

## BACKGROUND PAPER

November 2005

# SELECTED CASE STUDIES OF PUBLIC FUNDING OF POLITICAL PARTIES

**PILdAT**  
Pakistan Institute of  
Legislative Development  
And Transparency

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PILDAT is an independent, non-partisan and not-for-profit indigenous research and training institution with the mission to strengthen democracy and democratic institutions in Pakistan. PILDAT has been actively engaged with building the capabilities of elected Legislators towards a better discharge of their functions of Legislation, Representation and Oversight. PILDAT regularly conducts training/briefing workshops and sessions for Legislators belonging to the National and Provincial Assemblies as well as the Senate. As a non-partisan political research institution, PILDAT regularly prepares well-researched briefing/background papers and Case Studies for Pakistani Parliamentarians, Parliamentary Staff and politicians on a wide range of issues.

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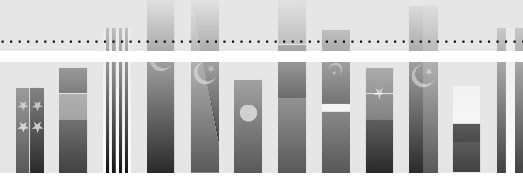
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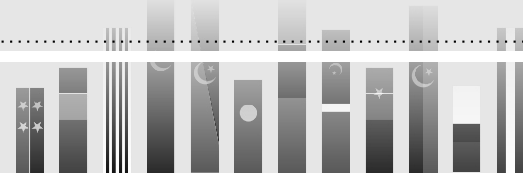


### Abbreviations and Acronyms

BJP	Bharatiya Janata Party
CDU	Christian Democratic Union
COLA	Cost-of-Living-Adjustment
CSU	Christian Social Union
DM	Deutsche-Mark
Doordarshan	Indian State Television Channel
FDP	Free Democratic Party
FECA	Federal Election Campaign Act
IDEA	International Institute for Democracy and Electoral Assistance
INC	Indian National Congress
IRI	International Republican Institute
NDI	National Democratic Institute
p.a	Per Annum
PAC	Political Action Committees
PBC	Prasar Bharati Corporation (Public Service Broadcast of India)
SDP	Social Democratic Party
US	United States of America

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## Foreword

Reforms in the political system of Pakistan are a subject of continuing interest among political thinkers, political scientists, politicians, concerned citizens and foreign observers of Pakistani political scene. One particular aspect which has attracted relatively less interest is the subject of political funding. Corruption in the political system, weakness of the political parties, high cost of political activity and electioneering are often debated in the society but no solution is prescribed. Understandably, political funding is a complex and multi-faceted question which needs to be discussed and analysed thoroughly in the context of Pakistan. The society must come up with a solution after learning from the experiences of other countries and taking into account indigenous conditions.

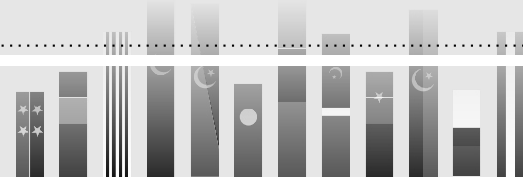
Public funding for political parties and election campaigns is a practice in several countries adapted to suit the peculiar conditions of each individual country. The practice of public funding may be of interest to all those who have an interest in reforming and improving the political system in Pakistan. It is in this context that PILDAT has attempted to present some selected case studies of public funding of political parties to facilitate an informed debate on what may be feasible in the context of Pakistan. The first impetus for writing this paper came when a delegation of officials of Pakistani political parties visited Germany to study the German political system in general and the Social Democratic Party (SPD) in particular. It was then that the German model of public funding of political system came to the attention of PILDAT in full detail and many of the visiting Pakistani politicians felt excited about the possibility of adapting such a system for Pakistan. The visit was made possible through the generous support of Friedrich Ebert Stiftung (FES) Pakistan Office.

This paper draws on the information collected during the visit to Germany and the information available about the modes of public funding in some other countries. We hope this paper provides food for thought for political parties which may consider public funding in the context of Pakistan and develop proposals for action when they are in a decision-making position. We also hope that this paper helps in developing a consensus on the subject across party lines and within various segments of the society.

PILDAT is grateful for various officials of the SPD and the German Parliament who took pains to provide information and explain various aspects of the system of public funding of political system in Germany. PILDAT is also grateful to the FES Pakistan office for supporting the writing and publishing of this paper.

PILDAT has made every effort to ensure the accuracy of the contents of this paper and does not accept responsibility for any omission and error, as it is not deliberate.

Islamabad  
November 2005



## 1. Introduction

The issue of political finance or the financing of politics is a very important and essential aspect of state politics. A sustainable democratic system demands that this facet of political existence is given particular attention. Democratic politics cannot proceed without financial resources.

