

POLICY BRIEF

JUNE 2022

ASSET MONETISATION

Matching Monetisation Models to Revenue Streams



Preparation of this work is supported by the British High Commission, New Delhi, under the UK-India Economic Policy Program. The brief has been prepared by Partha Mukhopadhyay.

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Introduction

The NITI Aayog released the National Monetisation Pipeline (NMP) in July 2021 (NITI Aayog 2021) as part of a pool of innovative and alternative financing sources expected to fund about 15 to 17 per cent of the National Infrastructure Pipeline, which is targeted at ₹111 trillion over five years, i.e., ₹22 trillion annually, i.e., about £ 220 billion. Of this, asset monetisation is expected to contribute about ₹ 6 trillion or about £ 60 billion over FY 22 to FY 25.

In 2021-22, the budget projected revenue from privatisation, listing, etc. of ₹ 1.75 trillion but the revised estimates expected to raise about ₹ 0.78 trillion. The estimate for 2022-23 is lower, at under ₹ 0.7 trillion. However, not all monetisation receipts will be on budget since some of the assets are owned by non-departmental and/or corporate entities, and revenues would accrue to them, separate from the budget. For example, the resources raised by monetising existing transmission service agreements of Powergrid would be extra budgetary.¹

Figure 1 shows the expected shares of monetisation revenue by sector. In 2021-22, the government was on target, reporting ₹960 billion (about £ 9.6 billion) in monetisation revenue. Of this, roads were about 24%, power about 10%, and mining about 61% of which coal mining generated over 41%. These include 390 km of road in InvIT and three toll-operate-transfer (TOT) concessions, transmission assets of PowerGrid and an operational hydel project of NHPC, 22 coal blocks and 31 mineral blocks.²

The ongoing conflict in Ukraine could lead to adjustments to the asset monetisation program. It impacts the demand for assets in multiple ways, viz. (a) a reduced demand for emerging market assets³ (b) a possible switch from riskier to safer assets domestically⁴ and, for the private sector (c) a possibly reduced appetite for investment (anticipating a slower growth outcome, driven by challenges of high oil prices and reduced ability of government to provide stimulus), which in turn would reduce the the private sector's need to monetise assets to fund new investments. As such, the increase in risk premium may affect realisations and it behoves us to consider the effects of risk on ways to monetise assets.

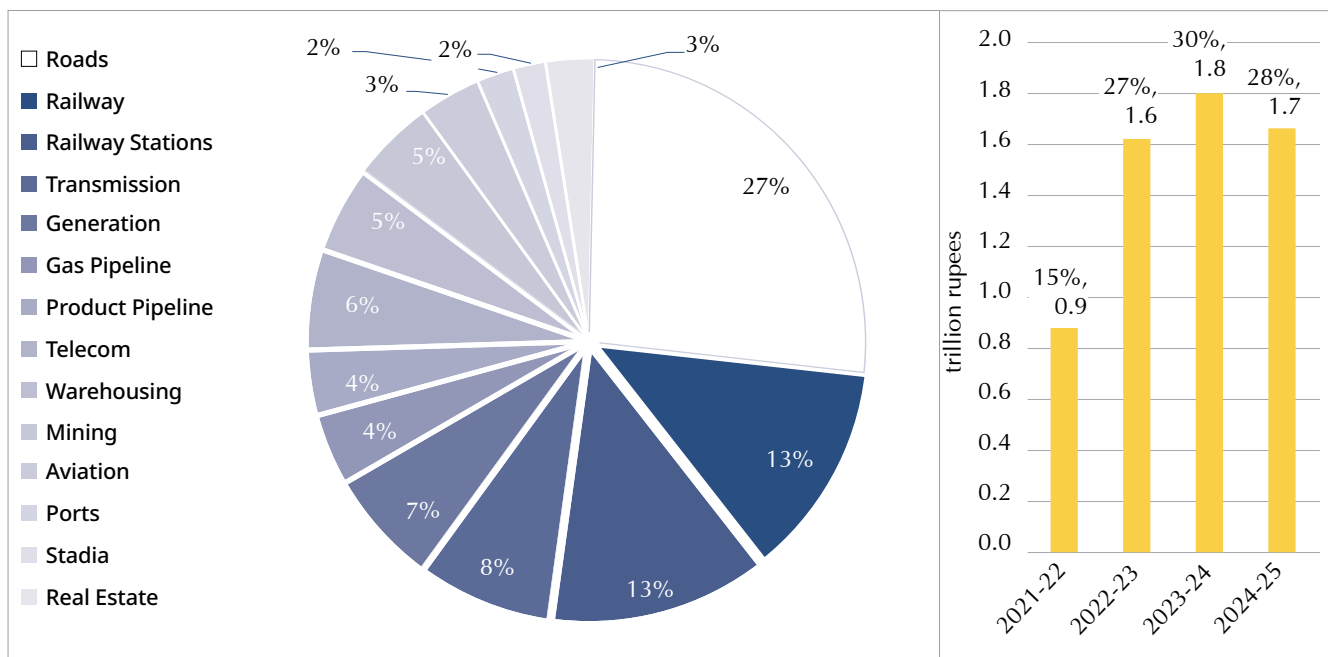
¹ In principle, the revenue can allow the government to make lower budget allocations to that entity. However, this could reduce the incentive to monetise assets.

