

Political financing in Malaysia:

Recent developments and plugging potential gaps

Aira Azhari | Tricia Yeoh





Aira Azhari is Manager of the Democracy and Governance Unit at IDEAS. She has provided commentary on Malaysian politics and governance to the BBC (World News and Radio), Al Jazeera, Astro Awani, Bernama, Channel News Asia, Radio Televisyen Malaysia, Lite FM and BFM. Her op-eds have appeared in The Malaysian Insight, Malay Mail Online, Utusan Malaysia and Sinar Harian. She holds a Masters in Public International Law from the London School of Economics and Political Science (LSE).



Tricia Yeoh is CEO of IDEAS. She is also a PhD candidate at the School of Politics, History and International Relations at the University of Nottingham Malaysia Campus, examining federal-state relations and opposition subnational durability within dominant party authoritarian regimes.

Introduction

“An analysis of political finance and political finance regulation generally requires the overall assessment of party rule or organization and the political economy at large, here understood as the specific constellation of state apparatus, ruling parties/coalitions, and business interests.”¹

The fight for a transparent political financing system is not new. In 2011, Transparency International-Malaysia (TI-M) proposed 22 points to reform political financing that revolved around full public disclosure of the amounts and sources of party finances and expenditures, limits on political donations, and the channeling of political contributions through party accounts rather than individual accounts.² Unfortunately, these proposals went unheeded. In 2015, following the IMDB scandal, G-25 with Professor Edmund Terence Gomez from University Malaya proposed a more extensive set of recommendations which took into consideration the autonomy of institutions and the enactment of a Political Parties Act.³ In the same year, the National Consultative Committee on Political Financing was established by former Prime Minister Najib Razak that resulted in 32 recommendations, one of which stating that limits on party or candidate spending should be removed.⁴ In 2016, IDEAS published a paper, “The Principles of Political Finance Regulations” that emphasised on the importance of rule of law, fairness and transparency and accountability in ownership.⁵

The necessity of regulating political financing in Malaysia has been well researched and documented. Some progress has been made over the years, which resulted in a Bill being drafted under the Pakatan Harapan (PH) administration. The Bill was set to be tabled in early 2020. However, the Sheraton Move that triggered a change in government occurred at the end of February 2020 and PH lost power. August 2021 saw another change in government when Tan Sri Muhyiddin Yassin lost support, which then led to the swearing in of Malaysia's ninth Prime Minister, Datuk Seri Ismail Sabri Yaakob. On 13th September 2021, the government and opposition parties signed a Memorandum of Understanding on Political Stability and Transformation (MoU) that contained a whole slew of institutional reforms that unfortunately did not include regulating political financing.⁶ The ever-changing political landscape has proven to be a challenge in obtaining the bipartisan consensus needed to pass a law as important as this. So far, civil society's request to view the draft Bill has largely fallen on deaf ears.

¹. Andreas Ufen, “Laissez-faire versus Strict Control of Political Finance: Hegemonic Parties and Developmental States in Malaysia and Singapore,” *Critical Asian Studies* 47, no. 4 (2015): 564-586, <https://doi.org/10.1080/14672715.2015.1082263>

² Secretary General Ms Josie Fernandez and Executive Director Mr. Alan Kirupakaran to Mr Asrul Affendi, May 5, 2011, Prime Minister's Office, Transparency International Malaysia (TI-M), Reform of Political Financing in Malaysia, <https://www.transparency.org.my/pages/news-and-events/reforming-political-financing/submission-of-memorandum-on-reform-of-political-financing-in-malaysia-to-the-prime-minister-of-malaysia>

³ G25 Malaysia, *Reforms for Transparent and Accountable Political Funding in Malaysia*, (Kuala Lumpur: G25 Malaysia, 2018), 1-12, <https://www.g25malaysia.org/media>

⁴ National Consultative Committee on Political Funding, *Report of the National Consultative Committee on Political Financing*, August, 26, 2016, <http://transparency.org.my/filemanager/files/shares/LAPORAN-JKNMPP-ENGLISH.pdf>

⁵ Stefan Melnik, “The Principles of Political Finance Regulations,” *Institute for Democracy and Economic Affairs (IDEAS) Policy Paper No. 29*, (2016), <https://www.ideas.org.my/publications-item/policy-paper-no-29-the-principles-of-political-finance-regulations/>

⁶ Adam Aziz, “Putrajaya, PH ink landmark 'Political Transformation and Stability' MoU, but details scarce,” *The Edge Markets*, September 13, 2021, <https://www.theedgemarkets.com/article/putrajaya-ph-ink-landmark-political-transformation-and-stability-mou-details-scarce> (accessed October 1, 2021).

The recommendations put forward by civil society have been extensive, and many have been the subject of public discussion such as public funding, GLCs and political funding, banning foreign funding and linkages between political parties and business. Many of these recommendations echo international best practices and public funding especially has gained some traction among politicians on both sides of the divide, partly because of the realisation that relying solely on private donors increases risks of corruption. Furthermore, although receiving funds from the state might seem like an attractive proposition for Malaysia's political parties, the transparency that public funding requires in return from political parties is another issue altogether, and commitment from parties in this respect remains to be seen.

