The Integrity of Political Finance Systems in Latin America: Tackling Political Corruption

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Contents

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Key recommendations

1. Close loopholes in current laws on political financing and focus more intensely on their enforcement.
2. Pay closer attention to corruption at the local level as the weakest link in efforts to improve political finance.
3. Consider developing digital applications that facilitate political finance reporting and disclosure to enhance transparency.
4. Ensure that oversight agencies are equipped with sufficient resources to conduct meaningful and effective monitoring of political finance.
5. Promote the involvement of independent media and civil society organizations to increase social pressure and surveillance of faulty practices by governments and political parties.
6. Embrace a holistic approach to political finance regulation. Embed political finance reforms within a broader anti-corruption framework that also aims to improve the management of conflicts of interest and transparency in lobbying activities.
7. Political parties must understand that their sustainability is closely related to the viability of political finance reforms. Increasing transparency and accountability in political finance is key to strengthening parties' relationships with citizens and restoring public trust in politics.

Executive summary

While many Latin American countries have benefited from democratization and economic reforms, political corruption remains a serious threat to the sustainability of democracy in the region. Political corruption undermines development, discourages investments, weakens the rule of law and increases inequalities. A key aspect of tackling political corruption is effectively regulating the flow of money in politics. The magnitude of recent corruption scandals illustrates the structural problems in the region, where parties and candidates breach political finance laws and governments ignore regulations to further their own interests. The most significant cases involve overvaluation of public interests, money laundering, criminal networks' penetration of national and local politics, and a lack of strong regulatory mechanisms to counteract faulty political finance practices.

This policy paper highlights that while political finance legislative frameworks in Latin America are relatively comprehensive, ensuring their implementation continues to be a challenge. It also makes the point that the misuse of public resources, abuse of public office for private gain and unregulated money in politics are not only consequences of institutional weaknesses; they are also linked to public attitude and value systems. Corruption has become a widespread political practice and part of everyday life for many Latin American citizens in a milieu of acceptance and a contaminated mass sentiment towards democratic politics. Under such circumstances, a change of attitude and civic culture is required. To this end, the capacities of electoral authorities need to be strengthened, focusing on the local level and engaging civil society.

Democracy cannot thrive when money corrupts election campaigns and political parties. Given the importance of effective political finance systems in anti-corruption efforts, this policy paper provides a comparative overview using the available data on 2018 political finance regulations in Latin America provided by International IDEA's Political Finance Database. It analyses political finance regulatory trends in Latin American countries and identifies key challenges that could undermine the integrity of political finance in the region. The paper concludes with practical policy recommendations for key stakeholders to encourage better governance and improve the transparency and accountability of political finance systems in Latin America.

1. Introduction

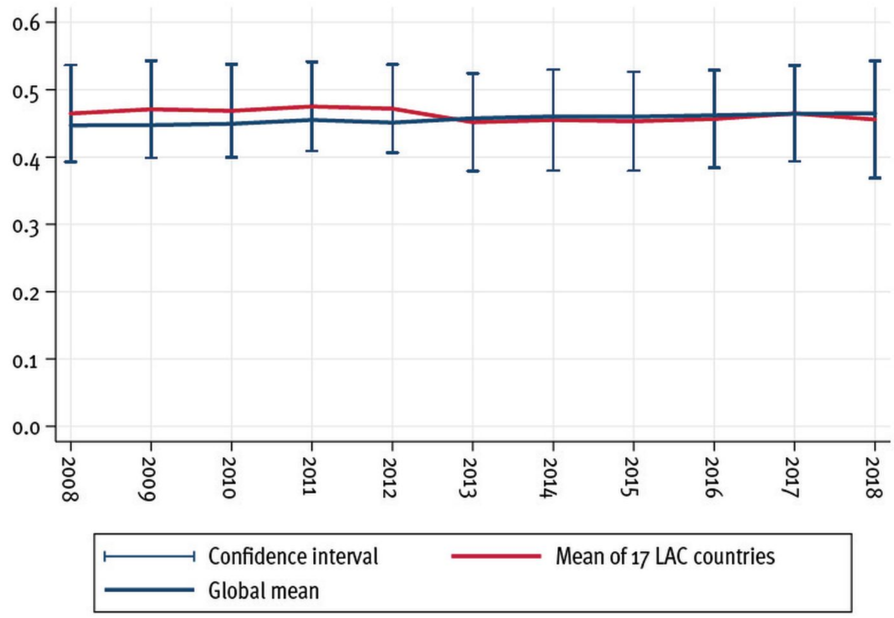
Latin America[1] has experienced dramatic changes over the past two decades. The substantial development of the region's financial markets generated a positive significant effect on economic growth. This economic growth was accompanied by a reduction in poverty and inequality (de Ferranti et al. 2004; Amarante and Colacce 2018). Greater social mobility has expanded the middle class, creating a better-educated and more prepared society. This shift has in turn promoted an increased awareness of rights and commitment to democratic values that have encouraged a healthier political debate. However, despite recent economic growth and improved socio-economic conditions, political corruption remains a persistent challenge.

International IDEA's Global State of Democracy Indices highlight that perceived levels of corruption have not changed significantly in the region during the last 10 years, and the regional average remains below the global average (Figure 1.1) despite the great diversity across countries (Figure 1.2). Much remains to be done to strengthen accountability and transparency in Latin America and tackle the emerging risks posed by corruption that call for improved regulations.

Corrupt practices have reified social inequalities in the region, thereby eroding public trust in democratic institutions. According to the most recent Latinobarómetro survey (2018: 55), only 22 per cent of the region's population trust the government, and just 13 per cent trust political parties. In addition, Latin Americans have increasingly distanced themselves from politics, democracy and its institutions, which has weakened civil engagement. Support for democracy as the preferred form of government has declined each year, from 61 per cent of the population in 2010, to 48 per cent in 2018 (Latinobarómetro 2018: 15).

