A Nation of Cynics

The national psyche seems ready to believe the most ludicrous charges against the government

Certain sections of the press have quoted a draft report of the CAG in recent weeks hinting at crony capitalism,creating some speculation in public mind as if there may be another mega scam in our midst.According to these reports,quoting the draft CAG report: The government has gifted away.1.64 lakh crore to the GMR group,the developers of Delhi International Airport (DIAL).The government gave away the airport land to GMR at a measly.100 per acre per annum,when the land is worth thousands of crores.Ministry of civil aviation,and later Airports Economic Regulatory Authority (AERA),granted post-contractual benefits in the form of airport development fee (ADF) to DIAL at the cost of passengers.The government granted unilateral rights to DIAL for extension of the concession period by 30 years without renegotiation.For one closely associated with the social responsibility arm of the group at a senior level,these are troubling issues.One can hardly sleep in peace and go about ones business unconcerned without checking the veracity of these allegations.So,this writer dusted off the finance and accounting hat to look deeper into these issues.And if the findings come from an interested party,one offers no apologies for presenting the facts,as the issues at hand concern the country at large.What could be the possible basis for the estimate of a.1.6-lakh-crore gift to GMR GMR leased some land in 2007 at about.1.58 crore per acre per annum for 58 years at an annual increment of 5.8%.This sum,over 58 years,adds up to nearly.690 crore (= 1.58 + 1.67 + and so on for 58 years,increasing at 5.8% year-onyear).Since GMR was given about 230 acres to develop,as one of the terms of revenueshare enhancement as per the open bid document,the total amount works to about.1.6 lakh crore.This obviously ignores time value of money.When discounted at 14%,the amount comes down to a mere.19 crore per acre,or about.4,500 crore,for 230 acres,of which 46% in any case goes to the government.Now,in the last six years,DIAL paid out.2,935 crore to the government as its share (46%) of the revenues.In 2011-12 alone,DIAL paid.704 crore,and some quick computation on spreadsheet shows that.704 crore growing at 5.8% per annum for the next 54 years adds up to nearly.2.4 lakh crore.Thus,if the government was gifting away.1,60,000 crore over 58 years to GMR,GMR would be returning the compliment with.2,40,000 crore to the government during the same period.And over and above this,the Airports Authority of India (AAI) is entitled to 26% share of dividends.The truth is that sums added over long periods without factoring the time value of money can look absurdly silly.On the next point,while it is true that GMR was given land at.100 per acre,it turns out that this was only a notional amount to effect the conveyance deed,and hardly reflective of the rental value.The land was simply given to the developers to operate and develop the airport and the associated infrastructure.Had the land been charged at market value,for instance,surely a bidder would automatically adjust that against a reduced top-line sharing That brings us to the third point,the airport development fee (ADF).Was it a postcontractual benefit accorded to GMR The government has been pilloried so badly in recent times that any attribution to the CAG seems to put the government and whoever they associate with automatically in the dock.

However,the facts appear to be as follows.

ADF is permitted under Section 22A of the AAI Act,1994.The relevant Section was enacted in 2003 and was made available to all the bidders in 2005.Even though it is true that the operation,management and development agreement is silent on the ADF and allows only for debt,equity and user development fee (UDF) as sources of funds for the airport,the bid document also states that the bid is subject to various relevant laws,including the AAI Act,1994.In fact,the Supreme Court upheld the levy of ADF at Delhi airport,vide its order dated April 26,2011,in response to civil appeal number 3611 of 2011.What is more,AERA,after detailed technical and financial audits and reviews,had also vetted the levy of ADF in January 2011.But why was ADF levied One understands that when the project cost had escalated for various reasons,and GMR approached AAI for additional injection of equity,the AAI was unable to do so.And that is when the ADF clause in AAI Act,1994,was invoked by the government,even though ADF was not explicit in the original bid document.GMR itself would have been happier with additional equity,a government-guaranteed debt or higher UDF.Lastly,why was GMR given a unilateral right to extend the concession period by 30 years Well,this was part of the terms of the bid,applicable to all bidders.Such longterm leases are common internationally.Besides,had the lease term been shorter,or had the government held the right in its own hands,the bidders would simply have adjusted the revenue share downwards or not bid at all.Delhi airport is an impressive achievement,achieved under very difficult odds.Not only was the airport completed in a record time of 37 months,it was a face-saver for the Commonwealth Games.But what is tragic is that such unfounded accusations may give public-private partnership itself a bad name.Are we turning into a cynical country

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