National Monetisation Pipeline- Part II

Click here for Part I

What is the issue?

With the Union Government's announcement on the National Monetisation Pipeline (NMP), here is an assessment of its effectiveness on ground.

Is monetization beneficial?

Under-utilised assets

- E.g., A port or an empty piece of land that is not being used adequately.
- Here, the private player makes the necessary investment to make the asset more revenue-generating, and reaps the benefits from it.
- So, this is a win-win situation as -

    1. the government gets a 'fair' value for its assets
    2. the economy benefits from an increase in efficiency (increased cash flows from the asset)
    3. the private player gets its return on investment

Well-utilised assets

- While NMP's focus is on under-utilised assets, the list of projects includes well-utilised assets also .E.g., monetising a highway that has good traffic.
- In this case, the private player has little incentive to invest and improve the assets' efficiency as –

    1. anyways, it can operate the assets as they are
    2. the cost of capital is higher (than that for a public authority), which could offset the benefit of any reduction in operating costs made

- In any case, the Government earns lesser revenues than what it might earn if it operated the assets itself.
- Clearly, the **benefits** are likely to be **greater when under-utilised assets are monetised.**
- Butprivate players will prefer well-utilised assets becausecash flows and returns are more certain.But this does not go well with the larger public interest.

Which is the effective mode (PPP or InvIT) of monetization?

Challenges in PPP [Public Private Partnership] route

- Getting the valuation of the assets right over a long-term horizon, say, 30 years is hard as this involves -

1. Rightly assessing the growth rate of the economy over such a period.
2. In case of roads - Other factors such as the level of economic activity in the area, prices of fuel and vehicles, alternative modes of transport and their relative prices, etc.

- In some cases, the consumer and the economy end up bearing the high cost.
- Also, the life of the assetmay not be long when the government receives it back after the agreement period.In that case, asset monetisation virtually amounts to sale.

InvIT - the Infrastructure Investment Trusts

- These are mutual fund-like vehicles. While in mutual funds, investors invest in equity stocks, in InvIT, the investment is in infrastructure projects.
- In the InvIT route, the public authority continues to own the rights to a significant portion of the cash flows and to operate the assets.
- So, the issues that arise with the transfer of assets to a private party (under PPP) are less here.

What should be done on the implementation side?

- The Government can set up an **Asset Monetisation Monitoring Authority** to independently monitor the monetization process.
- Staffed by competent professionals, the Authority should look into -
    1. the valuation of the assets
    2. the impact on price charged to the consumer
    3. the choices on assets (under-utilised or well-utilised assets)
    4. the experience across different sectors, etc.

Source: The Hindu

Related article: InvITs of NHAI

IAS PARLIAMENT
Information is Empowering
A Shankar IAS Academy Initiative