This paper provides an important update on the developments surrounding political financing in Malaysia. It is important to keep abreast of these updates as the debate on money politics in Malaysia continues, and for both civil society and politicians to be prepared for when the Bill is tabled. The unstable political conditions that Malaysia has undergone over the past two years also indicate that there is a need for laws that provide for greater stability and institutionalisation of a party system. To this end, while we believe that a Political Financing Act is urgently needed, many other problems continue to inflict Malaysia's political system, and passing the Act might not be adequate in tackling these problems. These four problems are - large businesses owned by political parties, the imbalance of wealth between political parties, established informal practices in Malaysian politics and internal party elections. These four challenges will be examined in turn. Policymakers seeking to enact such a law must seriously address these challenges in order to ensure that the Act is implemented with holistic considerations in mind.

Research methodology

The research process for this paper is as follows:

1. Desk research to identify the literature on political financing, news coverage, policy papers and reports
2. Findings from workshops with youth wing members from a range of Malaysian political parties, conducted by IDEAS in September 2020 and June - July 2021

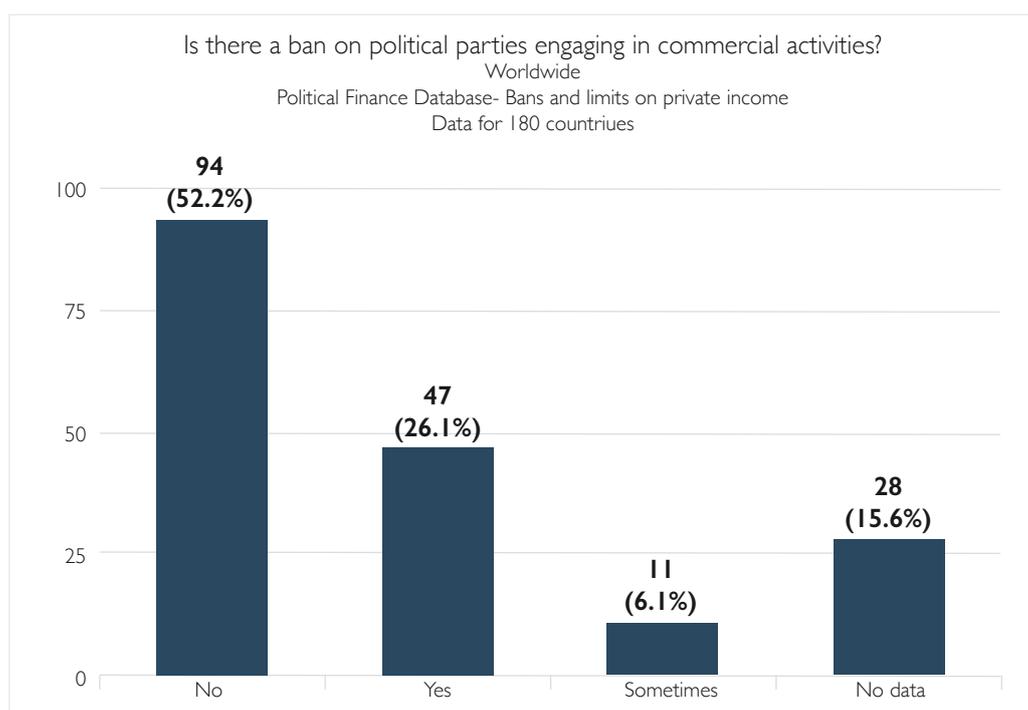
The findings were supplemented by several interviews with politicians.

The challenges of regulating political financing in Malaysia

I. Political parties own large businesses

In Malaysia, the definition of money politics is expanded to include political patronage and abuse of power, that is favouritism and nepotism in awarding government concessions.⁷ Gomez uses the term ‘political business’ to describe ‘the links between politics and business, specifically party ownership of firms, the direct and indirect control of companies by politicians and parties, and the direct and indirect interference of politicians in the corporate sector.’⁸ Malaysia’s political parties are well known to engage in extensive business activities, although Malaysia is not unique in that respect. The International IDEA database shows that out of 180 countries, 52.2% do not impose a ban on political parties engaging in commercial activities, while 26.1% do.⁹ However, the database does not define what constitutes a commercial activity. Almost all political parties in Malaysia do engage in some commercial activity such as selling merchandise during campaigns and party conventions. However, these types of commercial activities are not the most critical when discussing the nexus between business and politics in Malaysia. What needs to be addressed is the large business networks and assets that some political parties own.

Image 1



Source: International IDEA¹⁰

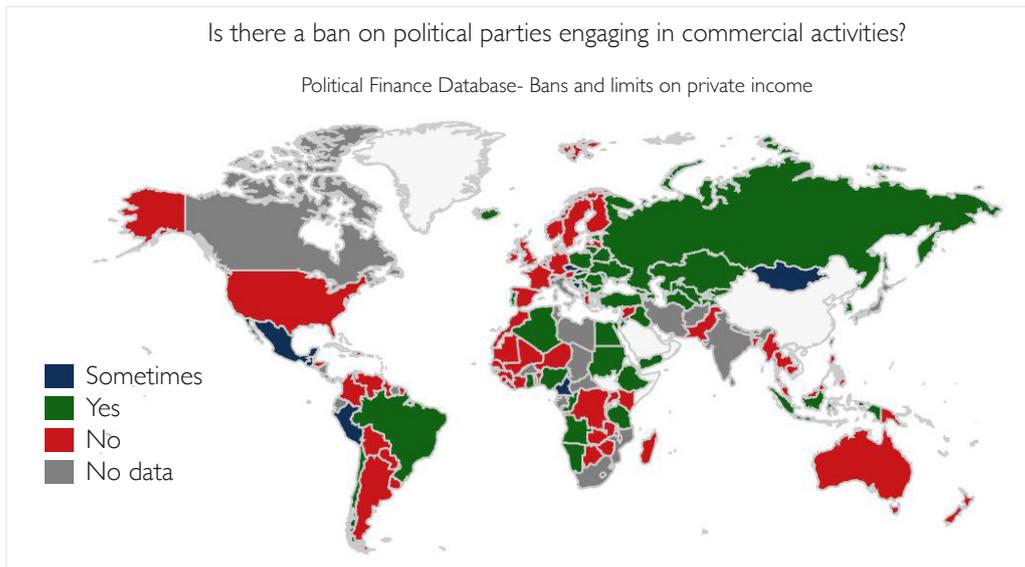
⁷ Edmund T. Gomez, “Monetizing Politics: Financing Parties and Elections in Malaysia,” *Modern Asian Studies* 46, no. 5 (2012): 1370-1397, <https://doi.org/10.1017/S0026749X12000200>

