NATIONAL MONETISATION PIPELINE:
GLOBAL LESSONS FOR INDIA

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National MonetisationPipeline - Global Lessons for India

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1. Introduction

This briefing paper is focused on the recently announced National Monetisation Pipeline (NMP). The paper discusses the concepts such as asset monetisation, the Indian economic context for asset monetisation, the intense focus on infrastructure sector to continue pushing the higher economic growth rates, recent steps like the formation of a new Development Finance Institution (DFI), the National Infrastructure Pipeline (NIP) and the budgetary allocations for investments in infrastructure sector in the previous years. In the preceding months of the announcements of the NMP, the debates and discussions on public sector asset monetisation were being regularly reported in the national media showcasing asset monetisation as a viable approach for raising funds for increasing the pace of infrastructure development in India.

The paper provides the details of the NMP, a broad structure that it proposes to use, the classification of assets that has been given, basic differences between privatisation and monetisation, approaches to asset monetisation, total estimated value and the sectoral break-up, monetisation models and process that will be used for this pipeline as have been detailed in the NMP documents available on Niti Aayog's website. This section intends to give a brief overview of the technicalities and processes of the NMP proposal for the common reader.

In the last section, the note makes an effort to critically analyse the previous such attempts and demonstrates the problems and concerns with the monetisation approach which appears to be different from the outright privatisation or direct contract model. However, experiences and evidence from several countries across the world including India show that it has not been smooth sailing for such privatised projects with several of them facing problems due to social, commercial, regulatory and environmental issues. In some countries, where these programs were implemented ended up creating monopolies and oligopolies with social, economic and political implications.

In India, the privatisation and monetisation of assets have been undertaken since the post liberalisation period in piecemeal ways. Though it appears that in the previous years international institutional investors willing to invest in the country might already have national programs like NIP and NMP on their wish list, which give a future plan in the medium term. However, the implementation of a national program is a different terrain and it is important to understand the implications and also the readiness of the legal, regulatory and dispute resolution mechanisms to deal with this fast-changing scenario.

Some of these developments and discussions around it have been widely reported in the electronic and print media in the past few months. The majority of the news reports have been arguing the need for the measures like a new DFI and asset monetisation as necessary for economic growth and fulfilling the infrastructure requirements of the country, which needs a more critical angle to analyse and weigh its pros and cons.

2. Fundamentals of Asset Monetisation

What is Asset Monetisation?

According to Niti Aayog's National Monetisation Pipeline report[2], a basic definition of Asset Monetisation implies a limited period license / lease of an asset, owned by the government or a public authority, to a private sector entity for an upfront or periodic consideration.

The Need for Asset Monetisation

Giving the argument of the need of large scale investments in infrastructure sector to make India a 5 trillion dollar economy by 2025,[3] along with giving a boost to economy in the wake of Covid-19 pandemic, the government sees asset monetisation as an ingenious way to tap private sector investments and efficiencies for raising funds, by leveraging a sizeable inventory of infrastructure assets which have been created over the past decades through monetising these mature brownfield assets.[4] The government also justifies the need of asset monetisation by citing its limitation in fiscal spending and the lack of investments in greenfield infrastructure projects due to lower risk appetite of private developers / equity investors and debt financiers.

In the Union Budget 2021-22, the Finance Minister announced the establishment of a Development Finance Institution (DFI) to serve as a provider, enabler and catalyst for infrastructure funding. DFI has been given Rs 20,000 crore by the Union Budget with a view to mobilise Rs 111 lakh crore required for funding of the ambitious national infrastructure pipeline and the lender's goal is to have a portfolio of Rs 5 lakh crore in three years. In addition, the Finance Minister announced that Foreign Portfolio Investors (FPIs) will be able to lend debt to REITs and InvITs after the necessary amendments to the law. In March 2021, the Parliament passed a bill to set up the National Bank for Financing Infrastructure and Development (NaBFID) to fund infrastructure projects in India. 'The National Infrastructure Pipeline (NIP)' launched in December 2019 now consists of more than 7,400 projects. This has continued the trend in the previous budgetary announcements regarding the allocations for the infrastructure sector in the country.

The National Monetisation Pipeline (NMP) is expected to generate Rs 6 lakh crore in revenue for the government over the next four years, until FY2025. About Rs 88,000 crore will be realised through asset monetisation in the current financial year. The NMP, which will work in tandem with the National Investment Pipeline (NIP), will constitute 14 per cent of the Centre's share of Rs 43.29 trillion in the National Infrastructure Pipeline (NIP). The plan encompasses 20 asset classes, which are distributed across 12 line ministries and departments. Roads (Rs 1.6 trillion), railways (Rs 1.5 trillion), and power (Rs 85,032 crore) are the top three sectors in terms of value.

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[2] Niti Aayog's National Monetisation Pipeline Report - Vol I - August 2021 -https://www.niti.gov.in/sites/default/files/2021-08/Vol_I_NATIONAL_MONETISATION_PIPELINE_23_Aug_2021.pdf

[3] Report of the Task Force on NIP - VolI - April 2020 - https://dea.gov.in/sites/default/files/Report%20of%20the%20Task%20Force%20National%20Infrastructure%20Pipeline%20%28NIP%29%20-%20volume-i_1.pdf

[4] Greenfield Asset vs Brownfield Asset: A greenfield asset refers to an asset that has some level of development or construction requirement and risk. A brownfield asset is a developed asset, albeit one that may still require ongoing capital expenditure and expansion.

With the objective of attracting foreign investment in the infrastructure sector, it was also announced in the budget 2021-22 that foreign Sovereign Wealth Funds and Pension Funds would be granted 100% tax exemption (subject to certain conditions), on their income from investment in Indian infrastructure. The investments made are units of all types of Infrastructure Investment Trusts (InvITs), debt or shares of companies engaged in specified infrastructure activities (such as road, ports, airports, bridges, water treatment and sewage) and units of Category 1 and Category 2 Alternate Investment Funds (AIF), which have invested 100% of their funds in companies engaged in the infrastructure activities outlined earlier.

As estimated by the Report of Task Force for NIP,[5] traditional sources of capital are expected to finance 83–85% of the capital expenditure envisaged under NIP. About 15-17% of the aggregate outlay is expected to be met through innovative mechanisms such as Asset Recycling & Monetisation and new long-term initiatives such as Development Finance Institution (DFI).