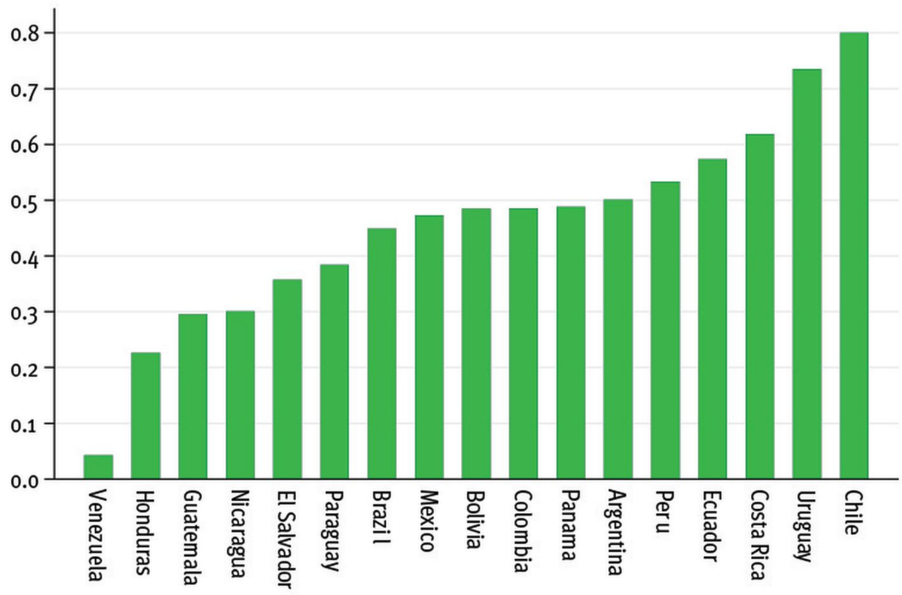
One of the key approaches to tackling political corruption and improving the quality of democracy is to effectively regulate the funding of political parties and election campaigns. While money is a fundamental element of democracy, which enables political participation and representation, the unregulated flow of money in politics can harm the integrity of political processes and institutions. In other words, the quality of democracy is highly dependent on well-functioning political finance systems. In a truly competitive democracy, politics control money, rather than the other way around (Zovatto 2016: 11). This subject has become particularly relevant in Latin America with the consolidation of democracy and the upsurge in competitive elections. This democratic development has increased the financial demands of political actors. The recent string of high-level corruption scandals illustrates the increase in transparency (Ferreira 2019), yet there remain legal loopholes and weak implementation of political finance regulations. The region therefore needs a new holistic approach to political finance.

Figure 1.1. Average of Absence of Corruption in Latin America 2008–2018



Source: International IDEA, The Global State of Democracy Indices, 2019, <http://www.idea.int/gsod-indices>

Figure 1.2. Absence of Corruption in Latin America 2018



Source: International IDEA, The Global State of Democracy Indices, 2019, <http://www.idea.int/gsod-indices>

This policy paper examines the most significant trends of political finance in Latin America, while considering the region's challenges and heterogeneity. Grounded on

International IDEA's Political Finance Database,[2] the paper provides a comparative overview of the current status of political finance regulations in the region. It concludes with several policy recommendations to strengthen institutional apparatus to improve the enforcement and operations of political finance systems in Latin America in order to enhance transparency, accountability and political integrity.

Endnotes

1. In this report, Latin America is considered to include Argentina, Belize, Bolivia, Brazil, Chile, Colombia, Costa Rica, Ecuador, El Salvador, Guatemala, Guyana, Honduras, Mexico, Nicaragua, Panama, Paraguay, Peru, Suriname, Uruguay and Venezuela.
2. <https://www.idea.int/data-tools/data/political-finance-database>.

2. Political finance challenges in Latin America

Latin America has a long tradition of enacting political finance regulatory frameworks. Most comparative studies on corruption point out that Latin America has made greater strides in developing regulations on this matter than other regions (Londoño and Zovatto 2014: 129). It has also been a pioneer of public funding. Uruguay set up the world's first public political fund in 1928—decades before advanced democracies in Western Europe and North America did so. West Germany introduced similar regulatory schemes in 1959. The region's normative frameworks generally comply with international standards (Ferreira 2019). Yet their inefficiency is widely recognized and there is a significant gap between legislative frameworks and effective enforcement. According to *The Economist* (2017), 'a small coterie of private businesses stumps up most of the campaign cash almost everywhere, except perhaps in Uruguay and Costa Rica'. This section discusses the main systemic problems and challenges in political finance systems in Latin America, which highlight the disconnect between normative frameworks and practice.

2.1. Legal loopholes in political finance

Some political finance legislation is ambiguous or too ambitious for the specific context. Such laws rarely include independent enforcement institutions or adequate budgets for monitoring their implementation. Several cases of flagrant violations have been identified in Chile, which has a relatively stable political system and political finance laws; most of these violations exploit legal loopholes. For example, in the 2009 presidential campaign, third parties (primarily private enterprises) were invoiced for campaign-related goods and services; candidates allegedly accepted payments for fictitious consultancies and other non-existent services; and donations were routed through foundations created by political parties and candidates for election campaigns (Arellano and Ramirez 2017a, 2017b).

2.2. Lack of political will

A vicious cycle sustains the lack of political will to control money in politics: authorities and parliamentarians who have been elected via illegally funded campaigns are unlikely to promote measures to introduce accountability into political finance. For example, the Mission to Support the Fight against Corruption and Impunity in Honduras (MACCIH)—backed by the Organization of American States (OAS)—faced several difficulties in its attempt to tackle corruption in politics and electoral campaigns in the country. The Honduran Congress repeatedly blocked investigations and passed several laws that delayed and weakened MACCIH's proposed reforms (Ernst 2019). Likewise, the Peruvian Congress challenged President Martin Vizcarra's attempts to introduce radical constitutional reforms to eradicate corruption, despite the results of a referendum that supported the initiative. Guatemala represents a more extreme case: the 'pact of the corrupt' (Goldman 2019) expelled the anti-corruption United Nations-backed International Commission against Impunity in Guatemala (CICIG for its initials in Spanish) and banned the candidacy of former Attorney General Thelma Aldana (Lakhani 2019). In Washington, DC, 'Guatemalan business leaders and politicians lobbied Republican lawmakers, making dubious claims that the commission was under Russian influence and undermining investment. In May 2018, Marco Rubio, chair of the Western Hemisphere Committee, temporarily suspended US funds to Cicig' (Lakhani 2019).

