



Financing Political Parties and Electoral Campaigns in Romania – Challenges for Professional Accountants

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ABSTRACT

The purpose of this paper is to review the scientific literature that explores the issue of funding political parties and election campaigns. The way whereby the parties manage to mobilize the financial resources to finance the activity is an important topic related to the organizational potential of the political parties. It is very important to integrate the principles of openness, transparency, and accountability in financing political parties and therefore, professional accountants are the key actors. Their role is to keep and report accurate and detailed records for each transaction related to the income and expenses incurred during the electoral campaign or current activity of the party. But sometimes, the accounting principles are in contradiction with the electoral regulations and this generates challenges for professional accountants.

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1. Introduction

Political parties have an extremely important role to play in democratic processes. They are essential to ensure participation in political life, to express the will of the people and to perform a wide range of functions. In order to fulfill these functions, political parties need financial resources. If the funding of political parties and election campaigns is not properly regulated, it can lead to abuses or even to dictatorship. In this context, some questions naturally arise on how to finance the political parties and which is the role of money in politics. In democratic countries, there are some concerns that money dominates politics, being a factor in corruption. Funding for political parties can be obtained from both public and private sources. In the category of private funding sources, we find membership fees, rental income, and income from party activities, such as the sale of newspapers or other party publications, fundraising activities, party festivals and other social events and occasional public collections, donations, etc. Funding of political parties from public sources is a rather recent phenomenon in European democracies. The funding of political parties from membership fees is no longer practical for most parties in modern democracies, and other forms of private funding involve some risk. For example, the risk of donations is to establish an inappropriate link between the donor and the political decisions. The financing of political parties, mainly or exclusively from private sources, can increase the influence of certain individuals or companies, which can lead to a misallocation of available resources and ultimately to a slowdown in economic growth. Strong interest groups or even single players, such as large companies or billionaires, can upset the balance of fair competition by supporting parties or candidates. In this context, the simple impression of abuse may in itself be sufficient to erode the public trust in the political system and in its political actors and may therefore undermine the legitimacy of democracy (Biezen, 2003).

Public funding limits the potential influence of individuals or companies, but has the disadvantage of increasing the dependence of public funds. This may encourage political parties to rely too much on public money in the detriment of protecting the interests of those they should represent. Moreover, if public funding is to be provided, due consideration should be given to equal opportunities for the political participation of both established parties and newcomers. The best solution is probably a healthy mix of different sources of income, including private and public funding. Strict restrictions should be placed on certain sources and the amount of private donations, while state funding should be allocated, provided that the accounts of political parties are subject to external audit by specially authorized public bodies (Biezen, 2003). Full transparency of political party funding should be ensured in order to avoid any potentially undesirable influence of money on party policies.

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2. Models of party organization and party democracy

Rules on the financing of election campaigns and political parties must focus on the following basic principles: fair standards for allocating state contributions to parties, a reasonable balance between private and public funding, full transparency of accounts, strict rules on private donations, sanctions for candidates and parties which break the rules. In general, the principles of funding political parties and electoral campaigns are an expression of international trends in funding and how democratic values are promoted in the rule of law (Biezen, 2003). The conditions whereby the political parties carry out their activities have changed over the time. But one of the most noticeable aspect since the late 1950s has been the transition towards public funding. This trend is linked by the evolution party models.

According to academic literature there are four party models which also represents four developing phases of political parties (Katz & Mair, 1995): cadre or elite parties, mass parties, catch-all parties and cartel parties. Each of these party models differentiates in various characteristics: party foundation, number of members, ways of leading the election campaigns, but also in ways of financing.

Cadre parties or elite parties are typically financed by candidates' personal assets and donations from aristocrats, business circles and patrons. Mass parties are mostly financed by membership fees or union's donation, especially the left-wing social-democratic parties, while the center-right parties replaced their membership fees with business circles' donations. Catch-all parties are, in minority, financed by membership fees and members' donations and largely by union's donations (left-wing party) or business circles (right-wing party). As these funds were proven to be inadequate for leading campaign via mass media and for paying professionals working in parties, political parties started to use public, budget sources. Cartel parties take full advantage in public sources, constantly enlarging them. Furthermore, they get donations from private sources, but public sources become one of the main sources, and in some countries, the only source of party financing. All the models are ideal-type models and there are certain differences between countries and certain party families.