Table 1: Sources of financing for NIP

Budgetary Sources	Private or Extra Budgetary Sources	Innovative and alternative financing sources
Central Budget (18-20%)	Financing by Banks (8-10%)	Innovative and alternative financing (15-17%)
	Bond Markets (6-8%)	
State Budget (24-26%)	Infrastructure NBFCs (15-17%)	
	PSU Accruals, Equity and Others (8-15%)	

Basic Structure of Asset Monetisation

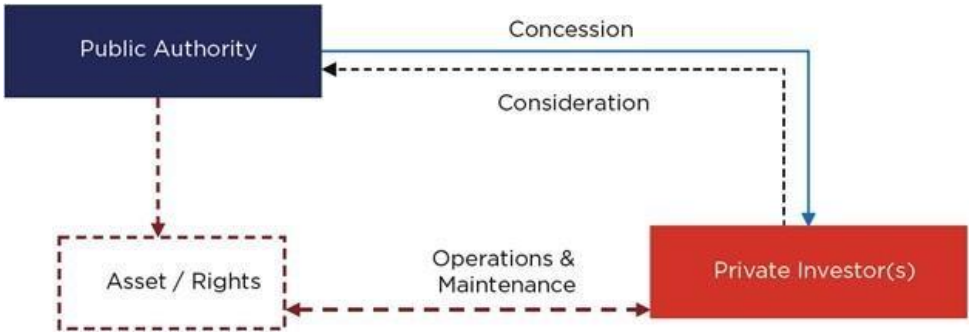

Figure 1: Basic Structure of Asset Monetisation

(Source: Niti Aayog's National Monetisation Pipeline Report)

[5] Report of the Task Force on NIP - Vol II - April 2020 - https://dea.gov.in/sites/default/files/Report%20of%20the%20Task%20Force%20National%20Infrastructure%20Pipeline%20%28NIP%29%20-%20volume-ii_1.pdf

Figure 2: Infrastructure Asset Monetisation Cycle

(Source: Niti Aayog's National Monetisation Pipeline Report)

Classification of Assets as Core Assets vs Non-Core Assets

For the purpose of asset monetisation, the government has classified the assets to be monetised as Core Assets vs Non-Core Assets. These assets usually include operational / under-construction projects, land, buildings, investment in subsidiaries / joint ventures, etc. which are held by the government / public sector entities / statutory bodies.[6]

The assets which are central to the business objectives of entities and are used for delivering infrastructure services to the public / users are considered as **core assets**. Infrastructure includes asset classes such as transport (roads, rail, ports, airports, etc.), power generation, transmission networks, pipelines, warehouses, etc.

The other assets, which generally include land parcels and buildings, can be categorised as **non-core assets**.

For the purpose of asset monetisation, only those assets have been considered which are currently revenue generating or those which have substantially completed facilities and can be suitably augmented for future operations.

Figure 3: Core Assets vs Non-Core Assets

(Source: Niti Aayog's National Monetisation Pipeline Report)

[6] At present it appears the assets related to union government entities will be monetised. However this might expand later and include assets owned by state governments and others.

3. Comparing Privatisation and Monetisation

For a layperson, the usage of terms like privatisation and monetisation can be confusing at times. The common underlying theme between the two terms is that these processes enable a government entity to raise revenues through involving the private sector. Privatisation refers to transfer of ownership of any enterprise from the government (whether central government, state government or a local government like municipal corporation) to the private sector.

Privatisation encompasses a broad range of examples such as divestment (or disinvestment, i.e., sale of shares of a government run company to private entities), giving contracts of basic services to private players for a fee like water supply, electricity supply, public transport, etc., ownership of natural resources to private companies (e.g., coal mining, oil & gas, etc.). Privatisation also refers to the broader concept in sectors such as education and health care, where the government (both central and state) has gradually abdicated its responsibility in providing these facilities to the people allowing the private players to capture the vacuum created. A recent example of privatisation is the sale of Air India to Tata for Rs 18,000 crore.[7]

Monetisation on the other hand refers to the mechanism of raising revenue where 'on paper' the ownership of an asset remains with the government, but the charge of managing or upgrading an asset or the rights over an asset is given in the hands of private players in return of an upfront payment. The private players then generate revenues at a later stage by different mechanisms such as charging user fees for a service. E.g., if a toll road is monetised for 10 years, then the government will be given an upfront fee at the start of the contract and the private player will be responsible for managing the toll road and will be charging fees from entities using the toll road. At the end of the contract, the private player will have to return control of the toll road to the government. Some of the key differences between privatisation and monetisation can be compared below:

Table 2: Key differences between Privatisation and Monetisation

Comparison Basis	Privatisation	Monetisation
Ownership	The ownership of an asset goes into the private hands.	The ownership of an asset remains with the government.
Mode of Transfer	The assets are sold off to a private entity.	The assets are usually given out on a limited term lease with an end date.
Role of Government	Once the assets are sold, government has no control over the assets.	The government continues to have a role in the monetisation process.
Return of Assets	The government will not get back the assets once they are sold.	The assets will be returned back to the government at the end of the contract.
Usage of Revenue Generation	The revenue raised through privatisation can be used by government to cover its various expenses.	Under the National Monetisation Pipeline, the revenue generated through Asset Monetisation has to be reinvested in creating greenfield assets.

[7] Govt signs share purchase agreement with Tata Sons for Rs 18,000-cr Air India sale - India Today - October 26, 2021 - https://www.indiatoday.in/india/story/govt-signs-share-purchase-agreement-with-tata-sons-for-rs-18-000-cr-air-india-sale-1869328-2021-10-26.

Both privatisation and monetisation carry the inherent risk of low valuation where the government may sell off an asset or hand it over in lease at throw away prices to private players due to political interference and crony capitalism. Technically, monetisation appears to be different from privatisation on paper. However, monetisation can also be envisaged as a step towards privatisation of public sector assets. A detailed critique of the monetisation as well as privatisation projects globally is done in the later sections of this paper.

4. Approach to National Monetisation Pipeline (NMP)

The NMP has been created by aggregating the information provided by various stakeholders[8] including line ministries, departments as well as information available on existing infrastructure assets. A bottom-up approach has been adopted wherein the existing core infrastructure asset base managed under central sector agencies was identified and mapped. The core infrastructure assets covered include roads, ports, airports, telecom, railways, warehousing, energy pipelines, power generation, power transmission, hospitality and sports stadiums. Besides these conventional infrastructure sectors, assets from mining and housing redevelopment sectors have also been included in the NMP. It should be noted that monetisation through disinvestment and monetisation of non-core assets (such as land, building, and pure play real estate assets) have not been included in the NMP. Given below is a schematic of the NMP approach.

