Balance Sheet of a Decade!

Report Card 2014-24

Monetisation

The essence of democracy requires that we hold governments to account vis-a-vis their claims and promises. But one of the biggest casualties of the recent years has been the idea of accountability. The divisive and jingoist hyperboles in the media facilitate a collective amnesia. This report card (though not conclusive) is part of a series, by the Financial Accountability Network India, that attempts to glance through and highlight a few of the claims and reality of the government's performance across various sectors from a financial and economic lens.

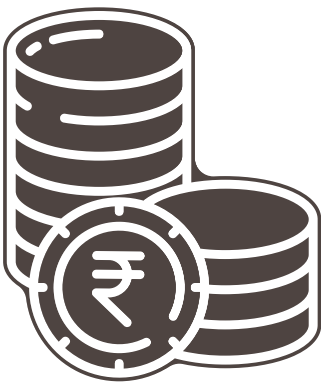
Financial Accountability Network India - FAN India

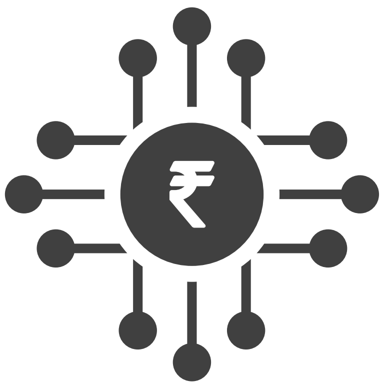
CLAIMS

<u>National Monetisation Pipeline (NMP) 2021</u> claims that Rs. 6 lakh crore will be raised in the period of 2022-25 by monetising public assets

The revenue raised from NMP will lead to infrastructure development and will be used to fund new infrastructure projects.

Only loss making assets or assets that have not yielded appropriate returns will be <u>monetised.</u>





REALITY

IS IT REALLY A LEASE

A 25-year asset transfer is as good as fully selling the asset. Profit-motivated private corporations would not be interested in just leasing public assets and then handing them back to the government in the future. The assets that have been monetised have long-term contracts that are renewable after the expiry at their discretion, essentially transferring control of the asset to private corporations for an indefinite time.

Undervaluation of Assets:

- There are no clear guidelines or frameworks by which the value of the assets is calculated. Different methods are used for different assets. There is also no minimum threshold or portion of the estimated value that the assets have to be sold for. Therefore, the assets can be sold for far less than their actual value. There is also no information on the period of lease or the expected earnings of the private players leasing the assets.

- 26,700 km of national highway roads (22% of total NHAI roads) are going to be monetised. The government estimates that it would earn Rs 1.6 lakh crore from it. This is immensely undervaluing the asset. Based on the estimate made by the Ministry of Road Transport and Highways in 2019, the construction cost of 26,700 km of four-lane national highways is more than Rs 8 lakh crore.

- 8,154 km of gas pipelines have been earmarked for monetisation for the amount of Rs. 26,642 crores. This is almost half of all existing natural gas pipelines. The cost of building 8,154 km of pipelines would be Rs. 48,924 crores approximately. The pipelines are being sold for almost half their cost (54%) to private players.

- While the BJP government has claimed that only loss-making assets will be monetised, assets of SAIL, GAIL, ONGC and many other profit-making PSUs have been earmarked for monetisation.

HIGHLIGHTS

How it will hurt the common people's purse?

As per a question answered in the Lok Sabha on 8th December 2021, **the government aims to monetise 400 railway stations** across the country. This would lead to increased costs for passengers and for the Railways.

In a country like India where poverty levels are high and markets are fragmented, where large numbers of disadvantaged households are yet to secure access to the basic needs of life, **private enterprise which is largely profit-driven can not be expected to provide these services at affordable prices.**

The government claims to raise 6 lakh crores from the monetization. So the private companies would at the least like to raise this amount that they have already paid to the government as soon as possible and then they would also account for profits and interests. **To maximize their profit over a limited time frame, investors would predictably raise prices, limit competition or cut back on maintenance.** What this would necessarily translate into is the shifting of the burden on the people, the consumers, in the form of higher and exorbitant user charges and also deterioration of the maintenance of the assets.

Instances around the world:

The most infamous case of this kind was the **monetization of infrastructure and natural resources in Bolivia.** So much so that they monetised even the river and the private company hiked water charges increasing the water bill nearly eight times. It led to Cochabamba protests as mass anger ultimately resulted in regime change. So the fallout of such monetization is fairly obvious. It is the people who will have to pay dearly for such moves.

