



ELECTORAL BOND SCHEME - POLITY (MAINS)

Q. Electoral bonds, contrary to government claims, wreck transparency in political funding. Elucidate (10 marks, 150 words)

News: *Challenging the Electoral Bond Scheme*

What's in the news?

- Political parties in India have traditionally been averse to any sort of public scrutiny of the sources and applications of their funds.
- With the constitutionality of electoral bonds being contested more strongly, the citizen must push for a more level-playing field in the next round of elections.

Electoral bonds:

- Electoral bonds are **interest-free bearer instruments (like Promissory Notes)** that will be available for purchase from the State Bank of India within a designated window of 10 days in every quarter of the financial year.
- Electoral bonds allow donors to pay political parties using **banks as an intermediary**.
- It can be bought for any value in multiples of Rs 1,000, Rs 10,000, Rs 1 lakh, Rs 10 lakh or Rs 1 crore.
- These can be redeemed only through the registered accounts of a political party in a prescribed time frame.
- **It aims at rooting out the current system of largely anonymous cash donations made to political parties which lead to generation of black money in the economy.**

Who is eligible to purchase electoral bonds?

- A **citizen of India or a body incorporated in India** will be eligible to purchase the bond.
- The purchaser is allowed to buy electoral bonds only on due fulfilment of all extant **KYC norms** and by making payment from a bank account.
- It will not carry the name of the payee, thereby maintaining **anonymity of the purchaser**.

Validity:

- It will have a **life of 15 days** during which they can be used to make donations to registered political parties.
- The bond can be encashed by an eligible political party only through a designated bank account with the authorized bank.
- The electoral bonds will be available for purchase for a period of 10 days each in months of January, April, July and October with additional 30 days to be specified by the



Central government in the year of general election so that this does not become a parallel currency.

Who can avail funding?

- Political parties that have **secured not less than 1% of votes polled in last general election to Lok Sabha or Assembly can avail funding through these bonds.**

Who is eligible for issuance of bonds?

- The bonds are issued by Scheduled Commercial banks upon authorization from the Central Government to intending donors but only against cheque and digital payments (it cannot be purchased by paying cash).

Why is it needed?

1. Cut out anonymous source of funding:

- According to Association for Democratic Reforms (ADR), most political parties use a lax regime on donations to accept cash donations from anonymous sources. Nearly 70% of Rs. 11,300crore in party funding over an 11-year period came from unknown sources.
- The electoral bonds will prompt donors to take a banking route to donate, with their identity captured by the issuing authority.

2. Transparency in funding:

- Promoting transparency in funding and donations received by political parties.
- Building a transparent system of acquiring bonds with **validated KYC and an audit trail.**

3. Ensures Accountability:

- Donations through electoral bonds will only be credited in the party bank account disclosed with the ECI.
- As encashment of all the donations are through banking channels, every political party shall be obliged to explain how the entire sum of money received has been expended.

4. Maintains Anonymity:

- The individuals, groups of individuals, NGOs, religious and other trusts are permitted to donate via electoral bonds without disclosing their details.
- Therefore, the **identity of the donor is being preserved.**

Concerns:

1. Anonymity:

- Neither the donor nor the political party is obligated to reveal whom the donation comes from.

2. Black Money:

- The sale of electoral bonds had become an **avenue for shell corporations** and entities to park illicit money and even proceeds of bribes with political parties.



3. Tax Exemption:

- Electoral Bonds donations **enjoy 100% tax exemption**. Further, they need not be reported to the Income Tax department either.

4. Removal of Cap on Net Profit Donations:

- The government has removed the eligibility cap for funding political parties. Earlier a company can make a political contribution only if it has 7.5% of the net average profit for three preceding financial years.
- Thus, Electoral bonds open up another route to further the **unholy nexus between corporate houses and political parties**.

5. Foreign funds:

- The **Foreign Contribution Regulation Act, 2010** has been amended to exempt from scrutiny foreign funds received by political parties with retrospective effect from 1976.

6. Black Money:

- The amended Companies Act allows any foreign company registered in India to make contributions through bonds to political parties despite doubts about who or where its real owners are.

Election Commission Observations:

- The Election Commission of India called these measures as a retrograde step and the ECI has no way to ascertain whether the donations were received illegally by the political party from government companies or foreign sources.
- The Election commission also **expressed concerns that these amendments would pump in black money for political funding through shell companies and allow unchecked foreign funding of political parties in India which could lead to Indian politics being influenced by foreign companies**.
- In an affidavit filed before the Supreme Court, the Election Commission of India has made the following observations:
 - Electoral bonds, contrary to government claims, **wreck transparency in political funding**.
 - Electoral bonds coupled with the **removal of the cap on foreign funding invites foreign corporate powers to impact Indian politics**.
 - Electoral bonds would cause a “serious impact” on transparency in the funding of political parties.
- The Election Commission of India further criticizes amendments made to various key statutes through the two consecutive Finance Acts of 2016 and 2017.

WAY FORWARD:

1. Measures to ensure transparency in political funding:

- To make electoral funding transparent, two types of needs should be addressed such as
 - The funding of political parties, which need to engage in political activity all through the year, whether there is an election or not.
 - The funding of candidates.



- The electoral bonds scheme makes no sense, and needs replacement with a more transparent means of funding political parties, where both the donor and political recipient are identified clearly.

2. National Electoral Fund:

- An alternative to electoral bonds is 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.**
- Not only would this protect the identity of donors, it would also weed out black money from political funding.
- At the candidate level, we have to seriously consider state funding.
- Direct funding of candidates, who will be reimbursed according to their final share of the votes cast is needed.

3. Details to be submitted to Election Commission:

- There should be **clear provisions for getting tax benefits** for all those making such donations.
- Make it mandatory for political parties to submit details of all donations received with the Election Commission and also with the income-tax department.

4. State funding of election:

- State funding of political parties can be considered.
- The **Indrajit Gupta Committee on State Funding of Elections** had endorsed partial state funding of recognised political parties.

5. Bringing political parties under RTI to make it more accountable and transparent.

