

Reforming political parties

The need of the hour: pushing for financial transparency and accountability within parties

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The life of the democratic state is built upon the party system," Harold J Laski said in his classic text, *A Grammar of Politics*. Political parties, despite being non-governmental entities, are the means through which a modern, democratic nation-state is operationalised. Political parties, by way of representing the populace in parliament and state assemblies, reflect various shades of opinion, thereby giving shape to people's political aspirations and beliefs. Political parties are thus the building blocks of a constitutional democracy. The central information commission of India (CIC), in one of its judgments held that political parties are "responsible for the growth and development of the society and the nation. Political parties affect the lives of citizens, directly or indirectly, in every conceivable way and are continuously engaged in performing public duty. It is, therefore, important that they become accountable to the public."

In this context, the election commission of India (ECI), on August 30 2013, sought consultation with all 53 recognised political parties, having issued ten guidelines to them regarding the need to increase financial transparency and accountability. The ECI voiced its concerns in its letter to political parties, saying that it felt that the undue power of money could be curbed in

elections if guidelines were established which would ensure financial transparency and accountability on the part of political parties. These guidelines are as follows:

1. The responsibility of maintaining the books of accounts of the party at all levels should be vested in the treasurer of the party, or a person authorised by the party.
2. The treasurer of the political party should maintain consolidated accounts at the central party headquarters (including state and local units) as required by audit purposes, conforming to standards issued

by the Institute of Chartered Accountants of India (ICAI).

3. Appropriate acknowledgement/receipt should be issued for every amount of contribution or donation received by political parties, and details should be maintained according to accounting standards.
4. All donations received should be deposited in the political parties' bank accounts within a reasonable amount of time.
5. The treasurer should ensure that all funds raised for the party are used only for party activities, as enshrined in the party rules and



- constitution.
6. All lump-sum amounts given to candidates for their election campaign expenses should be given through account payee cheques, draft, RTGS, NEFT or internet transfer. It should be ensured that the amount does not exceed the ceiling prescribed for candidates. The party should also obtain a utilisation certificate from the candidates for funds disbursed to them.
 7. The treasurer should ensure that any payment or aggregate of payments made from the party account to any person, company or agency exceeding Rs. 20,000 in a day is done only by account payee cheque, draft, RTGS, NEFT or internet transfer.
 8. The party should ensure that any donation or contribution from a person or company exceeding ₹20,000 in a financial year is received through account payee cheque, draft, RTGS, NEFT or internet transfer.
 9. During the election process, the political parties may ensure that any party candidate or worker does not carry party funds in cash, exceeding a specified amount.
 10. Political parties should get their accounts audited for every financial

year and submit a copy of the audited accounts to the ECI before September 30, or before the due date for furnishing return of income of that financial year along with their contribution report.

A total of 17 political parties responded to the ECI guidelines. Five out of six national parties responded to the ECI guidelines, the only exception being the BJP, which did not even acknowledge the receipt of the ECI's letter. BSP cited the lack of time due to the ongoing state assembly elections; thereby acknowledging the receipt of the guidelines but without stating its position on them. Three national parties, NCP, CPI and CPM, and five recognised parties – IUML, JVM-P, SAD, SDF and Shiv Sena

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– agreed with the guidelines. While the All India NR Congress (AINRC) was the only party to give additional suggestions to the ECI, DMK, DMDK and ZNP only partially agreed with the guidelines. JD(U) and SP maintained that it would create undue hardship to maintain the details of persons contributing to their respective parties in excess of Rs. 1,000 and that this limit should be increased to Rs. 20,000 and Rs. 50,000 respectively.

The parties which gave detailed responses and arguments include the Congress, AIADMK and AITC (that is, Trinamool Congress). Their responses to all the guidelines are summarised in the table.

A few common threads of responses were also observed in the replies furnished by the political parties to the ECI. Several political parties suggested that the ceiling of Rs. 20,000 for payments that can be made in cash by political parties should be increased, taking into account the declining purchasing power of the rupee, inflation and urgent requirements on part of the parties. A few political parties also cited the lack of banking facilities, especially in rural areas, as the reason behind the candidates carrying cash for election campaign purposes. The CPI and CPM stated that acknowledging donations and collections during hundi meetings, mass assemblies, functions or camps would be difficult, as many such collections were very small and done at large gatherings. Political parties also maintained that obtaining a utilisation certificate from candidates would increase and even duplicate their paperwork, since candidates are anyway expected to submit an account of their expenses to the ECI. A majority of political parties, which responded, agreed to have their accounts audited and submit a copy of the same to the ECI.

