



# GLIMPSE ON NATIONAL MONETISATION POLICY (GENERATION OF FUNDS FOR NATIONAL INFRASTRUCTURE PIPELINE) AND ASSET MONETISATION POLICY IN INDIA

<sup>1</sup>Mada Bikshapathi  
Assistant Professor  
Department of Commerce  
St. Mary's College, Hyderabad, India

<sup>2</sup>Ch Sabarinath  
Student, B.Com., II year, Computers  
St. Mary's College, Hyderabad, India

**Abstract:** The present research deals to understand the contemporary concern National Monetisation Policy and distinct with Privatization & Disinvestment policy after introduction of 1991 economic policy which changed the growth trajectory of India in terms of GDP, Private sector participation, Foreign exchange reserves and significant contribution from service sector through entry of MNC's in India. The major concern is on the Distress Financial Performance of Public Sector Enterprises owned by central and state governments which are draining out public tax money for their survival due to the numerous factors from 1991 to 2021, in spite of introduction of Privatization and Disinvestment strategy to overcome this perennial problem. Government of India launched National Monetisation Policy in December, 2020 with new strategy practicing in many developed countries as an alternative solution for the opposition parties' allegations that Union and State governments are disposing of public assets which are created over independence to benefit corporate sector.

National Monetisation Policy intend to monetise ₹ 6 Lakh Crore through the leasing of core assets of the Central Government in order to create World class infrastructure in alignment with National Infrastructure Pipeline. NMP is to unlock the value of investments in brownfield public sector assets by tapping institutional and long-term capital. So, government-owned roads, railways, power plants, gas pipelines, airports, ports, warehouses etc., could be leased out for a specified period to non-government entities. The government will receive money for the transfer either in the form of an upfront payment or as a revenue share

**Key Words:** National Infrastructure Pipeline - National Monetisation Pipeline -Asset Monetisation – Brownfield Investment – Greenfield Investment.

## I. INTRODUCTION

### **Indian Economy - After Independence:**

The Indian state in 1947 had choose a path of government-controlled industry, frowned upon Private enterprise and Entrepreneurship. The government had nationalized most of the critical industries of the economy namely- Airlines, Banks, and Insurance sectors to name a few. This policy called 'License Raj' popularly, was only put to an end in 1991 when in historic budgetary speech, the then Finance Minister Dr Manmohan Singh announced liberalizing of the economy. But this decision of economic reform wasn't voluntarily done by the Indian State as it was only option left, with a balance of payment crisis and very less foreign exchange reserves.

India chose to go a path of Heavy Industry mimicking the Soviet Model of developing Steel, Coal industries which are capital intensive. It moved away from the classical growth model of light consumer goods in a largely agricultural setting, and deepening capital over time moving into intermediate and capital goods industry as it went along. This was kind of 'textiles first' model that was feasible as a legacy of colonial economy (Shivendra, 2010). The initial five-year plans totally focused on developing these capital-intensive industries, which in turn had large impact on industrial growth of the country.

India's GDP was just nearly USD 270 billion in 1991 (Statista , 2021) with very less industrialization and very less penetration of banking and insurance into population. This in turn led to many irreversible socio, economic and political changes in the country. Emigration of young talent of the country which became very popular in the youth in late 80's is a direct consequence of slowing of economic growth and good paying jobs.

### **After Liberalization**

We can safely say India moved to a mixed economy after 1991 economic reforms and the end of licence and quota raj. The growth trajectory of India has completely changed after 1991 reforms. Many new sectors like IT became new engines of growth creating large ecosystems of employment opportunities. After nearly three decades of liberalization the Indian Economy grew nearly to USD 2.8 Trillion in 2019. (Statista , 2021). The economic growth achieved highlights the need of free market economy for a country vast and diverse like India whose economy can't be planned or controlled by a few select policymakers. But the 1991 economic reforms are just a good start in a long journey for a strong and prosperous economy. India liberalized many of its sectors but reforms in land, labour and many other sectors was not whole- heartedly attempted by successive governments. Privatization and Disinvestment of many Public Sector Units took many hurdles and many loss-making Public-Sector Units continue to run on taxpayers' money.

