

Financial Transparency in Political Parties

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SUMMARY

Although Nepali political parties aim to create good policies and regulations in order to maintain good governance and accountability, the level of transparency exhibited by them is subject to debate. This Political Situation Update focuses on this issue. Given that political party leaders are involved in governing the country, the issue of intra-party good governance and transparency is of paramount importance. However, such has not been the practice in Nepal. Party audit reports either fail to reflect financial transactions accurately, or omit the sources of such transactions. It is most apparent during elections when parties spend beyond the limit imposed by the Election Commission of Nepal (ECN), and consequently are forced to become opaque about the expenses in an effort to stay within the legal limit. But such opacity encourages corruption. Therefore, various alternatives are often proposed to make the political parties more fiscally transparent. Some suggested alternatives include adopting a financially less burdensome election system in comparison to the existing expensive election system, and the government providing financial support to political parties in proportion to their electoral votes and monitoring their expenditures. Nepali democracy cannot become robust without creating an environment where political parties can freely publish their actual income and expenditures. A concerted effort from the ECN, political parties, the government, and the public is needed to rein in election expenditures. In addition, unless the political parties themselves take steps toward greater accountability, their financial transactions will never become transparent.

The ECN, responsible for regulating them, also needs to become more proactive.

1. INTRODUCTION

Political parties have an important role in addressing the societal ills and maintaining good governance. Political leaders partake in elections and take office with the aim of working for the benefit of the public. Since party leaders are involved in maintaining governance, it is important for political parties themselves to practice good governance and internal democracy. Transparency is an integral part of this process. However, questions have been raised about the financial transparency of political parties in Nepal. The Election Commission of Nepal (ECN), the regulatory body responsible for overseeing the political parties, has expressed concerns over financial documents released by the parties. The public also lacks a strong basis to trust the financial declarations made by the political parties, resulting in a level of confusion regarding this issue.

The lack of financial transparency of the political parties is a major reason behind bad governance and political corruption that exists at every level of the country's politics and governance. It is an aspect that political parties have been unable – or more accurately, unwilling – to, improve¹.

¹ Dhakal, Amit. 2024. 'Question for UML Secretariat – Creating a better environment through leadership or taking donations worth billions?' *Setopati*, October 20. Available at <<https://www.setopati.com/opinion/341916>> accessed on November 5, 2024 (in Nepali).

It is difficult to trust political parties to implement good governance and end corruption when the very parties which form the government are also the ones who do not provide financial transparency in their audit reports. However, discussions about political party financing rarely happen in public forums. Lack of such discussions has led to parties escaping accountability.

There is no debating the fact that political parties require income to sustain themselves. However, it is important for such organizations in the public sphere to be transparent about their financing. This Political Situation Update focuses on the financial transparency of the political parties in Nepal. For this, the audit reports for fiscal year (FY) 2022/23 of the three older parties in terms of establishment – Communist Party of Nepal [Unified Marxist-Leninist (CPN-UML)], Nepali Congress, and Communist Party of Nepal [CPN (Maoist Centre)], along with two newer parties, Rastriya Swatantra Party (RSP) and Janamat Party have been analyzed. In addition to consulting existing materials, interviews have been conducted with representatives of political parties, the Chief Election Commissioner, and subject experts to prepare this update.

2. LEGAL PROVISIONS

The Political Party Withdrawal Act 2054 BS, Political Party Registration Act 2058 BS, and Political Party Related Act 2058 BS, were issued under the constitution promulgated after the reestablishment of multiparty democracy in 1990, leading to formal audits of political parties. The preamble of the Political Parties Act 2002 stated that financial transparency of the parties was necessary in order to develop political parties as democratic and responsible institutions. The Act mandated the parties to conduct financial audits by auditors recognized by the Office of Auditor General within 6 months from the end of each fiscal year and share the report publicly. The Political Parties Act 2017 repeats the provisions. Section 41 of the Act states that parties are required to conduct their audits within 6 months of the end of a fiscal year, and should present this document to the ECN within one month, and then should make it public through the media, social media, or the party's website. Section 54 of the Act states that a party which fails to submit its audit reports for three consecutive

years may be fined up to NPR 50 thousand. The ECN can take away a party's registration if it repeats the offence, or if they do not follow the instructions provided by the ECN within a year of such instructions being given, or if the parties fail to pay the fines on time. The Act also mentions that the parties can be fined from NPR 5 thousand to 20 thousand if they do not submit the audit report on time, if they fail to release audit report publicly, if the audit report is not prepared in the format provided by the ECN, or if the parties do not allow cross-verification of documents.