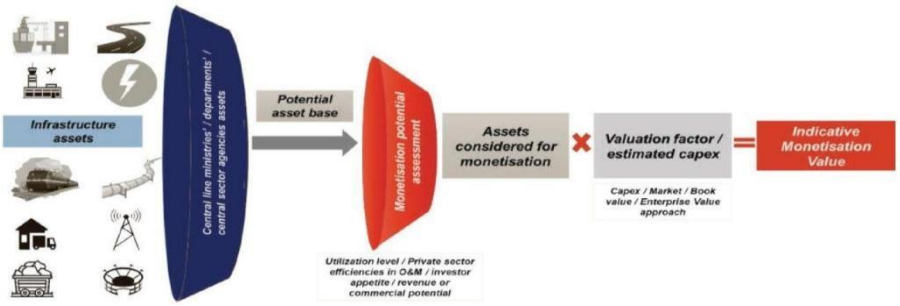

Figure 4: Schematic of NMP Approach

(Source: Niti Aayog's National Monetisation Pipeline Report)

For each sector, the NMP has been drawn up for the statutory bodies, public sector enterprises and other such undertakings within the purview of ministries / departments of Govt. of India ('Public Asset Owners'). This is based on three key sets of information:
(i) Potential Asset Base, (ii) Assets considered for Monetisation and (iii) Indicative Monetisation Value. A brief description of these three sets of information is listed below:

i. **Potential Asset Base** – 'Potential Asset Base' refers to the infrastructure assets under the purview of the central line ministries and CPSEs, which are sizable and amenable to Monetisation. These include brownfield assets that are currently operational as well as assets that are expected to be operational over the NMP period.

ii. **Assets considered for Monetisation** – The 'Assets considered for Monetisation' are a part of the Potential Asset Base that is expected to be monetised over the NMP period (Assets for Monetisation). The monetisation potential for asset classes has been assessed based on multiple

[8] It appears that the stake holders whose opinions have not been given are for example users, beneficiaries, citizens at large, marginalised sections, state representatives, local govts, people's representatives, other political parties, etc.

factors such as visible revenue streams, commercial potential, utilisation levels, investor appetite, ability to tap private sector efficiencies in operations and maintenance, policy focus to tap institutional investment in the sector, etc.

iii. **Indicative Monetisation Value** – The indicative monetisation value that is expected to be realised by the public asset owner through the asset monetisation process, either in form of upfront accruals or by way of private sector investment is referred to as the Indicative Monetisation Value. It should be noted that several brownfield asset classes are proposed to be monetised through Operate Maintain and Develop (OMD) based models or assets where significant capex may be involved over transaction life towards augmentation or rehabilitation of assets. In such cases, estimated capex to be funded through private sector investment has been taken as indicative monetisation value.

Estimated Value to be realised under NMP

The total indicative value of NMP for Core Assets of Central Government has been estimated at Rs 6.0 lakh crore over the 4 year period, FY22-25. The estimated value corresponds to ~5.4% of the total infrastructure investment envisaged under the NIP which is ~Rs 111 lakh crore and ~14% of the proposed outlay for Centre (Rs 43 lakh crore). This pipeline of assets has been phased out over a four-year period starting FY 2022 up till FY 2025.

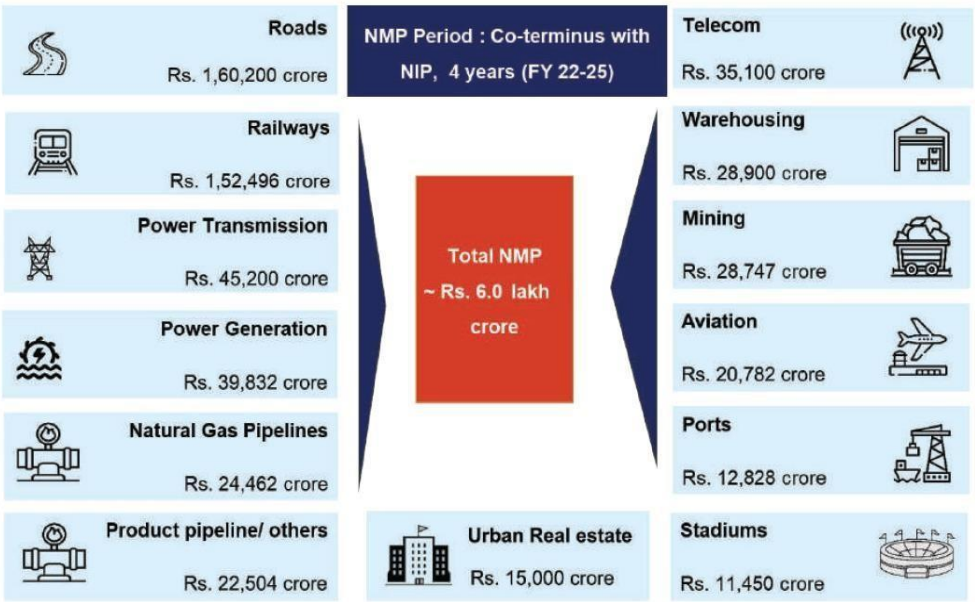

Figure 5: Sector-wise Monetisation Pipeline over FY 2022-25

(Source: Niti Aayog's National Monetisation Pipeline Report)

Sectoral-Breakup of NMP

The aggregate asset pipeline over FY22-25 under NMP is indicatively valued at Rs 6.0 lakh crore. The overall sectoral contribution from FY 2022 to FY 2025 is shown in the Figure below. The top 5 sectors (by estimated value) capture ~83% of the aggregate pipeline value. These top 5 sectors include: Roads (27%) followed by Railways (25%), Power (15%), Oil & Gas pipelines (8%) and Telecom (6%). Roads and Railways together contribute ~52% of the total NMP value.

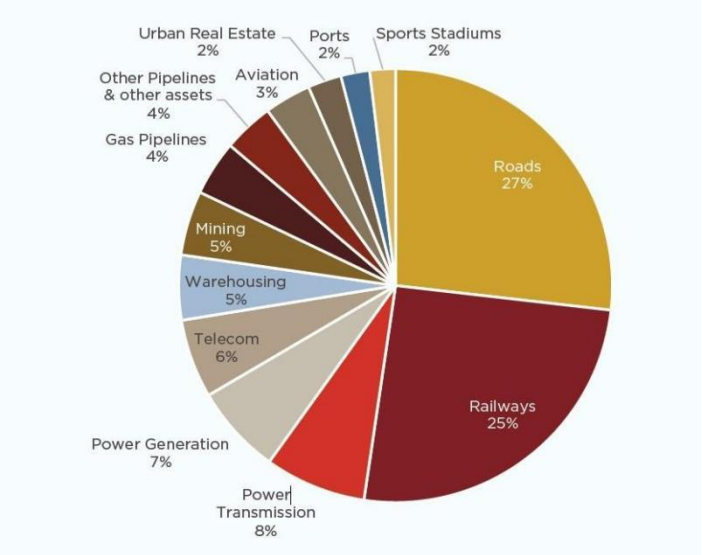

Figure 6: Share of sectors in terms of indicative monetisation value in NMP

(Source: Niti Aayog's National Monetisation Pipeline Report)

Pipeline Phasing Over the Next Four Years

In terms of annual phasing by value, 15% of assets with an indicative value of Rs 0.88 lakh crore are envisaged to be rolled out in the current financial year i.e., FY 21-22. As has been explained previously, the aggregate as well as year-on-year value is only an Indicative Monetisation Value and the actual realisation for public assets owners will depend on the timing, transaction structuring, investor interest, etc.

