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## UNVEILING THE VEIL: AN IN-DEPTH ANALYSIS OF ELECTORAL BONDS IN INDIA

### ABSTRACT

The influence of capitalism on contemporary politics is profound, shaping power dynamics, resource allocation, and decision-making processes. Electoral bonds, introduced in India in 2018, aimed to revolutionize political funding by promoting transparency and reducing the influence of cash donations. However, recent events, including a Supreme Court ruling declaring the scheme illegal, have sparked debates on the delicate balance between donor privacy and the public's right to transparency in democratic processes. The Supreme Court highlighted concerns about the lack of transparency in political funding, emphasizing the risks of economic inequality translating into political inequality. The anonymity of electoral bonds has raised fears of corruption, favouritism, and backdoor lobbying, potentially compromising the integrity of the democratic process. Notably, the top five political parties in India received substantial amounts through electoral bonds, with the BJP leading in contributions. The complexities surrounding electoral bonds and political donations underscore the critical need for transparency, accountability, and fairness in political financing to uphold the integrity of democratic processes and ensure equal access to funding for all candidates.

### RESEARCH METHODOLOGY:

The research methodology for the paper on the influence of capitalism on contemporary politics and the implications of electoral bonds involves a comprehensive approach to understanding the complex relationship between economic systems, political structures, and financial contributions in democratic processes. The methodology encompasses various key components to ensure a rigorous and systematic investigation:

The research methodology for this paper involves a comprehensive approach to understanding the complex relationship between economic systems, political structures, and financial contributions in democratic processes. The methodology encompasses various key components to ensure a rigorous and systematic investigation which includes literature review to establish a theoretical framework and understand existing knowledge on the influence of electoral bonds on politics and the role of financial contributions. The sources include academic journals, government reports, and reputable sources like JSTOR and parliamentary publications. To analyse past studies on political funding mechanisms, electoral bonds, and the impact of financial contributions on democratic processes.

The research also required Case Study Analysis to examine similar real-world examples of electoral bonds in India and political donations in the UK and USA to draw parallels and identify trends. Significant Legal Analysis was required to evaluate the legal implications of electoral bonds, especially in light of recent Supreme Court rulings. Data Analysis in the form of quantitative data on electoral bond transactions, donation amounts, and patterns of contributions to political parties. Comparative Study was made to compare the impact of electoral bonds in India with similar political funding mechanisms like PACs in the United States by contrasting legal frameworks, transparency measures, and outcomes of different funding systems.

## INTRODUCTION

Capitalism has a profound influence on contemporary politics, shaping the dynamics of power, resources, and decision-making within societies and in the modern era, its impact on politics is multifaceted and complex. Capitalism, as an economic system driven by private ownership and profit motives, often translates economic power into political influence where wealthy individuals and corporations wield significant power in shaping political agendas, policies, and even elections through financial contributions and lobbying efforts. The relationship between capitalism and government is actually very crucial in contemporary politics because governments play a role in regulating markets, enforcing laws, and providing public goods and services to ensure a level playing field and protect citizens from market failures. Therefore, it won't be wrong to say that the influence of capitalism in contemporary politics is profound and multifaceted, shaping not only economic systems but also social structures, power dynamics, and policy decisions at local, national, and global levels. Understanding this influence is

essential for navigating the complexities of modern governance and addressing the challenges posed by the intersection of capitalism with political systems.<sup>1</sup>

With the aim of transforming the way in which people support political parties, electoral bonds were introduced in India, marking a significant shift in determining how political funding works. These new tools for political contributions, established in 2018, were meant to shake up the influence of money in politics. Arun Jaitley, the former finance minister, emphasized the need to "cleanse the system of political funding" by limiting cash donations and proposing the electoral bond scheme as an alternative.<sup>2</sup> He defended the scheme as a way to prevent the return of the cash system in political funding and to ensure clean tax-paid money enters the political funding system through proper banking channels. In his Budget speech of 2017-18, Jaitley pitched electoral bonds as a means to address the longstanding issue of opaque political funding and to promote transparency in corporate accounting by allowing companies to make donations without using cash.<sup>3</sup>

#### POLITICAL FUNDING IN USA AND UK

In the United States of America, a similar process operates wherein Political Action Committees (PACs) serve as financial messengers, soliciting donations from members in support of or opposition to political candidates, ballot initiatives, or laws. They let people raise money for political campaigns in secret since they frequently represent a variety of interests, including labour, corporate, and ideological groups. The first PAC was established in 1944 with order to aid with President Franklin D. Roosevelt's re-election. Federal agencies are in charge of PAC supervision; an organization is labelled as a PAC if it receives or expends more than \$1,000 to influence federal elections.

