TAKSHASHILA INSTITUTION

Breaking the Entry Barrier: How E-TRAC Can Democratize Indian Election Finance

Kartik Singh

May, 2026

Capstone Project
9th Cohort, Post Graduate Program in Public Policy

Contents

Executive Summary

The influence of money and wealth in Indian elections is widely acknowledged as a concern. The increasing and uncontrolled spending in election campaigns has increased barriers to entry for the common person. This policy brief recommends a system named E-TRAC (**E**lectoral **T**ransparency, **R**estrictions and **A**ugmented **C**ontributions) to alleviate this rising concern. This involves reintroducing electoral bonds in a transparent format and introducing matching donations. Candidates will be provided ECI-monitored accounts for managing the campaign finances. Corporate donations are controlled and made transparent. The system rewards transparency by incentivizing its adoption by candidates and the public.

This approach will reduce barriers to entry for candidates and incentivize transparent electoral politics. It is proposed that the approach be implemented over a course of 5 years, starting with a pilot in local body elections, scaling it to states and then Lok Sabha elections. It will cost about ₹150 crore for a large local body election like BMC (Mumbai), ₹400 crore for an average state election and ₹2,500 crore for Lok Sabha elections.

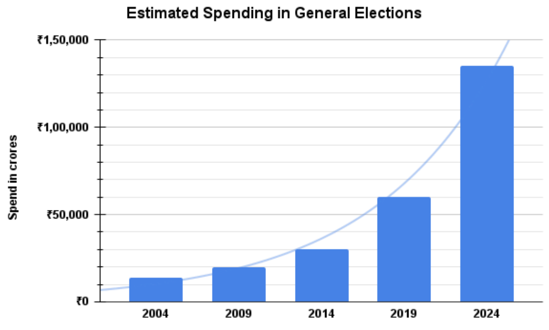
Problem Definition

Over the last three general election cycles, election spending has increased exponentially from ₹30,000 crore (2014) to ₹1.35 lakh crore (2024), which is harming electoral outcomes by increasing barriers to entry. The total spending per candidate has increased from about ₹6 crore to over ₹16 crore (adjusted for inflation) while the per capita average annual income in India is just over ₹2 lakh (2024). To be competitive, contesting candidates are compelled to spend disproportionately more. This increases barriers to entry and strengthens vicious cycles of corruption and concentration of power.

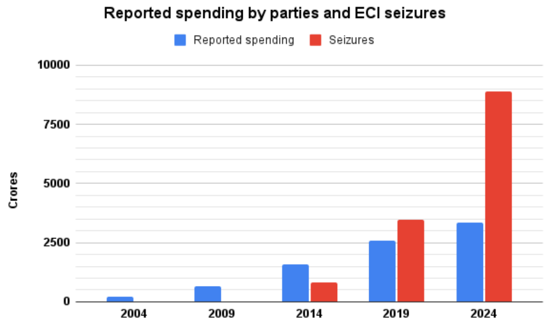
Introduction

India, the largest democracy in the world, had a population of approximately 145 crore, including 97.98 crore registered voters, during the General Elections in 2024. 8,360 candidates contested the elections for 543 constituencies with each having a population of about 25 lakh. 64.64 crore votes were cast across 10.5 lakh polling stations.[1] Beyond General Elections, India conducts elections at multiple tiers of governance: for legislatures in 28 states and 3 union territories (Delhi, J&K and Puducherry), 4,500 urban local bodies and 2.6 lakh rural local bodies, with over 30 lakh elected positions in total.

The importance of wealth and money in Indian politics is widely acknowledged. Spending in India's General Elections has increased exponentially over the last few election cycles. The most recent General Elections in 2024 are estimated to have been the most expensive elections ever globally with the estimated total spending of ₹1.35 lakh crore.[2]



Source: Press Trust of India and Centre for Media Studies.[2,3]



Source: Association for Democratic Reforms and Election Commission of India.[4,5,6,7,8,9] Seizure information from ECI only from 2014 onwards.

The current official limits for spending by candidates on election campaigns (updated in 2022) are ₹95 lakh / ₹75 lakh for General Elections.[10] Given each constituency has a population of 25 lakh, the limit allows spending less than ₹4 for each person in contrast with the estimated spending, which is closer to ₹1,000 for each person.

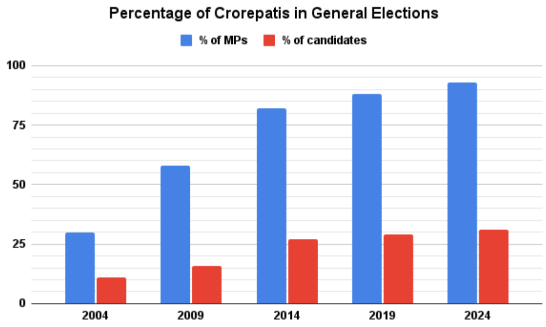
The estimated spending on elections is beyond 30x the total reported spending by the parties, which was under ₹4,000 crore for General Elections of 2024.[4] The seizures by the Election Commission of India (ECI), which are also increasing exponentially and were close to ₹9,000 crore in 2024, are more than double the reported spending by parties and more than what candidates can officially spend.

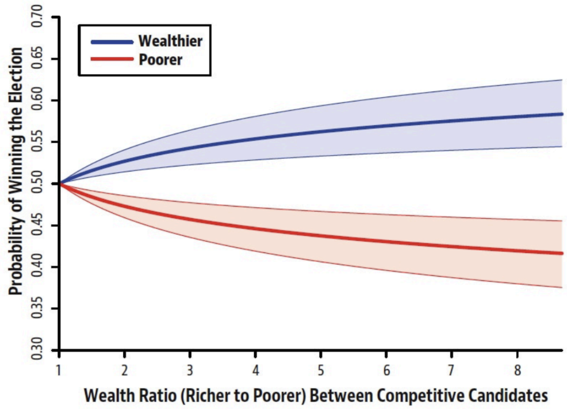
As per the Centre for Media Studies, 35% of the spending is on publicity (advertisements, rallies, posters, etc.) and 25% on giving out doles to voters (gifts, cash).[2,11] The officially reported party expenditure obviously leaves out the spending on doles (voter directly) and hence publicity forms the majority of their spending.

A large portion of these funds comes from corporations. In the financial year before 2024 elections, 88.9% of donations were by corporations.[12] The top donor companies were from sectors which benefit from government contracts e.g. infrastructure, pharmaceuticals.[13] Due to the high cost of participating in elections, there is increasing reliance on self-funded candidates.[14]

The heavy involvement of wealth in electoral politics has led to several undesirable outcomes.

Barriers to Entry: The high cost of elections is limiting the electoral participation of the citizens by creating a barrier to entry for the common person as a candidate. There is an elite capture of elections as increasingly, only the rich are realistically able to compete as candidates.[14,15,16] The win rate of candidates who are crorepatis is 19.6%, while it is 0.7% for those who are not.[17]



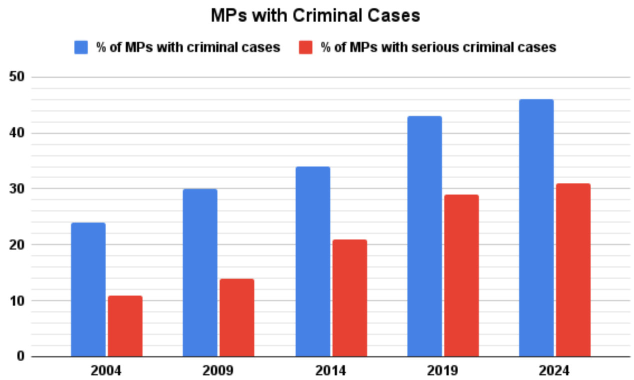


Source: Yashroop Dey, Social and Policy Research Foundation[14]

Source: Neelanjan Sircar, Carnegie Endowment for International Peace[15]

Vicious Cycle of Corruption: The requirement of funds for elections creates a cycle which reinforces corruption. Elected leaders spend a lot to win the elections. They need to recover the funds, and generate enough funds for fighting the next elections while ensuring they can make some profit as well along the way. Electoral bonds case revealed many instances of *quid pro quo* corporations donations for securing contracts (e.g. Megha Engg.), due to extortion (e.g. Future Gaming), to get favourable legislation (Bharti Airtel), and via shell companies (Qwik).[18,19]

Adverse Selection of Candidates: From the voters' point of view, they start relying on signals which don't necessarily reflect capability, leading to adverse selection. Politicians with criminal backgrounds are considered to have the power to get things done in this system.[20,21,22] Voters set a minimum expectation of receiving doles before even considering voting for candidates.[23] Ultimately, it has become difficult to identify the right person to vote for, with incentives being completely misaligned.



Source: Association for Democratic Reforms[17]

Concentration of Power: The heavy involvement of corporations in elections risks concentration of power and the creation of an oligarchy. Corporations will in general favour the party in power, as it is from them that they expect to derive benefits. During the 2024 elections, 84.18% of funds collected were by the party running the union government.[4] Similar patterns were seen in donations via electoral bonds.[18] Electoral outcomes are increasingly influenced by who attracts the most corporate donations, diminishing the role of the popular choice.

As we see from the evidence presented above, wealth plays a very critical role in India's electoral system. The trends show that its influence is only increasing. This is a fundamental systemic issue which is undermining our democracy by creating barriers to entry and inducing corruption. There is an entrenchment of concentration of power and the voters are left with adverse selection. India is heading down an unsustainable path for its democracy.