Figure 7: Indicative value of the monetisation pipeline year-wise (Rs crore)

(Source: Niti Aayog's National Monetisation Pipeline Report)

5. A Brief Insight into Monetisation Models

Monetisation Models can be categorised in two approaches:

i. **Direct Contractual Approach:** Here a pre-defined contract is drawn between a public entity and identified private sector developer(s) / investor(s). E.g., Leasing of a Toll Road.

ii. **Structured Financing Models:** In this approach, structured instruments are used for long-term fund generation via capital market or pool of investors. E.g., Real Estate Investment Trusts (REITs)

The above categorisation should not be treated as formal categorisation of monetisation models but more as a conceptual framework.

Key Indicative Features of Monetisation Models

The Key Indicative Features of the two monetisation models are given side-by-side for comparison.

Table 3: Key Indicative Features of Monetisation Models

Indicative Features	Direct Contractual Mode	Structured Financing Models
Transaction	Asset or rights over such asset – Transferred to a single or a consortium of developers and / or investors through defined contractual frameworks for a limited amount of time (e.g., 10 years)	Partnership interest in the asset or rights over such asset, granted to a pool of investors (under a capital market-based instrument or otherwise)
Consideration	Upfront and / or periodic payments	Generally upfront
Target Investor Class	Generally, infrastructure developers, strategic investors with direct involvement / oversight in operations	-- Institutional investors such as sovereign wealth funds, global / domestic insurance funds, pension funds, -- Retail investors
Selection Modes	Through a competitive bidding process and as per prescribed guidelines of Government	Public listing or private placement or other such mechanisms
Contractual Aspects	Key performance indicators and clearly defined performance regime with commensurate incentive or penalty mechanisms, suitable exit provisions, termination and force majeure provisions	NA
Prevalent Structures	PPP Concessions	Infrastructure Investment Trust (InvIT), Real Estate Investment Trust (REIT), Asset-backed securitisation (ABS)

(Source: Niti Aayog's National Monetisation Pipeline Report)

Details of monetisation models under Asset Monetisation Framework are explained in ***Annexure I****.*

Monetisation Process for Indian Public Sector Assets

As suggested by Niti Aayog, the public sector agencies need to follow a structured process along the following lines for the Preparatory stage:

Step 1 – Preparation of an asset monetisation and financing plan
Step 2 – Asset screening and packaging
Step 3 – Transaction preparation and structuring
Step 4 – Approval process
At the end of the Preparatory stage, the public sector agency would have a 'transaction ready' asset for monetisation. The details of Step 1 to Step 4 are provided in **Annexure II** for reference.

6. Incentives and Changes Brought for Asset Monetisation

The central government is providing special incentives to give a boost to asset monetisation such as the 'Scheme for Special Assistance to States for capital expenditure for FY 2021-22'[9] launched in April 2021. Under this scheme, special assistance is being provided to the State Governments in the form of 50-year interest free loans for capital expenditure up to an overall sum not exceeding Rs.15,000 crore during the financial year 2021-22. Further incentives are being provided to state governments for privatisation / disinvestment of the State Public Sector Enterprises (SPSEs) and monetisation / recycling of assets. The states will be provided additional funds under the scheme over and above their state-specific allocation. An amount of Rs 5,000 crore is allocated for this part of the scheme on a 'First-come First-served basis'. As an incentive for asset monetisation, additional allocation equivalent to 33% of value of assets realised is envisaged to be deposited in State consolidated funds or in account of state public sector enterprises owning the assets.[10] The allocation and disbursement is subject to the realised amount being necessarily used for capital expenditure by states.

Similarly, the government has provided for exemption of stamp duty towards transfer of asset between Government entities under the Finance Act, 2021, subject to certain requirements, which otherwise would have significantly reduced monetisation proceeds / benefits accruing to selling CPSEs.[11] The government has also brought some amendments to regulations for InvIT and REIT by SEBI such as increase in borrowing limit for InvIT and reduction in minimum allotment and trading lot requirements for investors in publicly issued InvITs and REITs.[12]

Additionally, some amendments have been brought to Toll-Operate-Transfer (TOT) framework where the flexibility in concession period for toll projects have been changed to 15-30 years instead of fixed term of 30 years and the minimum operating history requirement has been reduced from two years of operations post commencement of tolling to one year.[13] The scope of Model Concession Agreements (MCA) is being expanded from existing sectors like roads, airports and ports to high potential sectors like railways (e.g. railway station redevelopment).[14] Similarly, model PPP concession frameworks for various other brownfield asset classes would be developed under NMP. Industry experts and leaders have been arguing for this some time now saying - "that is why some of us have been arguing for years that the UPA PPP model should be turned on its head".

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[9] Scheme "Special Assistance to States for Capital Expenditure for 2021-22" gives timely stimulus to economic recovery - Press Information Bureau - September 25, 2021 - https://pib.gov.in/PressReleaseIframePage.aspx?PRID=1757926

[10] Niti Aayog's National Monetisation Pipeline Report - Vol I - August 2021 - https://www.niti.gov.in/sites/default/files/2021-08/Vol_2_NATIONAL_MONETISATION_PIPELINE_23_Aug_2021.pdf

[11] The Finance Act, 2021: https://egazette.nic.in/WriteReadData/2021/226208.pdf

[12] SEBI hikes leverage limits for InVits to 70% - Business Standard - March 01, 2019 - https://www.business-standard.com/article/news-ians/sebi-hikes-leverage-limits-for-invits-to-70-119030101024_1.html

[13] Cabinet makes key changes to TOT framework, allows NHAI to raise funds against toll revenue - The Economic Times - November 20, 2019 - https://economictimes.indiatimes.com/industry/transportation/roadways/cabinet-makes-key-changes-to-tot- framework-allows-nhai-to-raise-funds-against-toll-revenue/articleshow/72149140.cms

