

Study on the Election Campaign Finance

Local, Provincial and Federal
Elections in Nepal, 2017



निर्वाचन पर्यवेक्षण समिति, नेपाल
Election Observation Committee Nepal(EOC- Nepal)

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(EOC-Nepal)*

Foreword

Since its inception in 2013, the Election Observation Committee Nepal (EOC Nepal) has expanded its role from an election observation agency to an institute dedicated to protect the rights of voters and candidates. In this endeavor, we have been involved in activities beyond deploying election observers at polling booths and filing election observation report indicating whether the election was free and fair.

It has been established that the rights of the voters and the candidates can be protected only when the political parties are accountable to their voters and transparent in their activities, including their financial transactions. There is a general consensus that the political parties often ignore and/or forget the promises they make during the election campaign soon after the election is over. As far as the transparency is concerned, they tend to be selective and tardy in presenting mandatory records of financial transactions.

The soaring cost of elections is also a cause for concern to the government, civil society, and the public at large. It has been acknowledged by many that money plays an ever increasing role in the selection of candidates, in the candidates' ability to contest the election, and in the election outcomes. EOC Nepal strongly believes that the flow of money can adversely affect not only the election results but also violate the rights of voters and candidates. The lack of unbiased and reliable empirical evidence makes it difficult to initiate a discourse on the role that money plays in elections.

This study is a step towards filling the gap of knowledge on election campaign finance in Nepal. It estimates the cost incurred by the candidates and the nation during the elections in 2017, namely the local, provincial, and federal elections. As mentioned in the report, we do not claim that this is a comprehensive study on election campaign finance in the country; however, we believe it provides some information on cost of the elections to the country.

Pradip Pokharel
Chairperson
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Executive Summary

Elections are the foundation of any democracy as they allow citizens to actively engage in the democratic process of choosing their government representatives from competing representatives of political parties and ideologies. In 2017, Nepal successfully conducted the first set of elections under the new political system and moved towards strengthening and consolidating democracy in the country. The elections for the three levels of government, namely the local, provincial and federal elections were held under the new federal system. Local election, which was conducted after more than 20 years, was held in three phases for governments in the urban and rural municipalities. The legislative elections were held for the federal government and seven provincial assemblies. There is a rising concern on the high election expenditure incurred by candidates and their supporters and the Government during the elections. The high cost of the election is not only an opportunity cost for a developing country like Nepal and but also calls into question the integrity of the electoral democracy.

Election Observation Committee Nepal (EOC-Nepal) conducted a nine-month long study on the campaign finance for the aforementioned elections. The objective of this study is to estimate the amount of money spent during the election by the different actors, including candidates and their supporters, the political parties, and the Government to estimate the total election expense incurred by the nation in 2017 and to assess the regulatory framework governing election campaign finance in Nepal.

The study was conducted in two phases. In the first phase, a mixed methods study was conducted in four districts¹ for the local elections. For this study, 216 candidates from urban and rural municipalities, and members of the civil society were interviewed. Individual case study method was adopted to estimate the cost incurred in the local elections. A total of 24 case studies were prepared. Information collected from formal and informal group meetings and individual consultations are used to fine tune the information generated through the case studies to estimate the total expenditures incurred by the candidates. Secondary data, including audited financial reports and data published by the Election Commission, was used also to determine the expenditure incurred by the Government and political parties.

In the second phase, a mixed methods study was conducted in 31 districts² for the study of the provincial and federal elections. For this study, 189 candidates were interviewed to estimate the cost incurred by the candidates for provincial and federal elections. The information collected from the interviews is adjusted with the information received from the area-specific individual and group meetings with the civil society members. Data published by the Election Commission was also used to determine the Government expenditure for the elections.

¹ Surveys were conducted in Morang, Kathmandu, Dang and Jajarkot.

² Surveys were conducted in Ilam, Jhapa, Panchthar, Dhankuta, Bhojpur, Morang, Okhaldhunga, Sunsari, Siraha, Shaptari, Dhanusha, Sindhuli, Kathmandu, Makwanpur, Nawalparasi, Kaski, Rupandehi, Kapilvastu, Syanja, Palpa, Dang, Salyan, Rukum, Rolpa, Surkhet, Jajarkot, Doti, Dadeldhura, Baitadi, Kanchanpur and Kailali

Major findings:

Money played a significant role in the elections in 2017. The data shows that candidates spent more money on the elections than political parties, and the Government combined.

- i) **Local elections:** It is estimated that Rs. 6,942 Crores was spent on the elections. Candidates and their supporters spent Rs. 5096 Crores while the Government spent Rs. 1,846 Crores. The average cost per voter stands Rs.4,923.
- ii) **Provincial and Federal elections:** It is estimated that Rs. 6,221 Crores was spent on these elections. Candidates and their supporters spent Rs. 4,595 Crores while the Government spent a lump sum of Rs. 1,626 Crores. Candidates and their supporter spent Rs. 2,632 Crores for the provincial election and Rs. 1,963 Crores for the federal election. The cost per voter for these elections stands at Rs. 4,040.
- iii) **Total expenditure:** It is estimated that a total of Rs. 13,163 Crores was spent on the three levels of elections. Candidates and their supporters spent Rs. 9,691 Crores while the Government spent Rs. 3,472 Crores.

The high spending on elections has a negative influence on the electoral integrity in Nepal. The study shows that electoral integrity is called into question because of unequal access to funds among candidates, high influence of financiers, lack of transparency of financial accounts and lack of accountability in the election cycle. Further, it was noted that the probability of getting elected increases with an increase in campaign expenditure. The data shows that the candidates that spent more money on the election were more likely to win the election. The average expenditure made by the winning candidates in the federal election is higher (Rs. 2.13 Crores) than the average expenditure made by the runner-up candidate (Rs. 1.49 Crores) in the federal elections. This trend can facilitate elite capture of election results and access to political decisions.

The Election Commission has election codes of conduct to ensure electoral integrity; however, the election codes of conduct were not effectively enforced. Although, the election codes of conduct regulate spending by candidates, the study shows that most candidates spend well beyond the government ceiling. The silence period, which restricts canvassing 48 hours prior to the election date, was violated by the majority of the candidates. A stronger mechanism for the regulatory environment will have positive impact on the electoral integrity in Nepal.

Recommendation:

The regulation of elections falls primarily within the jurisdiction of the Election Commission; however, other stakeholders, namely the Government, political parties, the private sector, the candidates, and the voters can equally contribute to ensuring that elections are free and fair for all. The study provides recommendations to the all the aforementioned stakeholders to maintain and enhance the electoral integrity. Despite this, the following are major recommendations of the study.

- i) A more effective voter education, which makes the voters aware of their rights and responsibilities, will enable the voters to select candidates by actively participating in the electoral process. Effective voter education will also help in minimizing the prevalence of invalid votes and upholding the election codes of conduct;
- ii) Private sector contributions should be routed through pooled contributions maintain transparency and accountability of the corporate sector and political parties. Corporate donations to political parties should be given tax incentives, which will also be an indirect subsidy from the Government to the election campaign finance; and
- iii) The job description of the temporary police should be increased to include observing and monitoring of the violation of the election codes of conduct in and around the area that they are deputed.


1. Introduction

Free and fair elections are the corner stone of a functional democracy as they allow citizens to actively engage in the democratic process of choosing their government representatives from competing representatives of political parties and ideologies. Elections require candidates to campaign in their constituency to publicly share their goals and commitments towards society at large and their constituency in particular. Candidates either fund their campaigning on their own or raise funds from different sources, including governments, political parties, individuals and institutions. The money used to finance campaign activities is called campaign finance.

The IDEA (2014) study, a comprehensive study on international practices in campaign finance regulations, points out that it is important that candidates have access to money with no strings attached to ensure that elections are a vibrant democratic process. Money can negatively influence electoral democracy, candidates, their policies and programs and even their performance in the election. Candidates that are closely tied to financiers will be less accountable to their constituency. Especially when elections are expensive, access to funds can limit who can run for election and skew the results of the election.

It is also important to note that election finance is an opportunity cost, especially in a developing country like Nepal. The amount of money that is spent on the election could have been used for socio-economic and infrastructure development activities. The money that the government spends on elections could be used for healthcare, education or infrastructures for example, with lasting effects on the country's development. Similarly, money spent by individuals could also be used for investments with higher return and/or social welfare.

In order to assess the extent to which electoral democracy has been upheld, Norris, Frank and Coma (2013) have developed the Electoral Integrity Framework (EIF). This framework provides assessment tools for various aspects of electoral integrity. Electoral integrity may be defined as the extent to which the electoral process or outcome upholds democratic values. Although, the EIF assesses various aspects of the election, campaign finance can be evaluated using the “campaign finance” section of the Electoral Integrity Framework which measures electoral integrity through the following: i) candidate's ability to access public subsidies; ii) candidate's ability to access political donations; iii) transparency of financial accounts; iv) influence of financiers; and v) improper use of state resources.



Funded by The Asia Foundation, Election Observation Committee Nepal (EOC-Nepal) conducted a nine-month long study to assess the election campaign finances for the local, provincial and federal elections held in Nepal in 2017. Local election, which was held after more than 20 years, is the election for governments in the municipal assemblies and village assemblies. The legislative elections were held for the federal parliament, along with the first provincial elections for the seven provincial assemblies.

This report presents the study on campaign finance of the aforementioned elections. The first section the report provides the rationale of the study. The second section provides the objectives of the study. The third section provides the methodology of the study. The fourth section presents the existing literature on the regulation of campaign finance and its impact on electoral integrity. The fifth section discusses Nepal's regulatory framework for campaign finance. The sixth section provides limitations of the study. The seventh section provides the findings of the study on the Local Election 2017. The eighth section provides the findings of the study on the Federal and Provincial elections 2017. The ninth section discusses the findings of the study as per the Electoral Integrity Framework. Finally, the report draws conclusions based on the findings and provides recommendations.

2. Objectives

The main objective of this study was to estimate the amount of money spent during the election, specifically to:

- i) Assess the regulatory framework governing election campaign finance in Nepal and its ability to support electoral integrity; and
- ii) Understand and estimate the election expenses incurred by the different actors, namely the candidates and their supporters, the political parties and the government agencies to estimate the total election expense incurred by the nation in 2017.

3. Literature Review

A review of global practices was conducted to determine the impact of different laws enacted by countries to ensure electoral integrity. Funding for political parties are of two types: to either support the administrative expense of the parties to strengthen their institutional capacity or to support election campaign finance. Funds for elections come from three main sources, namely public funding (from the government), private funding (from individual and institutional supporters of the candidates/ parties) and party's own funding (from the party's internal sources). The following literature review provides an overview of the global practices regarding sources of funds for election campaigns.

3.1 Public Sources of Funding

According to Falguera, Jones, & Ohman (2014), governments provide funds- either directly or indirectly- to political parties for three key reasons: i) to allow “political forces” to reach out to their constituency to ensure that there is a wide variety of choices in terms of politicians and policies; ii) to level the playing field for all political parties; and iii) to encourage political parties to abide by the rules by presenting it as incentives. The impact of public funding is based on “who should have the right to receive [public funding] (eligibility threshold)” and “how it should be distributed among those who are eligible (allocation criteria)”. Both these criteria have an impact on the electoral integrity through a candidate's ability to access public funds.

Studies conducted over the years have provided some evidence on the advantages of political parties being funded from state coffers. Ikstens et al. (2002) argue that public funds can be important in the survival of new parties because they have the least access to other sources of funds. Bardwell (2003) also concludes that public funding effectively favors the opposition and make elections more competitive. Also, he asserts that candidates, including opposition and incumbents, who receive state funding spend less than those who do not. It has equally been argued that public funding may lead to a slight diversification of the party system, when the alternative is that governing parties alone benefit highly from state resources paid in the form of patronage opportunities and corruption (van Biezen and Kopecky, 2007). State funding is important to support those candidates who do not represent the mainstream ideologies and may not be able to raise the necessary funds to meet their campaign expenditures, such as women and disadvantaged and marginalized groups. It is also important to note that when public funds support in the development of electoral-professional organizations, parties are less dependent on members for financing or for free campaign labour (Katz and Mair, 1995).

Although public funding is a relatively new policy in most countries- it was first introduced in Uruguay in the 1920s (Scarrow, 2007) - many countries were quick to adopt it (Austin and Tjernstrom, 2003). The public fund given to political parties are spent on election campaigns,

ongoing political party activities, and strengthening intra-party institutions. Falguera, Jones, & Ohman (IDEA, 2014) argue that most of the fund granted to parties is spent on ongoing party activities and election campaign; however, many countries impose a ban on spending public fund on election campaign.