According to Section 37 of the Political Parties Related Act 2017, every political party is required to establish a separate fund to deposit membership and renewal fees. Section 38 states that voluntary financial donations, funds collected from programs organized by the party, funds collected from the party publications and sales of the party's liquid and fixed assets, interest received against cash in bank accounts, and any other regular financial contributions should be collected into the party accounts. In terms of voluntary financial donations, the Political Party Related Act 2002 has been amended to require any donation above NPR 25 thousand to be done through bank transactions. Earlier, only donations above NPR 50 thousand required to be routed through bank transactions.

Section 38(5) of the Political Parties Act 2017 states that donors may not attach conditions for personal or financial benefit while making donations, and that political parties may not put such conditions while receiving donations. Section 40 mentions that political parties are required to state their actual financial transaction details in their audit report. In addition, Section 14 of the Political Parties Related Regulations 2017 states that political parties must report the complete details regarding fixed assets and liquid assets, including cash and bank balance, loans payable and total bank balance, and income-expenditure during elections. Furthermore, if the party receives a donation amounting to more than NPR 100 thousand from any person or organizations, details of such donors, including their name, surname, address, occupation, Permanent Account Number (PAN), and the source and tax details of the donations need to be shared publicly.

The Political Party Related Act 2073 BS also requires each political party to state its membership and renewal fees in the party constitution. However, Nepali Congress, CPN (UML), CPN (Maoist Centre), and RSP have not disclosed the

amount in their constitutions². Instead, these parties have mentioned that such fees will be fixed according to party regulations. Only Janamat Party has stated the general membership, active membership, and renewal fees in its constitution.

Legal attempts have been made to ensure that political parties are financially transparent and that ECN can regulate the financial practices of the parties. However, despite it being their legal and moral duty, political parties have been failing to ensure financial transparency.

3. SOURCES OF INCOME OF POLITICAL PARTIES

Nepali political parties show large amounts of transactions in their financial documents. According to the parties, their main sources of income include levies from party members, membership fees, and donations. Additional sources of income include publications sales, investment, asset sales, and interest.

According to CPN (UML) parliamentarian Raghuji Panta, “The practice of raising levies was introduced in Nepal by the communist parties. During the period when parties had to remain underground, in addition to membership fees, party members submitted a certain percentage of their income as levies to support the party financially. Other well-wishers and supporters also contributed financially to the party. After the general election of 1991, the party started to collect a certain percentage of the salary of parliamentarians in the House of Representatives and the National Assembly as levies. After this, other parties also started this practice.”³

Among the five political parties included in this report, CPN (UML), which considers membership fees, renewal fees, and periodic levies as its source of income, was the highest earner in the fiscal year 2022/23. During the fiscal year, the party received the highest amount in income under the Special Financial Contribution heading (See Table

1). The party has removed the term ‘donation’ from its audit report and has replaced it with the phrase ‘Special Financial Contribution’.⁴ However, details regarding what constitutes Special Financial Contribution have not been specified in the report. The party has approximately 500 thousand, with each member paying NPR 240 annually in membership fees.

Shantimaya Tamang Pakhrin, member of CPN (UML) Central Account Committee, said that members of the federal parliament paid NPR 12 thousand, members of provincial parliaments paid NPR 5 thousand, Mayors, and Deputy Mayors, Chairpersons and Deputy Chairpersons of local governments paid NPR 1,000 each, and persons who receive political appointments paid ten percent of their salaries to the party.⁵ Bhisma Adhikari, Secretary of the Central Finance and Funds Management Department, CPN (UML), shared that the party’s Tenth General Convention organized in 2021 at Sauraha, Chitwan, initiated the ‘Five Thousand Rupees by Five Thousand Members for Five Years’ campaign⁶, which aims to collect donations of NPR 5 thousand from 5 thousand members.

In FY 2022/23, Nepali Congress earned the biggest share of its income from donations and related headings (See Table 1). However, it has not mentioned the sources of such donations. Nepali Congress General Secretary and National Assembly member, Krishna Poudel, stated that donor details were not mentioned because the donations were not in large enough amounts to meet the declaration threshold. According to Poudel, the NPR 200 paid by its 900 thousand party members every five years as membership fees is a major source of party’s income. Poudel said that every committee, depending upon its level, withholds between 15 and 40 percent of collected fees and deposits the remaining amount into the bank account of the central office, and that Central Committee officials contribute NPR 1,000 per month, while Central Committee members contribute NPR 500, members of parliament contribute NPR 10 thousand, and ministers also make specific contributions toward the party coffers. The party also receives income from Public Relations Committees across 34 countries

² Nepali Congress Constitution, 2017 BS, Section 2 (10, F); Communist Party of Nepal (Maoist Centre) Interim Constitution 2078 BS, Chapter 2- Membership; Communist Party of Nepal [Unified Marxist Leninist (CPN UML)] Constitution 2049 BS, Chapter 2 Membership; RSP Constitution 2022 Article 17.

