

Sustainable Election and Political Party Finance in India: An Alternative system of Political Financing

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Abstract

Competitive political parties and efficient election campaigns are the mainstay of Indian politics. The finance structures of the political parties play a key role in the success of their electioneering. This article explores the emphasis of the need to formulate a model of institutionalized funding of and electoral bonds for election campaigns and political parties in India. The aim of this work is to come up with an institutionalized and funding framework for the election campaigns of political parties in India, i.e., a model of state funding of election campaigns in India. The model proposes a mechanism for the financial regulation of the election campaigns of political parties in India. The study talks about electoral finance reforms, such as a ceiling on the election expenditure by political parties, thereby promoting partial state funding of election campaigns and reducing the role of illicit election finance in Indian elections. The model of reformed electoral bonds offers a sustainable mechanism to support political finance in India. The research shall be executed through empirical and normative analyses of open source data, particularly official reports published by the Government of India and international agencies. The goal of this work is to lend an insight into the changing dynamics of an effective election finance system that is moving towards the adoption of sustainable political finance models both at the Centre and the State. This study will help to formulate alternative methods of election finance in India which would be transparent and less susceptible to the threats of corruption and illicit finance.

Keywords: Alternative models of political finance, Campaign finance, Electoral finance reforms, Political party finance, Political finance, Reformed electoral bonds, State funding of elections, Sustainable election finance

Introduction

Globally, there exist only a small percentage of regimes that follow an ideology that is not democracy. The election process, amongst competing political parties, has become a dominant mechanism to select the government. As a result, the candidates and the political parties need effective amount of funds to reach out to the electorate and present their policy recommendations for the larger community. Thus, political finance can play a positive role in democracies; on the one hand it can aid in strengthening the political candidates and their respective parties and on the other hand it can provide them with adequate opportunities to compete on far more equal terms.¹ However, the ground-reality of how the political systems function are in vast contrast with these ideals and thereby making it difficult to achieve political equality.

Consequently, the process of seeking higher amounts of funds for electioneering can have negative externalities. These externalities consist of the fact that those who are already in power are capable of exerting influence by pressurising funding sources. And, the private financial contributions by companies and individuals to political candidates may direct them to factor into account the interests of these special groups guiding them to indulge in quid pro quo arrangements - thereby overshadowing the social well-being of the larger collective for which the latter took office.² This is compounded by the irresponsible use by political leaders and parties of the government's discretionary powers of over resource

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allocation to raise funds for election campaigns and political parties that are marked by flawed political party funding and election expenditure laws in India.³

In an attempt to reduce the proportion of illicit finance this study puts forth a sustainable political finance model for the funding of election campaigns and political parties in India. The model is sustainable in the sense that it reduces the reliance on illicit sources of finance. It also analyses the degree of regulation and openness that is required in the electoral financial system in wake of the current political framework.

Current Situation of Political Finance in India

The election process in India, over the years, has come to be defined by certain variables that play a crucial role in order to make the algorithm of elections move as-so peacefully in the largest existing democracy in the world, as it does, despite the web of controversies it is entangled in. These variables are more of parameters as they keep changing their modus operandi but the nature of their acts remain the same. These parameters are money, muscle power and effective advertising to the correct vote banks a party wants to target. The interplay amongst these parameters along with the socio-economic environment in India make elections a process that involve complex political, mobilizational and logistical support that remain unparalleled by the existing democratic regimes of the globe. In a democracy, elections give the various political formations existing in the country a platform to obtain the people's assent and endorsement for the policies and ideologies advocated by them.

