
OECD 33	16	24	10	8	4	4

Notes: In addition to the categories listed in the table, the category "other" includes the following: In Germany, funding cannot be higher than the private funds raised by the party. In Hungary, 25% is distributed equally among parties with Parliamentary representation, and 75% in proportion to the votes of the party and the candidates of the party in the first valid round in parliamentary elections. In Italy, 30% of the funds are distributed according to the parties' self-financing capacity (0,5 euro for each euro received annually from private funds, up to 10,000 euro). In the United Kingdom, funding relating to the House of Commons is proportional to seats and votes won. Funding relating to the House of Lords is determined by the House of Lords Policy Development Grants which in accordance with a formula weighted by votes won in preceding election.

Source: IDEA International Institute for Democracy and Electoral Assistance.

16. The most common policy option is distributing resources according to **past record**, for example **proportional to** the share of votes or the share of seats in past elections. This reflects past performance and such distribution helps parties reproducing past results. If resources matter for electoral success, and if public funding covers a significant share of overall expenses, proportional distribution of funding may allow parties to replicate past results.

17. Another common allocation is based on **equal access** to public funding, where all candidates or parties have access to the same amount of public funding. State funding based on equal shares of resources

creates incentives for new competitors to run for election. When all parties receive equal shares of resources, and no other thresholds to participate in elections exist, one expected drawback is to have a proliferation of political parties to run for office.

18. A third option for the allocation of funds is **performance based**. After elections, political parties will have some of their expenses reimbursed, depending on the number of votes or seats received. The performance of parties depends on the capacity to generate funding in advance, either from loans or from savings. This system sets strong incentives for competitors to take risks. Depending on the success at the polls, parties will be able to balance the budget, or to walk away with campaign debts.

Box 2. Allocation criteria for public funds in Australia, Estonia and the United States

In **Australia**, parliamentary parties receive a flat rate for each vote won (€2.5/vote). For parliamentary parties, the total funding (€4.6/eligible voter) is divided proportionally by votes won after deduction of €218,000 for each party with at least five parliamentary seats. This amount is then given equally to each eligible party.

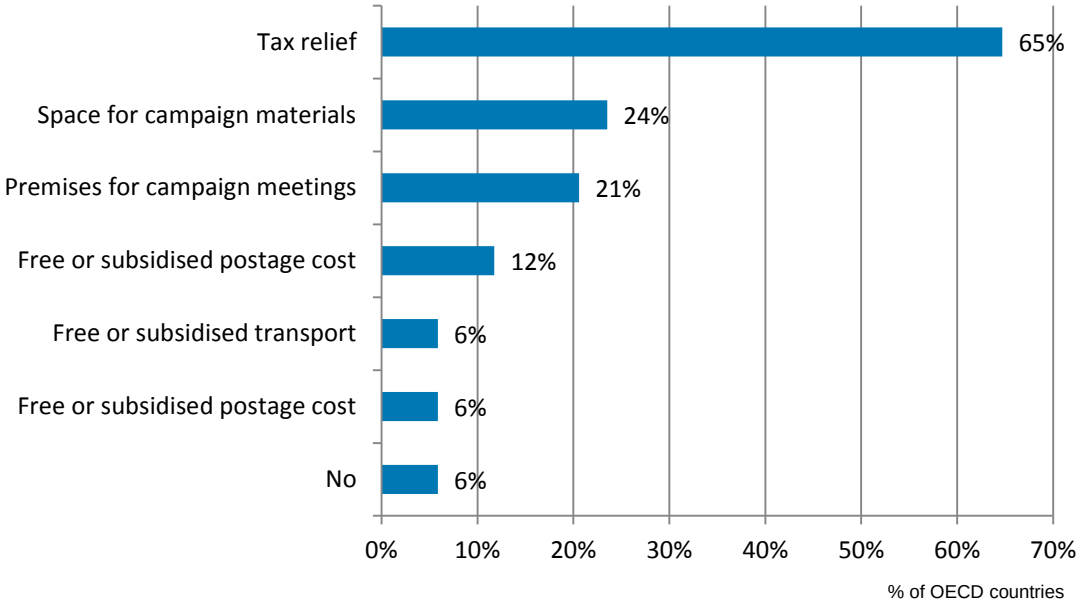
In **Estonia**, equal amount is provided to smaller parties while larger parties receive funding proportional to votes and seats won.

In **the United States**, public funding is distributed equally between eligible major parties in the general election. Minor parties eligible for public funding receives an amount which bears the same ratio to the major parties public funding as the number of popular votes received in the previous presidential election does to the average number of popular votes received by the major parties.

19. 43% of OECD countries set provisions on **how political parties should use direct public funding**. For instance, in Greece direct public funding should be used for campaign spending, ongoing party activities and research and study centres. In Ireland, it needs to be used for ongoing party activities and for the promotion of women and young persons' participation. In Mexico and the Netherlands, direct public funding must be used for campaign spending, ongoing party activities and intra-party institution. In Slovenia, it is specified the direct public funding cannot be used for loans, settling fines, donations or to support Presidential election campaigns.

20. Furthermore**, countries also provide indirect public funding** to political parties. It can take a variety of forms, including tax breaks, free access to public services including airtime, access to public buildings, provisions of goods, and allocation of financial resources. Considering the impact of resources on political competition, the two most important policy options countries use for public subsidies are financial support and free airtime (Figure 4).

Figure 4. Most common types of indirect public funding

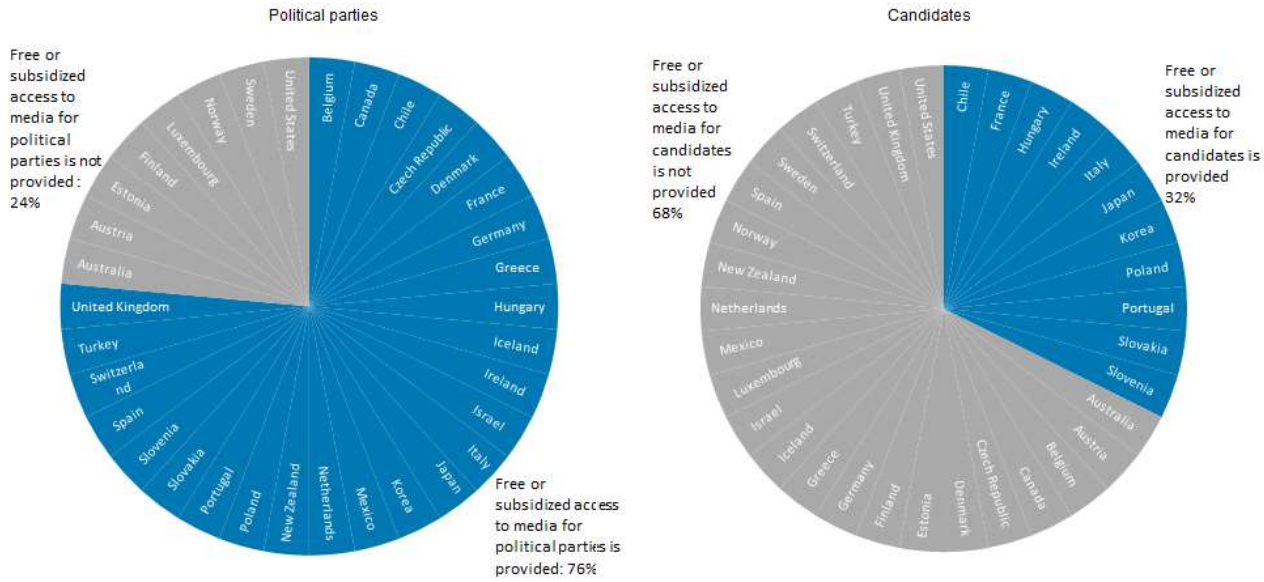


Source: IDEA International Institute for Democracy and Electoral Assistance.

21. **Tax exemption** is the most common policy option for indirect public funding. For example, in Finland, donations to parties (and to candidates if total amount donated is less than EUR 3,400 over three years) are tax exempt. Political parties are not subject to income tax in Portugal and the United States. For instance in Belgium, campaigns enjoy exemption from tax stamps for election posters, advertising space, preferential treatment for election mail and free provision of a copy of the electoral register.

