Securing democracy: Party finance and party donations – the South African challenge

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INTRODUCTION

The funding of political parties is a contentious issue throughout the democratic world.[1] The basic choice is whether parties should be funded by private contributions or out of the public purse. Money is what arguably determines the very basics of democracy: who runs, who wins, and how they govern. Paying campaign staff and buying materials takes money, as does ensuring a campaign is taken seriously by the press. It also takes money to raise money.[2] Money buys the access, goods and services, favours and skills that are essential to effective party activity. Money also compensates for a lack of volunteers and serves, in some societies, as a surrogate for individual commitment.

In short, money is a transferable and convertible resource which helps mobilise support for, and secures influence with, political parties.[3]

As this paper shows, even the so-called 'old' democracies have not yet found the ultimate method for optimising the funding of political competition. Nor is there consensus on the relationship between money and politics—internationally there are endless debates on this topic. While some assert that money is not in itself a problem, others call for a system where foreign contributions, in particular, are outlawed.

In the midst of all these, the question remains, 'how should political parties receive funding?' This is important, especially for countries in transition. As Peter Brunell aptly points out, 'when the opportunity arises to begin "crafting" the new political order, a much higher premium tends to be placed on such things as leadership skills and the techniques of constitutional drafting than on issues to do with political finance'.[4]

This paper highlights party funding problems internationally. It evaluates the motives of donors, especially international ones, and the dangers inherent in their donations. For countries in transition, sustainable democracy requires constant institutional nurturing before funding scandals reassert their retrograde influence. In the light of recent party funding/donations scandals in South Africa, the analysis also suggests some of the alternatives that can be adopted to secure democracy from the vagaries of party funding.

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THE RATIONALE FOR PARTY FUNDING

Funding of political parties may not be a problem in itself. A great many genuine donations are made to political parties with no 'favours' being asked, or expected, in return. Party members make donations, as do members of the public, trade unions, small businesses and ethnic diasporas—party funding comes in many shapes and forms.

Funding of political parties does become a problem, though, when it appears that an individual or organisation is attempting to 'bribe' a political party into making certain decisions, which would be to their advantage. But while it would be foolish to imagine that every single person who contributes to a particular party expects something in return (thousands expect nothing but the continuance of the party they support), it would be equally foolish to imagine that there are those who do not offer money with one hand and expect something back in the other. There is obviously an element of reciprocity.

For those working to promote sustainable democracy, the role of money in politics is a major concern.[5] The reason is obvious: wealth creates unequal opportunities for participation. In most countries, parties represented in the legislature receive public funding from the government. As public funding is usually not substantial, parties have to find supplementary funds from private donors to finance their daily operations and campaigns. Election campaigns are certainly difficult undertakings, whose success largely depends on the availability of funds at a party's disposal. The problem is that donors, whether corporate or individual, often make contributions not out of the goodness of their hearts or for reasons of political idealism, but in expectation of a return. Private donations to political parties can be tied to certain conditions, whether implied or explicit. Companies tend to contribute to parties whose policies they consider appropriate or favourable to their business plans and ideals, or to those that promise to implement sympathetic policies if they gain control of the government. Returns can take several forms: favourable consideration of an industry's needs or special concerns, or conversely, to serve as a kind of insurance policy against harsh or discriminatory treatment.[6]

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In making financial contributions, donors act rationally: they make decisions whose consequences rank high in terms of their (undeclared) goals and objectives. The strategy works for politicians and donors alike: politicians have, for example, won elections with 'donations' from companies that sub-sequently won public works tenders.

Certainly, the party in power or the most promising of the opposition parties tend to receive substantial amounts of donor funding. Such funding is often not disclosed, especially if disclosure would be to the detriment of the party concerned. When it does become public knowledge that a party received funds unlawfully from private donors, (usually as a result of defections by disgraced or disaffected politicians), the clamour for regulating party funding becomes louder. However, as donor funding is the lifeline of political parties, politicians are reluctant to pass strict laws preventing it. The political economy of party funding thus remains highly controversial.

PARTY FUNDING WOES: INTERNATIONAL LESSONS

Party funding scandals have alerted scholars to the profound problems inherent in democratic political systems. Many now believe that democracy itself is in crisis, for various reasons. Some claim that democratic systems are not working well because they have such old roots. Others argue that the system is inefficient because it encourages corrupt activities when it comes to party campaign finance. Corruption is, of course a contested concept but most approaches ultimately rest on a distinction between some formal obligation to pursue the public good, and conduct which is construed as undermining the public good.[7] Corruption contributes to the decline of public trust in politicians and to the general malaise that has overwhelmed democracies throughout the world: voter apathy has become the norm, with large proportions of prospective voters choosing to abstain. Inevitably, little political realignment takes place and the trend continues. The system is thus weakened by declining trust at its operational level.