Political party model	Period in time	Main financing sources
Cadre/elite party	Beginning of the 18 th century	Candidates' personal assets
Mass party	1880 - 1960	Membership fees and contributions
Catch-all party	1945 - present	Membership fees and contributions from various sources, state subventions
Cartel party	1970 - present	State subventions

Source: (Katz and Mair, 1995, p. 18)

Regardless of the party model, we find a common element for all party model and that is money.

3. The state of research in the field

Funding political parties is a vital issue for political parties (Christiano, 2012). Besides, parties need funding to survive, compete and fulfill their democratic functions (Bryan & Baer, 2005).

Regardless of the types of political parties, they are competing for the same resources: public resources, resources from party members, and resources from private funding. The term "political party funding" is one that incorporates the three dimensions. Peter Burnell explored the financing of political parties, taking into account several dichotomies: public funding and private funding; legal financing and illegal financing; internal financing and external financing; institutional financing and individual financing; open / transparent funding and non-transparent funding (Burnell, 2007).

Karl von Beyme highlights three mechanisms of political party funding which should not be considered exclusively in relation to each other. These three mechanisms are: internal financing, external financing and state financing (Von Beyme, 1985)

In Western European countries, the political party funding from public subsidies began in the late 1970s. Until the 1970s, the main source of funding for political parties was membership fees. The mobilization of funds from contributions was also possible due to the nature and form of the political parties at that time, most of which were mass parties. As we know, mass parties are those parties politically and financially supported by a large number of members.

After the 70's, in the European context, we noticed the transition from mass to cartel parties. This transformation has been accelerated by the intensification of media's role in contemporary society (Katz & Mair, 1995). On the other hand, the developing countries from Africa, South Asia, Latin America, and Eastern Europe have faced a transition to a multiparty system (Tjernström & Austin, 2003) where most political parties are financially supported by state subsidies.

In general, the financing of political parties means the allocation of funds from private or public sources. These funds are necessary for a good operation of the political organization. This allocation of funds may be legal or illegal. The existing literature suggests various meanings of "political party funding", including:

- (i) Financing current activities of political parties for internal party management, such as fundraising for party activities (Tjernström & Austin, 2003),
- (ii) State subsidies for political parties (Biezen, 2003)
- (iii) Corruption in political parties (Biezen, 2003); (Bajović & Manojlović, 2013), (Busol, 2019)

The first study group examines the various strategies that parties use to cover their current expenses. The second group of studies examines the pattern of the relationship between the state and political parties from the perspective of state subsidies, as well as the politician's pattern of behavior, and the third focuses on assessing how the parties seek funds and how these funds are obtained, either legally or in violation of the law.

There are a number of papers in the literature that address the link between political success, campaign contributions and electoral expenses. Although researchers and experts have long been interested in the political consequences of public financing on elections success, the empirical research on the causal effect of public funding elections on candidates is limited. Initial studies did not address the source of money and how it is used and how it can affect the voter's choice (Morton & Cameron, 1992); more recent studies explicitly address this connection.

Thomas Stratmann analyzed the effect of public financing on the competitiveness on elections and he has documented a direct connection between public financing and competitive elections (Stratmann, 2009).

The connection between the public funding of elections and candidate's success was the subject of Song research. He found that public financing has no overall effect on a candidate's success in election. He did find, however, that campaign expense reimbursement has a positive effect on those who are formerly underrepresented in politics, especially women (Song, 2020).

Although one advantage of public funding is considered to be the fact that it offers equal opportunities for all the political players, Bichay argued that such policies may have unintended consequences, like disproportionate aids for radical-right parties (Bichay, 2020).

Scientific papers converge on the general idea that money is important, but it creates challenges for democracies around the world (Ohman, 2013). The most common problems created by money in politics are the following: wealthy interests can gain excessive influence over the political system, corruption in public financing, abuse of state resources, illicit funds in politics, the influence of foreign funding - which can threaten the sovereignty of national politics, high levels of campaign spending - which can make it difficult for new political forces to emerge, vote buying.

