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Divestment

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On this page: *Monetization can involve asset-based or corporate divestment. Read more below, or visit the main page for the Asset Recycling Handbook and Content Outline, or Download the Full Report*

Description of Divestment

In this model, the underlying asset for monetization can be either a standalone infrastructure asset or a corporate entity holding multiple infrastructure assets. Accordingly, divestment is generally classified into two main types, asset-based divestment, or corporate divestment. The asset-based divestment can be further categorized into outright sale of the asset to private sector or partial sale of asset to private sector through a Joint Venture (JV) Special Purpose Vehicle (SPV). Likewise, corporate divestment can also be partial or full divestment.

Asset-based divestment – outright sale of assets

Under an outright sale of assets, divestment occurs at the project company (which holds the asset) under the public sector entity. The shares owned by the public sector entity in the project company are sold to private investors. The private investors hold interest in the underlying asset through their interest in the project company.

Asset-based divestment – Joint Venture SPV (JV SPV) Model

Under the JV SPV model, divestment also occurs at the project company level (which holds the asset) under the public sector entity. In this, the result is a joint ownership of the asset between the public sector and the private sector through a partial sale of the shares in the project company. This model is applied where the public sector wants to continue to play a role in the day-to-day decision making of operating the asset.

The operating expertise of the private investor can be leveraged for improving the operational efficiency and service delivery with respect to the asset.

Corporate divestment – full / partial divestment

Under corporate divestment, divestment occurs at the corporate or public sector entity level (instead of project company or asset level) wherein private investors can obtain a partial or full stake in the public sector entity.

Example: Examples of divestments for asset monetization

Asset-based divestment – outright sale of assets

- WestConnex Privatization, Australia: WestConnex is a 33 km long motorway in Sydney and the largest toll road project in Australia. The sale of 49% equity stake to Sydney Transport Partners

came after the 2018 sale of the project's 51% equity stake to the same consortium. The sale was structured in two tranches to increase competition among the bidders.

Source: Oliver Wyman (https://www.oliverwyman.com/content/dam/oliver-wyman/v2/publications/infrastructure-asset-recycling-grc.pdf)

Asset-based divestment – JV SPV Model

- Kualanamu Airport: GMR Airports, a unit of GMR Infrastructure was appointed as the strategic partner to the State-owned airport operator; Angkasa Pura 2 (AP2) on a 49:51 partnership basis to develop and operate the North Sumatran airport for a term of 25 years. The Strategic Partnership scope includes operation, development, and expansion of the airport.

Corporate Divestment

- Air India: Air India, the national airline carrier was sold to Tata Group for USD 2.4 billion. Prior to the corporate divestment, Air India was experiencing financial difficulties for multiple years under the operational control of the government.

Source: IJ Global (https://pib.gov.in/PressReleaseIframePage.aspx?PRID=1762146)

Objectives of Divestment

The objectives under the divestment model are largely like those cited for the direct contractual agreements:

- Retention of ownership: Except in the case of a full divestment, the public sector retains some level of ownership and management control over the assets through its ownership of the project company.
- Leveraging private sector expertise: Private sector efficiencies can be introduced to the operations of the asset. With the exception of a full divestment, the public sector still retains some level of management and operational control in the project company (and hence the asset).
- Greater accountability: Under the divestment model, the private sector may be obligated to meet minimum performance requirements or service standards (including environmental and social standards). Failure to meet these obligations may subject the private sector entity to a performance abatement regime, or, for severe and persistent breaches, terminate the agreement. This provides strong incentives to the private sector entity to ensure that contractual obligations are met. Under a divestment model, laws and regulations may be needed to ensure that public interests are safeguarded. The laws and regulations may govern matters such as tariff setting, service performance or fair and equitable access to third parties.
- Risk allocation and mitigation: The public sector entity can partially transfer the risks involved in operating and maintaining the asset to the private sector which is best placed to manage certain risks.

Table 7: Key risks managed and mitigated through divestment

Risk Category	Risk Mitigation
Inadequate performance	The divestment of the asset or the corporate entity (partial or full) to a competent operator remediates any inadequacies in performance.
Operation, maintenance, and Environmental & Social risk	The appointment of competent operator and management through puts into place timely remedial steps, including passing of increased costs to end-users within the parameters of fee and charges setting regime.

