



## Challenges of Monetisation

This article is based on [Is monetising public assets a good idea?](#) which was published in The Hindu on 03/09/2021. It talks about issues related to the recently announced National Monetisation Pipeline and suggests a way forward.

Recently, the government has released the [National Monetisation Pipeline \(NMP\)](#), a document listing the various public assets that will be leased out to private companies over the next four years.

The government believes that monetising underutilised public assets will bring in almost Rs. 6 lakh crore to the government and help build new infrastructure to boost the economy. The critics have accused the government of selling off valuable national assets to [“crony capitalists”](#).

In this context, it becomes necessary to evaluate the programme with its long term impacts on overall economic growth.

### National Monetisation Pipeline (NMP)

- The National Monetisation Pipeline (NMP), prepared by the [NITI Aayog](#), aims to create a virtuous cycle of “develop, commission, monetise and invest” in national infrastructure.
- It aims to unlock value in brownfield projects by **engaging the private sector, transferring to them revenue rights** and not ownership in the projects, and using the funds generated for infrastructure creation across the country.

### Rationale For NMP

- **India needs more infrastructure** but the public sector simply doesn't have the resources to build it. There are two possible responses.
  - For setting new infrastructure, one can think of bringing in the **private sector** with a contractual framework for what it has to do, and then **let it bring its own resources**.
  - To recognise that there are more risks in the construction stage and it is perhaps better to **let the public sector build the asset** and then sell it off to private players or if not an outright sale, **let the private sector manage it**.
- Building new infrastructure has two constraints for any country including India -
  - **Access to patient, predictable and cheap capital;** and
  - **Execution capability**, where government and private agencies can take up multiple marquee projects simultaneously.
  - Thus, NMP is devised to provide a stimulus to improve the infrastructure sector.

### Advantages of NMP

- **Generate Resource Augmentation:** NMP will help the government **get access to capital** via interested private parties.
  - These investors will maintain and operate the monetised assets, **generating cash flows**, but also **create technical and human resource capacity** in the infrastructure sector.
  - This **virtuous cycle of resource augmentation**, in turn, will help the government invest in new infrastructure immediately, without waiting for annual budgetary capital expenditure allocations.
- **Government Maintains the Ownership of Asset:** The existing brownfield, de-risked assets, which are part of the four-year monetisation pipeline, will help create execution capacities for new greenfield assets.
  - The government is monetising the rights to operate and maintain the assets, not their ownership.
- **Fair Value Share:** Contracts will be designed in a way that the government receives fair present value from the monetisation, while private parties get enough operational flexibility and regulatory visibility.
  - Moreover, given that the contract terms can be 25 years or even higher, the bidding interest shows investors are confident of long-term regulatory stability and certainty.
- **Better Targeted:** NMP introduces no new financial liability to the taxpayers and, in fact, represents a **better targeted “user pays” structure**.
  - Eg. If a stadium in Delhi is not monetised, taxpayers around the country as a whole will pay for its upkeep. But a monetised stadium is paid for only by those accessing the facilities in Delhi. This is a much better way to generate operational revenues.
- **Successful Examples:** The asset monetisation idea has already been tried by the **National Highways Authority of India and Power Grid Corporation of India** in various forms.
  - Even at the state-level, the **Mumbai-Pune Expressway** is maintained by a concessionaire against tolling rights.

## Associated Challenges

- **Realising Adequate Value:** The First and foremost criticism is whether adequate value from the assets will be realised or not.
  - This depends on the quality of the bidding process and whether enough private players are attracted to bid.
- **Ensuring Sufficient Participation From Bidders:** The only way of ensuring that asset monetisation doesn't lead to **cronyism** is to make the bidding conditions such that the people eligible to bid are not a small, predetermined set.
  - However, because of the capital intensity of the project, not everybody is going to be able to bid. Even so, you can ensure that there is sufficient participation.
- **Execution Risk:** There will be execution risk in such a large programme. However, this is exactly why NMP is not adopting a one-size-fits-all approach.
- **Issue of Taxpayers' Money:** The taxpayers have already paid for these public assets — and, so, why should they pay again to a private party to use them.
- **Suboptimal Contractual Enforcement:** A criticism is born out of scepticism about a sub-optimal contractual and judicial framework to make such a plan a success.
- **Monopolistic Outlook:** A few business houses will corner the bulk of the assets offered under NMP.

## Way Forward

- **Other Ways of Raising Resources:** The other methods of raising resources such as setting up of a **development finance institution (DFI)** and **raising the share of infrastructure**

**investment** in the central and State Budgets can be adopted.

- **Dispute Resolution Mechanism:** Strengthening the judicial processes can not be much emphasised. Efficient and effective dispute resolution mechanisms will naturally and automatically accrue to the design and execution of NMP too.
- **Streamline PPP:** Recent experience suggests that [public-private partnerships \(PPP\)](#) now involve transparent auctions, a clear understanding of the risks and payoffs, and an open field for any and all interested parties.
  - Thus, the utility of PPP in greenfield projects can not be neglected.
- **Transparent Bidding:** Transparent bidding is one of the most important parts of the NMP project. Thus, maintaining transparency is the key to adequate realisation of the asset value.
- [NITI Aayog Recommendations:](#)
  - **Bringing InvITs Under Insolvency and Bankruptcy Code (IBC):** Extending IBC provisions to InvITs would help lenders access a faster and more effective debt restructuring and resolution option.
  - **Tax Breaks:** Tax-efficient and user-friendly mechanisms like allowing tax benefits in InvITs would attract retail investors (individual/non-professional investors).

## Conclusion

As global economic conditions remain volatile and uncertain, raising financial resources upfront is a bold, constructive and confident policy statement. It signals to the world that India is open to business with the interests of the public exchequer and the citizens firmly protected.

### ***Drishti Mains Question***

‘The government is monetising the rights to operate and maintain the assets, not their ownership.’ In the light of the statement discuss the issues associated with the National Monetisation Pipeline.