⁸ Gomez, *Monetizing Politics*, 1374

⁹ “23. Is there a ban on political parties engaging in commercial activities?” International IDEA, accessed October 1, 2021, <https://www.idea.int/data-tools/question-view/284559>

¹⁰ “23. Is there a ban on political parties engaging in commercial activities?”

Image 2



Source: International IDEA

Numerous studies have shown that the Barisan Nasional component parties UMNO, MCA and MIC own large assets and businesses. Most famously, UMNO owns the Putra World Trade Centre and Seri Pacific Hotel in the heart of Kuala Lumpur.¹¹ In terms of shares, UMNO most visibly owns 18.17% of Utusan Melayu (Malaysia) Bhd, which fell from 49.77% previously after 31.6% of the company’s shares were sold to former Kulim Bandar Baharu MP Datuk Abdul Aziz Sheikh Fadzir.¹² Although not a member of the current government, Abdul Aziz was a former UMNO MP and current Chairman of Utusan. Besides Utusan, UMNO also used to own shares in Media Prima Bhd through companies Gabungan Kesturi Sdn Bhd and Altima Inc, although now the billionaire Tan Sri Syed Mokhtar Albukhary, through his vehicle Aurora Mulia Sdn Bhd is the largest shareholder at 31.9%. As of March 2021, it was reported that former second Finance Minister and UMNO MP of Titivangsa, Datuk Seri Johari Abdul Ghani through his private investment vehicle JAG Capital Holdings Sdn Bhd is the second largest shareholder of Media Prima Bhd at 15.15%.¹³ These changing ownership structures show that the links between business and politics is more complex than it seems, especially when it comes to UMNO. More often than not, the links between UMNO and the businesses it owns is indirect as they utilise private companies as vehicles, and individuals who may not necessarily be politicians or even UMNO members.

¹¹ Kamarul Azhar, “Cover Story: What do the others own?,” *The Edge Markets*, November 8, 2018, <https://www.theedgemarkets.com/article/cover-story-what-do-others-own> (accessed October 1, 2021).

¹² Arjuna Chandran Shankar, “UMNO sells 31.61% in Utusan at a premium to chairman Abd Aziz?,” *The Edge Markets*, February 8, 2019, <https://www.theedgemarkets.com/article/utusan-chairman-abd-aziz-takes-3161-stake-group> (accessed October 1, 2021).

¹³ Sulhi Khalid, “Ex-minister Johari now the second largest shareholder of Media Prima after Syed Mokhtar,” *The Edge Markets*, March 23, 2021, <https://www.theedgemarkets.com/article/exminister-johari-now-second-largest-shareholder-media-prima-after-syed-mokhtar> (accessed October 1, 2021).

The Malaysian Chinese Association (MCA) also has a long history of owning a 43% stake in The Star Media Group Bhd, which publishes the newspaper The Star.¹⁴ As for the party's total assets, reports vary from RM 1 billion to 3 billion, with most of its income derived from the dividends it earned from the shares it held in The Star Media Group.¹⁵ It was reported that out of RM 25 million MCA spends annually, RM 5 million goes to the party president alone.¹⁶ MCA also founded and still runs the Tunku Abdul Rahman University College, although whether or not the college contributes to the party's funding is unclear. The Malaysian Indian Congress (MIC) is affiliated with AIMST University, although the ownership status of the university is unclear. Former BN member Gerakan owns Menara PGRM in Cheras which houses its headquarters and sponsored the establishment of Wawasan Open University. Links between assets and party financing are also unclear, although strictly speaking properties owned by parties should be required to be reported as political party assets, as would rental from properties. Whether this is being done is not currently possible to ascertain, since public declarations of such a nature are not legally required.

These extensive business networks have been established for over six decades of Malaysia's existence and are fully intertwined into the economy and popular imagination of many Malaysians through their stakes in media giants The Star, Utusan Melayu and Media Prima. When attempting to regulate political financing however, the ownership of these businesses adds a layer of complication. Firstly, as stated before, ownership of these various entities are oftentimes not direct. It is difficult to even ascertain the total value held by these parties as they are often held through multiple layers of private companies, proxies and trustees that conceal the value of their assets and beneficial owners.¹⁷ This means that it is difficult for the public to trace the ownership of these companies back to the parties that own them, even if the company is publicly listed.

