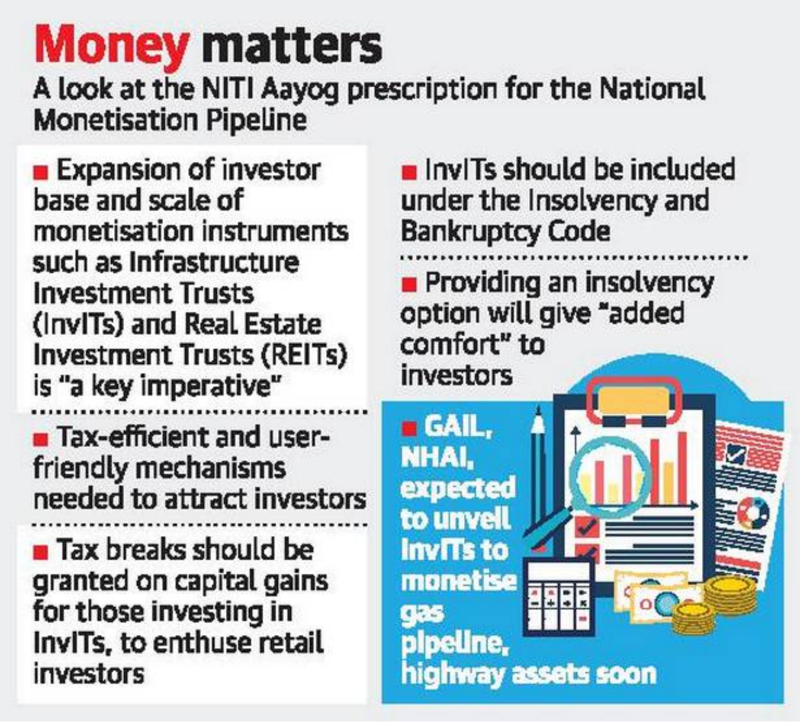
Critical Elements of National Monetisation Pipeline

Why in News

Recently, the **NITI Aayog** has recommended bringing in policy and regulatory changes to scale up monetisation instruments like **Infrastructure Investment Trusts (InvITs)** and **Real Estate Investment Trusts (REITs)** as a **critical element** for success of the **National Monetisation Pipeline (NMP)**.



Key Points

- **About NMP:**
  - The NMP estimates aggregate **monetisation potential of Rs 6 lakh crores through core assets of the Central Government**, over a four-year period, from **FY 2022 to FY 2025.**
  - The plan is in line with **Prime Minister's strategic divestment policy**, under which the government will retain presence in only a few identified areas with the rest tapping the private sector.
  - Under it, the government **plans to use the InvITs and REITs route to monetise public assets** like highways, gas pipelines, railway tracks and power transmission lines.
- **Highlights of the NITI Aayog Recommendations:**
  - **Bringing InvITs Under Insolvency and Bankruptcy Code (IBC)**: While InvITs structures have been used in India since 2014, such Trusts are not considered a **'legal person'.**
    - Therefore, the IBC regulations are not applicable for InvIT loans. The lenders do not have an existing process for recourse to project assets.
      - However, lenders are protected under the **Securitisation and Reconstruction of Financial Assets and Enforcement of Security Interest Act, 2002 (SARFAESI Act)** and the **Recovery of Debts and Bankruptcy Act, 1993**
    - Thus, extending IBC provisions to InvITs **would help lenders access a faster and more effective debt restructuring and resolution option.**
  - **Tax Breaks:** Tax-efficient and user-friendly mechanisms like allowing tax benefits in InvITs as eligible security to invest under **Section 54EC of the Income-Tax Act, 1961**, would attract retail investors (individual/non-professional investors).
    - Though this will entail a cost in the form of loss of revenue for the exchequer, the long-term benefits may outweigh the cost as linking investments in specified bonds with the **capital gains** exemption had proved to be a success in the past.
    - Section 54EC of the Income-Tax Act, 1961, **allows taxpayers to offset long-term capital gains from transactions in immovable properties through investments in bonds issued by some government-backed infrastructure firms.**
      - This applies to bonds issued by the National Highway Authority of India, Rural Electrification Corporation, Power Finance Corporation and the Indian Railway Finance Corporation.

- **About Infrastructure Investment Trusts:**
  - 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 10 lakh**, therefore, InvITs are suitable for high networth individuals, institutional and non-institutional investors.

    InvITs are listed on exchanges just like stocks — through IPOs.
  - InvITs are regulated by the **Securities and Exchange Board of India** (SEBI) (Infrastructure Investment Trusts) Regulations, 2014.
  - 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.
- **About Real estate Investment Trust:**
  - 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.
  - 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.

Way Forward

- **Multi-stakeholder Approach: Infrastructure regulators and SEBI** would need to work in tandem for a successful insolvency resolution of an InvITs which may involve a change in the sponsor, investment manager and/ or trustee or transfer of an infrastructure asset.
- **Amendment in Income Tax Act:** Industrial groups have proposed a separate section in the income tax law to provide capital gains tax relief for investments in eligible InvITs specifically holding NMP assets, which would be better than extending Section 54EC.
- **Holistic Reforms:** Streamlining operational modalities, encouraging investor participation and facilitating commercial efficiency' could ensure 'efficient and effective' outcomes from the monetisation drive.

Source: TH