

**LOK SATTA**

*People Power*

## **Political Funding Reforms**

13th Sept. 2001, New Delhi

# POLITICAL PARTIES

## Why regulation?

### Political Parties

- Monopoly or oligopoly
- Represent history, memories, aspirations of millions
- Seek power over all people
- Cannot be easily formed or built
- People and members have no realistic alternatives
- Vehicles for political participation of citizens

### Societies

- Free choice
- Mere organisations of convenience
- Pursue members' collective goals
- Can be formed and dissolved at will
- Members have multiple options
- Vehicles for voluntary pursuit of individual / group goals

# POLITICAL PARTIES

## What regulation ?

### Membership

- Free, open and voluntary
- Uniform, objective conditions / no restrictions
- No arbitrary expulsion
- Due process for disciplinary action

### Leadership choice

- By regular, periodic, free and secret ballot
- Opportunity to challenge leadership through formal procedures with no risk of being penalised

# POLITICAL PARTIES

## What regulation ?

### Funding

- Tax credits for funding
- Full and truthful disclosure by donor and party
- Severe penalties for violations
- Compulsory statutory auditing
- Election Commission final authority for determination of compliance
- Public funding indirect – free air time
- Direct public funding – non-discretionary and verifiable norms

- Choice of Candidates
- By members at constituency level through secret ballot
  - By elected delegates through secret ballot
  - Central leadership cannot nominate candidates

# Electoral Reforms – Campaign Funding

## Problems

- Explanation 1 of Section 77 of RP Act, 1951
- No public auditing
- Weak (non-existent) enforcement (IT)
- No disclosure norms
- No penalties
- No asset and income disclosures
- No incentive for open funding

## Campaign Expenditure – India and US Comparison

Expenditure for Lok Sabha + all Assemblies – all parties + candidates

Estimated : Rs.2500 + Rs.4500 crores

Total : Rs.7000 crores = \$1.5 b

70-80% is for vote buying

US election expenditure : 2000

Presidency + House + 1/3 Senate + 1/3 governors

Estimated expenditure: (Soft + issue ads Hard) \$ 3 billion

80% is for TV advertising.

Actual campaign expenditure : 50%

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\$ 1.5 billion

Adjusted to our low percapita income, and high purchasing capacity of Rupee, our expenditure is 60 times that of US!

# Campaign Expenses – Vicious Cycle

- Illegitimate expenses are often 5-10 times the ceiling or more

(Assembly ceiling: Rs 6 lakhs

Lok Sabha ceiling: Rs 15 lakhs)

- Every crore spent illegitimately



Rs 10 crore returns

(to cover ROR, Interest, personal upkeep, supporters, family's future, next election costs)



Rs 100 crore collected through bureaucracy

(for every legislator, there are 2000 employees who need to collect 'rent')



people suffer ten times more.

Payment extorted, on pain of delay, harassment, humiliation, anxiety and greater loss.



# Electoral Funding – Possible Reforms

- Full tax exemption to donor
- Full disclosure norms (both donor and recipient to EC, IT and public)
- Party accounts – audited, disclosed and open
- Candidates income and assets disclosure
- Severe penalties for non-disclosure or false disclosure
  - Fine ten times the amount
  - Disqualification for 6 years
  - Donor's imprisonment for 6 months
  - Candidate's imprisonment for one year
  - Party's derecognition
  - Office bearer's imprisonment for 3 years

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## Possible reforms

- Reasonable ceilings
- Repeal of explanation under Section 77
- EC to be final authority on compliance and penalties
- Imprisonment by special tribunals.

# Tax incentives and Ceilings

## **Individual contributions to a candidate or party:**

- Total ceiling on contributions: Rs. 50,000
- 100% tax exemption upto Rs. 10,000

## **Corporate contributions to parties:**

- Prohibited to individual candidates
- A legal ceiling of 5% of net profit or Rs. 50 lakhs for national parties or Rs. 10 lakhs for State parties.
- 100% tax exemption upto Rs 50 lakhs

## Pre-conditions for Public Funding

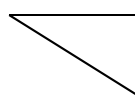
- Political party regulation
- Strict disclosure norms
- Democratic selection of candidates
- Decriminalization of politics
- Rectification of defects in electoral rolls
  - (estimated errors: 45% in urban areas  
15% in rural areas)
  - Post office as nodal agency
- Elimination of voting fraud
  - (estimated 21% false voting in cities)
  - Voter identity cards
  - Repolling if tendered votes exceed 1%