22. Another type of indirect public funding is **free or subsidized access to media** for political parties or candidates. The media plays an important role in conveying parties' or candidates' messages to the widest audience possible. While 76% of OECD countries give free or subsidized access to media for political parties, only 32% do the same for candidates (Figure 5). For instance in Chile, it only applies to television during the 27 days prior to the end of the campaign period, and in the case of legislative elections. In Hungary, for example, media programme providers publish free of charge the political ads produced by nominating organisations and candidates on the last day of the election campaign. In Mexico, political parties are granted free permanent access to radio and TV. Political parties are not allowed to buy airtime, directly or indirectly. On the other hand, in Australia, broadcasters must give all parties reasonable opportunity to broadcast, but must not offer free or subsidized access.

Figure 5. Free or subsidized access to media for political parties and for candidates



Source: IDEA International Institute for Democracy and Electoral Assistance.

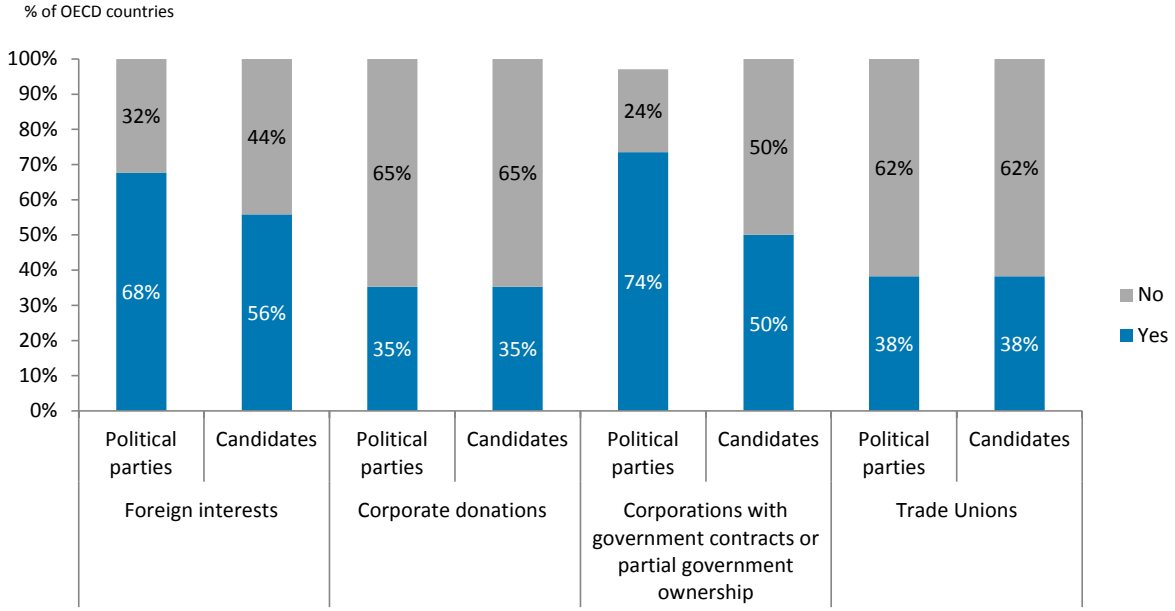
23. Despite a general trend of promoting public funding, it raises today many questions on whether it has effectively foster fair political competition. One of the **growing challenges** is, for instance, **how to adequately allocate** indirect public funding while ensuring a level playing field between parties. Another concern is to understand to which extent direct public funding creates a level playing field between stakeholders. For example, the criteria of allocation to parties according to past electoral performance allow major traditional parties to rely on public funding while new competitors or small parties cannot benefit from it. This could lead to a cartelisation of political parties (Katz and Mair, 1995).

Promoting or limiting private funding?

24. Private funding indicates supports from the society at large to the political party or candidate and is often recognised as a fundamental right of citizens. OECD countries increasingly regulate private funding, in particular to avoid **risk of undue influence** and corruption.

25. There is an increasing trend to regulate private funding in OECD countries. Regulating private funding underlies a concept of **banning or limiting sources** or amounts of financing. Sources considered inappropriate and therefore banned include foreign financing, financing from state organisations, such as state owned enterprises, from corporate donations or from Trade Unions (Figure 6.). The rationale for limiting the amounts of private donations are related to the extent of influence of single donors on the outcome of elections or on the process of policy making after election day.

Figure 6. Types of banned private contributions



Source: IDEA International Institute for Democracy and Electoral Assistance.

26. When private donations play a significant role in political funding, special attention is often paid to understand the extent of **specific sectors or single donors** hold a large share in the overall amount of funding. In Brazil, for example, corporate funding responds to 75% of overall campaign costs, and the group of 20 largest donors accounts for more than 30% of all donations from all 20,000 corporate donors. This represents both a considerable share and a high concentration. On the other hand, corporate donations constitute 7% of the annual income of all parties in Germany.

27. In addition, not all contribution limits shape actual contributions towards more equality. A few countries also linked contribution limits to the income of the donor. Companies in Brazil, for example, can contribute up to 2% of their turnover, while the limit is 10% of income for private citizens. In this case the design of contribution limits makes donors unequal under the law. A citizen with higher income can contribute more than others who earn less.

28. Another source of concern is anonymous donations. Seventeen OECD countries **ban all anonymous donations to parties** and 13 countries ban anonymous donations to parties above certain thresholds. 10 OECD countries ban all anonymous donations to **candidates** and 14 countries ban anonymous donations to candidates above certain thresholds.

29. Regulating private funding remains a very complex matter, it often generates debates on how to achieve **diverging policy objectives**: namely freedom of speech versus protecting the public interest.

30. Furthermore, new ways to **circumvent regulations emerged** if regulatory loopholes are not addressed (e.g. using membership fees to conceal donations, or rely heavily on loans and consequently on credit institutions).

31. **Membership fees** to parties can, for instance, also be used to circumvent limits on private donations. In France, for instance, there is no limitation of membership fees. The French authorities

recognised the problem, however, could not change the situation as regulating membership fees would infringe the constitutional principle of political parties' freedom of organisation (Article 4 of the Constitution). Aware of such risks, some countries introduced mandatory transparency requirements in relation to membership fees: in Estonia, for instance, the 2010 reform of political financing regulations, obliged parties to register donations and membership fees separately and to publish them in a public register maintained by the parties on their websites. This public register must include the name and personal identification of the party member paying the fee as well as the amount of the fee and date of payment.

32. Other emerging risk not covered by regulations are the **loans** granted to parties/candidates or **sponsorships**. This may be considered hidden private funding. Countries defined their own model for regulating this source of funding. In Spain, for instance, the high indebtedness of parties was recognised by the Third Evaluation Round of GRECO as a challenge to the independence of parties' vis-à-vis credit institutions. The Spanish Court of Audit – also a main institution responsible for the control of party funding, but with non-binding recommendations – had already highlighted this risk to parties in particular as it observed many irregularities in the management of the loans granted to parties.[2] Turkey on the other hand has simply **forbidden** parties from borrowing money or taking loans. In Italy, while taking loans is not forbidden, all candidates to the national parliament and regional councils need to include their debts incurred for campaigning in the **accounting report** and elections statement that they need to provide to the board of Comptrollers.

Spending limits for political campaigns: promoting integrity and fairness or a limitation of political expression?

33. Setting spending limits for parties or candidates during electoral campaigns contribute to reducing the overall cost of election and **preventing a spending race** between political parties and between candidates. Spending limits could also promote a plurality of information and limit the incentives for undue influence and corruption stemming from high expenditures. On the other hand, opponents of spending limits argue that spending money on political campaigns falls under the fundamental freedom of free speech, and that any limitation of spending equals a limitation of political expression (Citizens United vs. Federal Election Commission, 2010).

34. Research has also shown that resources are more important for challengers than for incumbents. Consequently, spending limits would only establish equality formally, while de facto causing a disadvantage for challengers who need more funds to unseat an incumbent candidate.