The extent of public funding provided to candidates varies from country to country; however, in Germany and many of the new democracies of Central Europe, public funding constitutes a large share of the income for parties and election campaigns (van Biezen and Kopecky, 2001). In order to level the playing field in elections, parties in Germany that secured as little as 0.5% of the votes receive state funding for election campaigns (Kommers, 2006). In Europe, public funding is a significant source of funding to parties as it accounts for an average of 67% of the total income of political parties (IDEA, 2014). In Spain, Belgium, Italy and Portugal, public funding accounts for over 80% of total party income. In Slovakia, public funding is practically the only source of income for political parties (Stefanick, 2015). In Russia, with the introduction of public funding to political parties, political parties are no longer dependent on private donors, who enjoyed undue influence in the government in return for their financial support to the parties (Russell, 2015). Indonesia and Turkey show that public funding of parties and elections do not necessarily decrease the illicit funding of elections campaigns especially when the amount of public funding is low in relation to the exponentially increasing election expenditure (Mietzner, 2015).

Countries in Africa on the other hand lag behind their counterparts in other regions of the world in the proportion of countries that have public funding provisions (Ohman, 1999). Research has established that, as of the beginning of 2002, only 14 African countries were known to fund political parties directly, with or without legislation (Austin and Tjernstrom, 2003). Of this, only four countries provided sizeable enough funds to make a difference to the operation of the opposition parties. This alludes to the fact that the amount of funds received also impacts the extent of electoral integrity that public funding has.

In addition to directly funding parties, some governments provide indirect funding to political parties in the form of media free, subsidized access in public broadcasting or tax relief for parties/candidates or their donors, which is the most common form of indirect funding. The advantage of indirect public funding over direct support is that it is easier to control how the funds are used, and there is normally less burden on the taxpayer (IDEA, 2014). Tax exemption encourages incentive structures for small but broad-based donations. Without tax exemption, political parties in Indonesia tend to focus on large oligarchs for illicit funding, creating an unhealthy nexus between politicians and businesses (Mietzner, 2015). Subsidized or free media access though beneficial may not have the desired impact on leveling the playing field in countries where media penetration is low and other forms of canvassing such as rallies and door to door visits are more popular.

In some cases, elected officials give a portion of their money to their party. Deducting money from the salaries of elected officials who belong to a party is, in effect, a form of indirect public funding, since the salaries of elected officials are paid from the state budget. In Uganda,

opposition parties get a significant share of their funding from their elected officials, who contribute a portion of their salary to the party. This practice has also been reported in countries such as Botswana, Lesotho, Nigeria, South Africa and Zimbabwe (IDEA, 2014). Collecting funds from elected officials is generally prohibited in Latin America but several countries still use it. In Argentina, the Radical Civic Union Party collected 40% of its income from payroll deductions. In Bolivia, in the past two elections, parliamentarians contributed 40% of their last two salaries to the party. In Brazil, payroll deduction is illegal and unconstitutional (IDEA, 2014). Taxes on salaries of MPs are important sources of incomes of political parties in many of the European countries. Political parties in Germany and Austria require MPs to contribute to their parties from their salaries. Such contribution requirements are highest in France and Italy; i.e. 22.9% (Bolleyer, 2014). Taxes on the salaries of MPs are also considered to be a vital source of income in many of the democratic countries.

3.2 Party's Own Sources of Funding

In addition to public funding, parties and election campaigns are also financed by the party's own funds. The most common sources of the party's internal source of funds are party membership dues and profit of party-owned businesses (JABE, 2011). There are contradictory assessments of the impact of the party's own funds on electoral integrity. Membership dues can be seen as allowing democratic engagement and grass-root ownership of the political parties (JABE, 2011). In Asia and Africa, where party membership is seen as a privilege given by parties rather than a choice of citizens, party membership dues are not as significant (IDEA, 2014). In Ghana for example, party membership is generally insignificant. In Kenya, rather than support the parties, the public expect the parties to give them handouts if politicians want their support (IDEA 2014). Additionally, decreasing party memberships in older democracies during the last few decades, and increases in public funding, have also led to a gradual decline in membership dues as a source of party income (IDEA, 2014).

There are instances where membership fees are still an important source of income for parties. In Ukraine and Hungary, where there is no upper limit to membership fees, therefore, parties may use membership fees to bypass donation limits or disclosure requirements (IDEA, 2014). Political parties in countries like Ireland, Germany and the Netherlands still rely heavily on membership fees. In Ireland and Germany, over one-third of total party income is derived from membership fees. In the Netherlands in 2000, membership fees accounted for over 45% of total party income (IDEA, 2014). In many other countries, membership dues make up a small percentage of the total income of the party. In India, the total income of parties for the period 2007/08–2010/11 shows a minor role of membership dues (Times of India, 2012) in the party's funds. Similarly, in Bulgaria, contributions made through membership fees are relatively small: it represented 14% and 11% of all revenues in 2001/2 and 2003 respectively. The largest categories of total revenues have been from donations and state subsidies in Bulgaria (Kostadinova, 2007).

Funding from the party's commercial activities is considered to be against electoral integrity. Some studies argue that if political parties become commercial actors, it increases the risk of

conflicts of interest and blurs the line between political and commercial interests. Malaysia is one of the few countries that allow parties to own businesses. Because the Barisan Nasional, the biggest party in Malaysia, controls electronic media- TV and radio- they are able to show the opposition party in a negative light (Gomez, 2012). In Germany, parties are treated as private entities and allowed to raise money to finance activities that are unrelated to elections. Any spending of the party's own finances in elections however are strictly monitored (Kommers, 2006). In Ethiopia and Kenya, political parties are explicitly prohibited from engaging in commercial activities. In Sierra Leone and Mozambique, this practice is not directly banned, but is not included among the approved sources of income for parties (IDEA, 2014).

Another source of party funding that negatively impacts electoral integrity is the private resources of the party leader or the national party leadership as it gives undue influence to the leadership of the party. In Zambia, it has been argued that the burden of fundraising for campaigning falls on the top leadership structures of the party. In Uganda, the most significant form of funding comes from the leadership; party leadership raised 21% of the total income of the party, putting it ahead of membership dues, which stood at 15% (IDEA, 2014). In Mexico, former Vice-president Vicente Fox was called the 'financial asset' of Accion Nacional party. In Colombia in 2006, most of the money collected by Colombia Democratica was a loan that the party leaders, Mario Uribe and Jose Gonzalo Gutierrez guaranteed with their personal assets (IDEA, 2014).

3.3 Private Sources of Funding

Private funding comes in the form of donations from different entities, including corporations, individual supporters, trade unions etc. In order to level the playing field and combat corruption to uphold electoral integrity, many countries regulate or ban donations from certain sources. Ben-Bassat and Dahan (2015) report that many countries ban donations from sources such as corporations and unions and place ceilings on private contributions. The rationale behind the ban on private contributions to parties is to limit the influence of large private contributions on political parties.

Although countries resort to limiting private contributions to limit the influence of money on political parties, stringent regulations in this regard can be counterproductive, especially when there is little or no state funding to support parties. Gowda and Sridharan report that as a result of Indira Gandhi's ban on corporate sponsorship in 1968, politicians relied heavily on black money for election campaigns. On the other hand, no restrictions on corporate sponsorships of parties or candidates can influence government policies in favor of a certain person or group. In Russia, it was widely alleged that the support given to President Boris Yeltsin by the so-called oligarchs in the 1996 election was in exchange for presidential favors connected with the preservation and expansion of business empires established through dark privatization deals (IDEA, 2014).

3.4 Use of Funds

In addition to regulating the funds raised for elections, governments also control how the money is spent for the purpose of the election. The amount of money spent on election plays a significant role in determining election outcomes as it enables the candidate to reach out to his constituency. There are cases where money is spent on overtly influencing voters leading to “secret campaign financing” (Smith, 2013) to manipulate the election outcome. Malpractices like distribution of money and other direct benefits to voters, including vote buying, is prevalent in new democracies (Yadav, 2010). This is particularly true, although not always the case, when the government laws are weak and inadequate in ensuring the transparency and accountability of the political parties or candidates.

Governments develop campaign finance regimes that limit contributions and mandates disclosure: they specify contribution ceilings and require disclosure in cases where contribution is above a certain amount. This law is enacted to ensure control on unlimited expenditures from powerful elites that may affect the outcome of an election. It is important to be cautious on what the legal level of contribution is because if it is too low, it may deprive a candidate of funds necessary to deliver a campaign message to voter. Similarly, when limits are too high, it may enable a candidate to discount all but the wealthiest donors (Johnstone, 2013).

3.5 The Nepali Context

Nepal has put in place many of the regulations necessary to ensure that electoral democracy is upheld; i.e., the Election Commission Act 2017, Election (Offense and Punishment) Act 2017, Political Parties Act 2017, Local Election Act 2017, House of Representative Member Election Act 2017, Provincial Assembly Member Election Act 2017. The Election Commission (EC), which is an autonomous constitutional body, organizes and regulates elections. It is the EC’s responsibility to regulate and control illicit use of money and muscle power through effective implementation of the election code of conduct. An important regulation in the election code of conduct is fixing the election campaign expenditure limit. This limit is also meant to increase the participation of supporters in the candidate’s election finance and maintain independence of candidates’ accountability to their constituency. As per the aforementioned literature review, public funding of elections is an important regulation to maintain electoral integrity. Nepal does not provide state funding for election campaigns. A draft bill supporting government funding of election campaigns was presented at the parliament. The bill proposed to provide election campaign finance to national parties that meet a certain representation in the federal parliament. However, this bill was rejected by the parliament.

4. Legal Framework

The following section provides details of the regulations for election campaigns in Nepal. The Election (Offense and Punishment) Act, 2017, was promulgated to regulate the activities of candidates and their supporters and gives insights into the codes of conduct for campaign finance for elections. Election codes of conduct come into effect during the election period. The election period is defined as the timeframe given to candidates to canvass for the election. Candidates for local municipal elections had approximately two weeks to canvas, while the candidates for the federal and provincial elections had approximately four week.

Restrictions on campaign expenditure: The EC set ceilings or limits on the amount of money that a candidate could spend during each of the local, provincial, and federal elections. For the local elections, the limits were based on the contested position. The penalty for violating this regulation is equal to the amount of money spent in excess to the stipulated limit. The limits placed by the EC for the local election are provided in Table 1 below.

Table 1: Expenditure limits as stipulated by proposed positions 2017

S. N.	Expenditure Heading	Chief and Deputy Chief (in Rs.)	Ward Chairs and Member, Woman, Dalit and Minority Member (in Rs.)
1	Metropolis	750,000	300,000
2	Sub Metropolis	550,000	250,000
3	Urban Municipality	450,000	200,000
4	Rural Municipality	350,000	150,000

Source: EC

The EC increased the expenditure limits placed on candidates for the provincial and federal elections as compared to the expenditure limits set during the local elections. As shown in Table 2, the expenditure limit for provincial assemblies was at 60% less than the expenditure limit set for the candidates of the House of Representatives.

Table 2: Expenditure limits for federal and provincial elections in 2017

S.N.	Election type	Expenditure Limit (in Rs.)
1	Provincial assemblies	1,500,000
2	Federal House of Representatives	2,500,000

Source: EC

Restriction on government agency/ NGO funding: Parties and candidates are forbidden to accept any kind of economic assistance from the government, public agencies and Non-

Government Organizations (NGOs). The penalty for any political party or candidate who accepts such economic assistance and the concerned person from an NGO or government agency that gives such assistance is equal to the amount received in donation and a fine of Rs. 100,000. Any government official involved in the transaction is booked for departmental action. The EC must provide material proof of violation of the regulation to levy these penalties.

Restriction on parties funding each other: Political parties or candidates should not request or accept funding from other political parties or candidates. The candidate is however allowed to finance her/his own campaign. The penalty of violating this regulation is equal to the amount of money given/ received.

Restriction on giving cash or kind to voters: Candidates and their supporters are barred from giving cash and kind to voters to influence voting decisions. Voters are barred from accepting cash, gift, prize, or donations from candidates and their supporters. Similarly, the candidate and her/his supporters are not allowed to arrange for public feasts during the election period. Any person acting in contravention to this regulation is fined Rs. 50,000 or sentenced to one year imprisonment or both.

Restriction on publicity materials: Writing or printing graffiti on walls, pasting posters and banner and digital displays in archeological and historical monuments, government, public or private buildings, walls and structures are restricted. Using sound systems to disseminate information in a public gathering or assembly is also outlawed. Distributing pamphlets is allowed as long as the pamphlets are in adherence to the standards prescribed by the EC. All printed materials are required to mention the name and address of the political party or the candidate and those of the printing press. A breach of these rules could lead to removal of the displayed materials to reinstate the structure to its original state. A penalty of Rs. 25,000 and all related maintenance cost is to be paid by those found guilty.