2.3. Insufficient attention to corruption at the local level

Weaknesses of political finance systems at the local level have become increasingly evident, particularly due to organized crime's continuous penetration into politics. Collusion between local politicians and criminal networks has introduced drug trafficking and organized crime money into local politics through campaign finance (Casas-Zamora 2016). This relationship has vastly compromised citizens' essential liberties and security, as suggested by the high levels of violence experienced in Mexico and Colombia, for example (Llorente and McDermott 2014).

Local political corruption continues to be a challenge and has become more difficult to regulate, as it is more accessible and less visible than corruption that takes place at the national level. It is cheaper for criminal syndicates to finance local campaigns and purchase political influence through political finance to protect their illicit activities in the municipalities. Therefore, local-level corruption is an increasing problem since bribing local governments is a more lucrative investment for drug cartels and organized crime organizations. Insufficient attention and efforts have been devoted to addressing local-level vulnerabilities (Ferreira 2019).

Despite multiple initiatives by national and international civil society organizations (CSOs) such as Transparency International, the commitment of civil society as a whole to reform the financing of politics is uneven. This has become an issue due to the lack of public awareness about how political finance corruption affects the capacity and quality of municipality services and institutions. Although there is a general notion that corruption is a national issue, Latin American citizens do not perceive corruption as a relevant problem at the local level. Despite evidence that shows how corruption has deeply affected municipal politics, there is little concern about local cases of corruption. Only 2 per cent of the region's population considers state corruption at the local level to be problematic; issues such as violence, unemployment and a lack of basic services receive much more attention (Latinobarómetro 2018: 6).

2.4. Culture of corruption entrenched in society

Another obstacle to political finance reform in the region is the fact that corruption has become deeply entrenched in society: '40 per cent of the population, on average, is willing to pay something to solve problems' (Latinobarómetro 2018: 65). Dominican Republic and Honduras have the highest tolerance, with 56 per cent, followed by Panama, with 50 per cent (Latinóbarometro 2018: 65). There is much work to be done in the social and cultural arena, such as appealing to higher ethical values and highlighting the enormous cost of corruption in relation to the welfare of society. For example, Uruguay is recognized as 'the cleanest country in Latin America' and the one with the longest democratic tradition (Martini 2016). It has served as a model for multiple social policies and strategies for change in the region. Laws designed to increase transparency that were proposed and passed by former President Jose Mujica have influenced current debates in other Latin American countries. Most recently, Mexican President Andres Manuel López Obrador vowed to combat corruption and pledged 'zero tolerance' of corrupt politicians during his 2018 presidential campaign.

2.5. Emergence of digital campaigns

An emerging issue is the lack of transparency and accountability regarding the rising expenditures on digital media made by political parties and candidates. With the advancements of new digital technologies, the rise and adoption of social media as a means of communication has ushered in a new paradigm within political finance systems. Political parties and candidates across Latin America have invested in digital campaigns and marketing in addition to traditional mediums of communication such as television and newspapers.

In recent years political parties and candidates in the region have increasingly used online campaigns—including social media and digital platforms. For example, Brazil's unregulated digital environment allowed incumbent President Jair Bolsonaro to make significant investments in online strategies in his successful October 2018 campaign for re-election; 81 per cent of his supporters reported using digital platforms to access political information (Belli 2018). Digital campaigns also played a significant role in the 2018 Mexican election. Misinformation and fabricated poll results circulated via social media in a digital campaign against candidate Andres Manuel Lopez Obrador. Increasing presence of digital campaigns in Mexico was also mentioned by the research of Mexico's Universidad del Valle which conducted a series of studies on the impact of digital campaigns on Mexican society and their ability to influence election results. The research indicates that the increasing role of social media as a main channel for political communications to the Mexican citizenry has spawned a larger influence on public opinion and subsequent voting behaviour. In Latin America, it is clear that the use of digital targeted-marketing technologies in election campaigns has become the norm rather than an exception. Subsequently, the lack of transparency regarding how much political parties spend on digital platforms, and the challenges associated with monitoring such spending, has raised concern for democratic governance. Campaign finance, even in digital form, without limits or transparency can corrode democracy and provide an ingress for state capture by special interests.

2.6. State capture through political finance

The region is experiencing an increase in the 'capture of power' by powerful economic groups, both legal, such as large corporations, and illegal (for example, criminal networks, drug traffickers, illegal mining and logging, smuggling, groups that control territories). The phenomenon is not new, but has become more systemic and visible as reflected in the results of the most recent Latinobarómetro survey (2018) and an increased perception of the 'capture of state' (Cañete 2018). For example, the most recent case, which has affected nearly the entire region, is that of funds transferred by Brazilian construction companies (e.g. Odebrecht, OAS, Camargo and Correa) to candidates to finance their campaigns, and to governors and government officials in exchange for contracts for large infrastructure projects (BBC 2019b). What began as an investigation of the laundering of illicit money in Brazil, involving bribes amounting to USD 2.64 billion, revealed a web of corruption involving the state-run company Petrobras and a series of bribery operations that have affected at least nine countries in the region. The investigations have led to judicial processes that have affected former presidents, former ministers, top government officials, judges and prosecutors. These processes include the suicide of former Peruvian President Alan García as he was about to be arrested on 17 April 2019. Recent Guatemalan elections are another example of the capture of power within political systems. The country's Constitutional Tribunal disqualified the candidate with the greatest support in the polls, former prosecutor Thelma Aldana who had pursued charges against former President Otto Pérez and most of his Cabinet, as well as retired military officers and representatives of powerful families, all of whom are in prison (Cuffe and Sheridan 2019). Another capture risk is that funding comes from special interest groups (economic, religious and other) that seek to build blocs that cross party lines to defend their interests in national parliaments.

These examples of state capture are not individual, 'asystemic' events. In recent decades, corruption networks have developed structures around a clearly identifiable key decision maker. For example, the Brazilian company Odebrecht had a 'structured operations department' in charge of these operations. In several countries in the region, there is open talk about a set percentage of public works that must go into the pockets of the authorities awarding the projects. The line between illegal organized criminal groups and local political groups has also blurred, especially at the sub-national level. In Colombia, for example, the term parapolitics has been coined to refer to the direct influence of paramilitary forces (local landowners and/or drug lords) in politics (*Colombia Reports* n.d.). *El Pais* has published a recent series of reports on the Central American borders that describe how illegal groups exercise de facto power in most of the region's borderlands (Sanz and Lafuente 2019).

