Transparency International Anti-Corruption Helpdesk Answer

# Limits on political donations: global practices and its effectiveness on political integrity and equality

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While political donations are a legitimate way of participating in the political life of a country and a necessary means to fund electoral campaigns and political parties, restrictions have been imposed in multiple countries. Most OECD countries limit the amounts that natural and legal persons can donate to candidates and parties. Bans on donations from certain types of donors, such as foreign individuals and entities, public entities and corporations have also been adopted in numerous countries.

Political reform centred around restrictions on political donations can have multiple goals, such as reducing the influence of wealthy donors in politics and related corruption risks, as well as promoting electoral competition and broadening the profile of donors to include a larger section of the electorate. Studies suggest that donation caps can result in positive outcomes in terms of the integrity of public procurement processes, as donation limits reduce space for quid pro quo arrangements between candidates and companies. There is also some research, but no consensus, that points to a positive impact of political donation caps on narrowing the traditional gap between incumbents and challengers and, thus, promoting electoral competition.

Establishing caps on political contributions requires a complex set of accompanying regulations to ensure that these limitations are complied with, including, but not limited to, adequate reporting requirements, transparency in political finance reports, codes of conduct for politicians and political parties, whistleblower protection, independent and adequately resourced oversight bodies, and dissuasive and enforceable sanctions.



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## Query

Please provide an overview of global practices on imposing limits on political donations and present the available evidence on its effectiveness in promoting political integrity and equality.

## Contents



### Caveat

Research demonstrating the effectiveness of political donation caps is still limited and there is evidence that points in both directions. Much of the research available centres on the United States' political system and the policy relevance of this research in other countries may be limited.

## 1. Background

Political donations have been recognised as the exercise of certain fundamental rights, such as the freedom of association, the freedom of expression, and the right to participate in public and political life. Frameworks acknowledging donations as a legitimate way for the public to participate in politics include the International Covenant on Civil and Political Rights (article 25) and the Council of Europe's 2003 Common Rules against Corruption in the Funding of Political Parties and Electoral Campaigns (article 1).

## Main points

- Political donations are a legitimate way of participating in the political life of a country and a necessary means of funding electoral campaigns and political parties.
- Limitations on donations by natural and legal persons have been adopted in multiple countries with the goal of promoting political integrity and equality.
- There is still limited evidence on the effectiveness of donation caps in promoting electoral competition and reducing the risks of quid pro quo related to procurement proceedings.
- The effectiveness of political donation caps may be impacted by compliance issues, as a complex enforcement system is needed to ensure candidates and political parties respect these caps.

However, the OECD (2016: 15) has recognised that, if not adequately regulated, “money may also be a means for powerful special interests to exercise undue influence, and ‘capture’ the policy process”. Indeed, a lack of restrictions on money in politics can affect two main areas: political competition and political integrity.

Where a few candidates with access to affluent donors outspend their competitors and saturate the political marketplace with their campaign messages, this can undermine the level playing field and drown out rival offers. This problem is exacerbated when certain candidates lack access to financial networks, as may be the case for female candidates or those from disadvantaged communities. Moreover, where a small number of big donors dominate the political landscape, multiple parties may seek to align their policy offer with the agenda of those donors, reducing genuine political competition and skewing the whole political offer to voters towards the interests of the rich and powerful.

Political integrity may also be undermined in electoral systems with no restrictions on political donations. Where donors view donations as investments for which they expect a ‘return’, rather than expressions of political alignment to specific ideologies or policy manifestos, distrust and disfunction can seep into the political system.

Unscrupulous donors may provide financial support to incumbents, the opposition, or in some cases multiple parties in an attempt to ‘buy’ influence or capture policies. Office holders that engage in influence peddling may in turn misuse public resources to ‘reward’ their donors or affiliates with appointments or contracts.

Candidates can further distort political competition by resorting to vote buying rather than relying on their popular appeal and political programme (Transparency International 2009:1).

These practices infringe on the rights of voters to make an informed decision based on candidates' policies and proposals, leading Transparency International (2009:1) to conclude that a lack of integrity in political finance negatively affects the quality of government and the efficacy of democracy.

## The rationale for restrictions on political donations and campaign expenditures

There are multiple ways of regulating political finance.

On the one hand, legislation can focus on the sources of funds for political parties and candidates. It can prohibit raising funds from certain categories of donor that are seen as especially damaging to the democratic process. In addition, political finance regulation can also establish limits on how much eligible donors can contribute to campaigns and parties, which according to the Centre for Civil and Political Rights (2021: 23), can help ensure that “elections are actually a means by which to translate the free expression of the will of the electors into a representative government”.