² <https://economictimes.indiatimes.com/news/economy/policy/asset-monetisation-government-beats-fy22-target-with-rs-96000-crore/articleshow/90807193.cms>

³ Over three days March 2 to 4, foreign portfolio investors withdrew about £ 1.7 billion, half the entire withdrawal of £ 3.5 billion in the full month of February <https://economictimes.indiatimes.com/markets/stocks/news/fpis-withdraw-over-rs-17000-cr-from-indian-markets-in-just-3-days/articleshow/90029048.cms>

⁴ The Sensex has declined by about 14% from mid-January to mid-May (it had recovered 5% by end-May) while bond yields have risen by over 70 basis points in the same period. In the last six months it has risen over 1%.

Figure 1: Expected Sector shares of Asset Monetisation and phasing over time



Source: NITI Aayog National Monetisation Pipeline vol. II (Asset Pipeline)

Objective

The strategic objective of the NMP is to unlock the value of investments in public sector assets by tapping private sector capital and efficiencies. The unlocked investments can thereafter be leveraged for augmentation and/or greenfield infrastructure creation. In addition, the NMP transactions will help deepen the market for operational infrastructure assets and the development of a market for such assets can also help private sector developers, in that original developers can exit, realise value of their investments and thus obtain their capital for investment into new projects.

This brief considers two issues, viz. (i) structuring of monetisation, in particular risk allocation across stakeholder and (ii) the treatment of land in NMP transactions and in associated divestment of enterprises, given that the government has now announced a consolidated and strategic approach to land issues, by establishing the National Land Monetisation Corporation (NLMC), which “will undertake monetisation of surplus land and building assets of Central Public Sector Enterprises (CPSEs) and other Government agencies.”⁵

Structure of Monetisation and Risk Allocation

Project Revenue Streams

An infrastructure project, like a road, electricity transmission and generation assets, railway operations, pipelines, etc. generates revenues over time. These may be availability (performance based) payments from the government or regulated entities or toll revenues from users. The nature of this revenue stream will vary depending on how the project concession is structured. The revenue may vary with market conditions, e.g., a toll road or sales of power from a plant, etc. or it may be more stable, e.g., contractually determined availability payments to HAM (Hybrid Annuity Model) road projects or regulated tariffs to electricity transmission utilities.

In the case of roads, while there are both public and private toll road operators, it is usually only private operators who receive such availability payments. However, in the case of electricity transmission assets, Powergrid is a public operator that receives availability payments. Similarly, if the Railway moves to a track access charge model, it would generate a similar revenue stream from the operator. In the case of an airport, there may be revenues from usage of airside facilities like bays and aerobridges as well from renting commercial space in the terminal.

⁵ <https://pib.gov.in/PressReleasePage.aspx?PRID=1804287>

This matters because the revenue streams embed different forms of risk. Where the revenue stream is market dependent, demand risk is included. So, if a pandemic suddenly stops traffic, or lower economic growth reduces electricity use or spending at airports, the returns decline. On the other hand, in availability payments like annuity or transmission service charges, there is no such risk (apart from counterparty risk, i.e., if the entity who has promised to pay does not do so). The asset monetisation can be structured so as to transfer this risk or retain it or separate it. If it is transferred the asset will need to generate higher returns in expectation, to justify the additional risk.