Under existing laws, the candidates and the political parties are free to spend as much as they like with impunity. Instances are not wanting where several lakhs, if not crores, of rupees have been spent on electioneering campaigns and yet nil election expense returns have been filed on behalf of such candidates.⁴ The Election Commission had estimated that the 16th Lok Sabha Elections of 2014 would entail an expenditure to the exchequer of Rs 3,500 crores. The expenditure spent by the State Governments are reviewed by the Union Law Ministry at the Centre and then reimbursed. The governments' major sources of incomes are revenue receipts from the public in the form of taxes. Ergo, this implies that the electioneering campaigns of various political parties are in-part sponsored by the revenue received by the Government from the people of the nation and in-part by corporate financiers. After 1969, a law was brought into force that banned any company contributions in the arena of elections. In 1985 as per Section 293, an amendment, permitted companies to make

contributions to charitable and other funds up to 5 per cent of their average profit of the three previous years.⁵ Later, this percentage was increased to 7.5 percent. As the political process and activities of the political parties involve heavy costs, the availability of funds is necessary for the smooth functioning of a political party. Corporate donations are an important financial support for the functioning of the Indian democracy. The finances of the parties should be made more transparent so that the source of party funds can be accurately tracked back to their origins, rather than taking extreme measures which would not actually stop their activities but instead make them more implicit in nature. Therefore, the Commission is of the view that, in a democracy, companies may be allowed to contribute for political causes. However, such contributions should be limited to a reasonable level and, all transactions in this regard must be made in a completely transparent manner.⁶

According to reports, approximately Rs 115.62 billion were expected to be spent in campaigning for the 2009 Lok Sabha elections by all the political parties combined together. The Election Commission incurred a cost of Rs 20 billion to conduct these elections. According to the 2001 Census, India has 200 million household, out of which 66 million households are living on less US\$1.25 a day. The election expense per poor household comes to Rs 2,045. Simply put, if one could transfer the election expense among these households we could certainly reduce the poverty prevalent in India. A coin always has two sides. Its first side talks about the viability of such high expenditures being made for the electioneering campaigns of major political parties and its opportunity cost is how these same funds can be used for rural development, health funds and poverty alleviation.

On the other hand when we flip the coin, we get another perspective. This perspective shows as to how the high cost of elections is seen as an opportunity by corporates and businessmen whom give monetary support to the election campaigns in exchange of regulatory or policy favours. The most significant development in campaign finance reform since 1999 was the Election and Other Related Law (Amendment) Act, passed by NDA government in September 2003. This made company and individual contributions to a political party 100 per cent tax deductible under the Income Tax Act.⁷ This gave incentive for political parties to use these sources and for corporates and businessmen, a way to launder their illicit income. This amounted to the fact that illicit campaign finance expenditures have tended to dwarf the legal flows. Due to the murky nature of election finance the high cost involved in elections has been cited as the largest source of corruption. Given the regulatory intensity of the state with respect to land, builders have an incentive to pay for elections on behalf of politicians

