REFORMING ELECTION FUNDING

Namit Oberoi*

The tremendous influence of money power especially black money on elections is one of the major evils associated with the electoral process. Urgent reforms are required to curb this menace which threatens the foundation of our democracy. It is in this context that the present paper seeks to examine the Supreme Court judgments on the issue of election funding, the regulatory system as given in the Representation of Peoples Act, 1951 and the various aspects of reforms in election funding.

I. INTRODUCTION

India is the largest democracy in the world and it has successfully sustained its parliamentary system, because free and fair elections constitute an integral part of the basic designs of the model. The Constitution of India guarantees the right to elect and to be elected to the citizens of the country.¹ The mechanisms of fair elections in India are ordain in Part XV of the Constitution of India and other laws are embodied in the Representation of People Acts of 1950 and 1951.

Various provisions made in the Constitution and in the Representation of the Peoples Act of 1950 and 1951 show how anxious the Constitution-makers had been to safeguard this political right of the citizens as an integral part of the constitution itself. It is for this reason that the subject of elections had been accorded constitutional recognition. Statutory provisions for the independence and neutrality of our electoral body at the apex and for the prevention of the growth of gerrymandering system as practiced in the US have been made to ensure free and fair elections in India.² But, the working model of democracy and its electoral system, since it was put into action has brought to the limelight numerous distortions, pitfalls, drawbacks and malpractices. This has led to the cry for maintaining the purity of the electoral process. A deep concern against the growing impact of factors like glaring economic and social equalities, exploitation of caste and communal politics, the role of muscle and money power, misuse of governmental machinery and criminalization of politics has led to a demand to introduce electoral reforms in our polity.³ The present paper will be dealing with one such pernicious factor eating into the vitals of the electoral system which is the role of money power in elections.

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² See generally B. Hyedervali, Law and corruption in India, 29 INDIAN BAR REV. (2002).
³ Supra note 1.

* 4th Year, B.A./B.Sc. LL.B. (Hons.), The W.B. National University of Juridical Sciences, Kolkata.
A. FUNDING ELECTIONS

The tremendous influence of money power especially black money on elections is one of the major evils associated with the electoral process. It is a known fact that raising funds for elections is a pressing imperative for politicians and, in turn, this imperative is one of the most powerful forces behind political corruption. No political party is free from such offences. The political parties in their quest for power spend several thousand crore rupees on the General Election and there are no accounts for the bulk of the money spent and there is no accountability anywhere.

It is estimated that about Rs. 7000 crores is spent by all major parties and candidates in the Lok Sabha and the State Assembly elections over a period of five years in India\(^4\). In most constituencies the actual expenditure incurred is several times the ceiling limits prescribed by law. This high and illegal expenditure forces parties and politicians to extort money from a variety of sources, legitimizes corruption, encourages political recruitment of those willing to spend large amounts of ill-gotten black money, discourages public-spirited citizens from contesting and leads to a vicious cycle of corruption, greed and extortion which undermines our democracy.\(^5\)

In order to understand this vicious circle better it is important to briefly examine the history and dynamics of election funding. There are a variety of arrangements determining election finance around the world. Political parties need funds for three activities: election campaigns, inter-election maintenance of their organizations and political activities, and support of research and information infrastructure for the parties.

In most cases election campaigns are the primary visible activity requiring funds. Historically, this has made political parties excessively dependent on big business and wealthy individuals.\(^6\) The big business houses, the contractors and the blackmarketeers donate liberally to the election funds of the political parties and then reap the harvest when the political party comes to power as the political leader who accepts the money goes out of the way to placate the donor.\(^7\)

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\(^5\) See generally Dolly Atora, State Funding of Elections Some Posers, Economic and Political Weekly (2000)


\(^7\) See M.V Pylee, Emerging Trends of Indian Polity 43 (1998)
B. ORIGINS OF ELECTORAL FINANCE REFORMS

The origins of election finance reform have three roots: corruption scandals, rising campaign costs, and public concern for equal opportunity for political participation. In India it was widely felt that a free-for-all system of election fund-raising gave excessive power to wealthy individuals and big business. The J.P Movement launched in 1974 was the first campaign in this direction to popularize the theme of electoral reforms. It highlighted drawbacks and defects in our electoral system as well as the allegations of misuse of the official machinery and the role of black money in our elections. To ensure that free and fair elections are held and the electoral machinery and electoral processes function properly in strengthening our parliamentary democracy, numerous reforms and suggestions have been submitted by opposition parties, lawyers, Jurists and various committees or commissions which were constituted for this purpose.