Party funding scandals have dogged Western democracies, raising legitimate questions about the West's pressure for the world to embrace democracy. The dominant neo-liberal agenda, which recommends initiatives to 'downsize' or at least restrain the size of the public sector and to reduce social welfare provision, undercuts the usual advantages of being the party in power and thus of being able to shape public policy and public spending in ways intended to mobilise public support.

In most Western democracies even apparently squeaky-clean political leaders have been dogged by questions about dubious gifts or donations by big corporations to political parties. Such scandals take on a life of their own and their consequences can be disproportionate to the gravity of the original offence.[8]

The United States

In the 'old' democracies, which form part of what Samuel Huntington calls the 'first wave' (1828-1926), campaign finance is a burning issue. In the United States, small parties have lobbied for disclosure of all sources of funding by political parties and a ban on anonymous donations. More interesting is that smaller parties (those that receive less than 5% of the vote, such as Ralph Nader's Green Party), receive no public funding. In a system where political competition is nothing more than a wholesale commercial enterprise, this clearly favours larger parties at the expense of smaller ones. For instance, Table 1 shows the funds received by the four major contenders in the 2000 Presidential election.

Table 1: US Presidential candidates: General election. Millions of dollars[9]

Source	Bush	Gore	Buchanan	Nader	Total
Public funding	67.6	67.6	12.6	0.0	147.8
Private funding	0.0	0.0	0.6	5.1	5.7
GELAC funds	7.5	11.1	0.0	0.0	18.6
Recount funds	7.5	3.7	0.0	0.0	11.2
Total	**82.6**	**82.4**	**5.1**	**5.1**	**183.3**

For the 1999–2000 election cycles, the major parties in the US raised more 'hard' money than they did in the previous cycle. The Federal Election Committee reported that the Democrats raised $221.6 million in 1995–1996 but $257.2 million in 1999–2000, and the Republicans raised $416.5 million in 1995–1996 and $465.8 million in 1999–2000.[10] As in previous elections, the major party committees raised most of their 'hard' money from individual contributors. Some contributors seek returns from their financial contributions but because of the often clandestine nature of these transactions, it is difficult to establish the exact amounts donated.

A number of party funding scandals have emerged in recent years in the US. In January 2000 the *Arizona Republic* reported the return by the Bush Campaign of a $100,000 donation from the Essante Corporation, much of which was allegedly given days after President Bush's election victory.[11]

It has also become clear that Enron's $5.8 million in political donations during the past 12 years, (of which 73% went to the Republicans), bought that company significant influence over policy outcomes. Of particular note is the $826,000 the company gave to George Bush during his political career, starting when he was Governor of Texas and continuing through to his run for the Presidency. The *Washington Post* also reported that Vice-President Dick Cheney and other key Bush Administration officials lobbied the Indian Government on Enron's behalf over the company's attempts to sell its interest in a power plant project for some $2.3 billion, just weeks before it filed for bankruptcy.[12] Two members of the Bush Cabinet—the Commerce Secretary, Donald Evans, and the Attorney-General, John Ashcroft—have had to recuse themselves from current investigations after receiving close to $100,000 in political donations from Enron.[13]

Though Senator John McCain has worked tirelessly for campaign finance reform, it remains to be seen whether the legislation introduced by his efforts will prove effective in regulating party funding in the US.

Germany

In Germany, the financing of political parties is as volatile and controversial as it is in other parts of the world. Political party funding scandals overshadow the achievements of the former German Chancellor, Helmut Kohl, including his role in Germany's reunification. Kohl admits that he ran a network of secret accounts where money given to the Christian Democratic Union (CDU) by anonymous donors was hidden and moved around by a former CDU official nicknamed 'the Postman'. According to the BBC, Kohl's admission was sufficient to dent his reputation, but the former Chancellor compounded the problem by repeated refusals to say where the money came from.[14]

Previously, parties in the Federal Republic financed themselves from two main sources: membership fees —especially important for the SPD as a party of mass integration—and donations, made in particular to the parties of the middle-class and the bourgeoisie (CDU/CSU and FDP).[15] According to German law, there is no limit on the amount that can be donated, either by individuals (natural persons) or by corporate bodies (associations or business companies). However, in accordance with the Basic Law's demand for transparency, all donations exceeding DM 20,000 have to be publicised annually in a statement of accounts.

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Despite this disclosure requirement, the Federal Republic has repeatedly experienced scandals about party finance and corruption. Prominent leaders such as Franz-Josef Strauss, the long-time leader of the CSU and the Bavarian Prime Minister, stand out especially. In the beginning of the 1980s, the nation was severely shaken by the Flick Affair: Eberhard von Brauchitsch, the top executive manager in the Flick Company, paid over DM 25 million to the parties represented in the German Bundestag—usually in the form of cash stashed into plain envelopes. Apart from this large-scale general cultivation of the political landscape, the Flick Company was also accused of corruption in a narrower sense: it had sold a block of Daimler-Benz shares, on the proceeds of which it would have had to pay about DM 1 billion in taxes.