Use of vehicles: Political parties, candidates and their supports are required to adhere to the limits placed on the number and types of vehicles used during canvassing. Using vehicles that belong to the federal, provincial, and local governments, educational institution, or NGOs are prohibited. The penalty for violators is confiscation of the vehicle during the election period and a fine of Rs. 25,000. Action is to be taken against any Government department that owns the vehicle. Civil servants and government property are also not permitted to be used for the purpose of election campaigns.

Observation of the silent period: The 48-hour silent period effective till the Election Day barres candidates from calling or arranging public assemblies, mass rallies, or chanting slogans.

Submission of an income and expenditure statements: All political parties and candidates participating in the election are required to submit their income and expenditure statement including the sources of funds raised and used during their election campaign to the EC within two weeks of the election. Parties are also responsible for making the income and expenditure statements public. Any party or candidate that fails to submit such statements is fined Rs. 15,000.

Deregistration of party in violation of code of conduct: The EC is responsible for ensuring that parties, candidates and their supporters abide by the regulations. If any political party repeatedly fail to comply with the instructions of the EC, remedy its actions, or pay the imposed fine, the EC may deregister such a party.

Book keeping and related fines: Political parties are required to maintain books of accounts in actual income and expenditure basis and appoint an official for the same. It is also mandatory for the party to inform the EC of the official authorized to maintain the financial records. The EC can depute an auditor to examine accounts of the party at anytime. Failure to maintain books of account and conduct annual audit can result in a fine of Rs. 20,000. Similarly, failure to submit the financial statement and denial of inspection from the EC can result in a fine of Rs. 10,000. If the auditor finds discrepancies in the books of accounts that that party cannot clarify, the EC can levy a penalty of Rs. 500,000 or equal to the amount of the problematic expenditure, whichever is higher. If the political party fails to pay the fine, the EC can restrict the candidate or political party to contest in elections for the next six years.

Regular submission of financial accounts: To be eligible to register for elections, a party must submit its annual audited financial report to the EC within six months of financial closure. Parties who do not submit audited financial report for three years consecutively are subject to a penalty of Rs. 50,000. Failure to pay the fine may result in being barred from contesting in the election. Political parties have to publicly disclose their financial transactions and failure to do so is punishable with a fine of Rs. 7,000.

Property disclosure: All political parties are required to submit the property details of their officer bearers, in a sealed envelope, to the central office of the party within 60 days of winning an election. While filing nomination for an election, a candidate is required to declare his/her property details including any house and land that the candidate may own.

Following clauses were added to the third amendment of the Election Code of Conduct, 2015 prior to the federal and provincial elections:

Restriction on distribution of alcohol: In addition to the restriction on the distribution of cash and commodities and arrangement of feasts to voters during the election campaign period, restriction is also placed on the distribution or use of alcohol.

Restriction on publicity materials: In addition to the restrictions mentioned above, political parties and candidates are also barred from producing, using, selling and exhibiting jacket, shirt, t-shirt, cap, shawl, or other similar outfit with the party election symbol. Political parties and candidates are also restricted from using stickers, logos, hand bags, and tattoos with their election symbol. Unless prior approval is taken, parties and candidates are not allowed to use banners and flags larger than three feet by five feet. Similarly, posters should also not exceed three feet by three feet. In mass rallies, participants were not allowed to carry flags larger than ten inch by eighteen inch in size.

Restriction on vehicles for ministers: Incumbent ministers should not use their official vehicle during election campaign programs.

Prior approval for the use of helicopters: All political parties should submit the names of the three main election campaigners, who are allowed to use helicopters, to the EC.

Regulation on publicity through different media: First-Past-The-Post (FPTP) candidates for the House of Representatives may present their election campaign messages through TV, Radio, or FM. The message can be broadcasted for a maximum of four times, with minimum gap of an hour between messages and should not exceed one minute, in a twenty-four hours interval. Similarly, FPTP candidates for the provincial assemblies may present their election campaign message two times, with minimum gap of one hour between messages and should not exceed 45 seconds in a twenty-four hour interval. As for print media, federal and provincial-level candidates may print the campaign materials in newspapers every day by keeping it within the seven inch by seven inch ratio.

Separate account required for election related transactions: Candidates and political parties should open a separate bank account, in either a bank or financial institution; to conduct all election related financial transactions. All donations worth more than Rs. 5,000 must be routed through this account. Candidates and political parties must issue bill vouchers and receipts against all donations.

Election expenditure must be reported: Candidates and political parties should submit detail expenditure statements for their election campaign expenditure to the District Election Office or EC within the stipulated time.

Election expenditures must be within the stipulated expenditure heads: Candidates and political parties should spend within the limits detailed below.

Table 3: Details of the Expenditure limit for election to the House of Representatives and Provincial Assembly under the First-Past-The-Post electoral system

S.N.	Expenditure Heading	House of Representatives (Amount in Rs.)	Provincial Assembly (Amount in Rs.)
1	Purchase of Voter List	3,000	1,800
2	Vehicles	500,000	300,000
3	Vehicle fuel (fodder for horse)	100,000	60,000
4	Publicity Materials	100,000	60,000
5	Transportation	75,000	45,000
6	Seminar/interaction	800,000	480,000
7	Other Publicity, Print, and Electronic Media	100,000	60,000
8	Office operation	500,000	300,000
9	Agent mobilization	200,000	120,000
10	Miscellaneous	122,000	73,200
	Total	2,500,000	1,500,000

Source: EC

- i) **Proportional Representation (House of Representatives):** Political parties can spend Rs 200,000 per candidate based on the number of candidates identified in the closed list.
- ii) **Proportional Representation (Provincial Assembly):** Political parties can spend Rs 150,000 per candidate based on the number of candidates identified in the closed list.
Restriction on the use of vehicles: The use of vehicles is dependent on the type of election as per the following.
- iii) **First-Past-The-Post (House of Representatives):** Candidates can use a maximum of four four-wheelers/ light vehicles and a maximum of four motorcycles. If the roads are inaccessible to automobiles, candidates can use a maximum of four horses.
- iv) **First-Past-The-Post (Provincial Assembly):** Candidates can use a maximum of two four-wheelers/ light vehicles and four motorcycles. If the roads are inaccessible to automobiles, candidates can use a maximum of two horses.
- v) **Political parties:** Parties can use a maximum of two four-wheelers/ light vehicles or four horses in places where the roads are inaccessible to four-wheelers.

In addition to the Election Act 2017, the following provisions in the Constitution also seek to uphold electoral integrity by giving equal access to marginalized groups such as women, Dalits and people with disabilities.

Representation of marginalized groups: The Constitution stipulates women must occupy one third of the seats in the Federal Parliament. If elected women candidates do not make up one-third of the elected members, the party must elect women under Proportional Representation to ensure 33% of the seats are occupied by women. Additionally, women must fill 50% of the nominated position for Chairperson, Vice-Chairperson, Mayor, Deputy Mayor, Chief of District Coordination Committee and Deputy-Chief of District Coordination Committee. Dalit women must also be nominated for membership of ward council of rural municipality or municipality. Women must occupy two seats in the ward council, out of which one position must be occupied by a Dalit woman. A minimum of three women must also be elected to the District Coordination Committee.

Representation of people with disabilities: The Constitution states that persons with disabilities must be represented at the federal and provincial assemblies.

5. Methodology

This study adopted the following methodologies to gather data on the 2017 elections.

i) Desk Review:

Documents such as journal articles on international practices for campaign finance regulation, policies and laws governing election campaign finance in Nepal, budgetary allocations made by the Nepalese government for election related expenses, audit reports submitted by political parties, media coverage of political campaigns and documents published by the EC were studied .

ii) Data Collection:

Data was collected as per the following.

- 1) Local election: Qualitative and quantitative questionnaires were administered among candidates and civil society members in four districts. A total of 216 individuals were interviewed.
- 2) Federal and Provincial election: Quantitative questionnaires were administered among candidates and civil society members in 31 districts. A total of 189 individuals were interviewed.

iii) Key Informant Interviews:

Interviews were conducted with representatives of nine political parties in Kathmandu, and members of the EC and trade and industrial federations.

6. Limitations of the Study

Sample size (district and interviews): Given the small sample size, the results may not be representative of all 75 districts. The sample size for the studies is as follows:

- i) On the local election, only four out of the 75 districts were covered. In total 216 individuals were interviewed and questionnaires duly filled.
- ii) For the study on the federal and provincial elections, 31 of the 75 districts were covered. A total of 189 individuals interviewed and questionnaires were filled.

Estimation of funds mobilized/spent: The estimation of funds spent during the election was inferred based on the answers provided during the interviews with candidates and their supporters. The answers may not be the actual amount received or spent by the candidates as most candidates reported spending within the EC stipulated ceilings. One of the major constraints in getting actual income/expenditure report from the questionnaires was that neither the donors (individuals who donated money to candidates/ parties) nor the candidates had maintained such records. As a result, the data presented is based on what was reported by the candidates with adjustment from those received from donors, their supporters and members of the civil society.

7. Local Level Election

In 2017, Nepal held Local Elections after a gap of 20 years. The Local Election elects representatives to the municipal and village assemblies. Six metropolitan cities, 11 sub-metropolitan cities, 276 municipalities and 460 rural municipalities participated in the election. Pursuant to the Constitution, the term of the interim Legislature-Parliament would expire on 21 January, 2018. A year before the expiry date, the Government announced the dates for local level elections in three phases: 14 May for Provinces 3, 4 and 6, 30 June for Provinces 1, 5 and 7 and 18 September for Province 2.

Election management

Table 4 below provides details on the number of people, including security personnel, government officials and volunteers, who were deployed to manage the election. The table also shows the number of polling stations and centers where the election took place.

Table 4: Details on the management of the Local Election 2017

S.N.	Description	Amount
1	Polling stations	10,640
2	Polling Centers	18,572
3	Volunteers	63,000
4	Government Officials	105,000
5	Security Personnel	Approximately 200,000

Source: EC

Political Parties

As per the EC, 80 political parties contested in the local election, out of which representatives from 27 political parties were elected to the local government bodies.

Candidates

Table 5 below presents the number of candidates and contested positions in all three phases of the local elections. A total of 148,362 candidates filed their nominations for a total of 35,221 positions in the local level elections. Government regulation stipulated that 40% or 14,088 seats are reserved for women. Of these reserved seats, 50% or 6,648 of the seats are reserved for Dalit women. Of the available top positions for the local level; i.e., Mayor and Deputy Mayor for the municipalities or Chairman and Vice-Chairman of the 753 local level councils, half of the seats are reserved for women candidates in accordance to the law.

Table 5: Contested position and candidates in Local Election 2017

S.N.	Provinces	Number of positions	Total number of candidates
1	3,4 and 6	13,556	48,670
2	1, 5 and 7	15,038	62,444
3	2	6,627	37,248
	Total	35,221	148,362

Source: EC

Voters

As per the EC, 1.4 Crores voters were registered to vote for the local level elections. Of this, 0.71 Crores were male and 0.71 Crores were female voters. Voter turn-out was approximately 70%.

7.1. Key Findings

7.1.1. Political Parties' Internal Financial Management

The Political Part Act 2017 requires that all parties submit their audited financial reports to the EC within six months of financial closure. In accordance with this Act, 118 political parties submitted their income and expenditure detail in FY 2015/16. Table 6 shows the income and expenditure figures for the major political parties as submitted to the EC. It is interesting to note that the financial status of the parties aligns with not only the party's representation in the legislature parliament but also in their place in Nepal's political history. The older parties that have been performing better in the elections have also been able to accumulate more funds than the newer parties. The top ranking political parties have been running on deficits, which allude to the fact that they do not have reserve funds to finance elections and will resort to raising funds for election campaigns.

Table 6: Income and Expenditure figures of major political parties for FY 2071/72 (2015/16) 3 3

S. N.	Political Party	Income (in Rs.)	Expenditure (in Rs.)	Balance (in Rs.)
1	Nepali Congress	8,54,13,585.36	10,08,44,055.83	(1,54,30,470.47)
2	Nepal Communist Party (UML)	7,24,71,768.71	8,83,64,281.02	(1,58,92,512.31)
3	Nepal Communist Party (Maoist Center)	4,21,97,652.77	4,92,11,536.51	(70,13,883.74)
4	Bibeksheel Nepali	2,45,40,651.37	1,67,63,312.05	77,77,339.32
5	Rastriya Prajantra Party Nepal	1,08,22,469.00	1,10,00,804.75	(1,78,335.75)
6	Rastriya Janamorcha	96,41,068.00	56,91,069.00	39,49,999.00
7	Rastriya Janamukti Andolan	68,03,952.00	68,03,752.00	200.00
8	Sanghiye Samajbadi Party Nepal	49,76,650.00	44,80,777.00	4,95,873.00
9	Sadvawana Party	36,42,920.00	26,04,778.00	10,38,142.00
10	Rastriya Prajantra Party	35,77,746.00	27,58,731.00	8,19,015.00
11	Rastriya Madesh Samajwadi Party	32,13,160.00	21,73,422.00	10,39,738.00
12	Nepal Majdoor Kisan party	30,08,334.45	30,37,679.00	(29,344.55)
13	Nepal Communist Party (Sanukta)	25,08,647.32	26,07,002.00	(98,354.68)
14	Madhesi Janadhikar Forum (Loktantrik)	22,50,000.00	22,77,956.39	(27,956.39)
15	Nepal Communist Party (Marxist and Leninist)	21,37,008.00	21,37,008.00	00.00

3

The income and expenditures of fringe parties that earn less than a million rupees in a year have been excluded from the table.

