

[Working Paper Series: System of Political Finance Across Asian Democracies]

Political Funding in Malaysia: Starting from the Ground Up

Iman Amran & Aira Azhari
(Institute for Democracy and Economic Affairs)

Introduction

Malaysia does not currently have legislation that regulates the financing of political activities. The financing of politics is one of the main sources of corruption in Malaysia. This paper will analyze the following points: (1) the nexus between business and politics in Malaysia, particularly through Government-Linked Companies (GLCs); (2) the role of elected representatives within Malaysia's democratic system; (3) the current political financing ecosystem and its consequences; and (4) recommendations to improve Malaysia's political financing system.

This paper will conclude with the argument that political financing reform must be made a priority of the Malaysian government and civil society organizations. Any further attempt to delay the process will result in worsening patronage and corruption in Malaysian politics.

The nexus between business and politics in Malaysia

Malaysia has a long history of political involvement and interference in business. During United Malays National Organisation's (UMNO) 60-year rule, extensive networks were formed in which proxies of UMNO held UMNO's money through different companies. It is widely known that these proxies were then mobilized to provide financing during the party and general elections, which further strengthened UMNO's grip on power. Malaysia's Government-Linked Companies (GLCs) have also played a significant role in the financing of politics. GLCs are meant to serve many important social objectives and should be run independently, transparently, and with accountability. However, over the years increasing political interference has undermined the role they are supposed to play and has caused abuse of power and corruption to fester. Furthermore, the appointments of politicians and politically linked persons into the Boards and management of GLCs have greatly compromised their independence. Political appointments have also been used as a means to reward party members who won in elections. This political interference within GLCs has caused monetization of politics, as corporations and businesses who support the ruling party gain easier access to government grants and contracts – making the procurement system opaque and considered as a 'black-box'. Black-box decisions are made with minimal objectives and little to no clarification over the decision-making process. This is usually how political financing and appointment decisions are made in Malaysia for the past f

ew decades. Even during the COVID-19 pandemic, multiple GLC appointments were made.¹ These appointments were highly criticized as the ruling party's move to further entrench and consolidate the political party's position in the government. Business and politics are deeply intertwined in Malaysia, making it difficult to separate the two unless robust reforms are done within the political landscape to strengthen the system of political finance in Malaysia.

The role of elected representatives within Malaysia's democratic system

Malaysia's government consists of the Federal and State governments. Members of Parliament (MPs) are lawmakers that are elected to represent constituencies in the Dewan Rakyat (Lower House) at the Federal level, while State Assemblypersons (Ahli Dewan Undangan Negeri, ADUN) are lawmakers that represent constituencies at the state level. Much of the problems that exist in political financing are in fact driven by the demand from constituents themselves, where more often than not, elected representatives perform duties such as distributing food, laptops, books, clothes, and other basic items. There is also an expectation for elected representatives to attend funerals, weddings, and other family events that require them to give cash handouts. Although the primary job of both MPs and ADUNs should be to debate policies and pass legislation in the State/Federal Parliaments, they often have to fulfill these "charitable" and "social" obligations to their constituents or risk losing their seats. This phenomenon is common in both semi-urban and rural areas, where cash handouts are expected. The dependence on elected representatives to provide cash and basic needs also point to flaws in the State's role in providing welfare. A common feedback received from constituents is that going through State channels for aid is a slow, inefficient and bureaucratic process, hence why MPs and ADUNs are the easier option.

Other challenges that the elected representatives face include accountability – there is difficulty in finding trusted proxies and some people within political parties carry out 'shady' transactions without the knowledge of MPs. There is evidently an imbalance of funding where smaller political parties are known to obtain lesser funding, thus resulting in slower growth for the party itself. In this case, we find the importance of funding reform based on the size and location (urban/rural) of the constituency to determine the average amount needed. Internal conflicts bubbling within the parties act as a challenge for elected representatives from obtaining proper funds when superiority and bureaucracy are more important than national interest. The systemic flaw requires political parties to compensate by raising funds albeit its legitimacy causes unnecessary corruption to escalate within the landscape.