Britain

In Britain there was for many years a fair degree of complacency about the integrity of the British public. In the 'us' and 'them' politics prevalent in Britain, corruption was a problem for 'them': countries which did not enjoy the benefit of the uniquely British way of regulating parties and elections. That complacency seems to have waned. Prime Minister Tony Blair faced a new party funding scandal in early 2002 after he was accused of intervening to help an Indian billionaire to buy a Romanian steel company, leading to opposition demands for an enquiry. According to the *Sunday Telegraph*, Blair wrote to his Romanian counterpart, Adrian Nastase, in June 2001 in support of a bid by Lakshmi Mittal, one of the world's richest men, to buy Romania's Sidex steel company in a complex privatisation deal. Mittal, who moved to London in 1995, had donated £125,000 (US $177,000) to the newly-elected Labour Party the previous month.

In 1997, the Labour Party accepted a £1 million donation from Bernie Eccleston, the boss of Formula

One racing. The Labour Party government then exempted Formula One from a Europe-wide ban on tobacco advertising. Labour was forced to return the money when the gift became known.[16]

In some instances when revelations like this happen they bring the entire political edifice crashing down. This happened in Italy, in the process destroying the Christian Democratic Party that had ruled the country since World War II. Italy demonstrates the problems of party finance and corruption in their most acute and dramatic forms.

From this brief account it can be seen that party political funding is clearly a contentious issue in the 'old' democracies.

PARTY FUNDING IN SOUTH AFRICA

Lending effective voices to preferences in a multi-party political system involves a substantial commitment to financing the activities of political parties. In South Africa public funding is provided but parties are also allowed to raise funds from private donors, with no limits on the amounts they can secure from either domestic or foreign sources, nor any disclosure requirements. However, the thorny issue has always been that the aggressive search for funds may induce politicians to listen more to those who contribute to party coffers than to those who vote for them. Aggressive private fund-raising efforts by political parties may be reciprocated by donor expectations that they will gain access to public resources through privileged links to power holders. The basic trade-off is one of votes and/or funding support for political influence.

Since 1994, the biggest change has been a shift from funding for all registered political parties to funding only represented political parties.

It is widely accepted that building democracy is a time-consuming process of trial and error. Attempts to build democracy without viable political parties have failed dismally. Although democracy is about fairness and political accountability, among other things, this does not hold when it comes to party funding. The aggressive drive for party funding seems to dilute the equation.

South Africa's young democracy is struggling to come to terms with the problems of party finance. Although South Africa is a new democracy, which is still nurturing its institutions, party funding is already becoming cloaked in secrecy. Those in power, or who are connected to it, do not want the facts about election funding to become known as they would reveal a pattern of deception and control both in influencing the election outcome and in moderating their own party. Nor do they want it known that their party has compromised itself by taking money from 'controversial' donor countries because they think it will hurt the cause of revolution. Across the ideological spectrum, everyone has joined in a kind of game to cloud the minds of outside observers.[17]

Internationally, public funding is never adequate; however, Western democracies are certainly better resourced than developing nations. The latter have to contend with the problems that arise from limited resources and from the structural violence of poverty that characterises their societies. Inevitably, under these circumstances political parties resort to undesirable sources of funding. This reality has alerted many to the fact that democracy is expensive and countries of the South, in particular, cannot easily afford it. Pressure from the West to democratise (usually for reasons that have less to do with the well-being of the people than they do with ideological and commercial considerations), has had to be accompanied by payment by the West for the sustenance of democracy. In these transactions, obscure but pernicious contracts are concluded and typically tied. The so-called 'booty futures' feature prominently, that is, the sale of future tender contracts, rights to mineral exploitation, favourable foreign policy and so forth to the donor country or its corporation.[18]

South Africa's first democratic elections in 1994 were conducted under a different electoral framework from the 1999 elections, and political parties were able to access considerably more public funding. Qualified parties had to present at least 10,000 signatures from five of the nine provinces or register at least 2% support in an independent poll. Public funding was available to qualified parties: initially R44 million of State funds and R10 million of European Union funds (later raised to R69 million in total), were assigned on the basis of a three-fold division. According to Southall and Wood, R34.5 million was equally shared between all parties qualifying at the national level prior to the elections, R17.25 million was proportionally shared after the elections according to votes received, and, finally, R17.35 million was shared after the elections among all parties that won at least one provincial or national parliamentary seat.[19]

Parties received half of the funds before the elections (based on probable support), a quarter after the elections on an equal footing, and a quarter on the basis of votes earned. The Independent Electoral Commission (IEC) retained the right to audit the use of those funds.