The political structure of a democratic society hinges on the eager participation and rigorous involvement of political parties in the whole egalitarian process. Political parties are vital political institutions for contemporary democracy. They are essential for the organisation of modern democratic institutions and are crucial for the expression and manifestation of political consciousness. If there is no monetary backing for the political parties existent in the political system, party organisation will falter, communication with public will be hampered and money for election campaigns will be hard to come by. Party functioning and organisation requires stable financial assistance without which the role of a party in the whole political process could become desultory.

Equally important are other political organisations like the political think tanks and parliamentary groups that play their part in disseminating political wakefulness among the people. Financially secure organisations prove to be much more effective in communicating their ideology to the public.

Where should these funds come from to sustain political parties, parliamentary groups and the supporting structures such as think tanks of these political groups This paper aims to discuss the system of state funding of political parties, candidates and political think tanks or foundations in some selected countries of the world. It looks at various nuances of public funding made available to the political structures in diverse democracies around the world today. Germany, which is the most cogent example of public funding, is taken as a case study to fully appreciate the merits and demerits of state funding. The paper is aimed at initiating an informed debate over the desirability of state-

funding of political parties in Pakistan and to encourage a thought process leading to alternative proposals of such funding.

## 2. Different Funding Systems for Party and Candidate Financing

Financial endowments to political parties, candidates and political foundations are a phenomenon existing in democratic institutions of various countries of the world. The difference lies in the channels for acquisition of this money. For effective party management and sustenance, party leaders and workers need to chalk out a viable plan for generating funds for the party. Party finances are mostly generated through private sources like membership fees and donations by individuals and corporations. However, in many countries, parties are also state-funded and a major chunk of party income is afforded through the public sector. Many a times, the state also funds the candidates in their political campaigns during election time, which is done either through cash or in kind such as by providing them with free media access and remissions in postal services, etc.

## 3. Public Funding of Political Systems

Public funding of political parties and candidates was first introduced in the mid-1950s. Costa Rica, Argentina and Germany are among the first few states to introduce public funding in the years 1954, 1955, and 1959, respectively.<sup>1</sup>

Through public funding the state provides financial support to the political parties and candidates during election time or otherwise. Public funding has been introduced and encouraged in various democratic institutions of the world largely because of insufficiency of the income generated from parties' fund-raising efforts, a desire to achieve more equal opportunities in political competition and a need to restrict the influence of private money in the democratic political process. State support to political parties is provided in a variety of ways. Broadly speaking, the state generally supports the parties either through direct or

<sup>1</sup> "Reforming Political Finance", E. Sridharan, [www.india-seminar.com/2001/506/506%20e.%20sridharan.htm](http://www.india-seminar.com/2001/506/506%20e.%20sridharan.htm) (last accessed on 29th July, 2005)

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through indirect financing.

In some countries, public funding is restricted to providing subsidies in kind during the election period. In these cases, political parties are provided free media access on radio and television, reduced postal rates or various types of tax exemptions. A typical example of indirect financing is India where parties do not receive any direct public funding from the government, but during the political campaigns for elections, candidates are given free time on the national radio and television for propagation of their agendas and communication with the masses.<sup>2</sup> United Kingdom is another country with no direct system of state funding for political parties. The political parties are vastly run on donations from business and wealthy donors or labour unions. However, targeted assistance is provided to the parties to support their contribution to the democratic process. Airtime is given to political parties during the election period and free postage and free meeting rooms are provided to the candidates.<sup>3</sup> Through the establishment of a policy development fund, the government gives a modest sum of £ 2 million per year to parties to finance policy research.<sup>4</sup>

In a number of other countries, the state provides financial assistance to political parties through cash. One method of doing this is to allocate money through strict proportionality, where parties are supported in relation to the level of support they enjoy, which is usually measured through the number of votes cast for the party or candidate in the national legislature or the number of seats of a party in Parliament. The German system of public funding works on these footings. The other method is through equal proportionality, where each party or candidate receives an equal sum of money, regardless of its electoral or Parliamentary strength. This system is practiced in Thailand where political parties get equal funding from the state during and between election periods.<sup>5</sup> This method is more favourable to the smaller parties who would receive larger amounts of money under such a system than one focused on levels of electoral success.

Many a times, states use a combination of the principles of proportionality and equality. In Hungary, for example, 25 per cent of the state money is equally distributed among all parties that have obtained a seat in Parliament, while the remaining 75 per cent is distributed on the basis of votes obtained by each party in the Parliamentary election.<sup>6</sup>

#### 4. Various Models of Public Funding

With the democratic structure varying considerably throughout the world, the method of public funding to the political institutions also varies significantly. In order to fully understand this diversity, it is useful to look at the public funding structures prevalent in various successful democracies of the world.