Status Quo

The current status of election finance is the following[24]:

	Current Status
Limits on Expenditure	Yes • Between ₹75-95 lakh for Parliamentary constituencies and ₹28-40 lakh for Assembly constituencies. • Includes party and supporter spending towards a candidate's campaign. • Excludes expenditure incurred by "leaders of a political party" for travel for propagating the party's program. • Excludes expenditure by parties or their supporters incurred for generally propagating the party's program as long as no specific candidate is mentioned (given Section 77's focus is on "candidate" and not party).
Disclosure of Expenditure	True copy of account of election expenses of every contesting candidate lodged with the District Election Commissioner within thirty days of election of returned candidate. Political parties also publish their expenditures and file yearly income tax returns which are made public. The accounts are not audited by an independent auditor.
Limits on Contribution	None • No limits on individual contributions. • Corporate contributions to political parties are allowed as long as the (non-government) company is three years old; its aggregate contribution in every financial year is below 7.5% of its average net profits during the three immediately preceding financial years; and it is authorized by a Board of Directors' resolution. • Corporate contributions to parties or electoral trusts entitled to deduction from total income. • Ban on foreign contributions to candidates or political parties. • No limits on political parties accepting contributions.
Disclosure of Contribution	• By party: Report detailing all contributions above ₹20,000 received from any person or company submitted in each financial year to the Election Commission • By company: Profit and Loss account will detail the total amount contributed and the name of the party to which contribution made in every financial year
Public Funding of Election Campaigns	Partial • No direct State subsidy. • Partial in kind subsidy in the form of free allocated air time on state owned electronic media (since 1996) to parties based on their past performance. • Free supply of copies of electoral rolls and identity slips of electors to

	candidates.
Penalties	Both civil and criminal in nature and affect ● The candidate: disqualification from being a voter or standing in elections if convicted of corrupt practices or failure to lodge election expenses (3 years). ● The party: loses IT exemptions. ● Company: fines and imprisonment.

The current status has been accepted by political parties, but it is not effective. Widespread misuse persists, imposing significant costs on the exchequer and stretching state capacity in the attempt to enforce current rules. There is some level of transparency present with the sharing of returns audited by self-assigned chartered accountants, affidavits by candidates disclosing their assets, educational background and criminal records and expenditure reports by candidates and parties for elections.

Recommendation

Several committees, government agencies and prominent experts have suggested improvements to electoral finance, but progress has been slow. With the revocation of Electoral Bonds, there is an opportunity for reform. Irrespective of the solutions proposed, any attempts at significant reform will face the Transitional Gains Trap.[25] The politicians, especially the incumbents will resist the change. From Olson's Collective Action Framework perspective, the benefits of any solution will be widely distributed, but the costs will fall on a small, powerful group. To address this, we either need to coordinate and organize as a society, or make the system itself obsolete by replacing it. There were several alternatives considered which are analyzed in Appendix 4: Analysis of Alternatives before the proposed solution was arrived at.

The recommendation is E-TRAC (**E**lectoral **T**ransparency, **R**estrictions and **A**ugmented **C**ontributions) which combines ECI-monitored accounts, disclosure of donors, electoral bonds and matching donations to bring together a comprehensive integrated solution.

Details

The E-TRAC system will be applied separately for each election whether it be the Lok Sabha election, or a state election or a local body election. The details of each instrument and the overall system are provided below.

Monitored accounts

Create an ECI-monitored bank account for each candidate for a specific election which they can use for their election campaign. The bank account will allow cash donations, with donor identity disclosed and verified by Aadhaar or EPIC (Electors Photo Identity Card). Donations will also be permitted via electoral bonds. Except for a small amount (1%) permitted as petty cash, all expenditures must be conducted through digital transactions and used solely for election campaigns. For each expenditure, the reason for spending and the vendor details must be specified. The ECI will publicize these accounts for candidates and inform the electorate on how contributions can be made to these accounts transparently. Any unutilized funds will be relinquished to the ECI at the end of elections.

Electoral Bonds

India had implemented an Electoral Bonds scheme in 2017 as discussed in Appendix 1: The History of Political Finance in India. This scheme was struck down by the Supreme Court primarily due to the lack of transparency and possibility of unlimited corporate donations.[26] The recommendation in this policy brief is to reintroduce the same mechanism, but making it transparent above all. Additionally, incentives are proposed for both the public and the candidates to use electoral bonds for donations.

Any individual or corporation can purchase the electoral bond. They will have to disclose their identity verified by Aadhaar or EPIC to purchase the bond. They can then choose to donate the bond to any candidate. This can be done online or through a physical electoral bond. The electoral bonds will only be allowed for the monitored accounts of the candidates and only for specific election campaigns.

The electoral bonds will be provided in multiples of ₹1,000, ₹10,000 or ₹1 lakh up to ₹10 lakh. To incentivize donors to use them, tax exemptions will apply as before.

Cash donations

Since obtaining an electoral bond and donating it may be complicated or infeasible for some of the population due to insufficient literacy or lack of access to a bank account, cash will remain an option for small donations. However, every donation, no matter how small, will still need to be disclosed by the political party with the identity of the donor which will be verified by Aadhaar or EPIC.

Caps on donations and spending

Corporate donations would be capped at the total amount collected from individual donations. Any amount collected from corporations beyond that collected from individual donations will be blocked for use and will need to be relinquished to the state at the end of the elections. The existing rules limiting corporate donations to 7.5% of average net profits over the three immediately preceding financial years will continue to apply.

Individual and corporate donations will be capped with the ECI setting them. The cap can be ₹1 lakh for individual donations and ₹10 lakh for corporate donations for Lok Sabha elections and ₹40,000 for individual donations and ₹4 lakh for corporate donations for state assembly elections. These limits apply in aggregate for the individual and the corporation so that they cannot circumvent it by splitting their donations.

The spending on elections will also be capped. The current limits will be increased from the current ₹95 lakh to ₹3 crore for Lok Sabha elections and from ₹40 lakh to ₹1.2 crore for state assembly elections. Any collections beyond this limit will be relinquished to the state.

Matching donations

To incentivize collection of donations from diverse sources instead of a few wealthy donors, the state will provide funding through matching donations. Smaller and more diverse donations can be incentivised through a higher matching multiplier. For larger donations or if the candidate has collected sufficient donations, the multiplier can be reduced. Some form of this has been recommended by several scholars and practitioners like E. Sridharan, Rajendra Kondepati, Varun Santhosh and M.V. Rajeev Gowda and Baijayant 'Jay' Panda (see Appendix 2: Prior Literature).

The formula for matching donations as explained in the table below.

Donor Type	Donation amount	Mechanism	Description
Individual	₹2,000 to ₹20,000	Cash or Electoral Bonds	For all cash donations, the identity of the donor must be recorded and disclosed. The state will provide matching donations for donations under ₹2,000 for each individual with a ratio of 1:1 (100%). This means if a donor has contributed cash donations up to ₹2,000 then ₹2,000 will be matched by the state. For cash donations, only ₹2,000 will be considered for matching donations. This means if a donor has contributed cash donations more than ₹2,000 then only ₹2,000 will be matched. Electoral bonds will be matched at a ratio of 10:1 (10%) for amounts exceeding ₹2,000. For example, a donation of ₹20,000 via electoral bonds will receive a match of ₹3,800, with ₹2,000 matched 1:1 and the remaining ₹18,000 matched 10:1.
	More than ₹20,000	Electoral Bonds	For amounts greater than ₹20,000, only electoral bonds can be used. Electoral bonds will be matched with a ratio of 10:1 (10%) for amounts greater than ₹2,000 as mentioned above.
Corporation	Any	Electoral Bonds	Corporations are allowed to donate via electoral bonds only. Total corporate donations cannot exceed the total contributions by individuals. If they exceed, then those funds cannot be utilized and will be relinquished to the ECI.

			Corporations can only donate up to 7.5% of their average profit over the last 3 years. Electoral bonds will be matched with a ratio of 10:1 (10%). This means a donation of ₹1 lakh will be matched by an amount of ₹10,000.

There would be a cap on the total matched donations. The ECI will be setting the cap and these can be a maximum of ₹1 crore for Lok Sabha elections and 40 lakh for state assembly elections in the current scenario.

Threshold for serious candidates: Only serious candidates should be eligible for matching donations. For this, the donation matching can be triggered only once the candidate has received a sufficient number of diverse donations. The threshold will be 0.2% of voters in the constituency or 1,000, whichever is higher. Only donors registered in the candidate's constituency will be counted toward this threshold.

Payback mechanism: A further challenge is that the system could be misused to extract funds from the state. In addition, similar to how candidates lose their security deposit if they don't get sufficient votes, a mechanism will be introduced to ensure the state is paid back if the candidate is unable to garner sufficient votes. A step function will be used to make the payback more graduated and less abrupt. The candidate will be required to repay 25% if they receive less than 1/6th votes, 50% if less than 10% votes, 75% if less than 5% votes and the full amount if less than 2% votes. Those candidates who get less votes than NOTA have to pay back the full amount irrespective of the above thresholds.

Eligibility based on wealth: The matching of donations and the repayment mechanism will be conditional on the candidate's declared wealth as stated in the affidavit. A formula is set out below, which can be refined as needed.

Candidate's declared wealth	Matching donations and payback
Extremely wealthy candidates (assets > ₹10 crore)	- No matching donations available.
Wealthy candidates (assets ₹1 crore to ₹10 crore)	- Matching donations available. - Have to pay back the full applicable amount.
Medium wealth candidates (assets ₹20 lakh to ₹1 crore)	- Matching donations available. - Have to pay back 50% of the applicable amount.
Low wealth candidates (assets < ₹20 lakh)	- Matching donations available. - Do not have to pay back the applicable amount.