³ Panta, Raghu. 2021. Political Party’s Ledgers Raise Questions. *Himal Khabarpatrika*. November 17. Available at <https://nepalihimal.com/article/18484>; accessed on November 6, 2024 (in Nepali).

⁴ CPN (UML). Audit Report 2022/23. Available at <https://cpnuml.org/content/aava-ka-lkha-parakashhanae-paratavathana>; accessed on November 9, 2024 (in Nepali).

⁵ Information shared by Pakhrin at the *Democracy Dialogue* event titled ‘Political Party Financing and Transparency’ organised jointly by DRCN and Martin Chautari on November 19, 2024.

⁶ Based on an interview with Adhikari on November 6, 2024.

Table 1: Sources of Income of Parties in FY 2022/23*

Details	Nepali Congress	CPN (UML)	CPN (Maoist Centre)	Rastriya Swatantra Party	Janamat Party
Total income	3,64,76, 297	8,97,22,065	3,43,85,304	6,50,17,078	3,20, 000
Membership fees	57,60,800 (15.79%) (Including levies and renewal fees)	1,21,16,418 (13.50%)	62,150 (0.18%)	4,62,31,993 (71.10%)	1,90,000 (59.37%) (Including levies and renewal fees)
Levies		1,37,22,869 (15.29%)	3,43,23,154 (99.81%) (Periodic Levies)		
Donations and Support	2,65,64,577 (72.82%)	5,06,68,178 (56.47%) (Under the special financial assistance heading)	-	1,86,25,835 (28.64%) Unconditional grant-77,810 (0.11%)	1,20,000 (37.5%)
Publication Sales	94,650 (0.25%)	2,38,700 (0.26%)	-	58,990 (0.09%)	10,000 (3.12%)
Income from Investments	38,31,270 (10.50%)				
Sale of Property, Auction	2,25,000 (0.61%)	93,80,793 (10.45%) (Property Operations)			
Other Income		35,95,107 (4.00%)		22,450 (0.03%)	

Source: Audit report of political parties.

* An attempt was made to group political parties' incomes under similar headings, resulting in only certain income headings being included. Therefore, the total across individual headings is less than the total incomes.

around the world, and 25 thousand members affiliated with these committees. Furthermore, Poudel said that during election time people who love Nepali Congress and democracy donate generously to the party.⁷

In FY 2022/23, a large portion of the CPN (Maoist Centre) income came from periodic levies (See Table 1). The party has stated that they have not taken any donations in the past two fiscal years. Dor Prasad Upadhyay, Head of Treasury and Finance Management Department, CPN (Maoist Centre), mentioned that the party's main sources of income are the levies collected from its 800 thousand members.⁸ He said, "Party members are required to pay a minimum of NPR 100 and party advisors are required to pay a minimum of NPR 50 on a monthly basis. However, people often donate based on their income level. Federal parliamentarians pay NPR 12 thousand each month." In

addition, people who have political appointments are required to pay an amount equivalent to one day's salary. However, the Political Parties Act 2017 does not allow the parties to take any money from political appointments, which is why the party has not mentioned it in its audit report.⁹ During FY 2022/23, the ECN sought clarification from CPN (UML) when it included financial contributions under the political appointment heading.¹⁰ However, *Gorkhapatra* journalist Ishwor Chandra Jha said that the ECN had not published any updates regarding the clarifications provided by CPN (UML).¹¹ While Shantimaya Tamang Pakhrin of CPN

⁹ CPN (Maoist Centre). Audit Report 2022/23. Available at: https://cdn.cpnmc.one/media/Audit_Ripotr_of_079-080.pdf; accessed on November 9, 2024 (in Nepali).

¹⁰ Gautam, Dinesh. 2023. CPN (UML) Taking Money from Political Appointments, 48 Political Parties Hide Bank Accounts. *Shilapatra*, July 14. Available at <https://shilapatra.com/detail/116669>; accessed on November 10, 2024 (in Nepali).

¹¹ Based on an interview with Jha on October 23, 2024.

⁷ Based on an interview with Poudel on November 6, 2024.

⁸ Based on an interview with Upadhyay on October 29, 2024.

(UML) said that the party has provisions for ten percent of the salary from political appointments to be paid into the party coffers¹², no such details were mentioned in the party's audit report for FY 2022/23.¹³

RSP, which was registered on July 1, 2022, has earned a major part of its income from levy and membership fees. The party takes NPR 15 thousand monthly from its parliamentarians. The party has publicly released details of its donors.¹⁴ Manish Jha, Member of the House of Representatives and Acting Spokesperson of his party, said that a majority of financial support to RSP comes from Nepalis in the diaspora.¹⁵

During FY 2022/23, Janamat Party earned most of its income from membership levies and membership renewal fees (See Table 1). The party collects NPR 1,000 from members of central and national committees, NPR 500 from province committee members, NPR 400 from district committee members, NPR 300 for municipal committee members, NPR 200 from ward committee members, and NPR 100 for renewal of active membership of the party. According to B.P Sah, General Secretary of Janamat Party, the party has 400 thousand members and levies are collected from all members and parliamentarians and elected representatives.¹⁶ Furthermore, the party has non-resident associations in 42 countries and the party receives financial support from these associations.