35. There are no limits in 35% of OECD countries on the amounts a political party or candidate can spend (Figure 7). 47% of OECD countries have **introduced spending limits** for both political parties and candidates. 12% of Members only limit the amount a candidate can spend but not political parties, and 6% limit the spending by political parties but not candidates. For example, in France, Iceland, Ireland, and Japan, there are spending limits on the amount a candidate can spend, but no limits for political parties. In Spain and the United States, there are spending limits for political parties but not for candidates. See additional example in Box 3.

[2] Recommendation i. "GRECO recommended to take appropriate measures to ensure that loans granted to political parties are not used to circumvent political financing regulations"(Paragraph 74).

Box 3. Spending limits in Austria, Canada, Italy, New Zealand and Portugal

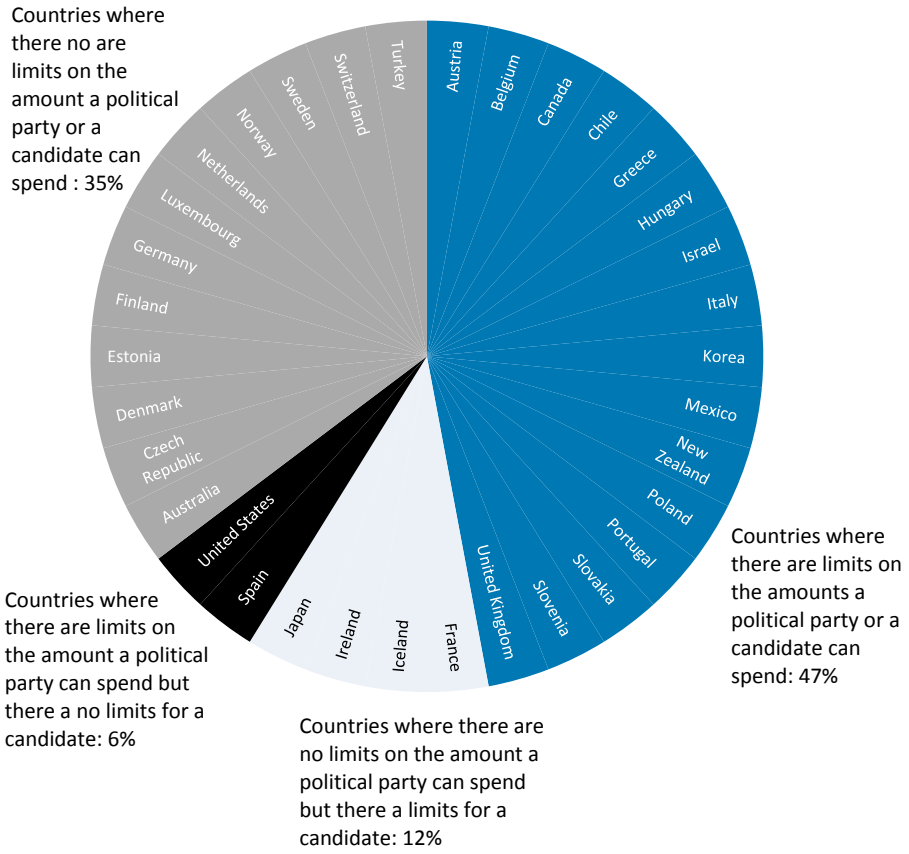
Spending limits **for parties** vary between countries:

- In **Austria**, an absolute amount of €7 million per political party is established.
- In **Canada**, the spending limit for a political party equals CAD 0.70 multiplied by number of names on the electoral list(s).
- In **Portugal**, the spending limit ranges between 150 and 12,500 minimum monthly wages depending on election type.
- In **Greece**, the limit is calculated as 20% of the most recent total annual amount of regular public funding received.

Similar approaches emerged for establishing spending limits **for candidates:**

- In **New Zealand**, a candidate can spend NZD 25,000 [USD 17,000] for general elections or NZD 50,000 [USD 35,000] for by-elections.
- In **Italy**, candidates can spend € 52,000 plus € 0.1 per citizen in the electoral district, in addition to the limit for political parties.

Figure 7. Spending limits for candidates and political parties in OECD countries



Source: IDEA International Institute for Democracy and Electoral Assistance

36. An emerging challenge to spending limits is to effectively apply restriction on third party spending. If not, the limits will be evaded by re-channelling election spending through supposedly independent committees and interest groups.

Limiting privileged access to state resources

37. Recent evidence from OSCE showed a correlation between privileged access to State resources and corruption. International instruments, such as the OSCE Copenhagen Declaration promotes a clear separation between the State and political parties. Similarly, the 2003 Council of Ministers Recommendation emphasises that "States should ensure that any support from the state and/or citizens does not interfere with the independence of political parties".

Misuse of state administrative resources

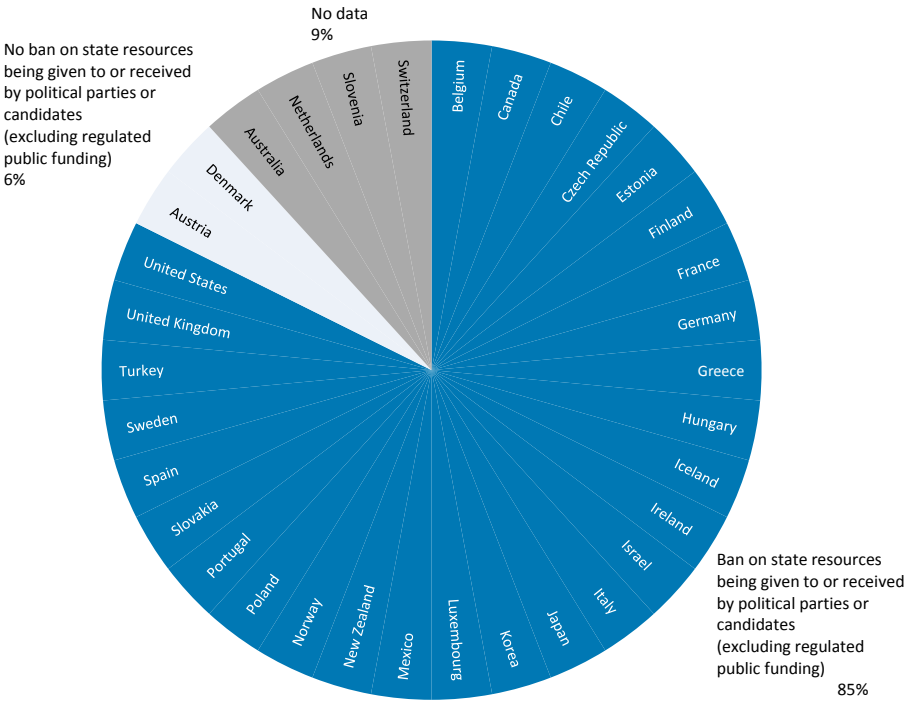
38. Abusing government resources to promote re-election of those in power or unilaterally subsidizing political parties unbalance the playing field of political competition. The abuse of administrative resources includes government officials using **official vehicles** during campaigns, **printing** campaign material in national printing offices or holding party meetings and rallies in **official precincts**. In the case of incumbent officeholders running for re-election, abuse of public resources includes legislative office staff working for the campaign and travel costs being billed as expenses.

39. While the debate on solution for abuse of administrative resources tends to focus on legal measures, it is important taking into account underlying historic and structural factors. In countries where one-party regimes were in place for a long time, the separation between the state and the ruling party is often still blurred. Regulatory measures like bans and limits for the government to use state vehicles, mobilize public servants or limit public propaganda may fall short of getting hold of the problem.

40. The World Bank recommended in 2000 a "ban" on the use of state resources for political purposes: “Parties in government should not use state **funds, postal services, cars, computers**, or other **assets** for political purposes or in election campaign” (World Bank, 2000).

41. 85% of OECD member countries have banned state resources being given to or received by political parties or candidates (except the regulated public funding) (Figure 8). For instance, in Canada, Portugal and Poland only individuals can make a contribution to a registered party, a registered association, a candidate, a leadership contestant or a nomination contestant.

Figure 8. Countries banning state resources being given to or received by political parties or candidates (excluding regulated public funding)



Source: IDEA International Institute for Democracy and Electoral Assistance.

