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IMPACT OF MONETISATION OF ASSETS ON GOVERNMENT REVENUES AND POLICIES

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ABSTRACT

Asset Monetization is on the philosophy of Creation through Monetisation. It is aimed at tapping private sector investment for creation of new infrastructure in the country. It also creates employment opportunities, consequently enabling better economic growth, and integrating the rural and semi-urban areas for overall public welfare. The National Monetisation Pipeline (NMP) comprises a four-year pipeline programme of the Central Government's brownfield infrastructure assets. It estimates an aggregate monetisation potential of ~Rs.6 lakh crores through core assets of the Central Government, over a four year period from FY2022 to FY2025.

Infrastructure is critically linked to the growth and economic performance of the country. It has been seen as one of the six pillars forming the base of the Union Budget of India. The Government had announced giving big thrust on monetizing assets through the NMP, via transfer of: a) operational toll roads worth Rs.5,000 crore, b) transmission assets worth Rs.7,000 crore, c) Dedicated Freight Corridor assets to be monetized by Railways, for operations and maintenance, after commissioning, d) Oil and Gas Pipelines of GAIL, IOCL and HPCL, e) AAI Airports in Tier II and III cities, f) other Railway Infrastructure Assets, etc.

The government intends to encourage private sector investment and utilise its efficiency, as well as raise revenue through the monetisation of newly built brownfield assets. Additionally, the government feels that asset monetisation is the best alternative strategy, given the scenario of constrained fiscal resources and the rising cost of welfare spending in the post-pandemic period.

Keywords: Monetisation, NMP, investment, government, projects, assets.

INTRODUCTION

The Indian Government has been nursing a “silent” financial crisis post events like demonetisation, introduction of centralized GST regime, reduction in corporate tax rates, sops given to boost certain economic sectors, etc. To add to its woes, the serial disasters like the COVID-19 pandemic has disrupted the manufacturing & service activities and consequently affected the country’s GDP growth. To counter these discouraging factors, the government has had to resort to measures like steep hike in the price of inelastic commodities like petroleum products to compensate for the loss of revenue from erstwhile streams. During FY20, the government was able to general ~Rs.32,000 crore in revenue through its disinvestment program alone. In August 2021, the government introduced the National Monetization Pipeline (NMP) to generate additional revenue from several brownfield assets owned by it as well as by various PSUs. ***The idea behind the Asset Monetisation Program was not to sell assets but lease them and realize the underutilised value in them, thus improving efficiency and providing scale of operations. This program framework includes “provision of ‘rights’ but not ‘ownership’ of the assets being monetized [lease them and realize their value through the rentals]. This program would provide stable and adequate revenue streams for the government through structured partnerships, and help it de-risk brownfield assets and deleverage the balance sheets.***

Asset recycling and monetisation serves two critical objectives: 1. **Unlocking the value** from public investments in infrastructure; and 2. **Tapping private sector** efficiencies in operations and management of infrastructure.

Basically, Asset Monetization is a **distinct shift** from ‘privatization’ and ‘slump sale’ of assets **to ‘structured partnerships’** with private sector within the defined contractual frameworks. The driver for Asset Monetisation is beyond its financial impact. It is not just a funding mechanism, but an **overall paradigm shift** in infrastructure operations, augmentation and maintenance of resources.

In August 2021, Government of India announced an Asset Monetisation Plan wherein the existing public assets worth Rs. 6 lac crore (Rs. 6 trillion) are proposed to be monetised through lease arrangements with private operators for a fixed tenor. Monies realised from such arrangements would be used for setting up fresh infrastructure facilities by the government in the country. The government has chalked out its pioneering initiative in this direction to establish a medium term pipeline along with a roadmap for monetisation-ready assets. These measures will be implemented through the National Monetisation Pipeline (NMP) which lists out assets which are proposed to be monetised over a period of time.

During 1998, India had completed a 756-kms Konkan railway network. In terms of freight usage which generates maximum revenue, this rail network was underutilised. Hence through the NMP, the government intends to monetize Rs.3,600 crore (US$ 485 million).

OBJECTIVES OF THE STUDY

1. To study the avenues open to the government to raise economic resources
2. To examine the revenue potential of the asset monetisation route
3. To assess the role played by private players and public enterprises in the economy
4. To take stock of the under-utilized assets of the government from national economic point of view
5. To gauge the impact of funds mobilised through asset monetisation, on the economy of the country

Hypothesis

The study intends to prove the following:

1. There are ample avenues available to the government to raise revenues for fresh building fresh resources
2. Private players could play a significant role in asset monetisation through participation in PPP arrangements
3. Under-utilized assets have significant impact on the nation's economy
4. Funds raised through asset monetisation will play a significant role in improving the country's infrastructure

Research Methodology - (Descriptive & Exploratory Research)

- Study will be done mainly based on the Primary data obtained through discussions with industry people, bankers, project finance teams, project approval authorities in government departments, private companies who have entered into PPP for past projects, credit rating agencies, etc.
- Information will also be pooled from secondary sources like newspaper articles, websites, company news, etc.

