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Elections and Political Funding in India: A Case for Transparency and Accountability

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Abstract

India is a vast democracy and the State takes up the elephantine task of conducting free and fair elections through the independent body called the election Commission of India. The state follows a multi-party system where each and every party canvasses and promotes its agenda while contesting elections. For the same, parties need funding. And parties rely on these funds for promotion of its interests. Not disclosing the source of party funds is detrimental to democratic framework of the country creating a nexus between political parties and corporate giants. Hiding the sources of party funds weakens democracy by fostering a close link between political parties and corporate powers. Dependence on a handful of corporates for financial support often results in public policies being shaped to serve private interests rather than citizens.

The scheme of electoral bonds brought in India legitimised opacity by dismissing the necessity of declaring the details of individuals and corporates that purchased the electoral bonds and the donations made to different political parties. This paper discusses the political funding in some of the countries to understand how these countries tried to manage political funding. This paper reviews the political funding in India in detail looking at the reforms ought to be brought with regard to political funding and made suggestions to bring transparency and accountability among parties for a vibrant democracy.

Keywords: Elections, transparency, accountability, political funding, political parties, electoral bonds, electoral reforms

1. Introduction

Political funding refers to the financial resources raised and spent by political parties and candidates during election campaigns. Political funding is an important aspect of party politics and elections that manage and define the strategies of electoral campaign. Political Parties rely on this funding for impactful campaigns during elections. Political funding impacts transparency, accountability, and public trust. They are governed by transparency laws in many countries. Political parties around the world receive their party funding through different means like donations from people, corporate funding, foreign donations and state resources in certain countries. Political funding refers to the financial resources used by political parties for campaigning and mobilizing people. Regulation of this party funding is vital for free and fair elections. Political finance has a positive role to play in democracies: it can help strengthen political parties and candidates, and provide opportunities to compete on more equal terms (Falguera, Jones, & Ohman, 2014) ^[7]. Therefore, political funding is an important concept where the dealings should be kept transparent.

India being the largest democracy in the world, it is pertinent to see how far it is maintaining transparency with regard to receipt of political funding by major parties in the country. A review of efforts of some of the important democratic states may help us understand how transparency and accountability is maintained in Political funding and the kind of regulatory mechanisms these states are taking up to have fair play in elections.

Keeping this in view, to understand political funding parties, it is necessary to study the following factors.

2. Objectives

The primary objectives of this article are:

1. To understand political funding in different countries.

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2. To understand and deconstruct the mechanism of electoral bonds and their implication in India.
3. To propose recommendations for regulating political funding and bring transparency and accountability.

3. Methodology

This article is based on secondary resources like newspaper articles and reports, data from Election Commission of India, academic journals, reports of civil society agencies involved in study of political funding and government publications on public funding. This article is using qualitative method by reviewing and analysing both primary and secondary resources. It also aims at studying implication of political funding on Indian democracy with reference to the directives of Supreme Court.

4. Political Funding and Transparency: An International Scenario

All democracies of the world rely on elections either following a biparty system or a multi-party system and come to power through elections. These elections involve canvassing and campaigning at various levels to attract voters which involve spending of huge amount of finance that require funding. The source of funding may impact the conduct of free and fair elections. The source of funding in some of the major democracies of the world is reviewed with an intention to replicate ideal types of electoral funding for India. Political funding in some of the countries is as follows:

4.1 Political funding in United States

In the United States, 'The Federal Election Commission (FEC)' an independent regulatory body, has jurisdiction over the financing of campaigns for the U.S. House, Senate, Presidency and the Vice Presidency. While the Federal Election Campaign Act (FECA) of regulates the campaign finance, the Federal Election Commission (FEC) established in 1975 ensures enforcement. Transparency is maintained by requiring political candidates and committees to report contributions and expenditures publicly.

However, individuals and groups may still campaign for a candidate and help their campaign committee by volunteering. They may help the contesting candidate by producing public communications like independent expenditures, and using a computer or digital device for campaign activity.

Though there are regulations for political funding in USA, political funding is shaped by Super Public Action Committees (PACs), digital advertising, and new methods like cryptocurrency. These tools allow campaigns to raise and spend unlimited money, often without clear disclosure of donors. Wealthy individuals, corporations, and hidden sources of "dark money" gain disproportionate influence, while loopholes in regulations make it harder to track funds. This raises risks of foreign interference and unethical practices in elections. As a result, public trust in government and the fairness of elections is declining, with many voters believing that money distorts democratic representation (Venslauskas, J. (2024) ^[21].

4.2 Political funding in United Kingdom

In the UK, strict spending limits are imposed during elections. Political parties must report donations above £7,500. The Electoral Commission enforces these rules and

also audits political parties for compliance ("Political Parties and Elections Act 2000"). The Election Commission publishes the data on donations to keep public informed (Electoral Commission, 2024) ^[6]. Political finance in the UK was not strictly regulated until the 1990s scandals, leading to the Political Parties, Elections and Referendums Act (2000) under Tony Blair, which capped spending, mandated donor disclosure, and created the Electoral Commission. Since 2001, all donations or loans above £11,180 must be reported.

