

Political Party Finances: Time to Clean House

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Executive Summary

- Corruption is rife in Malaysia. In this paper, we surmise that politicians use the excuse of “party fundraising” to justify the practice of influence-peddling and money politics.
- To stress-test the viability of raising funds legally, we project the finances of a hypothetical political party with nationwide presence. Our paper illustrates that it is feasible for a political party to cover its operational, extraordinary, and general-election expenses through legal sources, namely: membership fees, a 20% tax on salaries of its members elected to public office, and fundraising activities.
- Our hypothetical mid-sized national party requires RM9.3mil a year and is able to generate legal income of RM9.4mil a year.
- In addition to making the above case, we present two proposals that will help eliminate corruption and reduce political parties’ reliance on fundraising activities in the current party-finances system in Malaysia, namely:
 - Direct government grants to political parties. An annual grant of RM5 per vote received in the last parliamentary election to political parties with at least one federal seat will cost the government around RM53.9mil per year to implement.
 - Tapping into crowdfunding i.e. small recurring donations. This encourages political parties to be more financially transparent and less dependent on large donors.
- Our paper is but one ingredient in the formula of reforming political party finances in Malaysia. Two key ingredients remain: firstly, limiting the size of assets a party can own; and secondly, limiting the size of donation per person or per entity to the party.

1.0 Introduction

- 1.1 Do you know how much a political party needs to spend and save in a year? Like any organisation, a political party has operating costs; unlike a typical organisation, it also needs to save sufficient money to participate in general elections every four to five years.
- 1.2 Our office believes that the root of corrupt practices in Malaysia is a warped political culture where nobody ever talks about party financing. Therefore, this paper seeks to empower the people with knowledge, and in turn, pressure political parties to come clean on their finances. If we do not know how much a political party needs to raise annually, then how can we be certain that politicians are not unduly corrupted by the rich and powerful?
- 1.3 Many politicians who dabble in money politics often justify their actions by saying that they are doing it to raise money for their party. Subsequently, these politicians who raise money do not account for how much was given to their party, and how much was kept for their own. This then creates a second layer of secrecy and abuse of power, and in the case of some political parties, has caused the rot of internal money politics to buy and gain power within the organisation.
- 1.4 The purpose of this paper is neither to tarnish political parties, nor to limit their ultimate mission to make Malaysia better. Rather, it is to show that there is a better, legal way to move forward.
- 1.5 The purpose of this paper is to show that political parties can viably raise funds to sustain their activities through legal means. This implies that clean party-financing without resorting to political corruption is entirely feasible.

- 1.6 We examine political party finances in three sections:
 - (a) A review of the current situation in Malaysia;
 - (b) An analysis to stress-test the viability of legal party-funding through a hypothetical political party model; and
 - (c) Further proposals to improve party funding, namely, direct funding from the government, and tapping into crowdfunding.
- 1.7 Knowing the financial requirements of political parties will create a culture of accountability within these parties. Since an elected official's journey to political office often begins from his or her party, it is crucial to instil anticorruption ethos from the start.

2.0 "Party" business

- 2.1 We surmise that many politicians from both sides of the divide are engaged in influence peddling. They attempt to justify this "I scratch your back; you scratch mine" culture by claiming that they do so to raise money for their respective political parties' struggles, ironically for a better Malaysia. The argument goes that it is permissible to engage in corrupt practices to raise money to win elections, and only then finally we can bring about political change.
- 2.2 These corrupt acts may include making illegal deals with developers, protecting illegal factories, marking up government contracts, awarding contracts and tenders to cronies and expediting approvals—all done supposedly for the sake of party fundraising.
- 2.3 We are cognisant that political parties do need funds for routine operations and election campaigns. However, the current political-finance system (or lack of one) fosters the active corruption of politicians, whether government or opposition. Indeed, political parties were perceived as corrupt or extremely corrupt by a staggering 69% of respondents to Transparency International's Global Corruption Barometer 2013 for Malaysia.¹

¹ Transparency International, *Global Corruption Barometer 2013: Malaysia*, <http://www.transparency.org/gcb2013/country/?country=malaysia>, 2014.