Although limits on political donations are the focus of this Helpdesk Answer, an alternative, and sometimes complementary path, to financing political activity is to provide public funding[1], as a way of ensuring that political campaigns are adequately financed while potentially reducing

[1] Public funding consists of resources from the government's budget in the form of public subsidies or non-financial resources (Magolowondo et al. 2012: 7).

the influence of special interests (IDEA 2014: 22).[2]

On the other hand, while caps on political donations can potentially limit the influence of any one large donor over a given political party, limits on campaign expenditures can help to ensure a level playing field between parties. The Human Rights Committee (1996), in interpreting the ICCPR, has recognised that limits on campaign expenditures may be justified to ensure that the democratic process is not distorted by disproportionate expenditures on behalf of any candidate or party.

Many countries institute spending bans or limits, and regulation can determine specific types of political expenditures that are not allowed. For example, vote buying is almost universally banned, and some countries also restrict the types of advertisements political parties and candidates can use. Limitations to how much a political party and candidates can spend are not uncommon and, usually, their goal is to reduce the advantages of those that have access to significant financial resources (IDEA 2014: 26).

The United Nations Convention against Corruption does not impose requirements on signatory countries to adopt caps on political donations or campaign expenditures, but it does require them to take steps to "to enhance transparency in the funding of candidatures for elected public office and, where applicable, the funding of political parties" (art. 7.3).

There is widespread agreement that banning donations from certain types of actors is beneficial to the democratic process. For example, a group of experts convened by UNODC (2019: 22) proposed a set of Principles on Transparency in Political Finance, that included the following recommendations:

- State-controlled entities ought to be prohibited from contributing financial or in-kind contributions to political parties, political candidates, and election campaigns.
- Donations by foreign entities to political parties and candidates ought to be prohibited.
- All donations by legal entities to political parties and political candidates ought to be regulated, either by prohibiting them or capping them and requiring the disclosure of their beneficial owners.

The Council of Europe (2003) requires states to prohibit, specifically limit, or otherwise regulate donations from foreign donors and legal entities that provide goods or services to any public administrations (art. 5b and 7). The Venice Commission (2001: 3) has also recognised the legitimacy of prohibiting donations "from enterprises of an industrial, or commercial natures or from religious organisations". It had originally recommended that foreign states and enterprises be banned from making donations to political parties. Five years later, the Venice Commission (2006: 12) recognised there were circumstances in which financial cooperation between political parties and their foreign counterparts may be justifiable, especially within supranational organisations in Europe.

When laying out possible legal frameworks for financing democracy, the OECD proposed four overarching goals: (i) promoting a level playing field; (ii) ensuring transparency and accountability; (iii) fostering a culture of integrity; and (iv) ensuring compliance and review. Within the first pillar, it noted that many countries bar certain types of private contributions, including donations from foreign entities, corporations with government contracts or some degree of

[2] For a discussion of whether public financing models are better able than systems reliant on private donations to constrain corruption in politics, see Hummel et al (2018) and Fernando et al (2014).

government ownership, as well donations from corporates and trade unions (OECD 2016: 30).

However, blanket bans on private sources of political finance are not ideal. International IDEA (2014: 22) acknowledges that banning private donations is rare and undesirable since it can cut parties off from their support base and encourage the use of hidden donations.

International IDEA (2014: 22) has noted that donation limits are widely used and can produce positive outcomes, as did the Council of Europe (2003), which stated that states should "consider the possibility of introducing rules limiting the value of donations to political parties" (art. 3, b).

Similarly, Transparency International (2009: 7) has, in the past, stated that "considerations should be given to limiting corporate and foreign support, as well as large individual donations". More recently, Transparency International (2020: 3) recommended that governments:

> Introduce limits on sources and the size of donations to political parties and candidates, and encourage a broad base of donors, to strike a healthy balance between public and private funding.

According to Yee-Fui Ng (2021), caps on political donations are a crucial method of upholding political equality by limiting the influence of wealthy individuals, unions, and corporations. When caps are set at relatively low levels, they seek to ensure that financial contributions do not provide undue access to and influence over politicians. The idea is to prevent government decisions and policymaking from being skewed in favour of those who make large donations to political parties.

While this Helpdesk Answer focuses on donations caps in general, below is a useful table developed by IDEA International (2014:21) on the rationale for outright bans for different types of entity.