##### 4.1. Political Funding in the US

USA is a country where democracy is practiced through a Presidential form of government rather than a parliamentary system. This presidential democratic structure is based on free and open elections where the electoral system is, to an extent, candidate-centred rather than party-centred. Although political parties play an important role during election time, candidates are at the centre stage when it comes to electioneering. This has levied more cost to the candidates' election campaigns for effective voter communication than to parties.

Political parties in the US are funded mostly through private sources, although there are no membership dues for the party members.<sup>7</sup> Only during election time do parties receive public grants for their national party conventions to choose a presidential candidate.

Public funding is available, most notably, for the presidential elections. It has been in place since 1971, ever since Congress passed the Federal Election Campaign Act. However FECA administered the first public funding programme in the 1976 elections, when eligible candidates used federal funds in the primary and general election campaigns and the major parties used public funds to pay for their nominating conventions.<sup>8</sup>

2 [www.accessdemocracy.org/library/1848\\_polpart\\_moneyinpolitics\\_010105\\_69\\_94.pdf](http://www.accessdemocracy.org/library/1848_polpart_moneyinpolitics_010105_69_94.pdf) (last accessed on 24<sup>th</sup> July, 2005)

3 Funding of Political Parties and Election Campaigns, Karl Heinz Nasmacher, IDEA, 2003, p. 42

4 Financing political parties and election campaigns guidelines, Ingrid van Biezen, University of Birmingham, UK, p. 33, published in December, 2003

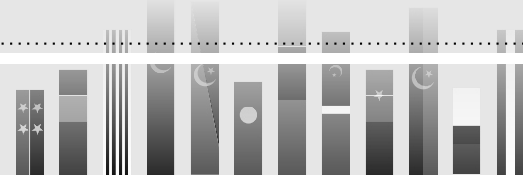
5 [http://www.idea.int/parties/finance/db/country\\_print.cfm?CountryCode=TH](http://www.idea.int/parties/finance/db/country_print.cfm?CountryCode=TH) (last accessed on 27<sup>th</sup> July, 2005)

6 Financing political parties and election campaigns guidelines, Ingrid van Biezen, University of Birmingham, UK, p. 44, published in December, 2003

7 [http://www.faculty.ucc.edu/egh-damerow/political\\_parties.htm](http://www.faculty.ucc.edu/egh-damerow/political_parties.htm) (last accessed on 29<sup>th</sup> July, 2005)

8 "Public Funding of Presidential Elections", Federal Election Commission <http://www.fec.gov/pages/brochures/pubfund.shtml> (accessed on 28<sup>th</sup> July, 2005)





In exchange for receiving public funding, candidates must agree to limits on campaign spending as laid down by the FECA and endorsed by the Supreme Court. However, only spending limits for presidential candidates who *voluntarily* accept public spending, is upheld by the court. Presidential candidates are free to spend as much as they want if they do not wish to receive public funding. For these 'entrepreneurial candidates' no spending limit applies<sup>9</sup>

No public subsidy exists for congressional elections in the US. Therefore these elections are not subject to any spending limits. Senate and House of Representative candidates are free to spend as much money as they want.

#### **Public Funding for Political Foundations**

The two major political foundations in the United States are the National Democratic Institute (NDI) and the International Republican Institute (IRI). Both receive state grants. Both these foundations are loosely affiliated with their respective political parties although there is no formal affiliation. These foundations aim at political party development, governance, citizen participation and election processes.

#### **Public Funding for Candidates and Political Parties**

Presidential candidates can receive federal government funds to pay for valid expenses of their political campaigns in both the primary and general elections. National political parties also receive federal money for their national nominating conventions for the presidential candidate.

To qualify for the public funding, presidential candidates and party convention committees have to meet certain eligibility criteria like agreeing to limit campaign spending to a specified amount. Once the Federal Election Commission has determined that all eligibility requirements have been met, it certifies the amount of public funds to which the candidate or convention committee is entitled.

The US Treasury makes the payment from the Presidential Election Campaign Fund, which is collected through voluntary check-offs by taxpayers on the federal income tax returns indicating that US \$ 3 of their tax goes to the

#### **Presidential Campaign Fund<sup>10</sup>**

The Federal Election Commission identifies the following programmes to distribute the money thus collected:

##### **a. Primary Matching Funds**

Only candidates in presidential primaries, seeking nominations by a political party to the office of President are eligible to receive the primary matching funds. The first US \$ 250 of a donation by any individual is matchable i.e., the amount of a donation is doubled. Donations by Political Action Committees (PACs)<sup>11</sup> are not matchable. To be eligible for money from the matching fund programme a presidential candidate must establish eligibility by showing broad-based public support. He or she must raise in excess of US \$ 5000 in matchable contributions, in amounts no higher than US \$ 250 from any individual contributor in each of at least 20 different states.

##### **b. Party Convention Grants**

Each major political party is entitled to US \$ 4 million plus cost-of-living-adjustment (COLA)<sup>12</sup> to finance its national convention that nominates the candidates for president and vice president. The qualified minor party may become eligible for partial convention funding based on its presidential candidate's share of popular vote in the preceding Presidential election.