- 2.4 Direct government subsidisation of political parties is implemented in many democracies across Europe and North America. In Malaysia, such a policy is highly unlikely to see light of day under the current governing Barisan Nasional regime. As such, political parties—especially in the opposition—are under tremendous pressure to raise enough money to sustain their activities.
- 2.5 Even so, such financial strain is no excuse for party fundraising through illegal means. We illustrate this point in the next section.

3.0 Counting the costs—we figure it’s viable

- 3.1 Let “Party X” be a hypothetical political party in Malaysia. Party X’s profile and party-finance policies are as follows:

Profile of Party X	
1. Formation	✘ An opposition party formed 10 years ago
2. Offices	✘ One national headquarters ✘ 16 state offices, one each in all 13 states and three Federal Territories
3. Constituency branches (<i>Cabangs</i>)	✘ 150 branches
4. Membership & leadership	✘ 500,000 members, of which 10% are active members (who turn up to vote at party elections) ✘ Party elections held once every three years to elect party officials
5. Members elected to public office	✘ 30 Members of Parliament (MPs) ✘ 50 State Assemblypersons (ADUNs) ✘ 10 State Executive Council (EXCO) members
6. Participation in general elections	✘ Is part of an opposition pact ✘ Fields candidates in 100 federal parliamentary seats and 200 state legislative assembly seats

Party-Finance Policies of Party X

1. Principles for party financing

- ✘ Fundraising through legal means only
- ✘ Income sources should be balanced, i.e. not over-reliant on a particular stakeholder

2. INCOME: Membership fees

- ✘ A reasonable fee of RM5/month entitles a person to full party membership, with rights to vote and to contest in party elections

3. INCOME: Tax on salaries of members elected to public office

- ✘ 20% tax on salaries of party members elected as Chief Minister, MP, ADUN, or state EXCO
- ✘ No tax on members appointed either as local councillors or to government-linked companies (GLCs)—see Paragraph 3.5

4. INCOME: Fundraising activities

- ✘ National-level gala and initiatives to raise RM1.5mil/year
- ✘ Each state office to raise RM25,000/year
- ✘ Each branch to raise RM6,000/year
- ✘ Each MP and ADUN to raise RM12,000/year

5. EXPENDITURE: Campaign spending during general elections

- ✘ Federal and state seat deposits are covered for candidates
- ✘ A subsidy of 50% of the maximum spending limit for campaigns is given to each candidate, i.e. subsidies of RM100,000 per federal seat and RM50,000 per state seat

3.2 We project Party X's expenditure and income in **Table 1** (page 9). Breakdowns of income sources and expenditure items are shown in **Figure 1** and **Figure 2** respectively.

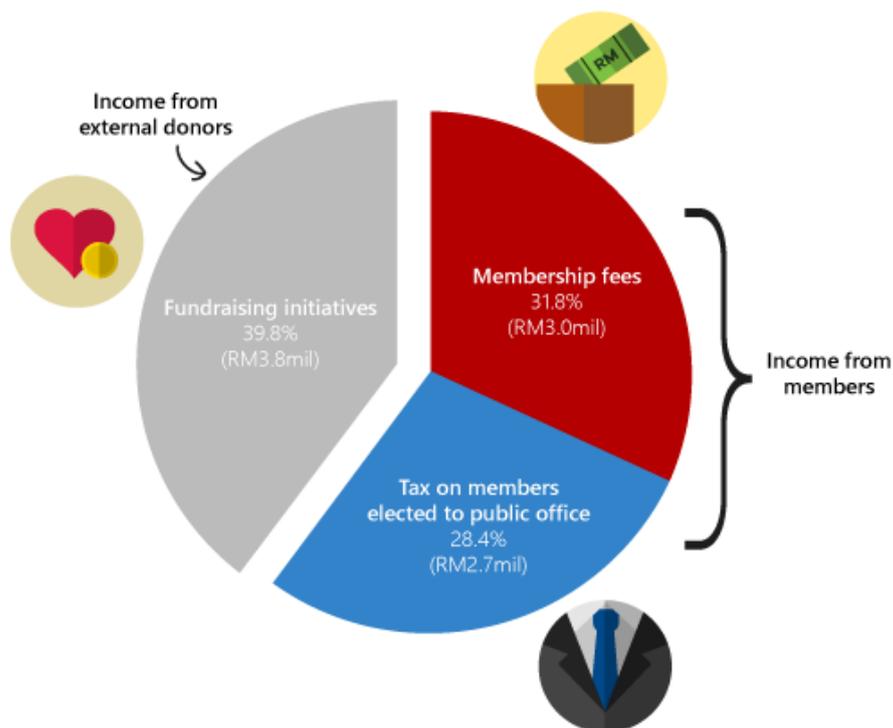


Figure 1: Breakdown of Party X's annual income.