[14] Draft Document for discussion on re-development of Railway Station - August 27, 2021 - http://irsdc.in/sites/default/files/DraftMCA27_08_21.pdf

That is, the government should take the development and construction risk of creating new infrastructure. It should attract private capital by selling / leasing out operating assets i.e., by recycling government-owned brownfield assets.[15]

While also adding that - "advice to all players and the government would be that while we are pursuing this monetisation, we must take urgent steps to completely revamp the PPP environment and ecosystem and there's no better way than starting with implementing the Kelkar Committee report."[16]

It is also important to mention that the Kelkar Committee itself had recommended monetisation as a way of earning revenue for the government. The Kelkar Committee report released in 2015 carries a section on Guiding Principles under the chapter Scaling-up Finance, where it recommends monetisation of projects. The Committee said, "Active identification of viable projects that have stable revenue flows after EPC delivery is recommended. This should be seen as an opportunity for monetisation which can attract risk-averse long-term funding like pensions and endowments. By providing O&M PPP opportunities, the authority will be able to release budgetary funds for fresh EPC and start a virtuous cycle of fresh investment fed by additional revenues. This will also encourage larger inflow of foreign capital."[17]

7. Why is Asset Monetisation a Problematic Idea?

The government had announced the plans for asset monetisation in the Union Budget 2021-22 with much fanfare and projected it to be a shot in the arm for the ailing economy, along with the announcement of the new Development Finance Institution (DFI). While the current government had been laying out a huge emphasis on divestment as a tool for generating revenues, especially with constraints on keeping the fiscal deficit in check. The government raised Rs 2.79 lakh crore during 2014-19 though it had set much higher projections for raising money through divestment.[18]

However, from a public interest point of view just the quantum of funds raised through divestment or asset monetisation cannot be a parameter for justifying the requirement of either divestment of public sector units or monetisation of public assets. The policy experts may argue that monetisation is technically not privatisation, however, giving more and more control in private hands would be equivalent to expanding privatisation *per se* to alarming levels. It should not be overlooked that the larger push towards privatisation over the last few decades has evidently added more financial burden on the shoulders of the working class of the country.

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[15] National Monetisation Pipeline: PPP 1.0 "Turned On Its Head" - Bloomberg Quint - August 24, 2021 - https://www.bloombergquint.com/business/national-monetisation-pipeline-ppp-10-turned-on-its-head

[16] National Monetisation Pipeline: How To Make This "PPP By The Side-Door" Work - Bloomberg Quint - August 24, 2021 - https://www.bloombergquint.com/opinion/national-monetisation-pipeline-how-to-make-this-ppp-by-the-side-door-work

[17] Report of the Committee on Revisiting and Revitalizing PPP Model of Infrastructure - November 2015 - https://www.pppinindia.gov.in/documents/20181/33749/Report+of+the+Committee+on+Revisiting+%26+Revitalizing+the+Public+Private+Partnership+Model+of+Infrastructure+(Kelkar+Committee+Report)/ca0d7db8- 27e2-480c-8349-993f46a38b8a

[18] Government raises Rs 2.79 lakh crore through divestment in last 5 years - The Economic Times - December 03, 2019 - https://economictimes.indiatimes.com/news/economy/finance/government-raises-rs-2-79-lakh-crore-through- divestment-in-last-5-years/articleshow/72349169.cms

The question of increasing tariffs for these projects once they are handed over to private players has also been in focus. The frequency of tariff increases will make the access costlier to the common people and may lead to restricting access to a larger section. In several cases higher tariffs have led to governments taking back control and ownership of these assets. The government assets had been built over the decades post-Independence like several Public Sector Units across various sectors in which public money was used for building these assets. Now, handling these assets to private players at throwaway prices by the government has been equated to selling one's home items for keeping the kitchen stove burning. Selling or leasing out PSU assets seems to be a short-term measure and often serves immediate ends than the long-term welfare of people, especially when India had inherently been a welfare state.

Like in earlier instances of privatisation and divestment, a huge emphasis is being laid on how bringing in the private players through asset monetisation would bring more efficiency and would help in tapping the unrealised potential through the infrastructure assets to be monetised. This also tends to bring up the question of why the people of the nation have to buy in the rhetoric that, 'public sector is inefficient and private sector is efficient'.[19] Several empirical studies have shown over a number of years that there is not much difference between the efficiency of public sector units and private sector companies.[20]

It has been argued that PSUs have not been as profitable as some of the private companies operating in the same sector, however the PSUs are also run with the larger mandate of welfare of workers, providing public services to the citizens on a largely not for profit basis, supporting the development of the immediate geographies where they operate and not maximising profits as the sole reason of existence. It is also important to take into account that PSUs pay handsome dividends to the Government of India as the majority shareholder of these public sector companies. Between FY2015 and FY2019, PSUs collectively paid Rs 2.04-lakh crore in dividend and other investments.[21] The comparison between public sector and private sector, at least by the government itself needs to be done holistically rather than just maximisation of profits as the basis of furthering privatisation.

8. Global Privatisation U-Turns: Lessons from across the World

In the Niti Aayog's document on NMP, a few 'positive' case studies have been shared as how different initiatives for Asset Monetisation has brought handsome returns to the respective government entities monetising their assets, but at the same time there are ample evidences across the globe which show that monetisation or privatisation has failed and at a later stage government had to take back control from the private entities.

In order to privatise British Rail in the United Kingdom, Rail-track came into existence in 1994 as a group of companies that owned the track, signaling, tunnels, bridges, level crossings and most of the stations of the British railway system. However, after failing miserably financially, the control of Rail-track was taken back by the UK government in 2002.[22]

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[19] GSDRC Applied Knowledge Services, Is Private Sector more Efficient? A cautionary tale, 2015 - https://gsdrc.org/document-library/is-the-private-sector-more-efficient-a-cautionary-tale/

[20] European Public Service Union, Public and Private Sector Efficiency, 2019 https://www.epsu.org/article/public-and-private-sector-efficiency

[21] How PSU share buybacks have filled government coffers in the recent past - The Hindu - December 09, 2020 - https://www.thehindubusinessline.com/data-stories/data-focus/how-psu-share-buybacks-have-filled- government-coffers-in-the-recent-past/article33292166.ece

[22] Timeline: Rail track - The Guardian - June 27, 2002 https://www.theguardian.com/world/2002/jun/27/transport.uk

When the conditions were imposed in Bolivia for privatisation of water supply and sanitation due to the pressure created by the World Bank and the International Development Bank, two major private concessions in La Paz/El Alto and Cochabamba had to be terminated after widespread protests from Bolivian citizens.[23] Similarly, the process of privatisation of water has gradually happened since the 1970s in Chile and right now Chile is the only country in the world with a privatised water system, and uneven water access has been one of the most critical issues fueling the country's on-going social unrest.[24]

Despite the long history of privatisation in Chile, the 2017 water shortage in Santiago has highlighted private utility providers‘ failure to make adequate investment in climate change-proof infrastructure. This, together with the high tariffs on fresh water, has prompted the demand from water justice groups to end privatisation.[25] Several instances of social and political backlashes on privatisation of public services like water and sanitation around the world have been well documented.