3. Main trends and emerging issues in political finance regulatory frameworks

In order to assess the current state of transparency and accountability in political finance in Latin America, this section focuses on four main pillars of political finance regimes: (1) private funding of political parties; (2) public funding of political parties; (3) spending; and (4) reporting, oversight and sanctions. Except where otherwise noted, the following analysis is based on the most recent review of International IDEA's Political Finance Database, which was completed in November 2018.

3.1. Private funding of political parties

3.1.1. Bans on donations

Given the long history of foreign interference in domestic political affairs in the region, many countries have taken steps to limit foreign donations to political parties and candidates (Zovatto 2016: 132). Venezuela, for example, has been accused in recent years of donating funds to parties and candidates in other countries, as in the case of Ollanta Humala in the Peruvian elections of 2006 and 2011 (*Peru 21* 2019). Sixteen of the 20 countries in the region (80 per cent) have banned donations to political parties from foreign sources, which some analysts refer to as 'qualitative limits' (Ohman 2012: 3). Only 55 per cent of countries prohibit foreign donations to candidates. Argentina, Bolivia, El Salvador, Paraguay and Uruguay lack consistent regulations prohibiting the entry of foreign capital flows to parties, but not to candidates.

More than two-thirds of countries in the region (70 per cent) prohibit anonymous donations to political parties, but only 55 per cent prohibit such donations to candidates. Chile and Uruguay instead limit such contributions. Chile has a category of 'small contributions without publicity', which reduces but does not eliminate anonymous donations. The donations remain partially anonymous, because only the candidates and the Electoral Service of Chile know the donors' identities.[1]

Bans on donations related to state resources are also widespread. Some 74 per cent of countries in the region (excluding Argentina, for which no data are available) prohibit contributions to political parties by corporations that are partly owned by the government, and 72 per cent (excluding Argentina and Bolivia) prohibit such donations to candidates. Similarly, 14 Latin American countries prohibit the provision of state resources to political parties or candidates (excluding public financing).

The prohibitions are less rigid for corporate donations to political parties and candidates (only seven countries have regulated both types of donations). The regulation of donations from corporations with government contracts to candidates and parties is not yet widespread (55 per cent and 58 per cent, respectively). Colombia, Ecuador, Mexico, Panama, Peru[2] and Venezuela prohibit: (1) foreign donations and interests; (2) donations from labour unions; (3) corporate donations (with or without government contracts or from companies that are partly owned by the government); and (4) anonymous donations to political parties and/or candidates (Ohman 2012: 59). These countries were involved in the largest corruption scandal in the region's history, in which top government officials and politicians were involved in the bribery and kickback scheme of the Brazilian company Odebrecht, as mentioned in Section 2.6. This indicates the weakness of the bodies responsible for oversight of political finance in the region, as discussed below.

Nine countries prohibit donations by trade unions, which tend to be left leaning, to political parties and candidates, in an attempt to counterbalance the prohibition on corporate donations, which tend to be right leaning (Ohman 2012: 14). According to the database, however, this balance may exist only in Brazil, Chile, Costa Rica, Mexico and Peru.

Many countries have additional bans on donations from a number of other sources. The most common prohibition is on donations from religious organizations (eight countries, 40 per cent), followed by organizations connected to gambling (seven countries, 35 per cent) and charities (four countries, 20 per cent).

3.1.2. Limits on donations

The analysis in this section is based on the second group of questions in the Political Finance Database, regarding regulatory limits on the amount of donations to parties and candidates that is permitted over a period of time (not specific to or related to an election). These regulations affect donations to political parties and/or candidates, ranging from those made by individuals and for-profit and non-profit legal entities (domestic and foreign) to candidates funding their own campaigns.

Several countries limit the amount a donor can contribute to a party over a (non-electoral) time period, including Argentina, Bolivia, Ecuador, El Salvador, Guatemala, Honduras and Nicaragua (for individuals and legal entities), and Chile, Mexico, Paraguay and Uruguay (for individuals only). In Peru, political organizations can accept contributions or income from a foreign individual or non-profit legal entity of up to 20 tax units a year, as long as they are dedicated exclusively to training and research.[3]

Nearly two-thirds (65 per cent) of the countries analysed have regulations limiting the amount a donor can contribute to a political party for an election (20 per cent regulate contributions from individuals, and 45 per cent set limits for both individuals and legal entities). And 55 per cent set such limits on contributions to candidates; Chile, Ecuador and Mexico limit contributions from individuals, and only seven countries limit donations from both individuals and legal entities.

Candidates' use of their own funds to finance their campaigns must be examined carefully, as 'this practice underscores the personal nature of politics and the institutional weakness of parties' (Londoño and Zovatto 2014: 137). Nine countries in the region (Brazil, Chile, Colombia, Ecuador, Guatemala, Guyana, Panama, Paraguay and Mexico) set specific limits on the amount that candidates can contribute to their own campaigns. In Brazil, parties set their own limits for self-contributions. In Chile, they cannot be greater than 25 per cent of allowable electoral spending (Law N° 19.884, article 9). In Colombia, financing from the candidate's own funds (as well as those of a spouse, permanent partner or relative up to the fourth degree of blood relations) is not subject to the individual limits that apply to private contributions and donations, which must not exceed 10 per cent of the total value of campaign expenses, 'but in no case can the total value of such contributions or loans exceed the total amount of campaign spending' (Statutory Law 1475, 2011, article 23). In Ecuador, the candidate's contribution cannot exceed 10 per cent of the maximum authorized amount of election expenses.[4] In Guyana, a candidate can contribute a maximum of USD 25,000 to their own campaign.[5]

According to article 205 of Panama's 2017 electoral code, candidates can contribute an unlimited amount of their own funds to campaigns, but must register these contributions and other private contributions that they receive in a bank. Article 211 of the code establishes ceilings for private financing (donated funds and/or funds of the candidates on the slate) of electoral campaign activities (transportation, fuel, lodging, activists, caravans, meetings, receptions, toasts, promotional items, venue rental, electricity, water, telephone, Internet, mobile phones and electoral advertising). In elections for deputy, mayor and local government representatives, up to 30 per cent private financing can be used for electoral advertising (article 227). However, the ceiling on private contributions from a single source does not include candidates' own funds (article 214).

