



# Controlling Money in Politics: An Introduction

Dr. Magnus Ohman  
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2013



International Foundation for Electoral Systems

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The International Foundation for Electoral Systems (IFES) supports citizens' right to participate in free and fair elections. Our independent expertise strengthens electoral systems and builds local capacity to deliver sustainable solutions.

As the global leader in democracy promotion, we advance good governance and democratic rights by:

- Providing technical assistance to election officials
- Empowering the underrepresented to participate in the political process
- Applying field-based research to improve the electoral cycle

Since 1987, IFES has worked in over 135 countries – from developing democracies, to mature democracies. For more information, visit [www.IFES.org](http://www.IFES.org).

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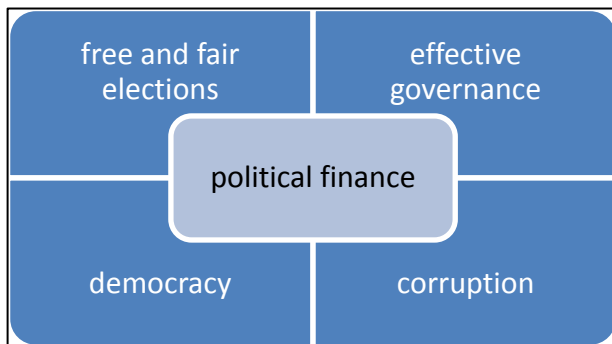
## Introduction

*“Money is the mother's milk of politics.”*

Jesse Unruh (U.S. politician and State Treasurer of California, 1922-1987)

While the nature of politics varies significantly between different regions and countries, there is no part of the world where money does not matter in a political decision making process.

**Figure 1: Political Finance is Centrally Related to Key Aspects of any Modern Society**



Money in politics, or political finance, is linked to key aspects of any modern society. Management of political finance is necessary for credible and genuine elections and electoral campaigns because it has the potential to skew competition between contestants. Proper management ensures the country is governed effectively; however, corruption can easily damage good governance.

A democratic society requires ongoing dialogue with its citizens, a process that requires funding.

The concern is that money can make politicians more responsive to contributors than voters. Access to uncorrupt, legal funding reduces the temptation for politicians, political parties and civil servants to engage in corrupt behavior – but the very existence of money in politics creates this risk.

If money is a necessary, albeit problematic part of politics, we must consider how we can control its impact so as to nurture its positive aspects, while controlling and counteracting negative influences. There is no single model of oversight that fits all countries. The goals and problems individual nations wish to address must be assessed contextually. This does not mean that each country cannot draw lessons from the experiences of others.

### Overview

This briefing paper provides an introduction to key problems and solutions in political finance. While there are many potential problems, we have chosen to highlight abuse of state resources to show the difficulties in regulating and combating such behavior.

This paper also addresses the global experience of regulating political finance in different countries and how regulations can be enforced. Rules regarding disclosure (financial reporting); bans and limits on contributions and spending; and the provision of public funding are highlighted. The roles of civil society and media are also discussed, as well as global lessons learned in the oversight of money in politics.

For the purposes of this report, we define political finance as the finances of political parties and election campaigns. Much wider definitions are possible, including the behavior of elected officials and conflict of interest situations politicians and civil servants encounter regarding money in politics.

## **Potential Problems of Money in Politics**

As mentioned, money is a necessary aspect of modern politics, but it also creates challenges for democracies around the world. In one way or another, these problems relate to breaking a link between voters and those who are elected or seeking election. The exact problems will vary between different regions and countries. Below are some of the most common challenges.

### **Wealthy Interests can Gain Undue Influence Over the Political System**

While “one person, one vote” is an established principle of elections worldwide, differences in resources can make some voices heard more loudly than others. Those with money can influence politicians and political decisions in ways that are problematic for democracy.