To ensure repayment, candidates must furnish surety bonds backed by their party, a financial institution, or any individual. The amount of matching donations disbursed will depend on the surety bond provided by the candidate.

Scenarios

Below, the policy brief discusses scenarios for Lok Sabha candidates with various distributions of wealth.

Low wealth candidate: With the average number of voters in a constituency being 18 lakh, a candidate will need a minimum of 3,600 donors to qualify for matching donations. They can collect up to ₹1 crore in donations from individuals with each donation under ₹2,000. They will need at least 5000 donors for this. This will enable them to get up to ₹1 crore from the state in matching donations. Additionally, they can reach out to corporations or individuals for donations up to ₹1 crore. In this way, total campaign funds can reach up to ₹3 crore.

Medium wealth candidate: It would be the same as a low wealth candidate except for the fact that they will need to furnish a surety bond of ₹50 lakh to get matching donations up to ₹1 crore.

Wealthy candidate: Those candidates who have larger donors, their individual donors can donate up to ₹1 lakh and corporations can donate up to ₹10 lakh. They will need at least 150 individual donors to reach ₹1.5 crore. They can then take donations from at least 15 corporations to reach the limit of ₹3 crore. They also have the option to collect more from individual donations. They will only receive the matching donations if they are able to get a minimum of 3,600 donors. The candidate can furnish a ₹1 crore surety bond. Each individual donation of ₹1 lakh will be matched with ₹11,800 by the state with smaller donations getting a better value. Each corporate donation of ₹10 lakh will be matched with ₹1 lakh by the state. The total campaign funds will be limited to ₹3 crore.

Extremely wealthy candidate: These candidates will not get any matching donations. They will have to collect at least ₹1.5 crore in individual donations to match them with corporate donations of ₹1.5 crore. They can also get more donations from individuals. Overall, the total campaign funds will be limited to ₹3 crore.

Costs and State Capacity

Costs

The matching donations will be the primary component in the E-TRAC framework which will require state funds. The design ensures that only serious candidates receive matching donations, and that candidates who fail to secure sufficient votes must repay the matched amount.

In the 2024 Lok Sabha elections, 86% (7,190 / 8,360) of the candidates lost their deposit. This means an average of only 2.15 candidates per seat remained competitive. About 93% of MPs are crorepatis, with a significant proportion having declared wealth exceeding ₹10 crore.[27] If we assume, for each seat, there are about 4 serious candidates eligible for matching donations, then the total cost to the exchequer will be less than ₹2,500 crore (543 x 4 x ₹1 crore = ₹2,172 crore).

Similarly, if we do the calculation for medium sized states, which have about 200 seats in the assembly and a limit of ₹40 lakh, the total cost will be less than ₹400 crore (200 x 4 x ₹40 lakh = ₹320 crore).

For local body elections for large municipalities with 200 seats and a limit of ₹15 lakh,[28] the total cost will be less than ₹150 crore (200 x 4 x ₹15 lakh = ₹120 crore).

State Capacity

The E-TRAC framework needs administrative capacity from the state for monitoring accounts, setting up and managing the electoral bonds framework, setting up and managing the matching donations, providing assistance to candidates for any issues or complaints, disseminating information to the public and so on. Given that a similar electoral bonds framework has been implemented before, the additional state capacity should not be significantly high on an ongoing basis.

Implementation Plan

The rollout plan is presented below.

Phase	Description	Outcomes	Timeline & Costs
Phase 1: Local Body Elections	Pilot with local body elections, e.g. Municipal elections in a metro like Delhi or Mumbai under an SEC (State Election Commission). The solution should function effectively, with broad adoption by candidates and minimal disruption.	- Identification of any rough edges in the system. - Voter and candidate surveys to get feedback on the process. - Analysis of how many non-wealthy candidates contested, how many of them used the options available to them, what was their vote share, how many needed to pay back the matched donations etc. Additionally, the comparison with previous elections.	Timeline: 2 years - First 6 months preparation. - Within 1 year, the first election. - Analysis and refinement of identified issues, another 6 months to 1 year. Costs: ~₹150 crore for large local bodies like BMC.
Phase 2: State Elections	Scale to State Elections. Pick two to three state elections to start with. The solution should function effectively, with broad adoption by candidates and	- The number of non-wealthy candidates in serious contention should see an increase. - There should be a visible increase in transparency of campaign funds reflected via voter surveys. - Deeper analysis using techniques like difference-in-difference should	Timeline: 2 years - 6 months to scale the system for state elections. - Within 1 year, the first state election. - Next 1 year, measure the outcomes and analyze and decide go/no-go.

	minimal disruption.	indicate a more level-playing field for candidates.	Costs: ~₹400 crore for an average state.
Phase 3: All state and Lok Sabha Elections	Apply the solution to all state elections and Lok Sabha elections. The solution should work smoothly.	The outcomes from Phase 2 should carry over in Phase 3. - Estimates of total cost of elections should be closer to what is reflected in the reported expenses.	Timeline: 1 year - Costs: ~₹2,500 crore for Lok Sabha elections. ~₹400 crore for an average state.

Unintended Consequences

Unaccounted sources of money: Candidates or parties may still utilize funds outside the system for their election campaigns. The shadow economy could serve as an additional source of funds and as a means of bypassing expenditure limits. The incentives in the system provide more value to legitimate donations and benefit those candidates who utilize it. To resolve this concern, independent audits of accounts by Comptroller and Auditor General (CAG) assigned auditors and closer monitoring of political campaigns can be used. State funding in kind can also help tackle this. Both of these are discussed as alternatives in Appendix 4: Analysis of Alternatives.

Party spending: The solution described focuses on candidates and monitors their spending. Party spending, which can be a good chunk of the overall spending, is not covered under this system. This would imply, candidates backed by rich parties will be able to utilize funds beyond the system and thereby be at an advantage. The current laws restrict party spending to general party propaganda and the solution proposed does not intend to get into the challenge of party funding.

Inducements to voters: A potential risk is the diversion of matched funds toward voter inducements. Because the candidate receives more than the individual donated, they could potentially solicit donations from as many people as possible and return to donors what they contributed, plus a share of the matched funds. For instance, on a ₹2,000 donation, the voter could receive ₹2,500 back while the candidate retains ₹1,500. This is unlikely to happen on a large scale as the expenditures of candidates are properly tracked as the funds flow through the ECI-monitored account.

Extraction of money from the state: It is possible for the system to be exploited by low wealth candidates as the pay back mechanism does not apply to them. They may conspire to get enough small donors, possibly paying them to donate, and then extracting money from the state through matching donations. This would be very challenging though, as they would still need to find donors whose donations will be matched. They will then have to make expenditures posed as campaign spending via the ECI-monitored account. The likelihood of this succeeding appears to be low.

Winners and Losers

Winners

- **Non-Wealthy Candidates with wide support:** The primary intended beneficiaries would be popular candidates who lack access to large wealth networks.
- **Voters:** Voters would benefit from the transparency provided on donations and expenditures by candidates.
- **Donors:** The donors will get more value out of their donation as the contributions will be augmented by the state. Additionally, misuse of the donated funds will be diminished.

Losers

- **Companies seeking to benefit from *quid pro quo* arrangements:** Companies which want to derive illegitimate benefits via donations will be unable to do so due to the added transparency.
- **Candidates relying on illegitimate sources of money:** These candidates will be incentivized to use the legitimate sources due to the added benefit of matching donations.
- **Wealthy candidates:** Creation of a more level playing field will take away the significant advantage wealthy candidates had.

Conclusion

This policy brief has highlighted the systemic issue of increasing and uncontrolled election spending and its several downstream consequences. While this is a widely acknowledged issue, a solution to this is urgent. India is heading towards an unsustainable rise in election spending, increasing barriers to entry and strengthening vicious cycles of corruption and concentration of power.

This policy brief brings together several instruments like ECI-monitored accounts, transparent electoral bonds, matching donations, restrictions and incentives to propose the E-TRAC system as a solution. The solution, though not a straightforward simple one, ensures that an alternative transparent system is provided to candidates and incentivizes the public, the candidates and corporations to use it. This avoids the transitional gains trap that arises from the entrenchment of wealth in India's electoral politics, particularly because the decision-makers are themselves the most affected group. The system primarily aims to reduce barriers to entry for serious candidates who do not have access to large amounts of wealth and provides them the support they need to be competitive.

An implementation plan has been presented using an incremental approach, allowing for adjustments and improvements to the system as it scales. The costs of adopting this system has also been estimated at each level providing a clear, measured path forward.

Disclaimers

Anti-Plagiarism disclaimer

I attest that the work presented in this assignment is my own original work, with the exception of any text and references that have been acknowledged as part of the citations.

Generative AI-disclaimer

None of the work produced in this assignment has been produced using an AI-based tool except for some of the research in this paper which was done with the support of AI-based tools.

Appendix 1: The History of Political Finance in India

1950 - Early days of democracy

- India was a democracy right from its creation with a constitution providing universal adult franchise. India was ahead of its time, some might say too far ahead, by granting universal suffrage. However, this was an essential element of India's unity and as Ornit Shani discusses in her book, How India Became Democratic, the electorate was extremely involved and engaged in the creation of this democracy.[29]
- The Representation of the People Act (RPA), 1951 mentioned limits to spending by candidates right from the beginning.
- India had simultaneous elections for both Lok Sabha and State Assemblies until 1967.
- Parties primarily relied on membership fees to generate funds initially, but soon began seeking corporate funding.
- There were concerns raised as early as 1964 in the Santhanam Committee report regarding collection of funds by political parties and it pointed to the need for disclosure of assets and liabilities by ministers.[30]

1969 - Corporate funding banned, goes underground

- The Indira Gandhi Congress government deleted Section 293A of the Companies Act to stop corporate donations to political parties. There was no replacement provided for funds, say via public funding.
- The corporate donations simply went underground. *Quid pro quo* was further incentivized under the so-called 'license raj', as the government was heavily involved in regulating the market.