Super PACs—also known as independent expenditure-only committees—came into existence following the *SpeechNow.org v. Federal Election Committee* decision by the U.S. Court of Appeals in 2010. These committees have unrestricted funding from businesses, labour unions, groups, and private citizens, which they can use to support or oppose political candidates. Super PACs are exempt from direct candidate donations and are not required to synchronize their expenditures with campaign activities, in contrast to ordinary PACs. Depending on the election

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<sup>1</sup> <https://www.jstor.org/stable/4194205>

<sup>2</sup> <https://indianexpress.com/article/india/electoral-bonds-to-cleanse-political-funding-govt-open-to-suggestions-arun-jaitley-5015011/>

<sup>3</sup> <https://www.deccanherald.com/india/journey-of-electoral-bonds-arun-jaitley-defended-anonymity-2896789>

cycle, super PACs are required to report their donations to the Federal Election Commission either monthly or semi-annually.<sup>4</sup>

A recent study conducted by the CAGE Research Centre at the University of Warwick delved into political donations to UK parties over the past two decades. The research uncovered a significant increase in donations, nearly tripling from £41 million in 2001 to £101 million in 2019. Notably, individual contributions surged, with 60% of donations in 2019 originating from private individuals.

The study highlighted a growing disparity in financial resources between the Conservative and Labour parties. In 2019, the Conservative party had a £27 million financial advantage over Labour, even after factoring in Labour's public funding known as 'Short Money' aimed at equalizing resources.

Key findings from the research revealed that almost half of all donations in 2019 (45.4%) were from private individual 'super-donors' who each contributed at least £100,000 in a single year. This group of super-donors, particularly active during election years, significantly favoured the Conservative party. In 2019, the Conservative party received £21.5 million from 71 private super-donors, while the Brexit Party (now 'Reform UK') notably received a substantial donation of £9.7 million from businessman Christopher Harborne.

Overall, this study sheds light on the increasing influence of wealthy individuals in UK politics, particularly benefiting the Conservative party and raising concerns about the long-term implications for democracy.<sup>5</sup>

## RECENT DEVELOPMENTS IN INDIA

In India, Electoral bonds were designed as interest-free financial instruments similar to promissory notes. They came with a unique 15-day redemption period, requiring political parties to promptly deposit them into their designated bank accounts. This system aimed to promote donations through transparent banking channels, enhancing audit trails and traceability in political financing without revealing the identities of donors. However, the

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<sup>4</sup> <https://www.fec.gov/press/resources-journalists/political-action-committees-pacs/> FEC.gov, "Political Action Committees (PACs)," 2024-02-21

<sup>5</sup> [https://warwick.ac.uk/fac/soc/economics/news/2022/11/almost\\_half\\_of\\_uk\\_political\\_donations\\_come\\_from\\_private\\_wealthy\\_super\\_donors\\_new\\_research\\_finds/](https://warwick.ac.uk/fac/soc/economics/news/2022/11/almost_half_of_uk_political_donations_come_from_private_wealthy_super_donors_new_research_finds/)

journey of electoral bonds, from their inception to a recent Supreme Court ruling declaring the scheme illegal, has highlighted the delicate balance between donor privacy and the public's right to transparency in democratic processes.<sup>6</sup>

Recent events, including the Supreme Court's decision and concerns raised by organizations like the Election Commission of India (ECI) and the Reserve Bank of India (RBI), have shed light on the complexities of regulating political donations. The discourse surrounding electoral bonds reflects a broader dialogue on electoral reform and the critical need to uphold the integrity and fairness of the electoral system. The Supreme Court highlighted several key issues in the electoral bonds scheme that sparked significant debate and concern. The court stressed the importance of transparency in political funding for informed voting, emphasizing how economic inequality can translate into political inequality. Election bonds impose a shroud of secrecy and opacity on political fundraising, so violating the Right to Information. By using these bonds, people and businesses can make anonymous financial contributions to political parties, concealing the contributors' identities from prying eyes. The public's right to know who is supporting political parties is undercut by this lack of transparency, which is crucial for guaranteeing accountability, avoiding corruption, and preserving the integrity of the democratic process. By keeping the financing sources a secret, electoral bonds open the door for special interests to sway political outcomes without facing consequences, undermining the democratic ideals of openness and equity in voting.