In Mexico, independent candidates and those from political parties can contribute to their own campaigns, in cash or in kind, although there are limits on the amount of the contributions. For independent candidates, the General Law of Electoral Institutions and Procedures of 2017 stipulates that contributions cannot exceed 10 per cent of the spending ceiling for the election in question. Similarly, contributions by candidates from political parties (for their campaign expenses) have an annual limit of 10 per cent of the spending ceiling for the presidential election immediately preceding the election in question, as established by article 56(2) of the General Political Parties Law of 2014. This article also allows each party to determine the minimum and maximum amounts and the frequency of voluntary and personal contributions that candidates make exclusively for their campaigns.

Only six countries have limits on in-kind donations to political parties—Chile, Colombia, Honduras, Mexico, Panama and Peru. In Guatemala, all donations must be channelled through the political organization and recorded in a special register of in-kind contributions. Although there is no specified limit on this type of donation, the law states that for 'individuals or legal entities related or connected, or a single connected unit, either with the political organization or among themselves, article 21(b) of the country's Electoral and Political Parties Law prohibits them from making contributions that exceed 10 per cent of the limit on campaign expenses'. The same countries, including Guatemala, also limit in-kind donations to individual candidates.

3.2. Public funding

Public financing is intended to level the playing field for all competitors. If designed correctly, it could also facilitate equal conditions for female politicians to participate in electoral processes (Londoño and Zovatto 2014: 140). Four-fifths of countries in the region provide direct public financing to political parties. Bolivia, Belize and Guyana do not have direct public funding regulation, and Suriname only regulates the provision of other financial benefits to encourage gender equality in political parties. In addition, 15 countries set eligibility criteria for parties, including registration as a political party, representation in the elected body, share of votes in the previous election, share of seats in previous elections and participation in elections.

Meanwhile, 14 countries specify the allocation calculation as equal, proportional to votes received, proportional to seats received or a flat rate according to votes received. Of the countries that provide public funding to political parties, 82 per cent stipulate how the funding should be used ('earmarking'), for instance on campaigns, ongoing party activities, intraparty institution, research or policy initiatives.

More than four-fifths (83 per cent) of countries with available data in the region provide some indirect public funding, mainly free or subsidized media access (state run or private) for political parties during electoral campaigns, although regulations vary greatly from country to country. Of these, 14 countries have provisions specifying criteria for such access, for example based on share of seats, equal share or vote share in the preceding election. Only 50 per cent of countries (8 of the 16 analysed; no data were available for Belize, Brazil, Guyana or Suriname) have provisions for free or subsidized media access for candidates. Meanwhile, 75 per cent provide other forms of indirect public financing, including tax relief in 65 per cent of countries (some also include campaign rallies, free or subsidized postage, and campaign space in this category).

3.2.1. Gender-targeted public funding

Political financing for female candidates remains one of the greatest obstacles to women's participation in politics. Yet, most political finance legislation is not aimed at reducing gender gaps. Instead, it is gender neutral, because states that finance political parties do so regardless of the number of women (Ballington and Kahane 2014: 309). Women occupy only 29 per cent of congressional seats throughout the region (Gonzalez 2018), ranging from more than 53 per cent of seats (lower or single house) in Bolivia and 48 per cent in Mexico to a mere 9 per cent in Belize (IPU n.d.).

While the correlation between corruption and the presence of women in politics is not conclusive, gender-sensitive political finance systems could contribute to a more diverse political participation and representation that improves accountability in politics. Only a handful of countries in Latin America are currently implementing reforms to allocate funds that promote gender equality. These include Chile, Colombia, Honduras and Panama, which provide direct public funds for gender equality among candidates, as part of the public financing is distributed based on the number of women elected. For example, in Chile parties 'receive a flat rate of additional public funding for each woman candidate from that party who is elected' (Ohman 2018: 21). In Colombia, 5 per cent of the public subsidies are distributed equally among all parties or political movements in proportion to the number of women elected to public office. Six countries link the provision of direct public funding to political parties to gender equality among candidates. For example, in Bolivia, at least 50 per cent of the time and space allocated for parliamentary candidates' advertising is earmarked for female candidates, including women of indigenous, original peoples or campesino origin.[6] Brazil's Superior Electoral Tribunal introduced a requirement in May 2018 that parties must dedicate 30 per cent of their campaign resources to female candidates' campaigns (*Sputnik Mundo* 2018). In Chile, parties can receive additional state subsidies based on the number of female parliamentarians.

Several other countries have provisions for other financial advantages that encourage gender equality in political parties. For example, Mexico directs 3 per cent of its public funding to parties towards female leadership development within parties (International IDEA n.d.). In addition, article 193 of the Electoral Code of Panama (2017) requires parties to allocate 20 per cent of their post-electoral public financing funds to developing training activities for women.[7]

3.3. Spending by political parties and candidates

The prohibition on vote buying is the most common in the region; only Venezuela does not ban the practice. No data were available for Suriname. Regulations regarding the amount of money a party can spend are found in 50 per cent of countries—80 per cent of which set specific limits. For instance, in Argentina the party limit flat rate is equal to the amount of an index included in the country's annual budget. In election years, campaign spending by a political group in each category cannot exceed the total obtained by multiplying the number of eligible voters by one electoral module, according to the value established in the General

Budget of the National Administration Law for that year (article 45, Law 26.215, Ley de Financiamiento de los Partidos Politicos, 2007).

Seven countries limit the amount a candidate can spend (Chile, Colombia, Ecuador, Guyana, Honduras, Mexico and Panama); of those, only Guyana sets a specific limit of USD 25,000. Chile, Colombia, Ecuador, Honduras, Mexico and Panama set limits that vary depending on the office contested during the election or according to pre-defined formulas.

