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# MONETISATION PIPELINE

## MOST IMPORTANT NOTES FOR MAINS



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**GS 3 - INDIAN ECONOMY INFRASTRUCTURE**

**NATIONAL MONETISATION PIPELINE**

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The National monetisation plan was first announced in Union Budget 2021-22 which was meant as a medium-term plan for public asset monetisation. This is unveiled as a Four-year infrastructure asset monetization programme to raise ₹6 trillion under the **National Monetization Pipeline (NMP) project**. Under the ambitious NMP, the government has identified 13 sectors — including airports, railways, roads, shipping, gas pipeline among others— which will be privatised as the government aims to monetize its brownfield infrastructure assets.

Asset monetisation is based on the philosophy of Creation through Monetisation, and is aimed at tapping private sector investment for new infrastructure creation. This is necessary for creating employment opportunities, thereby enabling high economic growth and seamlessly integrating the rural and semi-urban areas for overall public welfare.

❖ **National Monetisation Pipeline(NMP)**

- NMP represents an alternative to an outright sale of assets. It involves leasing out central government assets valued at around Rs 6 lakh crore over a four-year period ending in 2024-25.
- The idea behind NMP is to lease out Brown Field Projects to Finance Green Field Projects using its proceeds.
- It aims to monetise underutilized assets.
- In this model the ownership of assets remains with the government whereas the operational risk is transferred.
- The potential models of road asset monetization would be **Toll Operate Transfer (ToT)** and **Infrastructure Investment Trust (InvIT)**.
- The government **transfers revenue rights of an asset to private parties** for a specified transaction period, in return for upfront money, a revenue share, and commitment of investments in the

assets. Real estate investment trusts (REITs) and infrastructure investment trusts (InvITs), for instance, are the key structures used to monetize assets in the roads and power sectors. Other monetization models on PPP (Public Private Partnership) basis include:

- ✓ Operate Maintain Transfer (OMT)
- ✓ Toll Operate Transfer (TOT)
- ✓ Operations, Maintenance & Development (OMD)

OMT and TOT have been used in the highways sector, while OMD is being deployed in the case of airports.

- **Objective:**

- ✓ The desired goal is to provide a clear framework for monetization and give potential investors a ready list of assets to generate their interest.
- ✓ NMP aims to monetize the existing asset base and use its proceeds for new infrastructure creation, recycling the future assets and build multiplier effect on growth and revive credit flow.

- Govt plans to correlate NMP with the National Infrastructure Project announced earlier.
- For this an **empowered committee** has been constituted to implement and monitor the Asset Monetization program. The Core Group of Secretaries on Asset Monetization (CGAM) will be headed by the Cabinet Secretary.

❖ **Major sectors under (NMP)**

- The top three sectors by value identified for asset monetization include roads (27%), railways (25%), and power (15%) in the value

of the total asset. While roads, railways, and power account for around 65% of the proceeds of the program. It also includes sectors such as telecom, aviation, mining, and warehousing.



## REASONS FOR NMP

- **Huge investment needs:** With a massive infrastructure deficit, finding resources to build physical assets is a difficult task. Hence, the government wants to monetize existing infrastructure assets by leasing them out to private firms for a fixed tenure under a revenue-sharing model.
- **Reduce fiscal burden:** It will help the authorities ease fiscal constraints and free up balance sheets for more greenfield infrastructure creation.
  - For example, a stadium, built by the government that remains idle for the most part of the year, can be leased to a private party that can efficiently manage it by organising cultural functions and allowing the public to use it by paying a fee.

- It could also **provide States with the additional resources** needed to sustain public investment during this period of stressed public finances.
- India has already been monetizing assets through public-private partnerships (PPP). In India, the concept was suggested by a committee led by **Vijay Kelkar on the roadmap for fiscal consolidation in 2012**. The committee had suggested that the government start monetization as a key instrument to raise resources for development.eg:
  - **The Delhi airport** has been built through the PPP mode. The project that started in 2006 has been completed at a total cost of ₹12,500 crores, enabling world-class infrastructure creation with no additional cost to AAI.
  - In 2020, the Maharashtra State Road Development Corp. Ltd awarded the tolling rights of the **Mumbai-Pune Expressway and old Mumbai-Pune corridor** for ₹8,262 crores.
- A forward outlook on infrastructure projects which will create jobs, improve ease of living, and provide equitable access to infrastructure for all, thereby making growth more inclusive. **NIP includes economic and social infrastructure projects.**
- Examples of similar initiatives abroad such as The **Asset Recycling Initiative (ARI)** of the federal government of Australia which **helped them unlock more than \$17 billion in infrastructure development** across Australia was successful.

### **CHALLENGES ASSOCIATED WITH NMP**

- The contract, however, needs to be flexible enough to make it **attractive for a private entity**. Finding the balance within a government framework has been challenging in the past. Eg Disinvestment of Air India and BPCL.



- Creation of Regulatory mechanism to deal with monopoly which may emerge in case of NMP in railway projects.
- Structural issues in the system such as Proper maintenance of asset register and title and encroachment may adversely affect the monetization plan.
- Similarly, land unavailability, delayed approvals and clearances, policy constraints, and lack of coordination among stakeholders could hinder the project's progress.
- Opposition from workers in public sector entities due to their anxiety of job loss can be a great challenge in NMP.
- Balancing the profit and utility motives for such long-term initiatives is necessary.
- The sharing of risk and rewards between the public and private partners needs to be weighed carefully for each sector. **Checks and balances** are needed for actual infrastructure usage versus projections at the time of bidding.
- **Asset-specific Challenges such as** low Level of capacity utilisation in gas and petroleum pipeline networks, Regulated tariffs in power sector assets ,Low interest among investors in national highways below four lanes.


### WAY FORWARD

- **Execution is the Key:** While the government has tried to address many challenges, owing to infrastructure development in the NMP framework, execution of the plan remains key to its success.
- **Preventing a monopoly:** The government needs to avoid a situation where a few firms capture most of the assets.

- **Structuring the deals:** The key to success lies in the way the deals are structured to make them attractive enough for enhanced private sector participation.
- It would be important for the government to get the first few projects in each sector right to start things in the right direction. **Smooth implementation** of the first Rs 10,000 crore will determine the fate of the Rs 6 trillion monetization plan. Hence, achieving the first-year target of Rs 0.8 trillion is very important to build confidence in the market.
- **Proper regulation needed:** To maximise their profit over a limited time frame, investors would want to raise prices, limit competition or cut back on maintenance. Hence, we need proper bureaucratic ability and regulatory mechanisms to prevent exploitation of consumers.

Therefore it is expected that the end objective of this initiative is to enable 'Infrastructure Creation through Monetisation' wherein the public and private sector collaborate, each excelling in their core areas of competence, so as to deliver socio-economic growth and quality of life to the country's citizens.






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