**Table 1: Rationale for different types of donation bans**

| Types of donation bans | Rationale |
|---|---|
| Foreign entities | To prevent foreign influence; principle of self-determination. |
| Corporations | To limit influence on financing from vested interests; ensure independence of candidates and parties from special interests. |
| Public and semi-public entities | To avoid use of public funds for political purposes |
| Trade unions | To avoid improper influence from organised interest associations. |
| Corporations with government contracts | To reduce the risk of quid pro quo donations |
| Anonymous sources | To ensure transparency of party funding and a greater chance to monitor compliance with political finance regulations. |
| Indirect donations | To make control of other bans easier to monitor. |

Source: IDEA International (2014: 21)

# 2. Overview of caps on political donations in OECD countries

The International Institute for Democracy and Electoral Assistance (International IDEA) has developed a database to examine which countries have implemented limits on the maximum amount a donor can contribute to a political candidate. Overall, the majority of countries (96 out of 172) do not have limits, while 38 have established limits for donations from both natural and legal persons, 22 have limits only for natural persons and 1 only has limits for legal persons, according to IDEA.[3]

Using this database, a specific analysis was conducted focusing on the 38 member countries of the Organisation for Economic Cooperation and Development (OECD). The findings from this analysis revealed that among these 38 OECD member countries, 20 of them have established restrictions on political donations.

These limitations apply to one of three categories: (i) natural persons, (ii) both natural and legal persons, or (iii) legal persons. In other words, in these countries, there are regulations in place that restrict the amount of money that can be donated to candidates, and these regulations can apply to individual donors, a combination of individual and corporate donors, or solely corporate donors.

**Table 2: Donation limits in OECD countries**

| Country | Year | Is there a limit? | For legal and/or natural persons? |
|---|---|---|---|
| Australia | 2019 | No | - |
| Austria | 2018 | No | - |
| Belgium | 2018 | Yes | Natural persons |
| Canada | 2019 | Yes | Natural persons |
| Chile | 2018 | Yes | Natural persons |
| Colombia | 2021 | Yes | Both natural and legal persons |
| Costa Rica | 2021 | Not applicable | - |
| Czechia | 2018 | No | - |
| Denmark | 2021 | No | - |
| Estonia | 2019 | No | - |
| Finland | 2018 | Yes | Both natural and legal persons |
| France | 2019 | Yes | Both natural and legal persons |
| Germany | 2019 | No | - |
| Greece | 2018 | Yes | Natural persons |
| Hungary | 2018 | No | - |
| Iceland | 2018 | Yes | Both natural and legal persons |
| Ireland | 2018 | Yes | Both natural and legal persons |
| Israel | 2018 | Yes | Natural persons |
| Italy | 2019 | Yes | Both natural and legal persons |
| Japan | 2018 | Yes | Both natural and legal persons |

[3] The database is made up of answers to the question 18 of the Political Finance Database "Is there a limit on the amount a donor can contribute to a candidate?".

| Country | Year | Is there a limit? | For legal and/or natural persons? |
|---|---|---|---|
| Korea, Republic of | 2021 | Yes | Both natural and legal persons |
| Latvia | 2019 | No | - |
| Lithuania | 2021 | Yes | Both natural and legal persons |
| Luxembourg | 2018 | No | - |
| Mexico | 2019 | Yes | Legal persons |
| Netherlands | 2019 | No | - |
| New Zealand | 2019 | No | - |
| Norway | 2018 | No | - |
| Poland | 2019 | Yes | Natural persons |
| Portugal | 2018 | Yes | Both natural and legal persons |
| Slovakia | 2019 | No | - |
| Slovenia | 2018 | Yes | Natural persons |
| Spain | 2018 | No | - |
| Sweden | 2018 | No | - |
| Switzerland | 2021 | No | - |
| Turkey | 2021 | Not applicable | - |
| United Kingdom | 2018 | No | - |
| United States | 2018 | Yes | Natural persons |

Source: International IDEA (2021), European Parliament (2021)

Among the OECD member countries that have established limits on political campaign donations from both natural and legal persons, notable examples include:

(i) **Italy**: Between 2013 and 2017, Italy made a significant shift by eliminating state subsidies for political parties. In the 2018 parliamentary elections, parties relied solely on private funding for their campaigns. However, indirect public funding persists through equal allocation of free airtime for election campaigns on public service broadcasters and the option for taxpayers to contribute 0.2% of their income tax to eligible political parties. Restrictions include a ban on anonymous donations exceeding €500 annually, contributions from foreign sources, and donations from state-owned or partly state-owned entities. Individuals can contribute up to €100,000 annually to a single political party, while legal entities can donate a total of up to €100,000 annually to as many political parties as they wish to support (European Parliament, 2021).

