Photo Credit

City from high angle

Create Momentum

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On this page: *Create momentum by establishing the right perception of the asset recycling program. Read more below, or visit the main page for the Asset Recycling Handbook and Content Outline, or Download the Full Report.*

The Governments should create momentum by setting the right perception of an asset recycling program to the public, in engaging with the private sector/ investors by creating and showcasing a pipeline of assets to be monetized.

Set the right public perception

Asset recycling, especially the monetization component, may be perceived by the public as privatization or the selling of public-funded assets to the private sector. Therefore, it is important to communicate the right message, both in terms of definition and benefits of asset recycling; this will help gain public acceptance and support. Another key concern is that of retrenchment or collective dismissal.

Some key messages to be communicated to the public include:

- Asset recycling is not akin to privatization or the outright sale of asset as the asset remain in public ownership. Public capital is reallocated through asset recycling but remains invested in infrastructure assets.
- The proceeds generated thorough asset recycling will be re-invested in the development of new publicly owned infrastructure assets.
- Asset recycling helps reduce both debt and tax burdens as it helps unlock capital and reinvestment of proceeds in new infrastructure assets.
- Creating new infrastructure through asset recycling results in increased socioeconomic benefits, including job creation and productivity growth, which may not be uniform.
- Asset recycling attracts foreign investment, especially by diversifying the investor base and creating competition, thus providing better value-for-money for public services.

Mechanisms to engage with the public

It is important to understand communities' and stakeholders' concerns by engaging with them directly to identify and address their fears; this engagement can help tailor an asset recycling program to the needs and values of local communities.

Governments should create mechanisms that encourage the public to engage throughout the whole process. These mechanisms may include public opinion surveys and town hall meetings that can help identify the public's concerns as well as the public's reaction to the rationale set forth by the government, and to proposed solutions to address concerns. Thus, by adopting a more collaborative process with the local community during the planning stages, governments can considerably reduce opposition and build support.

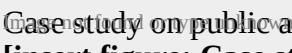
Case study - Public attitudes and awareness towards asset recycling in Australia

Research carried out in the State of Queensland, Australia, showed low awareness among the public towards asset recycling; however, once asset recycling was explained with the right messages, it received stronger support compared to traditional financing instruments of debt and taxes. Some of the messages communicated to the public included:

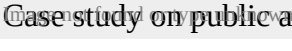
- More employment opportunities by reinvesting the proceeds of asset recycling into new infrastructure development.
- Asset recycling allows the development of new infrastructure without the government having to increase state debt or introduce new taxes, levies, or tolls.
- There are adequate protection mechanisms to ensure funds raised from asset recycling are spent on new infrastructure projects.
- There are adequate protection mechanisms to ensure limits on foreign ownership of essential infrastructure.
- The monetization of assets, particularly older, mature assets, would otherwise have cost more money and lost value over time.

This research shows that the case for asset recycling can be strengthened by using similar messages, as in general, the public wants more jobs, less debt, and fewer taxes.

[inset figure: Case study on public attitudes and awareness towards asset recycling in Australia F1]



[insert figure: Case study on public attitudes and awareness towards asset recycling in Australia F2]



Need to engage with the private sector

Attracting sufficient private sector interest in bidding for an asset recycling transaction is key in ensuring that the value of the transaction is maximized through competitive tension. To this end, the government should engage with the private sector and potential investors to:

- Assess the main drivers and constraints of private sector investments in infrastructure development in terms of private sector investment in infrastructure assets.
- Assess level of maturity and competitiveness for private participation and investment in the infrastructure in their respective market; and
- Communicate information about the program in terms of priority sectors and projects to the private sector to allow for feedback.

Highlight

Challenges in private capital mobilization in EMDEs

As part of the World Bank Group's assessment and gap analysis for mobilizing private capital for economic development, a sample of global institutional investors were interviewed to understand the potential solutions that the World Bank Group may employ to help overcome the key challenges identified in deploying capital to Emerging Markets and Developing Economics (EMDEs) for infrastructure development. The insights are captured in the report, Institutional Investors and Sustainable Infrastructure: A Global Review of Case Studies to Finance the Infrastructure Gap.

The three categories of challenges impeding optimization of capital flows to EMDE countries relate to the inventory of bankable projects, government action failure, and financial market failure.

Key participants to engage

Asset recycling transactions create opportunities for both strategic investors as well as financial and institutional investors which may find such assets to be attractive as they have been de-risked of design, development, and construction risks.

Private sector participants may include contractors, strategic investors (such as, sector-specific operators), financial investors and institutional investors.

Case study - Investor class in road monetization in India

In India's asset monetization program, through the toll-operate-transfer (TOT) model, there has been strong interest from international investors due to the market-friendly terms in the concession agreement.

The de-risking of construction and development risks attracted institutional and financial investors in addition to strategic investors. For instance, the first bundle of the TOT tender saw a financial investor winning the bid, whereas the third bundle saw a strategic investor winning the bid.