3.3 Income sources are fairly evenly weighted between membership fees (31.8% of total income), the deductions or tax on salaries of members elected to public office (28.4%), and fundraising activities (39.8%).

3.4 On fundraising via small donations, the bulk is shouldered firstly by national-level initiatives (accounting for some 40% of total funds raised); then fundraising by elected representatives (26%) and constituency branches (24%). State offices (11%) make up the rest.

3.5 Note that internal party taxation should not include local councillors. Besides the fact that a local councillor only earns around RM2,500/month in basic salary and allowances,² political parties should not tax them unless they are elected to office via local government elections. Similarly, we do not propose a tax on members appointed to government-linked companies (GLCs) simply because we actually oppose the entire concept

² Local councillors' salaries vary between local councils. Streamlining their salaries is complicated by differences in employment arrangements (fulltime/part-time) and workloads (large/small area).

of political appointments. Appointments to GLCs must always be based on merits and expertise and never on party affiliation or loyalty.

- 3.6 To further diversify political parties' income sources, Section 4 looks into direct government funding and crowdfunding among small donors.

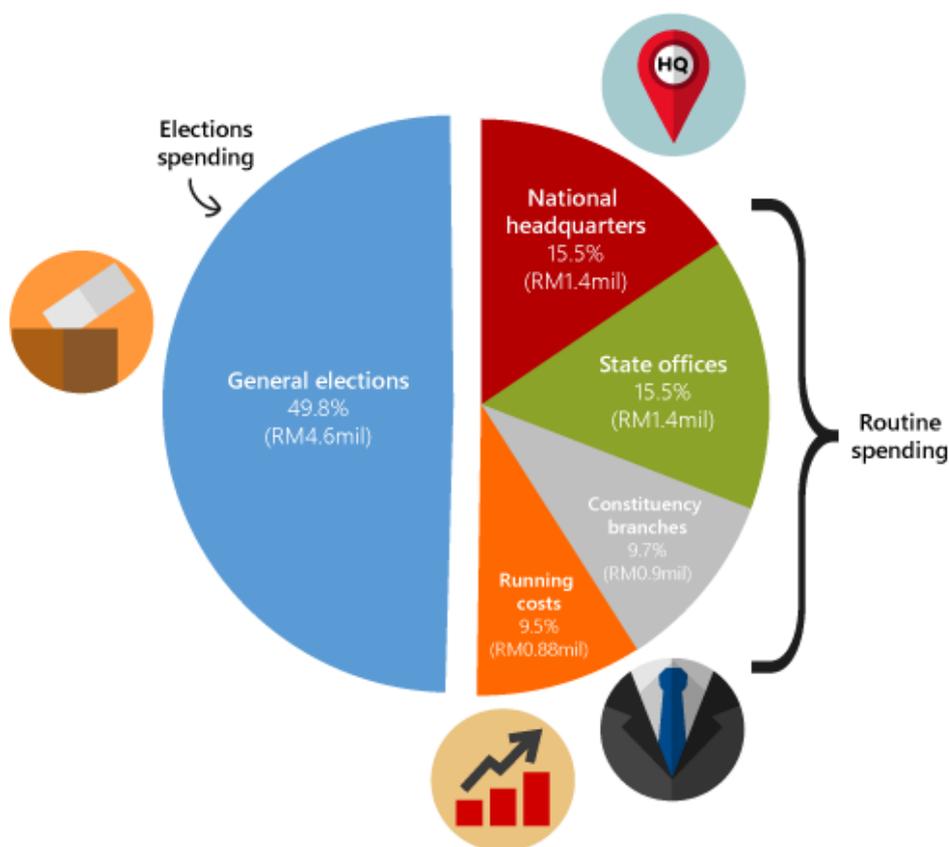


Figure 2: Breakdown of Party X's annual expenditure.