(ii) **France**: Corporate firms and other legal entities are prohibited from financing candidates. Anonymous donations exceeding €150 are not allowed. Individuals are permitted to contribute up to €7,500 annually to political parties and a total of €4,600 to candidates in each election (both parliamentary and presidential) (European Parliament, 2021).

(ii) **Finland**: Finland enforces an annual limit on the amount a single donor can contribute to a political party, capped at EUR 30,000 per calendar year (IDEA, 2021).

(iii) **Iceland**: Contributions from anonymous donors are prohibited. Contributions from enterprises majority-owned or controlled by the state or municipalities are not allowed. Political organisations and candidates face limitations on accepting contributions from legal entities, capped at ISK 400,000 per year. However, contributions in the form of discounts, publicly offered general discounts from market prices, are exempt from this ceiling, provided they are separately identified in accounts. Legally competent individuals can contribute up to ISK 400,000 per year to political organisations and candidates. (Iceland. Act No. 119/2010, Article 6 and Article 7).

(iii) **Ireland**: Ireland imposes an annual limit of €2,500 on campaign donations (IDEA: 2021).

(iv) **Japan**: Japan enforces an annual limit of 20 million yen for individual donors and varying limits between 7.5 million yen to 30 million yen for corporations, labour unions, and other organisations (IDEA: 2021).

(v) **Korea**: Both foreign and domestic corporations are ineligible to make political donations. Additionally, individuals are prohibited from making political contributions using funds related to corporations and organisations. Corporations and organisations are further restricted from using their employees, constituents, or family members to expediently make donations. Certain public officials, as defined by The National Public Service Act, are also prohibited from contributing money for political purposes. A deposit, which may be deposited by one person, shall be not less than 10 thousand won or a value equivalent thereto at any one time, and less than either 100 million won or 5/100 of the incomes in the preceding year, whichever is greater (Korea, 2023).

(vi) **Lithuania**: In Lithuania, the limit on donations is set at 10% of the annual income declared by party members or other natural persons (IDEA: 2021).

(vii) **Portugal**: Portugal calculates donation limits based on the minimum wage. Donations of pecuniary nature made by identified natural persons are subject to an annual limit of 25 times the value of the minimum wage per donor (IDEA: 2021).

Among the OECD member countries that have imposed limits on campaign donations from natural persons, the following examples stand out:

(i) **Belgium**: a political party may receive a maximum of EUR 500 from an individual donor each year. Additionally, a donor can contribute up to a maximum of EUR 2,000 per year (IDEA:  2021).

(ii) **Canada**: Canada has set limits that increase annually. For example, in 2021, the limit was $1,650, and it increases by $25 each subsequent year (IDEA, 2021).

(iii) **Chile**: Individuals aged 18 or older may contribute to electoral campaigns. Electoral Council advisors and their officials, as well as foreign nationals, are prohibited from contributing to any candidate or political party. In a single election for the same candidate, the following maximum contributions apply (Chile, Ley nº 19.884, art 10):

a) For mayoral or council candidates, a sum exceeding ten percent of the electoral spending limit set for the respective municipality. If this percentage surpasses two hundred fifty

units, the contribution cannot exceed this amount.
b) Regarding regional council candidates, a sum exceeding two hundred fifty units is prohibited.
c) For candidates running for deputy, senator, or regional governor, a sum exceeding three hundred fifteen units is not allowed.
d) In the case of presidential candidates, a sum exceeding five hundred units is prohibited (One indexed unit is 29,181 pesos, or US$ 32.89).

(iv) **Estonia**: There are no caps for natural persons in Estonia. There is only a fixed limit of EUR 1,200 for cash donations and a ban on donations from corporations.

(vi) **Slovenia**: Slovenia calculates donation limits at 10 times the previous year's average monthly wage for natural persons (IDEA: 2021).

(vii) **United States**: As set out in table 3, there are different limits depending on the type of donor (individual, candidate committee, political action committee (PAC) multicandidate or non-multicandidate; party committee: state/ district/local; party commute: national) and the type of recipient (candidate committee; PAC, party committee: state/district/local, Party committee: national; additional national party committee accounts).

**Table 3: Contribution limits for 2023-2024 federal elections**

| | | Recipient | | | | |
|---|---|---|---|---|---|---|
| | | Candidate committee | PAC† (SSF and nonconnected) | Party committee: state/district/local | Party committee: national | Additional national party committee accounts‡ |
| Donor | Individual | $3,300* per election | $5,000 per year | $10,000 per year (combined) | $41,300* per year | $123,900* per account, per year |
| | Candidate committee | $2,000 per election | $5,000 per year | Unlimited transfers | Unlimited transfers | |
| | PAC: multicandidate | $5,000 per election | $5,000 per year | $5,000 per year (combined) | $15,000 per year | $45,000 per account, per year |
| | PAC: nonmulticandidate | $3,300* per election | $5,000 per year | $10,000 per year (combined) | $41,300* per year | $123,900* per account, per year |
| | Party committee: state/district/local | $5,000 per election (combined) | $5,000 per year (combined) | Unlimited transfers | Unlimited transfers | |
| | Party committee: national | $5,000 per election** | $5,000 per year | Unlimited transfers | Unlimited transfers | |

Source: Federal Election Commission (2023).