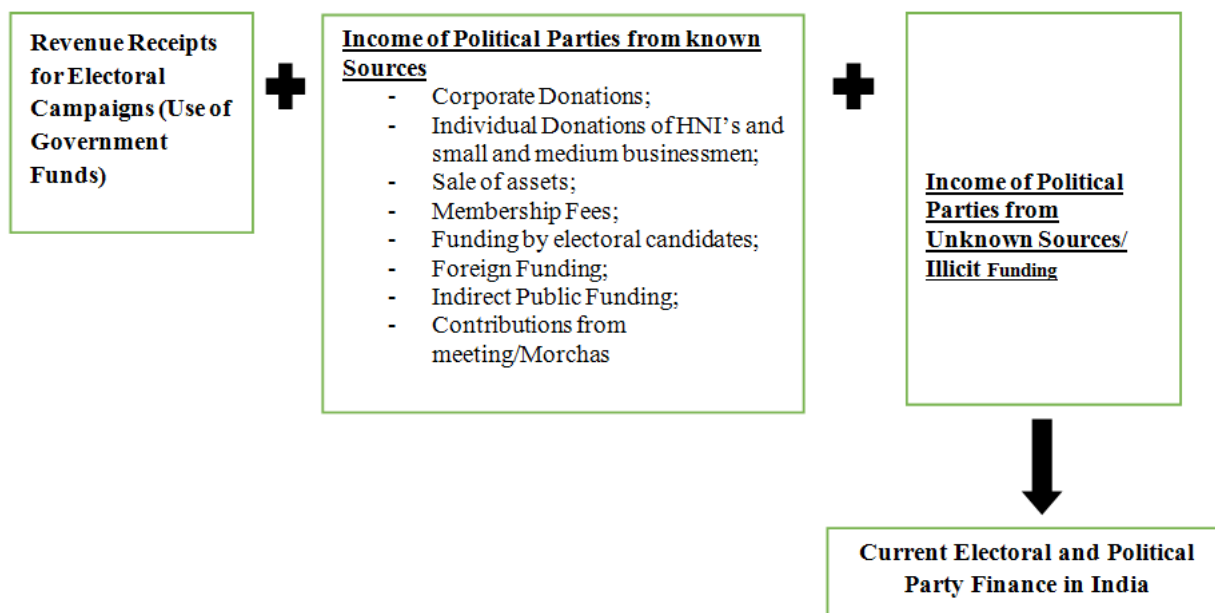


Figure 1

through unreported transactions in exchange for regulatory and policy favours.⁸

In India, the Land Acquisition Act along with various Land Ceiling Acts, have created a regulatory structure that has empowered the politicians and bureaucrats to maintain and manipulate the control over land. The persistence of the bureaucratic morass dealing with land issues has served to consolidate entrenched methods of rent seeking.⁹ The construction sector provides the political parties with off-the-book contributions for their electioneering campaigns; the mechanism consists of a simple under-the-table transfer. The builders gain long term benefits in term of goodwill from the politicians in return of contributing to their elections campaigns. As a result of this exchange, the builders face a short term liquidity crunch around the time of the elections as some portion of their funds have to be re-routed to election campaigns, money which would otherwise have been used for investment purposes in their business operations. This relationship effectively points out the role of money in politics and how illicit election finance plays an implicit yet seemingly important role in the election campaigns of political parties in India.

The above figure maps the constituents of electoral and political party finance currently operating in India. 71 percent of the total declared income of national parties and 58 percent of the total declared income of regional parties in India from 2004-05 to 2014-15 came from unknown sources.¹⁰ As the percentage of funding from unknown sources is of statistically significant and of a high value we need to devise mechanisms that not only help us to trace the financing of the political parties and the electoral process but are also sustainable in nature in the long-run. This will help us to tackle the problems of illicit finance and corruption.

Policy Recommendations for an alternative system of Political Finance in India

State funding not only helps in reducing the cost of elections but it also helps to curb illicit election financing mechanisms. The idea of State funding of elections in India is not new. It can be traced back to the multi-party parliamentary panel headed by Indrajit Gupta under the Vajpayee's Government in 1999 that had favoured partial state funding of recognised political parties and the candidates directly fielded by these parties, to the Gowsami Committee that drew attention to the explanation of section 171(H) of the Indian Penal Code, to the Law Commission of India that advocated for "total" state funding conditional to the fact that the political parties didn't have any other income source; and, to eventually the Second Administrative Reform Committee in 2008 that advocated for partial state funding as a mechanism to monitor illicit financing.¹¹ Furthermore, state funding would not be effective until supportive measures were taken to ensure the internal democracy of political parties along with regular maintenance of their financial statements. Moreover, it should be ensured that the State funding of elections should not be at the cost of the State exchequer.¹² In order to ensure this, the State Funding of elections need to be clubbed with sustainable and transparent electoral and political party finance reforms that can sustain India's democratic structure and functioning.

