

# A Many Layered Circus

*Riddled with conflict of interest, IL&FS exposes the underbelly of our governance*

Gajendra Haldea



As the truth of IL&FS unfolds investors, banks and the exchequer will end up with significant losses.

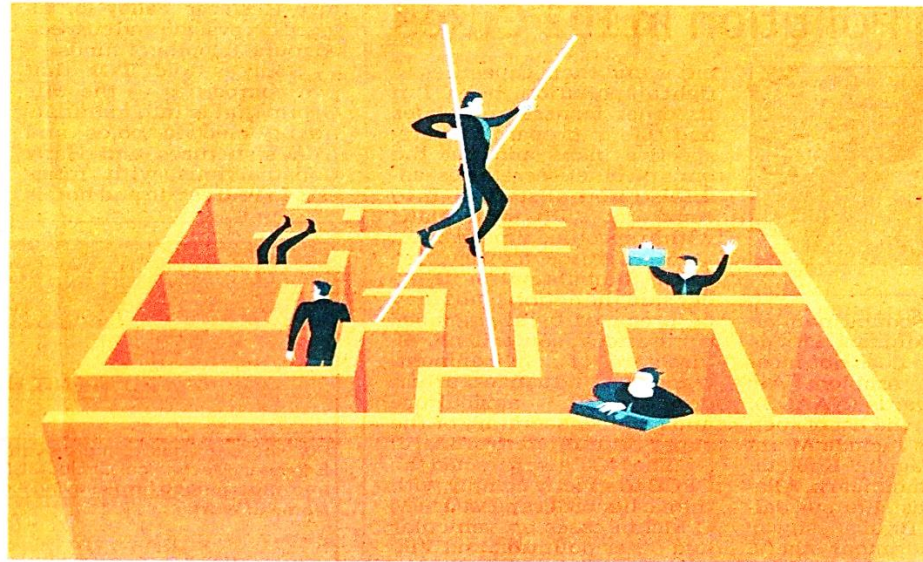
I have closely observed, during the last two decades, a few projects of IL&FS and found a common pattern of manipulations and machinations. Unfortunately, I never got an opportunity to comment officially on any of these projects, except in the case of Delhi Mumbai Industrial Corridor (DMIC) project where I was able to prevent much potential damage.

The modus operandi of IL&FS across projects was to get the central and state governments to set up Special Purpose Vehicles (SPVs) and trusts where the checks and balances associated with public funds were grossly undermined. Under the SPV model, IL&FS would typically contribute 50% of the equity while an equal amount came from the government. As per law such SPVs are private companies, free of the checks and restrictions applicable to government companies. As a result, they can expend public money as if it were private money.

In the said SPVs the secretary of a central ministry or the chief secretary of a state government would be the chairperson, while the managing director who exercised real control would be an IL&FS nominee. The objective was to project these SPVs as if they were government entities implementing public infrastructure projects. To make further inroads into the government, IL&FS employed several serving and retired bureaucrats and also distributed largesse such as jobs for their children.

IL&FS never had much capital of its own. So all its SPVs had a rather narrow equity base with much money coming from the government in the form of subordinate debt or other support. Despite its small equity investments, IL&FS managed to control and expend vast sums of public money. No other company could ever manage a fraction of such bounty.

In 1997, a Noida official informally



showed me the draft concession agreement for the then proposed Noida Toll Bridge. I was appalled by its contents. But since I had no locus, my views were completely ignored. I guided a World Bank researcher in 2007 on a case study which brought out the super profits of IL&FS, in addition to a manipulated extension of the 30-year concession to over 100 years (see [www.gajendralhaldea.in](http://www.gajendralhaldea.in)). Moreover, IL&FS and its associates benefited from this project while functioning as advisers, consultants, concessionaire, investors and lenders, notwithstanding their conflicts of interest. As events unfolded, the Supreme Court stopped all tolling on this bridge in 2017.

Be it Tirupur Water Supply Project, East Coast Road in Tamil Nadu, several highway projects of RIDCOR in Rajasthan or GIFT city in Gujarat, the pattern has been similar: IL&FS managed to get these and numerous other projects on a silver platter, and without the mandatory competitive bidding required for all public projects.

As for DMIC, a similar SPV called the

red carpet for DMICDC and signed several agreements and MoUs.

A proposal was moved in 2013 to get 'in principle' approval of the erstwhile Planning Commission for allocation of Rs 20,000 crore to DMICDC. That is when I raised a fundamental objection that being a private company, DMICDC could not be the recipient of such government funds. Since the then deputy chairman of the Planning Commission endorsed my stand, there was no option left for DIPP but to ask IL&FS to divest its equity and exit from DMICDC. Thus, the DMIC project was saved from the present turmoil in IL&FS.

Given its all-pervasive influence IL&FS was not only able to mobilise debt funds exceeding a trillion rupees, it was also the recipient of guaranteed profits in several projects while its costs were not questioned. It always seemed to operate beyond its means while its 'wizards' demonstrated extraordinary 'talent' when it came to 'managing' the governments and financial institutions. However, what they evidently lacked was the capacity to operate their projects successfully.

According to recent reports, IL&FS presently presides over a maze of 348 subsidiaries and associates. It is essentially a project-based outfit operating in the garb of a financial institution. One wonders how RBI failed to notice and check this inherent conflict in IL&FS which was virtually acting as a lender as well as borrower. In fact, IL&FS is an embodiment of unparalleled, wide-ranging and deep-rooted conflicts of interest and could well be called an epitome of conflicts.

As the multiple layers of this circus unfold, the resulting burden would have to be borne by none other than the common man, and it is bound to be enormous. The Centre and RBI have already intervened, primarily to protect the financial markets. But they don't seem to possess any magic wand that can address these complex issues and yet prevent significant damage to multiple quarters. By comparison, Vijay Mallya and Nirav Modi may have caused much less damage!

*The writer is a former Principal Adviser (Infrastructure) of Planning Commission*

**The resulting burden would have to be borne by none other than the common man, and it is bound to be enormous. By comparison, Vijay Mallya and Nirav Modi may have caused much less damage!**

Delhi-Mumbai Industrial Corridor Development Corporation (DMICDC) was set up by IL&FS and the department of industrial policy and promotion (DIPP) in 2008 for developing 24 industrial townships across states. Unsuspecting state officials were led to believe that DMICDC was a government company as not only was the secretary, DIPP its chairperson, it also displayed the address of Udyog Bhavan on its stationery. As a result, state governments rolled out a