4. PARTY EXPENDITURES

Contesting elections and holding party conventions constitute the main expenses of political parties. Additionally, they also spend on office operation, transportation, travel, publication, maintenance, and miscellaneous expenses.

¹² Information shared by Pakhrin at the *Democracy Dialogue* event titled 'Political Party Financing and Transparency' organized jointly by DRCN and Martin Chautari on November 19, 2024.

¹³ CPN (UML). Audit Report 2022/23. Available at: <https://cpnuml.org/content/aava-ka-ikha-parakashhane-paratavathana>; accessed on November 9, 2024.

¹⁴ Rastriya Swatantra Party. Audit Report 2022/23. Available at: <https://rspnepal.org/transparency>; accessed on November 9, 2024.

¹⁵ Information shared by Jha at the *Democracy Dialogue* event titled 'Political Party Financing and Transparency' organized jointly by DRCN and Martin Chautari on November 19, 2024.

¹⁶ Based on an interview with BP Sah on November 14, 2024.

The five political parties included in the study showed the highest expenses during the elections in the fiscal year 2022/23. During the elections, the CPN (UML) spent the highest amount NPR 3,94,48,806. RSP spent NPR 15,77,784 for the elections. In the same fiscal year, the Janamat Party showed an income of NPR 3,20,000 and expenses of NPR 57,99,581 for the election (See Table 2). The Janamat Party has mentioned election expenses as a lump sum in the audit report without detailing income and sources. BP Sah, Secretary of Janamat Party, said that during the election the party publicly asked people interested in running for the provincial and federal parliaments to submit funds within the limit set by ECN. The funds thus collected were deposited into the election fund and spent, which is why such incomes and expenditures have not been included in the audit report.¹⁷ However, Goma Labh Sapkota from Mahottari, who became member of parliament from the Janamat Party under the Proportional Representation system, said that she paid around NPR 3 million to become a member of parliament.¹⁸ BP Sah said that the payment from Sapkota was not clandestine, but rather submitted after the party called for contributions during the election. Janamat Party sent a letter to Parliament Secretariat for the fourth time on October 27, 2024, to remove Sapkota from the position of MP, citing a breach of discipline.¹⁹

In comparison to other years, party incomes during election years receive additional scrutiny. Issues such as forcing business people into giving donations, creating a fearful atmosphere to collect donations, and policy decisions being influenced by donations are often discussed. However, verified details about which entrepreneur has donated how much money to which party are never to be found as political parties never make such details public. The ECN, which functions as the relevant regulatory body, also seems unable to bring the parties under legal control. However, political figures themselves say that during the elections,

¹⁷ Based on an interview with Sah on November 14, 2024.

¹⁸ Satyal, Manoj. 2024. C.K Raut Claims: Speaker stopped Goma Labh from being removed as an MP because they are relatives. *Setopati*, Available at <https://www.setopati.com/politics/343402/>; accessed on November 15, 2024 (In Nepali).

¹⁹ Nayapatrika. 2024. Fourth Letter from Janamat to Remove Sapkota; C.K Raut Complained to Speaker Ghimire. Available at: <https://www.nayapatrikadaily.com/news-details/153336/2024-11-13/संसद>; accessed on November 15, 2024 (In Nepali).

Table 2: Expenses of Parties in FY 2022/23*

Details	Nepali Congress	CPN -UML	CPN (Maoist Centre)	Rastriya Swatantra Party	Janamat Party
Total expenses	7,99,95,121	11,60,07,058	3,81,60,369	5,08,79,651	1,25,21,837
Election expense	3,88,57,993 (48.57%)	3,94,48,806 (34.00%)	2,60,66,949 (68.30%)	15,77,784 (3.10%)	57,92,581 (46.25%)
Employee expenses	1,20,04,500 (15.00%)	47,84,200 (4.12%)	55,24,290 (14.48%)	75,51,906 (14.84%)	3,26,510 (2.60%)
Publication expenses	8,29,045 (1.03%)	40,62,861 (3.50%)	-	-	19,85,910 (15.85%)
Capital expenditure		-	11,08,018 (2.90%)	1,48,48,986 (29.18%)	9,20,485 (7.34%)
Training expense	-	-	13,59,994 (3.56%)	42,55,763 (8.36%)	4,46,110 (3.56%)
Convention and conference expenses	-	-	-	11,32,864 (2.22%)	4,03,690 (3.22%)

Source: Audit report of political parties.

