

Electoral Bonds - [UPSC Indian Polity Notes]

Introduced with the Finance Bill 2017, Electoral bonds are instruments/securities that are used to donate funds to political parties. The Electoral Bonds were notified in the year 2018. These bonds are on the lines of bearer bonds or promissory notes wherein the issuer (bank) is the custodian and pays the one who holds the bonds (political party). The topic, 'Electoral Bonds' is important for the [IAS Exam](#).

SC Strikes Down Electoral Bonds Scheme

In a landmark decision, the [Supreme Court of India](#) has struck down the Electoral Bonds Scheme, heralding a new era of transparency in the country's political landscape. The ruling, which also invalidates amendments allowing unlimited political donations, marks a significant milestone in the ongoing battle against corruption and undue influence in electoral processes.

- The Electoral Bonds Scheme has long been criticized for its lack of transparency, providing a veil of anonymity to political donors and fostering a culture of quid pro quo between donors and beneficiaries.
- The scheme's amendments permitted unrestricted corporate donations, leading to concerns about the undue influence of wealthy corporations in shaping political decisions.
- The court highlighted the inherent imbalance created by the scheme, favouring corporate interests over ordinary citizens' rights to access information about political financing.
- The verdict aligns with previous judgments aimed at safeguarding voter rights and preserving the integrity of elections.

Electoral Bonds News

In May 2023, electoral bond sales data accessed under India's Right to Information Act showed that 90% of bonds sold so far were bought from just five cities.

- Five cities, Mumbai, Kolkata, Hyderabad, New Delhi, and Chennai, accounted for nearly 90% of all electoral bonds sold so far, with Mumbai being the highest contributor at 26.16% of the total bonds sold.
- Bengaluru, the capital of election-bound Karnataka, accounted for just over 2% of total sales, despite being known as the tech capital of India.
- When it comes to the redemption of electoral bonds, the New Delhi branch of the State Bank of India (SBI) is the preferred choice, with 64.55% of all bonds redeemed so far being encashed in the capital.
- Hyderabad and Kolkata were distant second and third choices for redemption, respectively, while Mumbai, despite accounting for over 26% of all sales, had only 1.51% of all electoral bonds

redeemed.

The concentration of political funding in a few cities under the Electoral Bond Scheme raises concerns about transparency and fairness in political financing, especially with anonymous donations.

Electoral Bonds - Introduction

Context: The present government continuing their war against both the problems (black money and corruption) has proposed a set of reforms related to political funding like the issuing of Electoral Bonds.

The features of electoral bonds and the process involved are:

- These bonds are issued by notified banks.
- The donor may approach these banks and purchase the bonds.
- The donor shall be permitted to buy the bonds through cheque/digital payment. Hence the identity of the donors is protected (if the donors are identified, they may get caught up in political rivalry-especially if the donor is a businessman).
- The donor donates these bonds to the political party.
- The political party has to encash it into the account which is registered with the [Election Commission](#) of India.

Importance of the Electoral Bonds

- They ensure that the funds being collected by the political parties are accounted for money or clean money.

Concerns with respect to Electoral Bonds:

Even though the Electoral Bond Scheme acts as a measure against the old under-the-table donations since bonds are through cheques and digital paper trails of transactions, there are many key provisions of the scheme that are causes of concern.

Anonymity: There is no obligation on the part of the donor (individual or corporate) or the political party to reveal where the donations come from.

Transparency: It will also go against transparency, a fundamental principle in political financing. Companies will no longer have to declare the names of the political parties to which they have donated, so shareholders won't know where their money has gone.