Another instance we could take lessons from is the fallout of the **privatization of poles and wires in New South Wales** (Australia) where electricity prices doubled five years after the privatization. So much so that in 2017 the government had to step in with the Energy Affordability Package to save NSW households and small businesses by removing unnecessary retailer fees and increasing rebates.

Rail transport in Singapore is yet another instance to draw lessons from. The performance of the Mass Rail Transport between 2011 and 2017 was checkered with multiple high-profile rail disruptions under private hands which led to widespread public criticism. Finally the Singapore government had to step in to take control over the operating assets, nationalize its suburban trains and signaling systems because the main private operator had grossly underinvested in maintenance that had led to the frequent breakdowns leaving the passengers stranded and angry.

If we are to learn from global experience, such moves have been disastrous in say the **United Kingdom or Argentina with train fares overshooting the cost of flights** and irrational decisions of companies adversely affecting the efficiency of trains. Again, Railtrack, a company in the UK in charge of signalling tracks and stations, for instance, did not always reinvest its profits in the railway infrastructure, leading to a deterioration of the tracks and accidents. Finally, public outcry compelled the government there to take over.

MONETISING
At what cost?

Private corporations themselves will finance the monetised assets by getting loans, from public sector banks in many cases. Essentially they will be using citizens' money to take control over assets that were built using citizens' taxes in the first place! **The public interest will be forsaken for the interest of an ultra-privileged few.**

Critics have been apprehensive about private borrowing because of bitter experiences in not so not-so-distant past. After the 2005-2011 boom period, **several of the companies that had borrowed money for investments in infrastructure were in deep crisis** because of which public banks were saddled with huge NPAs. There is no guarantee that the same won't be repeated.

Reservation will not be implemented in monetized industries and enterprises by profit motivated private players. Tens of thousands of workers from historically oppressed communities will loose their right to access work. The biggest bloc (52%) earmarked for monetization are railways (25%) and roads (27%). While it is riddled with discrimination , the railways nonetheless is the largest public sector where Dalits, Muslims and adivasis have over the decades gotten significant representation as stakeholders, writes Tamoghna Halder. 2020 data suggest that about 25% of the employees in railways come from SC/ST background.

In today's economic conditions how many private sector people would actually have the wherewithal to bid for such capital intensive assets? That too at a time when they are not even investing in their own businesses. There will not be enough bids, but yes, **there will be friendly bids at friendly prices and valuations! Its a road to build monopolies.**

Prof. Chirashree Dasgupta says that **there are apprehensions that land use maybe for example be diverted to promotion of real estate** which has both ecological and economic implications. This apprehension is reinforced as urban real estate is one of the twelve areas specifically mentioned as comprisng the NMP.

The Department of Investment and Public Asset Management had approved the monetization of BSNL assets worth Rs. 18,200 crore and MTNL properties valued at Rs. 5158 crores. BSNL and MTNL are in fact being pulled up for managing to monetize only Rs 550 crore worth of land and have been asked by the government to submit a report about the delay. This again raises apprehensions about govt land being parceled out for real estate purposes. MTNL and BSNL has sited lack of permission from state governments, local bodies and title ownership issues as the reasons for delay.

Prof. Dasgupta also points out that the NMP and National Infrastructure Plan (NIP) have been made co-terminus. In the 2023-24 budget for instance, an allocation of Rs 10 lakh crore of public money had been announced for the NIP. This **single year allocation is much larger than the Rs 6 lakh crore worth infrastucture assets that were to be created under NMP over four years. Does this even make sense?**

The government had monetised assets worth ₹26,000 crore during FY23 against the target of ₹1.6 lakh crore. This takes the **total monetisation value realized in FY22 and FY23 to ₹1.14 lakh crore which is just 19% of the target of ₹6 lakh crore.** Prof. Dasgupta apprehends that given that the Monetisation targets are hardly being achieved, the question arises as to how then will the huge figures announced for the NIF be financed? The apparent route so far has been by **compression of capital investment in important social & economic sectors**. This further exacerbates inequality and disparity.

Big corporate players in infrastructure like Larsen & Toubro had earlier made it clear that they were not interested in bidding under NMP. The Confederation of Indian Industries had also put forward their reservations about execution-related issues in the NMP. **The lack of enthusiasm from big capital is explained by the abysmal demand constraint in the economy. Given this scenario, big capital is not interested in acquiring assets even when offered cheaply.**

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