

A vote for state funding

Indian elections are the world's biggest exercise in democracy but also among the most expensive. India's campaign spend is only rivalled by the American presidential race, the world's most expensive election. Parties and candidates need large sums of money for voter mobilisation, advertising, consulting, transport, propaganda and printing of campaign materials to reach voters in constituencies. Corporate donations constitute the main source of election funding in India which is awash with black money, with business and corporate donations to political parties commonly taking this form. The public disclosure system that exists is limited. Only in 2008, using the provisions of the Right to Information (RTI) Act, the Central Information Commission allowed disclosure of income tax returns of political parties, though it is an open secret that actual expenditure is much, much higher than what is disclosed.

Best practices elsewhere

India's privately funded election campaign stands in contrast to the trend in most countries, which have partial or full public funding or transparent regulation and financial accountability of political finance as in the U.S. Corruption in election finance and the flawed party funding system drive political parties to misuse government's discretionary powers to raise funds for election campaigns. The combined effect is the absence of a level playing field which has reduced the effectiveness of our democracy.

In his 2017 Budget speech, while emphasising the absence of transparency in funding, Finance Minister Arun Jaitley noted that even 70 years after Independence the country had not been able to evolve a transparent method of funding political parties which is vital to the system of free and fair elections. But the concern for transparency in political funding is at complete odds with the [electoral bonds scheme notified by the government](#) this month to clean election finance. Simply put, anybody can buy electoral bonds in the form of bearer bonds from specified branches of the State Bank of India and donate it anonymously to a political party of their choice; the party must cash the bonds within 14 days. All donations given to a party will be accounted for in the balance sheets but without exposing the donor details to the public. Donors continue to prize anonymity as they fear disclosure could invite adverse consequences from political opponents. As a result, the Election Commission (EC), the Income Tax department and the voter would remain in the dark about it. However, the ruling dispensation at the Centre, if it wants, can ferret out information on who's funding whom from banking authorities on some pretext or the other.

The danger of electoral bonds

The most significant aspect of the electoral bonds scheme is that it will not carry the name of the payee as there is reluctance to donate to parties through bank instruments citing loss of anonymity. Bonds will allow corporate houses to make anonymous donations through banking channels to the party of their choice. This would lead to further opacity in the funding process and further limit oversight and accountability. Transparency is a global norm while opacity of election funding is an area of existential concern for democracies. Subversion that such anonymity affords is perhaps one of the biggest threats to our democracy today; it is the very wellspring of institutionalised corruption.

Far from reducing the large-scale corporate funding of elections, the introduction of electoral bonds does not even address this issue. The government's principal aim is to reduce the role of unaccounted cash in the electoral process and not the corporate control of politics. Sure enough, the bonds scheme imposes no restrictions on the quantum of corporate donations. Consequently, electoral bonds cannot address the problems that arise from the corporate control over politics and

corporate capture of government policies and decisions. Rather, electoral bonds will result in unlimited and undeclared funds going to certain political parties which will be shielded from public scrutiny as the balance sheets will not show which party has been the beneficiary of this largesse.

Three steps back

Electoral bonds must be seen in conjunction with: (1) lifting of the maximum limit of 7.5% on the proportion of the profits a company can donate to a political party, thus opening up the possibility of shell companies being set up specifically to fund parties; (2) amendment of the Foreign Contribution (Regulation) Act (FCRA) opening the floodgates of foreign funding to political parties, especially those which have a foreign support base; and (3) the refusal of political parties to come under the RTI Act in order to conceal their sources of funding. These three things will end up strengthening the business-politics nexus. It goes against the position taken by various electoral reform committees that the existing pattern of political funding encourages lobbying and capture of the government by big donors. Far from making the funding process transparent, the bond scheme could provide a backdoor to corporates and other lobbies for shaping public policy to benefit their interests. There is thus a legitimate fear that policy decisions of political parties and politicians after being elected may be biased in favour of groups that fund them.

Moreover, these bonds are likely to reverse the small steps towards transparency of political finance that came as a result of RTI-driven public disclosure of income tax returns of political parties arguing that these disclosures were a matter of public interest and should be available to citizens. Furthermore, all registered parties were required to disclose to the EC the identity of individuals and private entities donating more than 20,000 every year. Proposed amendments to the Income Tax Act and the Reserve Bank of India (RBI) Act will exempt parties from keeping records of donations made through bonds. However, the decision to [reduce cash contributions from 20,000 to 2,000](#) is a step in the right direction, but the net effect is debatable, since it could prompt parties to take smaller cash donations, and therefore not declare their source. This would not decrease the drift towards non-transparent funding reported by the Association for Democratic Reforms which found that nearly 70% of party funding over an 11-year period came from unknown sources; nearly 7,900 crore donations came from unknown sources in 2015-2016. Electoral bonds will not change this. In fact, political parties don't need to reveal the donor's name for a contributions above 20,000 provided these are in the form of electoral bonds.

Elections that work well are essential for democracy; conversely, money power can corrode the entire process. A major concern associated with the high cost of elections is that it prevents political parties and candidates with modest financial resources from being competitive in elections. Whilst the bond scheme can be an attempt to burnish the anti-corruption credentials of the Narendra Modi government ahead of the 2019 general election, it is clearly a regressive and flawed move. A number of government committees have outlined reform proposals to contain the negative effects of the high cost of elections. These include strong disclosure norms, strict statutory limits on election expenses and ceiling on corporate donations to political parties. The rules to limit and restrict the campaign expenditure of parties are largely inoperative because it is easy to circumvent them.

Staring at the solution

State funding of elections (in various forms) is a potential solution to this problem. The Indrajit Gupta Committee on State Funding of Elections had endorsed partial state funding of recognised political parties and their candidates in elections way back in 1998, but the lack of political will has prevented any serious discussion on this. The mechanics of this process need to be carefully worked out to establish the allocation of money to national parties, State parties and independent candidates, and to check candidate's own expenditure over and above that which is provided by

the state. Based on the experience of countries that have total or partial state funding of elections, it will not be difficult to work out a formula that is both efficient and equitable to ensure that democracy works for everyone and not just for the wealthy few.

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