Sampling Design

Sampling involves procedures which use segments of population to draw up a conclusion with regard to the entire population. The sample design proposed to be followed in this study will be:

1. **Sample frame:** will be from stakeholders engaged in similar type of activity in the past viz. lenders who have lent for infra projects, government offices who have approved such arrangements and private companies who have executed PPP / JVs in the past
2. **Sample units:** Employees from the lending (banking & finance) sector, employees in government offices (giving approvals for such projects), employees in private companies who have ventured into PPP arrangements in the past
3. **Sampling method:** The simple random sampling method will be used to select the respondents
4. **Sample size:** The initial sampling frame will be around 400 people, which could be increased depending on the quality of the data required and collected, to come to the required logical conclusion.

Types of Variables

1. **Dependent Variables:** The variable that depends on other factors that are measured. These variables are expected to change as a result of an experimental manipulation of the independent variable or variables. In the instant case, these variables would comprise of GDP, growth in infrastructure, economic growth, change in tax structure, growth in employment opportunities, growth in related sectors, etc.
2. **Independent Variables:** The independent variable is the variable the experimenter manipulates or changes, and is assumed to have a direct effect on the dependent variable. In an experiment, the researcher is looking for the possible effect on the dependent variable that might be caused by changing the independent variable. In this study, such variables would comprise of lenders, banks, government agencies, credit rating agencies, industry people, private companies who have done PPP arrangements in the past, etc.

LITERATURE REVIEW

1. Ramakrishna Nallathiga – Monetisation of Urban Land : Review, Approach and Framework for ULBs (December 2018)

As per his observations, investments made by Urban Local Bodies (ULB) towards public infrastructure and amenities are capitalised in land value (both public and private), the ULBs can capture the potential of land value gains by monetizing urban land for revenue generation purpose which aids in better infrastructure service provision. In the published paper, an attempt is made to highlight the importance of land-based financing of cities with a review of the experiences; then a governance framework for the disposal of urban land is developed, such that infrastructure finance and urban development are sustainable.

2. Amitabh Kant – Asset Monetisation holds the key to value creation (Aug. 2021)

As per the author, India currently holds one of the largest brownfield stock of fixed assets in the world. However, while public sector can build infrastructure, it is rarely able to run it efficiently. It is a widely accepted fact the private sector has much greater resource efficiencies, when it comes to developing and managing infrastructure. Increasingly, therefore, government looks to partner with the private sector as a partner. However, for effective co-working between the public and private sector, PPP models are now demanding a reboot.

3. CRISIL – Monetisation Road (Sept. 2021) – As per CRISIL, NHAI's asset pool can generate 15% of the potential funding it needs over the next 5 fiscals

Concept of Asset Monetisation

1. In Asset Monetisation, the government parts with (leases out) its assets like roads, coal mines, premises, etc. for a specified period of time, in exchange for a lump sum payment.
2. At the end of the said period, the assets are returned to the government. Unlike in privatisation, no sale of government assets is involved.
3. By monetising assets which it has built in the past, the government earns revenues to fund the cost of building additional infrastructure.
4. Asset monetisation is largely targeted in three main sectors managed by the government. These are: roads, railways and power.
5. Other assets which could be monetised include: airports, ports, telecom, stadiums and power transmission equipment.

About National Monetisation Pipeline (NMP)

1. It is an ambitious 4-year tenure Rs.6 lakh-crore worth National Monetisation Pipeline (NMP) which includes unlocking the value in brownfield projects by involving private firms across infrastructure sectors from passenger trains and railway stations to airports.

2. As per the plan, private firms can invest in projects for a fixed return, using the Infrastructure Investment Trusts (InvIT) route, as well as operate and develop the assets for a certain period before transferring them back to the government agency.
3. In the Union Budget 2021-22, the Finance Minister - Ms. Nirmala Sitharaman - launched the National Monetization Pipeline (NMP). The government had announced a pipeline of Rs.600,000 crore (US$ 80.56 billion) over the next four years period between FY22-25. The government has identified monetisation of operating public infrastructure assets as a key means for sustainable infrastructure financing.
4. Land will not be monetised under National Monetisation Plan only brownfield assets to be monetised.
5. The government has stressed that these are brownfield assets, which have been "de-risked" from execution risks, and therefore should encourage private investment.
6. The funds will then be used to build new infrastructure assets, helping boost economic growth in the country.
7. The top five sectors by value under the government's asset monetization programme are roads (27%), railways (25%), power (15%), oil and gas pipelines (8%) and telecom (6%). Roads and Railways contribute 52% of the total value of the national asset monetization plan.
8. The plan is in line with Prime Minister's strategic divestment policy, under which the government will retain presence in only a few identified areas with the rest tapping the private sector.

Choice of assets for monetisation
There are two types of asset class which can be monetised – 1) well-utilized assets; 2) under-utilized assets.