### **Campaign Contributions from Businesses May Lead to Corruption in Public Finances**

Most countries allow private companies to make donations to political parties and election campaigns. However, in many countries, there is a fear that politicians may give preferential treatment to corporations that have supported them. This may have a negative influence on public procurement and development initiatives, and may hurt not only a democracy, but also the effectiveness of administration and governance.

### **Abuse of State Resources**

In many parts of the world, political parties in government abuse their access to State resources to ensure they stay in power. This issue is discussed later in this report.

### **Illicit Funding Influencing Politics**

A growing problem in some parts of the world is the influence of illicit funds in politics. Sometimes criminals wish to get into government to gain immunity, and in other cases, election campaigns launder money. Criminals may also use donations to exert influence on politicians to avoid investigations into their illegal activities.

### **Influence of Foreign Funding Can Threaten the Sovereignty of National Politics**

Even in our increasingly globalized world, each country maintains its own political institutions, such as national and local bodies. If money from abroad is used in election campaigns, politicians may listen to interests outside of their country rather than voters. If this becomes widespread, the sovereignty of countries can be threatened.

### **High Levels of Campaign Spending can Make it Difficult for New Political Forces to Emerge**

Even if no donor has undue influence over the political process – and no illicit, foreign or otherwise illegal funds are used – money can still have a negative impact. If new political forces cannot make their voices heard because the cost of campaigning has become too high, the political system will not be able to adjust to changes in popular opinion. High costs of campaigning is often one of the problems faced by women wishing to enter politics, as women commonly have less access to networks of wealthy stakeholders.

## Vote Buying

Efforts to win elections through spending, rather than through popular support, are common in many parts of the world. Sometimes vote buying takes the form of direct transactions, where individual voters receive money upon evidence of voting in a certain way, including taking a picture of the ballot paper with a mobile phone camera. Sometimes vote buying is indirect and communal, including when community or religious leaders are given an incentive to influence the votes of their followers. In either case, vote buying can become a serious hindrance for democratic elections.

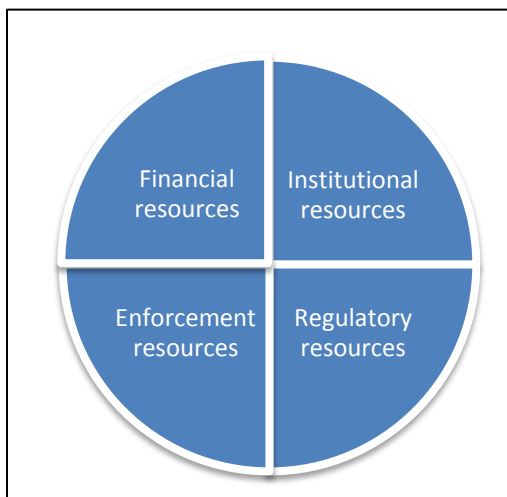
## Abuse of State Resources

*“Besides damaging electoral competition, putting state resources at the disposal of the incumbent party negatively influences the quality of government...”*

Speck, Bruno & Fonantan, Alessandra (from the publication *Milking the System*)

While there may be many electoral competitors, some compete and campaign as incumbents from a position of power. The temptation to use resources available through the State is often difficult to resist. From Afghanistan to Zimbabwe, accusations that public resources are used to support parties or fund the election campaigns of incumbent officeholders are common. This makes campaigning more difficult for the opposition.

**Figure 2: Types of State Resources**



In extreme cases, the line between the State and the government political party is blurred and one cannot be separated from the other. In such cases, transfer of power through elections becomes difficult and democracy will suffer as a consequence.

Incumbent political parties and politicians are often inventive in finding ways to abuse State resources. State resources are not only money; this can also include institutional resources, such as personnel and publicly owned media and other communication tools. Bias of state owned media is a prime example of abuse in many countries. Incumbents may also abuse their regulatory mandate to pass laws and regulations that control behavior.