*Only few expenditure headings have been included to compare expenses between different political parties, and as such the total expenditure and expenditure under different headings do not match.

businesspersons visit the homes of influential leaders with briefcases full of money to support them.²⁰

Krishna Paudel, Chief Secretary of Nepali Congress, said that apart from election times, the largest regular expense of the Nepali Congress is spent on the salaries of its 28 office employees.²¹ The CPN-UML operates its party office in the Tulsi Lal Memorial Foundation building located in Chyasal, Lalitpur. Rajendra Shrestha, Chief Accountant for CPN-UML, said that using the building costs NPR 400 thousand per month, and since maintenance work is ongoing, most of the expenses are on physical infrastructure.²² Manish Jha, Acting Spokesperson for Rastriya Swatantra Party, said that the Party spends NPR 400 thousand per month on office rents. He mentioned that the Party has started the practice of not using *khada* and garlands in programs and opting for vegetarian meals and snacks in order to reduce expenses.²³

²⁰ Panta, Raghuj. 2021. Political Party's Ledgers Raise Questions. *Himal Khabarpatrika*, November 17. Available at: <https://nepalihimal.com/article/18484>; accessed on November 6, 2024 (In Nepali).

²¹ Based on an interview with Poudel on November 6, 2024.

²² Based on an interview with Shrestha on November 6, 2024.

²³ Information shared by Jha at the *Democracy Dialogue* event titled 'Political Party Financing and Transparency' organized jointly by DRCN and Martin Chautari on November 19, 2024.

5. AUDIT REPORTS

More than two decades have passed since laws regarding political parties conducting and releasing their audit on time, along with provisions for punishments ranging from fines to party dissolutions, were first formulated. When King Gyanendra took power into his hands shortly after the formulation of Political Parties Act 2002, protest movements became the priority of the political parties. Other offices that had regulatory roles did not pay attention to issues of financial transactions and transparency of political parties either. Even after the success of the People's Movement in 2006, political parties did not work towards publishing their audit reports. The ECN had to conduct a press conference on January 10, 2012, regarding this issue.²⁴ It was only after the press conference that the 25 political parties, including three biggest parties in the Constituent Assembly – CPN (Maoist Centre), CPN (UML), and Nepali Congress – submitted their complete audit reports on time to the ECN. Other 11 political parties submitted incomplete audit reports, and an additional 30 political parties failed to submit their audit reports altogether. At that time, political parties submitted

²⁴ Martin Chautari. 2012. *Political Sphere and Civil Rights*. Kathmandu: Martin Chautari. Available at: <https://martinchautari.org.np/storage/files/policy-paper6-nep.pdf>; accessed on November 5, 2024 (in Nepali).

audit reports from FY 2007/08 to FY 2010/11, all at once.²⁵ In these submissions, the legal provision requiring parties to mention the names, addresses, and occupations of donors who gave more than NPR 25 thousand to the party was not followed. Furthermore, the audit reports only stated the lump sum and did not have additional financial details. While the ECN has the power to request clarifications and hand out punishments to political parties that do not follow the legal requirements, it did not take any action during that period.²⁶

The ECN has had to remind the political parties to submit and make public the audit reports in a timely manner. The ECN has punished parties with fines and suspensions. In FY 2021/22, the ECN published a directive asking 82 political parties which had submitted their audit reports to release them publicly and notify the Commission about it.²⁷ In FY 2022/23, the ECN had also suspended 44 political parties that failed to conduct and submit financial audits for three consecutive years. With increasing number of complaints being received regarding the lack of financial transparency on the part of the political parties, in 2021, the ECN created a Financial Statement Framework based on the legal requirements. Although the Framework was created with the aim of making financial audits similar across all parties, the political parties have not completely followed the given Framework. For instance, the Political Parties Act 2017 states that donations from any individual or organization amounting to more than NPR 25 thousand needs to be made only through bank transactions, and the ECN framework asks for details about the donors. However, in audit reports for FY 2021/22 and 2022/23, most political parties have included these amounts as lump sums.

6. TRANSPARENCY

On October 11, 2024, Min Bahadur Gurung, a prominent businessman who is facing charges of tax evasion, revenue

²⁵ BBC Nepali. 2012. *Major Income Sources of Political Parties Unclear*. February 8. Available at: https://www.bbc.com/nepali/news/2012/02/120208_parties_funds; accessed on November 10, 2024 (in Nepali).

²⁶ Ibid.