16	Tarai Madhesh Loktantrik Party	20,92,046.60	18,70,632.50	2,21,414.10
17	Tharuhat Tarai Party Nepal	13,39,874.00	10,74,877.00	2,64,997.00
18	Nepal Pariwar Dal	13,17,600.00	14,67,515.00	1,49,915.00
19	Rastriya Janamukti Party	11,91,408.00	11,88,171.00	3,237.00
20	Rastrabadi Ekta Party	10,87,000.00	10,81,990.00	5,010.00

Source: Audited Financial Reports for FY 2072/73 for CPN-Maoist, CPN-UML, NC, RPP and MJF- Loktantrik

Sources of Income: The audited financial reports of the five major parties, namely CPN-Maoist, CPN-UML, NC, RPP and MJF-Loktantrik reveal that the parties' main income sources are membership fees, regular and functional levies and donations from individuals as shown in Table 7 below. For the CPN- Maoist and RPP, a majority of their annual income comes from regular and functional levies. 92% of the annual income of the CPN- Maoist comes from regular (54%) and functional levy (38%). For RPP, whose annual income is much lower than its counterparts, 83% of its annual income is made up of functional levy⁴ paid by the office bearers. Contrarily the NC and MJF- Loktantrik raise 55% of their total annual income from individual donations with the specific purpose of holding the annual general convention. The CPN- UML, who raised 75% of its annual income from membership fees, stand out from the rest of the parties identified above.

Table 7: Income Source of Major Political Parties for FY 2072/73

S. N.	Income categories	Nepal Communist Party-Maoist Center (CPN-Maoist)	Nepal Communist Party-UML (CPN-UML)	Nepali Congress (NC)	Rastriya Prajatantra Party (RPP)	Madeshhi Jana-Adhikar Forum, Nepal-Loktantrik) MJF-Loktantrik)
1	Membership and Renewal	1,595,458.00	56,760,961.00	14,860,835.00	34,000.00	312,800.00
2	Regular Levy	15,468,987.00		9,863,000.00		
3	Functional Levy	11,055,930.00			1,985,000.00	2,451,000.00
4	Donation Individual	400,000.00	2,875,500.00	628,387.00	370,000.00	
	Donation Institutional		5,516,531.00			
	Donation for Convention			32,160,373.00		4,201,501.00
5	Sales of Publications	179,200.00	4,160,115.00	74,400.00		
	Sales of property		1,965,000.00			
	Sales of coupon			225,900.00		

⁴ The regular levy is a fixed amount raised from its members on monthly basis, while functional levy indicates the levy imposed upon the office holders who are benefited by being pursued by the party either or appointed under the party's banner as its supporter.

6	House Rent	80,140.00				585,200.00
7	Natural Disaster Relief Assistance		2,481,009.00			
7	Interest in deposit	42,540.00	612,019.17	990,658.52		
8	Central EC Income		550,075.00			
9	Miscellaneous	26,070.00	520,027.73	35,528.00		138,500.00

Source: Audited Financial Reports for FY 2072/73 for CPN-Maoist, CPN- UML, NC, RPP and MJF- Loktantrik

Expenditure: As shown in Table 8 below, for the aforementioned parties, administrative costs and conventions and conferences are the two main expenditure categories. While CPN-Maoist Center (89%) and RPP (65%) spend a majority of their budget on administrative costs, NC (55%) and MJF- Loktantrik (52%) spend a majority of their budget on conventions and conferences. NC and MJF- Loktantrik are the only two parties that have salaried employees. More interestingly, none of the parties budget for or spend on election related activities. This again reiterates the fact that candidates do not receive support from their parties and are responsible for raising the funds to finance their campaign.

It is also interesting to note that not all major parties spent on promoting their political ideologies, either through trainings or publications (party literature). These activities are important to ensure that a strong supporter base is developed. Of the five major parties in Table 8 below, only CPN- Maoist Center and CPN-UML sent cadres on training or published party literature. CPN-UML and NC are the only parties that show expenditure for social welfare activities such as support for earthquake victims.

Table 8: Expenditure patterns of major political parties for FY 2072/73

S. N.	Expenditure categories	Nepal Communist Party- Maoist Center (CPN- Maoist)	Nepal Communist Party- UML (CPN- UML)	Nepali Congress (NC)	Rastriye Prajatantra Party (RPP)	Madeshhi Jana-Adhikar Forum, Nepal-Loktantrik (MJF- Loktantrik)
1	Convention and conference	332,391.00	0	43,209,802.25		4,255,408.00
2	Training	1,490,783.00	3,087,413.00			
3	Administrative expenditure	27,910,370.00	37,644,562.00	9,650,661.27	1,831,560.00	608,238.00
	Salaries for employees			6,024,200.00		1,298,000.00
4	Publication	1,433,405.00	5,321,229.00			

5	Capital expenditure	26,302.00	1,452,999.00			
6	Depreciation and amortization			3,887,071.81		21,882.90
7	Write-off			2,855,023.70		
8	Support for Earthquake victims		2,260,968.00	18,112,000.00		
9	Election Expenditure		77,725.00			
10	Grants to District Party Office					234,000.00
11	Other direct expenditure				1,003,994.00	
12	House Rent					855,200.00
13	Annual events					438,155.00
14	Miscellaneous		95,904.55	50.00		
	Total expenditure	31,193,251.00	49,940,800.55	83,738,809.03	2,835,554.00	7,710,883.90

Source: Audited Financial Reports for FY 2072/73 for CPN-Maoist, CPN- UML, NC, RPP and MJF- Loktantrik

7.1.2. Government Expenditure

According to the Ministry of Finance, the government released a total amount of Rs. 2,230 crores to different agencies for the purpose of conducting the 2017 local election in three phases. The breakdown of the budget for the election is in Table 9.

Table 9: Government budget for Local Election 2017

S.N.	Institutions	Released Budget (in Rs. Crores)	Expenditure (in Rs. Crores)
1	EC	1,128	703
2	Security Agencies / Ministry of Defense	1,102	1,143
	Total	2,230	1,846

Source : Ministry of Finance

The budget for the EC was released under different budget headings, including security management, mobilization of manpower and logistics arrangement such as purchase of election materials. The government also released budget to the Defense Ministry to mobilize the military apparatus to ensure peaceful elections. Nepal Police Force spent Rs. 500 Crores on the 90,000 temporary recruits. These recruits were employed for a total of 4 months. The monthly salary for each recruit was Rs. 17,200 and an additional Rs. 5,000 one time allowance

was made for the purchase of uniforms. Additionally, the government received commodities grant from international donor as per Table 10. (The details of foreign grants is listed in Annexure 2)

Table 10 : Foreign Commodity Grants for Local Election 2017

S.N.	Donors	Purpose	Amount (in Rs. Crores)
1	People's Republic of China	Stationery	14
2	India	Small vehicles as capital expenditure	19
3	UNDP	Electronic equipment	9
	Total Grants		41

Source :EC

Based on the expenditure calculated above, Table 11 presented below shows that the government spent Rs. 1,309 per voter.

Table 11: Government Expenditure per Voter

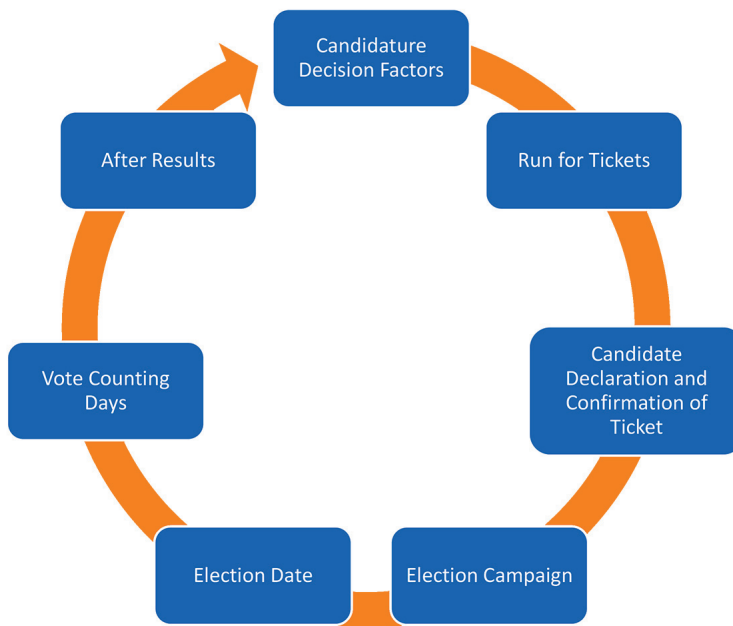
S.N.	Contributors	Amount (in Rs. Crores)
1	EC	703
2	Security Agencies of Nepal	1,143
	Total Government Expenditure	1,846
3	Number of Voters	1.41
	Government Expenditure per Voter (in Rs.)	1,309

Source :EC

7.2. Candidate Expenditure

7.2.1. Candidate Expenditure Assessment Framework

In order to identify different stages in which expenditure was incurred by the candidates, this study developed a framework that provides a comprehensive map of the election expenditure process. As the framework shows below, expenditure occurs not only during the campaign stage but also before it; i.e., during the run up to candidacy, and immediately after; i.e., during the day of the election, vote counting and victory rally stages.



7.2.2. Candidate Expenditure Estimation

Based on the framework above, two sets of questionnaires, one quantitative and one qualitative, were developed. The quantitative questionnaire sought to gather data on the expenditure of candidates while the qualitative questionnaire assessed perceptions of different stakeholders on the election campaign process. The quantitative questionnaire was circulated to 217 individuals, including candidates and civil society members. The data was used to develop eight case studies, which formed the basis of the study. The expenditure areas identified in these case studies were extrapolated to identify the expenditure patterns, activities that the candidates spent on and the overall expenditure of the candidates.

Candidates spent on the following activities during the election.

- i) **Cadre mobilization:** This includes cadre involvement in campaign activities such as door to door visits, rallies, cadre deputations at the polling booths and vote counting

stations. It was assumed that cadres received Rs. 1,000 per cadre per day to cover three meals for the duration of their engagement in the campaign period, voting day, and vote counting period.

- ii) **Transportation:** This includes the vehicle and fuel used by the candidate and the cadres during any activity in the aforementioned framework. It was estimated that a car can be hired for Rs. 8,000 per day and a bike needs fuel worth Rs. 500 per day. In some cases, cycles were used but these were taken to be free of cost.
- iii) **Electronic devices:** This includes mics and speakers. It was estimated that electronic devices can be hired for Rs. 1,500 per day.
- iv) **Promotional activities:** This includes pamphlets, flyers, flags, T-shirts and advertisement in print and electronic media. It was estimated that each pamphlet costs Rs. 3, each flyer costs Rs. 0.50, each T-shirt costs Rs. 300; and each candidate spent a total of Rs. 30,000 on the flags. We included the cost print and electronic media advertisement only for those candidates that mentioned it in their survey.
- v) **Victory rally:** We included the cost of the victory rally for winning candidates. The candidates estimated the amount that they spent on the victory rally.

Based on the activities mentioned above, expenditure of each candidate was calculated. We then divided the responding candidates into the following categories: mayor, deputy mayor, ward chairperson and ward member. The respondents were further categorized into metropolitan, sub metropolitan, municipality, and rural municipality. The average expenditure was calculated for each sub-category, i.e. mayor for metropolitans. Then the total number of candidates in each category in the three phases was ascertained. The expenditure made in each sub-category was calculated by multiplying the average expenditure of each sub-category with the number of candidates in the sub-category as shown in Table 12 below.

Table 12: Average Expenditure Made by the Different Positions in Local Election 2017

S.N.	Position	Total Number of Candidates	Average Individual Expenditure (in Rs.)	Total Expenditure (in Rs.)
1	Mayor	2,951	1,738,673	5,130,823,218
2	Deputy Mayoral	2,106	1,387,266	2,921,581,406
3	Chairperson (Rural Municipality)	2,886	1,709,355	4,933,198,530
4	Deputy Chairperson (Rural Municipality)	2,258	823,300	1,859,011,400

5	Ward Chairperson	32,267	626,909	20,228,485,072
6	Ward Member	105,894	150,000	5,884,100,000
	Total	148,362	343,465	50,957,199,626

The total cost of the election based on the candidates' information is estimated at Rs. 5,096 Crores. Figure 2 below shows that 76% of the money spent by candidates was during the campaigning period. It is also interesting to note that candidates spent 3% of their total expenditure on the day of the election when no campaigning is allowed.