This regulatory prerogative includes anything from altering

the criminal code to the order in which candidates appear on the ballot paper. In some cases, incumbents find a way to ban opposition leaders from running in elections. Finally, incumbents may abuse enforcement resources through the use of security and law enforcement institutions to implement laws and rules set up using regulatory resources. Denying the opposition the right to hold rallies or exposing opposition politicians, activists or financial supporters to harassment are ways of abuse used in a significant number of countries.

Just as there are many forms of abuse, there are different methods to counteract these activities through regulation. These methods can be described under the following headings:



- Banning public entities from favoring or disfavoring any political actor
- Banning public entities from certain types of behavior (at all times or during particular periods, such as election campaigns or the launch of government development initiatives during campaign periods)
- Banning political actors from receiving favor from public entities

While providing regulated public funds to political parties and election campaigns is acceptable behavior – and can help to reduce the advantage of incumbency – this must be done on an equitable basis that does not discriminate against the opposition.

The abuse of State resources is a common, and potentially disruptive, aspect of money in politics. It is one that it is difficult to effectively address through formal regulations alone. Forceful and engaged monitoring activities by political finance oversight bodies, and vigilance by civil society and the media, is necessary to counteract the abuse of state resources. Ultimately, the withdrawal of popular support from political parties that engage in such activities is required if abuse is to be removed altogether.

### Formal Regulation of Political Finance

*“In a state where corruption abounds, laws must be very numerous.”*

Tacitus (Roman historian, 55-120 AD)

The most common way to address undesirable behavior relating to money in politics is to pass laws and regulations. Rules on disclosure (financial reporting) aim to achieve transparency. Bans and limits aim to directly remove certain types of behavior. Public funding is often provided to reduce the dependency of political parties and candidates on private money. There are other forms of political finance regulations.

Rules relating to the abuse of state resources and media, and rules that limit the period during which campaign funds can be spent by establishing an official campaign period are some examples. Whatever rules are chosen, they must be suitable to the situation and goals of each country.

#### Disclosure

The availability of information about political actors’ finances, particularly those of political parties and candidates for public office, is key in any effective system of political finance control. Without such

**Figure 3: Disclosure Requirements in Various Regions**

Region	Political parties (annually/in relation to elections)	Candidates
Africa	69%/49%	49%
Americas	64%/64%	57%
Asia	86%/43%	71%
Europe	89%/66%	68%
Middle East and North Africa	75%/9%	45%
World	74%/52%	60%

knowledge, it is often impossible to know whether other forms of regulations are being respected.

Transparency in political finance has been established by the United Nations Convention Against Corruption (UNCAC), which states that all countries should “consider taking appropriate legislative and administrative measures, consistent with the objectives of this Convention and in accordance with the fundamental principles of its domestic law, to enhance transparency in the funding of candidatures for elected public office and, where applicable, the funding of political parties.”<sup>1</sup>

However, not all countries have introduced such regulations. Figure 3 shows the share of countries across the globe that created formal reporting requirements for political parties and election candidates, respectively (data as of late 2011).<sup>2</sup> Having rules that demand reporting does not necessarily mean that submitted reports are accurate, or the reports are carefully audited.