### **Contemporary Times**

The one main front where India lags and as a result fails to compete in attracting FDIs (Foreign Direct Investments), especially in manufacturing sector, with China and other 'South Asian Nations' like Vietnam is high logistic cost and time. Even though the labour is cheap in India than compared to China at this time, China still is a reasonable destination for setting up manufacturing because of world class infrastructure and butter smooth logistics for transporting raw materials and finished goods. India also lags in 'plug and play' infrastructure which is seen as a critical element for foreign investments, especially for industries which are looking to relocate from China or at least diversify their supply chains. In addition to this, land and labour regulations remain very much business averse than being business friendly. But the Indian State is slowly waking up to this hard reality. There are now considerable efforts being made to reform labour laws by codifying 41 Central Laws into 4 codes. The Indian Government has also realised the need to develop 'Smart Infrastructure' to realise the vision of \$5 trillion economy by 2025 to continue an escalated trajectory until 2030 through the endeavours of National Infrastructure Pipeline (NIP).

### **1.2 Objectives of the present study:**

To understand the concept of Asset Monetisation under National Monetisation Policy (NMP) with commensurate of NIP.

To distinct between Asset monetisation with disinvestment and privatization.

### **1.3 Research Methodology:**

The present research analysis is based on secondary data collected from various magazines and websites like NITI Aayog study on 'NATIONAL MONETISATION PIPELINE' which is published in two volumes. Volume- 01 (NITI Aayog, 2021) being 'Monetisation Guidebook' and Volume- 02 being 'Asset Pipeline' (Volume- 02 NMP, 2021). While Volume- 01 provides basic details about monetisation, different types of funders and funding, timelines for funding, financing for NIP (National Infrastructure Pipeline). Whereas Volume- 02 identifies various brownfield assets to be monetised and lays out a comprehensive pipeline as a guidebook for this mammoth task.

Some of the definitions, data points depend upon various news articles and websites and the necessary citations are provided where they are used in this research paper.

### **1.4 Research Gap:**

Many Research papers presented on Privatization and Disinvestment includes only sale of Government equity in public enterprises to different parties viz., public, financial institutions, mutual funds and other parties but not on generating revenue through lease of public assets. The Research Gap identified in the research article by Smt.Usha Tripathi Titled "Disinvestment in public enterprises in India" 2002 aimed at Privatization and Disinvestment meaning, stages, problems and suggestions like Government should focus on public enterprises which are faltering at present but are potentially viable must be restructured and given a new lease of life for industrial growth.

## II. REVIEW OF LITERATURE:

Mr. Mukund Lal in his study on “ Policy and Administration of disinvestment Programme of PSE’s in India (An analytical study on of select units)” in 2001, Analyse the methods, procedures of disinvestment and results of some important CPSE’s after their disinvestment by presenting future prospects of disinvestment in India.

R. Nagaraj (2005) in his paper on “ Disinvestment and Privatization in India i – Assessment and Options” suggests impending synergy with corporate financial arrangement for enhancing financial performance of PSE’s to promote long term development.

Shri Kiran Manohar Rege, in his study on "An Appraisal Of Disinvestment Principles And Policies Of The Government Of India With Reference To Financial Implications " in 2009 advocate sale of PSUs to private enterprises to bridge the gap of fiscal deficit by present government is not a disinvestment policy but promoting privatization.

Kiran Kumar, Chetan Kumar TM (2013) - “Disinvestment policy in India: Progress and challenges” propound to avert political and bureaucratic intrusion for improvement of the financial performance of PSE’s in India.

Anjana Mani 2019 “The disinvestment programme in India – Impact on efficiency and performance of Disinvested Government Controlled Industries between 1991 to 2010” proposed holistic approach which would benefit all the stakeholders through combination of undertaking strategic sale and cross holding to cease drain out funds from central or state exchequer for their survival.