# Requirements of Public Funding

- Transparent
- Verifiable
- Non-discretionary
- Incentive to performance
- Encourage private resource mobilization
- Prevent fragmentation
- Fair to new parties and independents
- Finite cost to exchequer
- Equal treatment of all candidates

# Electoral Funding – Possible Reforms

## Public funding:

Indirect – air time –  public channels  
private channels

- more flexible use of time
- televised debates

Direct – only after other reforms are in place

- non-discretionary
- verifiable

A model:

- funding for all candidates
- a threshold of 10% votes in the constituency
- Rs 5 or 10 per vote polled
- parties to get 50% advance based on last election

# How Public Funding Works

## Rules:

1. At constituency level, the candidates who obtain over 10% of valid votes polled will be eligible for public funding ( $n$  votes)
2. Each such candidate will be eligible for a maximum of a fixed amount, say Rs. 10 for each vote polled ( $\text{Rs } 10 n$ )
3. If the candidate is put up by a political party, then at the constituency level  $\frac{2}{3}$  of the amount will be the ceiling he would be eligible to get. The balance will go to the party, subject to other rules governing funding. ( $\text{Rs. } 20 n$ )

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## How Public Funding Works

4. The actual money the candidate will be eligible to get will be equal to:

The expenditure ceiling limit prescribed by law (1), less the sum of the money raised by him, and received in cash or kind from the party ( m )

$$( 1 - m )$$

Or

$1\frac{1}{2}$  times the contributions raised by the candidate (excluding party's support) (  $1\frac{1}{2} c$  )

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## How Public Funding Works

### From the above:

The public funding will be

$$\frac{20n}{3} \quad \text{or} \quad (1-m) \quad \text{or} \quad \frac{3c}{2}, \text{ whichever is lowest}$$

### Where:

- n = No. of votes polled by the candidate (provided n exceeds 10% of total valid votes polled)
- l = Expenditure ceiling limit for the constituency
- m = Money raised by the candidate + received from the party in cash or kind
- c = Contributions raised by the candidate

## Funding to the Non-party Candidates

- The funding will be similar, except that the eligibility will be  $10n$  and not  $\frac{20n}{3}$

∴ The public funding will be:

$10n$  or  $1-c$  or  $\frac{3c}{2}$ , whichever is lowest

Where  $n$  = No. of votes polled by him ( provided  $n$  exceeds 10% of no. of votes polled)

$1$  = Expenditure ceiling limit prescribed by law

$c$  = Contributions received by him

## Public Funding to the Party

1. The basis for public funding to the party will be the total number of votes obtained by the party in constituencies in which its candidates become eligible for public funding (N)
  
2. The eligibility ceiling for public funding will be Rs  $\frac{10}{3}$  N.

(Rs  $\frac{20}{3}$  N is the eligibility for its candidates)

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## Public Funding to the Party

3. The actual amount disbursed to the party will be as follows:

$1\frac{1}{2}$  times the total contributions received by the party (C)

Or

$\frac{1}{3}$  of the total election expenditure ceiling prescribed in all those constituencies in which its candidates are eligible for public funding (L) less the contributions raised by the party (C), which ever is lower.

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## Public Funding to the Party

4. The party's share of public funding will therefore be:

$$\frac{10}{3} N \text{ or } (L - C) \text{ or } \frac{3}{2} C$$

### Where:

N = Total number of valid votes polled by the party in constituencies where its share of votes is 10% or more

L = 1/3 of the sum of legal ceiling on expenditure in those constituencies

C = The contributions raised by the party

## Cost of Public Funding

Population	:	101 crore
Estimated voter strength ( above 18 years)	:	56 crore
Actual votes polled at 60%	:	34 crore
Exclude 40% from funding	:	20 crore
(eligibility criteria : above 10% votes; ceiling - funds raised, matching actual funds raised)		
Funding cost at Rs. 10 per vote	:	Rs. 200 crore
( for Lok Sabha - by Union government)		
Funding cost for State Assemblies	:	Rs. 250 crore
( likely higher percentage of voting; funded by states)		

# A Public Fund for Political and Campaign Funding

- The Union and States will start such Funds.
- All contributions from individuals and corporates will receive the benefit of tax exemption for 150% of the amount, without any ceiling.
- The Public Fund will be operated by the Election Commission, and candidates and parties will be funded from that fund as per the norms.