The state of political finance regulations in Western Europe

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1. Introduction

This Discussion Paper provides an overview of recent developments in Western Europe since the writing of the chapter 'Northern, Western and Southern Europe' in International IDEA's *Funding of Political Parties and Election Campaigns: A Handbook on Political Finance* (Falguera et al. 2014).

The findings of the 2014 chapter pointed to a number of elements characterizing political finance in the region. First, it found a growing regulation of political finance across West European countries through the establishment of specific laws governing the financial management of political parties and candidates. Since the first political finance law was adopted in Germany in 1966, there has been a remarkable increase in the number of specific laws regulating money and politics in all countries in the region. In 2012 only three countries—Malta, Monaco and Switzerland—had not established any specific law regulating political finance. Today, Switzerland remains the only country where no such law exists.

Second, the chapter emphasized improved access to information on contributions and donations to political parties as compared to the traditionally lamented difficulty of obtaining comprehensive data on this matter. It seemed that political finance had become less opaque than before. On the one hand, in a number of countries the regulatory frameworks had lowered the threshold for the public disclosure of private donations and had made political parties' annual statements accessible to the public. On the other hand, even where such frameworks had not been established, the analysis signalled a number of political parties that were voluntarily publishing annual financial statements on their websites. Noticeably, since 2012 an evolution has also taken place in this respect. In the space of just a few years, transparency in the financial management of political parties has further improved, due to both the adoption of new rules and initiatives on the part of a growing number of individual parties.

A third element emerging from the 2014 research was the increasingly broad scope of political finance laws. Not only have more laws been established over time but also—perhaps most importantly—these laws have become more complex and comprehensive, covering a wider spectrum of areas related to the financial management of political actors and the control thereof. At the same time, many of these laws were still full of loopholes, especially in relation to the systems of monitoring, oversight and control over the financial management of parties and candidates. Now, just a few years later, an improved attention to the system of controlling the financial management of political parties and candidates can be discerned, as many countries have strengthened the supervisory power of the responsible authorities or established new independent ones.

Finally, drawing on the evaluation reports issued by the Group of States against Corruption (GRECO), the chapter highlighted that West European countries—along with countries in Eastern Europe—distinguished themselves from other regions in the world in that political actors rely heavily on public funding. It also stressed the fact that, despite the significant amount of public money disbursed in order to make political actors less prone to corruption incidents, political corruption has remained a fundamental problem in the region; and that public funding schemes seem not to have reached this fundamental objective. Furthermore, in the light of the growing disenchantment with political parties and the lowering of the election turnout throughout the region, the chapter warned that such a high dependency on state resources may risk sustaining political actors that are out of touch with social reality, thereby fuelling anti-party sentiments.

This paper reviews the most important changes that have taken place over the last five years. It highlights the improvements in political finance legal frameworks in West European countries, emphasizes the persisting problems, and provides some suggestions on future policy options and research avenues.

2. Changes to the landscape since 2012

Political finance regulation is in a high state of flux in Western Europe. Since the writing of International IDEA's 2014 *Handbook*, virtually all West European countries have introduced new rules on political finance, either by establishing new laws or by amending parts of their existing legal frameworks. Out of the 24 countries reviewed at the time of writing the chapter, and only focusing on the changes introduced in the specific political finance laws, 19 countries have since introduced new political finance rules (see Table 2.1).

Moreover, a number of countries established a series of legal changes, with some introducing and/or amending political finance laws up to four times in only five years. Frequent revisions to political finance laws are not a new phenomenon. Clift and Fisher (2004) referred to France as a case of 'legislative incontinence', having changed eight such laws in seven years. Similarly, Italy saw the establishment of eight laws in only fifteen years (Piccio 2014a). However, in the past five years, an impressive number of new rules has been adopted.