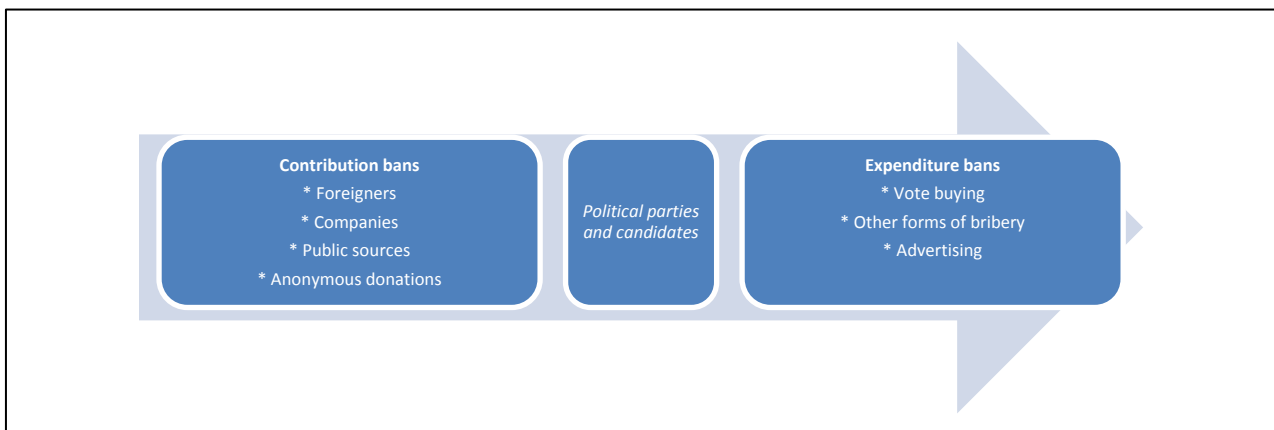
There are a number of considerations to take into account when designing a disclosure system for political actors. The system must be suited to the situation in each country. For example, the system would account for how well established the banking system is and the capacity of political parties/candidates to comply. Rules for financial reporting must not be so complicated that stakeholders are not able to abide by them.

While it is argued that public disclosure can make donors less willing to provide funds to opposition parties and candidates, thereby increasing the advantage of incumbency, this must be weighed against the right of the electorate to know about the financial dealings of those who wish to represent it.

### **Bans and Limits on Contribution and Expenditure**

The argument is sometimes made that as long as the finances of political parties and electoral candidates are open and transparent, there is no need for further regulation. The notion is that the electorate will make its own decisions based on the information available to them. For example, if a party is spending large amounts on gifts, the electorate may punish this populist approach by refusing to reelect the party in the future.

**Figure 4: Types of Bans on Contributions and Expenditure**



<sup>1</sup> UNCAC Article 7(3).

<sup>2</sup> Data from International IDEA (2012) see “Resources.”

However, there is reason to believe such an approach may not be effective everywhere. Where the gap in access to funds is large, or where the media does not enjoy complete freedom, it may be difficult for information about political finance to get to the electorate. In such situations, regulations may need to target the behavior of political parties and candidates, not only the information available about such behavior.

One way to counter undesired behavior is to place bans. These bans can be used to stop political actors from receiving funds from “undesirable” sources, such as foreigners. The International IDEA database on political finance regulations reveals that 70 percent of the 161 countries for which data was available banned contributions from foreign sources.<sup>3</sup> Some countries also ban corporations from contributing to campaigns. The reason normally given for this is that corporations may be able to unduly influence the behavior of political actors. In 2011, 22 percent of the 164 countries with available data banned such contributions. Banning contributions from public funds, with the exception of regulated provisions of public funding, is one way of counteracting the abuse of state resources.

Many countries ban anonymous donations on the basis that if such donations are allowed, it becomes next to impossible to verify whether bans on, for example, foreign or corporate donations are upheld. According to the IDEA database, 68 percent of the 152 countries for which data is available use a complete ban or a specific limit for anonymous donations, making it the most common type of contribution ban.

Bans on expenditures can target obvious vices such as vote buying or bribing election officials. However, some countries also use bans to achieve other goals, such as leveling the playing field in election campaigns by banning activities like private advertising. Bans on advertising, combined with the provision of free and equal access to print and broadcast media, are sometimes seen as a way to limit the advantages of richer contestants. Critics argue that such rules may hinder free speech.

In certain situations, countries may not wish to ban certain activities altogether, but rather reduce them through the imposition of limits. By limiting the amounts that people or companies can contribute, some countries hope to reduce the risk of large donations influencing the decisions of politicians. Such contribution limits can also force political parties and candidates to target larger groups of people in their fundraising efforts – a change some hope may increase popular participation in politics.