1974 - Spending outside ceiling allowed

- In 1974, the Supreme Court in *Kanwar Lal Gupta v. Amar Nath Chawla* closed a loophole so that any spending on behalf of the candidate would count towards the limit.[31]
- Possibly to circumvent this ruling, the RPA 1951 was amended by adding Explanation 1 in Section 77(1) allowing party and independent supporters to spend for a candidate without contributing to the candidate ceiling.
- In 1978, by adding Section 13A into the Income-tax Act, 1961, income tax exemption was given to political parties for income from voluntary contributions, house property and other sources. Political parties were also exempt from wealth tax. Parties were required to maintain a book of audited accounts to be eligible for the exemption.

1985 - Corporate donations allowed again

- The Rajiv Gandhi Congress government removed the ban on corporate donations allowing donations up to 5% of average profit over the prior three years. There was however no incentive for corporations to donate and most of them remained underground.

1990 - Push for reform

- There were several committees/task forces which sat to discuss electoral reforms. Dinesh Goswami Committee in 1990, Confederation of Indian Industry task force in 1993, Indrajit Gupta Committee in 1998 and Law Commission in 1999.
- In 1996, the Supreme Court ordered political parties to file income tax returns as they had not been doing so. In a separate decision, it said that the party's spending will count toward the ceiling if parties did not file income tax returns. However, it did not enforce an independent audit.
- In 1998, free airtime was provided to political parties on state owned television and radio based on a given time slab and additional based on performance. This is still in place although the state owned television and radio is not as relevant anymore.

2003 - Improved transparency

- In 2000, the Delhi High Court enforced public disclosure of criminal records, educational qualification and assets and liabilities of candidates, their spouse and dependents. While this was resisted by political parties, the Supreme Court upheld the Delhi HC's decision in 2002. ECI ultimately issued an order making the disclosure mandatory in 2003.[32]
- Later in 2003, the Atal Bihari Vajpayee NDA government brought about reforms which made corporate and individual donations tax free, mandated parties to disclose all donations above 20k under Section 29C, modified Explanation 1 in Section 77(1), to limit what is excluded from the ceiling, e.g. spending on travel. It still left enough room for parties to exploit.
- In 2005, the Right To Information Act was passed in a significant win for transparency in governance. In 2008, on the orders of the Chief Information Commissioner, the income tax returns of all parties were made public. However, there is an ongoing battle on whether political parties come under the ambit of RTI.

2013 - Electoral trusts, and donation limits increased

- In 2013, under the Manmohan Singh UPA-II government, the limit for corporate donations was increased from 5% to 7.5% of the average profit over the last 3 years.
- Electoral trusts were introduced which were non-profit trusts that could be set up by corporations which allow voluntary donations from corporations and individuals which are then passed on to political parties.

2017 - Electoral bonds

- The Narendra Modi BJP government introduced Electoral bonds which implied allowing anonymous donations to political parties. There were changes made to corporate donations. Corporations could donate via cheque or digital transactions only. The limits based on average profit were removed and firms were not required to declare their contributions in the P&L statements.
- For contributions beyond ₹2,000, only digital transactions or cheques were allowed. Anyone donating beyond ₹20,000 in aggregate was required to disclose their identity.
- Political parties were required to file their tax returns within time prescribed.

- There was still a lack of independent audit and scrutiny.

2024 - Revocation of electoral bonds

- The Supreme Court, in a major decision for transparency, revoked electoral bonds. The so-called anonymous transactions were made public leading to exposure of *quid pro quo* dealings between governments and corporations.[26]
- The 7.5% limit for corporate donations was reapplied.

Appendix 2: Prior Literature

Recommendations by committees

There have been several committees that have discussed electoral reforms and published reports.

Dinesh Goswami Committee on Electoral Reforms, 1990

While the committee's report discussed many reforms related to elections, the following recommendations were related to election finance[33]:

1. ECI should be able to revise candidate ceilings before the General Election and State elections.
2. ECI should be empowered to lay down the ceiling instead of the union government.
3. Close a possible loophole which will allow a third person to misuse the rules to charge their spending to a candidate's ceiling without their knowledge.
4. The period of accounting should be the date of notification of election to the date of declaration of results.
5. Deletions of explanations added in Section 77 of the Representation of the People Act (RPA). This would close the loophole allowing parties to spend on elections without it getting counted towards the candidate ceiling.
6. Any expenditure incurred by any person other than the candidate or their election agent should be prohibited and treated as an offense with jail time.
7. Update Section 77(1) to only include expenditure by candidate or their election agent for the candidate ceiling.
8. Penalties for failure to keep an election account or submission of a false account should be more stringent.
9. Complete ban on donation by companies.
10. State assistance should only be in kind and not in cash.
11. State assistance in kind should be provided for:
    a. Fuel or petrol for vehicles.
    b. Additional copies of electoral rolls.
    c. Hiring charges for microphones.
    d. Distribution of voter slips. This should be entirely owned by ECI and candidates should be prohibited distributing these.
12. State assistance should only be made available to candidates from recognized parties and not to independent candidates and candidates of registered parties.

Confederation of Indian Industry Task Force in 1993

The Confederation of Indian Industry (CII) set up a task force soon after the 1991 liberalization of the Indian economy. Their recommendations[34]:

- Corporate contributions should be made tax-deductible and shareholder confirmation should be required of board decisions on political contributions.
- State funding of elections with the funds to be raised either by a cess on excise duty or through contributions by industry to an election fund pool managed by the state. This was essentially a tax on industry to finance campaigns.

Indrajit Gupta Committee on State Funding of Elections, 1998

This committee specifically looked into state funding of elections and made the following recommendations[35]:

1. Only partial funding by the State and only in kind.
2. For national parties in Delhi and for state parties in the state:
    a. A suitable rent-free accommodation
    b. One rent free telephone with STD and a specific number of calls at the cost of State.
3. For every general election of state election, the recognized parties will be granted free sufficient air time on state owned Doordarshan and All India Radio for election propaganda in the manner they like (not limited to speeches).
4. Private channels may also be required to give free air time in a fair and balanced way.
5. For each candidate from a national or state party:
    a. Specified amount of petrol or diesel for vehicles.
    b. Specified quantity of paper for election literature and voter slips.
    c. Postal stamps of a certain amount for communication.
    d. Five extra copies of the electoral rolls.
    e. One set of loudspeakers (one microphone and two loudspeakers). For parliamentary elections, they can get one set for each assembly segment of their constituency with a maximum of six.
    f. One telephone in the main campaign office with a specified number of free calls. Similar to above, one for each assembly segment in a constituency with a maximum of six telephones for parliamentary elections.
    g. Minimum arrangements for candidate camps near polling stations on election day.
    h. On the day of counting, refreshments and food packets to counting agents.
6. Transparency:
    a. All recognized parties must submit their annual returns on time else they will be ineligible for state funding.
    b. The annual returns must be audited and certified by a Chartered Accountant who may be selected by the party itself.
    c. Each party receiving state subsidy must file a complete account of its receipts and expenditure both on general party propaganda and individual candidates.
    d. All subscriptions or donations received by political parties over ₹10,000 must be by cheque/bank draft.
7. Reasonable restrictions on:
    a. wall writings
    b. display of cut-outs, hoardings, banners
    c. hoisting of flags
    d. use of more than specified number of vehicles
    e. announcements and publicity by more than specified number of vehicles
    f. holding public meetings beyond specified hours
    g. display of posters other than specified by district/electoral authorities
8. Corporate donations
    a. Do not recommend a ban.

   b. Recommend increasing the limit from three to five years for the company's existence before it can make political donations.
   c. Donations can only be made with the approval of the general membership of the company at its annual general meeting and not by a resolution of the Board of Directors.
9. No changes to explanations in 77(1) in RPA 1951. They only recommended resolving conflict with 171H of IPC.

Law Commission Report - Reform of the Electoral Laws 1999

The Law Commission published a report on reforming the electoral laws in 1999. it recommended the following[36]:

1. Deletion of Explanation 1 in 77 (1) of RPA 1951.
2. Insertion of a section on maintenance, audit and publishing of accounts by political parties.
3. Partial state funding as recommended in Indrajit Gupta Committee, but only if the above two points are done and the internal structures of parties are reformed.

The National Commission to Review the Working of the Constitution 2002

This report had a much wider scope, but also recommended the following reforms in the electoral process[37]:

1. The candidate spending ceiling should be raised to reasonable limits.
2. They also asked for the deletion Explanation 1 in 77 (1) of RPA 1951.
3. Political parties and candidates should be subject to proper statutory audit.
4. Each candidate should declare their assets and liabilities including those of close relatives.
5. State funding should be deferred until regulatory mechanisms are in place to monitor political parties and their finances.
6. Campaign period should be reduced and no candidate should be allowed to contest elections for the same office from more than one constituency.
7. The election code of conduct should come into operation when elections are announced and its violation should attract penal action.

