

13th Annual National Conference on Electoral and Political Reforms

Date and Venue: 29th March, 2017 at Panjab University, Chandigarh

Background Note

Session: Increasing opacity in Political Financing

The Union Budget 2017 was unique in the sense that Finance Minister in his speech acknowledged the fact that even 70 years after Independence, the country has not been able to evolve a transparent method of funding political parties which is vital to the system of free and fair elections. This was followed by a rare admission that despite several amendments in the laws, the situation has marginally improved as political parties continue to receive most of their funds through anonymous donations.

Earlier this year an analysis done by the Association of Democratic Reforms (ADR), brought to light that 69% of the total income of 6 national parties and 48 regional parties, between FY 2004-05 and 2014-15, was from unknown sources.

Although this was the first Union Budget to raise the issue of transparency in political funding with an attempt to make parties accountable, it was disappointing to note that the proposed reforms seemed inconsequential as political funding continued to remain opaque. While digital mode of payment had been encouraged, other forms of anonymous donations such as sale of coupons, which form one of the largest sources of income for political parties, have not been curtailed. For complete transparency, apart from digitization of donations, the Government of India could also have taken immediate steps to implement other electoral and political reforms proposed by the ECI and the Law Commission. Above all, the government could have extended the ambit of Right to Information Act to include all national and regional parties.

Through the Notice of Amendments to the Finance Bill, 2017, the government amended Section 182 of the Companies Act, 2013, to lift two earlier requirements: 1) The cap on donations to political parties and 2) The requirement to list the name of the political party on the company's books. This amendment allows companies to donate unlimited amounts of money to political parties without disclosing the name of the parties to whom this money is being sent to.

Further, some experts have also pointed out how loophole in the Finance Bill, 2017 makes political parties a preferred vehicle for money laundering, now, despite the cashless nature of donations.

The Finance Bill also introduced a new mechanism of funding political parties via "electoral bond". A corporate house now can buy these time-limited bearer bonds from scheduled banks and transfer those bonds to the registered bank accounts of political parties, without disclosing their identity. Though these funds will flow through the banking system, corporations are neither obliged to disclose their purchases nor are parties required to report their deposits.

In the light of these regressive amendments which pose a serious threat to our democracy, this discussion could delve into two things, first, possible ways in which these clauses can be exploited and second, the way forward to counter the opaqueness brought about by the Finance Bill, 2017. The role of opposition, judiciary, civil society, media and citizens could also be explored.