Since 1994, the biggest change has been a shift from funding for all registered political parties to funding only represented political parties. The elections in 1999 were conducted under the Public Funding of Represented Political Parties Act of 1997 (see next section). Political parties spent an estimated R300–R500 million on their campaigns.[20] Only a fraction of this amount, R53 million of the total expenditure, was acquired from public funds. The following table indicates party funding for the 1999 elections:[21]

Table 2: Party funding in South Africa for the 1999 general election: Millions of rands

Political Party	Amount
African National Congress	R30,608,560
New National Party	R10,145,260
Inkatha Freedom Party	R5,694,850
Freedom Front	R1,993,330
Democratic Party	R1,759,600
Pan Africanist Congress of Azania	R1,125,190
African Christian Democratic Party	R953,470
Minority Front	R719,740

If the total amount from public funding was only R53 million and the total cost of the election is estimated at between R300 and R500 million, it is obvious that the rest came from private sources. Public funding is relatively easier to regulate since an independent institution administers it. The problem lies rather with the origins, reporting and accountability of private donations to the parties. In the absence of regulations requiring public disclosure and auditing of private donations, South Africa exposes its political parties to potential influence peddling.[22]

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According to the Democratic Alliance (in its response to allegations that Gerald Morkel, then Premier of the Western Cape, received funding from a shady German financier), the ANC received US$240 million and £8.6 million from foreign governments between 1993 and 1999.[23] Donations of this nature are obviously inconsistent with party funding regulations in terms of the Funding of Represented Political Parties Act, 103 of 1997. Damaging as these allegations are, they present an opportunity to re-examine the manner in which political parties can be privately funded.

Public Funding of Represented Political Parties Act (1997)

Section 236 of the 1996 Constitution reads:

> To enhance multiparty democracy, national legislation must provide for the funding of political parties participating in national and provincial legislatures on an equitable and proportional basis.

Government therefore has a constitutional responsibility to provide financial support for political parties on the basis of the dual principles of equity and proportionality. According to the IEC, party funding is permitted from both public sources, i.e. from the state, and from private sources. With respect to state funding, the Funding of Represented Political Parties Act, 103 of 1997, governs the eligibility of parties and the allocations they receive from the Represented Political Parties' Fund (the Fund). All represented parties receive money from the Fund at the beginning of each financial year of the Fund (1 April to 31 March). However, for election campaigns parties receive money at the beginning of the campaign, proportionately to the size of their representation.[24] The administration of this Fund, which is public, does not seem to present any serious problems.

The Act pools state funding for political parties into the Fund on the following terms:

- Only represented political parties may receive funds.
- Funding is weighed in favour of elected representation by each political party.
- Parties must account for the funds they receive to the IEC.

Allocations from the Fund are to be paid to political parties on the basis of proportionality and equity. The IEC allocates 90% of the Fund in proportion to the number of seats held by each party in the National Assembly and the provincial legislature jointly. The remaining 10% is allocated among the participating parties in the legislature of each province. Allocations are paid in four instalments, each within three months of the previous payment.

As in many other countries, political parties may also obtain funds from their members and from other sources such as business (both local and foreign) and civil society groupings. The Act distinguishes between direct and indirect funding. Direct funding is a normal financial contribution given to parties, whereas indirect funding concerns in-kind contributions such as voluntary work or free office space, advertising, equipment or printing facilities.

A political party is entitled to an allocation from the Represented Political Parties' Fund Act for any financial year in which it is represented in the National Assembly, in a provincial legislature or in both the National Assembly and a provincial legislature. What this means is that no allocations are made from the Fund to political parties that are represented in municipal councils only, or to those that have no public representatives at all. There are, however, specific purposes for which receipts from the Fund can be used, for instance, the development of the political will of the people, namely, allowing voters to choose; bringing the party's influence to bear on the shaping of public opinion; inspiring and furthering political education; and promoting active participation by individual citizens in political life.

Prohibitions regarding the use of allocations from the Fund include, first, the payment of any direct or indirect remuneration or other benefit of any kind to any elected representative of the party or to any public servant at any level of government. Second, allocations from the Fund may not finance or contribute directly or indirectly to any matter, cause, event or occasion that contravenes any code of ethics binding on members of parliament or any provincial legislature. The third prohibition is on using the money directly or indirectly to start any business or acquire or maintain a right or financial interest in any business. A party must account for the money allocated to it under the following classifications: personnel expenditure, accommodation, travel expenses, arrangement of meetings and rallies, administration, and promotions and publications. South Africa's democracy is not yet mature (there have only been two presidential elections) and there is a need to lay proper foundations for an equitable future party competition.

WHO DONATES AND WHY?

Donations are defined as voluntary payments exceeding the regular membership fees prescribed in the party statutes. In the debate on party finance, small donations by private individuals are not regarded as a major problem.[25] The problem lies rather with foreign contributions, either by governments, political foundations or foreign business interests, and centres on the motive for such donations. Realistically, why would anybody spend a fortune on political campaigns far beyond their own borders, usually in unstable political systems where expected returns, assuming they do feature, are not guaranteed? (Interestingly, those seeking specific rewards frequently experience setbacks when they inadvertently sponsor losers and alienate the winners.)

> The problem lies with foreign contributions and centres on the motive for such donations.