Figure 2: Election campaign finance by stages of the election period

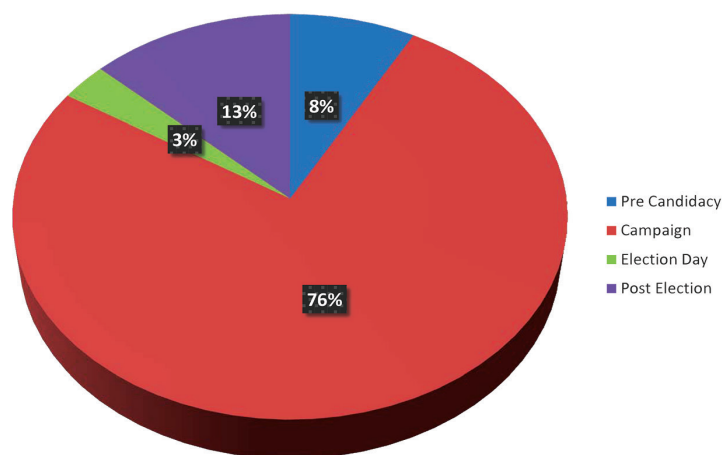
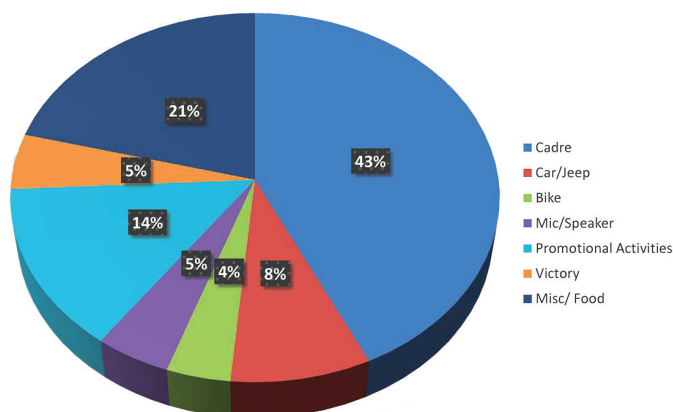


Figure 3 below represents expenditure items of candidates. It is noted that the majority of the resources is spent on cadre mobilization, which accounts for 43% of the total expenditure. Expenditure on food and drinks is the next biggest category of expenditure, which accounts 21% of the total expenditure. Distributing food and drink to voters, whether on the day of the election or during the campaign phase is outlawed. Similarly, mics and speaker, which account for 5% of the total expenditure, is also prohibited by the law. Expenditure on mic and speakers and food and drinks has driven up the cost of the election.

Figure 3: Expenditure by expenditure categories



7.3. Total Expenditure

The cost of the local election was born by different stakeholders, including the government, donors, individual parties, and candidates and their supporters. Table 13 below shows the total expenditure made by the government and the candidates in the local election which stands Rs. 6,942 Crores.

Table 13: Expenditure in Local Election 2017

S.N.	Contributors	Amount (in Rs. Crores)
1	Government	1,846
2	Candidates and Supporters	5,096
	Total	6,942

Table 14 below shows that the total amount of money spent per voter is Rs. 4,923. As per the data released by the EC, 17% of the votes were invalid; assuming the invalid votes as waste, Rs. 1,180 Crores was wasted. The IDEA Voter Turnout database, a regularly updated global collection of statistics on voter turnout as reported by election management bodies of different countries for parliamentary and presidential elections conducted since 1945, shows that that global average for invalid votes for 186 sample countries is approximately 4%. Nepal's current proportion of invalid votes is among the highest in the world.

Table 14: Cost per voter in Local Election 2017

S.N.	Particulars	Amount (in Rs. Crores)
1	Total Expenditure	6,942
2	Number of voters (in Crores)	1.41
3	Cost per voter (Rs.)	4,923
4	Invalid votes (as a %age of total votes casted)	17%
5	Wasted expenditure	1,180

7.4 Cross Checking and Observations

Key Informant Interviews were conducted with different stakeholders involved in the election process. Members of political parties were interviewed to discuss the extent of the transparency of their own parties, the financial support provided to their candidates and on related activities of their counterparts. Similarly, members of trade federations and business houses were also interviewed to assess their perception of transparency and accountability in the election finance. Respondents invariably claimed that the election campaign expenditure is exorbitant. According to them factors such as voters' political consciousness and geography also play a vital role in the election expense. Following are some of the other reasons cited by participants of this study for the high campaign finance expenditure.

- i) **Violation of the election code of conduct:** Occasionally, political parties were reported to have violated the election code of conduct. Participants asserted that the EC has also violated the election code of conduct by transferring the government officials after announcing the date of the election. The civic societies were vocal against the transfer of Secretary of the EC to other government agency after the election code of conduct came into effect.
- ii) **Cadre Mobilization is the most expensive expenditure for candidates:** Respondents also agreed with the study's finding that the single most expensive activity incurred by candidates is cadre mobilization. Other prominent expenses are transportation costs, publicity costs, cost of organizing mass rallies and door to door campaign, and booth expenses. Some parties mobilized a total of approximately 2500 cadres in 10 days. Parties also used about 10-20 cars/jeeps and hundreds of motorcycles on a daily basis.
- iii) **Candidates find loopholes to use publicity materials:** Although the election code of conduct prohibits the use of banner and posters, candidates use alternatives such as flex printing and color posters, which are more expensive than the banners. Respondents claim that major parties also competed to distribute T-shirts, vests, cloths and other promotional materials. In addition to the candidates' expenditure on these materials, party headquarters also spent on publicity materials. Manifestos and other promotional materials were printed and sent to candidates by the party headquarters.
- iv) **Candidates are responsible for raising funds for their campaigns:** Respondents from political parties stated that for the local election, party headquarters were not involved in raising funds; local party organizations were asked to arrange and manage election campaign fund by themselves. The party headquarters supplied promotional materials helped to use social media, developed promotional videos, and radio jingles. The majority of the funding at the local level election was secured from local entrepreneurs involved in real estate business, contractors, brokers and agents. There was little to no donations to parties or candidates from corporations during the local election.

- v) **Long gap of political activism at the local level:** Since the local election was held after a long gap of 20 years, respondents believed that the otherwise idle leaders at the grass-root level took this as an opportunity to flex their muscles and show their popularity. While younger aspirants were advocating for tickets on the basis of popularity, the senior cadres of the party were claiming ticket on the basis for their service to the party and as the last opportunity for them to win a seat in the local government.
- vi) **Powerful local governments:** Respondents allude to the fact that devolution of power by the constitution meant that local governments are very powerful, which raised the stakes for those competing for positions in the local government. This increased the competition and the amount of funds raised and spent for the election. Financial contribution was significant from local business leaders, who funded candidates they anticipate as winners
- vii) **Infiltration of foreign funding:** Respondents implicitly agreed that there had been funding from foreign entities. While the funds from foreign countries were not directly received by candidates, some of the respondents believed that such money may had channeled through indirect method such as the Nepali agents of multinational companies working in Nepal.
- viii) **Influence of NGOs in election:** During the course of this study, many leaders of the parties expressed that some of the NGOs working in Nepal provided funds directly to the political parties.
- ix) **Lack of Transparency in candidacy selection:** Respondents claim that aspiring candidates approached parties for tickets in exchange of hefty funds. The majority of such aspirants were contractors, real estate agents, and brokers. These individuals wanted to contest elections for three main reasons: for recognition, for a position in the local government and because of the assumption that once elected, they would be immune from persecution.
- x) **Corruption as core intent:** Respondents claimed that parties spent lavishly on election campaigns because money had come from illicit sources and election was used as an opportunity to convert black money to white. Respondents show their dissatisfaction with the trends in campaign finance when they state that rather than spending on the election, the funds could have been used by the candidates and their supporters for social welfare, which would have long term benefit to the constituency. Spending during election campaign is important to reach out to the public; however, respondents claimed that the demonstration effect⁵ was one of the main reasons to drive up the cost of election campaigns.

5

The competition between parties to outdo each other.

-
- xi) Vote buying:** Respondents claim that vote buying is a commonly accepted practice during elections. Vote buying is higher in rural areas than in the urban areas. Candidates employ gangsters to influence community leaders capable of manipulating voters.
- xii) Funding received from the Diaspora (Nepalese living abroad):** Although Nepalese living abroad voiced their grievances in not being able to vote, respondents gave examples of funding from the Nepalese Diaspora. BibeksheelSajha party's financial declaration on their website showed that they received funds from Nepalese living abroad. Similarly, sister organizations of major parties have also been known to raised funds in countries that have a significant Nepalese population.
- xiii) Businesses donate directly to party leaders:** Business leaders acknowledged that they voluntarily donated money to the leaders of political parties. Businessmen established direct contact with the party leader because they want to build a close rapport with influential leaders. Businesses also fund members of parties in power and those that have a stronger political hold.

From the information gathered above, it can be seen that there is a strong nexus between political parties/ candidates and businesses, especially when the election expenditure is high. This has a negative implication on electoral democracy.

8. Federal and Provincial Election

After the successful completion of the local level elections, the government focused its attention on the federal and provincial election. By the time the third phase of the local election was conducted, the government leadership had changed. With the change in government, there was apprehension on whether or not the federal and provincial elections would take place, especially since it would be difficult to conduct the election in the mountains because of snow fall. Showing commitment to hold the elections, the government announced the dates for federal and provincial elections in two phases: 26 November, 2017 and 7 December, 2017. The first phase of elections covered 32 districts (37 constituencies for the federal election and 74 constituencies for the provincial election) of the mountain districts. The second phase of election covered the remaining 45 districts (128 constituencies for the federal elections and 256 constituencies for the provincial elections).

Following are some details of the federal and provincial elections.

Election management

Table 15 below shows that federal and provincial elections were held in a total of 10,671 polling stations. 155,000 government officials were deployed in the polling stations.

Table 15: Polling stations by phase for federal and provincial elections

S.N.	Phase of election	Number of polling stations
1	Phase I	2,919
2	Phase II	7,752
	Total	10,671

Source: EC

The polling stations were provided security in three layers: Nepal Police, Armed Police and Nepal Army. Nepal Police had deployed 68,000 security personnel for the federal and provincial elections, along with the 98,000 temporarily recruited police. The Armed Police Force deployed 30,000 security personnel and Nepal Army deployed 34,000 security Personnel .

Political Parties

91 political parties contested the election to provincial assemblies, whereas only 49 parties contested elections to the House of Representatives.

Voters

A total of 1.54 Crore voters were registered to vote in the federal and provincial election. Of this, 0.78 Crore voters were male; 0.76 Crore voters were female and 170 voters were of the third gender. The province-wise number of registered voters is provided in Table 16 reported below.

Table 16: Registered voters by province

S. N.	Province Number	Number of Voters
1	Province 1	2,993,774
2	Province 2	2,767,375
3	Province 3	3,074,384
4	Province 4	1,568,924
5	Province 5	2,740,864
6	Province 6	846,941
7	Province 7	1,435,673
	Total	15,427,935

Source: EC

Candidates

Table 17 below shows representation at different levels of assemblies. Representatives were chosen in two methods, namely First Past the Post (FPTP) and Proportional Representation (PR).

Table 17: Representation structure at different level of government

Provinces	Provincial Assembly			Total	House of Representative		Total
	FPTP		PR		FPTP	PR	
Province No. 1	56		37	93	28		121
Province No. 2	64		43	107	32		139
Province No. 3	66		44	110	33		143
Province No. 4	36		24	60	18		78
Province No. 5	52		35	87	26		113
Province No. 6	24		16	40	12		52
Province No. 7	32		21	53	16		69
Total	330		220	550	165	110	825
Upper House					59		884

Source: EC

For the above mentioned seats, there were a total of 11,020 candidates, 5,182 candidates in FPTP and 5,838 candidates in PR system. Of the FPTP candidates, only 5% (386) of the total candidates were women in FPTP. As per the Constitution, at least 33% of the seats in the federal parliament and provincial assemblies should be occupied by women. Since women's participation in the FPTP was less than 33%, parties were required to submit their PR lists by incorporating at least 50% women candidates. This breakdown can be seen in Table 18.