²⁷ Election Commission Nepal. 2023. Public Notice Regarding Audit Report. Available at: https://election.gov.np/admin_public/storage/Political%20Party/लेखापरीक्षण%20विवरण%20सार्वजनिक%20गर्ने%20सूचना.pdf; accessed on November 7, 2024 (in Nepali).

leakage, and appropriation of public land, donated 10 ropani and 14 aana of land to the Communist Party of Nepal (UML) for the construction of its party headquarters. During the foundation stone laying ceremony, Mr. Gurung announced that he would personally build the office and hand it over to the CPN (UML) within a year.²⁸ At a time when questions were being raised about transparency in the income and expenditures, this event drew criticism within the party, with critics pointing to a lack of internal transparency in both the process of acquiring land from Gurung and construction of the party office.²⁹ This incident reignited debates about the financial transparency of the political parties.

Political parties have been accused of not disclosing the details of the funds they receive through donations. Although the law requires disclosure of details about the donors who contribute more than NPR 25 thousand, parties, including the Nepali Congress and the CPN (UML), who have earned millions of rupees from donations and support in 2023/2024, have not disclosed details of their sources.

The leaders of the bigger political parties accuse each other of conducting account audits to mask their real assets and incomes. On September 5, 2023, speaking at a meeting of the Public Accounts Committee, Yogesh Kumar Bhattarai, a CPN (UML) Member of Parliament, said that the sources of income and expenditure of all national parties should be scrutinized.³⁰ The party leaders themselves admit that the parties have not been transparent, especially during elections. Senior political leaders have publicly admitted that real expenditures during elections have been much higher while they have only submitted expenditure details within the limits set by the Election Commission.³¹

²⁸ Gyawali, Krishna. 2024. The Foundations of Good Governance Affected by UML's Donation Acceptance. *OnlineKhabar*, October 7. Available at https://www.onlinekhabar.com/2024/10/155_4006/the-foundation-of-good-governance-shaken-by-the-foundation-stone-of-uml-headquarters; accessed on November 7, 2024 (in Nepali).

²⁹ Kantipur. 2024. 28 Million Voters Were Insulted By Allowing The Businessman To Build The Party Building: Binda Pandey. October 14. Available at <https://ekantipur.com/news/2024/10/14/28-million-voters-were-insulted-by-allowing-the-businessman-to-build-the-party-building-vinda-pandey-08-59.html>; accessed on November 8, 2024 (in Nepali).

³⁰ EKagaj. 2023. Financial Transparency of National Political Parties Should Also Be Investigated. August 28. Available at: <https://www.ekagaj.com/article/politics/151246/>; accessed on November 10, 2024 (in Nepali).

³¹ Puri, Achyut. 2022. The legitimate cost in the elections is 45 billion, how much is unseen cost? *Onlinekhabar*, May 11. Available at <https://>

Having doubts about the audit report submitted by the parties for FY 2021/022, the Election Commission of Nepal wrote to the Office of the Auditor General to deploy a team of experts to examine the audits.³² For the first time in history, the Office of the Auditor General (OAG) examined the audits of the political parties for FY 2022/023. An expert team consisting of five officials, including the Director of the Office, conducted the examination. During the examination, political parties, including the CPN (UML), CPN (Maoist Center), and others, delayed submitting the necessary documentation to the Election Commission to verify their audits.³³ In its report, the OAG pointed out that some parties submitted the audit report without an Auditor's Opinion, and some submitted the report with Auditor's Opinions, but did not verify the financial statements.³⁴

Although there is enough room to doubt the reports of income and expenditure, political parties submit their reports adhering to the formal process, so the ECN has to accept them as 'true', says Dinesh Thapaliya, the Chief Election Commissioner.³⁵ He added, "We can't have a situation where the parties continue to hide details and the ECN tries to search for them. This is why ECN has been trying to get the state to provide budgets to the political parties, which the Office of the Auditor General can then audit. By doing this, the report will have to be submitted to the President and it will be debated in the parliament to make the political parties accountable. In a democracy, when parties are financially opaque, politics tends to be criminalized. So it is necessary for the parties to become honest themselves."

A lack of financial transparency also increases the possibility of donor influence and vested interests becoming active within parties. Political parties have also been accused of accepting money from businesspersons and being accountable to business houses rather than to the people.

www.onlinekhabar.com/2022/05/1124025/चुनावमा-वैधानिक-खर्च-४५-अ; accessed on November 10, 2024 (in Nepali).

³² Jha, Ishwor Chandra. 2023. Letter Sent To Office of the Auditor General for Expert Consultation. *Gorkhapatra*, May 23. Available at <https://gorkhapatraonline.com/news/65114>; accessed on November 10, 2024 (in Nepali).

³³ *ibid.*

³⁴ Gautam, Dinesh. 2023. CPN (UML) Taking Money from Political Appointments that should not have been Taken, 48 parties hid bank accounts. *Shilapatra*, July 14. Available at <https://shilapatra.com/detail/116669>; accessed on November 10, 2024 (in Nepali).

³⁵ Based on an interview with Thapaliya on November 14, 2024.

