

Background Note

Making flow of money in politics transparent: a case for good governance

The hallmark of a vibrant democracy is the conduct of free and fair elections with all candidates and political parties having a level playing field. This gets askew when there is a free flow of unaccounted money at the disposal of political parties, especially during elections. Based on the declaration of income of parties and details of donations received above Rs 20,000, it is now a well-known fact that about 75% of the funding of National Political Parties is from 'unknown sources'. Since there is no limit on their expenditure during elections, political parties enjoy complete freedom of campaigning and flaunt their money power. This prompted the Supreme Court to say "...this type of naked display of black money, by violating the mandatory provisions of law, cannot be permitted"*.

During the Lok Sabha 2014 elections, Election Commission of India seized Rs.331 crores of unaccounted cash, 225 litres of liquor and 1.85 kg of drugs from across the country in their efforts to ensure the conduct of free and fair elections.

The cost of contesting elections has shown a sharp increase over the last decade. The funds collected by National Parties during Lok Sabha elections increased by 418% and the expenditure increased by 386% between 2004 and 2014 Lok Sabha elections. The total donations received by BJP, INC, NCP and CPI during FY 2013-14 showed an increase of 158% over the previous year. It is to be noted that these figures only represent 8.9% of the declared income of the six national political parties and that about 75% of the income is from unknown sources. With such large volume of money flowing, it is imperative to focus attention on the cloud of opacity surrounding political and election finance, and to examine the implications that such free flow of unaccounted cash has for good governance.

While on the one hand political parties showcase their money power during elections, an analysis of the donations to INC and BJP showed their receipt of donations from foreign sources. Under the FCRA Act, political parties are not permitted to accept contributions from foreign companies or companies in India controlled by foreign companies. With over Rs 29.26 crores received from foreign sources as declared by INC and BJP, these National Parties have set an undesirable precedent that would erode the confidence of the people apart from having long term implications due to the reasonable inference of quid-pro-quo arrangement between the donors and the parties.

INC – FY 2004-05 to 2011-12			BJP- FY 2004-05 to 2011-12	
S. No	Name	Total Donation	Name	Total Donation
1	Sterlite Industries India Ltd	6,00,00,000	Public & Political Awareness Trust	14,50,00,000
2	Sesa Goa Limited	2,78,50,000	Vedanta The Madras Aluminium Co Ltd	3,50,00,000
3	Solaries Holdings Ltd.	1,00,00,000	Sesa Goa Limited	1,41,50,000
4	Hyatt regency	5,00,000	Dow Chemical Int., P. Ltd.	1,00,000
Total		Rs 9.835 crores	Total	Rs 19.425 crores

Good governance is possible only by the strengthening of democracy with robust, transparent, internally democratic and accountable political parties. Transparency is essential for accountability, both of which are in turn the quintessential cornerstones of good governance. Political parties being the fundamental instruments of democracy, play a crucial role in policy making and forming government and therefore are

*Supreme Court judgement - Common Cause Vs. Union of India [(1996.(2).SCC.752)]

an integral part of the governance structure. Therefore transparency in the functioning of political parties, especially financial transparency, is of utmost significance to good governance.

As a concentrated effort to usher in political reforms, ADR filed a Public Interest Litigation (PIL) in the Delhi High Court seeking directions from the Court to monitor and regulate the expenditure of political parties on and during elections. Funds collected by political parties during election period is from unknown sources and without a limit on expenditure, the political parties brazenly buy votes and indulge in corrupt practices as media reports specify. Thus, careful monitoring and regulation of expenditure of political parties would pave the way for truly free and fair elections as envisaged in the Constitution.

ADR also filed a PIL in the Delhi High Court on the foreign funding received by INC and BJP, specifically from Vedanta and its subsidiaries between FY 2004-05 and 2011-12. While the Delhi Court held the two National Parties guilty of receiving funds from foreign sources, INC has filed a petition against the judgment in the Supreme Court. The battle for transparency continues.

Certain significant questions that come to mind are:

- Is lack of financial transparency in political parties fostering a fertile conduit for flow of black money into our political and economic system?
- How do the linkages between lack of transparency in political parties, flow of black money and criminalization of politics affect good governance?
- Can financial transparency of political parties help us cross a milestone in our journey towards good governance?
- How do we address the challenges in bringing transparency to the flow of money in politics?

The Election Commission of India (ECI) on 29th August, 2014, issued guidelines to all the political parties listing ways to increase transparency and accountability in party funds and election expenditure not only during elections but also in other times. Some salient points of the guidelines are as follows:

- Political parties are required to keep and maintain books of accounts and documents so as to enable calculation of the parties' income.
- All payment of expenses exceeding Rs 20,000, should be paid by cheque/draft and not by cash.
- While providing lumpsum amounts to candidates for campaigning during elections, political parties shall not exceed the ceiling prescribed for expenditure by the candidate and that the payment should be made only through crossed cheque/ draft or bank transfer.

In an effort towards making political parties transparent, the Central Information Commission, on 3rd June 2013, declared the six national parties as public authorities, thus bringing them under the purview of the RTI Act 2005. Twenty months since, as the order stands unimplemented by political parties, raises grave doubts regarding the willingness/ intentions of political parties towards transparency.

ADR hopes this panel discussion will provide a platform to all the stakeholders, viz. civil society activists, Constitutional experts, Election Commission, as well as political party representatives to come together and examine these and other aspects of transparency in the flow of money in politics, with a specific focus on its relation to good governance. Good governance is, ultimately, the true manifestation of a successful democracy.