

India-Maldives: The GMR Controversy

In a serious setback to Indian strategic interests in Maldives, and to India's image in the region, the Indian multinational company, GMR, which is operating the Ibrahim Nasir International Airport here for over two years, exited. GMR, which had a 77 percent stake in the airport (Malaysia Airports Holdings Berhad holds the remaining stake), was awarded the contract in 2010 to operate the airport for 25 years. Maldives terminated the contract on November 27, 2012. On December 1, it gave seven days to GMR to hand over the airport.

The Singapore Court of Appeal held that Maldives had the right to annul a contract it had signed with GMR, barely a day before the government-set deadline to throw out the airport operator expired. The Maldives government has the power to do what it wants, including expropriating the airport. The Defence Minister, Mohamed Nazim, who is also the acting transport Minister, met GMR representatives soon after the court decision to work out modalities for the transfer of the airport to the Maldives Airport Company Limited (MACL).

The Maldives government formally took charge of the GMR-operated Ibrahim Nasir International Airport and handed it over to the Maldives Airport Company Limited (MACL). Mr. Arun Bhagat, who is the GMR spokesperson, stated that they were not handing over but were being taken over.

Tourism is the largest revenue earner for the country and this is the peak season. To maintain a seamless transition, MACL has offered to retain all Indian employees too, and stick to the payment conditions of GMR. Each month, GMR had disbursed 50 per cent of the salary of local employees in US dollars. In a dollar-starved country, this was an additional incentive for Maldivians working at the airport.

India's Reaction

India initially warned Maldives that cancelling the GMR Group's Male airport project before the legal processes have been exhausted will have "adverse consequences" for bilateral ties. Asking the Maldives not to take any "arbitrary or coercive measure," the Indian response followed Maldivian Foreign Minister Abdul Samad Abdullah's expression of inability to revisit the GMR project, in a telephonic talk with his Indian counterpart, Salman Khurshid. Mr. Abdullah told Mr. Khurshid that a Special Envoy of Maldivian President Mohamad Waheed will bring a detailed communication to Prime Minister Manmohan Singh justifying his government's decision to terminate the contract, even as arbitration proceedings between GMR and the Maldives were going on in Singapore. Mr. Khurshid reminded Mr. Abdullah of high level assurances given earlier about resolving the GMR tangle amicably and asked him to ensure the situation did not "go out of hand", in a reference to the rabble rousing going on in the Maldives against the GMR project and cases of assaults on parliamentarians who have opposed the termination of the contract.

This position had left New Delhi in a cleft stick because it has to continue supporting the Maldives, from basics such as onions, sugar, flour and rice to stabilizing its fiscal position. On the other hand, New Delhi is under pressure to take a more "robust" approach, which could mean upsetting the delicate balance that is there at present.

While the GMR project has become the standard bearer of the downturn in India-Maldives ties, the government in Male, egged on by small but vociferous right wing parties, is turning their sights on reviewing most contracts and allotments made by the previous government. This included about 400 islands and creeks allotted over a period of three years by the Nasheed government to foreign companies as well as to its supporters.

Indians in Maldives heave a sigh of relief

Indians in Male and elsewhere in Maldives heaved a sigh of relief as the stand-off between Male airport operator GMR and the Maldives government fizzled out and the latter took over the running of the Ibrahim Nasir International Airport from the midnight of December 7, 2012.

There are about 23,000 Indians in Maldives, and a majority of them are labourers. There are also a significant number of teachers, paramedics and other professionals, besides some businessmen who have made Maldives their home for decades.

Most Indians wondered why the GMR issue was simmering for so long, and felt that there should have been better communication between the parties to the conflict. They agreed with the Maldivian government's assertion that no other businesses were affected during the stand-off.

In response to such a move, India said it was watching the situation in Maldives closely but had no plans as yet to curtail any aid. The Indian government fears Maldives could be hit to the tune of hundreds of millions of dollars in compensation for cancelling the GMR-led consortium's contract.

Indian Minister for External Affairs Salman Khurshid asked Male to keep in check elements who may be trying to harm bilateral relations. Mr. Khurshid also drew a distinction between India's interests in the region which are much more wide-ranging and the GMR contract cancellation saga.