Gopinath Mainali, former Secretary of the Government of Nepal, commented that the acceptance of land donations from businessman Min Bahadur Gurung by CPN (UML) is an indication of the growing influence of money in politics.³⁶ There are many examples of laws and regulations being made in the interest of such businesspersons due to the collusion between political party leaders and businesspersons.³⁷

Various studies have also shown that the financial management of the parties is not transparent. The parties receive financial support from businesspersons, activists, donations, extortions, party-based NGOs, donors, privatization of public assets, and fees through promotion of office bearers, etc., but the party's audit reports show only membership fees as the primary source of income.³⁸ When questions are raised about the financial transparency of the political parties leading the country, the parties do not pay adequate attention to this issue.

After the controversial entrepreneur Gurung donated land to CPN (UML), senior leaders of the party who criticized the move, and questioned why the party had accepted the donation without discussing the matter within the party, were asked for clarifications as a form of sanctions against them.³⁹ Political parties do not want to send the actual details of their income, expenditure and donations to the regulatory authorities, and do not make such details public either. The parties don't make such details public also because they accept donations illegally. Therefore, the party's financial statements are opaque and incomplete.⁴⁰

³⁶ Gyawali, Krishna. 2024. The Foundations of Good Governance Affected by UML's Donation Acceptance. *OnlineKhabar*, October 7. Available at https://www.onlinekhabar.com/2024/10/155_4006/the-foundation-of-good-governance-shaken-by-the-foundation-stone-of-uml-headquarters; accessed on November 7, 2024 (in Nepali).

³⁷ Ramesh Kumar. 2021. Parties in the Swamp of Money. *HimalKhabar*, December 1. Available at <https://www.himalkhabar.com/news/126883>; accessed on November 10, 2024 (in Nepali).

³⁸ Policy Research Academy. 2024. Role of Political Parties for Institutional Development of Democracy. Research Brief No. 14. Available at <https://kms.pri.gov.np/dams/pages/view.php?ref=23202&k=733fcf03f6#>; accessed on November 10, 2024 (in Nepali).

³⁹ Onlinekhabar. 2024. Clarifications from Pandey and Timsena: There is no Need to Take Action When it Comes to Increasing UML's Popularity. Available at https://www.onlinekhabar.com/2024/10/1559_837/explanation-of-pandey-and-timsena-there-is-no-need-to-take-action-when-talking-about-increasing-the-weight-of-uml; accessed on November 5, 2024 (in Nepali).

⁴⁰ Bhattarai, Yagya Prasad. 2023. Parties Transparent in their Income and Expenditure are under the Influence of Vested Interests and Donors. *Shilapatra*. Available at <https://shilapatra.com/detail/129152>; accessed on November 5, 2024 (in Nepali).

Meanwhile, political party leaders claim that their party's income and expenditures are transparent. Krishna Poudel, Chief Secretary of the Nepali Congress Office, argued that since all transactions above NPR 5 thousand are carried out through banks, the income and expenditure of the party are transparent.⁴¹ According to him, all purchases exceeding NPR 5 thousand are done through public bids which are selected after careful evaluation by a committee comprising six secretaries, one chief secretary, and an accounting staff. He said, "We pay special attention to ensure that there are no irregularities in printing flags and pamphlets during the elections."

Similarly, Bhishma Adhikari, Secretary of the Central Finance and Funds Management Department of the CPN (UML), stated that all income and expenditure details are recorded daily using an online accounting software.⁴² He explained, "A 25-member Accounting Commission oversees the central, provincial, district, and municipal levels. The Commission also provides guidance on managing the income and expenditures during party conventions and programs."

According to Dor Prasad Upadhyay, head of the Treasury and Finance Management Department of the CPN (Maoist Center), bills with Permanent Account Numbers (PAN) have been made mandatory for financial transactions.⁴³ Upadhyay explained that all transactions, including employee salaries, are done through banks, and bids are sought for all transactions that exceed NPR 100 thousand. He said that the 25-member Central Accounts Commission conducts audits of party offices across all seven provinces.

ultimately increases distrust in the leadership.⁴⁴ Therefore, it is very important for parties to be financially transparent. Since expenses related to the elections are seen as the main factor in the parties not being completely transparent, the role of political parties, the government and the Election Commission seems necessary to solve this problem.

