Transparency Issues with Electoral Bonds

What is the issue?

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- The union government announced the launch of electoral bonds in FY2017 Budget.
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- These bond are expected to curb money-laundering through political funding, but there are transparency issues.
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What is an electoral bond?

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- Electoral bonds will be issued by a notified bank for specified denominations, which is interest free.
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- Those who want to donate to a political party, can buy these bonds by making payments digitally or through cheque.
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- Then they are free to gift the bond to any registered political party.
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- The bonds will likely be bearer bonds and the identity of the donor will not be known to the receiver.
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- The party can convert these bonds back into money via their bank accounts within 15 days.
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- The bank account used must be the one notified to the Election Commission and the bonds may have to be redeemed within a prescribed time period.
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- Electoral bonds are essentially like bearer cheques, the issuing bank will remain the custodian of the donor’s funds until the political party redeems the bond.
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What are the advantages of these bonds?

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- Electoral bonds present a leak-proof alternative to anonymous cash donations that used to dominate political funding (cash donations beyond Rs.2,000 were barred in the 2017 Budget).
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- Electoral bonds will be available only from one bank (SBI) and buyers will have to meet KYC requirements, ensuring that political parties cannot accept unaccounted money through this route.
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- They can be used only to donate to registered political parties, thus curbing the flotation of counterfeit parties with the sole purpose of laundering wealth.
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- Their structuring as interest-free bonds with a limited shelf life of 15 days will also ensure that they aren’t used as an anonymous currency alternative to store wealth.
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What are the concerns with electoral bonds?

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- Electoral bonds may curb the rampant funnelling of unaccounted money into Indian politics, but this may be achieved at the cost of lower transparency to the voter.
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- Electoral bonds allows donations through this route only to parties that won 1 per cent of the votes in the preceding election, this may pose a formidable entry barrier to new contenders in the political arena.
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- Under earlier tax laws, political parties were required to compulsorily disclose to the Election Commission the identity, PAN and other details of all donors who contributed over Rs.20,000 to their coffers.
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- But Finance Bill 2017 restricted cash donations and specifically exempted electoral bonds from this requirement.
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- It also did away with the statutory limit on corporate donations to parties

(7.5% of three years’ net profits) and waived the need to disclose the identity of the receiving party.
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Source: Business Line

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