



Electoral Bonds for Anonymous Corporate Funding

Why in news?

\n\n

\n

- Electoral Bonds were introduced as a tool to make electoral funding clean and ensure transparency.
- But it is anything but that and has the potential to completely distort the electoral playing field to favour incumbents.

\n

\n\n

How is the transparency in political funding?

\n\n

\n

- A 'Law Commission Report' noted that opacity in political funding results in "lobbying and capture" of the government by big donors.
- A survey found that only 31% of the income of political parties that was declared to the IT department was from unknown sources.
- Notably, it is estimated that the declared income of parties is only a fraction of their total actual income.
- This is despite the existence of declaration norms, traditionally governed by four legislations:

\n

\n\n

\n

- Representation of the People Act (RPA)
- Income Tax Act

\n

- Companies Act
\n
- Foreign Contribution (Regulation) Act (FCRA)
\n

\n\n

What were the norms for political donations?

\n\n

- \n
- **Corporate Donors** - Companies had to declare in their profit and loss (P&L) statement, the party-wise break-up of political donations.
\n
- Also, a company was supposed to be at least three years old to contribute to a party.
\n
- The maximum cap on its contribution was fixed at 7.5% of its average net profit in the three preceding years.
\n
- Parties were also not entitled to accept contributions from foreign entities.
\n
- **Public Donors** - Anonymous donations were allowed for sums below Rs.20,000.
\n
- For contributions of Rs.20,000 and above, the identity of the donor was to be disclosed.
\n

\n\n

What are electoral bonds and its implications?

\n\n

- \n
- If a business could anonymously fund politics, then it would enable a businessman to lobby for a change in policy with ease.
\n
- He can then legally funnel a part of the profits accruing from this policy change to the politician or party that brought it about.
\n
- Electoral bonds are ideal for this and they would also help in the legally routing black money to politics as they are anonymous.
\n
- The RBI Act was hence amended to enable the issuance of electoral bonds, which would be sold through notified banks.

\n

- **Hypothetical Working Model** - Electoral bonds are essentially bearer bonds that ensure donor anonymity.

\n

- If a company X wishes to contribute Rs.10 crores to party Y, it could buy 10 electoral bonds of Rs.1 crore each from a bank A.

\n

- Notably, these bonds would carry only a serial number and an expiry date but not the identity of the buyer.

\n

- Company X would then deposit these bonds in Party Y's designated account with bank B.

\n

- Bank B would know that this money belongs to Party Y but it doesn't record the fact that it has come from Company X.

\n

\n\n

What are the other legal changes?

\n\n

\n

- Finance Act 2016 amended the FCRA to allow parties to accept donations from foreign companies.

\n

- Also, this year, the Finance Act 2017 was passed, which amended the RPA, the Companies Act and the IT Act.

\n

\n\n

\n

- **Implications** - The 7.5% cap on company donations was eliminated, thereby enabling even loss-making companies to make unlimited donations.

\n

- The requirement for a company to have been in existence for 3 years has been removed - which would enable even overnight shell companies to route funds.

\n

- Also, companies no longer need to declare the names of the parties to which they have donated - So, even shareholders won't know where their money has gone.

\n

- Parties no longer have to reveal donor identity for contributions above Rs.20,000, if these are in the form of electoral bonds.

- \n
- Also, a foreign company can anonymously donate unlimited sums to any political party without the EC's knowledge.

\n

\n\n

What do these bonds mean for a fair electioneering?

\n\n

- \n
- **Skewing Elections** - The most evil feature of electoral bonds is their potential to load the dice heavily in favour of the ruling party.
- \n
- In the hypothetical model above, only bank A knows the donor, while only bank B knows the recipient.
- \n
- But both the banks report to the RBI, which has been malleable to the Central government's dictates.
- \n
- So, only the ruling party can ascertain which companies donated to the Opposition parties.
- \n
- It is then free to use the organs of the state to gently dissuade (or retaliate against) these donors who bankroll the opposition.
- \n
- Hence, once the scheme for electoral bonds is notified, the Opposition parties may struggle to raise adequate funds.

\n

\n\n

- \n
- **Government's rationale** - Electoral bonds was said to protect donors from harassment due to anonymity.
- \n
- But this argument doesn't stand merit as the proposed module would do little to address such harassment.
- \n
- On the contrary, it can actually facilitate further harassment due to the removal of maximum caps on donations.
- \n
- Going forward, there is little doubt that democracy will be the biggest casualty if electoral bonds get notified.

\n

\n\n

\n\n

Source: The Hindu

\n



IAS PARLIAMENT
Information is Empowering
A Shankar IAS Academy Initiative