Second Administrative Reforms Commission - 2007

This was a report on ethics in governance and it proposed that a system for partial state funding should be introduced to reduce the scope of illegitimate and unnecessary funding of expenditure for elections.[38]

Central Vigilance Commission, 2010

As part of their anti-corruption strategy, the CVC made the following recommendations for state funding of elections[39]:

1. Creation of a State Fund for funding elections with contributions to the fund being tax exempt. State funding of elections or parties, can be one of direct and/or indirect public subsidies – the latter being tax credits, free media time on state media, etc. –

to parties combined with fairly strong regulations on intra-party governance, transparency, accountability of public and party funds.
2. Private funding reforms can complement state subsidies with incentivisation for the sources of party funding from large private donors to large numbers of small donors and membership fees by instituting tax incentives for such small donations only.
3. Current expenditure ceiling on candidates be abolished, as it is meaningless to cap candidate spending while allowing huge loopholes for party and supporter spending. An overall cap encompassing all such sources of funds would be more appropriate.
4. State funding, as much in kind as possible to reduce fungibility and diversion, can be provided to parties.
5. Disclosure of donor identities and amounts should be mandatory and companies which are significant government contractors should be barred.
6. The State should use the lever of state funding to impose internal democracy, accountability, and disclosure requirements on the functioning of political parties.
7. A system to debar or suspend politicians involved in corruption charges could be a mechanism to instil some fear of political survival.
8. Every day disclosure of receipt and expenditure by political parties through websites. All political payments through plastic cards/bank accounts including last mile payments to volunteers & party workers.

Law Commission Report - Electoral Reforms 2015

Another report by the law commission on electoral reforms in 2015 recommended the following[24]:

1. Section 77(1) should be amended to start from the date of notification of elections instead of date of nomination.
2. Instead of the Board of Directors, the resolution for corporate donations should be required to be passed in an Annual General Meeting (AGM).
3. A new Section 77A to keep an account of donations and contributions from the party, any person or any company, in cash, cheque or kind.
4. A new section 78A to disclose all expenditure and contribution reports submitted by all contesting candidates.
5. Replace Section 29C from RPA 1951 mandating political parties to maintain audited accounts to be audited by a panel maintained by the Comptroller and Auditor General (CAG). These accounts should be made public.
6. Existing Section 29C to be modified and recast as 29D which will:
    a. Include aggregate contributions from a single donor amounting to ₹20,000 within its scope
    b. Require parties to disclose the names, addresses and PAN card numbers (if applicable) of donors along with the amount of each donations; third,
    c. Require parties to disclose such particulars even for contributions less than ₹20,000 if such contributions exceed ₹20 crore or twenty per cent of party's total contribution, whichever is less.
7. Add Section 29E to disclose the information under 29D.
8. Give statutory basis to ECI's statement of election expenditure.
9. Increased penalties for non-compliance.
10. State funding in-kind can be expanded, provided through Section 78B of RPA 1951.

Independent literature

There have been other recommendations outside of the government committees and agencies above. Bringing some important or interesting ones I was able to gather.

Association for Democratic Reforms/National Election Watch, 2011

ADR has been very active in pursuing greater transparency in elections. They, along with NEW published a set of recommendations in 2011[40]:

1. Further disclosure by candidates including details similar to "Register of Interests" asked for Rajya Sabha and more stringent punishment for concealing or providing wrong information.
2. The ceiling for candidate spending should be fixed by ECI without the involvement of the government.
3. There should be a ceiling on expenses by parties during an election.
4. Political parties should be required to maintain proper accounts in predetermined account heads, and such accounts should be audited by auditors recommended and approved by the Comptroller and Auditor General of India, and available for the information of the public.
5. Regulating functioning of political parties by ensuring internal democracy and other such reforms.
6. Not in favour of state funding in any form until the functioning and finance of political parties are made transparent.
7. There should be a limit prescribed for the amount of donation that a political party can accept from an individual, company, organization, or any entity.

Milan Vaishnav in Costs of Democracy, 2018 and Confronting the Challenge of Money in Elections, 2019

Milan Vaishnav has published books, articles and podcasts on this topic. Their primary recommendations[41,42]:

1. Parties should go digital. Donations to parties should only be allowed through traceable means, i.e. digital, cheque or bank draft.
2. Revise the candidate limits upwards. Candidates to submit transparent reports and non-compliance will invite heavy penalties.
3. The party accounts need to have an independent audit, either by the CAG or by auditors selected by CAG.

Milan also says that the RPA 1951 itself needs an update. Public funding should only follow once the above is done to ensure sufficient transparency and scrutiny.

E. Sridharan, 2009

Another person who has actively published recommendations for electoral reform. While they have collaborated with Milan Vaishnav in Costs of Democracy, 2018, the following were their recommendations from earlier work[43]:

1. State funding for elections using subsidies complemented by strong regulations for intra-party governance and transparency.
2. Abolish expenditure or include all expenditure under a higher ceiling.

3. State funding can be provided to parties on a basic slab-plus vote share-plus matching grant – against legally raised private donations – basis; the first two criteria being analogous to the provision of free time on the state-owned electronic media. The matching grant component could be fine-tuned to match only small, non-corporate donations to encourage broad-basing of financial support and membership dues.

Rajendra Kondepati, 2011

This is a particularly interesting case. The author published a paper with the following recommendations in 2011 while affiliated with the Foundation for Democratic Reforms, a research institution founded by Jayaprakash Narayan.[44] Rajendra Kondepati is currently Vice President at Megha Engineering & Infrastructures Ltd., one of the companies at the centre of the electoral bonds controversy.

1. Matching grant system with a minimum number of donors and a minimum sum of contribution needed to qualify.
2. Only eligible voters should be allowed to contribute. This would ban contributions from companies.
3. A separate account maintained for easier tracking. Contributions should be capped and only allowed for some reasonable time before the elections. An optimum paper trail limit should be used.
4. All expenditure limits should be removed.
5. Grant to be revoked if not backed by expenditure.
6. Use tax credits to incentivize donations. It could be adjusted to increase incentives for smaller donations.
7. The matching grants ratio could vary based on the amount of funds collected to reduce overspending on elections.
8. Parties can raise funds within the limits that apply to candidates. State funding to be provided to parties for management of expenses during elections.
9. Do not tally votes at poll booth level but at a higher level to prevent candidates from deciphering how a community voted.

Varun Santhosh and M.V. Rajeev Gowda, 2017

These were the recommendations published on Ideas For India in 2017[45]:

- National Election Fund (NEF) to implement public funding of election and political parties.
- Payment to all political parties after every election, based on the number of votes they have polled, if they cross a threshold of 2% of votes polled of the total voters in a Parliamentary or Assembly constituency. Each eligible vote would fetch the political party ₹50 in grants. Half of this amount is to be disbursed and spent only at bank accounts operated at the constituency level and the other half would go to the designated central bank account of the party.
- Matching grants for fully transparent, small donations below ₹20,000 furnished along with PAN (Permanent Account Number) card details of the registered voter.
- For every ₹100 a party raises in small donations below ₹20,000, a matching grant of ₹50 will be disbursed to the party from the NEF. The option of choosing whether the

matching grant goes to the account of the party or the candidate will be given to the donor. The grant can be spent on any legal election expenditure accompanied with adequate documentation. This will enable even independent candidates without party affiliations to avail matching grants.

- The eligibility threshold for matching grants is to obtain small donations from at least 0.5% of the total electors in a constituency or 5,000 registered voters, whichever is lesser. Eligibility is based on the number of unique supporters rather than the amount of the donation.
- A cap of ₹50 million will be imposed on the total amount of matching grants disbursed at the constituency level (that is, donation to a candidate as opposed to the party). If the overall small donations exceed this number at the constituency level, then the grants will be disbursed proportionally among the candidates.
- An overall fund of ₹50 billion will be earmarked for matching grants at the national level, over a period of five years, with a pro-rated disbursement cap every quarter.
- Accounts will be subject to audit by the Comptroller and Auditor General and their finances will be brought under the purview of the Right to Information Act (RTI).

Baijayant 'Jay' Panda, 2016

These were the recommendations by a well-known politician in an article in the Times of India in 2016[46]:

- Lower limit for anonymous contributions to be Rs 1,000 or even Rs 500. That would allow genuine on-the-spot donations, say at political rallies, but make it far harder to channel large amounts of illicit funds via countless 'nameless donors'.
- There must be state funding to help level the playing field between the wealthy and the popular. Like elsewhere, our state funding should be given as matching funds to candidates and parties, equivalent to the amount of traceable, tax-compliant funds that they raise. In fact, small donations must be further incentivised over big ones, say with five-times matching funds for every individual Rs 1,000 of tax-compliant funds raised. Together, all this will be a boon to non-wealthy but popular candidates and parties.
- Audits of candidates' and parties' accounts must be made mandatory, and the tax exemptions they now receive be limited to funds that are traceable and tax-compliant. Most importantly, the EC's powers must be enhanced to enforce such audits, along with punitive powers ranging from mild penalties all the way to disqualifications.

Appendix 3: Breakdown of Expenditures

This is a list of various forms of expenditures by candidates for elections, both legitimate and illegitimate.[41]

Legitimate Expenditures

1. Expenses related to the cost of public meetings, rallies, processions and the like.
    a. Vehicles for transporting visitors
    b. Costs for erection of stages, or to podiums and stage furniture
    c. Expenditures on chairs for the audience
    d. Arches and barricades
    e. Flowers and garlands
    f. Loudspeakers and microphones
    g. Posters, pamphlets, banners, cut-outs and hoardings. Erasable tattoos and paper face masks.
    h. Beverages to be distributed to political workers and speakers.
    i. TVs, screens, projectors, display boards and 3D displays.
    j. Expenses on celebrities, musicians and artists.
    k. Illumination related items.
    l. Expenses on transport of material and guests (other than cars).
    m. Power consumption/generator charges.
    n. Rents for venues.
    o. Guards and security charges.
    p. Boarding and lodging expenses of self, celebrity, party functionary.
    q. Other expenses, e.g. fire crackers etc.
2. Campaign materials other than those used in meetings, rallies or processions. Expenditures during canvassing, distribution at candidate headquarters or during any legitimate campaign activity. Handbills, pamphlets, banners, amplifiers and loudspeakers.
3. Expenditure on print and electronic media including cable network, bulk SMS or Internet or social media for candidates.
4. Expenditure on campaign vehicles. This may include hiring cost as well as fuel, driver's charges etc.
5. Expenditure on campaign workers/agents. Salaries, boarding, lodging.
6. Any other campaign expense.

