

## **15<sup>th</sup> Annual National Conference on Electoral and Political Reforms**

**Date and Venue: 2<sup>nd</sup>-3<sup>rd</sup> March, 2019 at DDU State Institute of Rural Development, Lucknow**

### **Background Note**

#### **Session: Electoral Bonds and Financial Opacity**

In a major move aimed at promoting transparency in political funding, Finance Minister Mr. Arun Jaitley had in his Budget speech 2017-18 announced capping of anonymous cash donations to political parties at Rs 2,000 and introduced electoral bonds. This was followed by a Finance Bill, through which it became absolutely clear that Govt intended to keep the donor identity anonymous through electoral bonds, by its amendments to the Section 13A of the Income Tax Act and to Section 29 of The Representation of the People Act.

A corporate house now can buy these time-limited bearer bonds from scheduled banks and political parties will have to encash those bonds within 15 days. Unlike donations to electoral trusts where corporates are required to disclose donations to political parties, corporate donations through electoral bonds are not available in public domain. Though these funds will flow through the banking system, the political party might not be aware of who the donor is. All the donations made to a party will be accounted for in the balance sheets without exposing the donor details to the public.

In an interview to The Economic Times, the former CEC O P Rawat expressed that Election Commission's concerns have not been addressed in the Electoral Bond Scheme notified on January 2 last year. He further added that, "There are many grey areas in this because when there is no ceiling on party expenditure and the EC cannot monitor it, how can you be sure that what is coming in is not black money as there is a secrecy of the donor. Foreign money can come and even a dying company can give money now because the clause that insisted that only companies with minimum 7.5% profit in last three years could donate has been removed. So, prima facie it appears the scheme cannot really deliver whatever it was intended to<sup>1</sup>."

The Election Commission, in its reply to a question on electoral bonds by the Parliamentary Standing Committee on Personnel, Public Grievances, Law and Justice, said: "These bonds can only be bought through cheque/e-transfer and therefore clean tax paid money could be used for political funding through electoral bonds... However, the amendment in Section 29 C of the Representation of the People's Act, 1951, making it no longer necessary to report details of donations received through electoral bonds, is a retrograde step, as transparency of political funding would be compromised..."

Reiterating similar sentiments, Dr. Milan Vaishnav writes, "The big loser here is the public. With the stated intention of improving "transparency in electoral funding", the government has accomplished precisely the opposite objective. Consider the fact that corporations can now legally give unlimited sums to political parties which, in turn, can accept unlimited sums of money—all without having to disclose a single rupee. This money will now be subject to a digital paper trail, but this is explicitly meant to be off-limits to the media, civil society and the general public."

Electoral bonds aggregating to Rs 1,056 crores were purchased by citizens or entities till the completion of the sixth phase of issuance of electoral bonds in November 2018, out of which bonds worth Rs 11.2 crores were not encashed<sup>2</sup>.

<sup>1</sup><https://economictimes.indiatimes.com/news/politics-and-nation/none-of-our-concerns-related-to-electoral-bonds-have-been-addressed-cec-rawat/articleshow/66802495.cms>

<sup>2</sup><https://factly.in/in-2018-electoral-bonds-worth-%E2%82%B9-1056-crores-were-purchased-1-of-them-were-not-encashed/>

In terms of the demand for electoral bonds, analysis of bonds purchased in the six cycles of 2018 reveal that there is hardly any demand for bonds of lower denomination (Rs 1000 and Rs 10000). Bonds of 1 crore denomination accounted for 89.9 per cent while those of 10 lakh denomination accounted for the remaining 10 per cent<sup>3</sup>. In light of the forthcoming General Elections, in the January 2019 cycle itself, data from SBI suggests that a total of 937 bonds worth more than Rs 350.36 crores were purchased in nine cities<sup>4</sup>. Bonds in the denomination of Rs 10 lakh and Rs 1 crore accounted for 99.38% of the total amount. In terms of the amount, bonds purchased in January 2019 are second only to bonds purchased in October 2018.

An analysis of donations to India's six national political parties, during the fiscal year 2017–18, revealed that the BJP was the biggest beneficiary of electoral bonds. BJP received nearly 95 per cent (Rs 210 crore) of the total of Rs 222 crore that was routed to political parties through electoral bonds<sup>5</sup> while Congress declared receiving electoral bonds worth Rs 5 crore only<sup>6</sup>. Electoral bonds did not find any mention in the reports of other parties also including NCP, BSP and CPI. Analysing the issue, Jagdeep Chhokar (founder of ADR) said, "One of the insidious features of electoral bonds is that it has the potential to choke the flow of money to the opposition parties and give the lion's share to one party<sup>7</sup>.

In the light of the above, the discussion should focus on suggesting possible modifications to the existing electoral bond scheme for ensuring transparency in political funding to the extent possible. It should also reflect on the role of opposition, media, and civil society in highlighting the problematic areas with respect to the scheme.

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<sup>3</sup><https://www.thequint.com/news/india/electoral-bonds-rs-1056-cr-bought-2018-1-percent-not-encashed>

<sup>4</sup><https://factly.in/electoral-bonds-worth-more-than-%E2%82%B9-350-crores-purchased-in-january-2019-more-than-50-in-kolkata/>

<sup>5</sup><https://adrindia.org/content/analysis-income-and-expenditure-national-parties-fy-2017-18>

<sup>6</sup><https://economictimes.indiatimes.com/news/politics-and-nation/congress-receives-1/5th-of-funds-bjp-gets-from-donors-audit/articleshow/67582204.cms>

<sup>7</sup><https://caravanmagazine.in/politics/political-donations-2017-18-bjp-highest-congress>