The critical aspect of the risk is the controllability. If a person is asked to bear risk that s/he cannot control or even influence, the risk premium will rise and s/he will pay a lower price.

Options for Monetisation

There are two broad varieties that have been discussed in the context of asset monetisation, viz. toll operate transfer (TOT) and the InVIT (Infrastructure Investment Trusts). In addition, there can also be structured bonds, with no or limited recourse to the government. There are also asset concessions, e.g., airport concessions and station redevelopment. One important aspect of all such monetisations involving existing assets, rather than new assets like station redevelopment, is that they carry no construction risk, which is a large initial risk in any infrastructure project. As such, they are expected to realise better value than new projects.

TOT structures involve transferring a bundle of assets, say toll roads, to a private investor for a specified period in exchange for an upfront payment of a lump-sum amount. The investor then has full control over the operations for the specified concession period and is responsible for toll collection, maintenance, etc. and thus while it is a monetisation of rights, the investor bears all the risks and gains the rewards, as a residual claimant, usually associated with ownership. In the case of TOT, there may also thus be a gain in operational efficiency, e.g., in regular and periodic maintenance practices, collection of revenue,

etc.⁶ However, not all TOT-like structures carry demand risk as was mentioned earlier. This depends on the payment mechanism. If a transmission asset was monetised using such a structure, the revenues, based on current tariff philosophy, would be determined by whether the asset was available, rather than if it were used. So, if a transmission line is monetised using a TOT concession, then, there would not be demand risk if the transmission service charges are based on availability⁷. Conversely, in a TOT bundle of NHAI toll projects, the revenue depends on road use, and thus the concession bears demand risk.

In an **InVIT** structures, however, the distributable (net of operating expenses) revenues from a bundle of assets flow into a special purpose vehicle and it is distributed then to investors in the InVIT. Even here, the variability in the underlying revenue stream is transferred to the investors, similar to that in a TOT. While the TOT investor is expected to actively manage the assets, similar to an entrepreneur, the InVIT investor is more passive, like a shareholder (who bears the risk of business). InVIT assets too can comprise those with demand risk and those without. For example, the extent of demand risk in an InVIT would depend on the mix of toll roads and those with availability payment concessions like annuity or HAM. At the extreme, one could have InVITs comprising purely toll road assets and those that are only comprised of HAM projects. The risk reward trade-offs in these would obviously be different and appeal to different sets of investors. The government has also taken a number of steps to clarify the tax status of InVITs and ensure that the structure is not disadvantaged by tax regulations.⁸

Some InVITs will be privately placed, e.g., NHAI's recent InVIT in November 2021 was privately placed and two Canadian pension funds, viz. the Canada Pension Plan Investment Board and the Ontario Teachers' Pension Plan Board were major investors⁹. However, this risk difference is illustrated in the performance of listed InVITs. The public sector Powergrid InVIT has five projects that connect multiple states, viz., Andhra Pradesh, Telangana, Madhya Pradesh, Maharashtra and Himachal Pradesh. This is based on availability payments as well as the counterparty risk