Limits can also be placed on how much political parties and candidates may spend. In many countries, such limits are aimed at leveling the playing field between rich and poor contestants, but limits can also aim to reduce spending on election campaigns overall, if it is considered that such spending is excessive in relation to the national economy or levels of poverty. Data from the International IDEA political finance database indicates that around 30 percent of countries impose spending limits for political parties and 45 percent for candidates.

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<sup>3</sup> Data from International IDEA (2012), see “Resources.” A sometimes controversial issue is whether citizens of the country residing abroad should be allowed to contribute to election campaigns. This may seem a reasonable principle, but in many countries, citizens residing abroad do not have a right to vote. It becomes very difficult to confirm that donations coming from outside of the country originate from a citizen and not foreign interests.

Bans and limits on contributions and expenditure can be one tool to control money in politics. However, there is little point to introducing such regulations unless there is a functioning system of disclosure, including an effective process for detecting and sanctioning breaches of bans and limits. Simply imposing limitations is unlikely to have any effect unless those involved sense a credible threat that violations will be penalized.<sup>4</sup>

### **Public Funding of Political Parties and Electoral Candidates**

The forms of regulations discussed above relate to attempts to prevent or sanction certain types of behavior.<sup>5</sup> As noted in the introduction, however, we need to recognize money is a necessary part of politics, and the provision of “clean” or “regulated” money from the State budget can help reduce the negative influence of money in politics without curbing healthy dialogue and competition.

The provision of public funding to political parties and (less commonly) to candidates for public office was used in some Latin American countries as early as the 1920s, and spread to Europe in the 1960s. It is now used in all regions by two-thirds of the world’s nations.

Proponents of public funding argue it can help even the political playing field and give new and smaller political forces a voice. They also claim it can help reduce the temptation for politicians to receive illegal donations or abuse state resources. Critics fear the provision of public funding may reduce the connection between politicians and supporters, and make political parties more a part of the State than society. They also maintain that if such funding is only available to parties already represented in government, it can make it more difficult for new parties to compete.

There are a number of issues to address in designing a system of public funding. These include:

- Threshold for qualification (who should be entitled to funding)
- Allocation criteria (if all who qualify should be given the same amount or if the provision should be made dependent on proven popular support)
- Timing of support (before or after elections or annual)
- Form of public support (in cash or indirect funding such as tax relief or access to the media)

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<sup>4</sup> The most effective way of ensuring compliance with spending limits is to set the limit so high that no one could reach it. This would, however, remove any purpose of the regulation.

<sup>5</sup> This section draws on the chapter on public funding in *Regulating Political Finance, the Global Experience* (2009) and ongoing research.

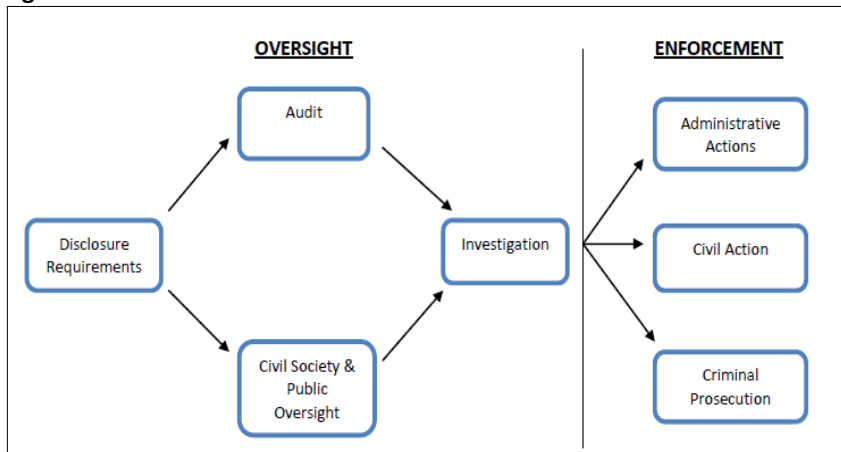
## Enforcement

*“Too many rules. Too little enforcement.”<sup>6</sup>*

Michael Pinto-Duschinsky (Political Finance Scholar)

Formal regulations, such as the ones discussed, can help counteract negative influences of money in politics. However, this is only true if such regulations are applied in practice. Disclosure requirements and other formal regulations are subsequently necessary, but certainly not sufficient for achieving transparency in political finance.