42. Some countries employ short term measures to prevent the government from abusing its advantage for re-election. There are bans on disproportionate government spending on **advertising before elections**, **hiring** new public servants, and **signing public contracts:**

1. Since communication is a key asset in election campaigns, public advertising is a target for abuse during election campaigns. One indicator for abuse of public advertising for electoral purpose is **increased spending** on government advertising in election years.

2. Regarding hiring new public servants, the rate of appointment of party politicians for positions in the civil service is an indicator for **politicisation** of public administration. In the Brazilian public administration 40,000 civil service positions are to be filled after each change in the national government. Such politicisation of public administration takes a toll on the efficiency and neutrality of public administration. The tradition of swapping large numbers of public servants with a change in government, known as the spoils system, is conducive to the abuse of administrative resources.

3. In the United States, for instance, it is **prohibited for contractor** that provides goods and/or services to the federal government or any affiliated department or agency to make any contribution to any political party, political action committee or candidate in connection with a federal election.

43. If there is a limit on permitted spending by candidates in Parliamentary election campaigns and if incumbent legislators are able to use public funds supposedly to carry out their duties to their constituents but in practice to campaign for their votes, there will be a doubly unbalanced effect. First, **incumbents** will obtain public funds while the challengers will not; second, the incumbents will be able to escape the spending limit by funding activities designated as "carrying out their legislative duties" while challengers will be unable to spend in parallel even if they are able to raise the funds to do so.

44. The issue of the use of public resources for partisan purposes reaches beyond central governments to legislatures, local government authorities and elected mayors and councillors, other public bodies as well as state governments in countries with federal systems. The policy of banning the use of such resources also comes up against the question of drawing a boundary between a use of resources for governmental or legislative purposes or for political purposes.

45. Underlying facts related to privileged access to State resources still need to be understood such as: the **incumbency factor** or incumbency advantage which entails that political parties have privileged access to certain public resources thus distorting the level playing field and political competition.

Reimbursement or retaliation for donations through public procurement or policies

46. In addition to the abuse of state administrative resources, state resources can also be used by incumbent parties to fund their electoral campaigns, and by elected officials, once in office, to reimburse or retaliate against private contributors. Just over half (53%) of OECD countries have **bans on state resources** being used in favour or against a political party or candidate.

47. A basic distinction can be made between influencing where politicians make decisions based on their **discretionary power**, and intermediation of **favours** granted by public administration which typically includes transgression of laws and regulations. In the first case lawmakers and governments shape laws and regulations of economic activities taking into account demands and interests from campaign donors, but also from lobbyists, public opinion, guidelines from political parties and their own convictions. In the second case, elected officeholders use their influence on civil service to arrange for donors to earn contracts, get access to public loans or earn other benefits. This **involves undue political influence** on public service and unlawful behaviour of public servants involved in policy making, public procurement, licensing, permissions or other areas where companies expect illegal favours in return for campaign donations.

48. Public opinion might accept a representative speaking for the interest of a specific economic segment, yet it may launch a public debate on the influence of donations. For example, in October 2013, the Christian Democratic Party of Germany's Chancellor Merkel received a large donation of €690,000

from one of the owners of the automobile company BMW. In the same week the German government used its position in the European Commission to negotiate exceptional rights for luxury cars – the segment of BMW – into new regulations on car pollution. Whereas the donation was transparent and did not contravene any law, it still led to public debate on the influence of political donations in the policy-making process (Deutsche Welle, 2013). Ultimately it is up to the media and the voters to buy into arguments justifying policy decisions or not.

49. The second type of buying of economic favours by means of campaign donations evokes a different response. For elected officeholders to be able to grant or intermediate favours to individual companies, they need to have **influence over parts of the public administration** responsible for public contracting, public loans, tax inspection or any other state activity that is in contact with the private sector. While the term of the corrupting influence of private donations on politics is often used metaphorically, it is in these cases that campaign donations come closest to bribery in its original sense.

50. Access to public procurement, for instance, has been used by elected officials in the past decade to "**return the favour**" to corporations that made important contributions to their campaign or to exclude corporations that supported the opponent as means of **retaliation**. Campaign donors can get access to overpriced public contracts; receive favourable conditions in public loans or receive other forms of illegal benefits from public administration. Private companies depending on government contracts can also be forced to make donations to the ruling party or be prevented from supporting opposition parties.

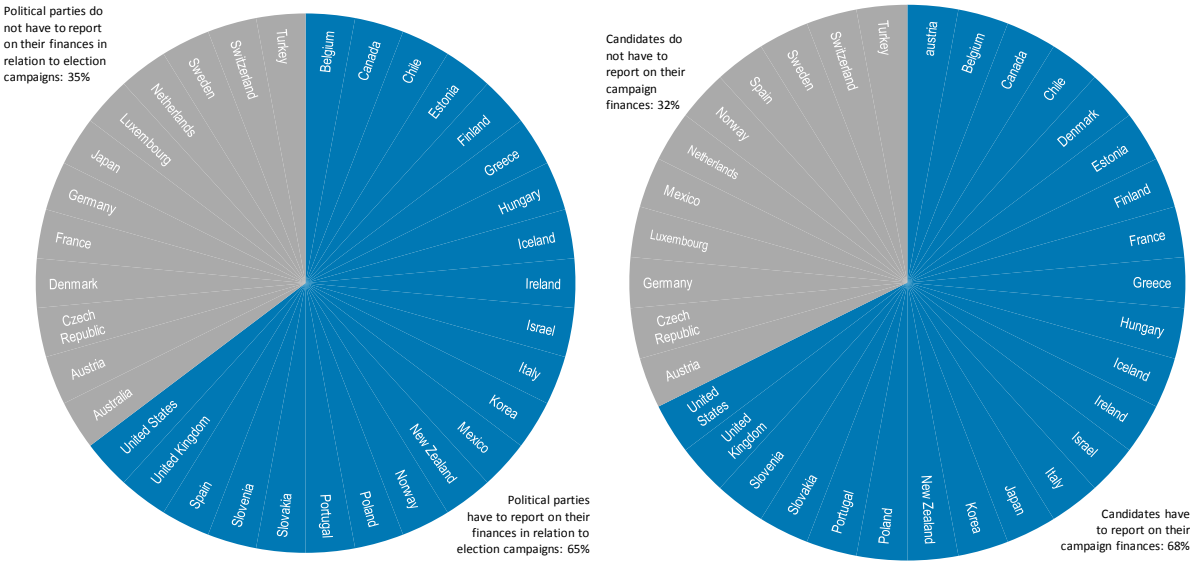
51. Neither legislators nor members of government should be able to force public servants to tinker with tax administration, concessions, subventions, export incentives or public procurement. When campaign donations render kickbacks through public contracting or policy, **reform of the integrity framework** in the public sector is a necessary complement to political finance reforms, enhancing resilience to undue influence and drying out the supply side of corrupt arrangements.

ENSURING TRANSPARENCY AND ACCOUNTABILITY

Disclosure requirements as a tool for ensuring accountability in the decision-making process

52. The United Nations Convention against Corruption and regional instruments, such as the Council of Europe Recommendation, recognise the importance of **keeping records** of election campaigns expenditure as well as keeping books and accounts of political parties and their affiliated entities. The recent GRECO Thematic Review of the Third Evaluation Round stressed that "a system that fails to ensure that sources of income and accounts are properly disclosed makes it much harder to monitor the application of the law and impose necessary sanctions". Among OECD countries, Switzerland is the only country where political parties do not have to report regularly on their finances. The majority of OECD countries require **candidates to report on their campaign finances** (68%), whereas political parties have to report on their finances in relation to election campaigns in 65% of countries (Figure 9).

Figure 9. Public disclosure of information in reports from political parties and/or candidates in OECD countries



Source: IDEA International Institute for Democracy and Electoral Assistance.

Box 4. Factors for designing effective disclosure requirements

A number of variables need to be considered when designing disclosure requirements, in particular:

- Who discloses the information, parties or candidates?

What types of information need to be disclosed, for instance income, expenditures, assets, and/or liabilities, public and/or private funding?

- To whom should the information be disclosed, for instance to election management body and/or to the public?

- When should the information be disclosed, for instance during or after election periods?

53. In many countries, reporting is limited to **how public funding was spent**. In this case, reporting requirements that apply to all recipients of public funds also extend to political parties. For the discussion on how money influences politics, only providing such information has limited value.