Demand and traffic risk	The risk of demand or traffic being lower than forecast causing a shortfall in actual revenue against budgeted revenue is passed on to the operator. The operator ensures that traffic survey and forecast are conducted by competent advisers during the bidding stage; the operator may also have the right to defer the timing of capacity-driven capital expenditure program, deployment of staff and re-calibration of level and intensity of operational functions to mitigate this risk. This is done in consultation with the respective public sector entity in case of partial divestment or JV SPV model.
Financial risks	The operator may employ efficient hedging strategies, including financing in local currencies, indexation in fee and charges, and good relationships with credible lenders and financiers.
Strategic control	Through partial divestment or JV SPV model the risk of asset not being privatized and the risk of not losing control of the ownership is mitigated; however, it is not the case in full divestment where the strategic control is lost.

Monetization Process and Structure of Divestment

The process involved in a divestment transaction is similar to that of the process for a direct contractual agreement transaction.

Figure 8: Activities in divestment model

Indicative structure of direct contractual agreements

Stakeholders in divestment

The following table presents the stakeholders, including respective roles and responsibilities, in asset-based divestment or corporate divestment.

Table 8: Stakeholders in divestment

Stakeholders	Roles and Responsibilities
Public Sector Entity / State-owned Enterprise (SOE)	The government entity which divests the asset or corporate entity either in full or partially.
Infrastructure Asset SPV / JV SPV	The SPV (or JV SPV) is responsible for the operations and maintenance of the infrastructure asset, and for E&S management. It is also responsible for the collection of revenue and distribution of cash flows back to the investor.
Private Investor(s)	The private investor/s can be a mix of strategic investors or financial investors. Institutional investors may participate in divestment transactions as part of a consortium of investors.
Financiers / Lenders	Financiers such as domestic or international banks can provide asset-based financing loans for asset-based divestment transaction and leveraged financing for corporate divestment transactions.
Service Users (of Infrastructure Asset)	Users of the infrastructure make payments for using the services or the asset (for instance, toll payments by users of toll roads).

Monetization structure - asset-based outright sale model

The following steps presents the monetization process for an asset-based outright sale model.

- The government divests by selling its shares in the project company holding the asset to private investors (SPV). This can be done through a competitive bidding process. The result is a complete loss of government ownership in the asset in the case of a full divestment.
- The private sector party acquire the shares of the SPV and receive distributions from cash flows generated by the asset as dividends. The private sector can also raise debt to finance the acquisition of the asset. Lenders are repaid through the cash flows generated by the asset.
- The project company collects revenue from service users of the infrastructure (for instance, in the form of tolls for toll road usage or applicable tariffs for electricity transmission services).
- Operations and maintenance works will be subcontracted to third-party contractors.

Figure 9: Structure of asset-based outright sale model

Activities in divestment
Activities in divestment model

Monetization structure - asset-based JV SPV model

The following steps presents the monetization process for an asset-based JV SPV model.

- The government divests part of the shares in the SPV to private investors through a competitive bidding process, resulting in joint ownership of the asset between the government and the successful private sector bidder.
- The government continues to hold an interest in the asset as a shareholder in the SPV together with the selected private sector investor(s). Both the government and the private sector investors will receive dividend payments from the revenue generated from the assets. The acquisition can also be financed through debt where lenders are repaid through the cash flows generated by the asset.
- The SPV is given the right to collect revenue from service users of the infrastructure (i.e., toll payments for users or tariffs for electricity transmission services).
- Operations and maintenance work can be subcontracted to third-party contractors.

Figure 10: Structure of asset-based JV SPV model

Structure of asset-based
Structure of asset-based outright sale model

Monetization structure - partial or full corporate divestment

The following steps presents the monetization process for a partial or full corporate divestment model.

The government entity / line ministry divests its shares in the asset-holding company. This can either be a full or partial divestment by the government of its shares in the company.

Private investors acquire some or all the shares in the company. The acquisition can be financed through debt where lenders are repaid by cash flows from the company.

Revenue generated by the assets owned by the company flows to the investors as equity distributions.

Figure 11: Structure of partial or full corporate divestment

Structure of asset-based
Structure of asset-based JV SPV model

Investor Class of Divestment

Like direct contractual agreements, the counterparty to the public entity in case of divestment is likely be a sector-specific strategic investor, with strong track record of delivering certain infrastructure asset classes. These investors possess the relevant expertise required to deliver services successfully and meet performance standards.