##### **c. General Election Funding**

Both the Republican and the Democratic candidates in a presidential election receive a grant of US \$ 20 million (plus COLA) to cover overall expenses of their general election campaigns. Third party presidential candidates are entitled to receive some public funds after the general elections if they have received at least 5 per cent of the popular vote. The amount of public funding to which a third party candidate is entitled

9 Funding of Political Parties and Election Campaigns, Chapter 3, Karl Heinz Nasmacher, IDEA, 2003, p. 44

10 "Public Funding of Presidential Elections", Federal Election Commission, <http://www.fec.gov/pages/brochures/pubfund.shtml> (last accessed on 28th July, 2005)

11 In USA, a political action committee, or PAC, is the name commonly given to a private group organized to elect or defeat government officials in order to promote legislation, often supporting the group's special interests. [en.wikipedia.org/wiki/Political\\_action\\_committees](http://en.wikipedia.org/wiki/Political_action_committees) (last accessed on 28th July, 2005)

12 Cost-of-living-adjustment (COLA) is calculated annually by the US Labour Department using 1974 as the base year.

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is based on the ratio of the party's popular vote in the preceding presidential election to the average popular vote of the two major party candidates in that election.

Eligibility criteria demands that candidates conform to the expenditure limit set by the FECA and not accept any private contributions like donations from individuals, PACs or party committees. The candidates, therefore, raise these kinds of donations during pre-nomination campaigns, but refrain from doing so once nominated.<sup>13</sup>

## 4.2 Indian System of Political Funding

India is one of the largest democracies in Asia with a parliamentary system of government in place. The country's ethnic and social diversity has given rise to a large number of political parties that are actively involved in the democratic dispensation of the political process.

Although, state funding has not yet taken root in India and there is still a long way to go before state funding of political parties becomes a norm, political parties do get subsidies in kind from the government during election period. Private funding remains the major source of revenue for the parties in the form of membership fees and donations from individuals and corporations.

Membership fees vary from party to party. For the Indian National Congress (INC) the fee for the party members is Indian Rs. 1 per month for a net monthly income up to Indian Rs.500 and 1 per cent of net monthly income above Indian Rs.500.<sup>14</sup> *Bharatiya Janata Party* (BJP) has implemented a "lifetime membership" programme through which members make annual contribution of Indian Rs. 1000 or more to the party.<sup>15</sup>

Indian companies can also make donations to political parties as permitted under Section 293A of the Companies Act, 1956, under conditions that the annual donation must not exceed 5 per cent of average net profits of the company

during the immediately preceding three years; must be approved by a resolution of the Board of the company and must be disclosed in the profit and loss account of the company.

Individual donations are also a legitimate source of income for the parties. Donations in excess of Indian Rs.10, 000 must be recorded by the party along with the names and addresses of the persons who have made such contributions. However, foreign contributions cannot be accepted by a party unless the permission is granted by the central government.

### Public Funding of Political Parties

Public financing to political parties in India is provided through state funding in kind only during the election period.

At the time of general election to the *Lok Sabha* (Lower House of the Parliament) in February 1998, the Election Commission of India took new initiative for state funding of recognised political parties through free use of state-owned Television and Radio.

The above facility of use of *Doordarshan*<sup>16</sup> and All India Radio is extended only to those National and State Parties, which are recognised as National or State Parties, under the provisions of the Elections Symbols (Reservation and Allotment) Order, 1968.<sup>17</sup> This facility, however, is not available to registered unrecognised parties or independent candidates.

A base time of 45 minutes is given to each National and State party uniformly on the regional *Doordarshan* network and All India Radio network. The additional time to be allotted to the parties is decided on the basis of the poll performance of the parties in the last *Lok Sabha* and State Assembly elections. In a single session of broadcast, no party is allocated more than 15 minutes. Each party is given time vouchers of denomination of five minutes equal to the total time allotted to it for telecast on *Doordarshan* and broadcast on All India Radio. The party has the discretion to choose any representatives and allow them to use those

<sup>13</sup> Funding of Political Parties and Election Campaigns, Chapter 3, Karl Heinz Nasmacher, IDEA, 2003, p. 42

<sup>14</sup> [www.aicc.org.in/manmohan-singh-committee.htm](http://www.aicc.org.in/manmohan-singh-committee.htm) (last accessed on 30th July, 2005)

<sup>15</sup> [www.frontlineonnet.com/fl1807/18070150.htm](http://www.frontlineonnet.com/fl1807/18070150.htm) (last accessed on 30th July, 2005)

<sup>16</sup> State-owned television station

<sup>17</sup> Election Commission of India

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time vouchers, provided no such individual representative uses more than twenty minutes of the total time allotted to that party either on *Doordarshan* or on All India Radio.