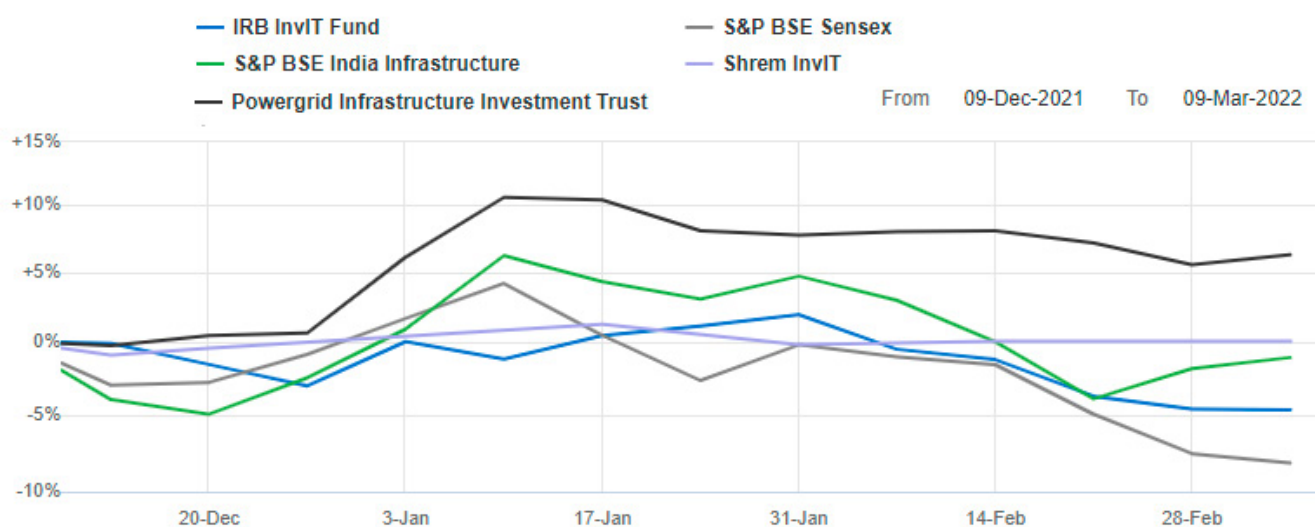
⁶ The extent of improvement in revenue collection may vary by sector, though even small efficiency gains can imply large increases in profit. For example, if a road facility is already electronically tolled, the further reduction in leakage may be limited while it may be substantial in an electricity distribution franchise or in procurement practices in power plants and airports, etc.

⁷ In the road sector such availability based payments (annuity or HAM) is already with the private sector, so the question of monetising them using TOT does not arise.

⁸ The government vide the Finance Act, 2021 has amended various sections to make the reorganisation of a PSU into separate companies a tax-neutral transaction. With the Finance Act, 2021, the government has effected amendments to the Section 47 of the Income Tax Act which allows for transfer of capital assets by a PSU to another notified public sector company, central government or state government to not be regarded as transfer if such transfer is under a plan approved by the central government.

⁹ <https://timesofindia.indiatimes.com/business/india-business/nhais-first-ivit-sails-through-2-canadian-pension-funds-put-their-investment/articleshow/87514638.cms>

Figure 2: Variability in InVIT depending on underlying assets



Source: BSE

is distributed. On the other hand, the private sector IRB InVIT, comprises only toll road assets, across different states, while *Shrem InVIT* comprises assets with a mix of toll and availability payments. *Shrem InVIT* has 2 toll projects, 6 HAM projects, 10 toll + annuity projects and 6 annuity projects from NHAI/MoRTH (7) and three states, Madhya Pradesh (13), Karnataka (3) and Gujarat (1), while *IRB InVIT* (the first, listed in 2017) has 7 toll roads in Gujarat, Karnataka, Maharashtra, Punjab, Rajasthan and Tamil Nadu. Consequently, the valuation of IRB InVIT is more volatile¹⁰, while that of the Powergrid InVITs is relatively stable (see Figure 2).

In the case of private InVITs, while there is no revenue generation for the public sector, the growth of InVITs facilitates the efficient monetisation of private infrastructure assets and this creates extra room in the private balance sheets of the developers for use in new projects. Knowing that there are good exit options also helps the initial bidder to bid more competitively. As such it is integral to the achievement of the National Infrastructure Plan.

Structured bonds are the third way of monetisation, where claims are issued on revenue streams but the risk of variability of revenue is not transferred to the bondholder. If the bond is a variable rate bond, there may be variation based on the changes in indexed rate. There is already extant experience with infrastructure debt funds and while they may not have been very popular initially, both the growing spectrum of assets and the increasing depth of the markets and diversity of investors' risk

appetites leads us to suggest that this is not an option that should be off the table. Indeed, this is part of the remit, as part of innovative instruments, of the newly announced National Bank for Financing Infrastructure and Development (NaBFID) that is to commence operations in this year.¹¹

In a typical structure, the revenue is transferred to a dedicated escrow account from which payments are made to the bondholder. As long as the amount of revenue is sufficient to meet bond payments, there is no variability in the bondholders' revenue. There is no recourse to the government or there is limited recourse, in terms of specified revenue shortfall guarantees, etc. (usually limited fluctuations are managed through a reserve account). If the bond payments are secured by a cash flow that is sufficiently above what is required, then the security of the bond and its rating would be high. However, in most instances this will leave money on the table with the public authority. To minimise this, structured bonds can be issued for various tranches of cash flow with increasing levels of risk that will then be subscribed to by different groups of investors with different risk appetites. For example, in the current uncertain scenario, the lower risk characteristics of bonds may be more attractive to risk averse investors, especially large *domestic* pension and insurance funds, while foreign pension funds may like to take more risky assets, since they look to investments in emerging markets to earn higher returns (and invest in safe assets in domestic markets in their home country).