The role of money power in elections has become a standard concern in recent discourses on electoral reforms in India and belongs to that category of maladies, which are systemic in origin; given the structural relationship, which has been established between economic and political power and the various forms of modern politics.

It is in this context that I will examine the Supreme Court judgments on the issue of election funding, the regulatory system as given in the Representation of Peoples Act, 1951 and the various aspects of reforms in election funding.

II. SUPREME COURT ON ELECTION FUNDING

Traditionally, political parties in India financed themselves through private donations. Company contributions to political parties were legal, subject to certain restrictions, and had to be declared in the company’s accounts. There were limits on election expenditure since the Representation of the People Act (RPA) 1951. Section 77 of RPA regulated the election expenses. The Supreme Court in Kanwar Lal Gupta v. Amar Nath Chawla in an important judgment said that spending on behalf of a candidate should be included in election expenses for the purposes of the ceiling. Section 77(1) of the Act, as it stood then, read thus:

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8 Id.
9 Supra note 1.
10 The most recent official exercises in this regard have been The Goswami Committee on Electoral Reforms (1990), The Indrajit Gupta Committee on State Funding of Elections (1998) and the Law Commission’s report on Reform of the Electoral Laws (1999).
12 (1975) 3 SCC 646
Every candidate at an election shall, either by himself or by his election agent, keep a separate and correct account of all expenditure in connection with the election incurred or authorised by him or by his election agent between the date of publication of the notification calling the election and the date of declaration of the result thereof, both dates inclusive.

Section 77(3) provides that the total of the said expenditure shall not exceed such amount as may be prescribed, that is to say, the amount prescribed by the Rules framed under the Act. The expenditure prescribed for a parliamentary constituency in the Union Territory of Delhi was Rs. 10,000. The question before the Court in Kanwar Lal Gupta was whether the successful candidate, Amar Nath Chawla, had incurred or authorized expenditure exceeding the ceiling of Rs. 10,000. The court held that Section 77(1) prohibited not only the incurring but also the authorising of excessive expenditure and that such authorising may be implied or express, the Court observed:

“When the political party sponsoring a candidate incurs expenditure in connection with his election, as distinguished from expenditure on general party propaganda, and the candidate knowingly takes advantage of it or participates in the programme or activity or fails to disavow the expenditure or consents to it or acquiesces in it, it would be reasonable to infer, save in special circumstances, that he impliedly authorized the political party to incur such expenditure and he cannot escape the rigour of the ceiling by saying that he has not incurred the expenditure, but his political party has done so”.

As fallout of the Supreme Court judgment in the above-mentioned case, the RPA was amended, so as to nullify the 1975 Supreme Court judgment. Explanation 1 to section 77 of the RPA was appended. The Explanation read as:

Explanation 1. - Notwithstanding any judgment, order or decision of any court to the contrary, any expenditure incurred or authorized in connection with the election of a candidate by a political party or by any other association or body of persons or by any individual (other than the candidate or his election agent) shall not be deemed to be, and shall not ever be deemed to have been, expenditure in connection with the election incurred or authorized by the candidate or by his election agent for the purposes of this sub-section.