The date and time during which the above telecast and broadcast will be made by the authorised representatives of any party, is predetermined, by the *Prasar Bharati Corporation*,<sup>18</sup> in consultation with the Election Commission of India.

The period of broadcast and telecast starts on the last date of filing the nominations and ends two days before the date

### 4.3 Political Funding in Germany

Germany has a Parliamentary democracy and political parties have an important role in the democratic dispensation of state functions. This Western European state has one of the most transparent party financing models in the world where people are given the right to know and receive as much information as possible to be able to make an informed decision about who to vote for. Transparency of German accountability system protects against moneyed interests playing a major role in the democratic process.

**Table 1**  
**Time available to National Parties on National TV Channel and Radio in India**

No.	Party	Votes polled in Lok Sabha Election, 1998	Relative % of votes polled in Lok Sabha Election, 1998	Base Time (minutes)	Additional Time allocated in proportion of Col. 4 (minutes)	Total Time (Col.5 + Col.6) (minutes)	Total Time rounded off to multiple of 5 minutes	Total Time in hours and minutes
(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9) (10) Hrs. Mins.
1	BJP	94,266,193	38.65%	45	127.54	172.54	175.00	2 55
2	BSP	17,186,779	7.05%	45	23.25	68.25	70.00	1 10
3	CPI	6,429,569	2.64%	45	8.70	53.70	55.00	0 55
4	CPM	18,991,867	7.79%	45	25.69	70.69	70.00	1 10
5	INC	95,111,131	38.99%	45	128.68	173.68	175.00	2 55
6	JD	11,930,209	4.89%	45	16.14	61.14	60.00	1 0
<b>Total</b>		<b>243,915,748</b>	<b>100.00%</b>	<b>270</b>	<b>330</b>		<b>605</b>	<b>10 5</b>

Source: Election Commission of India, No.MCS/PN/17/99 (<http://eci.gov.in/press/current/cp19990804.pdf>)

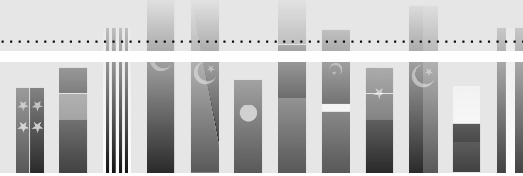
of polling. All telecasts and broadcasts by the parties end 48 hours before the close of polls.

In addition to the above-mentioned party telecast and broadcast, a maximum of two national panel discussion/debates are also organised on the national channel of *Doordarshan* and All India Radio. Each nationally recognised party can nominate one representative to such programmes.

### Funding of Political Parties

The overall income of the German political parties comes from two major and two minor sources. Membership dues provide about one-third of the total income. Another one-third is provided by the public grants. The final one-third of the finances comes from the donations and "assessments." These are payments made by the office-holders of the parties in addition to their membership dues.

<sup>18</sup> The Prasar Bharati is the Public Service broadcaster of India.



**a. Private Funding for Political Parties**

German political parties have various sources of income other than what is provided by the state.

**Membership Fees**

Membership fees are an essential source of party funding in Germany. The average fee for the party members is € 6.29.<sup>19</sup> The number of individual contributors and the sum total of their contributions indicate a party's ability to mobilise resources and the support it enjoys among its members and society at large. The main aim is to ensure that parties are largely free of state influence and that they compete for public support. In order to encourage membership fees, party members are entitled to a 50 per cent tax rebate on their party dues.

**Private and Corporate Donations**

Parties are entitled to accept donations from both individuals and corporate bodies but certain restrictions and disclosure requirements apply. The Law on Political Parties stipulates that parties may only accept cash donations up to € 1000.<sup>20</sup> Tax deductions apply for individuals who donate up to a total of € 3,300<sup>21</sup> p.a. or € 6,600 p.a. for married couples filing joint returns. Individuals may make donations of more than € 3,300, but it is not tax-deductible. Corporate bodies do not receive tax reductions for any amount of cash that they donate to the parties.

Foreigners can donate at most € 1,000 to a German party.<sup>22</sup> Parties can accept donations from German citizens or citizens of the European Union or an enterprise, 50 per cent of whose shares are owned by Germans or by a citizen of the European Union.<sup>23</sup>

Donations, however, cannot be accepted from

political foundations, parliamentary groups, public corporations, non-profit organisations or charities, according to the Law on Political Parties.<sup>24</sup>

There is no legal limit for political contributions by individuals or corporate donors. However, some practical limits like no tax benefits for corporate donors and public disclosure of all donations by the recipient party are applied to keep a check on the limit of the contributions.

