Guidelines for Asset Identification

Guidelines for Implementing Asset Recycling Transactions

Asset recycling offers the opportunity to fund needed infrastructure without the government taking on additional public sector debt. Explore the section below or visit Guidelines for Implementing Asset Recycling Transactions for a full overview.

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The PPPRC Asset Recycling section *is intended to serve as a living document and will be periodically updated to reflect emerging best practices, evolving market conditions, and implementation experience. Let us know what you think by taking a Quick Survey.*

Asset Selection Process

In selecting an appropriate asset as the subject of an asset recycling transaction, the Relevant Authority should consider five (5) key parameters; being (i) operational, (ii) financial/ commercial checks, (iii) legal and regulatory, (iv) early-stage market testing, and (v) and social and environmental. Against each parameter, the Relevant Authority should apply the relevant checks as set out below:

Operational Checks

The Relevant Authority should check the following from an operational perspective:

The asset should meet the following criteria:

- Historical operations - the asset should already be operational to enable an assessment of its operational and financial track record.
- Remaining life - the asset should have an adequate remaining life to ensure that the private sector can generate sufficient return on its investment. In addition, the remaining life of the asset may also be impacted by climate related risks that may shorten its effective life.
- Scope for operational efficiencies - scope for improvement or innovation by the private sector partner in terms of operational efficiency or effectiveness (including those related to energy consumption).
- Climate risks - The Relevant Authority should assess how climate risks may affect the potential asset recycling transaction. If left unmitigated, the adverse effects of climate change may impact the operational, financial, environmental, and social performance of large, fixed infrastructure assets. The climate risk assessment at this stage can be considered on the basis of a high-level assessment, or ‘screening’ of the risks compared to the preliminary technical, economic, and financial assessments conducted. An asset recycling transaction with high climate risk might be determined as too risky. The following high-level assessment are recommended as an initial assessment of an asset recycling transaction, prior to making further investment in acquiring permits or conducting more in-depth assessments:
    - Screening-level assessment of climate-related risk exposure;
    - Screening-level assessment of project vulnerability; and
    - Screening-level assessment of the overall climate risk profile: assessment of GHG emissions baseline of the asset.

Financial/Commercial Checks

The following commercial and financial reviews should be considered to determine if an asset has the potential to be recycled.

The key factors to consider are:

- Historical cashflows: the asset should be supported by positive historical cash flows.
- Revenue generating potential: the asset should, over the remaining life assessed based on the demand forecast, tariff setting and the impact of government policies, be able to generate positive cashflow for the private sector party.
- Sustainability of debt serviceability: the revenue generated by the asset, depending on leverage used to finance its investment, should be able to service debt obligations.
- Capital generation: ability to generate sufficient funds from an upfront fee, periodic payments by the private partner, shared profits or dividends, or other revenue sharing modalities.

Legal and Regulatory Checks

The following checks should be undertaken on the asset:

- Legal compliance: full compliance with applicable regulatory requirements; if not, the transaction preparation will require the remediation of any non-compliance.
- Litigations and claims: not subject to any current or threatened disputes, claims or other legal liabilities, such as, disputed land ownership or associated arrears, history of adverse environmental impacts and associated liabilities, as this will likely raise concerns from potential investors and adversely impact the attractiveness of the transaction to the market.
- Other legal risks identification: The Relevant Authority should review legal risks which may affect the asset and transaction including required licences for the private sector to hold and operate the asset, if applicable, and any existing rights applicable to the transfer or assignment of material agreements; transfer of staff.

Social and Environmental Checks

Social and environmental due diligence and considerations, and corresponding mitigation measures, should also be taken into consideration in the asset selection process. These should include consideration of matters relating to environmental as well as social impacts such as relocation of communities and/or employee retrenchment.

Case Studies on Asset Recycling and Selection of Assets

Box 1: Case Study on Asset Recycling Initiative

Asset Recycling Initiative (ARI), Australia

Australia has explored and implemented asset recycling concept with Asset Recycling Initiative (ARI). The initiative provides an incentive to the states to engage in asset recycling to boost infrastructure development.

Participating states and territories agreed with the Federal Government as to which assets would be monetized, and the infrastructure assets to be developed from the proceeds.

Following a successful asset recycling transaction undertaken by a state, and on the utilization of the proceeds to invest in new infrastructure, the participating state (or territory) receives an additional 15 percent of the monetized proceeds from the Federal Government.

The Federal Government's financial contribution is managed through the Asset Recycling Fund (ARF), which is used to make payments to states.

National Monetization Pipeline (NMP), India

The Government of India launched the asset monetisation pipeline, 'National Monetisation Pipeline (NMP Volumes 1 and 2)', in consultation with infrastructure line ministries, based on the mandate for 'Asset Monetisation' under Union Budget 2021-22.

Asset monetisation, based on the philosophy of "Creation through Monetisation", is aimed at tapping private sector investment in new infrastructure. In India, the framework of core asset monetisation has three key imperatives:

- Monetization of 'rights' not 'ownership'; assets are handed back to the government at the end of concession.
- Brownfield de-risked assets, with stable revenue streams, are the primary candidates of monetization.
- Structured partnerships, under defined contractual frameworks with strict KPIs and performance standards, are encouraged to increase operational efficiencies of infrastructure assets to be monetized.

Limited Concession Scheme, Indonesia

In February 2020, the Government of Indonesia introduced a new legal framework of the Limited Concession Scheme (LCS) to monetize infrastructure assets owned by the Government and State-owned Enterprises (SOE).

Under this scheme, the relevant authority is to grant a long term concession to a private sector party to operate the asset and in return, Government receives an upfront payment that is to be applied to developing new infrastructure assets.

The LCS is not equivalent to privatization as the ownership of the asset remains with the Government, and the private sector party is conferred with the right to operate the asset for the concession term.

Box 2: Case Studies from India and Indonesia

Asset selection for toll-operate-transfer (TOT) model of road asset monetization, India

The selection of assets is based on asset's track record of exhibiting certainty in toll generation. As the assets are operating, concessionaires do not bear any developmental and construction risks.

Accordingly, the assets should (i) be operational with observable traffic demand and be supported by (ii) reliable traffic forecast with (iii) substantial capital expenditure already incurred thereby de-risking the concession from development and construction risks.

As per the latest guidelines, the public funded highway projects which are operational and have toll revenue generation history of one (1) year after the commercial operations date shall be monetized

through TOT model.

Asset selection for Limited Concession Scheme (LCS), Indonesia

As per the regulation on LCS, assets belonging to the State, and assets belonging to State-owned enterprises (SOEs) are eligible for monetization. These include infrastructure assets such as transportation assets (seaports, airports, railways and bus terminals), toll roads, water/drinking water, sewerage and waste management systems, telecommunications assets and energy (power/renewables, oil and gas).

The LCS Assets must satisfy criteria set out in the regulation:

- The assets have operated for at least two years
- The assets require operational efficiency.
- The life of the assets is at least ten years.
- The assets have a track record of positive cash flow for at least two (2) consecutive years.

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This section has not been prepared with any specific transaction in mind and are meant to serve only as general guidance. It is therefore critical that the content will be reviewed and adapted for specific transactions.

This is a new section of the website and is currently in draft form. For feedback on the content of this section or to suggest additional links or materials, please contact the PPP Resource Center using the feedback form.

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