Regulating third-party spending is also a pressing issue for political finance because it has a direct influence on election results. Argentina, Chile, Guatemala and Panama limit the amount third parties can spend on election campaign activities, and these vary by country. Ecuador bans third-party actors from all political activities; this ban has thus far been effective (Money, Politics and Transparency n.d.). Venezuela and Mexico also prohibit third parties from funding campaign activities. In Peru and other countries in the region that have not regulated third-party campaign involvement, religious groups and others have engaged in intensive campaigns on key political issues in recent years, which has directly influenced electoral processes. For instance, campaigns against 'gender ideology' have taken place in most countries in the region as part of a conservative and authoritarian political project (*Nueva Sociedad* 2019).

Only nine countries set limits on spending on traditional media advertising, and they do so for political parties, candidates and even third parties (Chile). Such spending is highly concentrated on television advertising. In elections in Argentina (2007), El Salvador (2009) and Guatemala (2011), television spending represented 54 per cent, 90 per cent and 57 per cent of the total, respectively (Londoño and Zovatto 2014: 147). However, there is an overall absence of political finance legal frameworks in Latin America that limit the amount of money political parties can spend on digital campaigns.

3.4. Reporting, oversight and sanctions

3.4.1. Reporting

All countries in the region for which data are available except El Salvador have regulations related to public accountability for accounting and information about the handling of finances. No data were available for Belize and Guyana. Such regulations include requirements for details about income and expenses and for informing the country's regulatory agency. In addition, 85 per cent of countries require political parties to submit reports on campaign spending. This is a major step towards transparency in the use of resources, as it provides the public with valuable information for making decisions about voting by indicating which candidates or parties are receiving clean money. Fifteen countries (75 per cent) have regulations requiring candidates to report campaign contributions and spending.

Only Guatemala requires third parties to report their campaign contributions. In Ecuador, Mexico and Venezuela, third parties are banned from participating in campaigns. And in Costa Rica, sometimes only treasurers or authorized primary candidates submit reports to political parties.

On the issue of lobbying entities and their obligation to disclose information about contributions to political parties or candidates, Honduras is the only country that 'could require donors to disclose accounting information at any time and donors have to save information regarding the donations made to obliged subject for a period of 6 years' (article 22, Bylaw of Financial Transparency and Oversight of Political Parties and Candidates, 2017). Four countries have no such provision, and eight have no registration systems for such entities.

Regarding the requirement for political parties to submit financial reports about their last campaign, for example, in Colombia's 2018 legislative elections, all parties submitted financial reports through the oversight agency's website using a tool called Cuentas Claras, which provides public access to information about financing, facilitating the monitoring and analysis of the origin, amount and use of resources for campaigns for territorial, presidential and congressional elections.[8] Guatemala also requires all parties to submit reports, but there is no information about whether they comply. Chile and Colombia require all candidates to submit reports. For example, in Colombia's 2018 legislative elections, 91 per cent of candidates submitted their financial reports through the Cuentas Claras website. For the 2018 presidential elections, in both the first round and the runoff, all candidates submitted their income and spending reports on the platform.

In 15 countries, financial information from political parties and candidates must be made public. In other countries, publication of such reports is not always mandatory. For example, reports from parties in Bolivia are fairly detailed and include a list of contributions and contributors, but this information is not made publicly available in any format. In Nicaragua, the information must be provided to the Controller General's Office, but the legislation does not specify whether it should be public.

Financial reports from campaigns in recent elections, submitted by parties and/or candidates, are publicly available in six countries (Argentina, Chile, Colombia, Costa Rica, Paraguay and Mexico). In Guyana and Guatemala, only 10 per cent of the submitted reports were made public. In Honduras, Panama and Venezuela no submitted reports were made public. Suriname is the only country in which a party made its reports public.

In 15 of the countries, regulations require donors' identity to be revealed, and anonymous donations are prohibited. Chile is the only country that allows donors to remain anonymous as long as the total donation amount does not exceed a certain limit, which varies depending on the type of election—ranging from a maximum of 40 development units for presidential candidates to 10 units for council member candidates (article 2 of Law N° 20.900, 2016).[9] Regarding the degree of detail required in financial reports from parties and candidates, 72 per cent of the 18 countries analysed have laws regulating this, including a breakdown of income, while only 61 per cent require details of spending.

3.4.2. Oversight

In 60 per cent of the countries studied, the institutions responsible for receiving financial reports from political parties and/or candidates are electoral management bodies (EMBs). Eleven countries have an EMB that, among other functions, is responsible for examining financial reports and/or investigating violations that may have occurred.

Data about the powers granted to these institutions are available for only 16 countries (80 per cent). Twelve of these institutions have more than one power, including: (1) refer for investigation; (2) carry out investigation; (3) request additional information from potential violator; (4) request additional information from others; and (5) impose sanctions. Venezuela is the only country in which the body has all five powers. In 10 countries, these institutions have the power to impose sanctions.

Fewer than half of the region's countries (nine)[10] have provisions related to conflicts of interest involving candidates and/or elected officials. Candidates and elected officials must submit reports about their finances in 12 countries. In addition, 60 per cent of countries in the region specify an institution responsible for reviewing the financial reports of elected officials.[11]

3.4.3. Sanctions

Fines are the most common sanction for violations of political financing regulations (in 16 countries). Others are (a) suspension of public funding; (b) prison; (c) loss of candidate nomination; (d) suspension of the political party; (e) loss of party registration; (f) forfeiture;

(g) loss of elected office; and (h) loss of public funding. Colombia has all nine sanctions in its law, while Paraguay only suspends public financing.

