Asset Recycling Models

Models of Asset Recycling

In this section, you will find an overview of various asset recycling approaches used to generate upfront proceeds from public infrastructure assets.

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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 recycling of public infrastructure assets can take various forms, but generally, it involves private investment in existing State Owned Enterprise (SOE) assets. It may involve, for example, government funding new assets or redeveloping existing assets or repaying existing debt by using the proceeds realised from the grant of concessions, a sale or lease or structured financing of existing infrastructure assets.

For example, in an asset recycling transaction using a concession model, the private sector counterparty pays to government an up-front payment to secure the operating rights of the infrastructure asset. Over the term of the concession, the ownership of the asset generally remains vested in the government. The private sector party bears the responsibilities for the maintenance and operations of the asset in exchange for the revenues generated from users of the asset.

Assets that are most viable for recycling are brownfield assets that have an established stream of revenue, such as toll roads, airports, and utilities assets and which design, development and construction risks have been substantially removed. The upfront payment realised under an asset recycling transaction is applied to fund new infrastructure projects or redeveloping existing assets or repaying existing debt.

Models of Asset Recycling

The range of models that have been observed in asset recycling transactions include the following:

Concession Model (Build-operate-transfer, rehabilitate-operate-transfer, service/ maintenance contract)

- **Definition:** A concession model is an arrangement that typically involves a private sector entity operating and maintaining an infrastructure asset to provide the public service for a specified period, against payment of an upfront fee and/ or annual fee. In an asset recycling transaction, the asset would already be fully operational and would not require any significant development capital on the part of the private sector entity (However, it is noted that for some projects, the private sector entity may be required to upgrade or expand the asset).
- **Parties to the agreement:** The parties to a concession agreement would include a public sector entity, such as central governmental bodies or state-owned entities (the Relevant Authority), and a private sector entity to which the responsibility for the service has been delegated.
- **Use of assets:** The use of assets is determined by the Relevant Authority by defining the performance requirements in the agreement. The relevant authority or grantor may also regulate the prices and changes in prices to be charged to users.
- **Hand back of assets:** The private sector entity is required to hand-over the infrastructure asset to the grantor/ Relevant Authority in a specified condition at the end of the concession period.

Lease Model

- **Definition:** Under an asset recycling scheme, a lease confers the right to use an asset (the underlying asset) for a period in exchange for the private sector entity making an upfront and/or annual lease payment.
- **Parties to the agreement:** In the context of an asset recycling transaction, a Relevant Authority will act as the lessor; with the private sector as the lessee to the lease agreement.
- **Use of assets:** The terms of the lease agreement will set out the obligations, responsibilities of the lessor (Relevant Authority) and lessee in regard to the use of assets and regulate the lease payments.
- **Returning the assets:** The use of the asset is returned to the Relevant Authority at the end of the lease term.

Joint Venture Model

- In a joint venture model, the Relevant Authority and the selected private sector investor(s) enter into a joint venture company to jointly operate the asset under a long-term lease or concession.

Structured Financing

Securitization

- Securitisation refers to transformation of a pool of illiquid financial assets (for example, lease receivables for a portfolio of aircraft or toll revenues derived from a toll way) into investible liquid financial assets: referred to as asset backed securities.
- Financial assets that have a stable or predictable cash flow (such as leases from real estate, toll or tariff revenue from infrastructure facilities such as toll roads or ports) can be securitised. In the context of a Relevant Authority as an originator, securitisation enables the Relevant Authority to sell pools of receivables that it derives to institutional investors to generate funding for new investments; thereby recycling capital.

Infrastructure Investment Trusts (InvITs)

- InvITs are business trusts, registered with the market regulator, which owns, operates, and manages brownfield, operational infrastructure assets. These long-term revenue-generating infrastructure assets generate cash flows which are distributed to the unitholders periodically.

Out-right sale model/ partial divestment

Out-right sale model

- An outright sale involves selling the rights and ownership of the asset to the private sector for an upfront lump sum payment.

Partial divestment

- A partial divestment involves selling partial rights and ownership of the asset to the private sector for an upfront lump sum payment.

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Divestment

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Asset Recycling Projects

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Annex in Asset Recycling

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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.