Foreign contributions usually stem from international groupings of like-minded parties, to which many political parties belong. The main such groupings are the Socialist International, the Liberal International, the International Democrats Union (an organisation of conservative parties) and the Christian Democrats International. The funds for party assistance have often also come from the governments of other countries, the most common way being the traditional use of secret funds to bribe prominent foreign politicians. Such payments have a long history.

External funding of political parties draws the most adverse criticism because, as the English saying puts it, 'he who pays the piper calls the tune.' Internationally, in modern times the 'Reptile Fund' used by the German Chancellor, Otto von Bismarck provided a precedent that was followed by subsequent German regimes. For instance, during World War I the German Foreign Ministry encouraged the Bolsheviks by sending them money through devious routes across the Baltic. Hitler is reported to have used the same technique. After World War II and at least until the 1970s, a secret 'Chancellor's Fund' was at the disposal of successive West German Chancellors, from which secret payments were reportedly made to Chilean politicians in the 1960s and to Portuguese and Spanish anti-communists in the 1970s.[26]

Following the Russian Revolution of 1917, Lenin established the Communist International (Comintern), to serve, among other functions, as a means to channel money and other forms of assistance to communist parties throughout the world. On the other side of the ideological spectrum, since 1947 the Central Intelligence Agency (CIA) of the United States was active in making payments to anti-communist politicians, parties, and trade unions in numerous foreign countries. For instance, in the 1980s, it authorised US$15 million for Jonas Savimbi's Unita in Angola.

The Cold War provided an appropriate atmosphere for both sides of the conflict to use funding to export ideological and political influence. Governments were bankrolled and guerrilla movements and political parties of 'suitable' leanings were funded by the then-superpowers. Enormous resources were committed to this cause and money could buy even the most unlikely of ideological bedfellows. Exploiting uncertainty, some leaders, with consummate skill, strategically aligned their political ideology with one or other of the superpowers in order to advance their political ambitions—and to receive much-needed financial assistance. In the process, some became puppets and were deserted once the Cold War ended.

Exploiting the void left by profligate Cold War subsidies, criminal syndicates have seized the opportunity to bankroll the election campaigns of candidates willing to pursue their interests at a high political level. Sometimes the lust for power seems to reach a point of almost lunatic efforts. In the worse cases, in countries where funding rules are not stringent and are poorly enforced, so-called 'narco-dollars' have been used extensively. For instance, the alleged infiltration of US$6 million of drug mafia money into President Samper's successful campaign in the second round of Colombia's 1994 presidential election did not simply attract international attention, but noticeably dented diplomatic relations with the US government.[27] In these undesirable arrangements, the umbilical cord relationship that emerges once politicians are catapulted to power has historically not been easy to undo. In countries such as Italy and Russia, especially, the interactions between party politics and organised crime are not to be underestimated.[28]

At an ideological level, political foundations emerged in most Western countries, and started to systematically channel portions of their foreign assistance fund to foreign political parties and other groupings. In Germany, each foundation was linked to (though legally independent from) a major West German political party. For example, the Konrad Adenauer Stiftung was connected to the Christian Democrats; the Friedrich Nauman Stiftung to the Free Democrats. Though the Stiftungen (foundations) were almost entirely dependent on public funds, they acted as conduits for financial assistance to like-minded foreign political parties, trade unions, and civic groups.

In the 1980s, Congress of the United States created a National Endowment for Democracy. One of its functions was to provide public funding for overseas activities of the two main United States political parties.[29] The National Democratic Institute for International Affairs (NDI) and the National Republican Institute for International Affairs (NRI) were set up, with headquarters in Washington, to receive and to distribute this new source of funding. Like their German counterparts, these institutes were legally independent from their parent parties, but the composition of their governing boards ensured close connections with the parties.

In Britain, the Westminster Foundation for Democracy, established in 1992, provides funding mainly from the Foreign and Commonwealth Office for overseas democracy-building projects. Today, other governments, among them Austria, Australia, Canada, Holland and Sweden, provide funding for political parties overseas.

Western countries that donate money to international political causes have thus become the self-proclaimed guardians of democracy as a form of government.

There are dangers inherent in foreign contributions. The objection, on principle, is that national sovereignty demands that the political process in each state should be autonomous. This probably explains why foreign contributions to the political process are outlawed in the United States and many other Western countries.

In the last two centuries, mass migrations have led to the formation of communities that, though economically integrated into their new countries, retain an interest in the politics of the ‘old country’. Indeed, migrants are often more passionate and hold more extreme opinions about the political conflicts in their former homelands than those who have continued to live there. For example, the political and paramilitary organisations of Irish nationalists have, for generations, relied largely on funds collected in Irish communities living in the United States.[30] Political parties in Israel maintain close connections and permanent organisations in major Jewish communities in several countries. Diaspora Poles, Albanians, Slovaks, Latvians, Ukrainians, Croatians, and others, have all been significant at various times. The role of funding from the diaspora is particularly important when migrants live in countries where living standards are markedly higher than in the mother country. In these conditions financial support from migrants can be crucial.[31]

The fourth US President, James Madison, once argued that: ‘religion and government will both exist in greater purity the less they are mixed together.’[32] This stems from the old debate on the separation of the church and the state. Some fraternity establishments, founded on common sets of belief systems, values, norms or even religious practices, have a track record of donating money to those who share similar aspirations overseas. The argument against this practice is that it is not more legitimate for foreign citizens to pay money to support political candidates in another country, than it is for them to have the right to vote for them.