Table 18: Candidate nominations in provincial and federal elections

S.N.	Elected positions	Candidate Nominations		
		Total	Men	Women
1	FPTP	5,182	4,796	386
2	PR	5,838	2,621	3,217
	Total	11,020	7,417	3,603

Source: EC

Proportional Representation

As Table 18 shows, a total of 5,838 candidates were filed for the PR system. Of this, 2,273 are candidates were filed for the House of Representatives, while 3,565 candidates were filed for provincial assemblies. As per the Constitution of Nepal, the proportional representation system is meant to facilitate inclusiveness in the elected bodies through representation from marginalized and disadvantaged groups such as Women, Dalits, Janajaits, Adibasis, Madhesis, Tharus, Muslims and Khas Arya and other minority communities and backward regions based on geography, population and provincial balance. Table 19 below provides details on the representation of the different communities in the lists submitted for Proportional Representation.

Table 19: Details of the different communities represented under the lists submitted for the Proportional Representation

S.N.	Community Represented	Total Candidates	Female	Male
1	Adivasi	1714	931	783
2	Khas Arya	1864	997	867
3	Tharu	420	262	158
4	Dalit	838	496	342
5	Madhesi	1018	563	455
6	Muslim	238	157	81
7	Physically impaired	273	115	158
8	Backward regions	229	122	107

Source: EC

8.1. Key Findings

8.1.1. Government Expenditure

The government had allocated Rs. 1,955 Crores for the federal and provincial elections while the actual expenditure incurred for the elections was Rs. 1,626 Crores. Table 20 shows that the expenditures were incurred by different government agencies, including the EC, security agencies and the Home Ministry.

Table 20: Election expenditure incurred by government agencies

S. N.	Name of the Agency	Budget released (Rs. Crores)	Expenditure (Rs. Crores)
1	EC	970	641
2	Home Ministry (Temporary Police)	503	503
3	Home Ministry (Nepal Police)	269	269
4	Home Ministry (Armed Police)	116	116
5	Home Ministry (Nepal Army)	85	85
6	Home Ministry	8	8
7	Home Ministry (National Investigation Agency)	4	4
	Total	1, 955	1, 626

8.1.2. Candidate Expenditure

With reference to the framework detailed in section 6.2.1, a comprehensive questionnaire was developed to collect and generate information on expenditure patterns of candidates. As per the data gathered from the questionnaires, candidates had spent on the following activities during their election campaign:

i). Ticket for candidacy: This includes the amount of money that the candidate spent on securing the ticket for candidacy.

ii) Cadre mobilization: This includes cadre involvement in campaign activities such as door to door visits, rallies, cadre deputation at the polling booths and vote counting stations. It was estimated that each cadre received Rs. 1000 per day to cover expenses for three meals during their engagement in the campaign period, voting day, and vote counting period.

iii) Promotional events: This includes use of social media, television, and radio during the campaign. The cost of advertisement in print, electronic media, and television and radio has been included for those that mentioned it in their survey.

iv) Promotional activities: This includes pamphlets, flyers, flags, T-shirts and other promotional materials. It was estimated that each pamphlet costs Rs. 3, each flyers cost Rs. 0.50, and each T-shirt cost Rs. 300; and on average each candidate spent around Rs. 30,000 on the flags.

v) Transportation: This includes vehicles and fuel used by the candidate and the cadres during any activity in the above- mentioned framework. It was estimated that a car can be hired for Rs. 8,000 per day and a motorcycle needs fuel worth Rs. 500 per day. In some cases, cycles were used but these were taken to be free of cost.

vi) Victory rally: We included the cost of the victory rally for winning candidates. The candidates mentioned the amount that they spent on the victory rally.

Based on the expense incurred in each of the aforementioned activities, the expenditure of the candidates was estimated. Some 189 candidates were individually interviewed and the quantitative questionnaires were filled. Data for the candidates were divided into the following categories: provincial and federal elections. For each category, candidates were divided as winner, first runner-up, and the rest of the candidates and average expenditure was calculated for each sub category; i.e., winner of House of Representatives. The total number of candidates for each sub-category was ascertained. The expenditure made by the candidates in each sub-category was calculated by multiplying the average expenditure with the number of candidates. The same process was repeated for all categories in the provincial assemblies and the federal House of Representatives.

Based on Table 21 below, the expenditure incurred by the candidate in the federal election is estimated at Rs. 1,963 Crores. There were a total of 1,944 candidates running for federal election. The table shows that, on average, the candidates who won the election spent more than the rest of the candidates.

Table 21: Candidates' expenditure in federal elections

S.N.	Election Results	Number of Candidates	Average Expense per Candidate (in Rs. Crores)	Cumulative Expenditure (in Rs. Crores)
1	Federal Winner	165	2.13	352
2	Federal Runner-Up	165	1.49	246
3	Federal Remaining	1,614	0.85	1,365
	Total	1,944		1,963

Table 22 below summarizes the estimates of candidate expenditure for the provincial election estimated at Rs. 2,632 Crores. There were 3,238 candidates who ran for the provincial election.

Table 22: Candidates' expenditure in provincial election

S.N.	Election Results	Number of Candidates	Average Expense per Candidate (in Rs. Crores)	Cumulative Expenditure (in Rs. Crores)
1	Provincial Winner	330	1.25	429
2	Provincial Runner-Up	330	1.17	399
3	Provincial Remaining	2,578	0.71	1,886
	Total	3,238		2,632

Table 23 shows that a total of 5,182 candidates ran for election in federal and provincial elections. The cumulative expenditure of candidates incurred in federal and provincial elections stands at Rs. 4,595 Crores. The total expenditure incurred in the provincial election exceeds that of the federal election. The average expenditure incurred by the candidates for the federal election is higher (estimated at Rs. 1 Crore) than the average expenditure (estimated at Rs. 0.81 Crores) made for the candidates for the provincial elections. This can be attributed to the fact that the number of candidates contesting the provincial elections was higher than those for federal. The cumulative average expenditure per candidate is estimated at Rs. 0.89 Crores.

Table 23: Cumulative expenditure in federal and provincial elections

S. N.	Elections	Number of Candidates	Cumulative Expenditure (in Rs. Crores)	Average Expense per Candidate (in Rs. Crores)
1	Federal election	1,944	1,963	1.01
2	Provincial election	3,238	2,632	0.81
	Total	5,182	4,595	0.89

Figure 5 below shows that the highest expenditure (94%) was incurred at the campaigning stage. The expenditure incurred during the campaign stage in the local election is less than the federal and provincial elections. Again, as much as 5% of the expenditure was made on the day of the election, when there should be no campaigning by the candidates and as such there should be no expenditure.

Figure 5: Election campaign finance by stages of the election period

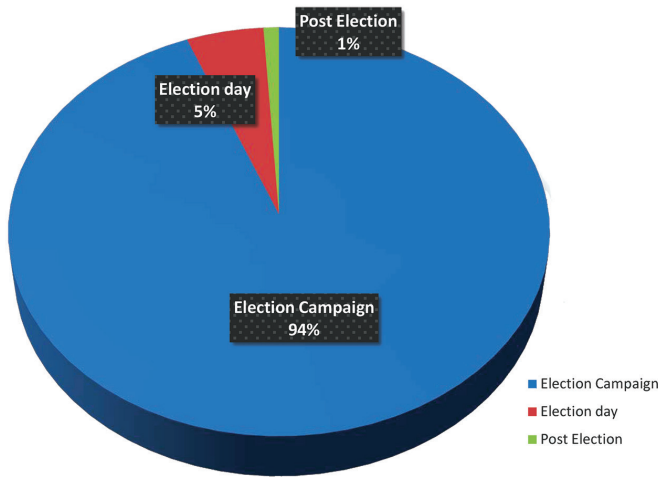
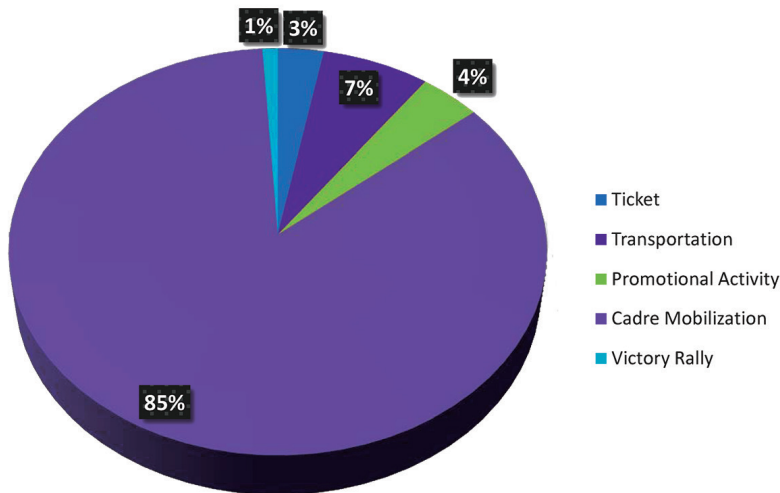


Figure 6 below shows that the single most expensive activity for the candidates is cadre mobilization. Cadre mobilization accounts for 85% of the total expenditure made by candidates. Cadres are used in all the activities that the candidate engages including securing candidacy, door to door household visits, and in organizing mass rallies.

Figure 6: Campaign finance by expenditure categories



8.2. Total Expenditure

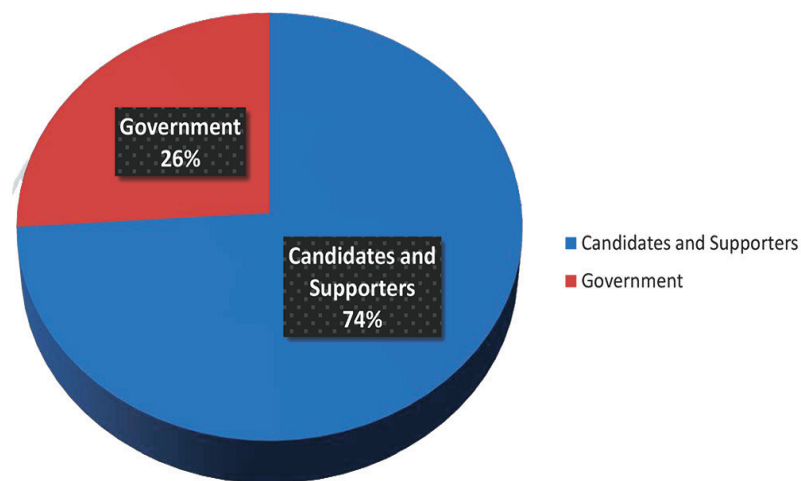
As with the local election, different stakeholders contributed to the expenditure made during the federal and provincial elections, including candidates and their supporters, the government, and political parties.⁶ The nation spent a total of Rs. 6,221 Crores on the federal and provincial elections. Table 22 below shows the expenditure made by the candidates and their supporters and the government.

Table 24: Stakeholder wise breakdown of the expenditure for federal and provincial election 2017

S.N	Contributors	Amount (in Rs. Crores)
1	Government	1,626
2	Candidates and supporters	4,595
	Total	6,221

Figure 7 below shows the breakdown of the expenditure made by the government, and the candidates and their supporters for the federal elections. The majority of the expenditure (74%) was made by the candidates. Because donations were made to individual candidates rather than parties, we can assume that the amount of money spent by the parties is minimal.

Figure 7: Breakdown of the expenditure for federal and provincial election 2017



The cost per voter during the federal and provincial election is estimated at Rs. 4,040. This is approximately 21% less than the cost per voter in the local elections. There has been a decrease in both the government expenditure (by approximately 11%) and candidate expenditure (by approximately 9%) in the provincial and federal elections as compared to the local

⁶ Party expenditure can be ascertained by the parties' Books of Accounts; however, the expenditure made during this fiscal year will only be public in July 2017. This study was unable to find the amount of money spent by during the federal and provincial elections.

election. Both the EC's expenditure and the security agencies' expenditure also decreased by 8% and 12% respectively in the provincial and federal elections as compared to the local elections.

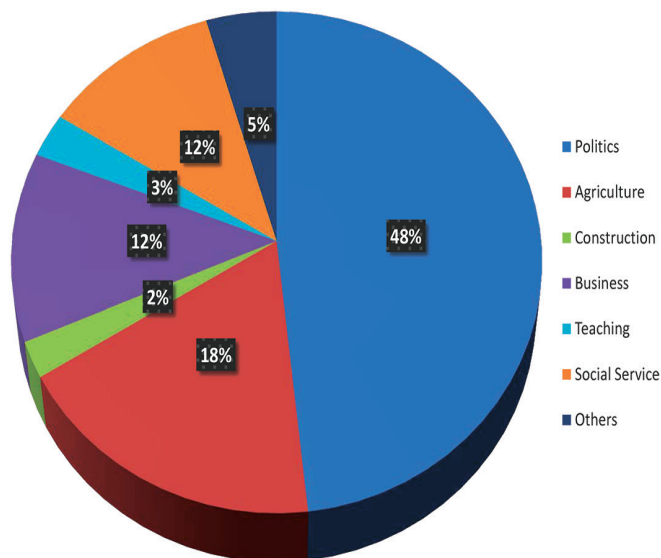
Table 25: Cost per voter in Federal and Provincial election

S.N.	Particulars	Amount
1	Total Expenditure (Rs. Crores)	6,221
2	Numbers of voters (Crores)	1.54
	Cost per voter (in Rs.)	4,040

8.3 Candidates by Profession

Candidates for the elections come from diverse backgrounds. Figure 9 shows this diversity in the provincial and federal elections: 48% of the candidates were from political backgrounds followed by 18% from agriculture, 12% from the business, and 12% from social service background. Although it is not surprising that individuals engaged in politics and social service secured candidacy during the elections, the increasing trend of individuals from business and construction sectors joining politics indicates that there is a strong nexus between business and politics.