The result of such an amendment was that the unauthorized party and supporter expenditure in support of the candidate did not count in election expenses incurred by a candidate, for the purpose of ceiling, making the limit an exercise in futility.
The validity of this explanation was challenged in *P. Nalla Thampy Terah v. Union of India*\(^{13}\). A constitutional bench of the Supreme Court in the case observed that the petitioner in the case was not unjustified in criticizing the provisions contained in Explanation 1 as diluting the principle of free and fair elections, which was the cornerstone of any democratic polity, but it was not for the court to lay down policies in matters pertaining to elections. As the said amendment in sub-section (1) did not violate the constitution, it could not be declared to be invalid although the court did not approve the policy which underlines the amendment. The court further interpreted Explanation 1 to Section 77 to lay down that unless the expenditure is in fact incurred or authorized by the candidate or his election agent, he couldn’t be saddled with that expenditure. In order that explanation 1 to Section 77 of the Act may apply, it must therefore be proved that the source of the expenditure incurred was not out of the money of the candidate or his election agent.\(^{14}\)

But the Supreme Court in its recent judgments has recognized the harm that explanation 1 has caused. In *C. Narayanswamy v. C.L Jaffer Sharief*\(^{15}\), the Supreme Court observed that Section 123(6) of RPA, which makes incurring or authorizing expenditure in contravention of Sec. 77, a corrupt practice has become nugatory and redundant because of Explanation 1 to Sec.77. The court further said that the persons investing funds, in furtherance of the prospect of the election of a candidate must be identified and located and the candidate should not be allowed to plead ignorance about the persons who have made contributions and investments for the success of the candidate. The court exhorted the parliament to take care of the present situation and to remedy the negative impact of Explanation 1 to S. 77(1).\(^{16}\)

The Supreme Court reiterated the above judgment in *Gajanan Bapat v. Dattaji Meghe*\(^{17}\) and held that the practice followed by political parties of not maintaining any accounts of its candidates defeats the purpose of Explanation 1 to S. 77(1) of R.P Act. The Supreme Court asked the Parliament or the election commission to intervene and prescribe by Rules the requirements of maintaining true and correct account of the receipt as well. Further, it held that the political parties must disclose how much amount was collected by them and from whom and the manner in which it was spent so that the court is in position to determine “whose money was actually spent” through the hands of the party.

Explanation 1 to Section 77 of the Representation of People’s Act was also at the heart of controversy in the case of *Common Cause v. Union of India*.\(^{18}\)

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\(^{13}\) AIR 1985 SC 1133  
\(^{14}\) Chandrachud J. in *P. Nalla Thampy Terah v. UOI*, AIR 1985 SC 1133.  
\(^{15}\) 1994 (SUPP) 3 SCC 170  
\(^{16}\) N.P Singh J. in *C. Narayanswamy v. C.L Jaffer Sharief*, 1994 (SUPP) 3 SCC 170  
\(^{17}\) (1995) 5 SCC 437  
\(^{18}\) (1996) 2 SCC 752
The case mainly dealt with the issue of lack of transparency in the process of fund-collection and expenditure incurred by the political parties. It was alleged that most of the political parties had not been filing returns of income in violation of the mandatory provisions of law and that they were receiving large amounts of money by way of donations/contribution from companies on a quid pro quo basis.

The Supreme Court came down heavily on the political parties who had not been filing their returns of income for several years and also on the income tax authorities, who had been wholly remiss in the performance of their statutory duties under law. Further the court interpreted Explanation 1 to S. 77 as:

*The expenditure “incurred or authorised in connection with the election of a candidate by a political party” can only be the expenditure, which has a transparent source. Explanation 1 to Section 77 of the Income Tax Act does not give protection to the expenditure that comes from an unknown or black source.*

The court also asked all the political parties to submit the details of the expenditure incurred or authorised by them in connection with the election of their respective candidates with the Election Commission.

Thus the Supreme Court has time and again asked the legislature and the election commission to bring about reforms in the process of election funding to prevent the influx of black money in the election process. Successive governments have promised electoral reforms and have laid down committees to look into the matter. This paper now looks at the recommendations made by the various committees and also the electoral practices followed by different countries.