- There are possibilities of making electoral bonds a convenient channel for black money. The following provisions are controversial in that sense:

- Doing away with the 7.5% cap for corporate donations.
- No need for companies to reveal their political contributions in their profit and loss statements.
- The requirement that companies should be in existence for 3 years before making political contributions undermines the scheme's intent. This makes it easy for dying, troubled or shell companies to make an unlimited donation anonymously.
- Since the bonds are bought through the State Bank of India (SBI), the government is always in a position to know who the donor is. This asymmetry of information threatens to favour whichever political party is ruling at the time.
- The Election Commission of India had asked that the limit for reporting the donations (which is Rs 20000) should be brought down to Rs 2000, but instead, the government has reduced the maximum contribution by cash to Rs 2000.
- It could become a convenient channel for business to **round-trip their cash parked in tax havens to political parties** for a favour or advantage granted in return for something.

Drawbacks of Electoral Bonds

- The RPA (Representation of People Act 1951) although makes it mandatory for the political parties to disclose donations over Rs 20000, there is no law that prohibits these parties from disclosing donations below Rs 20000 but the parties lack political will hence do not disclose
- The political parties have regularly delayed submitting the audited reports to the ECI. As per ADR between 2011-2015
 - BJP has delayed the submission on an average by 182 days
 - Congress by 166 days
 - NCP by 87 days

Worse is the fact that some political parties do not even file the returns. There is little to show that action has been against these parties who have either delayed or not filed the returns.

- The political parties can continue to collect the funds through cheque and digital payments (but will have to file returns to the Income Tax authority)

Hence there are some concerns associated with the usage of electoral bonds. Then, what is the way out of this?

- As per T S Krishnamurthy (Former CEC), the government will not know how many times, the bond has been sold in the market before being encashed by the political party. So it would be better if an Election Fund is set up by the EC and donations to various political parties are collected by ECI (with compulsory PAN number)
- The above suggestion of setting up of election fund has been given by Indrajit Gupta Committee

Electoral Bond - Electoral Trust

- Is a Section 25 company (as per the Companies Act 2013, it has been referred to as a Section 8 company)
- The sole purpose of this is to collect donations on behalf of a political party and then route it to the concerned political party
- The CBDT issued operational guidelines for the Electoral Trust in 2013.
- These will not only bring transparency from the donor side but also from the receiver side (political parties)
- So far more than a dozen trusts have opened up, but the objective with which they had been set up is not being achieved-
 - The funds that are routed through trusts are a fraction of the total donations received by the political parties (there are more than 1800 political parties in India as per ECI)
 - Few trusts are disclosing the contributions (only 5 trusts disclosed donations in 2014-15)

Electoral Bond - What is Section 25 Company (or Section 8 Company)?

- Is an entity registered under section 25 of The Companies Act 1956.
- US 25 allows the formation of a company involved in charity without having to set up a Trust or a Society, which will exist as a legal entity but the catch is any company set up under this section must utilize/re-invest all income towards achieving the same objective, i.e. unlike a regular company no money will go out of the company either in the form of profits or dividends.

Advantages

- Very easy to set up
- Minimum capital requirements are not applicable.
- Much easier to run – easy to join the board of directors, the minimum quorum to conduct the board of directors meeting, etc.
- Tax benefits are provided

UPSC Questions Related to Electoral Reforms

UPSC GS-II 2017

1. To enhance the quality of democracy in India, the Election Commission of India has proposed electoral reforms in 2016. What are the suggested reforms and how far are they significant to make democracy successful?

Practice Questions Related to Electoral Bonds for UPSC

1. Critically evaluate the electoral bonds in the context of introducing transparency in the electoral system.
2. Electoral bonds are a good measure towards transparency in political funding, but the measure itself suffers from certain privacy issues. Comment.
3. How effective do you think the electoral bonds will be in cleansing the politics? Discuss.

Frequently Asked Questions about Electoral Bonds

Q. How do people buy and electoral bond in India?

Ans. As per provisions of the Scheme, Electoral Bonds may be purchased by a person (as defined in item No. 2 (d) of Gazette Notification), who is a citizen of India or incorporated or established in India. A person being an individual can buy Electoral Bonds, either singly or jointly with other individuals.

Q. Who can issue Electoral bonds in India?

Ans. State Bank of India is authorised to issue and encash these bonds, which are valid for fifteen days from the date of issuance. These bonds are redeemable in the designated account of a registered political party.