## III. Theoretical Frame work:

### 3.1 National Infrastructure Pipeline (NIP):

It is a 'first-of-its-kind, whole-of-government exercise to provide world-class infrastructure to citizens and improve their quality of life'. Government of India has come up with ‘National Infrastructure Pipeline’ to tackle the infrastructure gaps and to accelerate socio- economic growth with various Initiatives like **Scheme of Financial Assistance to States for Capital Expenditure, Promotion of Industrial corridors**, etc.,to achieve \$5 trillion economy by 2025. NIP envisages infrastructure investment of Rs. 111 lakh crores over five year period from FY 2020 to FY 2025 with annual average investment of Rs. 22 lakh crore, this is a significant step-up (2.5 times) vis-à-vis historical levels of spending on infrastructure (NITI Aayog, 2021) create jobs and drive economic growth

| 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%) |   |

Figure 1- Sources of financing for NIP (Volume-1 NMP by Niti Ayog)

The ‘National Infrastructure Pipeline ‘needs innovative and out-of-the-box ideas to ensure sustained financing to achieve what is envisaged. Asset Monetisation is part of the 15-17% of ‘Innovative and alternate funding’. The ‘National Monetisation Pipeline’ is a planned and structured way of asset monetisation to ensure sustained financing for ‘National Infrastructure Pipeline’. **Therefore, ‘National Monetisation Pipeline’ is a vital aid** to National Infrastructure Pipeline.

### 3.2 National Monetisation Policy (NMP):

Under the Union Budget 2021-22, Monetization of Assets has been identified as one of the three pillars for enhanced and sustainable infrastructure financing in the country. The Budget also envisioned preparation of a “National Monetisation Pipeline” (NMP) to provide a direction to the monetisation initiative and visibility of investors. In pursuance of the same, NITI Aayog was tasked with creation of the National Monetisation Pipeline (NMP) for brownfield core infrastructure assets.

**MEANING OF NMP:** It is to unlock value in brownfield projects by engaging the private sector, transferring to them revenue rights and not ownership in the projects, and using the funds generated for infrastructure creation across the country.

The NMP has been created to be co-terminus with the balance NIP period, 4 year period from FY2022 to FY2025. The NMP is meant to serve as an essential roadmap for the Asset monetisation of various brownfield infrastructure assets across roads, railways, shipping, aviation, power, telecom, oil & gas, and warehousing sectors. Asset monetisation, based on the philosophy of ‘Creation through Monetisation’, will tap institutional investment and long term patient capital into stable mature assets in turn generating financial resources for new infrastructure asset creation . This will enable economic growth, generating employment opportunities and better prospects for country’s youth.

### MEANING OF MONETISATION:

**Monetisation:** Government is basically **transferring revenue rights to private parties for a specified transaction period** in return for upfront money, a revenue share, and commitment of investments in the assets. In Simple terms, monetise something means to ‘express it or convert it into the form of currency’. Basically, monetising is ‘to utilise (something of value) as a source of profit,’ or ‘to convert an asset into money or a legal tender

### 3.3 TYPES OF MONETISATION UNDER NMP:

#### I -Structured Financing Instruments:

- A) Infrastructure Investment Trusts (Invits)
- B) Real Estate Investment Trusts (Reits),
- C) Asset-back Securitization (ABS)

#### II -Direct Contractual Mode: PPP (Public Private Partnership) basis include:

- A) Operate Maintain Transfer (OMT):
- B) Toll Operate Transfer (TOT),
- C) Operations, Maintenance & Development (OMD).

**I -Structured Financing Instruments:** These are key structures used to monetize assets in the roads and power sectors. These are also listed on stock exchanges, providing investor’s liquidity through secondary markets as well which are as follows:

A) Infrastructure Investment Trusts (Invits): InvITs are structured so as to **give investors an opportunity to invest in infrastructure assets with predictable cash flows**, while the **asset owners can raise upfront resources against future revenue cash flows** from those assets, which in turn can be deployed in new assets or used to repay debt. They are instruments that work like **mutual funds**.

- They are **designed to pool small sums of money from a number of investors to invest in assets that give cash flow over a period of time**. Part of this cash flow would be **distributed as a dividend** back to investors.
- The minimum investment amount in an **InvIT Initial Public Offering (IPO)** is **Rs 1 lakh**, therefore, InvITs are suitable for high networth individuals, institutional and non-institutional investors. InvITs are listed on exchanges just like stocks — through IPOs and are regulated by the **Securities and Exchange Board of India (SEBI)** (Infrastructure Investment Trusts) Regulations, 2014.

B) Real Estate Investment Trusts (Reits): ReITs are **similar to InvITs**, with a difference that these securities are linked to **real estate**. The structure of ReITs is similar to that of a mutual fund. However, unlike mutual funds, where the underlying asset is bonds, stocks and gold, ReITs invest in **physical real estate**.