**Assessments**

Assessments are the payments given to a party by its office-holders in addition to their membership dues. This additional fee is quite common in Germany. In the early 1980s, an average of 18.5 per cent of the total income of the Social Democratic Party (SPD) was raised through the assessment of office-holders. In the mid-1990s, this share had risen to one-quarter.<sup>25</sup>

**b. Public Funding of Political Parties**

Germany, in 1959, was one of the first established democracies to grant public funding to national parties. The Law on Political parties states "the parties shall receive funds as a contribution towards the funding of the duties generally incumbent upon them under the (Article 21 of the) Basic Law. The allocation of the state funds shall depend on the success a party achieves with the voters in European, Bundestag (Lower House) and Landtag (state Parliament) elections on the sum of its membership fees and on the amount of money it obtains from donations".<sup>26</sup>

The Law sets a maximum limit for the state funds to be € 133 million<sup>27</sup> from the year 2002. Under the state partial funding programme, the state provides funding to each political party on the

<sup>19</sup> The funding of Political Parties in Germany

<sup>20</sup> Section 25 (1) of the Law on Political Parties, German Basic Law

<sup>21</sup> Section 18 (3) No. 3 of the Law on Political Parties, German Basic Law

<sup>22</sup> Section 25 (2) No. 3c of the Law on Political Parties, German Basic Law

<sup>23</sup> Section 25 (2) No. 3a, Law on Political Parties, German Basic Law

<sup>24</sup> Section 25 (2) No. 2, Law on Political Parties, German Basic Law

<sup>25</sup> Funding of Political Parties and Election Campaigns, IDEA Chapter 7, Karl Heinz Nasmacher, IDEA, 2003, p. 120

<sup>26</sup> Section 18 (1), Law on Political Parties (Party Law), German Basic Law

<sup>27</sup> Section 18 (2), Law on Political Parties (Party Law), German Basic Law

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following basis:

1. € 0.85 for every vote a party obtains up to a total of 4 million valid votes, provided it receives at least 0.50 per cent of the total votes cast in the Bundestag or European elections and 1 per cent in the elections to the Landtag. In addition € 0.70 for each valid vote a party receives over and above 4 million votes.<sup>28</sup>

2. € 0.38 for each euro that a party has obtained through membership fee or donations. However, only donations up to € 3,300 per individual are taken into account.<sup>29</sup>

The Law on Political Parties further states that the state funds must not exceed the annual income generated by the party from membership fees, donations and other revenues.

A major subsidy in kind for all parties is free media time during election campaigns. Private

broadcasters are allowed to charge a specific fee to cover their costs while public networks can recover only their production costs.

c.

**Disclosure of Donor's Identity**

The Law on Political Parties states that donations in excess of € 10,000 given to a party must be recorded along with the names and addresses of the donors and the total amount of the donation. Single donations in excess of € 50,000 have to be reported to the President of the German Parliament who publishes the donation as a Bundestag printed paper, stating the name of the donor. All parties submit their annual report and their donors' list to the President of the Federal Parliament. The staff of the President has to check these reports and then publish them. It also calculates and pays public subsidy to all eligible parties.<sup>30</sup>

d.

**Public Funding of Political Foundations**

Political foundations are private-law

**Table 3**  
**German Political Foundations**

Political Foundations	Party Affiliation	Annual Remittances (%)
Konrad Adenauer Foundation	CDU	31.5
Friedrich Ebert Foundation	SDP	35
Friedrich Naumann Foundation	FDP	11.17
Hanns Seidel Foundation	CSU	11.17
Heinrich Boell Foundation	Green Party	11.17

28 Section 18 (3), Law on Political Parties (Party Law), German Basic Law

29 Section 18 (3) No. 3, Law on Political Parties (Party Law), German Basic Law

30 Section 25 (3) Law on Political Parties (Party Law), German Basic Law.

# PILDAT BACKGROUND PAPER

## SELECTED CASE STUDIES OF PUBLIC FUNDING OF POLITICAL PARTIES

organisations that independently, responsibly and in the spirit of intellectual receptiveness, provide services that are in the public interest but cannot be supplied by the state.<sup>31</sup> Each political party in Germany has a political foundation affiliated with it in terms of ideology and broad programme but these foundations remain independent in their organisation, management, funding and decisions. These political foundations are largely financed by federal and state government funds. The function of the political foundations as laid down by the Art. 12 Par. 1 of the Basic Law is to provide professional and sustainable education in the field of social policy and democracy. These foundations primarily use the funds allocated to

remittances to political foundations is fixed by the Budget Committee of the German Federal Parliament. The total amount is distributed among foundations in conformance with a matrix in which all enduring political movements of any weight in the federal republic of Germany are given due consideration. The following table lists the major political foundations in Germany and the remittances they were to receive from the government in 2005.