54. Public funding is generally **tied to stronger rules and controls** to ensure that they are provided fairly to all stakeholders. These controls have been increasingly strengthened after political scandals showcasing major irregularities in party funding. In Italy, for instance, public funding regulation was limited to reimbursement of actual campaign expenditures, rather than campaign expenditures and routine party activities, as it used to be prior to 1993 (Council of Europe, 2012). This has, however, led to scenarios in which candidates rely solely on private funding to avoid tighter controls.[3]

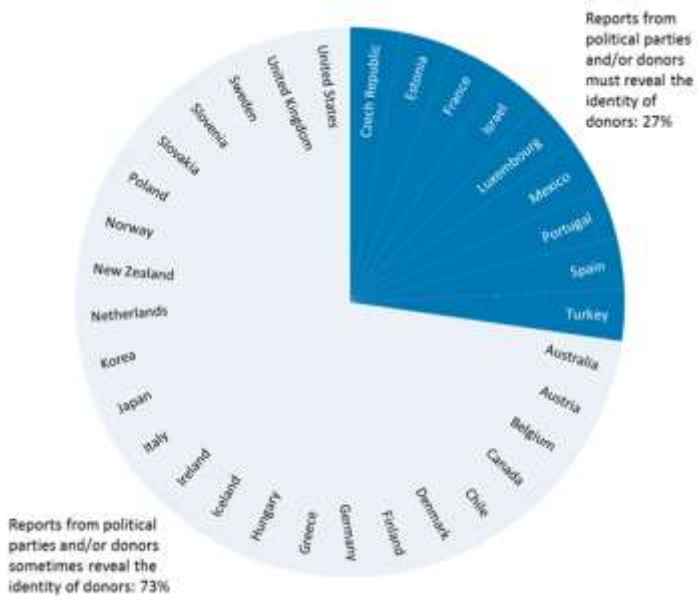
55. Where reporting includes **private funding**, the rationale for disclosure is to enable public oversight institutions to check the books and accounts of parties, candidates and donors to verify if they comply with the law in place. Reporting requirements concerning activities and organisations covered (party organisations, candidates, fundraising organisations, donors) and the detail of information (assets and liabilities, income and expenses, organisation costs, electioneering activities, political advertising) vary widely across OECD countries.

56. After disclosures have been submitted, it is of utmost importance to verify and audit the data submitted. However, even when election campaign accounts are submitted by the legal deadline, their **accuracy often goes unchecked**, meaning that there is little incentive for candidates and their representatives to present accurate figures.

57. Identifying individual donors is necessary in order to track their record of doing business with the state. Even in established democracies, donors may feel the requirement to disclose political contributions as a significant deterrent to political giving. Donors may simply not wish for their political sympathies to become a matter of public and media scrutiny. They may in some circumstances also fear that they will be subject to discrimination in the award of government contracts if they publicly back the "other party". The question is therefore whether the aforementioned issues and loss of privacy can be justified on the basis of preventing corruption. In just over a quarter (27%) of OECD countries, the identity of donors is reported on a regular basis in the reports from political parties and/or donors. The **identity is disclosed on an ad-hoc basis in 73%** of the countries.

[3] In the United States 2012 presidential elections, for instance, both final candidates relied exclusively on private funding (US Federal Electoral Management Board).

Figure 10. Requirement to include the identity of donors in reports from political parties and/or candidates in OECD countries



Source: IDEA International Institute for Democracy and Electoral Assistance.

Transparency of disclosures to enable public scrutiny

58. Institutionalising transparency and accountability for effective regulation of political finance is a critical aspect to safeguard the integrity and fairness of public decision making. International instruments such as the United Nation Convention against Corruption, requires State Parties to "enhance transparency in the funding of candidatures for elected public office and, where applicable, the funding of political parties".

59. Transparency has two potential advantages:

1. It is a guard against corruption and improper influence. If a politician is elected to office with major financial support from an individual donor, corporation or industry and subsequently uses his or her power unduly to benefit the benefactor, the **link between donation and reward** will not pass unnoticed.

2. If donations have to be declared before the poll, transparency may permit the elector to know the identity of each candidate's and each political party's main backers. This information will permit the elector to be **informed about the interests** behind the rival contestants.

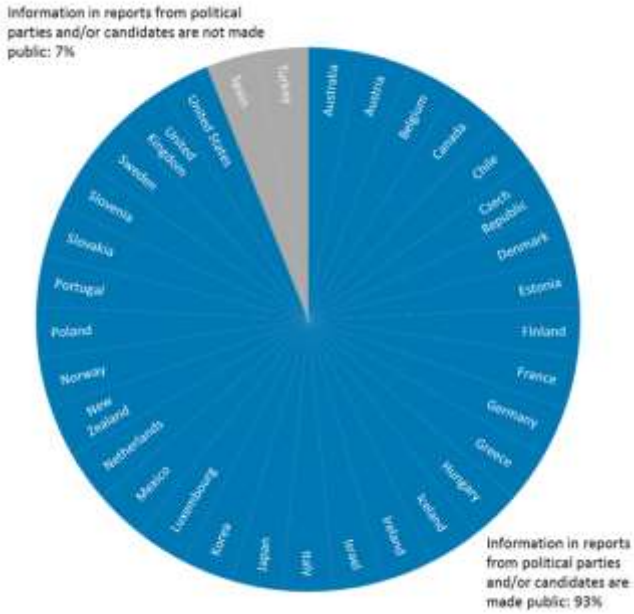
60. One way to promote transparency in political finance is by disclosing information on political party or candidate sources of funding. 93% of OECD countries[4] make information in the reports from political parties and/or candidates public. For example, in Italy, party financial accounts must be published on the websites of the political parties, the website of the Chamber of Deputies, as well as in newspapers, and the Official Gazette of the State. In the United Kingdom all parties' reported financial information i.e.

[4] Switzerland is not included. Political parties do not report regularly.

donation/loan reports, campaign expenditure returns and statement of accounts are made available on the Electoral Commission's website. This includes pdf copies of invoices and receipts for campaign expenditure.

61. Even though in Spain, Sweden and Turkey regulations **do not require publication** of party financial information, there are several **transparency initiatives.** In Sweden, for instance, a joint agreement between many Swedish political parties promoting transparency. In Spain the Court of Audit report is published and normally contains summary information on parties' annual accounts that is published. In Turkey, some political parties publish summaries of their financial information.

Figure 11. Public disclosure of information in reports from political parties and/or candidates in OECD countries



Source: IDEA International Institute for Democracy and Electoral Assistance.

62. Where campaign finance information is made public, scrutiny from the media and civil society is an important complement to state oversight. It is claimed that civil society organisations can be **effective watchdogs** and have proven instrumental in advancing transparency and anti-corruption efforts in the field of campaign finance. Transparency of political donations has led to a third form of soft regulation: disclosing the names of large donors and of the recipients of funding. In countries where reporting requirements allow for individual donors to be identified, activists and the media have exposed **large donations** to public criticism. This can be an alternative to bans and limitations.

63. Transparency, however, is not synonym with huge amounts of information. Large amount of information or information not adequately presented may have a contrary effect on citizens. Therefore, data should be **timely, reliable, accessible and intelligible** (Pfeiffer and Speck, 2008):

1. **Timely** information is key where civil society organisations get involved as watchdogs over political financing. Information available only months or years after the election or at the end of the fiscal year makes the information less **relevant for public discussion**. Long delays in reporting also make the falsification of information possible.

2. Information might **not be reliable** when data are first disclosed, but over time public scrutiny of information and enforcement by state agencies make data more reliable.

3. Reports are often **not accessible**, either because there is no legal ground for disclosure, or because access to reports is difficult and time consuming for most people.

4. Even when data is disclosed, the information does might not be in a readable format. A hard copy of a financial report in PDF-format is different from a database with all financial records available for download. Data are not information. For disclosure of information to make sense and inform the citizen, they need be organised in an **intelligible and user friendly** way.