A ready source of funding may lead the recipient party to live beyond its means.

Foreign political aid may also become a form of neo-colonialism. Former Ghanaian President Kwame Nhrumah, who coined the concept of neo-colonialism, meant by it that though a state is independent in theory and has all the outward trappings of international sovereignty, in reality it is controlled by external forces. In this regard, practical objections to foreign financial assistance are as follows:

- It is hard to introduce rules that assure the accountability of overseas donations. Whereas governments can oblige domestic corporations to declare their political payments and to impose penalties if they fail to do so, the task of bringing foreign corporations (or individuals) to account is far harder.

- The search for foreign donations may distort relations within the party receiving aid from abroad. Politicians with good foreign contacts may win office on the basis of their overseas fund-raising abilities, even if they have a small local base. Battles over control of foreign largesse have the tendency to cause quarrels, jealousies and splits within parties.

- A ready source of funding may lead the recipient party to live beyond its means and be lazy about seeking money from local sources.

- Foreign funding is fickle. The priorities of foreign political aid organisations change from year to year. A period of generous assistance may come to a sudden end, leaving a party high and dry.

Contrary to these objections, some argue that political contributions from foreign sources do not always have a subversive intent. They may also be motivated by a genuine desire to help establish democracy in a country with a poor record of civil rights. Foreign assistance to political parties can, from this perspective, be likened to foreign help for indigenous human rights groups. During a time of transition to democracy, such as South Africa's, there are likely to be no established party organisations. Help from abroad, albeit on a temporary basis, may therefore play a positive role in helping new parties to build themselves from scratch.

Furthermore, financial assistance from overseas is often the only way to create a semblance of fairness between government and opposition parties. This is demonstrated by the example of Poland in the late 1980s. The independent trade union, Solidarity, and the independent press could not match the resources available to the military regime without equipment (such as computers and printers) and supplies of newsprint from foreign supporters.[33]

> Political contributions from foreign sources may be motivated by a genuine desire to help establish democracy in countries with poor civil rights records.

HOW SHOULD POLITICAL PARTY FUNDING BE REGULATED?

Experience worldwide shows the immense difficulties of installing an effective system of party funding that is not open to abuse.[34] Some reformers naively believe that disclosure requirements will in themselves limit corruption by preventing contributors from 'buying' elections. For some time, political scientists have known that campaign contributions usually do not do so. Another extortionist line of argument asserts, rather dangerously, that as politicians have the power to inflict harm on private citizens, by pledging not to do so they can extract campaign funds under duress—thus politicians corrupt the private sector, not the other way around.

In the contemporary political discourse, which emphasises the need for 'political correctness', the term 'rent seeking' has become a euphemism for political corruption. Rents are benefits created through government intervention in the economy—for example, tax revenue or profits created because the government restricted competition.[35] Rent seeking refers to efforts that individuals, groups, firms, or organisations exert in order to reap such benefits. Rent seeking occurs when people seek to use governments for private gain. At best, it is a game in which one person's gain is another's loss. At worst, however, rent seeking can impose large net costs on society, because each party or group is willing to expend large resources in order to control the spoils of government.

Rent seeking may turn into outright corruption when influence is traded for money or other advantages. It may be a particularly serious problem in poor societies, in which politics is often the surest or most effective way to enrich oneself, and in which the courts, mass media, and other political actors may be too weak to prevent government officials from abusing their power. In the light of this, the best way to reform party funding would be to take power away from politicians by reducing the scope of government.

While buying elections is almost everywhere a source of opprobrium—votes cannot or at least should not be traded in the market place as if they were a commodity—it has been argued that the way electoral campaigns are run in many countries amounts to little more than buying votes. Campaign contributions are required to 'persuade' voters, usually via 30-second sound bites, and those providing the funds gain undue influence in policy formulation.[36]

In many countries, an absence of the rule of law and a lack of transparency both weaken and undermine participatory processes. While some countries do have rules designed to ensure fair treatment of all, the rich and powerful have special access to the seats of political power and use that influence to obtain special favours and exemptions from the rules. They may also buy special access to the legislative and executive branches of government, thereby helping create rules and regulations to their own benefit.

Unequal concentrations of economic power and wealth between the West and the rest of the world are almost inevitably translated into political influence. The question is, what can be done about this?

In the US, some of the major rules on party funding are the following:

- Any American citizen can contribute funds to a candidate or a political party, except individuals and sole owners of proprietorships that have contracts with the federal government.