In 2003, the total annual budget for the foundations was □ 300 million.<sup>32</sup> The funds are allocated to the foundations on the basis of criteria in which strength of the party in the

**Table 4**  
**Funding of Parliamentary Groups in Germany**

Sr. No.	Parliamentary Group	Members	Funds provided by the State (million)
<b>Ruling Parties Parliamentary Groups</b>			
1	SDP	250	21
2	Greens	55	7.5
	Sub-total	305	28.5
<b>Opposition Parties Parliamentary Groups</b>			
3	CDU/CSU	247	23.6
	FDP	47	7.8
	Sub-Total	294	31.4
	<b>Total</b>	<b>599</b>	<b>59.9</b>

them to finance the following:

Congresses, meetings and seminars on political education  
Research consultation  
Publications and exhibitions  
Payroll costs, expenditures on goods and services, and investment

The sum to be paid by federal ministries in annual

Parliament is a key factor. Every year, heads of political parties, heads of foundations and head of Control of Budget and Finance sit together to decide the exact distribution of state allocation among the political parties. The National Code of Conduct governs accounts of these foundations. The amount allocated to political foundations in the budget is included in the Budget for the Interior Ministry which is also responsible for the disbursement of these funds but it has no control over the

31 [www.kas.de/stiftung/wir\\_ueber\\_uns/1847\\_webseite.html](http://www.kas.de/stiftung/wir_ueber_uns/1847_webseite.html) (last accessed on 26th July, 2005)

32A DAAD/AICGS working paper on US based German Political foundations by Nicole Renvert, <http://www.aicgs.org/Publications/PDF/Renvert%20FINAL%20eng.pdf> (last

budget allocated.

**e. Funding of Parliamentary Groups**

As part of the legislature, parliamentary groups form part of the constitutional structures of the state and are quite distinct from the work of political parties. These parliamentary groups are eligible for grants by the state. In the year 2003, the volume of funding for the parliamentary groups in the German Bundestag totalled around □ 60 million.<sup>33</sup> Besides cash funding, parliamentary groups are provided office space for their staff and other activities such as group meetings and press conferences. The amount of funding each parliamentary group receives depends on the number of members in the group. An extraordinary feature of this type of funding is that the opposition groups receive 15 per cent additional funding to make up for a lack of assistance that the ruling parliamentary group may be getting by being in the government. The following table states the funding of parliamentary groups for the year 2003.

#### 4.4 Rationale for Public Funding

The rationale for the public funding system in Germany can be understood more evidently by looking at the core reasons for any democracy to adopt the idea of public financing to political parties and organisations.

The motivation for public funding is manifold. With the increase in the use of mass media and more cost-intensive campaign techniques, the cost of democratic processes has been multiplied by a huge factor. The combination of rising costs and decreasing revenues of the political parties has encouraged the search for compensation through alternative sources of income. Because parties are seen as the key political institutions for modern democracy, it is logical for the state to intervene with direct financial support in order to facilitate or guarantee their continued existence.

Another coherent reason for state funding is associated with the concern for providing equal opportunities, fairness and equality for a healthy political competition. Not all parties are equally resourceful and those which cannot

successfully tap into the resources of private contributors can be placed at a disadvantage. In order for a healthy political atmosphere to prevail, equitable resources are provided to parties through state subsidies that are expected to facilitate a more equal level playing field by enabling new, small and less resourceful parties to compete on a more equitable basis with the dominant and financially more privileged ones.

Another argument in favour of public funding is the desire to restrict the influence of private money and to limit its potential for distortion of the democratic political process. The concern here is that certain private interests, rather than the general public interest, would come to guide the conduct of parties and elected officials. Since public funding partly relieves parties from having to satisfy their financial supporters, it has a diminishing effect on corruption. Similar motivations lie beneath the legal limits on private donations and campaign expenditures. The introduction of public legislation on party financing, moreover, gives the state a larger degree of control over the role of money in politics and a greater opportunity to legitimately exercise some degree of supervision over party financial activity, which reduces the potentially excessive influence of private contributors at the expense of the public interest.

The German system of public funding came into existence with the hope of curing the above-mentioned concerns and bringing in a system of state funding that would provide greater accountability for the whole democratic process and make it transparent. The German Constitution lays rigorous rules for state funding and a thorough system of accountability has been put in place to curb the disastrous effects of corruption creeping in to their political system.

#### 4.5 Performance over the Past 45 Years

The financing of political parties in Germany has seen its fair share of controversies and has evolved gradually to its present state. Originally, party financing was supported only through membership fees and donations. During the 1950s, donations began to be channelled through sponsoring institutions, known as the "civic associations." Tax benefits were implemented for the advancement of political aims of public interest. In 1958, the Federal

<sup>33</sup> Political Financing, (2)

However, despite its loopholes and deficiencies and the controversies that keep surfacing, it can be argued that the German system of political funding has evolved over the last 50 years into a stable structure and a fair system of accountability keeps dishonesty in money matters of political parties at bay. Though fraud and deception do disturb the relative harmony of the German political funding system, a regulatory framework is in place and efforts are made to make the system as transparent and fault-free as possible.