Although it is not a member of the OECD, it is illustrative to highlight the example of Brazil. In 2015, the Brazilian Supreme Court prohibited corporate campaign contributions in response to a significant corruption scandal. Before the enforcement of this rule, it is notable that family-owned firms in Brazil played a significant role in political activities and reaped substantial advantages from their political contributions (Balan et al.: 2023).

Presently, the Electoral Law (Law No. 9,504/1997) no longer permits corporate entities to make contributions to electoral campaigns. The latest Electoral Reform (Law No. 13,165/2015) upheld the ruling of the Brazilian Supreme Federal Court and declares the legal provisions that authorised corporate donations to be unconstitutional (TSE, 2016).

Finally, Mexico has established limits exclusively for legal persons when it comes to campaign donations. In Mexico's regulatory framework, legal entities are subject to an annual limit set at 0.5% of the overall spending limit from the preceding presidential election (IDEA: 2021).

# 3. Evidence on the effects of caps on political donations

Depending on the problems they want to address, political finance reformers can have multiple goals, from reducing risks of corruption stemming from the influence of money in politics and elections, to levelling the playing field for candidates and parties, ensuring competition and providing greater leeway for entry into politics of minorities. While they may be related, often, measures aimed at one goal have an adverse effect on others, meaning reformers need to calibrate different policy tools to address the specific problems in their contexts.

For this reason, this Answer compiled the available evidence on the impact of limits to political donations on two overarching goals: political integrity and political equality.

Evidence on the direct impact of caps on political donations should be interpreted with a few additional caveats. It is often difficult to find comparable data on elections that are run with different thresholds for donation limits but with otherwise identical rules and conditions. As such, isolating the effect of changes to limits on donations from other variables to gauge their impact is not straightforward. Furthermore, findings that make sense in a country with a particular political system, notably the United States where most of the research has been conducted, may not be relevant in another.

## Political integrity

In the absence of adequate regulation of political party and election campaign financing, money can become a tool for powerful special interests to exert undue influence and essentially "capture" the policymaking process (OECD: 2016).

For instance, elected officials have been known to use lucrative government contracts as a way to repay corporations that made significant campaign contributions or to exclude those who supported their opponents. While high-spending sectors like infrastructure and urban planning are especially susceptible to policy capture risks, virtually any policymaking process can be targeted by powerful special interests. The result may be the adoption of inadequate policies or policies contrary to the public interest, hindering inclusive growth and eroding trust in government (OECD 2016).

In the article *Pay-to-play politics: Informational lobbying and contribution limits when money buys access*, Cotton (2012) presents a game theory model of informational lobbying involving two interest groups and a politician. The analysis addresses three key claims: 1) that wealthier groups have better access to politicians than less-wealthy ones, 2) this access advantage benefits the rich and skews policy in their favour, and 3) contribution limits can reduce the advantage of wealthy groups and lead to more representative policies.

The theoretical model's findings reveal that the rich indeed have better access to politicians, with the politician consistently offering access to wealthy groups and occasionally to less-wealthy ones. However, this does not necessarily mean that the rich group benefits or that policies are skewed in their favour. By distinguishing access advantages from policy or payoff advantages, Cotton (2012:380) contends that more access does not necessarily result in increased payoffs. According to the model, the politician is not committed to acting in favour of the group with most access.

The politician strategically sets access fees to extract maximum rent from the political process. When only the rich group has access, their expected benefit is offset by payments to the politician, and in such cases, the less-wealthy interest group not targeted by the politician fares better. As such, according to Cotton (2012), contribution limits reduce the politician's ability to extract rent from interest groups, improving the relative payoffs of the wealthy interests and reducing politician payoffs.

In addition, Cotton (2012: 380) also presents an additional argument in favour of contribution limit, arguing that they "encourage lobby formation, which increases informational lobbying, and results in a more-informed politician and better policy decisions".