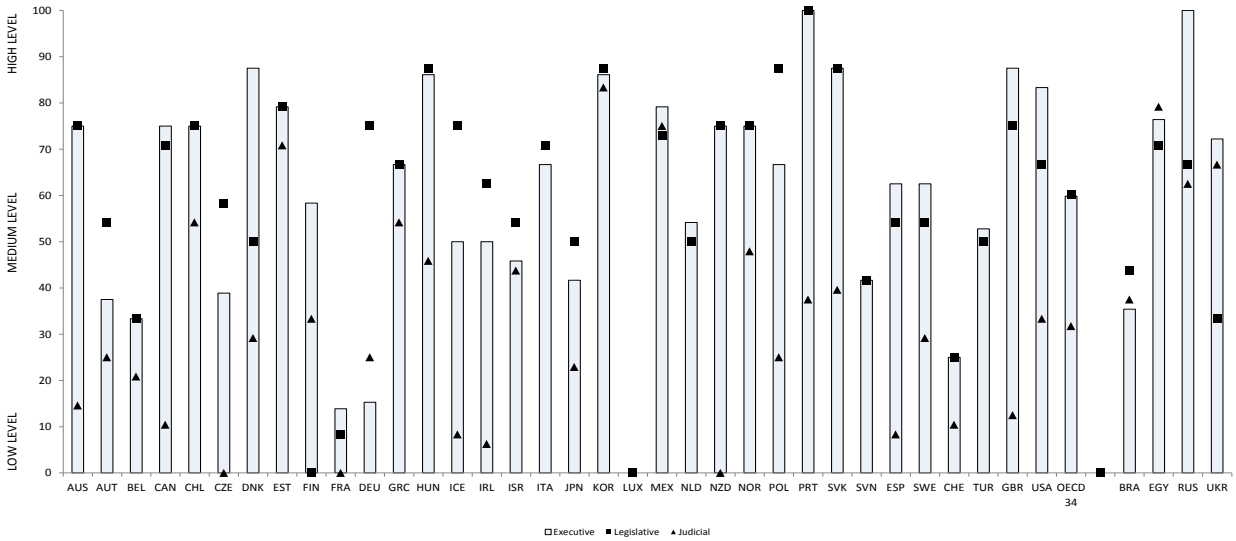
64. A few countries both demand reports to be delivered electronically, and **open** their electronic **datasets to the public**. With this available information, civil society organisations can focus on scrutinising political financing.

Preventing undue influence and capture by specific interests: Mitigating risks such as conflict of interest and lobbying

65. Fostering a fair decision making process and a level playing field between actors requires the knowledge of risks of undue influence and a range of **complementary tools to mitigate risks** and safeguard the public interest, for example through the effective management of conflict of interest, high standards of conduct in the public sector and transparency of lobbying activities.

66. OECD Members employ integrity tools such as codes of conduct, conflict of interest rules, and asset disclosure provisions to ensure that public officials are not influenced by specific interests to the detriment of the public interest when making decisions. **Disclosure of private interests** by decision-makers, for example, continues to be essential for identifying and managing conflict of interest situations in public decision-making. However, the level of disclosure of private interests (assets, liabilities, income source and amount, paid and un-paid outside positions, gifts and previous employment) and the public availability of the disclosed information varies considerably among countries and within countries in the different branches of government (Figure 8).

Figure 12. Level of disclosure of private interests and public availability of information in the three branches of government



Notes: Data refer to practices in OECD countries. Data for Brazil, the Czech Republic, Greece, Israel, and the Russian Federation refer to 2010. Similarly, data for the legislative and judicial branch of Spain refer to 2010. Information on data for Israel: http://dx.doi.org/10.1787/888932315602.

To translate the country responses into a point system, the categories "Prohibited" and "Information is disclosed and publicly available online or print" were awarded with 100 points, the highest available. "Information is disclosed and publicly available upon request" was awarded with the second highest point, 67, and "Information is disclosed and not publicly available" was awarded with the third highest point, 33. No points were awarded to the category "Disclosure is not required". All private interests examined were weighted equally. In Luxembourg, there are no requirements for the disclosure of private interests.

Source: OECD 2012 Survey on Managing Conflict of Interest

67. Disclosure practices and transparency levels are equally high in the executive and legislative branches, but considerably lower in the judiciary. Additional measures that have been implemented by OECD countries include specific rules on administrative processes, such as **public procurement**, further specifying how to maintain objectivity in the selection of contractors, and how to protect public administration from political interference.

68. Answering the need to look into lobbying practices, more countries have regulated lobbying in the past five years than in the previous sixty. There is clear concern from both the side of legislators, but also lobbyists themselves, about political financing. As many as 84% of surveyed legislators and 64% of lobbyists are of the opinion that information on contributions of lobbyists to political campaigns should be made publicly available through for example a register[5]. However, out of the surveyed OECD Member countries with a register of lobbyists, information on **lobbyists' contributions to political campaigns are only disclosed in Slovenia and the United States**. In Slovenia, lobbyists must report the type and value of donations made to political parties and the organisers of electoral and referendum campaigns. Total contributions per year to political parties are not allowed to exceed ten times the average monthly wage in Slovenia.

69. If governments want to promote a level playing field between actors in the public decision-making process, a consistent and holistic approach to political finance will be needed. Money in politics needs to be addressed in the wider, whole-of-government, integrity framework that is applicable to all stages of the policy cycle, effectively linking political finance with other risk areas in the public decision-making process.

[5] OECD (forthcoming), Report on implementing the OECD Recommendation on Principles for Transparency and Integrity in Lobbying.

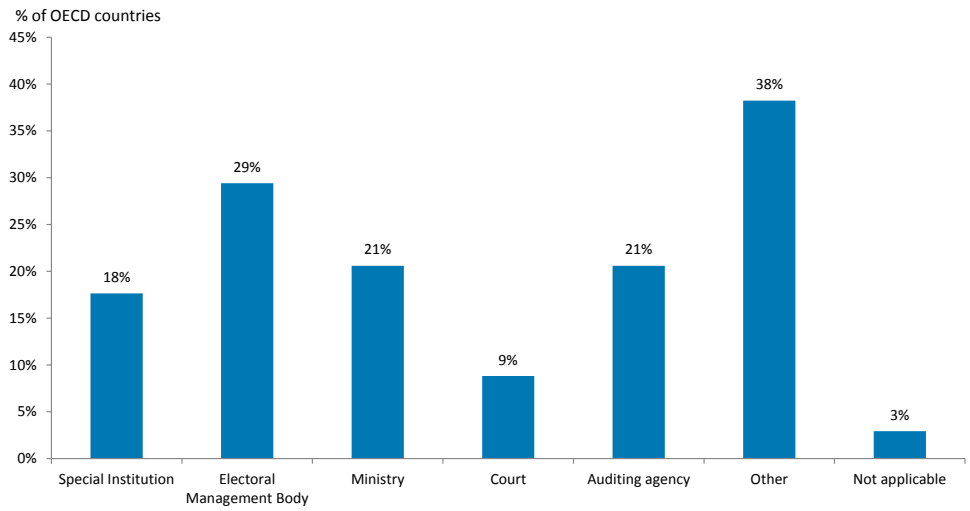
ENSURING COMPLIANCE AND REVIEW

Assuring independent and efficient oversight

70. The first question concerning oversight is **which institution** holds the power to review reports on party and campaign financing, followed by the question how independent such an institution is from political influence. The 2003 Recommendation of the Council of Europe on Common rules Against Corruption in the Funding of Political Parties and Electoral Campaigns, recognised that "member states should provide for independent monitoring" of parties and campaign funding. Furthermore, "the independent monitoring should include supervision over the accounts of political parties and the expenses involved in election campaigns as well as their presentation and publication".

71. In 29% of OECD countries, the **Electoral Management Body receives financial reports** from political parties and/or candidates. In some Member countries (18%) such as France and the United States, a **dedicated supervisory body** was established to monitor political financing and ensure high-level compliance with regulations. In other countries - for instance Belgium and the Netherlands - a combination of bodies fulfil this monitoring, investigation and sanctioning functions. Moreover, Parliaments (e.g. in Germany, Denmark), constitutional courts (e.g. in Turkey), and even ministries (e.g. in Finland) could have responsibility for monitoring and enforcing political financing regulations. Anti-corruption commissions (e.g. Estonia), supreme audit institutions (e.g. Iceland or Slovenia), or judiciary bodies (e.g. Portugal and Turkey) may play such a role.