The current political financing ecosystem and its consequences

There are six key issues with the current political financing system – monetization of politics, unequal access to funds, factionalism, covert funds, inadequate law enforcement, and weak institutions².

This current system, where any individual or corporation can give any amount of money to any political party or candidate they like, is fertile ground for corruption, patronage, and cronyism. In

¹ Brief IDEAS No. 30: COVID-19 & Malaysia's Democratic Resilience p. 8-9

² BERSIH 2.0: Reforms For Transparent & Accountable Political Funding in Malaysia

the absence of legislation, politicians can obtain money from questionable sources at home and abroad, a good example of this was the 1MDB scandal, where the then Prime Minister Najib Razak claimed that the RM2.6 billion found in his personal bank account was a “donation” from a Saudi Arabian prince, and this was perfectly legal. The current system is also exacerbated by the fact that Malaysia does not have an asset declaration law at the federal level. This means, there is complete opacity on the amount of assets an elected representative owns. A state-level asset declaration law exists in Penang, but even then it is not comprehensive enough and plenty of information is still not available to the public. Early in the Pakatan Harapan administration, there was an attempt by the Malaysian Anti-Corruption Commission (MACC) to display the amount of assets belonging to each MP on a publicly accessible website. The attempt is commendable but inadequate, as the amount is not broken down into more detail. According to Article 19 of the Election Offences Act 1954³, expenses are capped as such,

- (a) Two hundred thousand ringgit in the case of an election to the Dewan Rakyat;
- (b) One hundred thousand ringgit in the case of an election to a Legislative Assembly;
- (c) Ten thousand ringgit in the case of an election to a local authority other than a local council;
- (d) Three thousand ringgit in the case of an election to a local council.

It should be noted that paragraphs (c) and (d) have no application in Sabah and Sarawak (East Malaysia). This proves that the current political financing landscape has inadequate law enforcement because not only are the capped limits unrevised to adjust to inflation and current political expenses, there is no such law that requires the disclosure of political financing throughout the year. This proves that the current political financing landscape has inadequate law enforcement.

As mentioned in the previous section, there is an imbalance of funding for political parties, causing unequal access to funds. Even within the political parties, it has been reported that there is a problem of money-based factionalism for decades. It is said that UMNO factions are determined based on the amount of funds distributed from the leaders to the grassroots.⁴ All of the above shows the weaknesses of the political institution in Malaysia. Calls for reform are done annually by civil society organizations, especially after the 1MDB charges were brought forth, but minimal effort is done by the ruling governments to curb the problems surrounding money politics until today.

Recommendations to improve Malaysia’s political financing system

(1) Political Financing Act

What is needed most urgently is a Political Financing Act. This Act should contain rules and procedures for a party to raise money, how to keep that money, and how that money can be spent. There should be a requirement for party accounts to be audited and its financial report to be made available to the public. There should also be clear punishment mechanisms for those who violate the rules. Furthermore, limits should be imposed on the amount that can be donated and tax exemptions for donors. Donations from foreign corporations or individuals and GLCs should also be prohibited.

³ The Commissioner of Law Revision, (2006). Election Offences Act 1954

⁴ Salabi, A. (2020). Why Malaysia Needs Political Party Financial Reform. Retrieved from <https://rumahpemilu.org/why-malaysia-needed-political-party-financial-reform/>

There are three possible ways to regulate political financing. Firstly, (a) limits must be capped to Malaysian individuals, companies, or organizations who contribute funds to political parties. Ideally, donations from companies should be prohibited to avoid underground deals and contracts but this will not be passed in parliament as these corporations are an important component of politics in Malaysia. Secondly, (b) a list of non-permitted donors must be prepared. This list should include GLCs, non-citizens and foreign organizations as mentioned above. Datuk Seri Najib Razak stated during his premiership that there should be a law to regulate political financing, and illegalize foreign donations yet no reforms have been made until today.⁵ Thirdly, (c) for donations that exceed a certain threshold, political parties must disclose the donors and the amount that was received. Funding declaration is important to rebuild the public's trust in the political institution – it crowds out donations that are abused as tools to consolidate an individual or organization's power over political decisions. It must be remembered that any law on political financing, while necessary, is only the first step in a long journey to curb money politics.