- Foreigners with no permanent US residency are prohibited from contributing to any political candidates at any level.

- Cash contributions over $100,000 are prohibited, no matter what their origin.

- No candidate may accept an anonymous contribution for more than $50,00.

- Since 1907 national banks, corporations, labour unions and federally chartered corporations are prohibited from contributing to federal campaigns or parties.

- A political action committee (i.e. a committee set up by and representing a corporation, labour union, or special interest group that raises and spends campaign contributions on behalf of one or more candidates or causes) operated by foreign-owned corporations may contribute to campaigns as long as American citizens are the only contributors to the committee itself.[37]

Irregularities in party funding have attracted the attention of the World Bank, which, as Brunell puts it, 'now places a crusade against corruption at the leading edge of its campaign for better governance'.[38] Judging by the magnitude and complexity of the problem, the Bank acknowledges that there is no single prescription for success, as party financing rules have to operate in an environment of institutions and degrees of rule-respect that vary across countries, but many countries have found a selection of the following mechanisms to be useful:

There is no single prescription for success, as party financing rules have to operate in an environment of institutions and degrees of rule-respect that vary across countries.

- **Leave a paper trail.** Ensure that all donations and other sources of party revenue are made public, that donors and the amounts of their donations are identified in the public record, and that candidates disclose links to lobbyists, as well as sources, types, and amounts of support, both before and after elections. Expenditures and their purposes should be similarly published and available for audit.

- **Ban the use of state resources for political purposes.** Parties in government should not use state funds, postal services, cars, computers, or other assets for political purposes or in election campaigns.

- **Limit expenditure.** Make party politics as inexpensive as possible. Usually the demand exceeds the supply of funds, leading to a search for funding that may breach legitimate frontiers. There is a lot to be said for reversing this relationship by mechanisms used in a large number of Western European and other countries:

  (i) allocating free time slots on TV and radio to qualifying political parties, with no additional time allocation permitted; and

  (ii) imposing legal limits on spending, with actual expenditures subject to audit and to effective sanctions in the case of breaches of the limits.

- **Consider public funding.** Many countries have established partial public funding, recognising that political parties play a public role: they make an essential contribution to political contestability and the decentralised expression of diverse values and interests. Public funding reduces the scope for private interests to buy influence and can also help reinforce limits on spending, because of the electorate's resistance to excessive public expenditure.

- **Build public service neutrality.** Ensure that the public service is politically neutral and that public servants are neither allowed nor required to make contributions to political parties as a way of obtaining public sector employment. This will contribute to a meritocratic public service that will resist party bias, and will encourage decision-making that is in the public interest.

- **Limit types of donors.** Some countries have outlawed donations foreign donations or donations from both public and private sector companies, such as France since 1995.

CONCLUSION

South Africa is still closer to the founding of its democratic establishment than it is to the consolidation of institutions required to sustain the system. Though it is acknowledged that more time is needed for these institutions to be effective, it is necessary to keep improving weaknesses that emerge as the system evolves. Studies have shown that democratic systems throughout the world face critical challenges regarding party funding. For the so-called 'old' democracies, lessons were in most instances learned the hard way.

However, one of the blessings, especially for those countries that are now democratising in what Samuel Huntington refers to as the 'third wave', is that there are just as many international lessons to draw from. One such lesson is that regulating party funding can be effective if it is well-designed, backed by effective sanctions, and accompanied by a parallel diffusion of appropriate ethics and norms.[39] It is also a question of commitment to the values that the New Partnership for Africa's Development prescribes, and more importantly, to the values enshrined in the South African Constitution.

Within a relatively short time, party funding scandals have rocked South Africa's young democracy. Though still allegations at the time of writing, such irregularities necessitate an element of political responsibility on the part of institutions whose task it is to strengthen the system, be they Parliament, the executive or the judiciary. What is apparent is that more still needs to be done. The dilemma seems to be whether to take action now or to wait and allow for precedent to be set by the inevitable additional irregularities to come. International experience shows that the sooner action is taken, the better, since campaign finance is an endless problem in democratic political systems.

The Van Zyl Slabbert Commission of Review is currently examining the electoral system. There have been suggestions that the Commission should also consider party funding as part of its mandate. Clearly, there is a need to lay down proper rules and regulations, and, more importantly, methods of enforcement. The latter will certainly require a robust authority endowed with sufficient legal power to supervise, verify, investigate and if necessary institute legal proceedings.

Notes

1 For the purpose of this analysis, democracy is defined procedurally as a 'twentieth-century political system that [is] democratic to the extent that its most powerful collective decision makers are selected through fair, honest, and periodic elections in which candidates freely compete for votes and in which virtually all the adult population is eligible to vote…[democracy] also implies the existence of those civil and political freedoms to speak, publish, assemble, and organize that are necessary to political debate and the conduct of election campaign'. S Huntington (1991) *The third wave: Democratization in the late twentieth century.* London and New York: Touchstone Books. p7.