- The money collected is deployed in income-generating real estate and this income gets distributed among the unit holders. Besides regular income from rents and leases, gains from capital appreciation of real estate also form an income for the unit holders.
- The minimum subscription limit for ReITs is Rs 50,000

C) Asset-Backed Securitization: is a type of financial investment that is collateralized by an underlying pool of assets—usually ones that generate a cash flow from debt, such as loans, leases, credit card balances, or receivables. It takes the form of a bond or note, paying income at a fixed rate for a set amount of time, until maturity. For income-oriented investors, asset-backed securities can be an alternative to other debt instruments, like corporate bonds or bond funds.

**II -Direct Contractual Mode: PPP (Public Private Partnership):** These are contractual arrangements made by the government and Private Sector Entity for operations and maintenance of a part or whole of the asset/facility or service for a duration of 3-5 years.

- A) Operate Maintain Transfer (OMT): Under this model, the concessionaire takes charge of the maintenance for a fixed concession period which ranges from four to nine years. This includes undertaking periodic as well as annual maintenance works, traffic incident management and ensuring smooth flow of traffic. For revenue generation the concessionaire can levy and collect user fees from road users, after issuing a notification to the effect in the government gazette. The Ministry of Road Transport and Highways or the National Highways Authority of India awards the OMT contracts.
- B) Toll Operate Transfer (TOT): It is a variant of the OMT model, recently adopted in roads sector, where consideration paid to the Authority is in form of an upfront premium. It Ensures efficient management of public funded and operational national highway projects through structured contractual partnerships with defined KPIs and O&M standards. TOT Provides upfront proceeds for ploughing back into greenfield national highway development.
- C) Operate–Maintain–Develop Concession: Under the Operate Maintain and Develop structure, an asset which is operational but due for augmentation is handed over to the private party for augmentation and O&M over the concession period. Usually, the operations of such asset remain uninterrupted with augmentation undertaken while the asset is operational. The private sector raises finance on the strength of the existing assets and / or obtains project financing along with equity contribution for undertaking such augmentation. The private sector pays an upfront or an annual consideration (in form of a premium and / or revenue share) and earns its returns through revenues from upgraded asset.

### Greenfield vs Brownfield Investment

**Greenfield Investment:** It refers to investment in a manufacturing, office, or other physical company-related structure or group of structures in an area where no previous facilities exist.

**Brownfield investment:** The projects which are modified or upgraded are called brownfield projects. The term is used for purchasing or leasing existing production facilities to launch a new production activity.

### **3.4 Need of NMP:**

The essence or need of NMP arises due to the failures of Public Sector Undertakings in developing and maintaining core infrastructure sectors like roadways, railways, power sector, oil and gas pipeline over seven decades. All these sectors were under the ownership of public sector excluding private sector on these on these socially important segments. Public sectors miserably failed to deliver on their financial and social objectives by disheartening benefactors due to Overcapitalisation, Poor decision making, Ineffective governance, excessive government control, lack of inter-departmental coordination and reluctance to implement labour reforms.

### **3.5 Significance of NMP:**

**Boost Economy:** Our GDP has grown after introduction of LPG with new economic policy in 1991 but not with competitive spirit of China and European economies due to lack of infrastructure development. Hence, NMP is an option to drive the competitiveness and boost the Indian economy.

**Efficient use of underutilized public assets:** Many Public Sector Undertakings are not utilizing available assets, man power and financial resources due to red-tapism, political pressure and inefficient management. All these lop sides can overcome through NMP.

**Increase in Industrial Production:** NMP identified eight core industrial sectors like fertilizers, cement, refinery products, natural gas, crude oil, coal and electricity for developing infrastructure which has nearly 40% in total weight of Industrial Production

**Generation of employment opportunities:** According to National Infrastructure Pipeline Policy, government will spend 100 Lakh crore on infrastructure creation during FY 2020 to 2025 will generate huge employment opportunities

### **3.6 ASSET MONETISATION UNDER NMP:**

Asset Monetisation is the process of creating new sources of revenue for the government and its entities by unlocking the economic value of unutilised or underutilised public assets. A public asset can be any property owned by a public body, roads, airports, railways, stations, pipelines, mobile towers, transmission lines, etc., or even land that remains unutilised.