The desire to reform the regime regulating party finance can be explained by various factors. As for electoral rules, changing the legal framework regulating access, use and control of money in politics is far from a neutral exercise. Indeed, political finance laws are very sensitive areas of reform. Simply put, some political actors will benefit more than others from specific legal rules. For example, where the eligibility criteria for accessing public funding is based on parliamentary representation, as is the case in Belgium and Finland, the possibility for new and smaller parties to compete with established parties is undercut, as it may weaken their chances for entering the political arena. Similarly, larger and more consolidated parties, which are expected to be wealthier than newcomers, will be advantaged in the context of frameworks where no spending limits are established.

This recognition has led some scholars to look at political finance rules as being driven by self-interest—that is, aiming to capture financial resources from the state and guarantee the parties' organizational survival despite the declining support they receive from the citizens. However, self-interest does not necessarily imply that more money is reversed into the parties' pockets. As other scholars have noted, it is also rewarding for parties to take into account the societal—and thus electoral—moods.[1] In the context of financial scandals and the hostility of public opinion towards representative institutions, disregarding societal moods has an electoral cost in itself. In such contexts, it has been argued, it is likely that political actors will engage in reforms introducing greater state control of, and internal transparency in, the financial management of politics.

1 The debate on the drives underlying political finance legislation was opened by Katz and Mair's influential 1995 article on the cartelization of political parties. For a critical discussion see e.g. Scarrow (2004) and Koss (2008).

Table 2.1. List of countries introducing new political finance laws following Group of States against Corruption (GRECO) first visits, 2010–present

Countries where legal changes occurred (year)	Countries where no legal change occurred
Austria (2012, 2012); Belgium (2014); Cyprus (2011, 2012, 2015, 2015); Finland (2010); France (2013, 2014); Greece (2014); Iceland (2010, 2011); Ireland (2012); Italy (2012, 2014); Luxembourg (2012); Malta (2015); Moldova (2015); Monaco (2012); the Netherlands (2013); Norway (2013); Portugal (2010, 2012, 2015); Spain (2012, 2015); Sweden (2014); United Kingdom (2010)	Denmark; Germany; Liechtenstein; Switzerland
Total: 19 countries	Total: 4 countries

Notes: This table counts changes introduced in specific political parties and/or political finance laws in the 24 countries covered in the original *Handbook* chapter (at te time of writing, no Evaluation Report on San Marino has been published since GRECO's first visit to the country in 2014). The table is not comprehensive of all the legal amendments introduced in relation to political finance in the past five years, which are often included in a plurality of acts. Thus, for example, an act such as the British Transparency of Lobbying, Non-Party Campaigning and Trade Union Administration Act of 2014 is not included, despite the fact that it extended political finance provisions to third-party campaigners.

Source: Author's elaborations based on GRECO's Evaluation and Compliance Reports (Third Evaluation Round), <http://www.coe.int/t/dghl/monitoring/greco/evaluations/round3/ReportsRound3_en.asp>.

This is indeed what happened in Western Europe. In the past decade, several countries in the region, most notably in southern Europe, have experienced an economic slowdown following the global financial crisis, significant governmental cuts to services, and persisting financial scandals at the national and the local levels that further reinforced anti-party sentiments in public opinion. Moreover, especially following the emergence of 'anti-party' parties that criticized the traditional political establishment and the financial benefits it received, money in politics has become a hot topic in numerous countries and has been widely debated in the mainstream media, as well as in more specialized blogs and by investigative journalists.

In this favourable context for reforms, the international pressure exerted on individual countries by the Group of States against Corruption (GRECO)—an anti-corruption monitoring body established by the Council of Europe (COE) in 1999—has provided an additional incentive.[2] Since 2007, GRECO has conducted on-site visits to COE member states and issued Evaluation and Compliance Reports in order to monitor the implementation of Recommendation (2003)4 on common rules against corruption in the funding of political parties and electoral campaigns (COE 2003). These reports have had a substantial impact on the reshaping of national political finance legislation in Western Europe.[3] Table 2.1 lists the changes that were established in West European countries following GRECO's first on-site visits.

