

General Studies – 2; Topic: Important aspects of governance, transparency and accountability

Electoral Bonds in India

1) Introduction

- Electoral bonds are essentially bearer bonds that ensure donor anonymity.
- They are just like cash, but with an expiry date.
- They will be issued by a notified bank for specified denominations. The party can convert these bonds back into money via their bank accounts.

2) Issues in Political Funding after changes made in 2016 and 2017

- Through the Finance Act, 2016, FCRA rules were amended to allow political parties to accept donations from foreign companies.
- A foreign company can anonymously donate unlimited sums to an Indian political party without the EC or the IT department ever getting to know.
- Through Finance Act, 2017 amendments were done to RPA, Companies Act and IT Act.
- RBI Act was also amended for the issuance of Electoral Bonds
- The amendment in the Finance Act eliminates the 7.5% cap on company donations, which means even loss-making companies can make unlimited donations.
- There is no requirement for a company to have been in existence for three years (paving the way for fly-by-night shell companies)
- Companies no longer need to declare the names of the parties to which they have donated (so shareholders won't know where their money has gone).
- The funding for opposition parties may be affected.
- The annual contribution reports of political parties to be furnished to the EC need not mention names and addresses of those contributing by way of electoral bonds.
- This will have a major implication on transparency in political funding.

3) Transparency in Political funding

- Transparent method of funding political parties is vital to the system of free and fair elections.
- The 255th Law Commission Report on Electoral Reforms observed that opacity in political funding results in “lobbying and capture” of the government by big donors.
- According to Association of Democratic Reforms, 69% of the income of political parties is from unknown sources.
- Transparency in political funding in India is abysmal.
- Lower the transparency in political funding, the easier it is for the super-rich to influence the government and higher is the crony-capitalism.
- The real incomes of political parties are much greater than their declared income.
- This unaccounted income is not captured by EC or IT department.

4) Way Forward

- If the country is moving towards digitization, even the Rs.2000 which can be paid in cash to the political parties should be paid online.
- Former Chief Election Commissioner S.Y. Quraishi has suggested a National Electoral Fund to which all donors can contribute.

- The funds would be allocated to political parties in proportion to the votes they get.
- This protects the identity of donors and also weeds out black money from political funding.
- Since public funds will be involved, there must be an annual audit by the CAG or an auditor approved by it.
- If all the transactions being done by political parties are regulated by a legislation, it might prove to be more effective and simple.
- Excluding candidates against whom there are evidences of spending black money from future elections can act as a strong deterrent.
- Voters have to be made aware through awareness campaigns about illeffects of money power during elections.
- State funding of political parties as proposed by Indrajit Gupta Committee will ensure a level playing field for all the parties.
- Bringing political parties under the preview of RTI act.