(2) Introduction of vote-based and seat-based direct public funding

There is also support for some form of public funding for political parties, which is similar to the German model. Malaysia does not have a public funding framework in the current system, but it is high time that public funding is adopted for political parties. There are two types of public funding: (1) direct public funding and (2) indirect public funding⁶. Direct public funding is mostly for the purpose of general election campaigns, the duties of the parliamentary group (including the administrative staff, legislative research and/or publication needs), policy research and development, training of political party members or candidates, activities in support of raising the participation of minority groups, voter and civic education, and anything that requires the use of money. The introduction of public funding for political parties is crucial to create a more equal playing field. Through public funding, a stable and reliable source of funding for the political parties is created, thus, reducing their dependency on private funds.

The Coalition for Clean and Fair Elections, BERSIH, proposes direct public funding to be annually allocated, with a maximum of 0.05% of the annual budget administered by the Election Commission (EC). The table below shows the upper limit of public funding, derived from the last 10 years of the federal budget, multiplied by 0.05%.⁷

⁵ G25 Malaysia, (2020). Time to pass law regulating political financing. Retrieved from <https://www.nst.com.my/opinion/letters/2020/06/601257/time-pass-law-regulating-political-financing>

⁶ BERSIH 2.0 Public Funding of Political Parties Policy Research p. 18-20

⁷ BERSIH 2.0 Public Funding of Political Parties Policy Research p. 65-66

Figure 1: Federal Budget, 2011-2020

Year	Amount
2011	RM 212 billion
2012	RM 233 billion
2013	RM 252 billion
2014	RM 264 billion
2015	RM 274 billion
2016	RM 267 billion
2017	RM 261 billion
2018	RM 280 billion
2019	RM 315 billion
2020	RM 297 billion
Median	RM 265 billion
0.05% of median	RM 133 million (rounded up to next million)

Source: BERSIH 2.0: Public Funding of Political Parties Policy Research p 65.⁸

The average public funding threshold globally is set at 3.5%, thus it is proposed that 2% should be implemented in Malaysia. This means that in order for a political party to qualify for an allocation of the direct public funding, they must pass the 2% threshold of votes in at least one of the three regions: Peninsular Malaysia, Sabah, and Sarawak (East Malaysia). The proportion of direct public funding allocated will be according to the vote shares gained by the participating parties in the general election, instead of the number of seats won. This is to avoid any involuntary funding of political parties that the voters did not support which is a common objection from the public regarding public funding. The upside to implementing direct public funding is that political parties will now have a regular source of funds for elections and campaigns, thus lessening their dependency on private funders. As successfully done in the United Kingdom, a sum of direct public funding is meant to be used for policy research, known as the Policy Development Grants (PDG)⁹, which enables parties to carry out research and preparations for public policy.

In addition, voter education is integral to public funding. A common misconception about public funding is that the total funds will be channelled to the political parties only, but if a proper framework is put in place, a large sum of the funds would be used for the public's benefit. Voter education plays an imperative role in ensuring that proper political literacy is provided to further consolidate democracy.¹⁰ It also protects a democratic system as citizens are able to make informed political decisions, and prepare an organic check and balance in the system. When voter education is prioritized, new voters and even older voters in the system are able to effectively exercise their democratic rights such as not only voting but also expressing their concerns about the transparency and accountability of political parties. Voter education equips citizens with healthy democratic habits instead of em

⁸ BERSIH 2.0 Public Funding of Political Parties Policy Research p. 65

⁹ The Electoral Commission, (2019). Policy Development Grants. Retrieved from <https://www.electoralcommission.org.uk/who-we-are-and-what-we-do/financial-reporting/donations-and-loans/public-funding-political-parties>

¹⁰ ACE Project, (2012). Civic and voter education. Retrieved from https://aceproject.org/ace-en/topics/ve/explore_topic_new

otion and rhetoric-influenced decision-making. Voters have a right to demand political parties to disclose the sources of their funding. Thus if there is enough pressure from the public, it can help to create a domino effect in eradicating corrupt practices in politics.