2 GRECO currently counts 49 member states. Membership is not limited to COE member states. For the full list of members see the GRECO website, <http://www.coe.int/t/dghl/monitoring/greco/general/members_en.asp>.

3 GRECO's Evaluation and Compliance Reports are available online, <http://www.coe.int/t/dghl/monitoring/greco/evaluations/round3/ReportsRound3_en.asp>.

More transparency

In most West European countries, transparency requirements in the financial management of political parties were first introduced together with public funding schemes. Under the logic of *do ut des*, according to which one thing is given so that something else may be received in return, the provision of public subsidies to political parties brought about greater intervention from the state in political parties' activities. However, these early requirements appear quite rudimental in today's eyes. In many countries, it was sufficient to annually submit financial accounts reporting aggregate figures of income and expenses, in some case approved only by internal partisan accountants. Moreover, in various cases, authorities entitled to monitor the parties' accounts had no power of investigation, and were not independent of the political process.

The principle that political parties had to be open with regard to their financial management gained increasing recognition and consensus. It has now become, as Pinto-Duschinsky remarked (2013: 4), the one option concerning the control of political finance that has the widest support. Scholars argued that West European party funding regimes have been converging towards reforms that promote greater transparency (Nassmacher 1993; Koss 2008). Indeed, the findings of the 2014 *Handbook* chapter pointed to a growing availability of financial data, due to a parallel process of more stringent transparency requirements in the legal frameworks and the voluntary disclosure of financial information from a number of individual political parties. Only a few years later, both processes seem to have persisted.

On the one hand, transparency obligations have been tightened further. Following the GRECO visits—and with the relevant exception of Switzerland that remains, in the words of the most recently issued Compliance Report on the country, 'the only GRECO member State in which there is currently no legislation on the transparency of political funding' (GRECO 2015: 6)—all countries in Western Europe have introduced regulations that open up the financial management of political parties to scrutiny. Based on Rec(2003)4 (and, in particular, articles 11–13), GRECO encouraged to introduce and implement minimum transparency standards in relation to the following aspects:

1. *Accounting.* Parties should keep proper and consolidated accounts, including the accounts of all entities that are related, directly or indirectly, to political parties, and including all donations that the party receives. In case of donations above a certain value, donors should be identified.

2. *Reporting.* Political parties should present regular—and at least annual—accounts to an independent authority.

3. *Public access.* Accounts (or a summary thereof) should be made public, including information on all electoral campaign expenses, all donations received, and donations above a certain value.

A recent analysis of the impact of GRECO's Third Evaluation Round on West European countries' legislation shows that the level of transparency regarding these particular requirements has improved considerably (Smulders and Maddens 2016). In some other cases, transparency requirements were introduced for the first time following the evaluations. Sweden, for example, was among the countries in Western Europe where state intervention in party affairs remained minimal despite the introduction of state funding to political parties. There was no obligation of transparency, unless in the form of a voluntary agreement between parties. In 2014, following the first GRECO visit, Sweden introduced a new act, under which political parties or individual candidates are now obliged to annually disclose information on their revenues, and to report donations above a certain value including the identity of the donor and the amount of the donation. This information is publicly accessible.

The Republic of Cyprus provides another interesting example. While neither specific accounting rules for political parties nor transparency measures were in force before GRECO's first visit in 2010, this has now radically changed. Moreover, the Cypriot authorities seem to have followed closely GRECO's Evaluation Report and the following Compliance Reports. As shown in Table 2.2, transparency requirements with regard to accounting, disclosure and public access have become progressively tighter over the past five years.

Finally, a number of political parties have decided to voluntary disclose information related to financial management on their websites, often including detailed information on the donations they receive. This is especially true for some recently established political parties, including Podemos in Spain, the Five Star Movement in Italy, the New Austria ad Liberal Forum (Das Neue Österreich und Liberales Forum, NEOS) and the Pirate Party in Austria, and the People Animals and Nature Party (Pessoas-Animais-Natureza, PAN) in Portugal, but it also holds for a number of older political parties, including the Austrian People's Party (Österreichische Volkspartei, ÖVP) and the Social Democratic Party (Partij van de Arbeid, PvdA) in the Netherlands.