Figure 13. Institution(s) receiving financial reports from political parties and/or candidates



Notes: Other refers to: In Belgium to Presidents of the House of Representatives and the Senate; in the Czech Republic to the Chamber of Deputies; in Denmark to the Parliament; in Germany to the President of the Bundestag; in Greece to the Expenditure Audit Committee; in Ireland to the Standards in Public Office Commission; in Italy to the President of the chamber the party is running; in Luxembourg to the Prime Minister, Minister of State and President of the Chamber of Deputies; in Norway to the Register of Company Accounts and Statistics; in the Slovak Republic to the National Council of the Slovak Republic; in Slovenia to the National Assembly; in Turkey to the Office of the Chief Public Prosecutor and in the United Kingdom to the local Returning Officer, often referred to as the (Acting) Returning Officer

Source: IDEA International Institute for Democracy and Electoral Assistance.

72. Despite the variety of institutional arrangements, the following factors are considered critical for a **proper functioning of supervisory bodies**:

- Independent appointment of its members (independence from both political parties and the executive at the same time) and security of their tenure;
- Independent budget providing sufficient resources;
- Specialised expertise of personnel and methodologies to discover illegal funding of political parties and candidates.

73. Although there is no one-size-fits all model, the Third GRECO Evaluation Round recommended establishing a **single** independent supervisory body to ensure effective enforcement. However, even if a supervisory body is technically independent, they may be reluctant to pursue powerful politicians and their parties.

74. The Third GRECO Evaluation Round also observed that countries with monitoring entities do not provide the **necessary financial and human resources** to effectively undertake its mission (e.g. Germany, Spain, Turkey). Oversight bodies are often run by public servants with a background in law; economists, auditors and statisticians are rare. Modern auditing of campaign finance reports requires confronting databases on campaign donations with records from the public budget, contracting or public work and services, loans from public banks, licenses and permits. While public interest groups have started exploring this field, oversight bodies are underequipped for this task. As a result, even where oversight is independent, where the rules are clear and sanctions are in place, the quality of oversight remains poor.

75. In the absence of an independent supervisory body of political financing, it is recommended that countries consider at the minimum "proper auditing of political financing accounts' by **independent auditors**" (Doublet, 2012). Independent audit is a growing practice in OECD countries (e.g. Norway) to promote the accountability of parties for the funds they use for their activities or to participate in elections.

76. In addition to receiving financial reports, several institutions, such as courts (29%), also have other roles in political finance oversight. For example, in New Zealand, courts can get involved in certain circumstances (e.g. the High Court can declare the election of a candidate void).

77. Parties in OECD countries have also been promoting **internal auditing** (e.g. in Austria) within their structure. The challenge, however, remains in ensuring the independence of internal auditor or certified experts vis-à-vis the political party (e.g. the internal auditor can be a member of the party in the Czech Republic and Germany). Common standards for internal control procedures could provide further clarity to internal auditors and party members on the acceptable practices related to political funding.

78. In many cases, the responsibilities of monitoring and supervising breaches to political financing regulations are **rather diluted amongst different institutions**. This raises concerns over effective coordination, information sharing, and responsiveness.

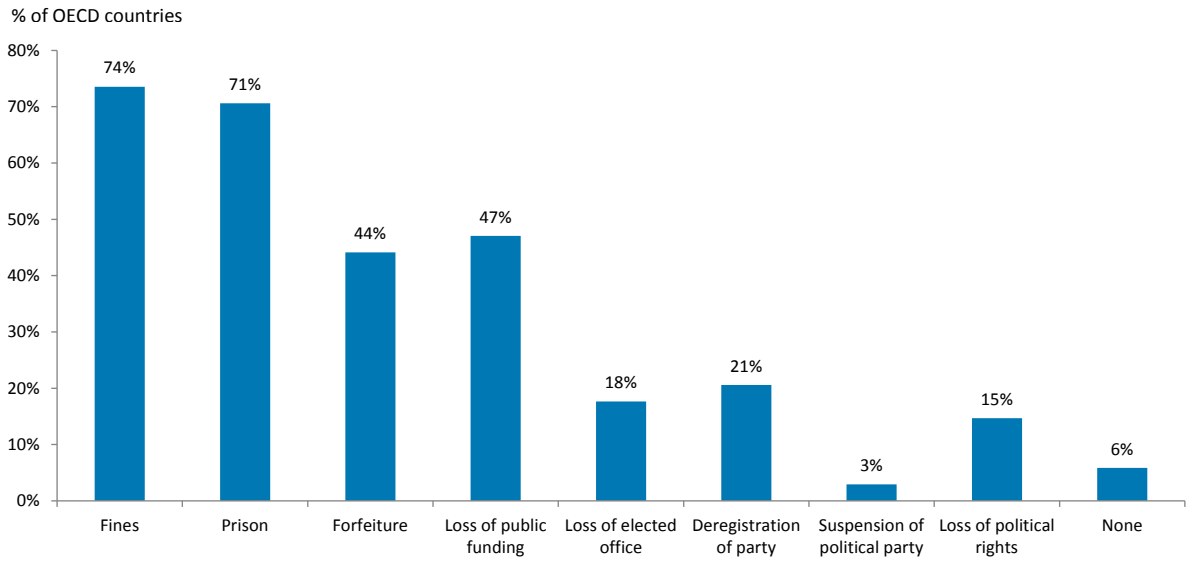
Dissuasive and enforceable sanctions: Deterring breaches and promoting compliance

79. Sanctions are the **"**teeth**"** of regulations on financing political parties and election campaigns, serving as deterrent for breaches and indirectly promoting compliance. Sanctions range from financial, to criminal and political. Parties may have to pay fines (74%), have their illegal donations or funds confiscated (71%), or lose public subsidies (47%) when breaching the laws.

80. More severe sanctions include criminal charges, such as imprisonment (71%), loss of elected office (18%), forfeiting the right to run for elections, or even deregistration (21%) or suspension (3%) of a political party. In Hungary, for example, late financial reports are fined, unauthorized donations are confiscated and public funding is reduced by the sum of unauthorized contributions. In New Zealand, non-submission of reports can lead to fines. If anonymous donations exceed NZD 1,500 [USD 1,000], exceeding amount must be paid to the Electoral Management Body. Person convicted of corrupt practices loses right to vote for three years, and face imprisonment not exceeding two years. In cases of corrupt or illegal campaign practices, the election of a candidate can be voided.

81. In Sweden and Switzerland there are no sanctions for political finance infractions at the national level. However, sanctions are available at the sub-national (cantonal) level in Switzerland.

Figure 14. Sanctions for political finance infractions in OECD countries



Source: IDEA International Institute for Democracy and Electoral Assistance.

82. GRECO's Third Evaluation Round showed that countries need to **ensure the right balance** in penalising infringements to political finance regulations and define sanctions that are proportionate and dissuasive. In some countries, sanctions are not sufficiently dissuasive which results in low levels of compliance with the regulations in place. For instance in France, the maximum amount of fines for unlawful funding is 3,750 EUR. In Norway, cessation of public funding is the only sanction available, but this can only be applied for the most serious breaches.

83. GRECO also found that the sanctions in place are limited in scope (generally only focusing on electoral campaign funding) and that the sanctions are generally not applied. If **sanctions are not applied**, the entire regulation of political financing is undermined.

Appraising the system: Identifying evolving risks of abuse of state resources

84. Though much of the attention regarding political finance regulation focuses on national parties and election campaigns, the risks of undue influence and corruption may be more pronounced at the local or regional level. Local-level studies have point out the most revealing experiences when it comes vote-buying, the exchange of public contracts for political donations, and the role of illicit financial flows and

organised crime such as drug trafficking. In fact, the impact of illicit financial flows and organised crime on political finance are particularly suited for attention by international bodies since they typically involve cross-border activity. Many of the problems of corrupt political funding occur at the local level. It is at local or regional level that capture of public authorities (especially law enforcement) usually occurs (Box 5).