The empirical validity of Cotton's model remains open to question. Doubtless in some instances, predatory politicians target potential sources of income for extortion during campaign periods and these donors may have to reluctantly "cough up" funds while not being guaranteed their desired policy outcomes. However, Cotton's model does not appear to account for instances in which donors are not passive victims from whom funds are extracted by politicians, but active participants eager to try to influence politicians through the provision of political finance. In these conditions, corrupt quid pro quos, including in the domain of public procurement, may be a more common form of political integrity violation.

**Public procurement**

Baltrunaite (2016) examines whether companies exchange political donations for government contracts in Lithuania. By combining data from various government tenders, corporate donors, and company attributes, the study investigates how a total ban on corporate contributions affects the allocation of procurement contracts to firms that previously made donations. The author found that the probability of contributing firms winning contracts decreased by five percentage points compared to non-donor firms following the ban.

There are two distinct possibilities of how corporate donors can benefit in procurement processes: (i) the contract design channel, whereby the officials design tenders so that only that donor can satisfy the necessary requirements; (ii) the information channel, when officials leak information on competing bids to the donor.

Bultranaite (2016: 3) found no evidence pointing to hypothesis (i), but empirical results corroborated hypothesis (ii). Further, contributing firms lowered their bids after the reform, suggesting that they were previously charging higher markups due to political favouritism. In conclusion, the research estimated that taxpayers saved nearly one percent of GDP as a result of this political finance reform banning donations from corporates.

Gulzar et al (2021) examine the impact of campaign contribution limits on public contracts in Colombian municipalities. Using a regression discontinuity design, the research finds that looser contribution limits result in more public contracts being awarded to donors of elected candidates. This is attributed by the authors to the increased influence of top donors over elected officials, rather than changes in electoral competition or candidate selection.

The connections between campaign donation and government contracts are also the topic of a report by Transparencia por Colombia (2019), TI's chapter in Colombia. The report shows that one third of donors, from 2016 to 2019, were awarded government contracts and these donors were responsible for 30 percent of funds provided to campaigns. At the municipal level, the connections are even deeper, with 43 percent of donors having government contracts.

Furthermore, Gulzar et al (2021) shows that contracts awarded to donors in municipalities with looser contribution limits tend to have cost overruns. Overall, looser campaign contribution limits are linked to payoffs to donors, poor contract performance, and higher costs for public projects.

## Political equality

An alternative, and possibly related goal to establishing caps on political donations, is to promote political equality. This refers to efforts aimed at ensuring that political parties and candidates without privileged access to financial resources are capable of competing in the electoral process. Political finance regulation can potentially either exacerbate or mitigate inequalities in how different socio-economic interest groups can access and influence political decision makers (Scarrow 2018: 103).

**Political participation**

A related goal of reform efforts is to increase participation of a wider set of voters in the electoral process, reducing the excessive influence enjoyed by wealthier individuals and corporations. Scarrow (2018: 105) refers to both contestant parity (i.e., the equality of political contestants relative to each other) and to citizen parity (i.e., the equalities of citizens relative to each other).

Scarrow (2018: 111) analyses the impact of campaign donation limits in promoting citizen parity in 57 countries included in the IDEA Political Finance Database 2012. She finds that limits help address wealth inequalities and that they may reduce candidates' and parties' reliance on a few donors and, consequently, the power of special interests. She also points to research from the United States that indicates that restrictions on corporate donations may lead to policies that are more attentive to the needs of less wealthy citizens. She acknowledges, however, that while campaign donation limits have gained increased adherence in democratic countries, there is still limited evidence in countries other than the United States on "how spending caps affect financial participation […] or whether they effectively alter parties' reliance on their wealthier donors" (Scarrow 2018: 112).

Nonetheless, a study by Eom and Gross (2007) considered different scenarios and hypotheses regarding the impact of contribution limits. They found that contribution limits tend to result in lower average donation amounts per contributor. However, a second hypothesis that contribution limits increase the number of contributors and thereby distribute influence more widely in the political system was not supported by the evidence (Eom & Gross, 2007).

Research has also tried to demonstrate the impact of limits to political donations on public policy. Patrick (2015) examines the impact of campaign finance regulations on state spending priorities from 1977 to 2008. The study about US states finds that states with stricter campaign finance laws allocate a larger portion of their annual budget to public welfare spending, especially cash assistance programmes. The article also explores the possible mechanisms behind this, concluding that stricter campaign finance laws reduce the influence of business interests in campaign contributions, promoting a wider range of contributors. This suggests that campaign finance regulations can play a role in promoting the interests of disadvantaged citizens and enhancing political equality.

**Political competition**

In theory, Stratman (2009: 1) notes that donation caps could either increase or decrease political competition:

> one effect could be that limits curtail the fundraising ability of incumbents, decreasing their campaign power; another could be that they limit challengers' ability to raise money, exacerbating the structural advantages of incumbents.