**III. REFORMING THE SYSTEM OF ELECTION FUNDING**

The thrust of political finance reform in democracies worldwide had four main characteristics: *public funding*, full or partial, of elections and/or parties *limits on expenditure* including sub-limits on particular expenditures; *limits on contributions* from individuals and organizations; and *reporting and disclosure* of election, party and candidate finances in some form. The researcher shall look into each of these characteristics separately.

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20 *Supra* note 6.
A. STATE OR PUBLIC FUNDING

On considering the existent strategies, which seem to have failed in curbing channelizing of money in the electoral process, the State Funding of elections seems to offer some hope. As against curbs being exercised on cash flow, which is beyond the control of a machinery trying to ensure its proper use both vis-à-vis the limit and the manner of its use, state funding offers an alternative which might possibly induce checks at inception rather than at the tail end when things are surreptitious and often only technically redeemable.\textsuperscript{21} The principle of government funding of political parties or candidates or election campaign activities is well established across the democratic world. The idea of State Funding was also discussed during constituent assembly debates. K T Shah, one of the Constituent assembly’s members had moved an amendment seeking that election expenses be borne by the state.\textsuperscript{22} The Government did not oppose the principle underlying the amendment but maintained that it would impose an unbearable burden on the state exchequer.

Many of the established democracies and some new democracies have adopted some form of public funding.\textsuperscript{23} In some countries parties are provided support during election period whereas in some others even routine activities of political parties are supported by the state. The extent of funding provided by the state also varies from substantial to limited. There are also differences regarding the criteria for providing funds too, with some countries like Germany favouring past performance, others like using multiple criteria.\textsuperscript{24} But more than these criteria and the number of countries who have opted for state funding of elections, the important issue is whether State funding of elections has helped in the healthy growth of democracy in these countries and how the practice can be adopted in the Indian context. For this a close analysis of state funding is required.

State funding can be either full or partial and can be organized into four categories, which exist in a variety of combinations in different countries. These are: firstly, direct grants/reimbursements to political parties/candidates not tied to particular expenditures; secondly, specific grants earmarked for particular items of expenditure; thirdly, provision of certain services, free or subsidized, by the

\textsuperscript{21} \textit{Supra} note 11.
\textsuperscript{22} \textit{Supra} note 11, at 1887
\textsuperscript{23} Public funding of elections and/or parties was introduced from the mid-1950s (Costa Rica 1954, Argentina 1955); among stable democracies, in Germany in 1959. Countries which followed suit were Austria (1963), France (1965), Sweden (1966), Finland (1967), Denmark (1969), Israel (1969), Norway (1970), Netherlands (1972), Italy (1974), Canada (1974), United States (1976), Japan (1976), Spain (1977) and Australia (1984) \textit{as cited in supra} note 7.
government or government-owned organizations for instance, free radio or TV time on state-owned media; and fourth, indirect subsidies such as tax credits to donors or tax exemptions to parties or candidates. The criteria for allocation of public funds can be on the basis of seat or vote share in the last election, usually on the basis of complicated formulae. In some cases where election expenses are reimbursed on a per seat or per vote basis, it can be on the basis of performance in the recent election.

A major argument in support of state funding of political parties is the ‘public function’ argument. State funding of political parties is justified because political parties are presumed to perform important public functions of informing and educating common people about the policies and programmes of the government on the one hand and pointing out their shortcomings and deficiencies on the other. Competition among political parties makes the government answerable and provides an ideological alternative to the citizenry. This is considered good for the health of democracy. State funding is also expected to safeguard democracy by reducing the dependence of political parties on black money as it has been instituted in order to give candidates or political parties alternative sources of funds, to reduce financial pressures upon them, and to increase voters access to and awareness of information about candidates or parties. State funding of elections is also expected to create a level-playing field among unequal competitors.

But on a closer analysis of state funding we see that it is as problematic as private funding. One of the main difficulties with respect to public funding is who should receive the subsidy and how and when it should be made. The goal of government subsidization is to help serious contestants and make available opportunity to challenge those in power. The most difficult problems in working out fair subsidies are how to define major and minor parties.