Singapore‘s SMRT Corporation, a multi-modal public transport operator, was established in 1987 as a subsidiary of the Government of Singapore's Temasek Holdings, and was listed on the Singapore Exchange from 2000 to 2016, where the government had diluted its shareholdings to a large extent. However, due to pressure to perform like a private company and complaints from the citizens of huge unreliability, the government decided to delist the company and took complete control of the company.[26]

In New South Wales, Australia, electricity prices had doubled in five years after poles and wires were privatised,[27] the government had to step in with an Energy Affordability Package in 2017 to lower the burden on consumers.[28]

A few key takeaways from the Australian experience of asset monetisation are well summarised by Marsh and Mclennan Companies, Asia Pacific Risk Centre in their report titled ‘Infrastructure Asset Recycling Insights for governments and investors’. The report says that experience shows that asset recycling is not always a straightforward process. A key takeaway from the report is that asset recycling is not always a suitable solution to a country’s infrastructure needs. It speaks that equally important is the willingness of the general public to accept private investment and management of infrastructure. Previous negative experiences with privatisation in a country may cause lasting damage to public perception of asset recycling. It is also important to have regular public-private engagement before launching an asset recycling scheme. Significantly, for foreign investors, it says national security concerns expressed by government officials and other stakeholders must be taken into consideration. In addition, the challenges associated with privatising workforce should not be underestimated.[29]

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[23] Bolivia: The water war to resist privatisation of water in Cochabamba - Global Water Partnership - January21, 2017 - https://www.gwp.org/en/learn/KNOWLEDGE_RESOURCES/Case_Studies/Americas-- Caribbean/bolivia-the-water-war-to-resist-privatisation-of-water-in-cochabamba-157/

[24] Social Unrest in Chile Persists: Reasons Behind COP25"s Relocation - Unitarian Universalist Association - November 25, 2019 - https://www.uua.org/international/bloginternational/blog/social-unrest-chile

[25] A group of Canadian teachers could decide the future of Chile's water supply - The Guardian - June 12, 2017 - https://www.theguardian.com/global-development-professionals-network/2017/jun/12/chile-water-privatisation-canada-teachers

[26] Singapore court approves Temasek's buyout of SMRT - The Business Times - October 17, 2016 - https://www.businesstimes.com.sg/transport/singapore-court-approves-temaseks-buyout-of-smrt

[27] Some lessons from Australia for India’s asset recycling plan - Livemint - August 25, 2021 - https://www.livemint.com/opinion/columns/some-lessons-from-australia-for-india-s-asset-recycling-plan- 11629909983701.html

[28] Energy Affordability Package, 2017 - http://www.resourcesandenergy.nsw.gov.au/?a=736847

[29] Infrastructure Asset Recycling - 2018 - https://www.marshmclennan.com/content/dam/mmc-web/Files/APRC/Infrastructure-Asset-Recycling-Report.pdf

Andy Mukherjee, a Bloomberg Opinion columnist covering industrial companies and financial services, says, "finding the right balance between public and private interests will determine success of a patient asset recycling program" not just the amount of money raised this year or next. That's perhaps the most important lesson from Down Under.[30]

In India, the privatisation of electricity discoms in Odisha to AES Corporation and BSES (now Reliance Infrastructure) failed. AES withdrew citing commercial unviability as reason and Odisha Electricity Regulatory Commission (OERC) in 2015, revoked all three distribution licenses awarded to Reliance Infrastructure, citing its failure to be commercially sustainable. In 2020, the Odisha government also reversed its privatisation policy and bought the 49 percent stake held by AES in Odisha Power Generation Project (OPGC).[31]

The push for Asset Monetisation raises concerns that monetising the assets through bringing in private players would add more burden on people through either introduction of user fees or higher user fees where it is already implemented. The government always has an option to generate more revenues by bringing in measures of progressive taxation such as wealth tax by taxing people in the higher economic bracket than burdening the ordinary people.

When the government talks about luring the private players by monetising the brownfield assets rather than seeking investments in greenfield assets to create new infrastructure, it is essentially giving things on a platter to private players to make profits from the assets which have been earlier built using public money. When the operation of public assets will be handed to private players, they would prioritise profits over the public welfare. In addition, it is also questioned that will the monetisation program lead to handing over the public assets to a few select private players creating monopolies or oligopolies in these sectors.

Sanjeev Ahluwalia, advisor, Observer Research Foundation notes that done wrong monetisation could result in crony capitalism via the consolidation of control by industrial oligarchs in their respective sectors.[32]

An example why monetisation can lead to deterioration in public services could be that Indian Railways operates railway stations even in deep remote areas to provide connectivity to the people of that region and not necessarily from the profit imperative. However, if private players are given the charge of such remote stations with low footfall, then we might witness some of such stations being shut down altogether due to lack of profitability. During the Covid pandemic, the need of a public welfare approach was felt much more by the people when several initiatives were taken by public entities to ensure that timely help was provided than worrying about the profits, like Indian Railways ran special trains for the migrant laborers to reach home, even at the cost of suffering losses. Such a welfare approach goes missing from private players for obvious reasons.

It is imperative for any government to build new infrastructure assets for the growth of the economy, but it should not happen by giving the existing assets in the hands of the private players, who would use these assets for profits rather than having any concerns for the welfare of people. Even though the government has repeatedly stressed that through asset monetisation the government is not "selling the assets" but only leasing out them or giving charge for a limited time, including augmentation of existing assets.