The Election Commission's lack of a proactive approach is also partly responsible for the weak audit of political party accounts. According to Padmini Pradhananga, former chairperson of Transparency International Nepal, the Election Commission has not been able to present itself with strictness before the major political parties because they share political appointments in the Election Commission.⁴⁵ Ila Sharma, Chairperson of the High-Level Law Drafting Committee and a former election commissioner, believes that there should be a discussion on making strict provisions regarding the annual income and expenditure statements of the parties.⁴⁶

Various alternatives are being put forward to make political parties transparent. Some argue that the candidate-centric electoral system, which is very expensive, has been a primary reason for political parties to become non-transparent, and therefore argue for reforms to the current electoral system. This argument has been put forth by the CPN (Maoist Centre). Dor Prasad Upadhyay, head of CPN (Maoist Centre) Treasury and Financial Management Department, said that a fully proportional electoral system would reduce the pressure on candidates to spend more.⁴⁷ Another argument put forth by some others is that the state should provide election expenses to political parties. Supporters of this system claim that it is suited to creating equal competition among political parties in elections, reducing the dependence on donors, and eliminating corruption.⁴⁸ The supporters of this argument claim that after receiving direct expenses from the government,

⁴⁴ Ghimire, Dipesh. 2015. Non-transparent Funds of Political Parties and Corruption. *Nagarik Daily*, September 18. Available at: <https://nagariknews.nagariknetwork.com/opinion/83876-1442537797.html>; accessed on November 10, 2024 (in Nepali).

⁴⁵ Based on an interview with Pradhananga on November 13, 2024.

⁴⁶ Sharma, Ila. 2024. The Question of Financial Transparency of Political Parties. *Kantipur*, February 16. Available at: <https://ekantipur.com/opinion/2024/02/16/the-question-of-financial-transparency-of-parties-16-54.html>; accessed on November 4, 2024 (in Nepali).

⁴⁷ Based on an interview with Upadhyay on October 29, 2024.

⁴⁸ Pokharel, Bhojraj. 2024. The State Should Fund the Political Parties for Elections, What Does it Mean? *Onlinekhabar*, May 17. Available at: <https://www.onlinekhabar.com/2024/05/1480978/what-does-it-mean->

7. ROLE OF POLITICAL PARTIES, GOVERNMENT, AND THE ELECTION COMMISSION

Transparency within political parties is directly linked to good governance and a corruption-free governance system. The accountability of the political party towards the people is also linked to this. When financial details of a political party are opaque, corruption flourishes within the party, and this

⁴¹ Based on an interview with Paudel on November 7, 2024.

⁴² Based on an interview with Adhikari on November 6, 2024.

⁴³ Based on an interview with Upadhyay on October 29, 2024.

the Auditor General will be responsible for auditing party accounts, which will make the financial transactions of the parties more transparent. Journalist Amit Dhakal believes that Nepal should adopt this strategy, which is the practice in nearly 110 countries around the world. He is of the opinion that the existing Political Parties Act, 2017, should be amended to make the parties transparent.⁴⁹

8. CONCLUSION

Nepali political parties have been criticized for their lack of financial transparency. Legal provisions requiring political parties to audit their income and expenditure annually, submit a report to the Election Commission, and make it public, are intended to promote transparency and accountability. However, this process has often been reduced to a mere formality due to weak enforcement. The absence of accurate details in the official documents prepared by these parties has further eroded public trust in them. Despite this, public interest in the financial activities of political parties remains relatively low. Consequently,

[that-the-state-gives-money-to-the-parties-to-fight-the-elections](#); accessed on November 10, 2024 (in Nepali).

⁴⁹ Dhakal, Amit. 2024. Question for UML Secretariat- Creating a better environment through leadership or taking donations worth billions? *Setopati*, October 20. Available at <https://www.setopati.com/opinion/341916>; accessed on November 5, 2024 (in Nepali).

parties have not faced strong criticism or pressure regarding the transparency of their income and expenditure.

Political parties play a crucial role in both the legislative and the executive branches of government. When the financial discipline of these parties is weak, it not only sends a negative message but also raises questions about their integrity in performing their legislative and executive responsibilities. A lack of financial discipline increases the risk of undue influence from business people, donors, and interest groups, which ultimately fosters corruption.

For good governance, accountability, and transparency in the country, it is essential that political parties ensure transparency in their income and expenditure. However, such transparency is unattainable unless parties are fully accountable and honest. Parties often hesitate to disclose their financial details because they frequently exceed the expenditure limits set by the Election Commission. A joint effort by the Election Commission, political parties, the government, and citizens is necessary to control election expenditure. Various strategies have been proposed to reduce party expenditure. For the Nepali democracy to grow stronger, it is vital to create an environment where parties can confidently disclose their incomes and expenditure by adopting appropriate measures.



Founded in 2014, Democracy Resource Center Nepal (DRCN) is a national non-governmental organization dedicated to the study and research of social and political issues. Since its establishment, DRCN has consistently undertaken in-depth and evidence-based research into various aspects of Nepal's transitional political landscape, including the implementation of federalism, local-level restructuring, and election observation. The outcomes of these studies are shared with stakeholders, fostering discussions and debates. DRCN's overarching objective revolves around advancing efficient governance within Nepal's federal framework through these rigorous research endeavors and thoughtful discourse.



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