Secondly, because these assets and businesses have been such a significant contributor of party finances, it is difficult to imagine that they would easily divest their ownership in the name of transparency and accountability. Furthermore, because the business networks have developed into a complex web of subsidiaries, nominees, proxies and trustees, an outright revocation or ban on parties owning businesses might result in these business activities being conducted even more covertly.

When IDEAS conducted workshops with youth leaders from around Malaysia on political financing in June and July 2021, many of the participants expressed the necessity for their parties to own companies and assets; mainly for financial independence from reliance on donors, but also for more practical purposes such as building ownership as party headquarters. However, all participants agreed that there is a difference between owning and operating businesses meant to raise funds for party operations and for the purposes of lining the pockets of individual politicians and buying votes. Thus, all participants agreed that a proper "stock-taking" of party-owned assets and companies is needed and for ownership to be allowed on the condition that full disclosure and transparency is made mandatory. Considering that Malaysia is starting from scratch with transparency in political financing, this is probably the appropriate compromise for a start.

¹⁴ The Edge Markets, "Who Owns Malaysia's public-listed media companies," *The Edge Markets*, August 30, 2019, <https://www.theedgemarkets.com/article/who-owns-malysias-publiclisted-media-companies> (accessed October 1, 2021).

¹⁵ Soi Lek Chua, "How MCA came to own The Star," *MalaysiaKini*, October 28, 2018, <https://www.malaysiakini.com/news/449296> (updated October 31, 2018; accessed October 1, 2021).

¹⁶ Chua, "How MCA came to own The Star."

¹⁷ Azhar, "Cover Story: What do the others own?"

2. Some political parties are much richer than others

When developing policy recommendations to introduce transparency in political financing, another crucial point to bear in mind is that there are vast differences between Malaysia's political parties in terms of access to resources, the amount of assets owned and incumbency advantage. A party like UMNO for example, because of its history, size and over six decades in power, has accumulated a greater amount of wealth and influence compared to other parties. The previous point highlighted the extensive business networks that some parties have and others do not, which further contributes to the gap between different parties' access to finance.

The first step in establishing transparency in political financing is for all political parties to declare their income, expenditure and assets. As it is now, there is very little information about how much money political parties have, how much they need to operate and who their donors are. Gua Musang MP and former UMNO treasurer Tengku Razaleigh Hamzah (Ku Li) once mentioned that UMNO owns assets and properties across the country worth billions of ringgit, and that most of them were registered in the names of trustees who were appointed to high posts in the party.¹⁸ There are also estimates that in the 1990s, UMNO's assets amounted to RM4 billion.¹⁹

As for the opposition parties, DAP MPs and state assemblypersons are required to contribute a portion of their salary to the party. Similar to PKR, DAP also raises funds from organising dinners and other events. PAS raises money through donations from their supporters during party *ceramah* and claims to have no businesses or corporate investments.²⁰ PKR does not publish its accounts publicly, but Subang MP YB Wong Chen has stated that the party needs RM10 million annually to operate.²¹

The nature of political business in Malaysia raises several questions. Firstly, what kind of financing model would be suitable to ensure parties are able to operate on a level playing field? Public funding has been explored quite thoroughly but the mechanism must take into account that it might be unfair for a party with huge resources and extensive business networks like UMNO to receive public funds. The very structure of political business, where many companies are owned and run by private entities as nominees and proxies of the political party, makes it incredibly complex for transparency and accountability to materialise.

¹⁸ Bernama, "Umno's assets can be used to move party - Ku Li," *Bernama*, June 25, 2018, <https://www.malaysiakini.com/news/431226> (accessed October 1, 2021)

¹⁹ Azhar, "Cover Story: What do the others own?"

²⁰ Gomez, *Monetizing Politics*, 1383-1384

²¹ Meeting with YB Wong Chen, 14 June 2021

3. Established informal practices in Malaysian politics

For political financing regulations to be effective, it is important to consider the local political context.²² These “established informal practices” present a challenge to regulate because more often than not, they involve the day-to-day relationship building between politicians and their constituents as well as between opaque networks of politicians and the state and politicians and businesses.

The politician-constituent relationship in Malaysia has been characterised as clientelist and as “machine politics - a mode of governance centred not on ideology, but on distributing particularistic benefits to individuals, families and specific communities including those whom formal institutions neglect.”²³ This distribution of particularistic benefits to groups of people is a problematic practice for several reasons. Firstly, it blurs the lines between political party and the state. There are high expectations on elected representatives to give assistance to their constituents in many different forms. It is very common to see food baskets with the MP or ADUN’s name, face and political party distributed to constituents, oftentimes the politician will be dressed in their official party attire while distributing various goods.

Another example of these blurred lines is the distribution of BRIM (Bantuan Rakyat Malaysia), an unconditional cash transfer scheme initiated by the Barisan Nasional government under former Prime Minister Najib Razak. Although the implementation of BRIM was programmatic, the qualification terms were neutral and was not contingent upon one’s vote, the payouts were ‘partisanized.’²⁴ Individual politicians and party office played a significant role in the distribution of BRIM and BN highlighted BRIM distribution in their political campaign, making it appear as if BRIM was a party initiative.²⁵ In Weiss’s research, she revealed that an UMNO leader complained that after BRIM payments were direct-deposited, “when you deposit the money straight into their account, then there’s no political mileage.”²⁶ Other research has shown that during the 2013 general election, many voters reportedly perceived BRIM to be part of BN’s electoral campaign.²⁷

Secondly, the politician-constituent relationship is also affected by constituents’ perception and expectation of their elected representatives. Politicians distribute goods, entertain requests to pay phone bills²⁸ and act as a mediator between constituents and bureaucrats because these deeds are what is expected of them. During workshops held by IDEAS, young politicians shared that they are expected to be the ‘solver of all problems’ to their constituents, and they are very sensitive to constituents threatening to not vote for them in the next elections should their requests go unheeded.