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[30] Australia Has Lessons for India's Asset Recycling Plan - Bloomberg Quint - August 25, 2021 - https://www.bloombergquint.com/opinion/australia-has-lessons-for-india-s-asset-recycling-plan-where-adani- ambani-loom

[31] Will the Center's national monetisation pipeline plan succeed? - Forbes India - August 31, 2021 - https://www.forbesindia.com/article/take-one-big-story-of-the-day/will-the-centres-national-monetisation- pipeline-plan succeed/70119/1

[32] A Rs 6 trillion National Monetisation Pipeline – Is it for real? - Observer Research Foundation - August 30, 2021 - https://www.orfonline.org/expert-speak/a-rs-6-trillion-national-monetisation-pipeline/

However, when the time would finally come for handing back these assets then what is the assurance that these private players will not try to extract more from the then government in power. When drawing up contracts for 15-30 years in duration, there is always a risk of economic uncertainty (e.g. 2008 global recession) leading to some private players going out of business which can put the monetisation process under jeopardy. The long-term handing over operations to the private sector also leads to reduction in capacity and skills in the public entities and also leads to retrenchment of public employees. The private companies also push for payments forthe investments made during the monetisation period. Therefore, taking back private projects or privately delivered services into public domain is not that straight forward and becomes tricky at the end of the contract duration.

Devendra Pant, chief economist at India Ratings & Research, the Indian arm of Fitch Ratings cautions that the crucial part here is that in some cases in Australia and other parts of the world, winning bidders have not maintained the assets properly, and have not expended capital for regular operational expenses to the extent that the asset has decayed faster than its economic life.[33]

Similarly, if we face any similar such economic crises in future then the government's plans for asset monetisation would be hampered. Moreover, the NPA crisis of the last decade has shown that several private companies are heavily dependent on commercial banks for their functioning and the banks have been forced to write-off their loans due to poor profitability of a large number of companies, especially in the infrastructure sector. It would be short-shortsightedness by the government to assume that only by handing over assets to private players the government can accelerate the economic growth and the larger question still looms as the growth for whom.

Tamoghana Halder, Assistant Professor (Economics) in the School of Arts and Sciences, at Azim Premji University says that the above critiques do not address the impacts of such measures on marginalised groups within India's caste hierarchy. Giving the example of two sectors - railways and roads - under NMP, he says that with private players the hiring policies of the railways as an equal opportunity provider will likely change and the hirings from these groups and minorities will stagnate. In addition to the impacts on direct labour, he says that the impact will also be on informal workers from the marginalised castes participating in providing other services like hawkers and vendors. On the roads sector, he says that the increasing push to build new highways and expressways will lead to more land acquisition for these roads and these lands will be acquired from marginalised groups, dalits leading to their further impoverishment and exclusion.[34]

Abhaya Agarwal, Partner, Infrastructure Practice, EY India writes, underlying structural and legacy issues continue to be a cause of concern for the success of the national monetisation programs. For instance, proper maintenance of asset register and title and encroachment may adversely affect the monetisation program. Similarly, land unavailability, delayed approvals and clearances, policy constraints, and lack of coordination among stakeholders could hinder the project's progress.[35]

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[33] Will the Center's national monetisation pipeline plan succeed? - Forbes India - August 31, 2021 – https://www.forbesindia.com/article/take-one-big-story-of-the-day/will-the-centres-national-monetisation-pipeline-plan-succeed/70119/1

[34] What's missing from India's monetisation debate - Al Jazeera - October 29, 2021 - https://www.aljazeera.com/opinions/2021/10/29/whats-missing-from-indias-monetisation-debate

[35] National Monetisation Pipeline | A game changer for infrastructure investment in India - Moneycontrol - August 26, 2021- https://www.moneycontrol.com/news/opinion/national-monetisation-pipeline-a-game-changer-for-infrastructure-investment-in-india-7392961.html

9. Concluding Remarks

On paper, the idea to monetise public sector assets to raise funds to finance new infrastructure projects may look good. This also shows the intent of the government to push for infrastructure projects to spur economic growth. However, the monetisation program is not as straightforward as it seems. Even if one does not question the intent of the proponents of the monetisation program, there are too many challenges that it needs to overcome to be a success in terms of not just off-loading the public assets but also in terms that leads to long term benefits to the people. These are still early stages to evaluate the program. However, the experiences in several countries based on their monetisation plans have demonstrated that the chances of not getting favourable results is also high. The challenges related to contractual and legacy issues, valuation of assets, the actual revenue generated, impacts on the marginalised sections of the society, the critical question of delivery of public services during a crisis, etc. The argument that the private sector is more efficient and hence the public sector should move away from the delivery of public services also needs to be demystified. In the Indian context the lessons from the global experiences are well documented and need to be considered seriously.

Annexure

Annexure I

Different models applicable under Asset Monetisation Framework are explained in detail below: [36]

1. Direct Contractual Models – Brownfield PPP Concessions

Brownfield PPP models, unlike the earlier brownfield models focusing on management contracts, aim at roping in private sector partner for end-to-end Operation and Maintenance (O&M), provision of service to users and augmentation of asset as necessary. The potential models for such brownfield PPP of existing infrastructure assets owned by government entities include:

i. **Operate-Maintain-Transfer (OMT) Concession** - This model engages private sector partner for undertaking operations and maintenance of projects. This presupposes that construction works have been completed by the asset owner/ government and the project is amenable to immediate revenue collection. OMT contracts have been earlier implemented in road sector in India. In this case, OMT contracts are a combination of atolling contract and a contract for Operations & Maintenance. Between 2009-10 and 2014-15, NHAI has been awarded a total of around 2,400 km of National Highways tobe maintained on OMT basis. Toll Operate Transfer (TOT) is a variant of the OMT model, recently adopted in roads sector, where the road authority is paid an upfront premium and the winning bidder selected through competitive bidding is granted concession to collect toll, along with maintaining the roads over the period of concession ranging from 15-30 years.

ii. **Operate-Maintain-Develop (OMD) Concession** - Under the OMD structure, an asset which is operational but due for augmentation (enhancement) is handed over to a private party for augmentation and O&M over the concession period. The private party pays an upfront amount or an annual fee (in form of a premium and/or revenue share) and earns its returns through revenues from the upgraded asset. Usually, the operations of such an asset remain uninterrupted with augmentation undertaken while the asset is operational. The private party raises finance on the strength of the existing assets and / or obtains project financing along with equity contribution for undertaking such augmentation. E.g., In 2006, Airport Authority of India (AAI) tendered out the concession of Delhi International Airport for augmentation and O&M with revenue share as the bid parameter.

2. Long Term Lease: A lease is an agreement whereby the lessor (party handing out asset on lease) confers to the lessee (party taking the asset on lease) the right to use an asset for an agreed period of time in return for a payment or series of payments. The primary difference in case of long-term lease models as compared to brownfield PPP models lies in the nature of assets leased out and / or use of such assets. Long term lease models can be adopted in case of sectors such as telecom and mining.