The focus naturally will be on under-utilized assets.

Also, the monetisation will happen through Public-Private Partnership (PPP) and the Infrastructure Investment Trusts [detailed later in this report].

Suppose a port or a stadium or an empty property is not being used adequately because it has not been properly developed or marketed well enough. If an interested private party examines the assets and feels that it can put the assets to optimum use, it will pay the government a price equal to the present value of cash flows at the current level of utilisation. By making this investment, the private party can reap the benefits of a high cash flow levels if the assets are efficiently used. Hence a win-win situation for the government as well as for the private party. The government gets a 'fair value' for its under-utilized assets whereas the private party who has deployable funds can increase efficient use of the assets and earn an extra buck through a decent return on his investment. The economy benefits from an increase in efficiency of the erstwhile under-utilized assets!

Choice between well-utilized and under-utilized assets
Matters could be very different in monetisation of a well-utilized asset, say a highway that has good traffic flow. Here the private player will have little incentive to invest his money and limited scope to improve the efficiency. He will simply have to continue operating the asset as it is. Further, the cost of capital for a private player is higher than that for a public authority who can access debt more cheaply than a private player. Hence the higher cost of capital for the private player could offset the benefit of any reduction in operating costs. Therefore the benefits to the economy are likely to be greater where under-utilized assets are monetized.

Notwithstanding the above, private players will prefer well-utilized assets wherefrom the cash flows and returns are more certain. Hence the private incentives in asset monetization may not accord with the public interest. Further, the residual life of well-utilized asset, when it is returned to the government, may not be long. In such an event, asset monetisation virtually tantamount to sale.

Hence monetisation through the PPP route is fraught with problems.

Key impediments in the roadmap ahead

Among the **key challenges** which may affect the NMP roadmap are:

1. Lack of identifiable revenues streams in various assets
2. Level of capacity utilisation in some streams of government business like gas and petroleum pipeline networks
3. Effectiveness of Dispute Resolution Mechanism
4. Regulated tariffs in power sector assets, and
5. Low interest among investors in National Highways below four lanes

While the government has tried to address the above challenges in the NMP framework, execution of the plan remains the key to its success. Hence ***structuring of monetisation transactions*** is seen as the key.

- The slow pace of privatisation in government companies and the less-than encouraging bids in the recently launched PPP initiative in trains, indicate that attracting private investors' interest is not that easy.
- Monetisation potential of toll road assets, though being a market-tested asset class with established monetisation models, is limited by the percentage of stretches having four lanes and above configuration (total length of the NH stretches with four-lane and above configuration is estimated to be about 23% of the total NH network)
- The MNP framework notes that other key impediments to the monetisation process are asset-specific challenges such as presence of an identifiable revenue stream. This is specifically relevant to the railway sector which has seen limited PPP success as a mode of project delivery (e.g. Konkan Railway has multiple stakeholders including State Governments, which own stake in the entity. Hence creating an effective monetisation transaction structure could be challenging in this case).

Alternate way ahead

- The government has indicated creation of Infrastructure Investment Trusts to whom the monetizable assets shall be transferred
- These Trusts would be Mutual Fund-like vehicles in which investors can subscribe to units in return for dividends. The sponsor of the Trust would be required to hold a minimum prescribed proportion of the total units issued
- The Trusts would be offering a portfolio of mixed assets, and hence the investors will get the benefit of diversification
- The assets to be monetized can be transferred at the construction stage or after they started operations and earning revenues
- In this route to monetisation, the public authority will continue to own the right to a significant portion of the cash flows and to operate the assets
- Hence the issues which arise with the transfer of assets to a private party (viz. incorrect valuation or increase in price to the consumer) will be taken care of

Pathway for proper execution is the key

1. Public enterprises have the inherent advantage of access to cheap funds. In general, the economy benefits when public authorities develop infrastructure and monetise such assets
2. Monetisation through the Infrastructure Investment Trusts is likely to pose lesser problems than going through the PPP route

3. It is better to monetise assets which are under-utilized than those which are well-utilized
4. Independent monitoring of the process would help ensuring proper execution

CONCLUSION / PROBABLE OUTCOME

- The asset monetisation program is considered to have caused a paradigm shift in the way the government treats brownfield assets.
- It will significantly improve the utilization of these assets and infrastructure efficiency
- It will generate revenue streams and deleverage the government's balance sheets. This in turn will trigger credit growth in the economy and help India achieve a new investment cycle
- Monies realized from this could be used to establish additional greenfield investments and create more economic opportunities
- The NMP is an ambitious program which is expected to help India achieve its goal of a USD 5 trillion economy

LIMITATIONS OF THE STUDY

- Unavailability of time tested techniques
- Changes in Government policies with every change in the government
- Impediments due to lack of consensus between political parties
- Involvement of numerous authorities governing different States and borders
- Limited public awareness about facts pertaining to asset monetisation

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