According to the IT returns submitted by them, the total income of the six national political parties between FY 2004-05 and 2011-12 is Rs. 4,895.96 crore. Of this, a whopping Rs. 3,674.50 crores or 75.05% comes from unknown sources. The BJP, the only national party not to have responded to the ECI, has not declared the sources for 73.04% of its income between FY 2004-05 and 2011-12, which stands at a sum of Rs. 952.58



PHOTOS: ARUN KUMAR

 ECI guidelines	 Congress	 AIADMK	 AITC
Maintenance of books of accounts of party be vested in the treasurer of the party	May not have any objection, but safeguard is required so that sole responsibility does not lie at the central level alone.	May be accepted.	In operation.
Maintenance of consolidated accounts at central party headquarters, as required by audit purposes, conforming to ICAI	Being followed.	Account should be maintained at party headquarters only, local units to follow their respective party procedures.	Noted.
Acknowledgement receipts for each donation	Difficult to follow, not under the ambit of Article 324. Political parties are not required to maintain details for donations under Rs. 20,000. Political parties collect funds in various ways.	All parties are required to maintain their account details; no need for separate instructions.	Noted.
All donations to be deposited in the party's bank account within a reasonable amount of time	Should be up to the party to decide if they want to deposit their funds into their a/c or keep it on office premises for direct use.	May be accepted.	Noted.
All funds to be used for party activities	Agreed, but the violation of such authorization is an individual act of culpability for which the Treasurer cannot be held responsible.	May be accepted.	Political parties should be allowed to incur expenditure incidental and ancillary to activities mentioned in the memorandum.
Lump sum provided to candidates for campaign expenses through formal bank transfers, should meet ceiling and should be followed by a utilization certificate	The method of disbursing funds is outside the scope of the RPA. Not possible to disburse funds only through banking measures. Party ensures ceiling. Candidate already accounts for his/her expenses.	No need for utilization certificate as the candidate and their political party have to show their respective expenses in their a/c to the ECI.	Candidate should give same expenditure statement as the one submitted to their party, to reduce paperwork.
Payments from party a/c over Rs. 20,000 should be made through formal bank transfers	Election campaign is complex - suggestion difficult to implement; disbursement takes place through various ways. ECI may consider suggesting an amendment to RPA.	Payment up to Rs. 20,000 can be paid by cash for each transaction.	Given inflation, limit of Rs. 20,000 should be increased in proportion.
Any donation received by the party exceeding Rs. 20,000 should be made through formal bank transfers	Deviation requires statutory amendment.	Impracticable, given the number of members in the party, it is impossible to track the cash receipts exceeding Rs. 20,000 from a single person.	Numerous ways of collection of funds, which cannot be formally received through a banking channel.
During election process, no party worker / member should carry party funds in cash exceeding a certain amount	Difficult to implement - ECI should suggest an amendment of RPA 1951 or frame rules that reflect the consensus. Local expenses do not get reported at HQ, only accounting is possible.	Cash limit can be set at 10% of election expenditure ceiling limit.	Specified amount not mentioned by ECI. To make payments, candidates have to carry liquid cash. Thus the aggregate amount may exceed lakhs.
Political parties should get their accounts audited for every financial year and submit its copy of the audit to the ECI	RPA does not require political parties to submit an audited report to the ECI - they are only required to submit the details of donations exceeding Rs. 20,000 to the ECI.	Political parties comply with statutory requirements under the IT Act 1961 - no necessity to file accounts as proposed.	Noted.

crore. BSP, which requested the ECI for more time, has declared that it has not received even one donation above Rs. 20,000/- between FY 2004-05 and 2011-12, and therefore has not revealed the names of any donors. Moreover, of BSP's total income of Rs. 497.44 crore between FY 2004-05 and 2011-12, Rs. 307.31 crore

(or 61.78%) are from unknown sources⁵.

There are already specific formats provided to the political parties in which they are expected to submit their donations report (Form 24A). Similarly, at the time of registration, political parties commit to submit a copy of their annual audited reports, details of any

internal elections, change of address etc. Through various RTIs to the ECI, ADR has observed that even these mandatory procedures have not been followed by the parties. Hence, apart from introducing new guidelines on financial transparency, the need of the hour is to have concrete regulations governing the functioning of political parties, including their sources of income, a ceiling on their election expenditure and details of all donors. It is disheartening to see that out of 53 parties, only 17 parties have responded to the circulated guidelines by the ECI.

Similar to the recent supreme court judgment dated March 10, 2013 which gave the ECI powers under Section 10A of Representation of People's Act to disqualify candidates for filing incorrect election expenditure statements, the commission should be given the authority to penalise defaulting parties. ADR believes that promoting financial transparency and accountability on part of political parties will only help strengthen our democracy. ■

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1. Judgment of the CIC declaring National Political Parties as public authorities http://www.rti.india.gov.in/cic_decisions/CIC_SM_C_2011_000838_M_111223.pdf
2. Draft Transparency guidelines of ECI (dated 30-08-2013) http://eci.nic.in/eci_main1/PolPar/Transparency/Draft%20Transpaarency%20Guidelines%20dated%2030.08.2013.pdf
3. Remarks of Political Parties on draft Transparency Guidelines http://eci.nic.in/eci_main1/PolPar/transparency.aspx
4. Sources of funding of National Parties: FY 2004-05 to 2011-12 <http://adrindia.org/research-and-report/political-party-watch/combined-reports/sources-funding-national-political-partie>

Correction: In the article 'The way ahead for a vibrant India' by Harsha Vardhana Singh (June 1-15 edition), a mistake crept in a sentence, quoting Jayant Sinha. What the Hazaribagh MP said is "much work has been done for some time to seek clarity on the way ahead".