¹⁰ IRB InVIT has since its listing in 2017, gone down to around ₹27 in March 2020 and is currently (June 2022) trading at ₹54.

¹¹ <https://economictimes.indiatimes.com/news/economy/finance/nabfid-to-commence-operations-from-first-quarter-of-fy23-kamath/articleshow/90224330.cms>

For example, if the instrument is senior (payment made before other “junior” instruments) and the pay-out is limited to say 50% of historical total revenue collections, the default risk in this instrument is relatively limited. Similarly, for the next 25% and the next 20%, the risk increases. There is no upside, but the increased return would attract an investor with a different risk return trade-off. Finally, the residual claims can also be packaged as an instrument. This would carry a high level of risk but would also have upside potential.

Bonds are often seen as borrowing and not seen as a form of monetisation. However, in principle there is no difference between receiving an upfront payment from subscribers of InVITs and from bondholders. The risk transferred does vary. **However, if the risk is uncontrollable in the entity who is holding it, e.g., it is unable to influence the extent of traffic on a highway, there is no efficiency benefit in transferring demand risk.** One can however argue that TOT and InVIT may lead to better maintenance and higher availability because of higher powered incentives, as compared to incentives for maintenance in the public sector entity that will continue to operate the asset in the case of structured bonds.

Table 1 summarises the various instruments of monetisation. It is important that the appropriate instrument is used, given the underlying revenue structure

of the assets. For example, it is important to note that in variable rate bonds, interest rates are expected to rise when the level of economic activity is higher and in toll roads or assets with use based revenue, revenue levels would also rise, offsetting the risk of higher repayments. However, in the case of availability payments, this may not be the case and thus such projects may be better monetised using fixed coupon bonds. Furthermore, each instrument transfers different types and levels of risk and may be more appropriate for different investor environments.

Asset concession/sales are the final mode of monetisation. These include mining assets (which provided the bulk of revenue in 2021-22), real estate transactions (in the NMP, it largely refers to a set of projects in Delhi) and other monetisation projects such as station redevelopment and airport concessions. The structure of the concession, the bid parameter, etc. inform the success and realisation of revenue. In the case of Indian Railway, there was a dedicated organisation for station development, Indian Railway Stations Development Corporation (IRSDC), which was established in April 2012, and dissolved in October 2021.¹² Its work has been integrated with other railways organisations, which could be seen as mainstreaming station development, but it may mean some duplication and possibly, more sparse access to expertise.

Table 1: Asset monetisation models and risk transfer

	Capitalisation	Increase in Efficiency	Risk Transfer
ToT	Yes – possible premium or discount	Possible, due to operations transfer to private sector, including revenue and maintenance	Uncontrollable traffic risk (where applicable) as well as controllable maintenance cost risk transferred to private sector, mitigated by bundling multiple assets, but higher discount rate (due to risk premium) may reduce capitalisation.
InVIT	Yes	Possible, due to more efficient maintenance	For assets with demand dependent revenue, demand risk is distributed among large number of private investors, so discount may be less than in ToT. InVIT bears maintenance cost risk.
Fixed rate Bonds	Yes, but partial	None	If only a part of the cash flows are securitised in the bond, it reduces the risk of cash flow falling below predicted level but only capitalises part of revenue
Variable rate bonds			Variable rate bonds also insure against inflation risk

¹² <https://www.news18.com/news/india/indian-railways-to-shut-stations-development-corporation-4338950.html>

BOX 1: ASSET MONETISATION AND THE REGULATORY ENVIRONMENT

A number of challenges remain around the asset monetisation plan. These differ from one sector to another. These examples illustrate that the regulatory environment in which monetisation decisions are taken matters considerably for the realisations that could be obtained from the process.