- 3.7 On the expenditure side, Party X's spending is divided between routine operational costs, extraordinary costs, and general election costs (spread out over five years).
- 3.8 **Operational costs:** A well-equipped national headquarters will require 20 staff, each paid an average of RM5,000 per month. Rent costs RM10,000 monthly, whereas both utilities and supplies amount to RM10,000 monthly. The national headquarters thus takes RM120,000 a month (or RM1.44mil annually) to upkeep. In addition, Party X runs 16 smaller state offices in all 13 states and three Federal Territories with two staff each. The total cost to run one state office at RM7,500 per month is one-sixteenth that of the national headquarters. This frugal budget is feasible, barring unwarranted leakages. Furthermore, a state office is a basic setup

that would largely support and partner with local constituency branches (*cabangs*) and elected representatives.

- 3.9 **Extraordinary costs:** Almost 10% of annual expenditure is allocated for internal party elections held once every three years (over which the RM1mil cost is spread out), annual general meetings, conventions, rallies, and general campaigns. These non-operational activities are vital for sustaining a party's internal workings and external public presence.
- 3.10 **General election costs:** Party X covers both the seat deposit and half of the maximum allowed campaign expenditure for each of its candidates. The required deposits are at RM15,000 per federal and RM8,000 per state seat. The Election Offences Act 1954 limits a candidate's spending to RM200,000 for a federal parliamentary seat and RM100,000 for a state legislative assembly seat.³ Therefore, the party invests RM115,000 per federal seat and RM58,000 per state seat. Party X can thus select its candidates based on merit, even though the candidates may themselves lack the means to fund their campaigns.
- 3.11 Based on the income and expenditure of Party X, we can safely assume that their income should be RM9.44mil and their expenditure RM9.28mil. On this balanced budget approach, Party X thus breaks even with an annual surplus of RM161,249.

³ Section 19 of the Election Offences Act 1954 (Act 5).

Expenditure and income account of Party X for a year		RM	Notes
INCOME			
1	Membership fees	3,000,000	50,000 members at RM5/month
2	Tax on salaries of members elected to public office	2,684,582	Tax rate of 20%
1.1	Chief Minister	54,696	1 Chief Minister; av. salary of RM22,789.83/month
1.2	Members of Parliament (MPs)	1,152,000	30 MPs; salary of RM16,000/month
1.3	State Assembly Representatives (ADUNs)	1,154,252	50 ADUNs; av. salary of RM9,618.77/month
1.4	State Executive Council (EXCO) members	323,634	10 State EXCO members; av. salary of RM13,484.75/month
3	Fundraising initiatives	3,760,000	
3.1	National-level	1,500,000	
3.2	State offices	400,000	16 state offices, each raising RM25,000/year
3.3	Branches	900,000	150 branches, each raising RM6,000/year
3.4	MPs and ADUNs	960,000	80 elected representatives, each raising RM12,000/year
TOTAL INCOME		9,444,582	
EXPENDITURE			
1	National headquarters	1,440,000	
1.1	Emoluments	1,200,000	20 staff at av. salary of RM5,000/month
1.2	Rent	120,000	RM10,000/month
1.3	Utilities	60,000	RM5,000/month
1.4	Supplies	60,000	RM5,000/month
2	State offices (16 in total)	1,440,000	Offices in 13 States and 3 Federal Territories
2.1	Emoluments	960,000	2 staff per office at av. salary of RM2,500/month
2.2	Rent	192,000	16 offices at RM1,000/month
2.3	Utilities	192,000	16 offices at RM1,000/month
2.4	Supplies	96,000	16 offices at RM500/month
3	Constituency branches (Cabang s)	900,000	150 active branches nationwide
3.1	Operating subsidies	900,000	150 branches at RM500/month
4	Running costs	883,333	
4.1	Party elections (cost spread out over three years)	333,333	Held once every three years at RM1,000,000
4.2	AGM & conventions	250,000	
4.3	Rallies & general campaigns	300,000	
5	General elections (cost spread out over five years)	4,620,000	To contest in 100 federal seats and 200 state seats
5.1	Federal seat deposit	300,000	100 seats at RM15,000/seat
5.2	Federal seat campaign funds	2,000,000	To subsidise RM100,000/seat (half of max. campaign costs)
5.3	State seat deposit	320,000	200 seats at RM8,000/seat
5.4	State seat campaign funds	2,000,000	To subsidise RM50,000/seat (half of max. campaign costs)
TOTAL EXPENDITURE		9,283,333	
SURPLUS FOR THE YEAR		161,249	

Table 1: Annual income and expenditure of Party X, based on its profile and party-finance policies. See Appendix for average salaries of Chief Minister, ADUN, and state EXCO member.

