

Electoral bonds: Govt knew serial number can reveal donor identity

FinMin was reluctant but agreed after SBI raised concerns about internal control, reconciliation

SOMESH JHA
New Delhi, 26 November

The finance ministry had shown reluctance in putting up a serial number on electoral bonds saying it had potential to reveal the identity of the donors, but agreed later on, after State Bank of India (SBI) raised concerns.

This was revealed by official documents accessed through the Right to Information (RTI) Act by activists Commodore Lokesh Batra (retired) and Anjali Bhardwaj. This was after the Union government issued a framework for the bonds, a financial instrument for making anonymous donations to political parties, on January 2, 2018.

In a letter dated January 19, 2018, SBI said though the bonds would not carry name of the buyer, they "will necessarily need a serial number", as it will leave no audit trail for internal control and reconciliation, and identifying the genuineness of the bonds would become difficult at the branch level.

To this, the ministry drafted a clarification: "Putting a serial number would establish a link between the donor and the political party. This could discourage them to use such bonds. Hence, SBI may think of other security features, including holograms, to establish the genuineness of electoral bonds."

It added that if this was not possible, a QR code or a "number with invisible ink" could be thought of. The ministry agreed to dilute its stance after SBI held a meeting with the Security Printing & Minting Corporation of India, authorised to print the bonds, on February 6.

Reversing its position, the ministry said on February 9, 2018, that the "issues raised by SBI are valid and a bond not having any unique serial number will create lot of operational difficulties for the bank and would also bring a lot of risks on the bank." It allowed the bank to put the serial number "to avoid these complications", advising it to keep information "highly confidential".

The first issue of the electoral bonds was in March 2018. In April, news portal *The Quint* reported that these bonds had "a secret alphanumeric code" which was visible under UV light. This was according to an agreement between SBI and SPMCIL in the February meeting fol-



WHAT POLITICAL PARTIES TOLD MINISTRY

BJP: Electoral bonds a decisive step towards corruption-free India; it should be issued without any serial number or identification mark to ensure secrecy

Congress: It is non-transparent as the identity of the donor and the political party to

which funds are donated will only be known to the government and not general public

Shiromani Akali Dal: Electoral bonds are a landmark step towards transparency in political funding. Allow only profit-making companies to donate

through it
BSP: Will be able to offer comment if we receive a draft proposal of the scheme

CPI: The present method of political funding is more transparent than the secretive amendments being introduced

lowing which the finance ministry had changed its stance.

After media reports, a ministry official prepared an unsigned handwritten note — part of the official records — in April 2018, which said "we had not prescribed detail features. We had refused for any unique number. SBI had asked for it". Interestingly, in 2017, when the government was in talks with the Reserve Bank of India (RBI) to give the regulator the mandate to issue electoral bonds, the latter had proposed a unique identifier for these bonds.

Then RBI Governor Urjit Patel had written to then Finance Minister Arun Jaitley on September 14, 2017, conveying various objections on the proposed scheme. He said the RBI could take forward electoral bonds on conditions, including a unique identifier and "an additional security feature-based ID".

The RBI wanted to be the only authority to issue electoral bonds, through electronic means (demat), and had raised objections to an enabling provision proposed by the government to authorise other banks to issue such bonds. However, after heated exchanges between the RBI and the ministry on the issue from August to September 2017, the RBI's committee of the central board observed on October 11, 2017 "that if the government decides to issue electoral bonds in scrip form through SBI, the Bank (RBI) should let it be".

The ministry had objected to issuing bonds in demat form, according to the RBI proposal, as it felt the "information of donor" with the regulator may raise apprehensions and make the scheme a "non-starter". The ministry then decided to hand over the task of issuing bonds to SBI after a meeting was held with

Some cannot accept transparency: Modi



In an apparent dig at the Opposition, Prime Minister Narendra Modi on Tuesday said some people had issues with anything that is undertaken to ensure transparency and these days electoral bonds had become "their favourite topic".

Modi's remarks were his first since the issue of electoral bonds snowballed into a political flashpoint following a report by a news portal that the Reserve Bank and the Election Commission had reservations against the bonds but were overruled by his government.