This connection between money and politics raised fears of quid pro quo arrangements, ultimately infringing on citizens' right to information under Article 19(1)(a) of the Constitution. The court also criticized the amendments made to crucial legislations governing electoral finance, labelling them as manifestly arbitrary. Specifically, the allowance for unlimited political contributions by companies was singled out for scrutiny, highlighting the disproportionate influence these entities could wield compared to individuals in shaping the electoral landscape. Concerns were also raised about the unbridled influence of companies in the electoral process due to the lack of oversight accompanying political contributions. The court pointed out that this scenario could lead to companies leveraging their financial power to sway political parties for their own business interests, potentially skewing the democratic process. The anonymity of donors and the overall opacity surrounding political funding were

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<sup>6</sup> <https://www.jurist.org/news/2024/02/india-supreme-court-strikes-down-electoral-bonds-scheme/>

identified as breeding grounds for corruption and favouritism. The court stressed the urgent need for a more transparent and accountable system in political financing to safeguard the integrity of democratic processes.<sup>7</sup>

In India, political financing plays a crucial role for various reasons. Upholding the integrity of the democratic process hinges on transparency in political spending. Corruption, favouritism, and a lack of accountability due to opaque political finance can erode public trust in elections. Studies have also shown a correlation between political funding and election outcomes. The distribution of financial resources can significantly influence election results, often favouring wealthier candidates. This can lead to limited diversity in political representation and a skewed portrayal of interests. However, it is essential to note that in any arena, the biggest player always has a monopolistic advantage over the others. But many people are of the opinion that ensuring electoral justice necessitates equal access to political funding for all candidates. Economic disparities can breed political inequality, potentially resulting in quid pro quo arrangements that violate constitutional rights to information.

Quid pro quo deals through electoral bonds can be facilitated by the anonymity and unlimited nature of contributions, potentially leading to favouritism and backdoor lobbying. For instance, one of the leading purchasers of electoral bonds, Megha Engineering (MEIL), a Hyderabad-based business, contributed a total of Rs 966 crore through electoral bonds. Approximately 60% of its contributions were made to the BJP. MEIL also donated Rs 85 crores to the DMK in Tamil Nadu, Rs 37 crores to the YSR Congress Party in Andhra Pradesh, Rs 28 crores to the Telugu Desam Party (TDP), Rs 18 crores to the Congress and Rs 5 crores to the Janata Dal (S) through electoral bonds.

The most important fact of the matter is that this particular business was awarded the contract in 2023 for the Rs 14,400 crore Thane-Borivali twin tunnel project, which passes beneath Mumbai's Sanjay Gandhi National Park (SGNP) when just a month before obtaining the contract, MEIL had invested Rs 140 crore in electoral bonds.

In a lot of cases, the anonymity of electoral bonds allows companies to make unlimited donations without disclosing their identities. This lack of transparency raises concerns about

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<sup>7</sup> <https://indianexpress.com/article/explained/explained-law/supreme-court-strikes-down-electoral-bonds-scheme-as-unconstitutional-what-issues-did-the-verdict-mention-9162710/>

potential quid pro quo deals where companies may expect favours in return for their contributions. For instance, the scheme saw a surge in donations from companies like Vedanta Limited, a bidder for mining licenses, despite facing financial challenges, suggesting a possible link between donations and business interests.<sup>8</sup>

Moreover, the removal of the profit limit for companies making donations opens the door for shell companies to be used for contributions. This loophole can be exploited for money laundering and illicit financial activities, as even loss-making or non-operational companies can now make donations through electoral bonds, potentially hiding the true source of funds.

In this context, the mystery surrounding Qwik Supply Chain Private Limited's substantial investments in electoral bonds despite a modest net profit of ₹21.72 crore raised eyebrows.<sup>9</sup> The company, although relatively unknown, emerged as the third-largest donor to political parties through electoral bonds, purchasing a significant ₹410 crore worth of bonds between the financial years 2021-22 and 2023-24. Intriguingly, its latest financial statement for the year ending March 2023 revealed that three companies - Reliance Group Support, Reliance Fire Brigade, and Reliance Hospital Management - collectively own 50.04% of its stake. These three companies share office addresses with other Reliance businesses in Mumbai, adding to the intrigue. The fact that Qwik bought electoral bonds worth ₹360 crore in 2021-22 and an additional ₹50 crore in 2023-24 while reporting a net profit of only ₹21.72 crore in the same year raises questions about the source and rationale behind such massive investments. The discrepancy between the company's profits and its substantial financial contributions through electoral bonds adds a layer of complexity to this enigmatic situation, prompting further scrutiny into the company's financial activities and connections with larger entities like Reliance Industries.<sup>10</sup>

The opacity of electoral bonds, coupled with the government's oversight of the State Bank of India (SBI) selling the bonds, raises suspicions of corruption. The selective anonymity of donations, where contributions to opposition parties can come under scrutiny while those to

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<sup>8</sup> <https://economictimes.com/news/politics-and-nation/complete-electoral-bond-data-made-public-meghas-rs-600-cr-to-bjp-single-biggest-donation/articleshow/108687510.cms>

<sup>9</sup> <https://www.thehindubusinessline.com/news/elections/reliance-linked-qwik-supply-third-largest-electoral-bond-buyer-reliance-denies-subsidiary-status/article67954044.ece>

<sup>10</sup> <https://www.reuters.com/world/india/qwik-top-buyer-indian-electoral-bonds-is-affiliated-ambanis-reliance-filings-2024-03-15/>

the ruling party remain undisclosed, fuels concerns about the misuse of electoral bonds for ulterior motives.