4.0 Alternative funding from the government and the crowd

- 4.1 Section 3 has illustrated that a political party with a nationwide presence can viably run on legally-raised funds. However, Party X made almost 40% of its revenue from fundraising initiatives. Currently in Malaysia, political parties commonly hold fundraising dinners with tables priced at RM1,000, RM3,000, or RM5,000 each. We believe that this is an acceptable form of fundraising if the per-table earnings do not exceed RM5,000. Alternatively, our Kelana Jaya parliamentary office holds movie fundraisers twice a year for donations of RM50 per person.
- 4.2 To reduce political parties' dependence on fundraising activities, and to stop politicians' misuse of "party fundraising" as an excuse for money politics and influence peddling, we propose two improvements to party funding: direct funding from the government, and tapping into crowdfunding.
- 4.3 Firstly, we propose that the Malaysian government provides direct grants to political parties in order to fund their operations.
- 4.4 Such government funding of political parties has already been implemented in numerous democracies including Australia, Canada, Japan, the United States, and a majority of European Union member states. Termed "party subsidies," the specific rules can be summarised under three headings:⁴
 - (a) Payout threshold: Only political parties with a minimum vote total, a minimum vote share, or a minimum number of legislative seats are eligible for party subsidies. A low threshold helps small political parties and new competitors.
 - (b) Payout principles: The most widely-used option is to divide a pre-determined subsidy in proportion to eligible political parties' vote share; alternatively, some countries pay a pre-determined sum per vote. Some countries also make a flat-rate payment to all political parties that win a certain number of parliamentary seats.
 - (c) Purpose: Some countries designate the purposes of political subsidies,

⁴ Susan E Scarrow, 'Party subsidies and the freezing of party competition: do cartel mechanisms work?', *West European Politics*, vol. 29, no. 4, 2006, pp. 624–625.

whereas others leave this up to the recipients.

- 4.5 For example, in Japan:⁵
- (a) The national government allocates ¥250 (RM9.78) per person times the country's total population (127.11mil in 2015⁶) to political parties each year. In total, this amount of ¥31.78bil (RM1.24bil) is 0.03% of the government's Budget 2017 expenditure allocation of ¥97.45tril⁷ (RM3.81tril).
 - (b) It is distributed using a formula based on the number of members each party has in the Japanese Diet (Parliament) as of 1 January and how each party polled in the latest elections for both the Lower and Upper Houses.
 - (c) Political parties that receive the subsidy must meet one of the following two conditions: firstly, have at least five Diet members; and secondly, exceed 2% of vote-shares in the previous election for parties that have at least one Diet member.
 - (d) The three largest political parties in Japan, namely the Liberal Democratic Party, the Democratic Party of Japan, and the Clean Government Party received ¥15.84bil (RM619mil), ¥11,88bil (RM464mil), and ¥2.73bil (RM107mil) respectively in 2008.
- 4.6 We propose that the Malaysian government provides each party with an annual grant set at RM5 per vote obtained in the latest parliamentary election, with minimum threshold of one seat won. Using the results of the 13th general election in 2013, the resulting allocations for the major political parties are shown in **Table 2**.
- 4.7 Even with a high voter turnout of 85%, our proposed government-grant scheme would only require RM53.9mil a year to implement—0.02% of the Budget 2017 expenditure allocation, slightly less than the corresponding proportion of 0.03% in Japan.

⁵ Matthew Carlson, 'Financing democracy in Japan: The allocation and consequences of government subsidies to political parties', *Party Politics*, vol. 18, no. 3, 2012, pp. 395–397.

⁶ Statistics Bureau of Japan, *Japan Statistical Yearbook 2017: Chapter 2 Population and Household*, <http://www.stat.go.jp/english/data/nenkan/66nenkan/1431-02.htm>, 2017.