Therefore, state funding should not be an exclusive process and other channels of financing electoral campaigns should be left open to political parties provided receipts are provided for the same. In order to ensure that this practice is being implemented, the accounts of all political parties registered with the Election Commission of India (ECI) should be published annually and such accounts

should be audited by a certified agency that is approved by the Comptroller and auditor general (CAG) of India and the ECI.¹⁰ Furthermore, the election related expenditure should be executed by the political leaders or the members of the political party. Such expenditures should not be bared entirely by third-party organisations or corporate sponsors or builders. The ceiling set on the proposed expenditure of political candidates from each contesting constituency should be practiced in reality. This would help in formalising an institutionalized funding of elections in India. The cost of implicit election finance is high, and the opportunity cost of not re-routing high election expenditure to pro-poor schemes to ameliorate poverty is that businessmen get an opportunity to launder their illicit income and politicians become covert backers of firms because they represent powerful entities whose support must be won and retained.¹³ Therefore the re-modelling of electoral bonds provides us with another sustainable mechanism, which can complement institutionalised funding of elections, to support political finance in India.

Electoral bonds as a concept have been derived from the principles of the financial bond market. These electoral bonds were put forth in the Finance Bill of 2017 by the ruling Party at the Centre. They were introduced as an amendment of Reserve Bank of India Act, 1934 and they will be issued by notified banks. Electoral bonds are time-limited bearer bonds that will aid in making anonymous political donations of specified denominations that can be purchased by depositing a cheque or through digital transactions.¹⁴ While this policy provision makes some headway by partially eliminating illicit finance in the Indian political setup as it will ensure all transactions are routed through the banking system; it seems to be a half-hearted attempt as the identity of the donor will still be concealed. Furthermore, this system puts forth no such obligation for the corporations to disclose their purchases

of the electoral bonds in their annual accounts nor does it put forth a clause that the parties are required to report the deposits that they may receive through this political financial instrument. Not only does this system maintain the opaqueness of the political funding process in India but it also veils it from any financial scrutiny and thereby opening it to an unchecked funding process of the political parties.¹⁵ However, it should be noted that globally bearer bonds have been financial instruments have been used to conceal business transactions in the past.¹⁶ Therefore, complete reliance on these as a method of political finance can defeat the purpose of alternative and sustainable electoral finance mechanisms that are transparent and less susceptible to the demons of illicit finance. In order to bridge this policy lacuna we need to ensure that these political contributions through bearer bonds are not anonymous and are incentivised by providing the citizens with the provisions of tax exemptions. Thereby, there is a need for an advocacy for Reformed Electoral Bonds.

The cost of the electioneering campaigns can be reduced to make available more funds for social security schemes by adopting the proposed policy recommendations that puts forth an alternative model for electoral and political party finance in India that makes reformed electoral bonds for political parties and state funding of elections complementary. Consequently, this would entail an adoption of the combination of these two political finance mechanisms along with a stricter compliance clause for the accounts of the political parties registered with the Election Commission. Furthermore, as per the existing funding routes as mentioned in the table below the research has formulated the percentage share of the alternative electoral finance mechanisms.

Moreover, there should also be a ceiling on the total donations that a party can raise in a fiscal year. This

Table 1. Sources of income of national and regional political parties between FY 2004-05 and 2014-15
(Value in Crore)¹⁰

Political Parties	Income from unknown sources	Income from known sources	Total Income
National Parties	Rs 6612.42 cr	Rs 2665.88 cr	Rs 9,278.30 cr
Regional Parties	Rs 1220.56 cr	Rs 868.48 cr	Rs 2,089.04 cr
Total	Rs 7,832.98 cr	Rs 3534.36 cr	Rs 11,367.34 cr
Percentage Terms	69%	31%	

figure should be arrived at factoring into account the party's corpus in the previous fiscal year while adding the inflation rate so as to ensure that real cost of running a successful political campaign is kept in pace with the rate of inflation and thereby providing a possible solution to concerns put forward in Gowda & Sridharan in their 2012 article.³ Consequently, the proposed proportional share

of the two alternative electoral finance mechanism, that are: Reformed Electoral Bonds and the State Funding of Elections should be based on the current trend of the political finance. Therefore, the Reformed Electoral Bonds should constitute 69 percent of the total cost of the political parties (that was earlier financed by unknown sources) and the remaining 31 percent of the cost of election campaign

should be garnered from the State Funding of elections. This percentage share if followed will greatly aid in identifying

the source of these fundings and will be positive policy to eradicate illicit political finance.