GMR

- An Indian company dealing with infrastructure related business: airport management, coal mining, highways etc.
- It operates the airports in Delhi, Hyderabad & Turkey.
- Grandhi Malikarjuna Rao founded the company, hence the name "GMR".

Direct Cash Transfer

The government's announcement to roll out the direct cash transfer (DCT) scheme to deliver subsidies from January 2013 has generated a heated debate. Generally, while there has been support for digital payments to replace the current subsidy delivery, there are some contentious issues.

On 9 November 2012, the government announced that from, January 2013, 51 districts of the country would be subjected to Aadhaar-based direct cash transfers (DCT). The scheme, once nationally rolled out, envisages transferring as much as Rs 32,000 in cash on an average into the bank account of each beneficiary family or a total of Rs 3.2 trillion per annum. 29 schemes have been brought under the ambit of the cash transfer programme. These are mostly scholarship schemes from ministries like Social Justice, HRD and Minority Affairs.

The issues being raised are of two types- ideological and technological. Ideologically, we need to understand and appreciate the need for a change in the delivery mechanism as the existing mechanism has failed to deliver due to large scale leakage and involvement of a large number of intermediaries.

DCT is beneficial as it will take care of price distorting interventions. It will do away with the need to artificially lower prices of certain essential items like kerosene and fertilizer which creates incentives for black marketing. It is also expected to reduce fiscal deficit through improved efficiency in expenditure, which in turn will also bring down inflation. It is especially important as the central subsidies are expected to cross Rs 300,000 crore this year.

But DCT is not going to solve all the problems related with subsidy. First, all subsidies aren't Central, there are state-level ones. Second, not all subsidies are to consumers. There are ones to producers, including producers of inputs. Third, some subsidies are for what are perceived as public goods or collective private goods. Those are described as "merit" goods and cannot be apportioned to a specific individual or household.

Therefore, let's be clear about what we mean by DCT and subsidy reform. We aren't talking about state-level subsidies. We aren't talking about user charges on so-called "merit" goods. We aren't talking about Subsidies to producers, exporters and public sector enterprises. We are talking about individual consumer subsidies, primarily food, fertilizer and petroleum products.

On the other hand, there are some technological issues being raised by experts. For example, the DCT will be using Aadhaar as the basis for cash transfer in the bank accounts of the beneficiaries. But Aadhaar is just a proof of identity and not a proof of address. Classifying a family as poor, allotting NREGA work, maintaining musters, identifying beneficiaries for scholarships, pensions, etc, will be done under the existing structure, which is not foolproof. Second, the cash transfers go to the bank. The last mile between the bank and the customer is designed to work through a business correspondent (BC). This is the weakest, and the most muddled link.

Then there are questions about preparedness. For example-

- Will everyone receive their Aadhar number in time?
- Will everyone be issued a bank account in time?
- Will the last-mile banking channel be ready in time?
- Will the UID payment system work flawlessly in scale?
- Can legitimate beneficiary be excluded if they lack any of the three- an Aadhar, a bank account and the person's name in the programme roll?
- Can the government identify the poor accurately?

The success of cash transfers depends on people having bank accounts, money going into the right account, and people having easy access to those accounts. Right now, it's not clear if India will be ready as per schedule. The question is whether the promise of cash transfers will have people flocking to banks and enrolment centres.

As far as the issue of DCT being superior to present subsidy schemes, if nothing else, at least "fake" individuals will disappear and there will be control on leakages in the delivery system. In all probability, some administrative costs will decline. However, the case would have been more convincing had there been clarity on (i) targeting, (ii) public expenditure reform and reduction of administrative costs, (iii) time-frames for phasing out a "subsidy" culture, and (iv) even a cap (as a share of GDP) on Central expenditure on subsidies.

DCT may not solve all the problems but should be considered as beginning of a change. Policies and programmes are never static and need to be changed as per the requirement. Opposition from some quarters on ideological grounds or otherwise, is unwarranted. At the same time, the government should not implement it in haste as it may prove to be fatal for this subsidy reform.