Endnotes

1. Law N° 20.900 for the Strengthening and Transparency of Democracy took effect in Chile in 2016. It modified Law N° 19.884, which incorporated 'contributions without publicity' and eliminated 'reserved contributions'.
2. Law N° 30689 modified article 31 ('Prohibited sources of financing') of the Political Organizations Law of 29 November 2017, which prohibits accepting contributions from: (a) any public entity or enterprise owned by the state or with the participation of the state; (b) religious groups of any denomination; (c) domestic or foreign for-profit legal entities; (d) domestic non-profit legal entities; (e) foreign individuals or non-profit legal entities, except when the contributions are exclusively designated for formation, training and research; or (f) convicted individuals with a consent decree or an executed sentence, or with a preventive detention order in effect for crimes against public administration, illicit drug trafficking, illegal mining, illegal logging, human trafficking, money laundering or terrorism. The prohibition is extended to 10 years after the sentence is completed. See *El Peruano* (n.d.).
3. See article 30, section a, and article 31, section e, of the Political Organizations Law, modified by Law N° 30689.
4. Organic Electoral Law, Democracy Code, last reform 23 March 2018, article 220.
5. Representation of the People Act, 104, number 2, <http://www.gecom.org.gy/assets/docs/laws/Cap_103_Representation_of_the_People.pdf>.
6. Paragraph III, section b of Law N° 1096, Political Organizations Law, 1 September 2018. <https://www.oep.org.bo/wp-content/uploads/2018/09/Ley_1096_Organizaciones_Politicas.pdf>.
7. <https://www.tribunal-electoral.gob.pa/wp-content/uploads/2018/05/Texto-Unico-Codigo-Electoral.pdf>.
8. For more information, see <http://transparenciacolombia.org.co/2019/01/24/cuentas-claras/>.
9. <https://www.leychile.cl/Navegar?idNorma=1089342>.
10. Belize, Chile, Colombia, Guatemala, Honduras, Mexico, Nicaragua, Panama and Peru.
11. Only in Colombia does responsibility for reviewing elected officials' financial reports lie with the head of the personnel office of each entity (article 16 of Law 190). In the rest, that is the responsibility of the Ministry (Belize), EMB (Brazil and Chile), a special institution (Honduras, Mexico and Panama), the Supreme Court through a specialized office (El Salvador) and an auditing agency (or Controller's Office for Costa Rica, Guatemala, Nicaragua, Paraguay and Venezuela). In Honduras, the special institution is the Supreme Tribunal of Accords, which can delegate responsibility for reviewing financial reports to another institution within the department. In Mexico, it is the responsibility of the National Anti-Corruption System. Sixteen countries have data; in three, the question is not applicable.

4. Lessons learned to improve the integrity of political finance systems

4.1. Weak monitoring and enforcement

Overall, Latin American countries do not lack laws on political financing. A detailed review of existing provisions, however, shows that in most cases, the legislation is scattered, ambiguous and even contradictory (*The Economist* 2017). The main problem with legislation is the institutional and technical weakness of the entities responsible for oversight and control. In many cases, these entities have other responsibilities, such as organizing and conducting elections. These bodies (electoral courts, election boards, etc.) usually have budgets limited to the amount required for the electoral process, and their financing and the designation of their top officials depend on decisions by governments and legislatures. Therefore they are under the control of those who are chosen through the very electoral processes they are overseeing.

A further challenge for monitoring agencies is the rapid digitalization of political campaigns and the need for regulations. Electoral politics and political finance have become fully integrated into a growing, global commercial digital media and marketing system that has transformed how parties market their campaigns and influence voters. EMBs and civil society need to stay informed and up to date on the latest information and communications technology (ICT) developments. Money that is spent on digital media should be reported in order to increase transparency and ensure fairness during campaigns and elections.

4.2. Institutional weakness of political parties and movements

In addition to problems related to the strength of state institutions, there are also problems associated with the overall political system, particularly the institutional weakness of political parties. Few countries in the region have a consolidated political party system due to the confluence of two trends in Latin American history. The first is that most 'historical' parties —those that emerged around the mid-20th century—have had strongly centralized structures revolving around a *caudillo* or a core of historical leaders, each of whom had a personal network of lower-level leaders and grassroots groups. The second trend is that the parties that have emerged in recent decades as a result of the crisis of political systems tend to be plebiscitary movements revolving around a charismatic *caudillo*. None of these trends facilitates the development of modern parties with internal structures of participation and accountability, within the party and towards society as a whole. The weakness of their structures does not allow parties to develop mechanisms to raise their own funds, which creates conditions for them to resort, for each electoral campaign, to private actors or to misuse public funds, in the case of parties that already hold public office. Most parties in the region lack solid structures for internal accounting.

In this context of ambiguous and incomplete legislation, weak institutional political actors and an absence of political will from elected authorities, political self-control is minimal; public incentives to act transparently could also be low. In most of the cases, parties, their leaders and candidates have few incentives to act in accordance with the law and basic ethical principles. With some recent exceptions—especially in countries where corruption scandals have implicated top government officials—there has been a wide margin of social permissiveness towards this behaviour. In the most recent Latinobarómetro survey (2018: 63), almost half of the respondents (48 per cent) agreed with the phrase 'When you know about something corrupt it is better to remain silent'. Efforts to develop mechanisms for public oversight of spending have been limited, as have independent media investigations.

5. Looking forward

It is important to differentiate between countries that already have broad—although scattered and ambiguous—political finance legislation and those that do not. In both cases, the starting point should be a legislative 'compact' that includes a frame of reference for the issues that should be included in legislation, as well as minimum content. The definition of this compact should result from a systematic interaction among states, civil society actors and multilateral bodies focusing on issues related to democracy. Broad consensus on which issues to include in the compact will be necessary to make them binding. With this 'compact' as a parameter, the legislation in each country should be reviewed to identify gaps and loopholes. For countries that already have legislation, this process involves identifying the gaps, loopholes or ambiguities that made the laws inefficient. For countries that have not developed regulations, it entails identifying the issues that should be prioritized to make the regulatory framework truly effective.

The analysis presented in this policy paper has shown that the problem of political financing is closely linked to broader processes in Latin American societies. If the use of illegal or hidden resources in politics relates to a wider trend of state capture, political finance reforms will make little progress if those broader processes are not addressed. Such reforms must therefore be implemented in relation to the pending reform of the state, directed at strengthening its regulatory role, its autonomy in the face of private interests and transparency at all levels. If the state lacks autonomy from private interests, it will be difficult for it to escape the capture of politics by private interests in electoral campaigns.

Among the key components of finance reform are the political actors themselves, the parties, their leaders and candidates. One of the most widespread reasons for the discrediting of political parties in the region is that citizens see them as promoters of private interests at the same time as they have lost their original identities, a process defined as 'brand dilution' (Lupu 2014).