Taking a dig at the Opposition led by the Congress, he said there was a pattern to some people raising issues just before every parliamentary session. **PTI**

Chairman Rajnish Kumar on October 26, in which he observed that "even if the electoral bond is issued as a paper bearer bond without the name of the payee, SBI would know who the donor was and would be able to link him with the payee party when a bond comes for encashment". "Hence, SBI will need to be insulated by suitable legal provisions if it is not expected to share the information with entities such as tax authorities, enforcement directorate, police in case of criminal matters, etc." according to the record of discussions.

Even as the ministry declined a request from the RBI to go for a demat version, in a meeting with the SBI chairman, joint secretary (budget), Prashant Goyal, noted how SBI was willing to go for digital applications. "With some advance note, SBI could plan a demat version of the electoral bonds," the records showed.

RBI deputy gov flags concerns over rising stress in Mudra loans

ANUP ROY
Mumbai, 26 November

Reserve Bank of India (RBI) Deputy Governor M K Jain on Tuesday expressed concern about rising bad debt level in Mudra loans.

Speaking at a SIDBI event on microfinance, Jain said with the growing mobilisation of financial services, banks must enhance the capabilities of borrowers so that individuals in the new income group could not merely avail the offered services but are also capable of demanding preferred products and service suitable to their needs and choices.

"Mudra is a case in point. While such a massive push would have lifted many beneficiaries out of poverty, there have been some concerns at the growing level of non-performing assets (NPAs) among these borrowers," Jain said.

Banks, therefore, need to focus on repayment capacity at the appraisal stage and "monitor the loans through the life cycle much more closely", he said. This is not the first time a central bank official is warning against the rising bad debt to banks. In a meeting with public sector bank chiefs in July, RBI Governor Shaktikanta Das had red-flagged high bad debt in the collateral-free loans, according to sources.

There are three categories of



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M K JAIN
Deputy governor,
Reserve Bank

loans under Mudra: Shishu, covering loans up to ₹50,000; Kishor, covering loans above ₹50,000 and up to ₹5 lakh; and Tarun, covering loans above ₹5 lakh and up to ₹10 lakh.

According to RBI estimates, NPAs in Shishu amounted to 12.39 per cent of the loans, and in the Kishor category, they were about 10.19 per cent, at the

end of fiscal 2019, according to sources. However, the total bad debt in Mudra loans made public was much lower, and not more than 2-3 per cent.

According to the deputy governor, the introduction of GST has made micro and small borrowers having a digital footprint, which the banks could tap to give loans.

"As a result of the much improved digital footprint, micro and small enterprises have become attractive clients for banks and NBFCs and MFIs, reducing the dependence of these borrowers on informal source of funds," he said.

This will lower the cost of credit for the micro and small enterprises meaningfully, "as lending will shift from collateral based lending to cash flow based lending". The application of technology in finance can have its own share of risks and challenges for regulators and supervisors, the deputy governor said. Similarly, systemic risk may arise from unsustainable credit growth, increased inter-connectedness and financial risk manifested by lower profitability.

"Data confidentiality and consumer protection also need to be addressed," he said, adding the MFIs should focus on digital micro finance and micro lenders must put the interest of clients and engage in responsible lending.

3 Indian-origin entrepreneurs charged in US fraud

Three Indian-origin ex-executives of a Chicago-based health tech start-up have been charged by the federal authorities for their alleged roles in a fraud scheme, which involved falsifying the company's financial performance to raise nearly \$1 billion in debt and private equity.

The co-founders of Outcome Health, Rishi Shah, 33, and Shradha Aggarwal, 34, and former executive Ashik Desai, 26, are among six people accused of fraud "that targeted the company's clients, lenders and investors," the US department of justice said on Monday.

"Outcome's former executives and employees allegedly deceived lenders, investors, and their own auditors by falsely representing revenue for additional profit," said Principal Deputy Assistant Attorney General John P Cronan of the Justice Department's Criminal Division. **PTI**