Illegitimate Expenditures

1. Cash in envelopes in newspapers.
2. Cash in morning milk.
3. Cash in SHG for onward distribution.
4. Cash through pawnbrokers, reimbursing short term loans.
5. Paying cash as incentive for not casting a vote.
6. Cash given in advance before notification of elections to local leaders.
7. Cash given through community feasts.
8. Cash given in the name of schemes like MGNREGA or others.

9. Cash given to dummy candidates for using their vehicles, polling agents.
10. Cash given to non-serious persons to contest to divide votes.
11. Cash given to leaders of rivals not to seriously campaign.
12. Black money raised in the name of coupon sales.
13. Cash given to polling agents of rivals to be silent during counting.
14. Cash given to village heads to ensure votes.
15. Vash given to village fund on eve of elections for construction.
16. Distribution of cash to ladies for aarti to candidates.
17. Distribution of cash to those who attend public rallies.
18. Cash for trucks, vehicles to ferry voters to the place of rally or polling booth.
19. Cash given to journalists, media to write positively or negatively.
20. Cash to journalists/media to black out news or publish negative news.
21. Cash transferred through RTGS route of banks to accounts
22. Cash given to youth clubs on eve of elections to organize a match.
23. Cash for charity like medical camp on eve of elections.
24. Distributing TVs, video recorders, projectors to village clubs.
25. Giving cash for constructing toilets and tubewells or mobile hones with top-up cards or laptops to the voters or local leaders.
26. Organizing mass marriage functions and bearing the cost of marriage.
27. Distributing SUVs or luxurious vehicles to local party leaders.
28. Reimbursing fuel bills through deals with petrol pumps.
29. Promising jobs for unemployed youth in academic institutes or companies of candidates.
30. Organizing religious functions.
31. Distributing free books.
32. Free admission to children of influential voters to a college run by a candidate.
33. Distributing free cows or buffalos.
34. Distributing free agricultural seeds, manure.
35. Distributing free solar lamps.
36. Distributing diaries, calendars, purses, t-shirts, sarees and vanity bags.
37. Using aarthiyas for distribution of cash among farmers or waiving commission.
38. Cash to religious leaders or leaders of caste.
39. Distribution of liquor, drugs, and poppy husks.
40. Organizing rallies with film stars, musicians, orchestra and important personalities in aircrafts or helicopters and not showing correct expenditure.

Appendix 4: Analysis of Alternatives

It is important to define the set of criteria which will be used to evaluate the predicted outcomes of the proposed alternatives.

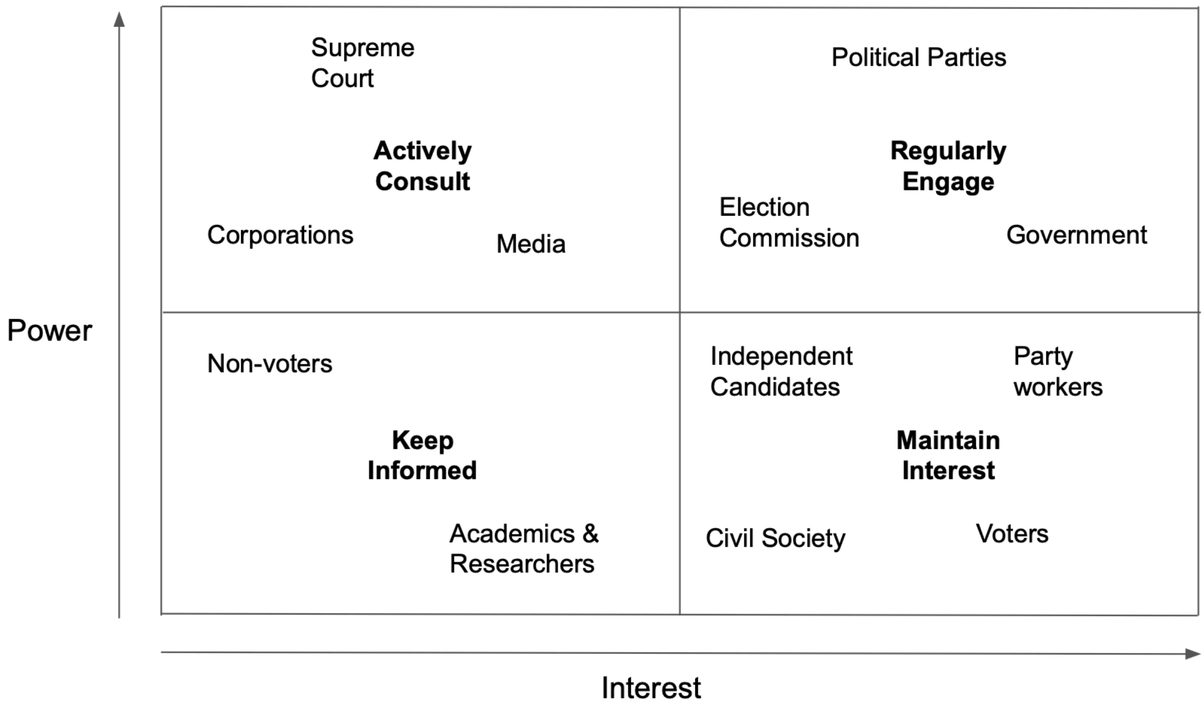
Criteria

There are six criteria with effectiveness given the highest weight of 0.25 while the rest, political acceptability, cost, risk of misuse, administrative feasibility and transparency, getting an equal split of 0.15 each.

Political acceptability

Weight 0.30

One of the biggest challenges for any solution would be the resistance it would face from the existing political system. Despite consistent recommendations by various committees, the progress has been slow because the decision makers and the most affected group are the same. The established political parties and the government of the day would not be inclined to make radical improvements as they are themselves entrenched in the political system and it helps them retain power.



Stakeholder Mapping for Electoral Finance

Effectiveness

Weight 0.25

This criteria intends to measure how well the proposed solution would remove the barriers to entry and allow for a candidate to be competitive without having access to a large network of wealth.

Cost

Weight 0.15

This criteria is a measure of the estimated additional cost to the exchequer to implement the proposed solution.

Administrative Feasibility

Weight 0.15

The Indian state is in general stretched for capacity. This criteria is a measure of the amount of administrative capacity needed for implementing the solution.

Transparency

Weight 0.15

This criteria measures the amount of transparency that is added to the system due to the proposed solution.

Alternatives

In this section, the proposed solutions will be described along with an explanation of the scores for each of the criteria.

Status Quo

The current status of election finance is the following[24]:

	Current Status
Limits on Expenditure	Yes ● Between ₹75-95 lakh for Parliamentary constituencies and ₹28-40 lakh for Assembly constituencies. ● Includes party and supporter spending towards a candidate's campaign. ● Excludes expenditure incurred by "leaders of a political party" for travel for propagating the party's program ● Excludes expenditure by parties or their supporters incurred for generally propagating the party's program as long as no specific candidate is mentioned (given Section 77's focus is on "candidate" and not party)
Disclosure of Expenditure	True copy of account of election expenses of every contesting candidate lodged with the District Election Commissioner within thirty days of election of returned candidate Political parties also publish their expenditures and file yearly income tax returns which are made public. The accounts are not audited by an independent auditor.
Limits on Contribution	None ● No limits on individual contributions ● Corporate contributions to political parties are allowed as long as the (non-government) company is three years old; its aggregate contribution in every financial year is below 7.5% of its average net profits during the three immediately preceding financial years; and it is authorized by a Board of Directors' resolution

	• Corporate contributions to parties or electoral trusts entitled to deduction from total income • Ban on foreign contribution to candidate or political party • No limits on political party accepting contribution
Disclosure of Contribution	• By party: Report detailing all contributions above ₹20,000 received from any person or company submitted in each financial year to the Election Commission • By company: Profit and Loss account will detail the total amount contributed and the name of the party to which contribution made in every financial year
Public Funding of Election Campaigns	Partial • No direct State subsidy • Partial in kind subsidy in the form of free allocated air time on state owned electronic media (since 1996) to parties based on their past performance • Free supply of copies of electoral rolls and identity slips of electors to candidates
Penalties	Both civil and criminal in nature and affect • The candidate: disqualification from being a voter or standing in elections if convicted of corrupt practices or failure to lodge election expenses (3 years) • The party: loses IT exemptions • Company: Fines and imprisonment

The current status has been accepted by political parties, but it is not effective. Widespread misuse persists, imposing significant costs on the exchequer and on state capacity in the attempt to enforce current rules. There is some level of transparency present with the sharing of returns audited by self-assigned chartered accountants, affidavits by candidates disclosing their assets, educational background and criminal records and expenditure reports by candidates and parties for elections.

