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Asset monetisation and its implication on capital investment in India

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Introduction

Union budget 2021-22 highlighted the importance of monetizing operating public infrastructure assets for new infrastructure construction. The budget 2021-22 has suggested to prepare for a "National Monetisation Pipeline (NMP)" for infrastructure creation and has recommended to start "Asset Monetisation Dashboard' for generating additional resources for infrastructure development. Based on the same, the Government of India announced asset monetization of around 6 lakh crores on selected sectors. The capital expenditure which creates employment, especially for the poor and unskilled, has a high multiplier effect, this enhances future productive capacity of the economy and has a potential to lead to higher rate of economic growth. In short, capital investment acts as a vital engine of growth. It is estimated that in advanced economies, $1 million of spending can generate an average of 3 jobs in schools and hospitals and over 6 jobs in the energy sector, assuming intermediate labour mobility and labour intensity levels. On the other hand, in low income developing countries, the estimates are much larger and range and amount to creating atleast 16 jobs in water and sanitation. In other words, each unit of public infrastructure investment creates more direct jobs in electricity in high income countries and more jobs in water and sanitation in low income countries. (Mariano Moszoro, 2021). This paper attempts to look into the asset monetization plan of union government and its implication on capital investment in India.

Asset monetisation and its features

The main features of asset monetisation announced are (1) assets are only leased out, the ownership of assets will remain with the Government. (2) Enables infrastructure development with creation of assets through PPP model (3) Aims multiplier effect on investment, growth, employment and revival of credit flow. Through asset monetisation, union government decided to monetise the assets of selected sectors which are shown in Table 1.

Table 1. Sector wise national asset monetisation amount and sectoral share (in crore)

Sl No	Items	Amount	Share %
1	Roads	160200	26.81
2	Ports	12828	2.15
3	Aviation	20782	3.48
4	Railways	152496	25.52
5	Power Generation	39832	6.67
6	Power transmission	45200	7.56
7	Natural gas pipeline	24462	4.09
8	Product pipeline/others	22504	3.77
9	Stadiums	11450	1.92
10	Warehousing	28900	4.84
11	Telecom	35100	5.87
12	Mining	28747	4.81
13	Urban Housing redevelopment	15000	2.51
	Total	**597501**	**100.00**

The major share of asset monetization amount is expected from the two public sector enterprises such as railways and roads. Around 52.33 per cent of total monetization value is generated from these two sectors. The Finance minister stressed that the ownership of land is to be kept within the government.

Approach to asset monetization

Different approaches were suggested to estimate the indicative value of the monetisation pipe line. They are (i) Market approach,(ii)Capex approach, (iii) Book value approach and (iv) Enterprise value approach (EV Appraoch). Under Market value approach indicative value of assets is determined based on comparable market transactions, wherever, for the identified asset values. The Capex approach is considered for asset classes that may be monetised through PPP based models envisaging capex investment by private sector. The Book Value approach is considered in case of asset classes where information on comparable market transactions or estimated capex investment is not available. The Enterprise value approach is considered for assets where information in existing revenue stream is available or can be reasonably projected based on assumptions and /or available data on prevailing tariff for an asset/asset class. Suggested approach to asset monetisation for different category is depicted in Table 2.

Table 2. Approach to asset monetisation

Sl No	Categories	Approach to monetisation value
1	Roads	Market Approach
2	Ports	Capex Appraoch
3	Airports	Capex Appraoch
4	Railways	Railway stations -capex approach Passenger trains-capex approach Private Frieght terminals- Capex Approach Rialway colonies redevelopment- Capex Approach Track infrastructure under DFCCIL- Book value approach CHE- EV Approach
5	Power Generation	Book Value Approach
6	Power transmission	Market Approach
7	Natural gas pipeline	EV Approach
8	Product pipeline	EV Approach
9	Sports Stadium	Capex Approach
10	Warehousing	Capex Approach
11	Telecom	Capex Approach for Bharatnet fibre assets Market approach for tower asstes
12	Mining	Capex Approach
13	Urban Housing redevelopment	Capex Approach

Union government has announced different approaches for asset monetisation of different sectors. The monetisation value approach for Aviation, ports, warehousing, telecom (partly), railways (partly) mining , urban housing development, stadiums will use capex method. Market approach is being adopted for Roads and power transmission. Book value approach will be followed in the case of power generation.

It is seen that the asset monetization programme is intended for raising resources to meet the long run capital investment plans. In the year 2022, it is expected to generate only 14.76 per cent of the total monetization value. The balance amount will be generated in the subsequent years from 2023 to 2025(table 3). Since the asset monetisation announced is a long run strategy , the benefits will be reaped in a phased manner. In the year 2022, only 14.76 per cent of the asset monetisation value with an absolute amount of Rs.88190 crore is expected.

Table 3. Year wise monetisation pipeline over 2022 to 2025

Year	in crore	Percentage share
2022	88190	14.76
2023	162422	27.18
2024	179544	30.05
2025	167345	28.01
Total	**597501**	**100.00**

Disinvestment status

The efficacy of asset monetization plan of the union government is viewed in the background of disinvestment status. The history of disinvestment of union government shows that the generation of funds from disinvestment is not provided a rubicund picture. The gap between actual realization of funds and budget estimate of disinvestment is hefty. This is understood from table 4.

