Syllabus subtopic: Government policies and interventions for development in various sectors and issues arising out of their design and implementation.

News: A plea has been filed in the Supreme Court seeking a stay on the implementation of the Electoral Bond Scheme, 2018, saying it has opened the floodgates of unlimited corporate donations to political parties and anonymous financing by Indian and foreign companies that can have serious repercussions on democracy.

Prelims and Mains focus: about the electoral bonds scheme, its key features and impact on electoral funding

Arguments made in the plea against Electoral bonds

1. It said that certain amendments made to the Finance Acts of 2017 and 2016, both passed as Money Bills, have facilitated unlimited political donations, legitimising electoral corruption on a huge scale, while at the same time ensuring complete nontransparency in political funding. “The Finance Act of 2017 had introduced the use of electoral bonds which is exempt from disclosure under the Representation of the People Act, 1951, opening doors to unchecked, unknown funding to political parties.”

2. The said amendments have also removed the existing cap of 7.5% of net profit in the last three years on campaign donations by companies and have legalised anonymous donations,” said the plea, filed by the Association for Democratic Reforms (ADR) through advocate Prashant Bhushan.

3. It said the use of electoral bonds for political donations was a cause for concern because they were in the nature of bearer bonds and the identity of the donor was kept anonymous.

4. Political parties are not required to disclose the name of the person/entity donating to a party through electoral bonds. Since the bonds are bearer instruments and have to be physically given to the political parties for them to encash, parties will know who is donating to them. It is only the general citizens who will not know who is donating to which party.

5. “Further, it opens up the possibility of companies being brought into existence by unscrupulous elements primarily for routing funds to political parties,” the ADR said.

6. The ADR said that it has already filed a PIL on the issue of corruption and subversion of
democracy through illicit and foreign funding of political parties and lack of transparency in the accounts of all political parties

About Electoral bonds:

- Electoral bonds will allow donors to pay political parties using banks as an intermediary.

**Key features:** Although called a bond, the banking instrument resembling promissory notes will not carry any interest. The electoral bond, which will be a bearer instrument, will not carry the name of the payee and can be bought for any value, in multiples of Rs 1,000, Rs 10,000, Rs 1 lakh, Rs 10 lakh or Rs 1 crore.

**Eligibility:** As per provisions of the Scheme, electoral bonds may be purchased by a citizen of India, or entities incorporated or established in India. A person being an individual can buy electoral bonds, either singly or jointly with other individuals. Only the registered Political Parties which have secured not less than one per cent of the votes polled in the last Lok Sabha elections or the State Legislative Assembly are eligible to receive the Electoral Bonds.

**Need:** The electoral bonds are aimed at rooting out the current system of largely anonymous cash donations made to political parties which lead to the generation of black money in the economy.

**How will the Bonds help?**

- The previous system of cash donations from anonymous sources is wholly non-transparent. The donor, the donee, the quantum of donations and the nature of expenditure are all undisclosed.

- According to government the system of Bonds will encourage political donations of clean money from individuals, companies, HUF, religious groups, charities, etc. After purchasing the bonds, these entities can hand them to political parties of their choice, which must redeem them within the prescribed time.

- Some element of transparency would be introduced in as much as all donors declare in their accounts the amount of bonds that they have purchased and all parties declare the quantum of bonds that they have received.

**Concerns associated:**

- The move could be misused, given the lack of disclosure requirements for individuals purchasing electoral bonds.
Electoral bonds make electoral funding even more opaque. It will bring more and more black money into the political system.

With electoral bonds there can be a legal channel for companies to round-trip their tax haven cash to a political party. If this could be arranged, then a businessman could lobby for a change in policy, and legally funnel a part of the profits accruing from this policy change to the politician or party that brought it about.

Electoral bonds eliminate the 7.5% cap on company donations which means even loss-making companies can make unlimited donations.

Companies no longer need to declare the names of the parties to which they have donated so shareholders won’t know where their money has gone.

They have potential to load the dice heavily in favour of the ruling party as the donor bank and the receiver bank know the identity of the person. But both the banks report to the RBI which, in turn, is subject to the Central government’s will to know.