Another problem with state funding is that the connection between money power and political parties cannot be expected to cease simply because additional funds are available from the state. State funding could limit the role of money power in elections, if only it were comprehensive funding, disallowing any contributions from other sources from being used for the purpose of elections. The ability of money power to unduly influence public policy cannot be expected to be adversely affected simply because state funds are also available to political parties. Nor are parties likely to stop using black money for buying votes, which has become a major problem area in recent years simply because state funds are


26 Supra note 11.

27 In several countries like Italy, Finland, Spain, Australia and Israel election spending rose despite public funding of parties.
also made available to them. Political parties would only have more money to spend. Therefore regulation and monitoring of expenditure is very important, as they are essential for preventing money power from vitiating the electoral processes.

Apart from this many other questions still exist regarding state funding such as form of funding (cash or kind), the extent of funding (full or partial), basis of funding (electoral support, compliance with rules, accountability). There is also an apprehension that this can become yet another source of corruption. Therefore before implementing State funding of elections it is important to examine these issues in greater detail and compare the possibilities and limits as well their relative costs and benefits in the light of the experience of other countries. It is contended that instead of state funding which would be a heavy burden on the exchequer the political parties should aspire to broad base their funds and mobilize direct support from public as it will help the parties to maintain their social base and will introduce responsiveness of party leaders to voters and followers.

B. LIMITS ON EXPENDITURE

Another area where reforms in election funding are required is expenditure limits on elections. Explanation 1 added in 1974 to section 77 of the Representation of the People Act, 1951 made a mockery of the election expenditure ceiling, by excluding the expenditure incurred by parties and others from the purview of ceiling limits. The very meaning of a ceiling is lost due to this. It is important that Explanation 1 under Section 77 of the Representation of the People Act 1951 should be repealed. There should be reasonable ceilings imposed from time to time and all expenditure by parties, candidates and their friends should be included in the ceiling limits. Any illegitimate expenditure to give inducements to voters, bribe officials or indulge in electoral malpractices should result in fines and penal proceedings.

The election commission of India in its report recommended that every political party registered with the Commission should publish its accounts annually and such accounts should be audited by agencies appointed by the Election Commission.

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29. An example of failure of the working of State funding of elections is Italy where in fact majority of the electorate voted against public funding in a referendum and the law which provided for it in 1971 was repealed in 1973 as cited in B Venkatesh Kumar, Funding of Elections- Case for Institutionalized Financing, Economic & Political Weekly (1999).


31. Id.
Even though there are detailed rules framed to prevent or reduce the role of money power in elections, and candidates have to submit the details of expenditure incurred to the Election Commission, the public does not enjoy access to these in order to be able to scrutinize these. Therefore it is important to make both fund raising and spending practices transparent. If this is not done then regulating the vitiating role of money power through spending limits cannot be addressed.  

C. LIMITS ON CONTRIBUTIONS

Contribution limits by individuals and organizations have been introduced primarily to address the problem of equality of opportunity by lessening dependence on a small number of wealthy donors and making candidates more responsible to the grassroots. Ceilings on contributions may apply both to donors and recipients, that is, recipient parties and candidates may face limits on amounts they receive from certain categories of donors and/or from any single donor, forcing them to broad-base their fund-raising efforts. Potential donors may face limits on how much they can contribute per candidate, per party or per year.

If we look at corporate financing, the Indian Companies Act prior to 1969 did not make any specific provision for donation by companies, but in 1969 a law was brought into force banning any company contribution to the election arena. Later, an amendment brought about to section 293 in 1985 permitted companies to make contributions of up to 5% of their average profit of the three previous years to political parties. But in the absence of strict disclosure norms backed by severe penalties for non-disclosure, both parties and donors find it expedient not to disclose these contributions. Donors are afraid of possible political retribution from other parties. Parties and donors also do not wish to let the public know the link between a political contribution and favours doled out to them by a party in power. Also parties and candidates loath to disclose funding as most expenditure is both illegal (beyond ceiling limits) and illegitimate (for buying votes, bribing election officials and hiring muscle men).