It seems that providing exemplary practices with regard to transparency is increasingly perceived by party organizations as an important measure for allowing citizens to participate and monitor the political process more closely. However, voluntary disclosure of smaller donations may not be necessarily paired with full transparency of party funding. In the case of Podemos, there have been allegations from the Venezuelan National Assembly's Comptroller Committee of indirect funding from the Venezuelan Government (Marcos 2016), while the Five Star Movement's online reporting seems to leave many zones of opacity in the party's financial management (Ferrara 2013).

Table 2.2. The evolution of transparency requirements in the Republic of Cyprus

	Situation in force before GRECO's first visit (October 2010)	**Adoption of the Political Parties Act (February 2011)**	**Amendment to the Political Parties Act (December 2012)**	**Further amendment to the Political Parties Act (November 2015)**
Accounting	No specific accounting rules for political parties General accounting standards	All registered political parties obliged to keep books and accounts No specification on the format of financial statements	Explicit obligation for parties to keep accounting books in accordance with the International Financial Reporting Standards containing information on income, expenditure, assets and debts, including those of party-related entities	Further integrations in the list of financial information to be itemized in the parties' accounts
Reporting	Only political parties receiving state funding required to submit audited accounts (with respect of public funding expenses only) to the President of the Parliament No obligation to report on the private sources of funding	Parties' financial statements subject to independent audit and external supervision by the Auditor General of the Republic, to be performed on an annual basis	Same as in 2011	Same as in 2011
Public access	No public access to party annual accounts No obligations to disclose donations	Parties obliged to disclose a summary of their annual accounts in the daily press No specification on the timing of public access No obligations to disclose donations	Results of financial audits by the Auditor General disclosed to the public in the Official Gazette of Cyprus and on the Auditor's website Timing of public access specified No obligations to disclose donations	Same as in 2012 Annual accounts of political parties published on party websites and in the Official Gazette Disclosure of donations and donors' ID above a certain value

Source: GRECO, Third-Round Evaluation and Compliance Reports, Republic of Cyprus, ‹http://www.coe.int/t/dghl/monitoring/greco/evaluations/round3/ReportsRound3_en.asp› and author's own elaborations.

External independent monitoring

The 2014 *Handbook* chapter pointed to the fact that many loopholes still existed in political finance laws, particularly in relation to the systems of monitoring, oversight and control over the financial management of parties and candidates. Now, a few years later, the legal frameworks on external monitoring and control seem to have improved.

In France, Italy and Portugal, more competences and resources were recently provided to the authorities controlling the financial management of political parties and candidates, thereby strengthening their supervisory power. For example, the 2013 amendment to the French political finance law enabled the National Commission for Campaign Accounts and Political Funding (Commission Nationale des Comptes de Campagnes et des Financements Politiques) to actually compel political parties to present any additional documents required for its monitoring duties.

In Austria, until 2012 supervision over political parties was under the control of private auditors, who were limited to supervising the adequate use of public subsidies for those parties that received them. Following the 2012 political finance amendment, all political parties are required to submit financial statements to the Austrian Court of Accounts. Moreover, a new independent authority was established, responsible for imposing sanctions in case of law violations.

A specific mandate to monitor political finance was also introduced in Sweden following the 2014 reform. This was a major change in the Swedish regulation, as political parties were previously not subject to any supervision. In Finland, since 2010 responsibility for examining political finance has been transferred from the Ministry of Justice to the National Audit Office. The National Audit Office has become the main institution supervising political financing of election campaigns and political parties. As Karvonen underlines, this is a much more active authority, with stronger powers of investigation and sanctioning (2014: 59). Of course, improving the rules does not equal to solving the problems. Significant limitations in the legal frameworks and in their implementation are still present in numerous countries.