(3) Indirect public funding

Indirect public funding refers to any resource that holds monetary value that can be provided from the government to political parties¹¹ such as media access (in terms of advertising slots in publicly-owned media), interest-free loans for campaigns, free printing and distribution of ballot papers, free or subsidized office spaces to be used as political party headquarters or local branches (ADUN), subsidized public transportation not only for candidates but also party activists and supporters of political allies if needed, allowing the use of government-owned buildings (schools, administrative buildings, sports areas), tax-free donations to provide public donors with tax incentives in support of building democracy, free or subsidized telephone network and many other intangible resources. In the UK and Australia, several forms of indirect funding are given to political parties. The UK allows political parties to broadcast on state-owned broadcasting platforms such as the BBC, which has a formal obligation under its Charter Agreement. Advertising at commercial rates would impose more cost annually for political parties especially during an election year. Parties are also allowed to utilize public spaces and buildings such as schools and town halls for meetings during an election period in Great Britain. Additionally, free post is available during elections, which entitles candidates to free postage for election mailing – amounting to over 20 million GBP for general elections.

Currently, in Malaysia, mass media businesses are one of the main components of political financing. Media businesses such as television stations and newspaper outlets are dominated by UMNO, allowing unprecedented media broadcasting and exposure for citizens. In the age of new media and the internet, a large number of Malaysian citizens are beginning to acquire less biased news and information with the existence of social media and sources such as MalaysiaKini and The Sarawak Report. Freedom of media is an important electoral reform to equalize the playing field for political parties.¹² Parties must be prohibited from owning the media as this allows more transparent news and information to be published.

A three-pronged approach should be taken to create a fair system of political finance in Malaysia. Reforms in political parties to enhance transparency and accountability of funds, public policy by the government to fairly allocate direct and indirect political finances, and empowerment of the public through civic and voter education. Public funding, both direct and indirect, is imperative for three reasons: (1) it curbs corruption within the political system; (2) it empowers the public as taxpayers and voters and; (3) it raises accountability and transparency within political financing. The main worry over adopting public funding for political parties is the readiness of the Malaysian political landscape. According to Transparency International - Malaysia (TI-M), about 71% of Malaysians in their survey deem government corruption as a big problem and 39% believe Members of Parliament to be the most corrupt¹³. The 1MDB scandal is a significant example of corruption with money poli

¹¹ Ace Project, (2012). Indirect public funding of parties and candidates. Retrieved from <https://aceproject.org/ace-en/topics/pc/pca/pca02/pca02a/pca02a5>

¹² Salabi, A. (2020). Why Malaysia Needs Political Party Financial Reform. Retrieved from <https://rumahpemilu.org/why-malaysia-need-political-party-financial-reform/>

¹³ Shanker, A.C. (2020). 71% Malaysians view government corruption as a big problem. Retrieved from <https://www.theedgemarkets.com/article/71-malaysians-view-government-corruption-big-problem-says-tim>

tics which has deterred the public from trusting political institutions. There is also evidence that the need for civic education regarding money politics is crucial. As mentioned previously, common objections to public funding are that it is a wastage of public funds and an involuntary contribution by taxpayers. Most taxpayers would desire for public funds to be used for the building of hospitals, schools, and public spaces instead of funding political parties as they fear that the funds would be mismanaged. This fear stems from Malaysia's long history of corruption and kleptocracy that has become the essence of politics in the country. Political parties and politicians must realize that transparent political financing is a journey that must be taken hand in hand with government and civil society, and will take a long time before results will be seen.