Figure 9: Candidates by profession in federal and provincial election



8.4. Key Observations

Interviews and interaction meetings were organized with different stakeholders involved in the election process, such as civil society, non-government organizations, human rights commission, EC, election observer organizations, and local, provincial, and federal-level journalists. The majority of participants shared their happiness in the successful elections, the end of a prolonged period of political transition and the implementation of the Constitution of Nepal promulgated in 2015. They also expressed concerns regarding certain issues that called into question the electoral integrity of the federal and provincial. Following presents a summary of issues raised during the meetings for federal and provincial election.

- i) **Officials deputed at the polling stations were unable to vote:** Respondents were concerned that over 400 civil servants who were working at the polling booths on the day of the election could not exercise their voting rights because they were unable to go to their constituencies to cast their ballots.
- ii) **Silence period used to manipulate voters:** Some of the respondents claimed that candidates used the silence period to distribute money, clothes, gifts, drinks, and food to manipulate votes violating regulations against distribution of such materials and against canvassing during the silence period.
- iii) **Lack of debate on political agenda and commitments:** Many respondents believed that candidates were more focused on attracting voters rather than spending time on the discussion of their policies or commitments. The election manifestos circulated by parties and candidates did not have any significant impact on the voters. Even the political ideologies and commitments of the candidates were insignificant as money took center stage. Respondents believed that voters were lured by the demonstration effect and preferred to listen to those candidates who were willing to distribute money rather than to those who were trying to share their commitments.
- iv) **Ineffective voter education:** There were many concerns raised by the respondents on the adopted method and procedures on voter's education being adopted by the EC. Some of the key issues identified were as follows: i) school teachers, who were selected as volunteers, were unable to spare the necessary time required to impart voters education in constituencies; ii) volunteers were not independent as they were found to be leaning towards certain parties or candidates; iii) delay in the dispatch of materials for voter education; iv) voter education materials were not printed in local languages; and v) inadequate time allocated for voter education (volunteers were signed four days before the polling days). There were also concerns that the EC was not transparent about the recruitment of volunteers for voter education.

- v) **Delay in resolving election related disputes:** Respondents claimed that election related disputes, i.e. violation of election code of conduct and others were not resolved promptly. Respondents felt that promptness in decision making would encourage parties to abide by the election codes of conduct and all stakeholders to formally report misconduct or complaints.
- vi) **Vote manipulation by voting assistants:** There were concerns on the role of the voting assistants for the aged and disabled. Respondents noted that at a polling station, one assistant was helping several aged voters, pretending to be their relative, which raises question on the engagement of the assistant to manipulate the votes.
- vii) **Unsuitable polling dates:** Respondents felt that the polling date for the three level of elections were not suitable. While the local level elections were held during planting season, the provincial and federal elections were held during harvesting and winter season. Respondents felt that these conditions have, to some extent, adversely affected voter turnout.
- viii) **Community leaders, rather than individual voters, decide which candidate to vote for:** Respondents observed that in many cases, community leaders make the decision on which candidate to vote for.
- ix) **Cadres exploited the candidates:** In some instances, respondents found that the cadres were financially exploiting the candidates for their personal gain.
- x) **The election expenditure of the EC is questionable:** Respondents said that the EC has bypassed the prevailing financial regulations in the pretext of time constraints for purchases and contracts which raised concerns on their expenditure.
- xi) **Lack of monitoring on media coverage:** During the elections, respondents observed a lack of monitoring of media coverage. They claimed that many radios, TV channels, and print media violated election code of conduct. Social media was used to reach out to voters. Since this platform is not regulated, candidates used biased and misleading information to attack opponents.
- xii) **Misuse of Government Resources:** There were concerns on the misuse of government resources. A respondent cited an example from Kalikot where a helicopter was used to transport needles, threads, and sealing wax from Kathmandu as these materials were not found among the election materials sent to Kalikot. During first phase of elections held in the mountain regions, respondents claimed that helicopters were used to carry

ballot boxes to district headquarters. Since those ballot boxes were stored for days, until the completion of the second phase of election, respondents believed that the use of helicopters could not be justified to ferry the ballot boxes.

- xiii) Role of the temporary police:** Respondents observed that temporary police were selected based on recommendation of political leaders. Respondents also questioned the number and role of the temporary police during the election.
- xiv) Low success rate for women and Dalit candidates:** Respondents observed that there were a small number of women and Dalit candidates contesting the FPTP election. Of this number, an even smaller rate won the elections.
- xv) Lack of transparency in candidate selection:** Respondents noted high levels of nepotism while selecting candidates under proportional representation. They felt that there was not enough representation from the underserved candidates.
- xvi) Lack of transparency in financial transactions of political parties:** Respondents claimed that political parties do not keep records of their financial transactions; therefore, the financial reports submitted to the EC are not accurate. Donations made to parties and candidates are not recorded in the books of accounts and transactions made through this money also go unrecorded. A major reason for this is the fact that donations are not made using banking channels and receipts against the donations are not provided. Respondents believe that using banking channels and providing receipts would make campaign finance expenditures more transparent.

9. Aggregate Expenditure

The aggregate expenditure made in the three levels of elections in 2017 can be estimated by adding the expenditure incurred in each of the elections. Table 27 below shows the total expenditure stands at Rs. 13,163 Crores. While the expenditure made by the other sources such as donor agencies, and political parties has not been accounted for, the data from the local election shows that the two biggest expenditure sources, namely the government, and the candidates and their supporters accounts for over 90% of the total expenditure.

Table 26: Aggregate expenditure in 2017 elections

S. N.	Expenditure Source	Federal and Provincial	Local Level	Amount (in Rs. Crores)
1	Government	1,626	1,846	3,472
2	Candidate and Supporters	4,595	5,096	9,691
	Total	6,221	6,942	13,163

The expenditure incurred in the local election was costlier than those for provincial and federal levels because of the large number of candidates and relatively larger volume of administrative and managerial costs involved in the election.

10. Assessment of Electoral Integrity Framework

This study intends to objectively assess the financial integrity of the local, provincial, and federal elections. The Electoral Integrity Framework was used to assess the election as per the following:

Table 27: Electoral Integrity Framework in Nepal's elections in 2017

S.N.	Issues	Assessment
1	Candidate's ability to access public subsidies	NA
2	Candidate's ability to access political donations	Negative
3	Transparency of financial accounts	Negative
4	Influence of financiers	Negative
5	Improper use of state resource	NA

From the findings it is clear that the elections in 2017 did not uphold the electoral integrity because of the following key reasons:

Government does not provide subsidy for election campaigns: Nepal does not have any regulation to provide state funding to political parties and candidates for election campaigns. Although enacting a regulation to providing subsidy would be a positive step, given the magnitude of expenditure in the election, it is not an effective policy for Nepal.

Candidates do not have equal access to donations: Discussion with civil society members shows that not all candidates have equal ability to raise funds. Party leadership provided more fund to candidates with a fairly good chance of winning than those without candidates. Women candidates received the least amount of money in support of their election campaigns since they were not expected to win. Given that the amount of expenditure in the election campaign is related to the probability of winning the election, the restricted access to funds puts candidate's ability to compete in jeopardy while facilitating the victory of others.

Financial accounts are not maintained: The majority of candidates did not maintain separate accounting system for their election. Contribution received from their supporters was also not recorded. There are also claims that contributors use black money for political donations, which would not be accounted for in the donor's books of accounts. Many times, the amount of money spent by and for the candidate is underreported. The EC has set a ceiling on the amount that candidates can legally spend on their election campaigns. As a result, candidates tend to report below the ceiling applicable to them.

Transparency of financial accounts is not maintained: The following stakeholders did not maintain records of financial transactions during the election.

- i) **Political Parties:** Political parties do not accurately report their expenditure, even though, by law, they are required to make their sources and uses of funds public. The main reason for this is that donations are made directly to the party leaders and/ or candidates rather than to the party.
- ii) **Business Houses:** Business houses, big and small, do not publish records of their contribution to candidates and/ or political parties. Majority of the leading business houses choose to make individual contributions rather than in the company's name. Even when there is a provision for basket funds, where all members of a federation are to contribute, businesses contribute little to the basket funds and prefer to make personal contributions to candidates. These contributions generally go unaccounted.
- iii) **Candidates:** Candidates seldom maintain campaign income/ expenditure records. Even those who maintain records cannot give an estimate of the expenditure made directly by their supporters.

Financers seen to influence outcomes: Given the large sums of money being funneled into the election, financers have a strong role to play in the outcome of the election. In Nepal's local election, financing came from local businesses, in many cases brokers, and real estate agents. The financers chose candidates that they felt were going to win and ensured their victory by supporting them financially. This trend calls into question the strong but negative relationship between businesses, who necessarily have vested interest, and the people in power.

11. Conclusion

This study provides a glimpse into the campaign finance in the elections of 2017. Information collected, compiled, and analyzed suggests that candidates spent exorbitant amounts of money for their election campaigns. The influence of money on election outcomes is significant, thus violating the rights of candidates, who cannot raise the necessary funds to compete with their opponents and the rights of the voters, who have fewer options to choose from in the election. This is a cause of concern as higher spending has a direct and negative influence on the electoral democracy and also induces higher level of corruption in the country. This study has identified four key issues which are summarized as follows:

Probability of winning the election increases with an increase in campaign expenditure:

The data from the study confirms that the candidate whose capacity to spend more in the campaign expenditure has more chances of winning the election. The average expenditure made by the winning candidate for the federal election is Rs. 2.13 Crores while the average expenditure made by the runner-up is Rs. 1.49 Crores. The rest of the candidates spent Rs.0.85 Crores on average. A similar trend was observed in the provincial election results as well, where the winner spent Rs. 1.25 Crores, the runner-up spent Rs. 1.17 Crores, and the remaining candidates, on an average spent Rs.0.71 Crores.

A candidate spends more than a political party, donors, and the government combined:

A key reason for this is that candidates and/or the Party President, and not their parties, receive funds directly from supporters. This poses a question on the independence of the candidates and any policies or programs that they may advocate for once they are in office.

Government funding of candidates will be ineffective in Nepal:

Government's policy to fund candidates is a measure to offset the influence of financiers. In the context of Nepal, where spending in elections is sky rocketing, any funds that the government can afford to provide is insignificant in comparison to the funds that the candidate is able to raise and spend. Government funding of elections would add additional burden to the government's regular budget while having little to no impact on electoral integrity.

Stronger enforcement of the election code of conduct is imperative:

The EC has drafted pertinent policies to uphold the electoral integrity through the election codes of conduct. A stronger enforcement mechanism of such policies is vital to ensure that money, muscle, and manipulation in the elections are controlled.

12. Recommendation

Based on the findings and the conclusions derived, the following recommendations are proposed:

Recommendations for the EC

- i) **The EC should better enforce the election codes of conduct:** The EC should take stronger steps to ensure that the government, political parties, and the candidates strictly adhere to the election code of conduct. The EC must take action, in adherence to the law, against those who violate the code of conduct. The temporary police force can be used to report on the violation of the election codes of conduct.
- ii) **Temporary police should play a stronger role in enforcing codes of conduct:** Despite the existing security apparatus to maintain law and order as well as ensure the safety of the voters, the EC spent approximately Rs. 500 Crores hire temporary police to ensure safety and security during the election. To ensure that the temporary police are used more effectively, the EC should increase the role of the temporary police and train them in monitoring the election code of conducts. This will allow the EC to have better vigilance on the activities conducted by the candidates.
- iii) **The EC, and not the Government, should be responsible for announcing the polling date:** The dates for the elections were announced by the Government in consultation with the EC after informal consultations with political parties. The EC rather than the government should be responsible for announcing the election date to ensure electoral democracy and independency of polls.
- iv) **Orientation program should be conducted for party leaders:** There were issues with the closed list of PR candidates submitted by political parties. Some of the mistakes include selecting PR candidates who do not meet the selection criteria set by the EC and revising the priority list after it was submitted. This indicates a lack of understanding of the party leaders on the procedures for the PR system. The EC should organize an orientation program to help leaders understand/ appreciate the importance of the systems and procedures to be adopted in selecting candidates under the PR system.
- v) **Candidates should be required to present their budget for their election:** It is mandatory for candidates to disclose their property holding and expenditure details to the EC at the time of registering their candidacy. In addition to the incurred expenditure, candidates should also be asked to submit their election budget as a pre-requisite to registering their candidature. The expenditure details of the election campaign should tally with the pre-election budget estimates. The sources and uses of fund details of the candidates should also be published in the websites of the parties as well as in that of the EC. These steps will ensure better transparency in the sources and uses of funds.
- vi) **Contributions should be made by checks:** Record keeping of the amount of money spent on campaign finance is a key to limiting corruption. If contributions were made

using a formal banking channel, it would ensure that records are maintained by both the donors and the candidates. Regulation should be made to ensure that the private sector adheres to making contributions through checks.