⁷ Ministry of Finance Japan, *Highlights of the Draft FY2017 Budget*, <http://www.mof.go.jp/english/budget/budget/fy2017/01.pdf>, 2016, p. 2.

Party		GE13 votes won	Gov't grant (RM/year)	Crowdfunding (RM/year)
United Malays National Organisation	UMNO	3,252,484	16,262,420	32,524,840
Malaysian Chinese Association	MCA	867,851	4,339,255	8,678,510
Malaysian Indian Congress	MIC	286,629	1,433,145	2,866,290
United Traditional Bumiputera Party	PBB	232,390	1,161,950	2,323,900
Malaysian People's Movement Party	Gerakan	191,019	955,095	1,910,190
People's Justice Party	PKR	2,254,328	11,271,640	22,543,280
Democratic Action Party	DAP	1,736,267	8,681,335	17,362,670
Pan-Malaysian Islamic Party	PAS	1,633,389	8,166,945	16,333,890
All other parties winning at least 1 seat		331,153	1,655,765	3,311,530
Total votes for parties winning at least 1 seat		10,785,510	53,927,550	107,855,100

Table 2: Annual contributions to Malaysian political parties' incomes from a government grant at RM5/vote and crowdfunding at RM10/voter, based on the results of the 13th general election in 2013.

- 4.8 In return, a political party given a modest annual grant of say RM6mil would be able to run very comfortably without having to worry too much about fundraising. Using our example of Party X in Section 3, this RM6mil would make up almost two-thirds of party income, thus largely supplanting the dependence on fundraising activities.
- 4.9 Secondly, we propose that political parties invest in developing crowdfunding platforms.
- 4.10 Crowdfunding is essentially recurring, small donations through payment gateways. This implies that a party targets a large number of small individual donors (of no more than RM100 a year). Consequently, it is able to raise money whilst not imposing a significant financial burden on its supporters.
- 4.11 We estimate that each voter would contribute, on average, RM10 a year to the party. Considering that some voters will not donate at all, while others will donate up to RM100, this average of RM10 is reasonable. **Table 2** depicts this scenario. A party could reasonably make RM1.5mil annually from these small donations, or 40% of Party X's income. Again, this added income source would supplant the party's reliance on fundraising initiatives.

- 4.12 Crowdfunding empowers ordinary people to contribute to political campaigns. It is the way forward to defeat all forms of influence peddling, be it from corporations or from large individual donors. Instead, politicians' reliance on small donors means that they are likelier to represent the interests of the public at large.
- 4.13 Since a potential donor would prefer knowing exactly where their hard-earned money is going, political parties that are completely transparent about their finances and fundraising targets will perform well in crowdfunding. Therefore, crowdfunding would encourage financial accountability among political parties. The ideal standard is for political parties to make annual financial reports of their full accounts publicly available, as per the practice in, for instance, the United Kingdom.⁸

5.0 Conclusion

- 5.1 Through our illustration of Party X's finances, we have shown that a political party operating nationwide in Malaysia can fund itself through legal means. Taking into account operational, extraordinary, and general-election costs, our hypothetical party is able to maintain an annual surplus through membership fees, a 20% tax on salaries of members elected to public office, and fundraising activities. This crucially implies that political parties need not engage in any influence-peddling or money politics for survival.
- 5.2 We then made two proposals that will help eliminate corruption in Malaysia's current system of political party funding and reduce political parties' dependence on party fundraising activities. Firstly, that political parties with at least one federal seat receive annual direct government grants at RM5 per vote received in the last parliamentary election. Taking the 2013 general election as an example, this scheme will require only RM53.9mil a year to implement. Secondly, that political parties use crowdfunding so that they are less dependent on large donors, and are encouraged to be financially transparent to the public.

⁸ The Electoral Commission, *Political parties' annual accounts*, <http://www.electoralcommission.org.uk/find-information-by-subject/political-parties-campaigning-and-donations/political-parties-annual-accounts>, 2016.

- 5.3 Nonetheless, our paper represents a small part in the big picture of political party finances reform. To fully address this matter, two major considerations remain: firstly, limiting the size of assets a political party can hold; and secondly, limiting the size of donation per person or per entity to the political party.