The unwanted effects of money in politics can be overcome or diminished through strictly rules, laws, and regulations. These rules aim to achieve transparency and accountability. Laws and regulation provide bans and limits in collecting or spending money, with the purpose of removing certain behavioral types. Money in politics is a double-edged sword (OECD, 2016). If the financing of political parties and election campaigns is not adequately regulated, money may be a means for special interests to exercise undue influence.

In recent years, governments around the world have made an unprecedented effort to improve regulatory systems of political financing. They have resorted to different strategies and instruments to control corruption deriving from political financing.

4. The legal framework of Romania's political finance regime

The legislation in the field of financing political parties and electoral campaigns refers generally to all legal and quasi-legal laws and materials or documents related to the financing and financial operations of political parties. Legislation in the field of financing political parties and electoral campaigns includes constitutional provisions, laws on political parties and laws on financing of political parties and electoral campaigns, as well as all other laws having an impact on policy funding of political parties. The rules also include electoral laws disposing of funding of parties, candidates and electoral campaigns.

Many countries with democratic governance systems regulate the role of political parties through their constitutions or in other laws. However, the differences between traditions, culture, laws and constitutional order of states make the way in which the activity of political parties is subject to legal regulations, to be different from one country to another. This prevents somewhat the development of a universal and unique set of regulations for political parties (Biezen, 2003).

However, some common principles are applicable to any legal system for regulating political parties in a multi-party democracy (Venice Commission, 2020): restrictions and limits on private contributions; balance between private and public funding; restrictions on the use of state resources (materials, labor contracts, transportation, employees, etc.); fair criteria for the allocation of public financial support; spending limits for electoral campaigns; requirements that increase the transparency of party funding and credibility of

financial reporting; independent regulatory mechanisms and appropriate sanctions for legal violations; prohibition or restriction of foreign funding.

In Romania, the legislation in the field of political party financing includes: Law no. 334/2006 on the Financing of the Activity of Political Parties and Electoral Campaigns (as amended by Law no. 78/2016 and other ordinances in 2016 and 2019). Other laws and regulations regarding the functioning of political parties are: Decision no. 10/2016 for the approval of the Methodological Norms for the application of Law no. 334/2006; Law no. 208/2015 on the election of the Senate and the Chamber of Deputies, as well as on the organization and functioning of the Permanent Electoral Authority, republished, as subsequently amended and supplemented; Law no. 176/2010 on integrity in exercise of public office and dignitary functions, for the amendment and supplementation of Law no. 144/2007 on the setting up, organization and operation of the National Integrity Agency, as well as for the amendment and supplementation of other regulatory documents. There are 5 general principles of party funding in Romanian electoral law: the principle of legality, the equal opportunities principle, the principle of transparency of revenues and expenditures, the principle of independence of political parties and candidates against financiers, the principle of integrity of political and electoral competition. The aim of Romanian laws is to provide more transparency and accountability.

The Romanian legislation provides some limits on the private income of political parties, interdictions regarding donations from foreign entities and trade unions. The donations from corporations and confidential donations are allowed under certain conditions. The donations are limited. The public funding is allocated based on the votes cast in the previous elections and representation in the elected body. There are specific rules that provide for what funding can be used and allow public funding to be used for expenditure on current campaigns and activities. Indirect public funding is available in the form of subsidized media access (which is allocated based on the number of candidates), campaign meeting space and tax exemption. There are also provisions to encourage gender equality and spending regulations. The purchase of votes is prohibited and there are some restrictions on the use of state resources exploited in favor of or against parties or candidates. There are spending limits. The parties must have public accounts and provide information on sources of electoral campaign financing and on donor identity. The Permanent Electoral Authority and the Court of Accounts monitor the accounts. Penalties are in the form of fines, loss of public funding or seizure, as well as sanctions in accordance with the criminal law.