**Figure 5: Structure of Enforcement**



It is important to note that enforcement is an issue only in emerging democracies. As Hani Zainulbhai points out in the 2009 IFES publication *Regulating Political Finance, the Global Experience* in the chapter Practical Solutions for Political Finance Enforcement and Oversight, “In systems with stronger institutions, political players have become especially

adept at evading the law. The use of techniques such as double accounting and a reliance on independent expenditures are commonplace.”<sup>7</sup>

A general recommendation for effective enforcement is that the responsible agency must have a clear mandate and the capacity to detect violations and implement existing regulations. In many countries, the election management body has the responsibility to oversee political finance; however, the oversight body can also be a commission for political parties, an auditing institution or a court.

Whatever the setup, the agency is set up to oversee individuals and entities that are often senior politicians, the governing political party and often the head of State. As a result, the agency may face pressure to not investigate financial records too carefully. For a person working in political finance oversight, taking your job seriously can threaten your career. Appointment structures for agency leaders become very important, as does the control the agency has over its own budget.

To be effective, the implementing agency must also have access to effective sanctions. Appropriate sanctions should be available, ranging from mild administrative penalizations for minor infractions – such

<sup>6</sup> Pinto-Duschinsky, Michael. Taking Democracy Seriously Series, No. 1. *Political Finance in the Commonwealth*. Commonwealth Secretariat, London, 2001. pg 25.

<sup>7</sup> Ohman, Magnus & Zainulbhai, Hani. *Regulating Political Finance, the Global Experience*. International Foundation for Electoral Systems, Washington, 2009.

as the delayed submission of a financial statement – to refusing political parties or candidates from participating in elections. Refusing participation might be merited in the case of outright refusal to comply with reporting requirements. As a final step, the dissolution of a political party may happen if proven and repeated financial mismanagement (such as vote buying or the abuse of state resources) is discovered. Such sanctions may include civil or criminal proceedings. Whatever the approach, it is essential that the affected party has the right to appeal decisions and the process respects the rule of law.

It cannot be stated too clearly, however, that apart from a clear legal mandate and the necessary technical capacity, the enforcing body must have political independence and political will to enforce existing legislations. In the absence of these traits, any formal regulations are likely to be ignored.

## Role of Civil Society and Media

*“The secret of getting things done is to act!”*

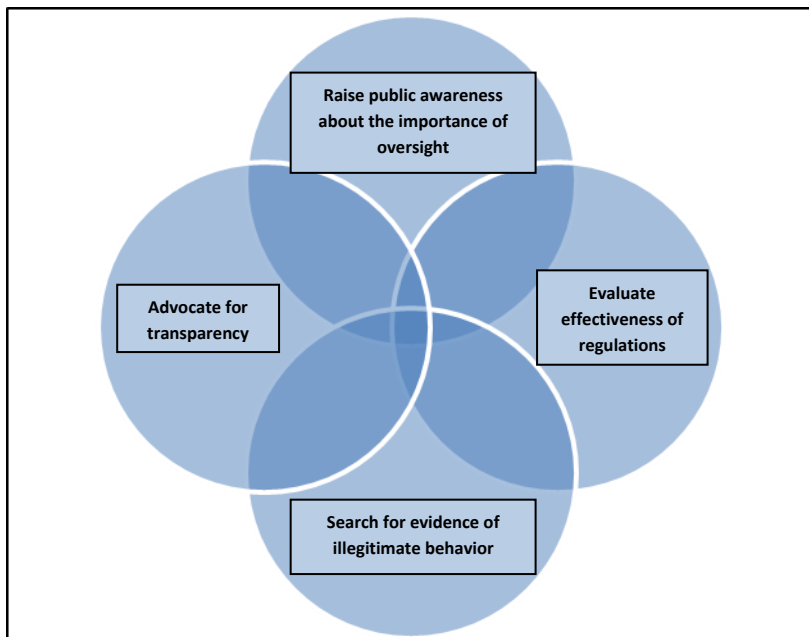
Dante Alighieri (Italian poet, 1265-1321)