Election financing in United Kingdom (UK) is mostly managed by donations. However, measures have been strengthened to ensure transparency, fairness and public trust. The *Political Parties, Elections and Referendums Act 2000* (PPERA) introduced requirements for parties and candidates to disclose donations and loans above a specified threshold, with records published by the Electoral Commission for public scrutiny. This framework aims to prevent undue influence from wealthy donors, corporate interests, or foreign actors while making the funding of political activities more accountable. The visibility of donations has improved public oversight, although challenges remain in balancing private contributions with equal democratic participation (Committee on Standards in Public Life, 2021). However, continued reliance on large private donations raises concerns about transparency, equity, and the influence of wealthy donors (Falguera et.al ed., 2014) ^[7].

4.3 Political funding in Germany

In Germany there is the system of public and private funding where parties receive state funds based on their electoral performance. Germany follows a mixed model of state support and private contributions that are strictly regulated by the Act on Political Parties, 24 July 1967 amended on 27 February 2024. Political parties receive state subsidies according to their electoral performance and the amount of legally acquired donations from individuals, ensuring a link between public support and funding.

However, there are limitations that no party can receive more state funding than it raises through its own resources. There is also an overall ceiling for all parties. In Germany, Parties are required to submit detailed audited financial reports, which are published by the Bundestag to maintain transparency. Strict sanctions, including fines and repayment of funds, apply for misreporting, failing to disclose large donations, or accepting illegal contributions

4.4 Political funding in Sweden

Sweden that has a history of democratic institutions had no laws regulating party activity or organizational functioning till 2014 when legislation for regulating political party income was introduced (Öhman, M. (2014). Political parties in Sweden also receive public funding limiting private donations. It is distributed based on past electoral performance and representation. Since April 2018, it is mandatory for political parties to disclose identity of donors donating more than SEK 2,275 which is approximately 200 Euros. Foreign donations to political parties are banned. The Swedish Agency for Public Management and Transparency Register ensures utmost transparency and accountability through its reporting process and by publishing financial details.

4.5 Political funding in Other Countries

Some other countries like Chile have a unique mechanism known as 'reserved contributions', which requires anonymous contributions from companies to a party to be channelled through the Chilean Electoral Service, which then delivers the contributions to the party without revealing the source of their funds (Falguera, E., Jones, S., & Ohman, M. (2014) ^[7]. In countries like Mexico and Columbia, traffickers of narcotics and actors involved in organized crime have been known to infiltrate local governments by financing mayoral campaigns or bribes. Countries like Argentina, Bolivia, Ecuador, Guatemala, Peru and Uruguay—limit contributions to political parties during non-campaign periods to limit undue influence. Even though African countries face problem due to illicit donations, less than 20 per cent of African countries ban donations from corporations or trade unions. As per the report of Transparency International, and as per research by democracy watchdog International IDEA, 49 per cent of countries worldwide - including Canada, Finland, France, Italy, Japan, Mexico, and South Africa - place some kind of cap on donations to political parties (Whiffen, R. 2025) ^[22].

4.6 Political Funding in India

India has a long history of corruption and lack of transparency in elections. Political funding in India had been criticised for its lack of transparency. There are several ways through which political parties have been funded. Individual donations, state and corporate funding, electoral trusts and electoral bonds are some of the mechanisms through which political parties receive election funding which are apparently not transparent. In addition to this, India introduced electoral bonds in 2017 that allowed anonymous donations. As per the new legislation, Corporations can donate unlimited amounts without disclosure, raising concerns over enhanced corruption. This lack of transparency in political funding calls for reforms from various sections of the society.

The Electoral Bonds Scheme: Origin, Growth and Mechanism of Working

The scheme of electoral bonds was introduced in the budget of 2017-18 by the then finance minister, Arun Jaitley, with a chapter titled "Transparency in political fundraising". It introduced different methods of supporting political parties compromising transparency and anonymity.

Electoral Bonds-Main Features

The Department of Economic Affairs, Ministry of Finance, India released a press notice explaining the features of the scheme and claiming that they would cleanse party from illicit pecuniary transactions while maintaining anonymity (Department of Economic Affairs, Ministry of Finance, Government of India, 2018).

1. Electoral Bond would be an interest-free bearer instrument that can be purchased by any Indian citizen or a body incorporated in India.
2. Electoral bonds could be purchased for any value, in multiples of 1,000, 10,000, 1,00,000, 10,00,000 and 1,00,00,000 from the specified branches of the State Bank of India (SBI) making it feasible to donate even in smaller amounts.
3. The purchaser would be allowed to buy electoral bond(s) only on due fulfilment of all the extant KYC

norms and by making payment from a bank account and are valid for 15 days. Donations could only be made to the political parties registered under section 29A of the Representation of the Peoples Act, 1951 (43 of 1951) and which secured not less than one per cent of the votes polled in the last general election to the House of the People or a Legislative Assembly.