Table 4. Disinvestment in India from 2011-12 to 2021-22 (in crore)

Year	Budget estimate	Actual realisation	Difference	Percentage of realisation
2014-15*	56925	32620	24305	57.3
2015-16	41000	42132	-1132	102.76
2016-17	36000	35469	531	98.53
2017-18**	72500	100045	-27545	137.99
2018-19	80000	94727	-14727	118.41
2019-20	105000	50304	54696	47.91
2020-21	210000	32000	178000	15.24
2021-22	175000			

Source: Revenue Budget, various years, government of Kerala
*Disinvestment receipts, Disinvestment of govt stake in non govt companies
**2017-18, revised budget, the disinvestment estimate is Rs.100000

In 2014-15, in the initial year of the present government's first term, the disinvestment target was Rs 56925 crore, the actual realization was only Rs.32620 crores (57.30 per cent). In 2015-16 to 2018-19, there was around 100 per cent realization of disinvestment in comparison to targets (table 4). While in 2018-19, only 48.91 per cent of target is achieved. In 2020-21 R E , the realized amount of disinvestment is only 15.24 per cent. Though there is higher target of disinvestment in recent years , the share of capital expenditure in total expenditure has not been increased substantially, in fact it reduced in 2017-18 (table 5). The increase in actual amount of capital expenditure is also not expansionary in creating more employment opportunities. At this juncture, for increasing capital investment, the union government resorts to monetization of public sector assets as an alternative.

Table 5. Share and growth of capital expenditure in total expenditure of Union government (in crore)

Year	Capital expenditure	Total expenditure	Share of capital exp in total exp (%)	Growth rate of capital exp(%)	Growth rate of total exp(%)
2013-14	187675	1559447	12.03		
2014-15	196681	1663673	11.82	4.8	6.68
2015-16	253022	1790783	14.13	28.65	7.64
2016-17	284610	1975194	14.41	12.48	10.3
2017-18	263140	2141973	12.28	-7.54	8.44
2018-19	307714	2315113	13.29	16.94	8.08
2019-20	335726	2686330	12.5	9.1	16.03
2020-21(RE)	439163	3450305	12.73	30.81	28.44
2021-22 (BE)	554236	3483236	15.91	26.2	0.95

Source: Union budgets, Budget at a glance, various issues

It is indicative from table 5 that the share of capital expenditure in total expenditure is only around 12 per cent even with disinvestment funds. From 2017-18 onwards, a decline in the share of capital expenditure in total expenditure of union government is observed. In 2017-18, there is a decrease in the growth rate of capital expenditure to the tune of -7.54 per cent with an absolute amount decline of Rs. 21470 crore compared to 2016-17.

Implications of asset monetisation

The monetisation of assets of 6 lakh crore will definitely increase price level of goods and services of those sectors which are to come under monetization. Consequently, the burden of consumers will increase. The monetization of public utility assets will definitely lead to massive inflation. Price regulation given to public sector units itself create alarming price rise in the case of petrol and diesel. Once the assets are monetized and a large sum is collected from the private corporates, then there won't be any control of price fixation. More caution is needed while preparing the guidelines of asset monetization. It is already seen that more than 55 per cent of asset monetization is in roads and railways, those are the major public utilities of common man. The price of these public utilites will definitely increase, it accentuates the burden of common man. Asset monetization for capital investment is intended to increase employment generation, it seems that the employment generation will be on a low pace due to the long run completion of many of the projects.

One of the major implications is that the Service fee/user fee of these asset monetized sectors will be increased alarmingly. User fees will be increased based on the asset monetization value of each sector. A private corporate is giving lumpsum money to Government with the prime motive of profit making. Moreover, he is investing the money by taking loans from banks or other financial institutions with reasonable rate of interest. Consequently NPA of banks will increase and further it will be a severe headache to the government. Inter-generational equity is also under question as all the value repayment on account of monetization should be on the shoulders of our future generation. Strong guidelines with long run modus operandi will be incorporated in the scheme of asset monetization.

Another major implication of asset monetization is that there are chances of wealth accumulation in the hands of a few corporates. In an oligopolic manner, assets will be concentrated in a few big corporates. Small businesses might not be able to compete with those big giants and they will be thrown out from infrastructure development scheme. This will inturn create interstate disparity and

large scale inequality. States do not get any direct benefit from asset monetization to meet their fiscal needs on account of the unprecedented COVID 19 catastrophe. It is imperative to suggest that a portion of the asset monetization value will be diverted to meet the livelihood needs of the people as done in the case of 2011-12, when the then Government allocated the disinvestment funds to meet social protection needs through MGNREGA payments. At this juncture, it would be appropriate to channelize atleast 20 per cent of the asset monetization value to meet the MGNREGA payments through which employment generation and livelihood of the people will surge during this pandemic. To conclude, if asset monetization is inevitable for infrastructure development, well thought out guidelines is to be laid done for its implementation and proper and periodic monitoring mechanism is also to be ensured.

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