## 5. A Case for Public Funding of Political System in Pakistan

There can be a substantial case for Pakistan to consider public funding for its political system for the following reasons:

**Ownership of Political Parties by the Rich:** Most of the political parties in Pakistan are 'owned' by the rich families because it is they who pay for the expenses of the party and therefore are considered masters of the political parties. Leadership of a party also rotates, if at all, within the family and there is hardly any real democracy within a party. An ordinary member, no matter how talented and committed he or she is, has little chance to become the top leader of a party. Even for a secondary or tertiary level of leadership, aspiring leaders have to seek blessing and approval of the party masters where they serve to the pleasure of the masters. If parties do not depend on rich families for basic expenses of the party, there is a better chance for democracy to take root within the parties. Public funding of political parties may be helpful in promoting internal democracy of the political parties and the democratic culture in the country in general.

**Foreign Influence on Political Parties:** Strong suspicions have been expressed about a number of political parties regarding their source of funding which at times has been attributed to the generosity of one foreign government or the other. The perceived foreign funding influences the conduct and policy of the party either in government or in opposition. Such allegations of foreign funding have been repeatedly levelled against Pakistan Muslim League (PML),

Pakistan Peoples Party (PPP), Jama'at-e-Islami (JI), Jamiat Ulema-e-Islam (JUI), Jamiat Ulema-e-Pakistan (JUP), Jamiat Ahl-e-Hadith (JAH), Pakistan Awami Tehreek (PAT), Awami National Party (ANP) and many other parties which means that hardly any party has been spared of such allegations. It is expected that public funding of political parties will free political parties from the need to seek or receive foreign funding.

**Political Leadership from the Middle Class:** As the cost of pursuing a political career in Pakistan has been steeply rising, it is almost impossible for a person from the middle-class, who may otherwise be a talented and committed politician, to pursue a career in politics. The result is that politics has become a sole preserve of the rich, almost totally excluding the middle and poor classes of the society from this important activity. Public Funding may encourage the excluded classes to opt for a career in politics.

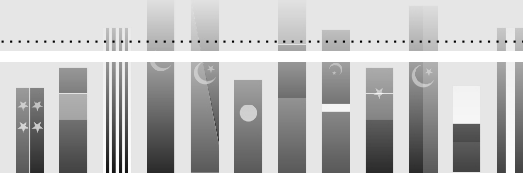
**Corruption in Politics:** At present a number of rich people 'invest' money in political career and after they are elected to a public office, they expect 'return' on their investment. This leads to a number of corrupt practices. Public funding can break this vicious cycle of 'investment' and 'return.'

**Strengthening Political Parties:** Pakistan has a Parliamentary form of government which largely depends on strong, organised and active political parties for its success. Unfortunately political parties have been traditionally very weak in Pakistan. Most parties do not have any infrastructure to keep constant liaison with their membership; they lack any staff to sustain day-to-day activities of the party; lack of resources preclude the use of such basic tools as photocopiers, computers, research staff and party offices. The weak political parties have contributed to the weak political system of Pakistan. Public funding may strengthen political parties and therefore the political system of the country.

## 6. Concerns against Public Funding of Political System in Pakistan

When considering public funding for political system in Pakistan, it may be useful to consider some possible pitfalls. One obvious problem to face is the lack of a strong





culture of accountability in Pakistan. Germany, which is probably the prime example of public funding of the political system, heavily depends on a strong tradition of accountability and transparency in its dealings. Political parties in Germany have to make a complete disclosure of their finances in return for qualifying for public funding. Despite this strong tradition, there had been celebrated cases of gross misconduct on the part of political parties and political leadership. There is a risk in Pakistan that political parties and leadership may exploit the proposed public funding system for their undue advantage thus depriving state exchequer of much-needed funds. Political parties may also misreport on their membership strength to gain undue advantage of public funding. There is also a strong view that a country like Pakistan, where more than half the population lives below poverty line and which has limited financial resources can not afford to spend huge sums of money on funding political parties and candidates, etc.

## 7. Conclusion

Political System in Pakistan suffers from some serious deficiencies and drawbacks. Undue influence of money in politics and corruption are just two of the obvious problems. Middle and poor classes of the society are almost excluded from the political system of the country. An acute form of political feudalism prevails in the society. With the falling interest of the citizens in the political process in the country amply reflected in the steadily decreasing voter turnout at elections, it is imperative to re-examine the political system and introduce much-needed reforms. Public Funding of political system is an exciting idea which should be seriously considered in the light of the experience gained in a number of countries and keeping the peculiar conditions of Pakistan in view. Major political parties should constitute task forces within their structures to examine the issue and include it in their election manifestoes, if they consider it appropriate. The civil society organisations and think tanks should also examine the issue and debate it openly and exhaustively in the media. As a result of these efforts, a consensus may emerge about the public funding of political system in Pakistan which suits our conditions and leads to the reform of the political system.



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