Financial and institutional investors may also invest under this model and, most likely, in a consortium with strategic investors.

Required Setting of Divestment

Macro-economic and legal considerations

Legislation on sale of public assets / corporates: Clear and transparent legislation on the sale of public assets / corporates owning public assets will provide private investors with confidence on the viability of transactions involving asset-based divestment or corporate divestment. The law should detail the infrastructure sectors available for sale under certain conditions, and other sectors or assets prohibited for sale. In jurisdictions such as India and Australia, clear legislations on divestment of public assets and corporate entities are set out.

Regulatory regime for the asset: There should ideally be a clear and transparent regulatory regime for the asset that is the subject of divestment; this should govern matters such as competition, tariff regimes, access to third parties, performance standards and other market regulatory matters, as the asset will typically have monopolistic features. Regulatory risk is a critical challenge in divestment, requiring careful consideration of models such as contractual regulation, outsourced regulation, or legal regulation—each demanding strong institutional capacity and governance. Additionally, political and legal constraints, including privatization laws that mandate sales to the highest bidder, can limit flexibility in selecting experienced operators, often leading governments to prefer lease or concession models.

Financial and market conditions

Restrictions on foreign investment in infrastructure: Limited restrictions on foreign investment in infrastructure can help attract foreign strategic investors interested in participating in asset-based divestment or corporate divestment. In developing countries where domestic investors may have limited appetite and liquidity for large infrastructure assets, foreign investors can provide a broader investor base. Foreign strategic investors may also offer specific technical expertise to enhance the performance of the infrastructure asset.

Nature of assets

Political sensitivity and national interests: The divestment of politically sensitive assets can be unpopular, and the government should engage the public on the process and the benefits from asset recycling. Sufficient safeguards should be put in place to ensure that the interests of the public are not compromised post-divestment. This may be affected through legislation to ensure fair access for relevant parties and to curb anti-monopolistic behavior.

Operational efficiencies: Upon the sale of assets or corporate shares, private investors are entitled to the future returns generated by the infrastructure asset and are thus incentivized to maximize returns by improving operational efficiency and service delivery. There should be scope for improvement or innovation by the private sector partner through future development of the asset. Service delivery can be improved by leveraging the private investors' expertise and experience. It is important to consider whether the assets come with too many material E&S risks such that the monetization aspect of the risk is affected.

Demand and cash flow stability: The infrastructure asset or corporate should have a demonstrated history of stable and growing cash flows. There should be stable and visible projected demand for the services of the infrastructure assets. These will help contribute to a higher valuation that can be generated from the divestment.

Operational control and ownership

Shareholding rights and economic interest: For certain key infrastructure assets, the JV SPV model should be used to ensure that the government remains part-owner of the asset with necessary management responsibilities and voting rights.

Key Features

Monetization Models	Key Objectives	Model Structure	Key Stakeholders	Investor Class	Required Setting	Consideration for choice of model
Divestment						
• Asset-based divestment (sale of an interest - either full or partial - in the infrastructure asset) • Corporate divestment (sale of an interest - either full or partial - in the corporate entity)	Strategic and management control of public sector in day-to-day decision making (for partial divestment), in addition to seeking operational efficiency, risk sharing with private sector, up-front and/ or annual proceeds, knowledge transfer, attracting upfront investment from private sector	• Conventional project finance structure (through debt and equity) for asset-based divestment • Predominantly corporate finance structure for corporate divestment (i.e., share acquisition of asset-holding company)	Government Agencies (public sector entities), Developers / Operators (private sector entities), Financiers	Same as direct contractual agreements, i.e., predominantly strategic investors followed by institutional and financial investors	Foreign investment restrictions, political sensitivity, and national interests (in case of partial divestment), sectors of strategic importance to the government	Suitable for leveraging private sector efficiencies and transfer of revenue risk to private sector. Partial or full divestment may be appropriate depending on considerations such as ownership requirement level of control and extent of risk transfer required on the part of the government

Case Studies

Find examples for Divestment - Case Studies.

Related Content

- **The PPPRC Asset Recycling Section**
- **Executive Summary: Asset Recycling**
- **Asset Recycling Projects**
- **Asset Recycling Programs**
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Asset Recycling Projects

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 of the website or suggestions for links or materials that could be included, please contact the PPP Resource Center at ppp@worldbank.org.