All of these considerations centre around the day-to-day relationship between voter and politician. Although campaign financing laws are already governed under the Election Offences Act (EOA) 1954, because the financing of the entire political system is intertwined with elections, the relationship between political financing in general and election financing must be examined as well. Election campaigns are but one of the many forms of expenditure that a political party incurs throughout its existence, and can be argued to be the most

²² Erik Mobrand, Fernando Casal Bértoa and Yukihiro Hamada, “The Integrity of Political Finance Systems in Asia: Tackling Political Corruption,” *International IDEA Policy Paper No. 19*, (2019), 5-46, <https://whogoverns.eu/wp-content/uploads/2019/08/integrity-of-political-finance-systems-in-asia.pdf>

²³ Meredith L. Weiss, “Duelling networks: relational clientelism in electoral-authoritarian Malaysia,” *Democratization* 27, no. 1 (2020): 100-118, <https://doi.org/10.1080/13510347.2019.1625889>

²⁴ Weiss, *Duelling Networks*, 100-118

²⁵ *ibid*

²⁶ *ibid*

²⁷ Ufen, *Political Finance*, 10

²⁸ Institute for Democracy and Economic Affairs (IDEAS), “Political Financing Workshop with Youth Wings of Political Parties in Malaysia,” Malaysian Reform Initiative (MARI), United States Agency for International Development (USAID) and the US Embassy of Kuala Lumpur (workshop at the Intercontinental Hotel, Kuala Lumpur, September 2-3, 2020).

significant. In countries like Malaysia, local culture is such that serving food and drinks, and expecting free food and drinks at events is part of the fabric of society. This is the reason why, during election campaigns, it is completely normal to observe a 'kenduri'-like atmosphere, where tents of food, drink and festivities are erected by parties to attract potential voters. This practice is prevalent in rural seats which are traditionally dominated by UMNO.²⁹

The EOA categorises the 'providing of any food, drink, refreshment or provision' before an election as a corrupt practice of 'treating'.³⁰ How will a Political Financing Act view a practice such as giving food and drink during campaigns, and does it make sense for the EOA to prohibit it?

4. Internal party elections

A key challenge to instituting transparency in political financing is the fact that the governance of political parties themselves lack transparency and accountability. Party leaders often do not disclose who party donors are to their party members and neither is there a legal requirement to do so.³¹ The Societies Act 1966 requires political parties to elect office bearers, hold annual meetings and keep audited accounts for their party members, however, there are no requirements to disclose funding sources to the public, during or after the election period.³²

Research has shown that the amount of funds needed and distributed during UMNO party elections exceed the amount of money used during a general election.³³ Being Malaysia's longest ruling party, the literature on money politics in UMNO elections is vast, but opposition parties such as PKR have also faced allegations of vote buying during their own party elections.³⁴ The gaps in the Societies Act mean that corruption during party elections remain behind a veil of impunity and secrecy.

²⁹ Meeting with UMNO youth leader, 22 June 2020

³⁰ Election Offences Act 1954, Section 8

³¹ Edmund T. Gomez, and Joseph Tong, "Financing Politics in Malaysia: Reforming the System," *Journal of the Malaysian Parliament* 1, (2021): 69-97, <https://journalmp.parlimen.gov.my/jurnal/index.php/jmp/article/view/32>

³² Gomez and Tong, *Financing Politics*, 92

³³ Gomez and Tong, *Financing Politics*, 72, see also Bridget Welsh, "Tainted love in UMNO's Polls," *MalaysiaKini*, June 18, 2018, <https://www.malaysiakini.com/columns/430128> (accessed October 1, 2021).

³⁴ The Sun Daily, "PKR launch internal probe into allegations of money politics," *The Sun Daily* October 18, 2018, <https://www.thesundaily.my/archive/pkr-launch-internal-probe-allegations-money-politics-LUARCH584980>

Recommendations

Equally important to having a law to regulate political financing is for the law to be realistic and enforceable. Because political parties in Malaysia have been used to a system that does not demand much transparency and accountability, it is understandable that they will take some time to establish best accounting practices and more importantly, to instil a culture of transparency and disclosure within the party. Having a law will not be meaningful unless those who are subject to the law can be reasonably expected to comply with it.