2 http://www.washingtonpost.com/wp-srv/politics/special/campfin/campfin.htm

3 R Williams (2000) 'Aspects of party finance and political corruption' in R Williams (ed), *Party finance and party corruption.* London: Macmillan Press; New York: St. Martin Press. p1.

4 P Burnell (1998) 'Introduction: Money and politics in emerging democracies' in P Burnell and A Ware, *Funding democratisation.* Manchester: Manchester University Press; New York: St. Martin Press. p2.

5 K H Nassmacher (2001) 'Money and politics' in International IDEA News. http://www.idea.int/newsletters/2001_12/opinion.htm

6 See D Welsh (2002) *Funding parties – A necessary evil.* Johannesburg: Helen Suzman Foundation.

7 See R Williams *op cit*, at p3.

8 *Ibid.*

9 Federal Election Commission, Washington, 2000 year-end filings; Internal Revenue Service, Washington, from 8872 Disclosure Reports for Gore-Liberman Recount Committee; and Kenneth P. Doyle, (2001), 'Democrats complain to FEC about nondisclosure by Bush Recount Fund', in *Money and Politics Report.* Washington: Federal Election Commission. May 3. p1.

10 See D Dwyre and R Kolodny (2000) 'Throwing out the rule book: Party financing of the 2000 elections' in David B. Magleby, *Financing the 2000 elections.* Washington: Brookings Institution Press.

11 See'All the Presidents' men: The devastating story of oil and banking in Angola's privatised war.' (2002) *Global Witness.* London. p24.

14 12 'White House aided Enron in dispute.' (2002) *The Washington Post.* Washington. 20 January.

13 *Ibid.*

14 See http://news.bbc.co.uk/1/hi/world/europe/610475.stm

15 U Von Alemman (2000) 'Party finance, party donations and corruption: The German case'. Paper submitted for a Transparency International workshop on corruption and political party funding in La Perta Italy, October.

16 See http://www.csmonitor.com/durable/2000/10/12/pls2.htm

17 See R Cummings (1995) 'A diamond is forever: Mandela triumphs, Buthelezi and De Klerk survive, and ANC on the US payroll', *International Journal of Intelligence and Counterintelligence.* Summer. p1.

18 For a discussion on booty futures, see M Ross (2002) 'Booty futures: Africa's civil wars and the futures marker for natural resources'. Unpublished paper, Department of Political Science, University of California at Los Angeles.

19 R Southall and G Wood (1998) 'Political party funding in Southern Africa' in P Brunell and A Ware, *op cit.* at p211.

20 *The Citizen*, 2 February 1999.

21 See David Pottie: http://www.localelections.org.za/Parties/parties2.htm

22 *Ibid.*

23 D Welsh *op cit.*

24 *Ibid.*

25 U Von Alemman *op cit.*

26 See http://www.aceproject.org/main/english/pc/pcd02h/default.htm

27 P Burnell, *op cit* at p20.

28 See R Williams, *op cit* at p7.

29 See http://www.aceproject.org/main/english/pc/pcd01a05/default.htm

30 See http://www.aceproject.org/main/english/pc/pcd02h/default.htm

31 In some parts of the world assistance from outside the country to minority political groupings with whom there are shared ethno-nationalist, religious or tribal indentities can be intended to encourage separatist movements. For instance, in Algeria, the Islamic Front for Salvation (FIS) which looked destined to take power through the ballot box in January 1992 before the military intervened and interrupted the electoral process, reputedly had support from the Iranian government. For discussion, see P Burnell, *op cit* at p21.

32 See http://www.3rdparty.org/essays/20010225.html

33 See also Michael Pinto-Duschinsky (1999) 'Foreign contributions' http://www.aceproject.org

34 See E Fakir (2002) 'Harksen and DA expose tricky issue of party funding'. http//www.idasa.org.za

35 G Almond, B Powell, K Strom and R Dalton (2000) *Comparative politics: A theoretical perspective*. London and New York: Longman. pp13–14.

36 See J Stiglitz, (1999) 'Participation and development: Perspectives from the comprehensive development paradigm'. Paper presented at the International Conference on Democracy, Market Economy and Development, Seoul, South Korea, February 27.

37 See http://www.vote-smart.org/reference/primer/campfi.phtml?checking=

38 P Burnell, *op cit* at p8.

39 See http://www1.worldbanck.org

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About this paper

There are many pitfalls in developing and strengthening the institutions required to sustain democracy. This paper looks are the problem of party funding and suggest ways in which current South African regulations may be strengthened. The analysis starts from the premise that South Africa's young democracy is struggling to come to terms with the problems surrounding party finance. The Public Funding of Represented Political Parties Act of 1997 places no restrictions on the raising of funds by parties from private sources, domestic or foreign. Although public funding is provided and parties may raise funds from private donors, with no limits or disclosure requirements on the amounts they can secure, the thorny issue is that the aggressive search for funds may induce politicians to listen more to those who help pay for campaigns than they do to those who vote for them.

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