5. Research methodology

The responsibility for observing the legal regulations regarding the funding of political parties and electoral campaigns is a much more complex process and a long-term approach is considered, being closely related to the principle of transparency of income and expenditures. In many national legislations on party financing and electoral campaigns, a provision is made for the appointment of financial officers (mandators, financial agents or campaign treasurers). Their role is to keep and report accurate and detailed records for each transaction related to the income and expenses incurred during the electoral campaign. The financial agent must be a professional (chartered) accountant, member of Professional Body of Chartered Accountants. This paper is part of a larger research project on the field of financing political parties. The research methodology used is a qualitative one, based on the interview method. The sample size was set at 10 subjects, professional accountants, who provided financial services for political parties, in 2020 Election Campaigns. The interview was conducted in order to identify the challenges they have faced during their mandate. The questions were structured on specific financial-accounting reporting aspects like: the recognition of income, the recognition of expenses, discounts and recommendations from the Permanent Electoral Authority.

The interviewees were contacted by telephone between May and June 2021. Most of them are female and over 30 years old. Their professional experience in the field of accounting is quite extensive, 50% of subject declaring that they have over 20 years of experience.

Following the interview, they stated that there are restrictions imposed for the preparation of reports in election campaigns. They have to follow accounting principles, but also the rules and recommendations of Permanent Electoral Authority, and they identified some cases where the electoral regulations are in contradiction with the accounting principles.

They were asked when the costs of online services, TV or radio programs, incurred for election campaign, should be recognized. The accounting regulations state that these expenses "are recognized in the income statement when a decrease in future economic benefits related to a decrease in the value of an asset or an increase in the value of a debt can be measured reliably." On the other hand, the regulations of the Permanent Electoral Authority specify that the supporting documents (invoices) must be issued during the electoral campaign. Among the financial trustees, some responded that they recognized these expenses at the date of delivery of these services, according to the evidence, but there is a risk that the last invoice will be issued by the supplier after the end of the election campaign. Some subjects responded that a more appropriate practice will be an advance invoice issued by the provider at the beginning of the campaign, based on the contract, and later, on the last day of the election campaign, the provider will issue a final invoice with the actual value of services and reverse of the advance payment. From the point of view of the

Permanent Electoral Authority, both variants are accepted, the condition being that the invoices be issued during the electoral campaign period.

Another question was about the discounts offered by the suppliers. The respondents were asked what they thought of them and whether they were accepted. Respondents have claimed that discounts are allowed up to 20%, as provided by Law 334/2006, and if it exceeds this threshold, it becomes a donation.

Opinions were divided on the recognition of revenue in respect of the amount reimbursed by the Permanent Electoral Authority. Accounting rules state that "revenues are recognized in the income statement when an increase in future economic benefits related to an increase in the value of an asset or a decrease in the value of a debt can be measured reliably."

We identified some controversies about the moment of income recognition. About 50% of respondents have claimed that the income must be recognized at the time of filing the expense reimbursement application, while others considered that the income must be recognized at the time when the Permanent Electoral Authority approves this application, or even at the time of the actual collection of money.

Also, reference the guidance provided by the Permanent Electoral Authority regarding the accounting for the candidates' contributions as income at the moment of collecting these contributions, the majority of respondents considered this interpretation is inappropriate, some of them stating that these contributions could only be recognized as income when the Permanent Electoral Authority approves the application for reimbursement, only for the part which is not approved.

6. Concluding remarks

The general objective of this paper was to explore the scientific literature on financing political parties and electoral campaigns, to look in perspective for the role and purpose of financing of political parties and electoral campaigns and to highlight the challenges of accounting profession. The parties must know and understand the limited financing sources, the rights and obligations of the legal representatives, financial agents, and members.

Through a qualitative analysis on a group of chartered professional accountants who provided financial services for political parties in 2020 Election Campaigns, we identify the most challenging factors of financing political parties. The supervision of political parties' accounts reveals the issues of openness, transparency and accountability. The campaign expenses of candidates in electoral campaigns are strictly regulated and supervised by a professional accountant. The interviews showed that the political parties' accounts are generally not kept according to universal accounting standards, but rather according to the Permanent Electoral Authority rules.

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