The Railways have already decided not to offer private train services for monetisation, because there is little demand for it, as currently structured.¹³ This is to be expected because there are no contractual train paths on offer that allow private passenger operators to offer scheduled service. In the absence of a regulator, they would be at the whim of Indian railways operations, who would be offering competing services. The Indian Railway was not only the concessioning authority, it was also its competitor and regulator. This increased the risk perception for potential investors.

Railway station development, which accounts for half the expected revenue from railways' asset monetisation depends on the urban real estate market. Value realisation in real estate is mostly in the larger cities. However, going forward, especially post CoVID, there's been a reassessment of the need for physical space in metros and this may be a challenge in the immediate future, which may be mitigated by the prime location of these assets.

In both the railway and airport concessions, another issue is the possible award of projects to a single operator, a potential competition issue. The current concession structure does not have any restrictions on this, and the last six projects were won by the same operator. Also, the bid parameter – per passenger fee – is new in Indian airport concessions.¹⁴

As for electricity transmission assets, while they are currently compensated by regulated pricing using a cost-plus mode, they may be priced differently going forward, given the need to integrate renewable assets into the grid. Contractually committing to retaining existing pricing would limit the ability of regulators to determine optimal tariffs for a greener grid. Similarly hydroelectric assets would also increase in strategic value, as renewables are integrated, because their dispatch would be critical for grid stability. It can be questioned whether monetising such assets at this time would limit necessary strategic flexibility.

The tariff regulation issue, similar to transmission, is also present in gas and product pipelines and in addition, the current low utilisation of gas pipelines is an additional concern. Without more clarity on such issues, such uncertainty would imply discounted realisations.

Finally, in telecom, the proposal is to monetise the towers of BSNL but it is unclear if BSNL would be divested as an enterprise and if so, the impact that such monetisation would have on the feasibility of such divestment.

¹³ <https://economictimes.indiatimes.com/industry/transportation/railways/plan-for-railways-asset-monetisation-didnt-attract-investors-govt-looking-at-it-afresh-amitabh-kant/articleshow/89999117.cms>

¹⁴ <https://pib.gov.in/PressReleaseDetailm.aspx?PRID=1690891>

Regulatory Challenges

Apart from choosing the appropriate model for monetisation, the success of monetisation depends on the clarity and stability of the regulatory environment. This is especially the case for infrastructure assets since the revenue streams are dependent on regulated tariffs in most sectors. Regulatory clarity can be improved in many ways in sectors where there are extant regulators, though in some cases, like BSNL, it is not regulatory clarity but clarity on divestment vis-à-vis asset monetisation that is the question.

For private monetisation transactions, there could also be other operational issues like the handling of disputes between the concessioning authority and the concessionaire, e.g., between NHAI and a developer. The way such issues are handled could increase or decrease the extent of risk and help or hinder the transfer of assets.

In addition, there may even be additional operational limitations, e.g., in the railways, the actual operation of the train is undertaken by the Indian Railways (see Box 1). Lack of clarity on such issues may affect the value realised from monetisation or in extreme cases, may make it infeasible to monetise an asset as in the case of passenger train privatisation.¹⁵ Further, in the case of railways, the real efficiency gain for the economy from private train services would be in freight transport, which have no designated train paths. The CoVID experience offered an opportunity to reorganise train services, but it has not yet been done.

Is Monetisation Always Beneficial?

It is not always the case that monetisation generates the best value for money. For example, for NHAI, the key question relates to the application of funds that is raised through asset monetisation. The current debt burden of NHAI precluded further borrowing, as evidenced by this year's (2022-23) budget. So, will the funds raised through asset monetisation be used to retire existing debt or will it be used to launch new projects? If it is about retiring existing debt, then there needs to be a careful cost comparison between the cost of borrowed funds and the cost of funds raised from asset monetisation. NHAI's current borrowing is at very competitive rates, due to tax benefits, and it is possible that the cost of funds raised through asset monetisation might actually be higher.

If so, asset monetisation would actually reduce the resources available with NHAI because with monetisation it would lose control over a revenue stream that is currently used to service lower cost borrowings.

Separating Real Estate for Divestment

One of the more innovative aspects of the government's disinvestment program is the separation of real estate assets from core business. This approach was adopted in the divestment of Air India and now HLL Lifecare.¹⁶ This has now been formalised by the creation of NLMC. This could have implications for the NMP, especially real estate transactions.