Public funding

West European countries have distinguished themselves from other regions in the world in that political actors are largely dependent on public funding. As discussed in the 2014 *Handbook* chapter, public funding has become the most quantitatively relevant source of revenue for political parties in the region, accounting for almost three-quarters of total party income. In the light of the continuing regional trend of party membership decline, state money is likely to remain a crucial resource for the organizational survival of political parties.

In a recent newspaper article published in the Netherlands, the treasurers of the three Dutch traditional parties—the PvdA, the Christian Democrats (Christen-Democratisch Appèl, CDA) and the Liberal Party (Volkspartij voor Vrijheid en Democratie, VVD)—lamented the decreasing resources of their respective party organizations and criticized the refusal by their own parliamentary groups to start a discussion in the Second Chamber on heightening the amount of public subsidies to political parties (Mebius

2016). The reason is simple, according to one of the treasurers: 'They want to avoid [a situation in which] the next day the media depicts them as money grabbers, addicted to public subsidies'. This example illustrates the current state of affairs in Western Europe with regard to public funding: while party organizations are in financial need, politicians refrain from increasing the amount of public subsidies, as they fear the reactions of increasingly disenchanted citizens.

Indeed, while the provision of public funding aimed to prevent corruption incidents by limiting the ability of large corporate interests to exercise control over the political process, political corruption has remained one of the most crucial challenges in West European countries. It is not the case that political parties with sufficient public funding have renounced other types of resources, which usually includes outlawed (i.e. corrupt) practices (Casal Bértoa et al. 2014). Additionally, in the context of declining electoral turnout, where 80 per cent of political actors' income is derived from state resources, there is an evident risk of alienation between parties and the citizens. If we add the economic crisis and the austerity measures introduced throughout the region entailing a reduction of public spending in so many area of government, it is not surprising that the provision of generous funding to political actors has become so unpopular in so many countries.

Legislators seem to have recognized this. As a reaction, especially in the countries in Europe that were most affected by the financial crisis, political finance laws were amended in order to reduce the amount of state subsidies to political parties. In Portugal (2010), Spain (2011), Ireland (2012), the Netherlands (2012) and Greece (2014), in the context of austerity measures, the subsidies available to political parties for either electoral or parliamentary activities were reduced. In Italy, where public funding to political parties had already been reduced in 2007, a new law introduced in 2014 repealed any form of direct funding. This measure is justified in the law's preamble as follows:

> . . . by considering the difficult economic situation of the country which urgently imposes the adoption of measures aimed to cut the public spending; in line with citizens' expectations toward the suppression of the public funding to political parties, coherently with the austerity and rigour of the budgetary policies adopted in recent years; . . . by considering also the opportunity to adopt a new financing system founded on the central role of the citizens and their autonomous choices, as taxpayers, to finance political parties . . .
> (Republic of Italy 2014, author's translation)

3. Conclusions and recommendations

Using public funding to further democratic goals

In the light of the broken promises of public funding schemes and the growing mistrust in party organizations in Western Europe, a relevant recommendation to policymakers would be to introduce corrective mechanisms to public funding regulations, which link the distribution of public funding to a greater number of requirements. Indeed, the 'carrot' of public funding—to use Scarrow's (2011) metaphor—could be used more effectively to further specific objectives. In particular, public funding schemes could be used as a lever to push political parties to actively engage in initiatives aimed at decreasing their distance from citizens.

One option could entail earmarking public funding to specific purposes. In most West European countries, public funding is earmarked for supporting operational costs and campaign activities. A number of countries prescribe that public funds must be used for specific educational or schooling activities, or for reinforcing the participation of women or youth groups in politics. These provisions, adopted in countries such as Finland, Germany, Italy and the Netherlands, could be studied in greater detail, and if proven effective could be applied elsewhere.