Recommendations for the Government

- i) Tax incentives/benefit for corporate donation to political parties should be implemented:** The Income Tax Act of Nepal, 2002 has a provision to waive tax on donations upto Rs. 100,000 for a social cause under corporate social responsibility. There is confusion on whether this clause relates to donations to political parties. A similar clause on donation for political parties should be made explicit in the Act to encourage transparency of both the financers as well as the political parties as donors would declare their donations to claim tax benefit. No ceiling should be placed on the amount of money that can be contributed to candidates. The Government has not been effective in limiting the amount of money that is spent on election campaigns in spite of the expenditure ceiling. By incentivizing donations through formal channels, the government will be able to ensure more transparency in the sources of the money used for election campaigns. This tax benefit provided to donors will also be an indirect government contribution to candidate and their parties.

- ii) Voter Education should be more effective and pragmatic:** Voters' education should be initiated well ahead of time to ensure maximum voters are reached with vital information on issues such as the election codes of conduct, rights and responsibilities of voters, and voting procedure. Awareness on these issues can have an impact on voter turnout. Existing institutional set up, such as local NGOs and educational establishments at the local levels should be mobilized for this purpose. Including voter education in the school curriculum at the secondary school levels can be an effective way to educate future voters on their rights and responsibilities as voters.

- iii) Government should make provisions for voters to register temporarily from their temporary residence:** To ensure that a maximum number of their supporters vote in their constituency, candidates are known to bear transportation costs of their voters living temporarily outside their places of permanent residence. Government should allow voters to register temporarily from their current place of residence so that the transport cost is saved and the voters can exercise their right to vote.

Recommendations for the political parties

- i) Political parties should commit to uphold the election code of conduct:** Although effective monitoring is one way to ensure the codes are upheld, a more sustainable method would be for political parties to declare that they will uphold the election codes of conduct and follow through with it.

- ii) Decentralize authority for candidate selection:** When the party headquarters select candidates for the election, corruption is rampant, as was shown by the candidacy selection process during the 2017 elections. A decentralized candidate selection process would increase the possibilities of candidates being selected based on their established credibility and merits thus limiting the prevalence of buying candidacy. Local units of political parties should recommend candidates to be selected by the party leaders.

Recommendations for the private sector

- i) Private sector contributions should be routed through pooled contributions:** Industrial and Business federations such as Federation of Nepalese Chamber of Commerce and Industries (FNCCI) have been pooling resources from their members, to contribute to the candidates; however, the amount of money that is routed through this pooled system is limited. Business leaders still choose to hand over their contribution directly to the party or the candidate. A provision of tax break incentives for pooled contributions may be an effective method to ensure that the contributions are on record. A system of recording contribution would pave the way for election system to be more transparent and accountable.
- ii) Private contributors commit to uphold the election codes of conduct:** The election codes of conduct, which the private sector should strictly adhere to, regulate contributions. Making their contribution through a banking channel and disclosing the amount contributed will curtail issues with the exponential growth in the amount of money being used for campaign finance.

Recommendation for candidates

- i) Candidates should commit to uphold the election codes of conduct:** Across the board, candidates were known to have violated the election codes of conducts. For example, candidates have spent above the ceiling set by the EC and provided food and water to voters on the day of the election. Candidates should make a public commitment to abide by- and ensure that their supporters also abide by- the election codes of conduct. Additionally, candidates should also submit their campaign budgets and publish their financial reports as per the legal mandate.

12.6 Recommendation for voters

- i) Voters should select candidates based on merit:** Voters have been known to violate the election codes of conduct, i.e. by accepting cash and in kind contribution from the candidates during their election campaign. Voters are also known to be swayed by show of strength of candidates based on the capacity to organize larger participation in mass rallies and door to door home visits. Voters should be educated and empowered to use their sense of judgment on the basis of demonstrated merits of the candidates rather than vulgar show of monetary strength.

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Annexure

Annexure 1: Study Methodology : In order to fulfill the objectives outlined above, this study adopted the following methodologies.

Desk Review

The Desk Review includes study of the following documents related to election campaign finance.

- i) Journal articles on international regulatory framework governing election campaign funds;
- ii) Policies, relevant laws and by laws governing campaign finance of political parties in Nepal;
- iii) Budgetary allocations made by government agencies for election related expenditures;
- iv) Audit reports submitted by the political parties to relevant authorities;
- v) Media coverage on the income and expenditure of political parties or individual candidates during election campaign.
- vi) Materials published by the EC.

Interviews

In order to gather data about the expenditure patterns of the candidates in the local elections, a comprehensive quantitative questionnaire was developed and administered in four districts-Dang, Jajarkot, Kathmandu, and Morang. The four districts chosen were purposively selected to reflect expenditure patterns according to geographic coverage and urbanization. Data was gathered from metropolitan cities, urban municipalities, rural municipalities, and VDCs through personal and group interviews. The questionnaires were administered to successful and unsuccessful candidates, and local leaders and members of civil society. A total of 64 candidates for the post of Mayor, Deputy Mayor, Ward Chairman and Ward Member were interviewed individually and in groups. Local civil society members, including intellectuals, professionals as well as journalists, were also interviewed. A qualitative questionnaire was developed for interview with civil society members, analyst and local leaders. A total of 216 individuals were interviewed during the process.

For the calculation of election campaign expenditure in the federal and provincial elections, individual interview questionnaire was administered in 31 districts, namely Ilam, Jhapa, Panchthar, Dhankuta, Bhojpur, Morang, Okhaldhunga, Sunsari, Siraha, Shaptari, Dhanusha, Sindhuli, Kathmandu, Makwanpur, Nawalparasi, Kaski, Rupandehi, Kapilvastu, Syanja, Palpa, Dang, Salyan, Rukum, Rolpa, Surkhet, Jajarkot, Doti, Dadeldhura, Baitadi, Kanchanpur and Kailali. The questionnaires were administered during the interview candidates (winner and losers) and local leaders. A total of 186 candidates were interviewed for the federal and local elections.

Key Informant Interviews

Key Informant Interviews were conducted with representatives of nine political parties in Kathmandu, members of the EC and trade and industrial federations.

The following representatives of the nine political parties were interviewed.

- i) Communist Part of Nepal- United Marxist Leninist (CPN-UML)
- ii) Community Party of Nepal- Maoist Center (CPN-Maoist Center)
- iii) Nepali Congress (NC)
- iv) Rastriya Janata Party (RJP)
- v) Federal Socialist Forum (Democratic)
- vi) RastriyaPrajantra Party (RPP)
- vii) Sajha Party
- viii) Bibeksheel Party
- ix) Naya Shakti Party

Information Dissemination Workshops

Information Dissemination Workshops were conducted to share the findings of the study, seek opinion/ viewpoints/ recommendations from stakeholders and to gather further recommendations. Separate Information Dissemination Workshops were organized with the following key stakeholders:

- i) Election observation organizations;
- ii) Media;
- iii) Political parties;
- iv) Civil Society Organizations (CSOs).

Estimation of Expenditure

Estimation of election expenditure was made using both primary and secondary sources of information collected during the aforementioned individual and group interviews and interaction programs organized to share the findings of the study. The following table summarizes the sources of information used to generate expenditure incurred by the different entities.

S.N.	Spending entities	Sources of information
1	Candidates	Extrapolation of data on expenditures gathered through the quantitative questionnaires.
2	Government, including the EC and security agencies;	EC and Ministry of Finance
3	Political parties	Audit reports submitted to the EC

Annexure 2: Details of Foreign Commodity Grants for Local Election 2017

S. No.	Description of Commodity	Quantity	Currency	Amount	Donated by
1	Motorcycle	30	NPR	66,57,000.00	India
2	Scooter	7	NPR	14,02,800.00	India
3	Vehicle, double cabin pickup	35	NPR	11,70,75,000.00	India
4	Mahindra Scorpio	7	NPR	3,39,50,000.00	India
5	Vehicle (Tata Zest)	4	NPR	1,18,20,000.00	India
6	Mahindra XUV 500	1	NPR	72,25,000.00	India
7	Tata Winger Microbus	1	NPR	28,40,000.00	India
8	Tata LPO Minibus	1	NPR	52,25,000.00	India
9	Scissor	27,500	US\$	20,287.56	China
10	Calculator	27,500	US\$	1,06,120.48	China
11	Punching Machine	27,500	US\$	56,571.25	China
12	Rubber mat	21,500	US\$	2,07,418.00	China
13	Gel Pen	55,000	US\$	10,454.68	China
14	Scale	55,000	US\$	1,74,787.01	China
15	Glue stick	27,500	US\$	14,045.05	China
16	Stamp Pad	1,65,000	US\$	3,90,930.67	China
17	Stamp Pad Ink	82,500	US\$	87,081.30	China
18	Clock	27,500	US\$	2,49,600.75	China
19	Laptop Computer	900	US\$	5,32,800.00	UNDP
20	Toner Cartridge	900	US\$	1,89,900.00	UNDP
21	Computer Printer	900	US\$	28,800.00	UNDP
22	Commodity duty paid		US\$	79,500.00	UNDP

अनुसूची-२०
(नियम ४० संग सम्बन्धित)

निर्वाचन खर्चको विवरण

श्री जिल्ला निर्वाचन कार्यालय,
..... जिल्ला ।

..... जिल्लाको गाउँपालिका/नगरपालिका वडा नं. /गाउँ
कार्यपालिका/नगर कार्यपालिका/जिल्ला समन्वय समितिको अध्यक्ष/उपाध्यक्ष/प्रमुख/
उपप्रमुख/बडाअध्यक्ष/सदस्य/महिला सदस्य/दलित महिला सदस्य/दलित वा अल्पसङ्ख्यक सदस्य
पदको लागि (उम्मेदवारको नाम, थर) उम्मेदवार भएकोमा सो सम्बन्धमा
मैले/निज उम्मेदवारले गरेको सम्पूर्ण खर्चको विवरण स्थानीय तह निर्वाचन ऐन, २०७३ को दफा
६४ को उपदफा (२), स्थानीय तह निर्वाचन नियमावली, २०७३ को नियम ४० तथा आयोगद्वारा
स्वीकृत निर्वाचन आचार संहिता बमोजिम प्रस्तुत गरेको छु । निर्वाचन खर्चको विवरण देहाय
बमोजिम छ :-

क्र.सं.	खर्चको शीर्षक	कार्य परिमाण	खर्चको रकम	कैफियत
१.	मतदाना नामावली खरिद			
२.	सवारी साधन/घोडा			
३.	सवारी इन्धन/दाना			
४.	प्रचार प्रसार सामग्री			
५.	दुबानी			
६.	गोष्ठी/कार्यकर्ता परिचालन			
७.	अन्य प्रचार प्रसार, छपा एवं विद्युतीय माध्यम			
८.	कार्यालय सञ्चालन			
९.	प्रतिनिधि परिचालन			
१०.	विविध			
	कुल जम्मा			

सहिलक्षण :-

नाम, थर :-

मिति :-

उम्मेदवार/निर्वाचन प्रतिनिधि :-

About EOC-Nepal

The EOC-Nepal is dedicated to preserving, promoting and strengthening democracy in Nepal by observing the electoral process. EOC-Nepal's mission is to work as an umbrella civil society organization that conducts election observations to ensure free, fair, equitable, inclusive, and participatory elections. EOC-Nepal works in tandem with the Election Commission in strengthening the democratic rights of individuals and institutions. EOC-Nepal also works in partnership with a strong network of local civil society organizations located in different parts of the country. These organizations represent the geographic and demographic variety of the Nepal to ensure effective election observation.

In response to the lack of civil society organizations monitoring the Constituent Assembly election in 2008, EOC-Nepal mobilized its partner organizations to monitor the Constituent Assembly election in 2013. EOC-Nepal mobilized 342 observers, both long term and short term, to observe the election, support in the voter registration process and impart voter education. EOC-Nepal published a handbook on civic education and conducted civic education sessions in all five development regions. EOC-Nepal has also been involved in the local, provincial and federal elections in 2017. EOC-Nepal mobilized 377 observers to observe the local elections and 315 districts during the federal and provincial elections. EOC-Nepal also conducted a study on the election campaign finance in the elections in 2017.

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