Historically there have often been acquisitions where the private acquirer has been accused of asset stripping and not focusing on the core business, thereby impacting employment. Further, the value of non-core land assets may be different for specialised real estate firms and firms in the core industry. Pre-qualification criteria may exclude real estate firms for bidding, though they could presumably be part of bidding consortia, if the consortia decides prior to the bid that they could realise value from land development.

It is indeed possible that separating the core business assets and real estate assets would result in a higher combined realisation. However, for this, divestment of real estate assets needs to be done effectively. This is a complex exercise. The real estate industry is not national and as such there are different sets of developers which vary by location. As such, very few developers may be interested in bidding for a bundle of assets which is spread across locations in the country. For example, the real estate assets separated from Air India involves a number of properties (erstwhile offices of Indian Airlines) in different cities. Therefore packaging land assets in an attractive manner would require considerable effort. This is not just for divestment, it is also necessary for asset monetisation related to real estate assets or the monetisation of railway stations or airport concessions, etc.

In this context, it is important to ask whether the land assets in a particular city would be leveraged to play a broader role in co-ordinated planned urban growth, as indicated in the budget for 2022-23, or whether they would be dealt with as any other asset (see Box 2).

¹⁵ <https://www.businesstoday.in/latest/economy/story/railways-terminates-rs-30000-cr-private-passenger-train-bid-process-fresh-tenders-soon-304488-2021-08-18>

¹⁶ <https://economictimes.indiatimes.com/news/economy/policy/surplus-land-of-cpses-under-disinvestment-to-be-sold-at-mkt-rate-govt/articleshow/73960648.cms>

Way Forward

This brief has briefly discussed the intricacies of asset monetisation as linked to the risk characteristics of the underlying revenue streams of the assets proposed for monetisation, as well as the regulatory clarity in the sector regarding the tariff policy and operational regime. It also discusses the issues involved in separating real estate from enterprises in the divestment process. In both cases, it would appear that there is room to improve the policy clarity and achieve the ambitious goals set for the programme.

Structuring of the Asset

- a. The market in India comprises myriad investors (both domestic and international), with varying risk appetites. **Product packaging and structuring, therefore, need to be customised to this set of diverse investors.**

For instance, large international investors look for large ticket size investments, which has implications for the number of assets being bundled. Also, as mentioned, the appetite for risk will differ by classes of investors. So, a large bundle of toll road assets may be attractive for international institutional investors while a smaller bundle of availability based projects may be preferred by insurance firms in India.

- b. In the current risk environment that signals wariness towards uncertainty characterised by a premium on safety and discount for risk, **bonds, like infrastructure debt funds, need to be given more consideration, even though it may not meet the goals of**

transferring operating control to realise efficiency (they could also be issued by private developers, where this issue is less relevant). They need to be structured for different levels of risk and different types of investors. This will help domestic pension insurance funds to participate in the asset monetisation process. The goal is to generate a pool of highly rated instruments for infrastructure that can cross regulatory pension and insurance investment thresholds. Structured instruments based on tranching of revenue flows is not yet common. Institutions like NHAI can introduce such instruments to gauge risk differential among investors.

- c. States have significant potential for asset monetisation but need to provide reassurance to investors about the risk characteristics of their assets. **Support from the central government - in the form of structured guarantees or creation of asset bundles that are a mix of central and state assets - could be beneficial.**

Both for such risk guarantees and for structured bonds, even though there are existing institutions like IIFCL (India Infrastructure Finance Company Ltd), an institution like NaBFID could be helpful to introduce innovative instruments. Another possible area would be instruments that can access ESG (Environmental, Social, and Governance) funds, e.g., for monetising green transmission corridors. The experience of structuring such offerings in government is limited and addressing this would enable a substantial new pool of investors to be accessed.