Lessons gleaned from TOT monetization:

- **Asset selection**: 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 de-risking the concession from development and construction risks.
- **Setting realistic expectations with respect to the proceeds that can be achieved**: Setting high estimated concessionaire value in the case of toll road transactions proved to be a deterrent in attracting bids in cancelled TOT bundles (i.e. for TOT Bundle 2, 6, 8 and 10). It is important for the Authority (grantor) to ensure any valuation of the concession is conducted following market norms and is commercially realistic and viable. The Authority's first round of TOT auctions closed in February 2018 and generated 55% more value than the initial estimated concession value (IECV, determined by the Authority as its estimate). The fact that the first TOT bundle was awarded for a higher price than the Authority's estimate raised the expectations of proceeds that could be realized by the second bundle. The tender for the second bundle of TOT was launched by the NHAI in August 2018. Unlike the first bundle, the toll collection potential was lower for the second bundle. It failed to elicit positive responses in comparison to the first bundle – the highest bid for the second bundle was 14% lower than IECV.
- **Risk allocation**: Market-appropriate commercial terms and risk allocation, such as, (i) ensuring no competition during concession period (ii) providing downside protection by extending the concession period under certain circumstances (iii) market accepted termination clauses (iv) and an independent body for dispute resolution significantly encourages participation by investors.
- **Market Testing**: Ensure that key terms in the draft concession agreement are made available for stakeholder consultation before the tender process, including investors, and for public consultation.

Snapshot of market-friendly commercial terms

1	**Concession Period** Varies from bundle to bundle of highway assets	• Earlier 30 years for all bundles • Modified to vary from bundle to bundle (15-30 years now)
2	**Competing Assets** Authority restricted from constructing competing assets	• Restriction not applicable if the average traffic volume on the highway in any three consecutive years exceeds 90% of its designed capacity
3	**Capacity Augmentation** Private sector de-risked of capital and development risk	• Authority to bear the cost for future development • Private sector enjoys the tolling rights on augmented assets
4	**Payment mechanism** Upfront fee	• Lump sum up-front fee (measured against the Initial Estimated Concession Value, IECV)
5	**Risk allocation/ Guarantee** Variation in toll /termination payment	• Shortfall in toll to be offset by increase in concession period • 105% of unexpired cash flow in case Authority defaults
6	**Arbitration** Apex organization for highways and roadways	• Disputes are referred to the Society for Affordable Redressal of Disputes (SAROD) for arbitration, an apex organization of all contractors/builders of national highways

As of 2024, NHAI has put out 20 TOT Bundles:

Status	Number of Bundles	Total Length	Total Value (mn US$)
Awarded	11	2238 km	5873
Procurement in progress	4		
Bid cancelled due to low bid value	5	1359 km	-

Developing and showcasing a pipeline

Momentum around the asset recycling program at the market level can be engendered by (i) Showcasing quality assets to the market (ii) Demonstrating clarity and timely offering of these assets (iii) Managing the phasing and staging of the assets to be recycled.

A robust pipeline of assets for asset recycling would give a strong indication of government sponsorship. Developing a pipeline of key projects results in several benefits:

- **Positive and encouraging signal to the private sector**: A well-developed monetization pipeline would present a structured approach, thus signaling to the private sector that there is a genuine long-term program.
- **Forward-looking planning**: It also allows the private sector to plan and mobilize resources to bid for projects. Given that bid costs can be expensive, having a pipeline would enhance the business case for an international bidder to invest resources to enter a new market.
- **Scalability and cost efficiencies**: It allows private investor to achieve cost efficiencies by investing in multiple projects within the same market. The experience gained in bidding for and developing one project can help reduce transaction costs.
- **Consistency**: Over time, an asset recycling program will encourage consistency in the approach in tendering and transacting an asset recycling scheme; thereby providing clarity and certainty to the market and also reducing transaction costs. This increases the attractiveness of the pipeline projects and promotes robust competition among the private sector investors.

Case study - Monetization pipeline, India

A key concern by investors to the Governments is the availability of a sustained and robust asset pipeline. A pipeline provides a view to investors and developers of brownfield investment avenues in infrastructure.

The National Monetization Pipeline (NMP) was prepared to provide a direction to the monetization initiative and visibility of investors. It aims to create a systematic and transparent mechanism for public authorities to monitor the initiative and for investors to plan their future activities.

In pursuance of the same, NITI Aayog, the policy think tank of Government of India, was tasked with the creation of the NMP for brownfield core infrastructure assets.

- The NMP was compiled on a best effort basis by collating the information provided by various stakeholders, including line ministries, departments, and the assessments of secondary information available on existing infrastructure assets in each of the sectors.
- A bottom-up approach is adopted whereby existing core infrastructure asset base managed under central sector agencies was identified and mapped.
- Key criteria for asset selection are:
    - operational history
    - reliable and observable traffic demand
    - substantial capital expenditure having already been incurred to develop the asset
    - de-risking the concession from development and construction risks.
- The assets include roads, ports, airports, telecom, railways, warehousing, energy pipelines, power generation, power transmission, hospitality, and sports stadiums.
- The monetization potential assessment focuses on visible revenue streams, commercial potential, utilization levels, investor appetite and revenue, ability to tap private sector efficiencies in operations and maintenance, policy focus to tap institutional investment in the sector.
- The IFC Upstream has since helped in refining the monetization pipeline and, as part of this, the scope for pipeline selection included an Environmental and Social Screening to identify associate red flags, thereby considering other important factors related to the pipeline.

Related Content

- **The PPPRC Asset Recycling Section**
- **Executive Summary: Asset Recycling**
- **Asset Recycling Projects**
- **Asset Recycling Programs**
- **Table of Contents for Asset Recycling**

Additional Resources

- Asset Recycling Handbook (Download PDF)

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.