The actual practices in money and politics

There is general recognition of the fact that political finance should be regulated and that the way in which political finance rules are written is crucial to the very goals they aim to pursue. Badly conceived legislation makes the implementation of rules simply impossible. In the past several years, more attention than ever before has been devoted to making authorities think more carefully about political finance regulation, and about how to interconnect the different areas of political finance. GRECO's evaluation reports have certainly played a role in this.

More carefully drafted legislation is certainly a positive development, which should be welcomed. However, this is far from saying that West European countries have solved their problems in relation to the legal regulation of money in politics—let alone their actual practices.

A first aspect that needs to be underlined is that, even when carefully drafted, political finance regulations cannot remain isolated. It is essential that coordination and consistency exists, not only within political finance laws but also between these laws and other national regulations. In order to pursue the broader objectives of reducing levels of corruption, promoting integrity and heightening the levels of citizens' trust, individual policies need to be surrounded and sustained by other policies—particularly in areas that are more vulnerable to misconduct, fraud and corrupt behaviour (e.g. money laundering, public procurement, organized crime and so on).

Second, it is still unclear whether the greater number of rules and the recent reforms that have been introduced will be implemented in actual practice. Indeed, a significant disjunction persists between the legal regulation and practical enforcement of the rules (see Norris and Abel van Es 2016). This links directly to yet another crucial research need, which was also emphasized by Casas-Zamora (2005), namely that we still know too little about the actual practices in money in politics. In other words, a new research strategy is needed. Using semi-structured interviews involving larger and more differentiated networks of actors, investigative journalists, party officials at the national and local levels and academic researchers would help to increase understanding of the relations between money and politics, and to tackle ongoing difficulties in the enforcement and implementation of political finance rules.

Fundraising activities

It is often claimed that public funding has had a degenerative effect on political party organizations, in that financial contributions from the state have made political parties less keen to gather financial resources autonomously. In the context of Western Europe, where parties rely on generous state subventions, political parties feel less pressure and have fewer incentives to actively search for supporters who are willing to contribute financially to their political activity. Yet, as membership subscriptions have been shrinking significantly over time and election campaigns have become more costly, political parties are increasingly in need of money. This is, of course, especially true in countries that have reduced the amount of state subsidies available to political parties.

In such a context, two paths of survival for party organizations can be envisaged. The undesirable path is that political parties will seek alternative ways to generate resources, profiting from the numerous legal loopholes that still exist within political finance laws (e.g. provisions on third-party spending and entities indirectly related to political parties, including local branches and political foundations). The desirable path is that political parties will use this opportunity to start raising funds themselves.

Given the prominent role that the Internet has acquired as a means of political communication, a particularly promising avenue for research is to study the extent to which political actors use online tools to incentivize individuals, mobilize people to donate, and participate in partisan activities.[4] As compared to political parties in the United States, European parties have traditionally held a more circumspect approach to online fundraising. Evidence from Western Europe is still scattered, but recent studies (Lilleker and Jackson 2011; Karlsen 2012) suggest that this is changing. In the wake of the success of the online campaign pursued by Barack Obama in his 2008 presidential bid, a diffusion of online participatory practices has emerged, and more political parties are using their websites to generate financial resources and appeal for online or offline donations.

4 International IDEA recently launched a Digital Parties Portal to assist political parties using information and communication technologies to reach out more effectively to citizens. See <http://digitalparties.org>.

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The influence of money in politics is a significant threat to democracy, affecting established and emerging democracies alike. Inadequately controlled flows of money undermine the credibility of elections and the integrity of democratic institutions and processes around the world. Well-designed political finance regulations that are enforceable and anchored in their country's context play a vital role in ensuring that money is a positive force in politics.

In 2014 International IDEA published the second edition of *Funding of Political Parties and Election Campaigns: A Handbook on Political Finance*. This Discussion Paper provides further updates on the latest trends in political finance regulation in Western Europe in order to advance the debate on money in politics, and to move from recognition of the problem towards a solution-based discussion.

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