Before tabling in Parliament, the draft bill must be made accessible to stakeholders, one of them being CSOs. Sufficient time must be given to CSOs to evaluate and propose changes to the bill if necessary. Finally, the tabling of a Political Financing Act must not be seen as the final destination in the journey to eradicate political corruption. The law must be seen as the first necessary step that needs to be taken, with the realisation that it will need to be updated from time to time to accommodate new developments in politics such as online campaigning.³⁵

The following recommendations are put forward by this paper:

I. Utilise the Companies Act 2016 to compel companies to disclose political donations³⁶

While the Political Financing Act remains elusive, one measure that can be taken is to utilise provisions in the Companies Act 2016 to compel companies to disclose any political donation they have made. This is a low-hanging fruit that can be implemented without the need of a legislative amendment. The following are the relevant provisions in the Companies Act that can be utilised:

- Section 68(3)(j)
 - Compels a company to lodge with the Registrar an annual return for each calendar year that shall contain, among others, such information as the Registrar may require.
- Sections 252 and 253
 - Directors duty to prepare a directors' report and the contents of directors' report.
- Section 613(1)(d)
 - Gives the Minister power to make regulations for or with respect to " all matters and things required or authorized by this Act to be prescribed or provided, for the carrying out of, or giving full effect to, the provisions of this Act."
- Fifth Schedule, Part I, Paragraph 1(p)
 - Outlines the content of the Directors' Report, which includes "any other details as determined by the Registrar."
- Fifth Schedule, Part II, Paragraph 4
 - Outlines the content of a business review which "may, where appropriate, include references to, and additional explanations of, amounts included in the company's financial statements."

³⁵ Perkumpulan untuk Pemilu dan Demokrasi (PERLUDEM), BERSIH 2.0, Legal Network for Truthful Elections (LENTE), Psychosocial Recovery and Development in East Timor (PRADET), Caucus Women in Politic Foundation and the International Institute for Democracy and Electoral Assistance (International IDEA), "Political Party Finance Reform in Southeast-Asia," *Perkumpulan untuk Pemilu dan Demokrasi (PERLUDEM)*, (September 2021), <http://perludem.org/2021/09/12/political-party-finance-reform-in-southeast-asia/>

³⁶ Andrew Khoo, "Money Politics: Financing Free and Fair Elections (Day 1)," Webinar organised by Transparency International Malaysia (TI-M), Kuala Lumpur, September 24, 2021, <https://www.facebook.com/timalaysia/videos/229312069107049>

These provisions can be put into practice almost immediately, but should only be seen as a temporary measure before a Political Financing Act is passed.

2. Political financing monitoring body must be independent

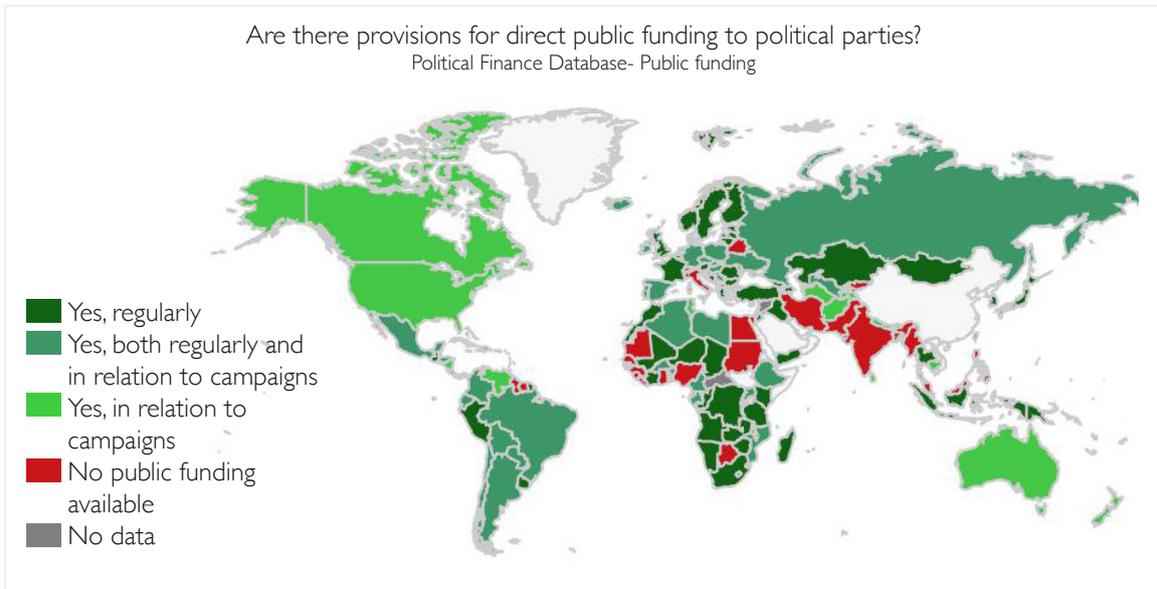
Similar to the fight against corruption and free and fair elections, the body that will be established to monitor political financing activities must be uncompromising in its independence. This independence needs to be institutionalised from the start, for example, the monitoring body must exist as an entity that is separate from the Prime Minister’s Office or the Executive. Besides that, it is also imperative that the appointment process of the monitoring body’s highest office holders is conducted impartially and not at the discretion of the Prime Minister. The current structure where the RoS falls under the purview of the Home Ministry must be avoided at all costs to prevent conflict of interest and potential abuse of power.

3. Political parties must strengthen internal accounting practices

The success of a Political Financing Act will highly depend upon whether political parties are able to organise their internal accounting practices to comply with the requirements of transparency and disclosure the Act would demand. At the moment, political parties are only required to submit the accounts of the last financial year of the party, together with the balance sheet showing the financial position at the close of the last financial year of the party.³⁷ There is no requirement to disclose the party accounts to the public. Because of this, the leap between no transparency to full disclosure might be too big and most, if not all, parties will probably need time to get their accounts in order.