4. The bonds under the Scheme shall be available for purchase for a period of 10 days each in the months of January, April, July and October, as may be specified by the Central Government. An additional period of 30 days shall be specified by the Central Government in the year of the General election to the House of People.
5. The bond shall be encashed by an eligible political party only through a designated bank account with the authorised bank.

This system of political funding in India raised concerns over lack of transparency. The electoral bonds scheme raised concerns because it allows large donations from individuals and corporations without disclosing their identity publicly. This system asks for reporting of total funds raised through electoral bonds to ECI but allows anonymity of donor. It gives edge to ruling party in gaining significant number of political donations because of which even the Supreme Court on February 14, 2024 adjudges that citizens have right to know which corporates conglomerates are funding which political parties and struck down the scheme calling it unconstitutional. The anonymity provision defeats the purpose of transparency, as the general public and even the Election Commission do not have access to information about who donated to which party.

Criticisms and Legal and Political Implications of Anonymous Political Funding

Several concerns have been raised about the scheme. According to India Today, as per the audit reports of party-wise donations through electoral bonds from 2017-18 to 2022-23 submitted to Supreme Court, electoral bond income accounted for 81 per cent of the total unknown income of national parties.

Lack of Transparency: The anonymity of donors makes it difficult to trace the source of funds and assess whether policies are being influenced by corporate donations.

Unequal Access: It is seen that the ruling party garnered highest donations through the electoral bonds. Bharatiya Janata Party (BJP) alone got Rs. 6566 crores between 2017-18 to 2022-23 (India Today). It formed 54.7786% of the total contribution thus giving undue privilege to ruling party.

Potential for Crony Capitalism: The scheme was introduced stating the intention of restricting donation of black money as donations to political parties. It was introduced as a Money Bill thus bypassing the scrutiny of the Rajya Sabha as well. Therefore, critics argue that corporates and business organisations may donate in anticipation of favourable policies pointing towards Politico-business nexus.

Supreme Court Verdict and Its Implications

In February 2024, the Supreme Court of India struck down the electoral bond scheme, stating that it violated the right to

information under Article 19(1)(a) of the Constitution. The Court directed the SBI to disclose all details of electoral bond transactions.

The landmark judgment emphasized that transparency is vital in a democracy and the right of voters to have information on funds of political parties. The verdict has been hailed by activists and legal experts as a step towards restoring the integrity of political funding mechanisms in India. The Court's direction to the SBI to release data related to electoral bonds has led to revelations about the scale and concentration of donations thus sparking off debates about electoral reforms.

Recommendations

Based on the analysis regarding political funding, the following recommendations are proposed:

1. **Need for Transparency in Donations:** All political donations should be disclosed publicly to prevent undue influence of big corporates. This ensures moderate donations so that they do not influence policy making. William Dalrymple (2020) wrote in his book, *The Anarchy*, that: "East India Company was the first trading company to effectively rule India from the board room of London." The electoral bonds portends a similar company raj, with big companies, foreign companies, and shell companies funding the governing party, with an eye on quid pro quo (Misra and Ray, 2024).
2. **Strengthen the Election Commission:** The Election Commission of India should be given more autonomy and powers to audit political finances. This will help reduce black money, bribery and undue influence of capitalism in electoral politics.
3. **Limit Donations:** There should be limit on the amount of donations by individuals and corporates. Anonymous donations and donations in cash should be banned. Stricter regulations should be placed.
4. **Promote Public Funding:** Introduce partial public funding of elections to reduce dependence on private donations. However, this will be effective only when all other funding is curbed. This may encourage smaller parties with financial crunch also to contest elections based on ideology. Money should not be a limiting factor for contestants, especially from weaker sections.
5. **Encourage Small Donors:** Incentivize small, transparent donations from individual citizens through tax benefits or digital platforms.
6. **Limit on Campaigning Expenditure:** A limit on campaigning expenditure may be placed so that parties can contest without worrying about too much poll expenses.
7. **Independent Actors for oversight Actors:** Independent oversight actors (media, election monitors, civil society, etc.) who provide the public with objective, evidence-based assessments regarding adherence to democratic principles should be maintained.
8. **Strong Legal Framework:** A strong legal framework should be made so as to prevent illegal party funding and prevent undue advantage to any single party and also to prevent nexus between party and corporate.

5. Conclusion

Transparency and accountability are the pillars of

democracy and therefore all the political funding may be made transparent and accountable. Many nations have reformed conditions for political funding to make it more democratic. Though the ruling government argued that non-display of donor details will reduce black money in politics, the verdict of the Supreme Court to submit details of electoral bonds issued has now paved the way for a more transparent and accountable political finance system. India must strive to create a balanced framework that ensures electoral integrity, curbs undue influence, brings transparent, fair and accountable funding and strengthens democratic institutions. Election Commission is created as an independent autonomous body and it should act to protect democracy and curb unfair means of winning elections. We should learn from the countries which are able to curb the problems associated with political funding and replicate the same tailoring them to our environment and needs.

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