Stratmann and Aparicio-Castillo (2006) investigate the impact of campaign contribution limits on election outcomes in the US. Their research demonstrates that campaign finance laws, particularly contribution limits, tend to reduce the margin of victory, making elections more competitive. These effects seem to strengthen over time after contribution limits have been introduced, meaning that elections become progressively more competitive. The study also suggests that contribution limits lead to a greater number of candidates in elections, weakening the incumbent's fundraising ability and benefiting challengers. Overall, contribution limits are shown to enhance electoral competition rather than serving as measures that protect incumbents (Stratmann and Aparicio-Castillo, 2006). In a separate paper, Stratmann (2009) came to a similar conclusion, finding that states that establish contribution limits for political action committees (PAC) in US state house elections diminish the relative difference in fundraising between incumbents and challengers.

In another study focused on the US political system, but considering gubernatorial races, Eom and Gross (2006) likewise found that campaign contribution limits did not favour incumbents. On the contrary, limitations decreased the advantages that traditionally work in favour of the incumbent.

Similarly, when analysing the impacts of a 2006 US Supreme Court decision (Randall v. Sorrell[4]), Williams et. al. (2009) found that low contribution limits (and public financing) substantially narrow the gap between incumbents and challengers in state legislative races.

A study by Milligan and Rekkas (2017) examines the influence of campaign spending limits on candidates in Canadian federal elections. The research reveals that these limits predominantly affect incumbent candidates, as they are more likely to reach the specified limit. It demonstrates that higher campaign spending is associated with a greater share of the vote. Additionally, the study shows that higher (i.e. laxer or less restrictive) spending limits are associated with less competitive races, reduced voter turnout, and fewer candidates running for office. Despite this, the likelihood of incumbent re-election remains largely unchanged with the introduction of caps.

Butcher and Milyo (2020) arrived at a somewhat different conclusion when analysing 66,000 US state legislative races. They found that contribution limits (and partial public finance) had negligible effects on electoral competition and on incumbents' prospects of re-election. On the other hand, full public financing and a ban on

[4] In that case, the Supreme Court found that Vermont's contribution limit, which ranged from US$ 200 to US$ 400 was unconstitutionally low and that it presented a risk of preventing challengers from mounting effective campaigns against incumbent office holders.

corporate independent expenditures[5] significantly increased the probability of incumbent re-election.

Research based on a sample of disclosed donors from Canadian electoral databases and census data on neighbourhood income levels reveals that donors are significantly more likely to come from wealthier sections of Canadian society. Despite a fairly low cap on individual donations (around $ 1,200), wealthier Canadians contribute disproportionately to political donations. This seems to suggest that imposing caps on campaign donations is not sufficient, in itself, to reduce the influence of wealthier individuals in Canada (Carmichael & Howe, 2014).

Pickering (2017: 1) argues that, where incumbents have an electoral advantage, unfettered political finance may work against the public interest. This is because when political competition is low, money acts "corrosively" and setting limits to donations is beneficial as it can serve to reduce rent-seeking by officeholders. The argument goes that where the chances of the opposition winning are low, there are fewer constraints on corrupt behaviour on the part of incumbents as the risk of them being held to account is minimal. In these scenarios, donations to incumbent politicians are relatively higher as there is less need for big donors to hedge their bets and greater incentives to outbid other donors to the same party to secure finite resources such as public contracts. In such settings, Pickering (2017) contends that capping donations can increase political competition, and, by extension, reduce rent-seeking by elected officials. Data from U.S. states support this hypothesis, indicating that limits on political donations are associated with better policies and stronger economic growth when political competition is weak (Pickering 2017).

**Political diversity**

Barber (2016) contends that campaign contribution limits, which affect a candidate's ability to raise funds from various donors, influence the ideological spectrum of legislators elected to public office. The study uses a unique dataset of campaign contribution limits in various U.S. states spanning two decades. The findings indicate that large individual contributions result in the selection of more polarised legislators, while tight limits on contributions from political action committees (PACs) lead to the selection of more moderate legislators.

The key insight is that individual donors tend to support ideologically extreme candidates, while access-seeking PACs tend to favour more moderate candidates. Consequently, changes in campaign finance regulations that restrict the availability of money impact the types of candidates who typically raise funds from these two primary sources of campaign financing (Barber 2016).