Asset Monetisation, also commonly referred to as asset or capital recycling, is globally a widely used business practice. This consists of limited period transfer of performing assets (or disposing of non-strategic / underperforming assets) to unlock “idle” capital and reinvesting it in other assets or projects that deliver improved or additional benefits (NITI Aayog, 2021).

Developing economies need government spending to accelerate growth and to have necessary interventions in specific sectors of the economy to make them competitive for attracting private and foreign investment. In this scenario, Asset Monetisation is one of the most prudent and sensible way for policymakers to keep coffers of government stable and strong for necessary public spending in necessary areas of economy. Asset Monetisation gives a unique opportunity for the government to keep the ownership with itself but earn money from the assets monetised.

In countries like India, there is immediate necessity for the government to invest in critical infrastructure such as highways, airports, ports, broadband, gas pipelines, etc., but the humongous capital needed for this need out of box thinking and ideas other than borrowing money from different financial institutions. It isn't that assets weren't monetised before in India but all of them were standalone and 'National Monetisation Pipeline' is a departure from this practice. It is a comprehensive effort in identifying assets for monetisation and bringing them into a pipeline, which in turn helps government to envisage huge investments in creating new infrastructure.

Asset Monetisation, as envisaged (in National Monetisation Pipeline), entails 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 (NITI Aayog, 2021).

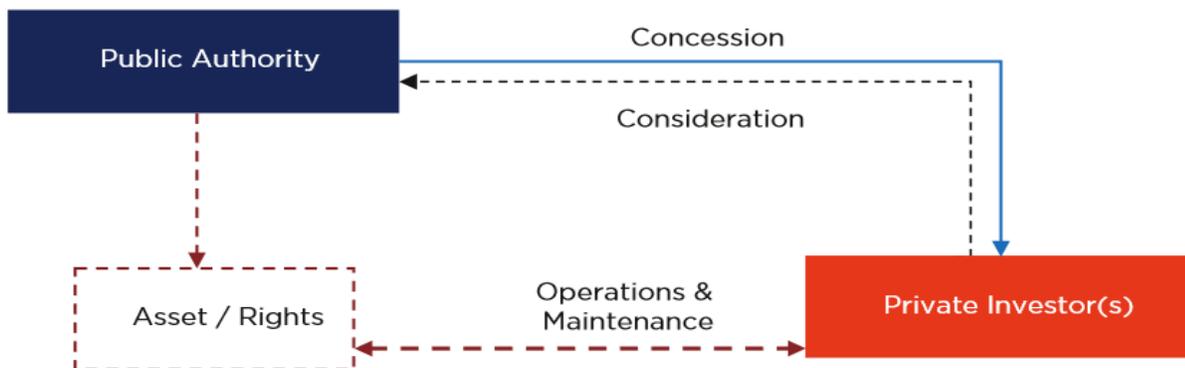


Figure 2- Asset Monetisation Structure (Volume-1 NMP by Niti Ayog)

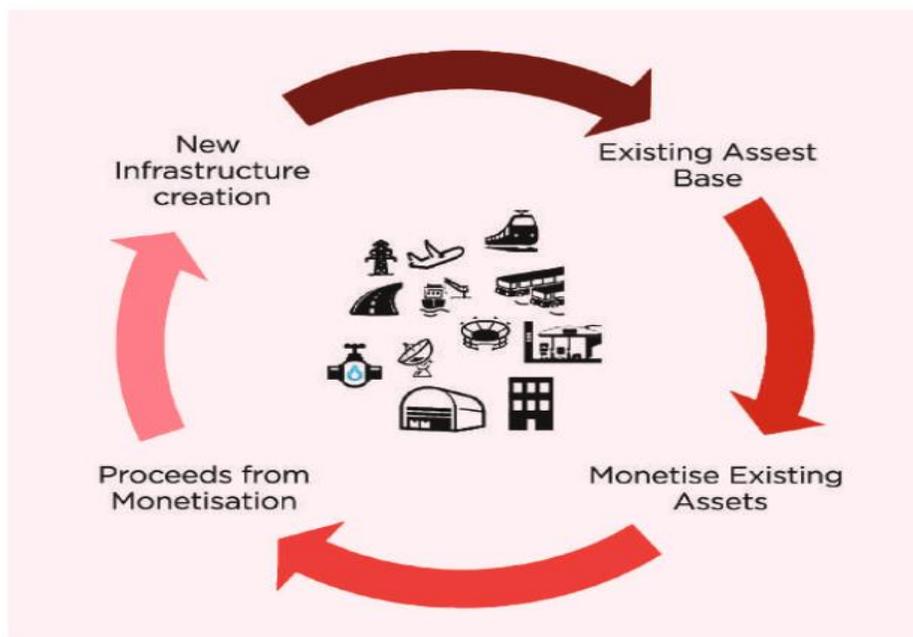


Figure 3- Infrastructure Asset Monetisation Cycle (Volume-1 NMP by Niti Ayog)