4. Public funding as a catalyst for organisational continuity and inclusivity

Image 3

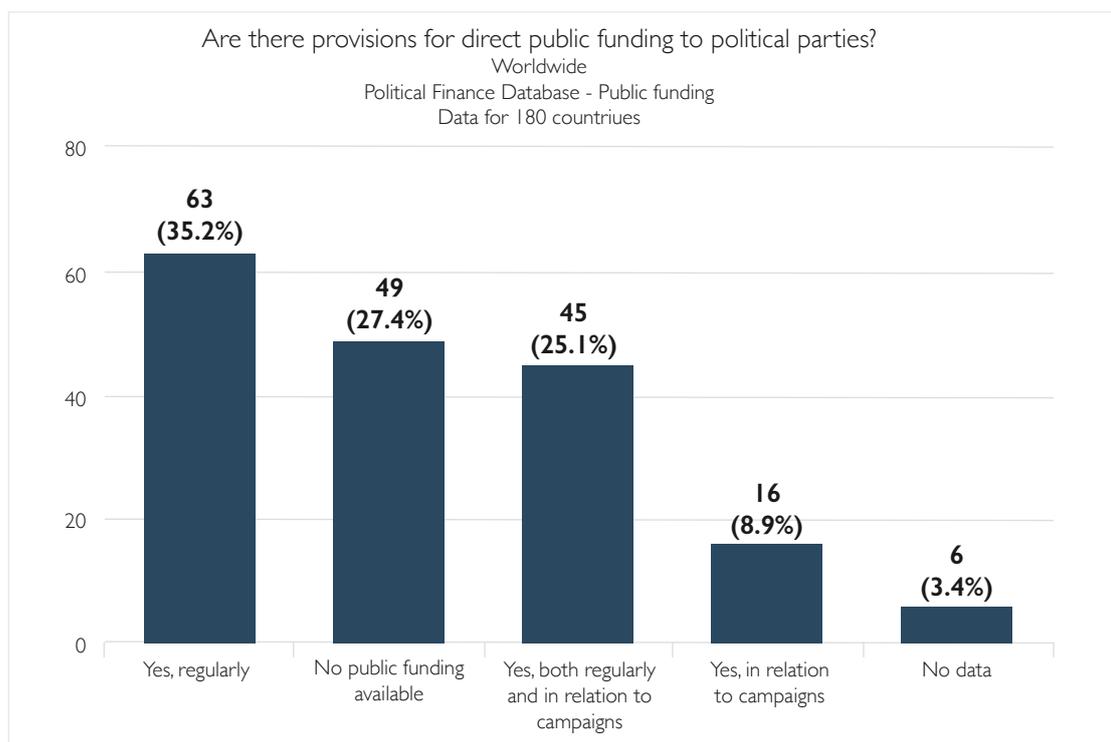


Source: International IDEA³⁸

³⁷ Societies Act 1966, Section 14

³⁸ “28.Are there provisions for direct public funding to political parties?,” International IDEA, accessed October 1, 2021, <https://www.idea.int/data-tools/question-view/548>

Image 4



Source: International IDEA³⁹

One proposal that has gained traction from both politicians and civil society alike is public funding of political parties. Public funding refers to a system where political parties are funded by the government, through taxpayers' money. Public funding is also sometimes referred to as state subsidies for political parties.⁴⁰ Public funding can either be direct or indirect. Examples of direct funding include general election campaign purposes, routine party operations and staff costs.⁴¹ Indirect funding include free advertising slots in publicly-owned media outlets, free or subsidised office space and interest-free loans for paying registration fees or starting an election campaign.⁴²

Research has shown that public funding increases transparency and accountability, reduces reliance on private donors and with earmarked funds, can contribute to increasing political participation for women, young people and other minority groups.⁴³ Furthermore, public funds can also be earmarked for policy research purposes, which is currently being done in the Netherlands, United Kingdom and South Korea.⁴⁴ In Malaysia's case, this is especially important because of how our politics have been centred around individual personalities and not policies. Earmarking funds for parties to develop policies will enable them to hire researchers and engage with experts in different areas, all of which has not been a priority thus far for many reasons, amongst them being the lack of adequate resources. Moreover, allocating funds for policy research purposes can also attract more young policy researchers to work closely with political parties to develop their policy platforms, further contributing to the professionalisation of politics in Malaysia.

³⁹ "28. Are there provisions for direct public funding to political parties?."

⁴⁰ Kok Hin Ooi, "Public Funding of Political Parties in Malaysia: Debates, Case Studies and Recommendations," *Bersih & Adil Network Sdn. Bhd.*, (2021), 1-104, <https://www.bersih.org/wp-content/uploads/2021/01/Bersih-Policy-Research-Public-Funding-of-Political-Parties.pdf>

⁴¹ Ooi, *Public Funding*, 1

⁴² *ibid*

⁴³ (1) Ooi, *Public Funding*, 10 - 16

(2) Mobrand, Casal Bértoa and Hamada, *Political Financing Systems*, 5-33

⁴⁴ "31. What are the provisions on 'earmarking' direct public funding to political parties (how it should be used)?," International IDEA, accessed October 1, 2021, <https://www.idea.int/data-tools/question-view/551>

There are other ways in which public funding can play an important role in making politics more inclusive and less corrupt. For example, public funding guarantees party stability through the fostering of organisational continuity and provides equal opportunities for competing parties.⁴⁵ The point on organisational continuity is especially relevant and important in Malaysia, where politics have always centred around individual personalities, to the point that certain parties are defined by the individual leading them, and depends highly upon the wealth and connections of that individual leader. Public funding reduces the influence of individual leaders and instead provides a consistent and sustainable access to funds that ensures the party survives beyond the tenure of any individual.