The Supreme Court had directed the State Bank of India (SBI) to be transparent and forthcoming in revealing all details regarding electoral bonds transactions. These directions aimed to shed light on the connections between buyers and recipients of these bonds, ensuring clarity on purchases and redemptions made by political parties. The SBI was required to disclose unique bond numbers that establish these links, along with specifics like the date of purchase, purchaser's name, and redemption information.<sup>11</sup> To comply with the Court's orders, the SBI was asked to submit a comprehensive report on electoral bonds transactions and provide full disclosure by filing an affidavit through its chairman before 5:00 pm on March 21, 2024.

The Election Commission of India subsequently released comprehensive electoral bond data provided by the State Bank of India, following this order. This data included bond numbers that allow donors to be matched with the political parties they donated to. The data covered electoral bonds purchased and redeemed from April 2019 to January 2024. The SBI disclosed details like purchaser names, bond numbers, encashing parties, and bank account digits of political parties. Earlier, The Supreme Court had criticized the SBI for not revealing unique serial numbers associated with the bonds. The alphanumeric codes on the bonds are crucial for linking donors to recipient parties. The SBI provided data to the Election Commission in two categories: donors who purchased bonds and recipients who encashed them. One contained purchase details of 18,871 electoral bonds between April 12, 2019, and January 11, 2024, in a 386-page document. The second list, 552 pages long, contained details of 20,421 redemptions between April 12, 2019, and January 24, 2024.

The data was made available on the Election Commission's website, enabling some delayed transparency in the shady political funding process.<sup>12</sup>

The top five political parties that received the most electoral bonds from private companies are as follows:<sup>13</sup>

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<sup>11</sup> <https://www.scobserver.in/reports/sbi-electoral-bonds-supreme-court-orders-complete-disclosure-of-transaction-details-from-state-bank-of-india>

<sup>12</sup> <https://indianexpress.com/article/india/electoral-bonds-data-numbers-supreme-court-sbi-election-commission-9226724/>

<sup>13</sup> <https://www.thehindu.com/data/electoral-bond-data-who-gave-the-most-and-which-party-got-how-much-in-the-first-two-years/article67967258.ece>



1. Bharatiya Janata Party (BJP): The BJP received a total of Rs 6,060.5 crore in electoral bonds, with significant amounts encashed before the 2019 Lok Sabha election and subsequent state elections.
2. All India Trinamool Congress (TMC): TMC received a total of Rs 1,609.5 crore in electoral bonds, with a notable increase in receipts after its victory in the 2021 assembly elections.
3. Congress: The Congress received Rs 1,421.8 crores in electoral bonds, with fluctuations in bond redemptions based on election outcomes, notably benefiting after state wins.
4. Bharat Rashtra Samithi (BRS): BRS encashed Rs 1,214.7 crore in electoral bonds, with varying redemption amounts tied to election cycles.
5. Biju Janata Dal (BJD): BJD received Rs 775.5 crore in electoral bonds, showcasing a significant sum but lower compared to the top recipients.

The most substantial donation made through electoral bonds to the ruling Bharatiya Janata Party (BJP) was from Megha Engineering & Infrastructures, which provided the party around Rs 600 crore. Further, the party received contributions of Rs 375 crore from Qwik Supply Chain Management Ltd, Rs 236 crore from the Vedanta Group, and Rs 230 crore from the Bharti Group. The Congress received the most from the Vedanta Group (Rs 125 crore), followed by Western UP Power Transmission Co (Rs 110 crore) and MKJ Enterprises (Rs 69 crore) and Yashoda Hospital Group gave it Rs 64 crore.

## CONCLUSION

Transparency is not just a concept; it is a commitment to honesty and integrity in our democratic processes. The goal should be to create a level playing field by introducing regulations that limit the influence of wealth in politics. By setting clear boundaries on contributions from individuals and corporations, the political system should uphold the principles of fairness and equality in our political system. Through mechanisms that allow public scrutiny of political financing, citizens should be allowed to actively participate in safeguarding the integrity of our democracy through the means of the Right to Information act. Public oversight acts as a safeguard against misuse of funds and ensures that every penny spent aligns with the values of accountability and responsibility. It is therefore, important to enforce guidelines on ethical fundraising practices and conflict of interest regulations, to cultivate a culture of integrity and respect in political financing. By raising awareness about the

significance of transparent political funding, voters should be equipped with the tools to hold their representatives accountable and uphold the democratic ideals of openness and fairness.