Table 2. Sustainable Sources of Political Finance for India

S.No.	Instrument	Proposed Percentage Share
1	Reformed Electoral Bonds	69%
2	State Funding of Elections	31%

Conclusion

In the context of the contemporary Indian polity and economy, by combining Reformed Electoral Bonds (69%) and partial State Funding of Elections (31%) along with ensuring that transparency and high levels of compliance in the accounts of the political parties can create a sustainable model of political finance. This model would aid in reaching an efficient political finance equilibrium that incurs a

marginally less deadweight loss. Consequently, it will also give rise to a breed of political leaders whose nomination wouldn't be based on their financial status but that on their leadership skills and technical specializations. This alternative model for political finance in India is given in Figure 2 as depicted below. Furthermore, the multiplier effect of this model, if adopted, can help India to tap into its unutilised demographic dividend.

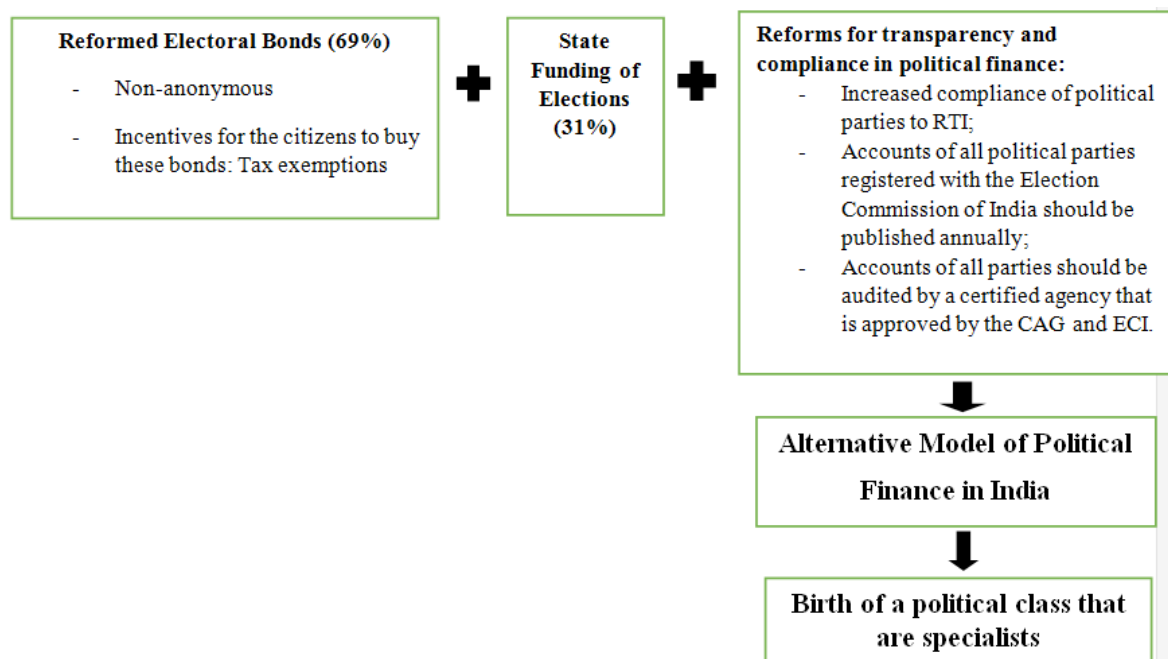


Figure 2: Sustainable (and Alternative) Political Finance Model for India

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