Alternative 1: Greater Transparency

The focus of this alternative would be to bring in much greater transparency into political parties accounts and the donations received and expenditures by candidates and parties during election campaigns. This would require the following:

- **Party Accounts Go Digital:** The parties will not be allowed to carry out cash transactions. All donations received and all expenditures must be done through digital transactions ensuring the presence of the money trail for every activity.
- **Independent Statutory Audit of Party Accounts:** The political party accounts should be required to undergo an independent audit, either by the Comptroller and Auditor General of India (CAG) or by auditors selected by CAG. These audits should be made statutory.
- **Disclosure of all donors:** Each donor to a political party will need to provide their details and political parties will need to disclose their donors.
- **Increase candidate limits and include party spending:** The current limits for candidates are impractically low. These need to be significantly raised which will allow candidates to honestly declare their expenditures. Additionally, party spending needs to be capped to close the loophole added in 1975 which allowed spending outside the candidate limit by parties. The Explanation in 77(1) of RPA 1951 will need to be removed.

The push for greater transparency is a very consistent recommendation from several committees, agencies and individuals (see Appendix 2: Prior Literature).

With the narrative of Digital India and the precedent of demonetization, it will be difficult for political parties to justifiably resist this change. The independent statutory audit will be pushed back with the claim that political parties are private bodies but it is yet another somewhat weak claim. Over the years, steps have been taken to improve disclosure of donors and this step will ensure the loophole of breaking up donations to stay within limits can be closed. This would be effective in ensuring greater transparency and accountability for their finances, making it harder to fudge the books. However, a candidate with access to wealth will still be at an advantage making the effectiveness of the solution just adequate. It will add costs due to the additional audits, however it is administratively feasible.

Alternative 2: Matching Donations

This alternative provides state funding through matching donations. Diverse and smaller donations can be incentivised by having a higher multiplier for them. For larger donations or if the candidate has collected sufficient donations, the multiplier can be reduced. Additionally, there can be some conditions placed on matching the donation like the donor identity should be disclosed, which can encourage greater transparency. Some form of this is recommended by several individuals like E. Sridharan, Rajendra Kondepati, Varun Santhosh and M.V. Rajeev Gowda and Baijayant 'Jay' Panda (see Appendix 2: Prior Literature).

One big challenge with this approach is that it can become a source of extracting money from the state. To avoid this, it has to be ensured that only serious candidates are able to utilize this. For this, the donation matching can be triggered only once the candidate has received a sufficient number of diverse donations. In addition, similar to how candidates lose their security deposit if they don't get sufficient votes, a mechanism can be introduced to ensure the state is paid back if the candidate is unable to garner sufficient votes. This mechanism could be a surety bond or enforcing the candidate or their party pays back the matched donations. A step function can also be used to make it more predictable and less jarring, say give back 25% if less than 1/6th votes, 50% if less than 10% votes, 75% if less than 5% votes, 100% if less than 2% votes. It can also be considered that those candidates who get less votes than NOTA have to pay back the full amount.

There are some risks of misuse as it can potentially be used to pay doles to voters. Because the party is getting more money than donated by the individual, it can potentially ask as many people as possible to donate and take what they donated plus a cut from rest back for themselves.

This will be politically acceptable as it provides an additional source of funding. It will be very effective in reducing the advantage a wealthy candidate has and adding some transparency. This will be costly as the state has to provide the matching funds and will require significant administrative capacity.

Alternative 3: Electoral Bonds

India had implemented an Electoral Bonds scheme in 2017 as discussed in Appendix 1: The History of Political Finance in India. This scheme was struck down by the Supreme Court primarily due to the lack of transparency and possibility of unlimited corporate donations.[26] The recommendation in this alternative is to bring back the same mechanism but making it transparent, first and foremost. Additionally, incentives have been created for both the public and the political parties to use electoral bonds for donations.

Any individual or corporation can purchase the electoral bond. They will have to disclose their identity verified by Aadhaar or EPIC to purchase the bond. They can then choose to donate the bond to any candidate. This can be done online or through a physical electoral bond. The electoral bonds will only be allowed for the monitored accounts of the candidates and only for specific election campaigns.

The electoral bonds will be provided in multiples of ₹1,000, ₹10,000 or ₹1 lakh up to ₹10 lakh. To incentivize donors to utilize them, tax exemptions will apply as before.

Since the accounts will be monitored closely, various mechanisms such as matching donations can be exclusively applied to such donations incentivizing parties to utilize them. There can be limits and restrictions applied to these bonds, to prevent misuse or provide incentives/disincentives. As an example, to control corporate donations, it could be enforced that they do not exceed donations by individuals.

Political parties will not be in favour of this unless incentives are provided to use these bonds. These would add cost and additional state capacity, but it should be reasonable considering the implementation of anonymous electoral bonds in the past. This solution will add transparency as long as there is adoption.

Alternative 4: State Funding in Kind

This solution aims to go much beyond the current state funding provided in kind, which is limited to electoral rolls, identity slips and free airtime on state media. The aim of this solution is to build an equitable transparent open platform for parties and candidates. The platform would provide advertisement space, social media groups, broadcasting information, interacting with candidates, hosting debates and so on. The basic premise here is to reduce the dominance in publicity by richer candidates or parties and get the ECI much more involved in disseminating authoritative information about the candidates to the relevant constituency. Also, provide a common trusted official platform for parties and candidates to engage with the public. This solution can be used along with restrictions or bans on publicity, newspaper or social media advertisements or even on campaigning. There are various expenditures candidates do (as discussed in Appendix 3: Breakdown of Expenditures), and the aim here is to reduce those for candidates.

While ECI involvement in providing a platform should be politically acceptable, the restrictions on publicity will be resisted. This solution would be effective in providing a more level playing field to candidates. This would add cost to the exchequer and stretch state capacity. The transparency will be slightly improved with information being accessible through a trusted authoritative source.

Outcomes

The table below will project the outcomes of the proposed solutions based on the criteria.

Alternatives	Political Acceptability (0.30)	Effectiveness (0.25)	Cost (0.15)	Administrative feasibility (0.15)	Transparency (0.15)	Score
Status quo	0.8	0.2	0.5	0.5	0.5	0.515
Greater Transparency	0.5	0.5	0.5	0.8	0.8	0.59
Matching Donations	0.8	0.8	0.2	0.5	0.5	0.62
Electoral Bonds	0.5	0.8	0.5	0.5	0.8	0.62
State Funding In Kind	0.5	0.8	0.5	0.2	0.5	0.53

References

1. ECI. 2024. *Proactive Disclosure of Extensive Data sets of the world's Largest Election*. Press Information Bureau, December 26. Accessed May 2, 2026. https://www.pib.gov.in/PressReleasePage.aspx?PRID=2088064&reg=3&lang=2
2. PTI. 2024. *2024 LS polls pegged as costliest ever, expenditure may touch Rs 1.35 lakh crore: Expert*. The Economic Times, April 25. Accessed May 2, 2026. https://economictimes.indiatimes.com/news/elections/lok-sabha/india/2024-ls-polls-pegged-as-costliest-ever-expenditure-may-touch-rs-1-35-lakh-crore-expert/articleshow/109591713.cms
3. CMS. 2019. *Poll Expenditure, The 2019 Elections*. CMS. Accessed May 2, 2026. https://cmsindia.org/sites/default/files/2019-05/Poll-Expenditure-the-2019-elections-cms-report.pdf
4. ADR. 2024. *Analysis of Funds Collected and Expenditure Incurred by Political Parties during General Election to Lok Sabha and Legislative Assemblies of Andhra Pradesh, Arunachal Pradesh, Odisha and Sikkim, 2024*. Association of Democratic Reforms, June 20. Accessed May 2, 2026. https://adrindia.org/sites/default/files/English_Analysis_of_Funds_Collected_and_Expenditure_Incurred_by_Political_Parties.pdf
5. ADR. 2020. *Analysis of Funds Collected and Expenditure Incurred by Political Parties during Lok Sabha Elections, 2019*. Association of Democratic Reforms, March 20. Accessed May 2, 2026. https://adrindia.org/sites/default/files/Analysis_of_Funds_Collected_and_Expenditure_Incurred_by_Political_Parties_during_Lok_Sabha_Elections_%28_english_%29.pdf
6. ADR. 2016. *Analysis of Funds Collected and Expenditure incurred by Political Parties During elections between 2004 and 2015*. Association of Democratic Reforms, May 23. Accessed May 2, 2026. https://adrindia.org/sites/default/files/Funds_collected_and_expenditure_incurred_by_Political_parties_in_11_years_2004_to_2015.pdf
7. ECI. 2024. *Election-time seizures to cross Rs.9,000 crores soon*. Election Commission of India, May 18. Accessed May 2, 2026. https://elections24.eci.gov.in/docs/MBDS5xV7yi.pdf
8. DH Web Desk. 2019. *ECI seizure report, an eye-opener*. Deccan Herald, May 31. Accessed May 2, 2026. https://www.deccanherald.com/india/eci-seizure-report-an-eye-opener-737091.html#google_vignette
9. ECI. 2019. Compiled Seizure Report in respect of General Elections to Lok Sabha and simultaneously held elections viz. State Legislative Assemblies of Arunachal Pradesh, Andhra Pradesh, Odisha and Sikkim and Bye Elections-2014. Election Commission of India, April 2. Accessed May 2, 2026. https://hindi.eci.gov.in/files/file/9735-compiled-seizure-data-of-general-elections-to-the-lok-sabha-2014/
10. ECI. 2022. *Limits of candidate's expenses Enhanced*. Election Commission of India, January 6. Accessed May 2, 2026. https://old.eci.gov.in/files/file/13928-limits-of-candidate%E2%80%99s-expenses-enhanced/

