Executive summary

This report addresses three key questions: What are the risks associated with the funding of political parties and election campaigns? Why are existing regulatory models still insufficient and not fully implemented to tackle those risks? What are the links between money in politics and broader frameworks for integrity in the public sector? The resulting analysis has produced a Framework on Financing Democracy for shaping the global debate, providing policy options and a mapping of risks. The report also features detailed country case studies of Canada, Chile, Estonia, France, Korea, Mexico, United Kingdom, Brazil and India, providing in-depth analysis of their political finance mechanisms and challenges in different institutional settings. The findings of these nine case studies also confirm the relevance of the Framework and provide good practices that can be applied to other countries.

Regulating political finance to minimise risks

Money in politics is a double-edged sword. It is a necessary component of the democratic process, enabling the expression of political support as well as competition in elections. Yet, the increasing concentration of economic resources in the hands of fewer people presents a significant threat to political and economic systems. If the financing of political parties and election campaigns is not adequately regulated, money may also be a means for powerful special interests to exercise undue influence, and “capture” the policy process.

For example, access to public procurement has been used by elected officials to “return the favour” to corporations that made significant contributions to their campaigns or to exclude those that supported their opponents. While high-spending areas such as infrastructure and urban planning are particularly vulnerable to the risk of policy capture, any policy-making process can be a target of powerful special interests. The consequence may be the adoption of inadequate policies or policies that go against the public interest, preventing inclusive growth and decreasing trust in government.

Loopholes and implementation gaps

Countries’ experiences have revealed that several shortcomings still exist and are vulnerable to exploitation by powerful special interests. The allocation of public funding and the rules for private funding continue to require special attention to ensure a level playing field for all democratic actors. At the same time, loans, membership fees and third-party funding can be used to circumvent existing regulations such as spending limits. Many countries struggle to define and regulate third-party campaigning in particular, to prevent the re-channelling of election spending through supposedly independent committees and interest groups. At the moment, only a few countries, such as Canada, Ireland, the Slovak Republic, the United Kingdom and the United States have regulations for third-party campaigning.
Furthermore, countries have increasingly experienced that globalisation further complicates the regulation of private funding. Many foreign companies and wealthy individuals are deeply integrated with domestic business interests, blurring national boundaries. Where limits and bans on foreign and corporate funding exist in many countries, disclosure of donor identity has become important, serving as a deterrent to undue influence. In this regard, 50% of OECD member countries such as France, Korea and Mexico currently ban all anonymous donations to political parties, and 38% of countries ban anonymous donations to parties above certain thresholds.

However, the information disclosed needs to be organised in an intelligible and user-friendly way to facilitate effective public scrutiny. Civil society organisations and the media can only be effective watchdogs if substantive political finance information is publicly available for their analysis. Many countries have increasingly adopted online technologies to enable comprehensive proactive disclosure; however, only a few countries such as Estonia have so far managed to ensure that all reports are submitted and published in a standardised, machine-readable format and are thus comparable, clear and accessible for public scrutiny.

While most countries already have laws and regulations on party and election financing, if oversight institutions lack the independence and/or legal authority to meaningfully regulate potential violators, existing regulations cannot be fully enforced. Only 29% of OECD countries have an independent electoral management body. Moreover, the institutions responsible for enforcing political finance regulations sometimes have rather limited human and financial capacity to effectively deal with large volumes of oversight work. Data clearly show that sanctions have deterrent effects and promote higher compliance. For instance, since the UK Electoral Commission was given its civil sanction powers, compliance rates have increased by 9%. Yet, many countries still struggle to ensure the right balance in defining sanctions that are both proportionate and dissuasive.

**Political finance regulation as part of an overall integrity framework**

Political finance regulations are likely to be ineffective if they exist in isolation. They need to be part of an overall integrity framework that includes the management of conflict of interest and lobbying. On their own, political finance regulations are likely to result merely in the re-channelling of money spent to obtain political influence through lobbying and other activities. Therefore, integrity measures such as increasing transparency in lobbying, better management of conflict of interest strengthen the political finance regulations. However, incorporating various integrity policies into a wider framework to effectively address the risks of party and election funding remains challenging. Fewer than half of OECD countries have so far acted to set or tighten lobbying standards. While disclosure of private interests by decision makers is widely adopted by countries to manage conflict-of-interest situations and identify suspicious financial flows in public decision making, verification and auditing of disclosure forms are not strictly practiced. According to the OECD survey, only 32% of respondent countries carry out audits or review the accuracy of the information reported by public officials in the executive branch through disclosure forms, while 63% verify receipt of the forms.
The way forward

Most countries still struggle to monitor the performance of policy measures in place and there is an empirical deficit in assessing and comparing the practices of political finance regulations in different country contexts. The OECD is committed to further expanding comparative data and developing benchmarks and indicators relative to financing democracy, integrity in the public policy-making process, and averting policy capture in order to monitor and improve performance of existing measures. Addressing concerns related to the funding of political parties and election campaigns is a key lever for restoring trust in government and forming the foundation for inclusive growth. Countries would benefit from highlighting and sharing good practices so as to identify the conditions for policies and practices that effectively safeguard the integrity of the policy-making process and curb the risks of policy capture by powerful special interests.