Conclusion

Welfare and money are highly politicized by political parties in Malaysia. The politicization has caused the abuse of state institutions, where corruption remains the root of the problem. This culture is then absorbed and learned by new players in the political landscape, thus creating a cycle of corrupt practices. This paper concludes that the current political financing system is inadequate to regulate the funds coming in and out of the parties. Transparency and accountability should be prioritized when reforms are made in Malaysia's political finance system to reinstall the public's trust in the institution as an effective and functioning democracy. Therefore, political parties must be the main stakeholder in any discussion involving political financing. They must not view the law as being punitive, but rather a tool in which democratic norms and transparency can be fully enforced. ■

References

- Azri, H. et al., “Brief IDEAS No. 30: COVID-19 & Malaysia's Democratic Resilience.” IDEAS Malaysia, November 2020.
- G25 Malaysia. “Time to Pass Law Regulating Political Financing: New Straits Times.” NST: Time to pass law regulating political financing. New Straits Times, June 17, 2020. <https://www.nst.com.my/opinion/letters/2020/06/601257/time-pass-law-regulating-political-financing>.
- Ooi, K.H. (2021). Public Funding of Political Parties in Malaysia: Debates, Case Studies and Recommendations. Bersih 2.0. <https://www.bersih.org/wp-content/uploads/2021/01/Bersih-Policy-Research-Public-Funding-of-Political-Parties.pdf>.
- “Political Financing Reform.” Political Financing Reforms for Transparent & Accountable Political Funding in Malaysia, 2016. <https://www.bersih.org/wp-content/uploads/2016/04/Political-Financing-Reforms.pdf>.
- Salabi, Amalia, Rumah Pemilu, and Usep Hasan Sadikin. Why Malaysia Needs Political Party Financial Reform, February 10, 2020. <https://rumahpemilu.org/why-malaysia-need-political-party-financial-reform/>.
- Shankar, Arjuna Chandran. “71% Of Malaysians View Government Corruption as a Big Problem, Says TI-M.” The Edge Markets, November 25, 2020. <https://www.theedgemarkets.com/article/71-malaysians-view-government-corruption-big-problem-says-tim>.
- The Commissioner of Law Revision. “Election Offences Act 1954 Reprint.” Malaysia: The Commissioner of Law Revision, January 1, 2006.
- UK, Electoral Commission. “Public Funding for Political Parties.” Public Funding for Political Parties, 2019. <https://www.electoralcommission.org.uk/who-we-are-and-what-we-do/financial-reporting/donations-and-loans/public-funding-political-parties>.

- **Iman Amran** is a research intern at IDEAS’s Democracy and Governance Unit. She is a final year student of Economics and Philosophy at the University of Sheffield.
- **Aira Azhari** manages IDEAS’ Democracy and Governance Unit, where she oversees research and advocacy on the topics of accountable governance, anti-corruption and creating a more policy-oriented political culture

in Malaysia. She provides political analysis for IDEAS and various audiences including diplomats, MNCs, the media, the corporate sector as well as civil society organisations. Aira has been interviewed by the BBC (World News and Radio), Astro Awani, Bernama, Channel News Asia, Radio Televisyen Malaysia, Lite FM and BFM on matters relating to Malaysian politics, economics and governance. Aira graduated with a Master of Laws in Public International Law from the London School of Economics and Political Science and a Bachelor of Laws from the University of Liverpool, United Kingdom.

This series of reports was compiled as a part of Asia Democracy Research Network's joint research project on System of Political Finance Across Asian Democracies. The research for these reports was conducted entirely by EAI and its partner think tanks in Asia, including Pakistan Institute for Legislative Development and Transparency, Indonesian Institute of Sciences, Academia Sinica Asian Barometer, Institute for Democracy and Economic Affairs.

This program was funded in part by the National Endowment for Democracy (NED).

This publication and other ADRN reports can be found on our website, [ADRN Working Papers]. The contents of this publication do not necessarily reflect the views of the East Asia Institute.

"Political Funding in Malaysia: Starting from the Ground Up"
979-11-6617-131-4 95340 Date of Issue: 28 May 2021

Typeset by Juhyun Jun

For inquiries:
Juhyun Jun, Research Associate
Tel. 82 2 2277 1683 (ext. 204) jhjun@eai.or.kr

The East Asia Institute
#909 Sampoong B/D, Eulji-ro 158, Jung-gu,
Seoul 04548, South Korea
Phone 82 2 2277 1683 Fax 82 2 2277 1697