

## **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.

\n

- 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.

\n

- A survey found that only 31% of the income of political parties that was declared to the IT department was from unknown sources.

\n

- Notably, it is estimated that the declared income of parties is only a fraction of their total actual income.

\n

- This is despite the existence of declaration norms, traditionally governed by four legislations:

\n

\n\n

\n

- Representation of the People Act (RPA)

\n

- 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.
- In the hypothetical model above, only bank A knows the donor, while only bank B knows the recipient.
- But both the banks report to the RBI, which has been malleable to the Central government's dictates.
- So, only the ruling party can ascertain which companies donated to the Opposition parties.
- It is then free to use the organs of the state to gently dissuade (or retaliate against) these donors who bankroll the opposition.
- 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.
- But this argument doesn't stand merit as the proposed module would do little to address such harassment.
- On the contrary, it can actually facilitate further harassment due to the removal of maximum caps on donations.
- 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