Therefore we see the amendment brought in with the view of curbing the parallel practice of black marketing in the business-politics, has failed due to lack of transparency and nepotism. It is important here to consider the views of the Election Commission which does not approve of a total ban on donations by companies to political parties. It states “the political process and the activities which a political party legitimately engages itself involve heavy cost which has to

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be met by funds coming through certain channels. Efforts should be made to create an atmosphere where there is more transparency in financial dealings rather than take extreme measures, which would only drive these activities underground and away from the public gaze. 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. Another recommendation is that donations above Rs 10,000 should be made by cheque or bank draft and the names of donors/subscribers disclosed by parties in their accounts.

But the most important step in the direction of reforming these practices can be public exposure and public accountability of political parties as well as candidates.

D. REPORTING AND DISCLOSURE OF ELECTION, PARTY AND CANDIDATE FINANCES

Reporting and disclosure requirements should be implemented simultaneously with limits on election expenditures and political contributions. This necessitates the institutionalization of legal requirements for disclosure of party/candidate income and expenditures. The law in India dealing with disclosure of election and party funding is weak. The Income Tax Act exempts the income of a political party under Sec. 13 (A). Parties, in return, are bound by law to maintain accounts regularly, record and disclose names of donors contributing more than Rs. 10000 and have their accounts audited by a qualified accountant as defined in Sec 288 (2) of the IT Act. Under 139 (4B) of the IT Act, inserted in 1978, parties shall furnish returns of income to the IT authorities. However, there is neither provision for public auditing and full disclosure, nor are severe penalties attached to non-compliance. Given the power and primacy of parties, the IT authorities are reluctant to act against parties for violations of law, despite clear rulings of the Supreme Court.

IV. CONCLUSION

Over the years there has been a steady deterioration in the functioning of our legislature. The intention of the legislature to tamper with election laws was evident by the addition of Explanation 1 to S. 77, so as to nullify the judgment of the Supreme Court in Kanwar Lal Gupta case. This amendment made the purpose of a ceiling on election expenses an exercise in futility. Although the Supreme

36 Ibid.
Court held the Explanation constitutionally valid in *P. Nalla Thampy Thara v. Union of India*, recent judgments of Supreme Court have reiterated the need to delete the explanation or have interpreted the explanation as not to apply when the election expenses have been borne by the use of black money.

Need for electoral reforms has been a constant slogan, which every party has been shouting from housetops. We have been hearing about it from the early seventies. There have been several reports on the subject that are with the Union Government. The matter has also often come up in Parliament and every Law Minister gives a verbal undertaking that a comprehensive bill on the subject will come. But in reality little has been done to enact or strengthen the existing laws. Most of the politicians know that such a bill, which would seek to put an end to the practice of use of black money in elections, would not be in their interest.

The present Government too has approved a Rs. 1,200 crore plan to introduce State Funding of elections. But the Government will have to be careful in implementing it as the State Funding of elections might be an unworkable concept in the Indian context as it doesn’t guarantee that political parties would not resort to the use of black money in addition to the one given by the State.

Instead of introducing State Funding, the Government should concentrate on the other aspects of electoral funding reforms. Firstly, it should repeal explanation 1 to S.77 of the RPA. Secondly, there should be reasonable ceilings imposed from time to time, and all expenditure by parties, candidates and their friends should be included in the ceiling limits. Thirdly, there should be full disclosure of all individual and corporate contributions to candidates or political parties for any political activity. Also both the donor and the recipient shall be obliged to make full disclosure to the Election Commission as well as Income Tax authorities. Finally, the parties should be made to file returns every year and also after every election. These returns should be publicly audited by the Election Commission and all information regarding contributions and expenditure should also be made public through print and electronic means.

It is imperative that the authorities enforce these reforms and cleanse our electoral process of the vicious circle of corruption and black money which threatens the very foundation of our democracy. Unless drastic and radical steps are taken to cleanse public offices by the government, political parties and people at large, corruption will continue to corrode the vitals of the country.