National Monetisation Pipeline

Why in news?

The Union government has announced its plans to "monetize" about Rs 6 trillion worth of assets held by it, and public sector units (PSUs), under the National Monetisation Pipeline (NMP).

What is monetisation?

- When a government transfers its revenue rights to private parties in return for upfront money, a revenue share, and commitment of investments in the assets, it is called a monetisation transaction.
- It is done for a specified transaction period to raise funds.
- Private players will have to -
    1. calculate what they can earn from it in various ways in those years
    2. discount that cash flow to its 'present value' (PV)
    3. deduct from PV their profit margin
    4. pay the balance amount as upfront rental to the government i.e., pay for operation and management rights
- Unlike the disinvestment, there will **not be a change of ownership** i.e., the assets or the land therein will not be sold.
- E.g Real estate investment trusts (REITs) and infrastructure investment trusts (InvITs) are the key structures used to monetise assets in the roads and power sectors.

What are the other models?

- Other monetisation models on Public Private Partnership (PPP) basis include
    1. Operate Maintain Transfer (OMT),
    2. Toll Operate Transfer (TOT), and
    3. Operations, Maintenance & Development (OMD).
- OMT and TOT have been used in highways sector while OMD is being deployed in case of airports.
- In sectors like mining, Centre may also look for auction and Mine Development Operator routes.
- The choice of instrument will be determined based on
    1. nature of asset,
    2. timing of transactions (including market considerations),
    3. target investor profile & and
    4. the level of operational/investment control envisaged to be retained by the asset owner

etc.

What is the National Monetisation Pipeline?

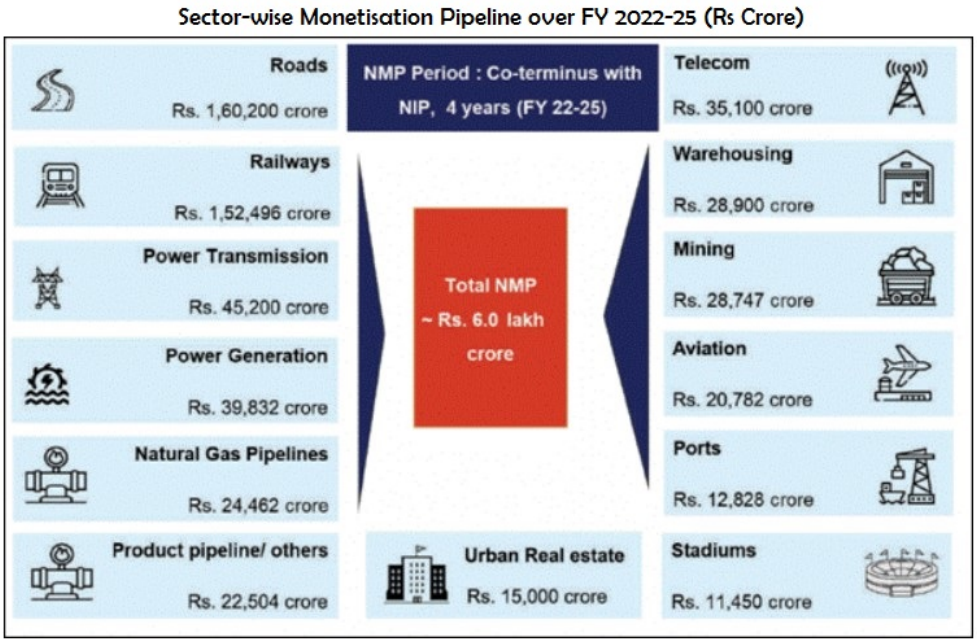
- It aims to unlock value in brownfield projects by engaging the private sector.
- It aims to transfer revenue rights to the private players (not ownership in the projects).
- The private players operating the assets are also expected to modernize them.
- The funds generated (around Rs. 5.96-lakh crore) will be used for infrastructure creation across the country.
- This, in turn, could help fund the National Infrastructure Pipeline with new projects worth Rs. 100-lakh crore.
- Developed by NITI Aayog, in consultation with infrastructure line ministries.

Greenfield investment - A company will build its own, brand-new facilities from the scratch

Brownfield investment - A company purchases or leases an existing facility.

What are the key assets identified?

- Road sector (maximum) - Rs 1.6 lakh crore worth national highways
- Railways sector - About 400 stations, 150 trains, and some tracks and woodshed
- Power sector - Rs 67,000 crore worth transmission lines from Power Grid and Rs 32,000 crore worth Hydro, Solar, and Wind projects from NHPC, NTPC, and Neyveli Lignite



What are the challenges and risks?

- As there is no transfer of ownership, the operator will limit any additional investment and so, the scope for any increase in efficiency is very limited.
- The concession periods for some assets runup to 60 years. So, the post-transaction troubles are higher.
- There could be challenges in the long-term if they are not structured with end-user interests in mind, balancing the profit and utility motives.

What should be done?

- The sharing of risk and rewards between the public and private partners needs to be weighed carefully.
- Checks and balances are needed for actual infrastructure usage versus projections at the time of bidding.

Source: The Hindu, The Wire, The Indian Express, Economic Times