As seen in Figure 2 and 3, Asset Monetisation under ‘National Monetisation Pipeline’ is not a leasing/selling of Public Assets for just revenue. This revenue earned as consideration acts as a funder to ‘National Infrastructure Pipeline’. Asset Monetisation needs to be viewed not just as a funding mechanism, but as an overall strategy for bringing about a paradigm shift in infrastructure operations, augmentation and maintenance. This is especially considering the potential for resource and capital efficiencies as also the ability to dynamically adapt to the evolving global and economic reality (NITI Aayog, 2021).

### **3.7 Distinct between Privatization, Disinvestment and Asset Monetisation Under NMP**

**Privatization:** It is the process of transfer of ownership through sale of government equity either in complete or partial to the private sector. It can take in two ways i.e., either by selling government equity to private organizations or removing barriers which block private individuals or firms in terms of ownership/control or management of an organization. The main objective of privatization is to enhance the efficiency of an organization and to provide financial support with change in ownership.

**Disinvestment:** It is the strategy of selling off or liquidating some assets like unit, manufacturing plant, division, subsidiary etc. owned by the government or any private organization in order to reduce the losses from non-performing assets. It is the process of withdrawing investment in a specific sector or industry or firm to raise funds and use such funds in productive or new ventures. Generally, disinvestment term got popular or dispute due to selling of shares in public sector enterprises by central or state governments to pool funds for their new schemes.

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### **IV. Findings:**

1. While privatization and disinvestment are known concepts, the national monetization policy (NMP) is a new concept being attempted for the first time in our country.
2. It will help in identifying potential monetization-ready projects, across various infrastructure sectors/ministries and simultaneously, provide visibility to investors.
3. The main objective is to unlock the value of investments in mature public sector assets by tapping private sector capital and efficiencies which can thereafter be leveraged for new Greenfield infrastructure creation.
4. This also presents an opportunity for public asset owners to avail new financial structures and vehicles for tapping capital from private sector investors. In the process, it helps public sector authorities and entities in easing fiscal constraints and freeing up balance sheets for taking up more new Greenfield infrastructure projects. This enables deployment of resources by the government towards the social sector and other competing public priorities.
5. Unlike privatization, strategic sale and disinvestment, assets-monetization gives just the rights to collect the revenue and not the ownership. The assets are handed back to the owner at the end of transaction life. Only fully completed, brownfield, de-risked assets with stable revenue streams are monetized.
6. It has structured partnerships under defined contractual frameworks with strict KPIs & performance standards.
7. It believes that assets under NMP will attract investors as these assets are mature and carry low risk, provide stable returns over 25-60 years, have negligible/limited construction risk and stable demand, have higher flexibility in operations and management, and offer upsides in the form of efficiencies and value-added services.
8. The NMP helps to realise value from idle assets, without the Centre transferring ownership of public sector assets to private parties for good.
9. The NMP is a proof that the government may have built assets, but the private sector can put them to more efficient use because managing infrastructure projects is not everybody’s cup of tea.
10. Lack of identifiable revenue streams in different assets of various sectors

**V. Conclusion:**

The big challenge to the success of this very well-structured program will be the enforcement or execution of contracts. For any long-term contract, particularly in the infrastructure area, dispute resolution and enforcement of contract are the most important concerns which can overcome by establishment of special benches in NCLT only to hear all infrastructure-related cases. Any tangible efforts such as setting up a special bench in NCLT will provide great comfort to investors and commitment of government to address this concern,

The various initiatives and achievements like the constant increase in direct and indirect taxes, renewed focus on sale of commercial entities such as Air India, listing of other remaining large PSUs such as LIC and the much-needed innovative step i.e., Assets monetization policy, has the potential to switch from an infrastructure starved country to a world class infrastructure country.

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