Nevertheless, the recent impact of corruption scandals in most countries in the region has created a window of opportunity to reform political financing. Coverage of the scandals has demonstrated that it is possible to conduct independent journalistic investigations even when they affect major economic and political players. Good examples of this are the investigation of the 'Estafa Maestra' case in Mexico, 'Lava Jato' in Brazil and the Panama Papers. It is also possible to break through social tolerance of corruption, and for anti-corruption civic movements to emerge and flourish in diverse contexts.

Therefore, no single policy or actor can guarantee the effective reform of political financing. In most countries, the factor that will unleash the process is, or will be, a mobilized civil society that is outraged at corruption in various areas, including the political and electoral systems. This factor may be accompanied by the role of independent investigative journalism. For the process to progress, however, it must enter the political agenda and its formal mechanisms (congressional and ministerial debate, public policies, etc.).

Younger party leaders, and emerging political movements in general, will probably be most sensitive to this argument in terms of rebuilding or gaining credibility with the population. Women must play a special role by fighting for equitable ground in the political arena, both within parties and in decision-making venues.

Finally, an important incentive for reform can be signals from international bodies, including regional and global political entities (mainly the OAS and UN) and multilateral agencies (World Bank, IDB, etc.). Specific provisions in trade agreements and bodies such as the Organisation for Economic Co-operation and Development (to which various countries in the region aspire to join) can serve as incentives for adjusting anti-corruption legislation in the region.

6. Recommendations

Most countries in the region need to simplify their current political financing laws and ensure their consistency and enforcement. The laws must provide for an autonomous regulatory body that has sufficient funding and mandatory attributions. This process must be based on the active involvement of civil society and independent media. National parliaments and governments will require social pressure and surveillance not only to adopt the changes, but also to implement them, and to avoid interfering when the autonomous regulatory body scrutinizes the funding of elected authorities.

EMBs, CSOs and other stakeholders must join efforts to assess the current legislation and its effects in order to identify its key failures and to design clear, simple and enforceable proposals on the financing of politics. A campaign with specific messages targeting different audiences must be developed to promote public actions and political influence over the parties to enact legislative changes.

More specific recommendations for each entity involved in the process of designing and achieving reforms in the financing of politics include:

Political parties

- Parties and their leaders must understand that their sustainability is closely related to the viability of political finance reform, partly because this would increase transparency and restore public trust in parties.
- Parties should promote appropriate bookkeeping practices to appropriately track party finances.
- Parties should provide appropriate guidance and training to their treasurers and members in order to support their compliance with political finance laws.
- Parties should consider developing internal regulations on online campaign spending.

National governments and national parliaments

- Parliaments should coordinate the key aspects of political finance reform such as provisions to ensure public financing of politics with autonomous mechanisms for allocation and oversight, the creation of independent and well-funded EMBs, and clear and rigorous sanctions.

- Parliaments and governments must link political finance reform to proposals for comprehensive reform of the political system. Political finance legislation should also be clearly integrated into anti-corruption legislation in each country. For example, measures to combat tax evasion and money laundering can be useful tools for combating corruption in politics.
- Once legislation is changed, various authorities must be involved in its implementation, including attorneys and members of the judiciary, tax authorities and others. The application of clear and rigorous sanctions is crucial for ensuring the legitimacy of the reform. Sanctions could be combined with incentives for best practices, such as increasing free access to communications media for parties and candidates that comply with transparency and accountability laws.

Electoral management bodies

- EMBs require not only autonomy and funds, but also a qualified corps of officials. In most countries in the region, there are gaps in this area.
- In addition to national initiatives, regional training opportunities for electoral experts should be expanded. Intergovernmental institutions and international CSOs could promote such initiatives for knowledge transfer.
- To increase transparency and accountability, EMBs should consider developing an online platform for political finance reporting and disclosure.
- To effectively address the growing online expenditures by political parties and candidates, EMBs must invest in human and financial resources to develop measures and ICT infrastructure.
- Monitoring of political parties must be permanent in order to identify shortcomings and flaws and suggest preventive measures. Monitoring must involve CSOs and other actors, especially independent media.

Civil society organizations

- Each country should have CSOs that focus on the reform of political financing. This will facilitate data collection, the drafting of arguments and the development of a constituency for the reforms.
- These organizations must work with the anti-corruption platforms that exist in most countries in the region. It is crucial to identify the impacts of corruption in politics—not only within the political system, but also in citizens' daily lives. An interdisciplinary approach is needed to design messages that have an impact on the public. For example, creative arguments are needed about the advantages of financing political activity and electoral campaigns with public funds, which many societies tend to resist.
- CSOs must prepare comprehensive proposals to submit to national parliaments and governments. These must be accompanied by campaigns and social mobilization. To achieve changes in legislation, it is important to design clear, simple and enforceable proposals for public action and political influence over parties and legislatures.

- For campaigns, arguments should be reinforced with the use of best practices identified in different countries. To do this, national CSOs must have access to platforms and coalitions from throughout the region that share experiences and lessons learned. International CSOs should promote these processes too.
- CSOs should advocate online reporting and disclosure of political finance information in order to increase transparency and accountability in politics.
- CSOs should consider looking into parties' and candidates' spending on their online campaigns as well as the impact of such campaigns on the integrity of elections.

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While many Latin American countries have benefited from democratization and economic reforms, political corruption remains a serious threat to the sustainability of democracy in the region.

Given the importance of effective political finance systems in anti-corruption efforts, a comparative overview is provided using the available data on 2018 political finance regulations in Latin America provided by International IDEA's Political Finance Database.

This policy paper:

- Highlights that while political finance legislative frameworks in Latin America are relatively comprehensive, ensuring their implementation continues to be a challenge.
- Makes the point that the misuse of public resources, abuse of public office for private gain and unregulated money in politics are not only consequences of institutional weaknesses; they are also linked to public attitude and value systems.
- Analyses political finance regulatory trends in Latin American countries and identifies key challenges that could undermine the integrity of political finance in the region.
- Provides practical policy recommendations for key stakeholders to encourage better governance and improve the transparency and accountability of political finance systems in Latin America.

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