# 4. Ensuring compliance with political donations caps

Establishing limitations on political contributions requires a complex set of accompanying regulations to ensure that these limitations are complied with by candidates, political parties, and donors. Compliance risks increase when the enforceability of political finance regulation is low. In this sense, the OECD (2018: 19) outlines a

[5] Defined by the US Federal Election Commission as "an expenditure for a communication, such as an advertisement through a website, digital device, application, advertising platform, newspaper, TV or direct mail that: Expressly advocates the election or defeat of a clearly identified candidate; and is not made in consultation or cooperation with, or at the request or suggestion of any candidate, or his or her authorised committees or agents, or a political party committee or its agents".

three-step process for assessing the level of enforceability:

(1) Are there legal loopholes that make it easier to circumvent the legislation or to undermine its purpose?
(2) Does the legislative framework provide the necessary means to detect breaches of the law?
(3) Does the oversight body have the adequate statutory powers to detect and investigate allegations of non-compliance properly?

Relevant tools to ensure compliance include adequate reporting requirements, transparency in political finance reports, codes of conduct for politicians and political parties, whistleblower protection, independent and adequately resourced oversight bodies, and dissuasive and enforceable sanctions (OECD 2016).

There is no one-size-fits-all solution and political finance regulations should be designed for each specific context. Policy solutions often present trade-offs that must be taken into account, not only when determining the permissible thresholds and caps for campaign donations, but also to the oversight tools.

According to International IDEA (2014), the effectiveness of donation limits in practice varies depending on how appropriate the permissible threshold is. A very high threshold may have no impact as it will not reduce donations, while a very low threshold may lead donors, political parties, and candidates to find ways to circumvent it. If a donation limit is universally ignored, it can undermine confidence in the entire political finance regulatory system.

Determining the appropriate level for donation limits depends on the political objectives the regulation aims to achieve and the ability of political parties and candidates to raise sufficient funds from sources other than large donations.

Donation limits are notoriously challenging to control because it is often easy to funnel money through other individuals, sometimes referred to as ‘straw donors’ (International IDEA 2014: 22).

The scope of these donation caps is a matter of discussion, with questions about whether they should extend to political parties, their associated entities, and third-party campaigners to ensure all organisations conducting political/electoral activities are subject to the same rules. There is also debate about whether the caps should include membership subscriptions and affiliation fees, which particularly impact unions. Some argue for an exemption for membership subscriptions and affiliation fees as they represent public participation and political association (Ng 2021: 50).

Ng (2021) argues that legislative measures must be carefully designed to prevent rule circumvention. This includes aggregation provisions to combine multiple donations from the same donor to the same recipient for cap purposes. The rules should apply to all parts of the party organisation, requiring national branches to report all donations. Caps should target individuals and corporations, preventing money from being channelled through corporate structures or associated entities and extending to loans. Despite these safeguards, there can still be attempts to bypass caps by funnelling donations through business associates, employees, family members, and even to the federal branch of political parties where regulation may be more lenient at the state level (Ng 2021: 51).

Balán et al (2023), for instance, explore whether campaign finance regulations can effectively reduce the political influence of economic actors. Their study introduces a new factor that could hinder the effectiveness of these regulations, which is the social structure within organisations. The argument posits that such regulations create cooperation challenges within a firm's leadership, and it suggests that family ties within organisations help address these issues.

The study focuses on a Supreme Court ban on corporate contributions in Brazil and it shows how members of controlling families in firms replaced corporate contributions with individual ones. Additionally, the study finds evidence of peer influence in the contribution behaviour of family members, indicating that family ties transmit political influence. These mixed effects illustrate how splitting what would have previously been a single large donation from an interest group or corporate actor into multiple smaller donations from members of that organisation undermined the intended effect of caps on political donations, underlining the importance of a broader system of regulation to promote political integrity (Balán et al 2023).

Regulation related to political finance transparency should also be mindful of the level of burden imposed on candidates and political parties and its associated trade-offs. The level of detail to be reported on donations provides a good example. In some places, small donations are exempt from such requirements, which can incentivise small donors. On the other hand, this can lead to an increase in the use of straw donors to circumvent caps on donations (OECD 2018: 20).

In an experimental study (Shapiro & Zilante: 2017) comparing electoral outcomes with varying donor contribution limits and transparency levels, researchers found that a combination of more restrictive contribution limits and full transparency is most effective at reducing donors' influence on policy choices. Stricter contribution limits led to improved social welfare in scenarios with partial anonymity and no anonymity, as candidates deviated less from their preferred policies due to the reduced influence of big donors. This deviation was more prominent among candidates at the policy extremes, leading them to choose more centrist policies to appease a wider range of smaller donors. However, the impact of contribution limits was limited in fully anonymous settings. Interestingly, the study suggests that complete anonymity, where donor identities remain concealed from both voters *and* candidates, is likely to result in the highest social welfare.

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