While formal regulations that are well enforced by a capable state institution are important for controlling money in politics, experience shows it is never sufficient in a vacuum. Other stakeholders need to take an active role in overseeing how money flows in and out of the political system. Naturally, politicians and political parties have a crucial role in acting responsively, but efforts to increase transparency in political finance cannot wait until those involved change their own behavior.

### Civil Society

Civil society actors have key roles in improving control over money in politics. They must ensure people are aware of the downsides of vote buying, the abuse of State resources and the rules in each country. They can play an important role in monitoring the behavior of political parties and candidates in a way that State institutions may not have the capacity or political independence to do. Such projects have been carried out in many countries, and domestic election observer groups are increasingly adding political finance to the issues addressed by their work (note that monitoring of political finance must always start long before polling day).

**Figure 6: Roles of Civil Society in Enhancing Political Finance Transparency**



## Media

Media, both traditional and new, have a responsibility in making sure people know where politicians get money and how they use it. By exposing misbehavior and violations of formal rules and societal norms, media can help punish those who attempt to substitute a lack of popular support with money in the competition for political power.

One factor stands out as a driving force behind regulatory reforms: scandal. Although scandals cannot explain the emergence of political finance reform in all cases, it can be an important force for change. If people are outraged enough by violations of campaign finance regulations, they can demand that something be done to prevent such infractions from occurring again in the future. Former Director of the Election Crimes Branch at the Department of Justice Craig Donsanto has emphasized that “[h]ow a country responds to a political finance scandal is a crucial determinant of the strength of its democratic institutions.”<sup>8</sup>

For long term advances to be made, it is important that media do not only focus on individual scandals, but also critically follow any efforts made to improve the situation. It is not uncommon for politicians to promise reform before an election and forget promises made after Election Day.

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<sup>8</sup> Donsanto, Craig. “From Crisis to Reform, a Historical Perspective” in *Democracy at Large*, Vol 2, No 4 2006, pg 11.

## Conclusions

*“Money won't create success, the freedom to make it will.”*

Nelson Mandela (Former South African President)

In 2009, IFES and several other organizations identified lessons learned from working on issues of political finance control and transparency over the last several decades. While the experiences vary from region to region and country to country (and indeed over time), five key understandings were identified as holding true globally:

1. Money is necessary for democratic politics, and political parties must have access to funds to play their part in the political process – regulation must not curb healthy competition.
2. Money is never an unproblematic part of the political system, and regulation is desirable.
3. Context and political culture must be taken into account when devising strategies for controlling money in politics.
4. Effective regulation and disclosure can help to control adverse effects of the role of money in politics, but only if well-conceived and implemented.
5. Effective oversight depends on activities and interaction by several stakeholders (such as regulators, civil society and the media) based on transparency.

Apart from the above, it is important to realize that achieving effective oversight of political finance (complete supervision is never possible) is likely to take decades, not years. Anyone setting out to enhance transparency regarding money in politics must have patience and expect work over a long time.

However, failing to address this issue risks a political system that is not controlled by the ballot, but money. Effective control of money in politics can only come through a concerted and enduring effort by all key stakeholders.



## Resources

Group of States against Corruption (GRECO) Information about efforts regarding political finance in the Council of Europe region. Available at <http://www.coe.int/t/dghl/monitoring/greco/>

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U4 Anti-Corruption Resource Centre, *Money in Politics*. Available at <http://www.u4.no/themes/money-in-politics/>

Transparency International and the Carter Center, *The Crinis Project* [http://www.transparency.org/regional\\_pages/americas/crinis](http://www.transparency.org/regional_pages/americas/crinis)