Public funding also creates opportunities for smaller parties, which in Malaysia's first-past-the-post electoral system does not stand a high chance of winning elections, to have some financial stability that might allow them to compete on a more level playing field as other parties. Studies have been done in other regions that show that state-funded parties have a higher chance of survival in the party system.⁴⁶ It would be interesting to see if the same can be concluded about political parties in Malaysia if public funding is introduced.

5. Businesses owned by political parties must be declared

The prevalence of political parties owning businesses and large assets must be addressed. However, it might not be realistic to ban political parties from owning businesses outright. This is because, since there has never been public funding of political parties, many parties have come to rely upon business and asset ownership to survive - of course corrupt practices exist but the necessity for parties to make the money they need to fund their operations and campaigns should not be discounted. Because of this, asking political parties to divest their assets and businesses might hinder their willingness to support transparency in political financing.

Realising the fact that party-owned businesses can also cover merchandise sales and other types of business transactions carried out by the party, there also needs to be a proper categorisation of the kinds of businesses allowed (one where profits are strictly used for the day-to-day running of the party, for example) and those not allowed (one where proxies and cronies are enriched and profits are used to reward allies and maintain grassroots support).

We recommend that businesses and assets owned by political parties should be managed more transparently. This means that the first step all political parties should take is to declare all the businesses and assets they own. Following this, the potential sources of conflict of interest can then be identified. However, this question of parties and businesses actually points to a larger problem of the intertwined nature of politics and the economy in Malaysia. Tackling that problem goes beyond merely calling for transparency in party-owned businesses.

6. Section 56 of the Companies Act 2016 relating to beneficial ownership must be enforced upon businesses owned by political parties

The opaque nature of political-business networks can be made more transparent by enforcing Section 56 of the Companies Act and the Companies Commission of Malaysia (SSM)'s guidelines⁴⁷ upon businesses that are

⁴⁵ Fernando Casal Bértoa, Fransje Molenaar, Daniela R. Piccio and Ekaterina R. Rashkova, "The World Upside down: Delegitimising Political Finance Regulation," *International Political Science Review* 35, no. 3 (June 2014): 355–75, <https://doi.org/10.1177/0192512114523302>. Bértoa's recommendations are mostly centred around parties in Europe, but some lessons are applicable to Malaysia.

⁴⁶ Fernando Casal Bértoa, and Maria Spirova, "Parties between Thresholds: State Subsidies and Party Behaviour in Post-Communist Democracies," *Party Politics* 25, no. 2 (March 2019): 233–44, <https://doi.org/10.1177/1354068817710221>

⁴⁷ Companies Commission of Malaysia (SSM), *Guideline for the Reporting Framework for Beneficial Ownership of Legal Persons*, (Kuala Lumpur: Companies Commission of Malaysia), 1–81, [https://www.ssm.com.my/Pages/Legal_Framework/Document/Guideline%20for%20BO%20Reporting%20Framework%20\(27022020\).pdf](https://www.ssm.com.my/Pages/Legal_Framework/Document/Guideline%20for%20BO%20Reporting%20Framework%20(27022020).pdf)

owned by political parties. The SSM defines beneficial owners as the “natural persons who ultimately own or control a legal entity or arrangement.” The guidelines are a useful tool for the purposes of political finance transparency as it acknowledges that businesses are susceptible to being misused for illicit activities such as money laundering, terrorism financing and other serious crimes.⁴⁸ Both the Act and the guidelines must be enforced strictly upon all businesses, most crucially upon businesses owned by political parties.

7. A Political Financing Act should consider all contributions in cash or in kind to be political contributions that are accounted for and disclosed

Although the EOA already considers providing food and drink during campaigns as a corrupt practice, it is important to consider whether or not this is realistic considering the nature of electoral campaigns in Malaysia. A middle ground that can be taken is for the Political Financing Act to consider all contributions in cash or in kind to a political party to be political contributions that are accounted for and disclosed. This will help to provide clarity to any corrupt practices such as vote buying.

8. Limits to electoral campaign spending should be realistic

The current limits for campaign spending at the state level (RM 100,000) and the Parliamentary level (RM 200,000) are too low. In reality, these limits are often breached and the Election Commission rarely checks for breaches, if at all.⁴⁹ These limits need to be seriously reviewed to reflect a more realistic picture of how much money is actually needed to run a good political campaign. The enforcement of the law must be watertight, whereby the spending of each candidate is documented systematically, and any overspending is penalised accordingly.

Conclusion

Introducing transparency in political financing encompasses more than just enacting a law. The task requires a complete change in how political parties operate and a serious effort to introduce public funding. This paper has provided a brief overview and update of the challenges that remain and the steps that must be taken to plug some existing gaps in the political financing system in Malaysia. It is crucial for reforms not to be piecemeal, but to be thought of as an entire package of improvements to tackle the different problems in Malaysia's politics.

⁴⁸ Companies Commission of Malaysia, *Guideline for the Reporting Framework for Beneficial Ownership of Legal Persons*, 1-81

⁴⁹ Meredith L. Weiss, “Payoffs, Parties, or Policies: “Money Politics” and Electoral Authoritarian Resilience,” *Critical Asian Studies* 48, no. 1 (2016): 77-79, <https://www.tandfonline.com/action/showCitFormats?doi=10.1080%2F14672715.2015.1126139>

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