BOX 2: NTC, LAND AND MUMBAI

It is not always that publicly held land assets are deployed in the public interest. A case in point is the land owned by NTC (National Textile Corporation) mills in Mumbai. At the time when it became clear that a number of the textile mills operating within the city of Mumbai would close, a comprehensive plan was proposed that treated all the land assets leased to the mills as a composite entity, i.e., one mill's land could be turned into a park while another's could be a business park, a third could be high-end housing with a fourth being used for low income housing. The returns from the use of the land in this fashion would be pooled and divided among various leaseholders in an equitable manner. The large amount of NTC land could have been leveraged to persuade private mill owners to accept such a coordinated strategy for land development. This was not done and NTC was just one more mill owner. Subsequent redevelopment of these lands has been fragmented and unequal with limited benefits for the city. Land came on the market in dribbles and kept the price of land high, much like the strategy of a durable goods monopolist (Bulow 1982).

Source: D'Monte (1998, 2006), Adarkar and Phatak (2005)

Regulatory Clarity

- d. The absence of a structured regulatory environment is a major risk factor, especially in sectors where transactions are not generating interest, especially in separating the regulatory functions from operators.

Regulatory clarity also imperative in specific areas, e.g., clear and facilitative policies with respect to legal disputes between concessioning authorities and concessionaires, could help the private sector to monetise their assets and invest in new projects.

- e. **Capacity building support on asset monetisation processes** - structuring an asset, assigning a fairly accurate value to it, and making realistic revenue projections need to be provided to those with limited experience on asset monetisation in the central government, as well as some state governments. Such support is available, but it is also important to prepare the relevant decision-makers to interface with such support and benefit to the maximum possible extent.

Value for Money

- f. While there is an extensive deliberative process as part of the high level Public-Private Partnership Appraisal Committee (PPP-AC), there is currently no formal Value for Money (VfM) mechanism. VfM processes can be subjective; nevertheless, while care should be taken to ensure that VfM processes do not hinder actual asset monetisation, the discipline of going through it may be useful while evaluating alternative monetisation options, bid parameters, regulatory structures, etc.

Land Use

- g. While real estate is at first glance not a major share of asset monetisation, a closer look indicates that there are substantial real estate aspects in railway station development, and even airport concessions (e.g., the potential for MICE activity). We need to learn from our domestic experience, e.g., in station redevelopment, should it generate value only for the railways and is this in any way conflicted with the overall development strategy for the city?

In this context, it might be useful for the recently established NLMC to consider aggregating land parcels by location and engage with cities to assess how such aggregation could be used to positively influence the cities' growth as well as generate revenue for the government not just at the Central level but also at the ULB level. This may on occasion involve trade-offs with transaction level revenue maximisation.

Conclusion

This brief indicates that the achievement of NMP goals would be facilitated by addressing some issues around customising the offerings to the risk-reward appetite of different groups of investors, including ESG investors, involving institutions such as NaBFID. Greater regulatory clarity could also help to encourage more bidders and help private investors to monetise their assets. Since experience with such transactions is still limited in government outside of a few sectors (a fortiori for state governments, which are not addressed here), capacity support, which is already being extended is of value. Finally, real estate presents an opportunity, not just for value realisation but also for facilitating urban growth. New institutions like NLMC would appear to be a positive step in this regard and would need to be given appropriate objectives and capacity to fully realise this value.

The successful experience of 2021-22 indicates that the targets set out by the government for itself as part of the NMP are achievable, which bodes well for the future of the programme, which will take place in hopefully less challenging economic circumstances. It is important to see the NMP not just as a revenue raising tool for government but also as a market creation exercise, that will crowd in more private sector investment in infrastructure.

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ACKNOWLEDGEMENT

This report has been prepared by the Centre for Policy Research under the UK-India Economic Collaboration Programme funded by the British High Commission, New Delhi.

The authors are deeply appreciative of all the participants in the consultations, from the union government, state governments, private sector, academia, and others who shared their knowledge and insights generously and without whom this work would not have been possible. They would also like to thank their counterparts at the British High Commission, New Delhi for their valuable feedback and suggestions.

The report was designed by Ms. Parvati V.

ABOUT THE PROJECT

India's continued economic growth and progress is integral to the bilateral relationship it shares with the United Kingdom, especially as the two explore deeper economic cooperation in finance and trade. The India-UK 2030 roadmap reaffirms this and outlines critical reform areas that will not only provide better opportunities for people in both countries, but also strengthen their partnership. In this context, the Centre for Policy Research, with support from the British High Commission, New Delhi, has produced four policy briefs on timely issues of mutual interest to both countries. These policy briefs help leverage mutual experience and suggest actions to chart more sustainable growth trajectories.