Support to political parties: Facilitating compliance with regulations

85. In order to ensure compliance, providing support to political parties to help them comply with regulations is also crucial. This is an angle that is often neglected but very much in need from the point of view of political parties. This could, for example, take the form of some sort of parallel support agency or unit within the monitoring agency focused on supporting compliance. It could also take the form of a space for dialogue between parties and monitoring agencies, which would facilitate adherence to the rules and allow for better understanding of where problems lie and how they could be better addressed.

Box 5. Political Finance, Corruption and Organised Crime, mainly a local level problem

Brazil: The infiltration of organized crime in Brazilian politics has advanced more rapidly at the municipal and state levels, as these seats often go unchallenged by insiders and are ignored by institutional checks and balances (Speck, 2013, 69).

Italy: Circumvention of political finance norms is a common practice in Italy, especially at the local level, where organized crime is more influential, politicians' demand for money more intense (because public contributions are limited to central structures), and inspections and sanctions are absent. During the 1990s, in fact, when new laws instituting direct election of local administrators induced a strong personalization of political competition, in some contexts criminal organizations became a decisive ally for contending candidates (Della Porta and Vannucci, 2013, 197-98).

Mexico: The real Achilles' heel of Mexico's electoral system is the focus on what hap- pens at the national level, rather than at the local level. [14] Thus any progress in driving organized crime out of political campaigns has been at the federal level. The control and auditing mechanisms explained above have inhibited political parties from taking funds from criminal organizations. In addition, radio, newspapers, and television report on national politics, as opposed to small towns and rural areas (Curzio, 2013, 145 and 158).

Spain: In 2009 public hearing before the Parliament, the Spanish attorney general revealed that the Public Prosecutor's Office was in the process of investigating some 750 political corruption cases, with more than 800 individuals involved. … According to the information we gathered most belong to [the] local level. In one prominent case (Marbella) … twenty politicians (two former mayors and eighteen councillors) were indicted. … Cases pointing to a link between political finance corruption and urban development … surfaced on a regular basis (Jiménez and Villoria, 2012, 121-22).

Sweden: in this area (city of Södertälje) organised crime has infiltrated all structures of society except the judiciary. This is evident both at the street level, where 4-5 groups have competed for influence through methods such as extortion and targeted assassinations, and in the political structure. ... if a member of a group is nominated for a political party it guarantees that the rest of its members will vote for that party. Groups change party based on the type of favors each party is able to provide: subsidies to local organizations for questionable activities, liquor licenses, etc. The political parties are aware of this situation, but they are not addressing it as it would impact their local electoral base (Helgesen, 2013).

United States: Some of the classic studies of political corruption and its connection with the financing of politics in the United States have been about municipal politics. They include Lincoln Steffens' *Shame of the Cities* (a collection of magazine articles first published in 1904) and the study of a then-unnamed town called "Wincanton" (now identified as Reading, Pennsylvania) submitted in 1966 to the President's Commission on Law Enforcement and Administration of Justice (Steffens, 2012, Gardiner and Olson,1967, and Gardiner 1970).

CONCLUSION

86. Money is a necessary component of the democratic processes. However, in the absence of adequate and effective regulation, money in policy making can also undermine democracy itself. In the context of eroding citizen's trust, government cannot afford not to pay adequate attention to institutionalising a level playing field, integrity, transparency and accountability in financing political parties and election campaigns. This would also **send a clear signal of a government's commitment to address critical issues such as the financing of political campaigns** and its impact on the agenda-setting and decision-making processes.

87. If governments want to promote a level playing field between actors in the public decision-making process, a consistent and comprehensive approach to political finance is needed, **effectively linking political finance with other risk areas in the public decision-making** process. A **comprehensive** regulation of political finance focuses on the whole cycle including the pre-campaign phase, the campaigning period itself, and the period once the elected officials takes office.

88. The **allocation of public funding** and the rules for **private funding** as well as to regulate **third party financing** need special attention to ensure a level playing field for all democratic actors. The latter is also crucial in regulating spending limits since in some cases election spending can be channelled through supposedly independent committees and interest groups. In addition, privileged access to State resources still needs to be understood through an analysis of the incumbency factor - the advantage which entails that political parties have privileged access to certain public resources - or the reimbursement or retaliation for donations through public procurement or policies, thus distorting the level playing field and political competition.

89. However, regulating income and spending are not sufficient if there is no a proper and efficient oversight and enforcement. In many cases the responsibilities of **monitoring and supervising** breaches to political financing regulations are **rather diluted amongst various institutions**. This raises concerns over effective coordination, information sharing, and responsiveness. Along with an efficient oversight, **keeping records** of election campaigns expenditure as well as keeping books and accounts of political parties and their affiliated entities is key for the accountability and transparency of the decision making process.

90. Sound political finance regulations need sanctions, serving as deterrent for breaches and indirectly promoting compliance. However, countries still need to ensure the **right balance in penalising infringements** to political finance regulations and define sanctions that are **proportionate and dissuasive**.

91. No oversight mechanism is complete without participation of civil society. In this regard, civil society organisations can be **effective watchdogs** and have proven instrumental in advancing transparency and anticorruption efforts in the field of political finance. Transparency of political donations has led to a third form of soft regulation.

OECD framework on financing democracy

92. The **OECD is committed to support countries' efforts** to adopt adequate regulation of the financing of political parties and election campaigns and thus safeguard the public interest in the decision-making process. In the context of the New Approaches to Economic Challenges, the OECD Secretary-General's Strategic Orientations underline that **citizens expect that the decision-making processes effectively pursue the public interest and are protected from undue influence.**

93. To this end, the discussion on the role of money in politics needs further **in-depth analysis of facts and comparative evidence on money and the policy making process**, understanding its risks and opportunities in different institutional settings in view of ensuring the adoption of good public policies in the public interest. In particular, there is a need to better understand the challenges and practices of designing and implementing policies and regulation, but also to look into the specific details of regulations rather than discussing general underlying principles. Conclusions need to be guided by evidence (e.g. analysis of campaign costs and the impact of social media). This may require revisiting assumptions or myths such as the rising cost of elections.

94. The OECD together with partner organisations and stakeholders is currently developing the present **framework of policy objectives and policy options** to adequately regulate the financing of political parties and electoral campaigns and thus strengthen the integrity and credibility of the government decision-making process (Table 1). Further elucidating the risks of money in the government decision-making process as well as identifying practical solutions based on evidence and good practices will contribute to refining the framework and develop and associated **toolbox** that may be useful in different country contexts.

95. In addition, the OECD is simultaneously conducting focused analysis into specific areas of concern, such as the interface between the financing of political parties and electoral campaigns and lobbying, public procurement, or illicit financial flows. These will provide detailed insights into specific risks of undue influence and policy capture. Country case studies (e.g. Estonia,) will also serve to identify different solutions and test the validity of the present framework.

96. The policy dialogue launched by the OECD in November 2013 at the *Forum Restoring Trust in Government: Addressing Risks of Influence in Public Decision Making* indicated directions for further analysis to promote an evidence-based approach to money in politics, in particular:

- Understanding the impact of regulations on promoting fair competition and curbing undue influence in policy making.
- Defining the conditions and outcomes of transparency and disclosure requirements.
- Integrating political finance a in a wider good governance approach.

97. The OECD will continue to provide a multi-stakeholder platform to address risks associated with political financing as a multifaceted phenomenon by bringing together the executive and legislative branch of government, the private sector, trade unions, social partners and civil society, as well as relevant international organisations, given the fundamental role that they play in strengthening the credibility and legitimacy of reforms. However, as a next step a focused dialogue with regulatory and enforcement bodies is essential since effective enforcement of regulations remains one of the most important challenges in relation to political finance.

98. The OECD efforts to shape the debate on the adequate regulation of the financing of political parties and election campaigns through the collection of evidence, data, and good practices that will result in a framework of policy objectives and options, as well as providing a forum for a global debate on the subject, is a core element of the OECD Strategy on Trust. Addressing risks of policy capture and undue influence in the public decision-making process is essential to revert the decreasing levels of trust in government.

99. The OECD framework on financing democracy also forms part of the policy toolkit being developed by the Public Governance Committee (PGC). Evidently, public policies are a reflection of the policy-making process, thus curbing policy capture by narrow interests at the expense of the public interest will undoubtedly lead to better policies for better lives.

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