India's Election Funding System

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This article is based on **"Needed: full disclosure on electoral bonds"** which was published in The Hindu on 16/06/2021. It talks about the issues associated with anonymous corporate funding and foreign money to political parties.

In a democracy, political power is in theory supposed to flow from popular or people's approval, as measured by results in elections. However, in practice, this system is often distorted by a number of factors, financial power being the most prominent of them.

This leads to the scenario, where the Political parties often shape policy not as per the desires of their voters but their funders.

Moreover, the government has brought many legal changes in **Foreign Contribution (Regulation) Act (FCRA), 1976**, **Companies Act, 2013**, which may increase the influence of anonymous corporate funding in the elections.

Further, the lack of transparency in political funding is a cause for concern and **electoral bonds** have made it worse. Unfortunately, these changes in India's election funding system creates more loopholes which allows moneyed interest groups to clandestinely influence political parties.

Issues In India's Election Funding System

- **Electoral Bonds:** In 2017, the introduction of electoral bonds brought a new form of anonymity to thousands of crores of donations.
    - Under the electoral bond scheme, only the ruling party via the State Bank of India (SBI) has a full account of all donations being made via electoral bonds.
    - Parliament, the Election Commission and the Opposition parties do not have this information, nor do the public.
    - In effect, electoral bonds give political power to companies, wealthy individual donors, and foreign entities, thus diluting the universal franchise of one voter-one vote.

- **Amendments in FCRA, 1976:** In 2014, the Delhi High Court held that two national political parties were guilty of illegally accepting donations from two companies registered in India but whose controlling shareholder was a foreign company.
    - In 2016 and 2018, the government amended the FCRA through the annual Finance Bills, to retrospectively legalise the violations.
    - As per the amendment, earlier, foreign companies or companies where the controlling stake was held by a foreign company couldn't contribute; now they can.
    - According to the **Election Commission of India**, this may allow unchecked foreign funding of political parties in India, which could lead to Indian policies being influenced by foreign companies.
- **Amendments in Companies Act, 2013:** The Finance Bill of 2017 amended **Section 182 of the Companies Act of 2013** to remove the requirement for declaring disaggregated donations to political parties.
    - Earlier, only profit-making domestic companies could contribute to political parties; now loss-making companies can too.
    - Further, the limit of 7.5% for corporate donations to political parties has been removed.
    - With this amendment corporations are free to donate any amount of money and are not liable to declare the recipient of their donations.
- **Nullifying RTI Effect:** The **Right to Information (RTI) Act of 2005** enables easier access to information held by public authorities.

    However, above changes could in effect nullify the impact of transparency provisions even if political parties come under the Right to Information (RTI) umbrella.

Way Forward

- **Transparency in Electoral Bonds:** Even though the Supreme Court upheld the constitutionality of electoral bonds, it could order full and real-time disclosure, to the actual benefit of transparency and accountability.
- **Moral Leadership:** Companies and political parties could exercise moral leadership and voluntarily disclose the identity of recipients and donors, as the Jharkhand Mukti Morcha recently did.
- **State Funding of Elections:** In many advanced countries, elections are funded publicly. This ensures principles of parity and there is not too great a resource gap between the ruling party and the opposition.
    - 2nd ARC, Dinesh Goswami committee, and several others have also recommended state funding of elections.
    - Further, until the elections do not get publicly funded, there can be caps or limits on financial contributions to political parties.

- **Transition Towards Civic Culture:** India has been working well as a democracy for nearly 75 years. Now in order to make the government more accountable, the voters should become self-aware and reject candidates and parties that violate the principle of free and fair elections.

Conclusion

Every vote is not equally valuable if companies can influence policies through hidden donations. The winner of this arrangement is the ruling party, whether at the Centre or in a State, and the loser is the average voter.

Drishti Mains Question

Recent changes in India's election funding system creates more loopholes which allows moneyed interest groups to clandestinely influence political parties. Discuss.