11. Mitra, Anirban, Shabana Mitra and Arnab Mukherji. 2017. *Cash for votes: Evidence from India*. School of Economics Discussion Papers, No. 1711, University of Kent, School of Economics, Canterbury. Accessed May 2, 2026. https://www.econstor.eu/bitstream/10419/175522/1/1711.pdf
12. Anand, Akriti. 2025. *Who funds BJP, Congress, AAP? New report reveals Top 10 donors to India's national political parties in FY 2023-24*. LiveMint, April 7. Accessed May 2, 2026. https://www.livemint.com/politics/news/bjp-congress-aap-new-adr-report-reveals-top-10-donors-to-indias-national-political-parties-in-fy-202324-11744012072734.html
13. Das, Anjishnu and Deeptiman Tiwary. 2025. *Who funds political parties in India? EC data shows which companies are the biggest donors*. Association for Democratic Reforms, April 15. Accessed May 2, 2025. https://www.adrindia.org/content/party-funding-in-2023-24-electoral-trusts-infra-pharma-mining-firms-biggest-donors
14. Dey, Yashroop. 2024. *When Wealth Wins: The Cost of Indian Elections Amidst Overspending Candidates, Exchange Of Cash, Liquor, Drugs And Gold For Votes, And An Increasingly Wealthy Political Elite*. Social and Policy Research Foundation. Accessed May 2, 2026. https://sprf.in/wp-content/uploads/2024/12/Cost-of-elections.pdf
15. Sircar, Neelanjan. 2018. *Money Matters in Indian Elections: Why Parties Depend on Wealthy Candidates*. Carnegie Endowment for International Peace, July 26. Accessed May 2, 2026. https://carnegieendowment.org/posts/2018/07/money-matters-in-indian-elections-why-parties-depend-on-wealthy-candidates?lang=en
16. Batra, Kartikeya. 2025. *Party Size and Candidate Wealth: Evidence from India*. Annual Conference on Economic Growth and Development, September 7. Accessed May 2, 2025. https://www.isid.ac.in/~acegd/acegd2025/papers/KartikeyaBatra.pdf
17. ADR. 2024. *Analysis of Criminal Background, Financial, Education, Gender and other details of Winning candidates*. Association of Democratic Reforms, June 6. Accessed May 2, 2026. https://adrindia.org/content/analysis-criminal-background-financial-education-gender-and-other-details-winning-31
18. Poola, Devendra and Vinitha Anna John. 2025. *Behind the curtain: unravelling corruption in the electoral bonds scheme*. Nature, December 17. Accessed May 2, 2026. https://www.nature.com/articles/s41599-025-06201-z
19. The Leaflet. 2024. *What is the PIL on the quid pro quo in the electoral bond scheme all about?*. The Leaflet, April 26. Accessed May 2, 2026. https://theleaflet.in/due-process/what-is-the-pil-on-the-quid-pro-quo-in-the-electoral-bond-scheme-all-about
20. Vaishnav, Milan. 2017. *People Choose Criminal Politicians as They're Seen to Get Things Done*. Carnegie Endowment for International Peace, January 15. Accessed May 2, 2026. https://carnegieendowment.org/russia-eurasia/posts/2017/01/people-choose-criminal-politicians-as-theyre-seen-to-get-things-done
21. Dey, Yashroop. 2022. *The Status of Indian Democracy: Contextualising Trends of Representation in the Lok Sabha*. Social and Policy Research Foundation. Accessed

May 2, 2026.
https://sprf.in/wp-content/uploads/2022/05/SPRF-2022_DP_Status-of-Indian-Democracy_Final-1.pdf

22. Vaishnav, Milan. 2017. *When Crime Pays: Money and Muscle in Indian Politics*. Yale University Press, ISBN 978-0-300-21620-2.
23. Vaishnav, Milan. 2017. *If Money Is Not Distributed, You Are Finished*. Carnegie Endowment for International Peace, February 27. Accessed May 2, 2026. https://carnegieendowment.org/posts/2017/02/if-money-is-not-distributed-you-are-finished
24. Law Commission of India. 2015. *Electoral Reforms*. Law Commission of India, March. Accessed: May 2, 2026. https://cdnbbsr.s3waas.gov.in/s3ca0daec69b5adc880fb464895726dbdf/uploads/2022/08/2022081635.pdf
25. Tullock, Gordon. *The Transitional Gains Trap*. The Bell Journal of Economics 6, no. 2 (1975): 671–78. Accessed: May 2, 2026. https://doi.org/10.2307/3003249
26. Supreme Court of India. 2024. *Association for Democratic Reforms v. Union of India*. Supreme Court of India, 2024 INSC 113. Accessed: May 2, 2026. https://indiankanoon.org/doc/121499464/
27. Agarwalla, Nishant, Ananya Verma. 2024. *Deep pockets: Domination of crorepatis in the Indian Parliament*. India Today, June 12. Accessed May 2, 2026. https://www.indiatoday.in/diu/story/lok-sabha-polls-millionaries-in-parliament-bjp-congress-samajwadi-party-aap-2552403-2024-06-12
28. TOI. 2026. *BMS makes daily expense tracking mandatory from nomination day*. Times of India, January 2. Accessed May 2, 2026. https://timesofindia.indiatimes.com/city/mumbai/bmc-makes-daily-election-expense-tracking-mandatory-from-nomination-day/articleshow/126292573.cms
29. Shani, Ornit. 2017. *How India Became Democratic: Citizenship and the Making of the Universal Franchise*. Cambridge: Cambridge University Press.
30. Santhanam, K. et. al. 1964. *Report of the Committee on Prevention of Corruption*. Ministry of Home Affairs, Government of India. Accessed May 2, 2026. https://archive.org/details/dli.csl.1128
31. Supreme Court of India. 1975. *Kanwar Lal Gupta vs Amar Nath Chawla*. SUPREME COURT, 308. Accessed May 2, 2026. https://indiankanoon.org/doc/680015/
32. ECI. 2003. "Commission's Order Dated 27th March, 2003 Regarding Criminal Antecedents, Assets And Liabilities And Educational Qualifications Of Candidates." *ECI*, March 27, No. 3/ER/2003/JS-II. Accessed: May 2, 2026. https://hindi.eci.gov.in/files/file/144-commissions-order-dated-27th-march-2003-regarding-criminal-antecedents-assets-and-liabilities-and-educational-qualifications-of-candidates/?do=download
33. Committee on Electoral Reforms. 1990. *Report of the committee on electoral reforms*. Ministry of Law and Justice, May. Accessed: May 2, 2026. https://adrindia.org/sites/default/files/Dinesh%20Goswami%20Report%20on%20Electoral%20Reforms.pdf

34. Chatterjee, Samya and Niranjan Sahoo. 2014. *Corporate Funding of Elections: The Strengths and Flaws. ORF Issue Brief*, February, #69. Accessed: May 2, 2026. https://www.orfonline.org/public/uploads/posts/pdf/20230823132301.pdf
35. Committee on State Funding of Elections. 1998. *Report*. Ministry of Law, Justice and Company Affairs, December. Accessed: May 2, 2026. https://www.scribd.com/document/898131627/Indrajit-Gupta-Committee-Report-on-State-Funding-of-Elections
36. Law Commission of India. 1999. *Reform of the Electoral Laws*. Law Commission of India, May. Accessed: May 2, 2026. https://cdnbbsr.s3waas.gov.in/s3ca0daec69b5adc880fb464895726dbdf/uploads/2022/08/2022082424.pdf
37. NCRWC. 2002. *Review of the working of the constitution*. NCRWC, March. Accessed: May 2, 2026. https://legalaffairs.gov.in/volume-1
38. Second Administrative Reforms Commission. 2007. *Ethics in Governance*. Second Administrative Reforms Commission, January. Accessed: May 2, 2026. https://darpg.gov.in/sites/default/files/ethics4.pdf
39. Central Vigilance Commission. 2010. *Draft, National Anti-Corruption Strategy*. Central Vigilance Commission. Accessed: May 2, 2026. https://praja.in/files/NatAntiCorruptStrategy.pdf
40. ADR and NEW. 2011. *ADR/NEW Recommendations for Electoral Reforms*. ADR India, April. Accessed: May 2, 2026. https://adrindia.org/sites/default/files/ADR_and_NEWs_recommendations_for_electoral_and_political_reforms_Final_April_20_2011.pdf
41. Kapur, Devesh and Milan Vaishnav. 2018. *Costs of Democracy*. Oxford University Press.
42. Vaishnav, Milan and S.Y. Qureshi. 2019. *The Great March of Democracy: Seven Decades of India's Elections*. Penguin Random House India, Chapter 3.
43. Sridharan, E. 2009. *Electoral and Party Finance Reform*. Center for the Advanced Study of India, September 27. Accessed: May 2, 2026. https://casi.sas.upenn.edu/iit/electoral-and-party-finance-reform
44. Kondepati, Rajendra. 2011. *Reforming the Campaign Finance Regime in India*. Economic and Political Weekly, December 24, Vol. XLVI, No. 52. Accessed: May 2, 2026. https://ssrn.com/abstract=1974491
45. Santhosh, Varun and Rajeev Gowda. 2017. *A proposal for public funding of elections and political parties in India*. Ideas For India, April 21. Accessed: May 2, 2026. https://www.ideasforindia.in/topics/governance/a-proposal-for-public-funding-of-elections-and-political-parties-in-india
46. Baijayant 'Jay' Panda. 2016. *Now reform political funding: If we have the will, here's how to make a lasting impact on black money*." Times of India, November 24. Accessed: May 2, 2026. https://timesofindia.indiatimes.com/blogs/toi-edit-page/now-reform-political-funding-if-we-have-the-will-heres-how-to-make-a-lasting-impact-on-black-money/