[36] Niti Aayog's National Monetisation Pipeline Report - Vol I - August 2021 - https://www.niti.gov.in/sites/default/files/2021-08/Vol_I_NATIONAL_MONETISATION_PIPELINE_23_Aug_2021.pdf

3. Infrastructure Investment Trusts (InvITs): InvITs are trust-based financial instrument, which provide an opportunity to invest in infrastructure assets with predictable cash flows and dividends through a stable and liquid instrument. InvITs were introduced in India in 2014 and are employed by infrastructure asset owners to pool in money from a diverse set of investors against pay-out of cash flow generated by the assets on a periodic basis.

Under an InvIT transaction, infrastructure asset owners transfer multiple revenue generating asset Special Purpose Vehicles (SPVs) through holding companies or otherwise to a Trust which then issues units to investors for raising money. The upfront money so raised is utilised by the developers for creation of new greenfield assets as also for repayment of debt which enables availability of capital with lenders for investment / lending to new projects. The investors, in lieu of invested money, receive a share of Net Distributable Cash Flows (NDCF – similar to the dividend pay-outs) on a periodic basis, commensurate with their unit holding in the Trust.

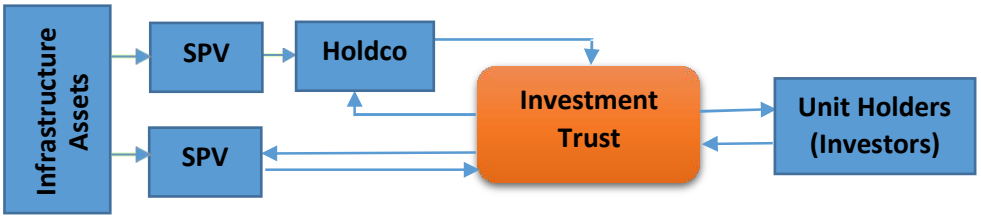

Figure 1: Representative Model of InvIT Transaction

India has seen a number of InvIT transactions over the last 4-5 years. The total AssetsUnder Management (AUM) across the 8 active InvITs is around Rs. ~1.4 lakh crore. Since the introduction of InvIT regulations, the bulk of the InvIT's have been sponsored by private sector infrastructure developers. Recently, public sector asset owners such as Power grid and NHAI have initiated greater adoption of the instrument.

4. Real Estate Investment Trusts (REITs) - REITs are similar in structure to InvITs, where only Real Estate projects are eligible under REITs. The regulations stipulate that 51% of the consolidated revenues of the REIT, holding company and SPV, should arise from rental, leasing and letting real estate assets or any other income incidental to the leasing of such assets.

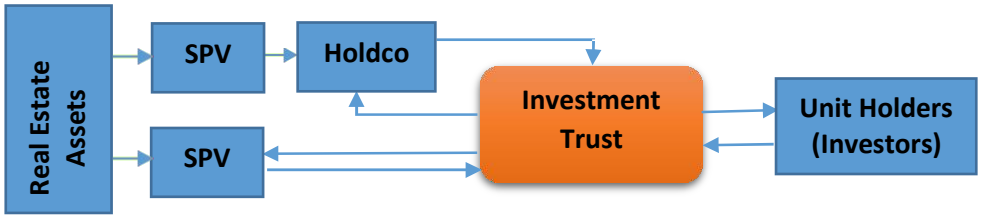

Figure 2: Representative Model of REIT Transaction

Public sector entities in India have an inventory of under-utilised land assets in some of the high value real estate zones, which may be freehold land or under-utilised land parcels. The REIT platform is being envisaged as an opportunity to capture value from these assets by allowing commercial development. REITs provide an opportunity for real estate asset owners to raise money upfront by transferring the revenue generating real estate assets to the trust. The investors receive the net distributable cash flows generated by the infrastructure assets. So far India has seen 3 REIT Transactions in private sector space with Assets Under Management (AUM) at Rs 66,500 crore.

Annexure II

The step-by-step details of how a monetisation process is supposed to be carried out (as suggested by Niti Aayog) is provided below for reference[37]:

Step 1: Preparation of an asset monetisation and financing plan

Under this step following activities should happen:

i. Infrastructure gap is estimated between existing infrastructure expenditure levels and expenditure envisaged under the overall vision.
ii. Ministry/sector should prepare a medium-term capital investment plan aimed at bridging this gap, along with laying out pipeline of projects to achieve the same.
iii. A financing plan needs to be prepared by the public sector entity for meeting the investment cost as laid out under the capital investment plan. Through this step, the public sector entity is expected to have a clear understanding of the scale of funds to be mobilised through asset monetisation over the medium term viz. over the next 5-10 years.

Step 2: Asset Screening and Packaging

In this step the public sector entity has to identify the assets to be monetised to meet the objectives identified in the Step 1. The identification of assets has to involve perspectives of key stakeholders – Government/ public sector agency, investors, development and operation partners, private sector ecosystem including developers and operators, and end users. At the end of the Step 2, a prioritised list of assets for monetisation and the method of monetisation has to be completed.

Step 3: Transaction Structuring

The Step 3 involves undertaking selection of one of the assets from the prioritised list and initiating the preparatory actions towards transaction. Before initiating the transaction process, the public entity may need to undertake feasibility studies for monetisation. A project structuring process has to be carried out which would require detailed studies aimedat exploring the project boundaries, technical configuration and feasibility, demand projections and financial feasibility, review of policy / legal / regulatory environment, and the value-for-money and affordability considerations.

The project structuring process needs to be supported by experienced transaction advisors, who would conduct cost and viability analysis, valuation analysis (if applicable), stakeholder consultation, etc. Based on the transaction advisory report, an internal review decision is taken by the public sector entity whether to go ahead with transaction. At the end of this step, the public sector agency has to prepare all the project documents related to the transaction, such as memos and procurement documents. The public sector agency thereafter needs to prepare the 'project proposal' the appropriate form at depending on the category and value of transaction.

[37] Niti Aayog"s National Monetisation Pipeline Report - Vol I - August 2021 - https://www.niti.gov.in/sites/default/files/2021-08/Vol_I_NATIONAL_MONETISATION_PIPELINE_23_Aug_2021.pdf

Step 4: Approval process

Under this step, the public sector agency submits the project proposal to the competent / nodal authority for approval / sanction. Some states like Gujarat and Tamil Nadu have established a separate agency towards hand-holding line ministries as well as granting the necessary approval for undertaking PPP projects. In other cases, it is largely under the purview of the line ministries. Further, for non-PPP based monetisation models, Departmentof Investment and Public Asset Management (DIPAM) has laid down detailed procedures and mechanisms for Central Public Sector Enterprises (CPSEs) / Public Sector Undertakings (PSUs) / Other Government organisations, etc., however, this is primarily focused on non-core assets with provision for adoption for core assets through Competent Authority approval.

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