- 5.4 We will address these two issues of sizes of assets and donations in a forthcoming paper soon.

Appendix: Chief Minister, ADUN, and state EXCO member salaries

No.	State	Salary (RM/month)		
		Chief Minister	ADUN	State EXCO
1	Perlis ⁶	17,000	6,000	8,000
2	Kedah ⁷	22,000	11,000	14,000
3	Kelantan ⁸	15,000	8,000	10,000
4	Terengganu ⁹	30,000	11,000	14,000
5	Penang ¹⁰	14,175	11,250	12,109
6	Perak ¹¹	not available	6,000	not available
7	Pahang ¹²	30,000	11,000	14,000
8	Selangor ¹³	25,000	11,250	15,000
9	Negeri Sembilan ¹⁴	19,888	8,594	10,888
10	Malacca ¹⁵	15,000	9,000	7,000
11	Johor ¹⁶	not available	9,000	not available
12	Sabah ¹⁷	23,625	7,950	16,335
13	Sarawak ¹⁸	39,000	15,000	27,000
AVERAGE SALARY		22,789.83	9,618.77	13,484.75

⁹ Mohd Idros Mohd Ali, *Gaji MB Perlis naik kepada RM17,000*, <http://www.sinarharian.com.my/politik/gaji-mb-perlis-naik-kepada-rm17-000-1.231894>, Sinar Online, 2013.

¹⁰ Jamliah Abdullah, *Kenaikan gaji Exco, ADUN Kedah bantu rakyat*, <https://www.utusan.com.my/berita/nasional/kenaikan-gaji-exco-adun-kedah-bantu-rakyat-1.126674>, Utusan Online, 2015.

¹¹ Mohd. Hafiz Abd. Mutalib and Zaain Zin, *Elaun MB, timbalan, Exco dan ADUN Kelantan naik*, <http://www.utusan.com.my/berita/nasional/elaun-mb-timbalan-exco-dan-adun-kelantan-naik-1.153769>, Utusan Online, 2015.

¹² Malaysiakini, *Kenaikan lulus, gaji MB T'ganu kini RM30,000 sebulan*, <https://www.malaysiakini.com/news/311571>, 2015.

¹³ Susan Loone, *Lim: Gaji KM Pulau Pinang paling rendah di negara ini*, <http://www.malaysiakini.com/news/319688>, Malaysiakini, 2015.

¹⁴ Sinar Online, *Perak juga umum gaji Adun naik*, <http://www.sinarharian.com.my/perak-juga-umum-gaji-adun-naik-1.225823>, 2013.

¹⁵ Mohamad Shofi Mat Isa, *Gaji ADUN Pahang naik 167 peratus*, <http://www.utusan.com.my/berita/nasional/gaji-adun-pahang-naik-167-peratus-1.97251>, Utusan Online, 2015.

¹⁶ Astro Awani, *DUN Selangor lulus potong gaji MB*, <http://www.astroawani.com/berita-malaysia/dun-selangor-lulus-potong-gaji-mb-49239>, 2014.

¹⁷ Farabi Sheikh Said Al Jabri, *Gaji ADUN diselaras*, <http://www.utusan.com.my/berita/wilayah/negeri-sembilan/gaji-adun-diselaras-1.34601>, Utusan Online, 2014.

¹⁸ MStar, *Elaun Adun Melaka Naik RM9,000 Sebulan*, <http://www.mstar.com.my/berita/berita-semasa/2015/07/27/elaun-adun-melaka-naik>, 2015.

¹⁹ Malaysiakini, *Gaji wakil rakyat Johor naik RM4,000*, <http://www.malaysiakini.com/news/289065>, 2015.

²⁰ Sinar Online, *Sidang Dun Sabah lulus kenaikan gaji Adun*, <http://www.sinarharian.com.my/edisi/sabah-sarawak/sidang-dun-sabah-lulus-kenaikan-gaji-adun-1.333178>, 2014.

²¹ Utusan Online, *Menteri, ADUN Sarawak dapat kenaikan gaji*, http://www1.utusan.com.my/utusan/Dalam_Negeri/20130521/dn_36/Menteri-ADUN-Sarawak-dapat-kenaikan-gaji, 2013.

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