

Re-investment Mechanisms

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On this page: *The re-investment framework should be devised to meet the objectives of the government in the development of new infrastructure. Read more below, or visit the main page for the [Asset Recycling Handbook](#) and [Content Outline](#), or [Download the Full Report](#)*

To date, many countries that have monetized infrastructure assets have done so on an ad hoc basis, rather than such transactions being based on a broader program of asset recycling. In these instances, proceeds realized have been channeled to specific purposes or consolidated funds for broader budgetary application.

In devising an asset recycling program, it is important to set out the framework for reinvestment of the proceeds generated through monetization. The re-investment framework should be devised to meet the objectives of the government in the development of new infrastructure (e.g., climate resilient infrastructure, compliant with E&S standards). A framework with clear re-investment objectives and mechanisms ensures transparency, accountability and helps engender public trust in asset monetization.

Re-investment mechanisms can be classified into two categories – (1) a retention-based mechanism, in which the proceeds are retained by the respective public sector entity undertaking asset monetization and (2) a consolidated fund-based mechanism in which the proceeds from asset monetization by all public sector entities are paid into a consolidated fund.

In addition, in order to address concerns from the asset owners, the mechanism should also consider reimbursing costs incurred in recycling the asset and ensuring financial neutrality for the owner before reallocating funds. Establishing a structured mechanism will help mitigate resistance and facilitate smoother asset transfers.

Table 15: Re-investment mechanism framework

Classification	Re-investment mechanism	Political system and consideration for choice of mechanism	Pros and Cons
Retention-based mechanism	<ul style="list-style-type: none"> Retention of proceeds by the Public Sector Entity undertaking the asset monetization Funds are hypothecated for specific use/s 	Jurisdictions with federal government structure, where political power is divided between a larger central government, the local government, and regional governments	<p>Pros</p> <p>Provides incentives for the asset owners and less reluctance to monetization as the processed from the crown assets is retained by the respective agencies originally owing the assets</p> <p>Cons</p> <p>Lacks visibility and comprehensiveness of infrastructure planning on a national level</p>

Consolidated fund-based mechanism	<ul style="list-style-type: none"> • Proceeds from monetization are paid into a fund controlled and managed by the Government • Funds are hypothecated for specific use/s 	Jurisdictions with a unitary parliamentary structure, where political power rests largely with the central government	Pros	Cons
			Comprehensive review and assessment of the infrastructure needs on a national level, including monitoring of the asset recycling program Allows to prioritize assets and sectors that are on national priority list	Multiple public sector entities might not want to pool monetization proceeds from their assets; hence, additional incentive mechanisms may be required to encourage the various public sector entities

Retention-Based Mechanism

Under a retention-based mechanism the public sector entity that undertakes the asset monetization scheme retains the proceeds from monetization for future activities. The use of the proceeds may be restricted to approved applications.

Under this approach, the public sector entity may apply the proceeds to pay down existing debt, improve its own assets or build new assets under its purview. To enhance transparency and accountability, the use of the proceeds should be specified so that it is in the public's interest that assets are monetized. This mechanism may be more appropriate for ad hoc asset monetization schemes rather than a programmatic approach (although the TOT scheme in India is an exception).

Hence, to gain public trust, this mechanism should be adopted considering the two critical success factors for reinvestment identified in sections below.

Fund-Based Mechanism

A fund-based mechanism adopts a systematic and structured approach on a consolidated basis that enables accountability, transparency, and governance.

Under this approach, the government establishes a separate fund to pool together and retain the proceeds from monetizing infrastructure and subsequently apply the funds for specific use.

The creation of a purpose-built fund demonstrates the government's commitments of reinvesting funds from monetization ensures that there is downstream value-creation from the investment of proceeds into new infrastructure (or other use).

A well-developed and robust governance structure is required for the successful implementation and utilization of such a fund.

Case study on Australia's fund-based mechanism for re-investment of proceeds

The Restart NSW Fund was established by the Restart NSW Fund 2011 with the purpose of facilitating the funding and delivery of high-priority infrastructure projects that improve the state's economic growth and productivity. Proceeds from asset monetization are deposited into Restart NSW Fund and are

mandated to be re-invested into infrastructure projects.

Specifically, the purpose of the Fund is to improve economic growth and productivity in New South Wales, and for that purpose to fund major infrastructure projects and to fund infrastructure projects that will improve:

- public transport,
- roads,
- infrastructure required for the economic competitiveness of the State (including the movement of freight, inter-modal facilities, and access to water),
- local infrastructure in regional areas that are affected by mining operations,
- hospital and other health facilities and services, and
- workplaces for law and justice officers, teachers, nurses, and other staff providing services to the public.

Application of the funds for projects must be approved by the Minister on the recommendation of **Infrastructure NSW**, an independent advisory body that advises the government on infrastructure developments and priorities.

To this end, projects must be supported by a sound and comprehensive business case, which must demonstrate viable financial and economical case. The three key components of this project assessment framework are:

- Strategic assessment to ensure the project aligns with the Restart Act criteria and existing priorities
- Economic assessment to ensure the project is expected to produce a net economic benefit and improve economic growth and productivity in the State.
- An independent review process, gateway assurance, to ensure the project has successfully completed the appropriate business case development processes.

Source: Infrastructure New South Wales (<https://www.infrastructure.nsw.gov.au/restart-nsw/>)

Case study on Reinvestment of Asset Divestment Proceeds under the National Partnership Agreement on Asset Recycling in New South Wales

Background on the National Partnership Agreement on Asset Recycling

The National Partnership Agreement on Asset Recycling (NPAR) is an intergovernmental agreement aimed at addressing funding constraints faced by states and territories in Australia¹. The agreement encouraged the sale of state-owned assets to unlock funds to be reinvested into productivity-enhancing infrastructure projects with the following objectives:

- Reduced funding constraints for additional infrastructure investment
- Increased economic activity, employment and improved living standards
- Enhanced productive capacity of the economy

Key Features of the NPAR

Objectives	Increase infrastructure investment by selling state-owned assets
Parties Involved	Commonwealth of Australia and State/Territory Governments
Financial Contributions	Managed through an Asset Recycling Pool; funding allocated on a first-come, first-served basis

Performance Indicators	Value of sold assets, amount reinvested, overall value of constructed infrastructure
Termination	Agreement expires on June 30, 2019, unless extended or terminated earlier by mutual consent

The NPAR sets out specific eligibility criteria in its investment policy. The projects must:

- Demonstrate clear net positive benefit
- Enhance long-term productive capacity of the economy
- Provide for enhanced private sector involvement in both funding and financing of infrastructure (where possible)

New South Wales Asset Divestments and Projects

The New South Wales (NSW) government divested several state-owned assets under this agreement. The proceeds were then used to support projects aimed at (i) stimulating economic growth and (ii) improving living standards for residents in rural and regional areas.

Asset Divestments by the NSW Government

Asset to be Divested	Proportion to be Reinvested (%)
TransGrid	100%
Ausgrid	50.4%
Endeavour Energy	50.4%
Government Property NSW	100%
UrbanGrowth NSW	100%

Infrastructure Investments Funded by Asset Divestments

Project / Program	Infrastructure Investment Amount (million)
Sydney Metro – City and Southwest	Approx. USD 7,234.2 (AUD 11,303.5)
Sydney’s Rail Future – 2018 Timetable	Approx. USD 419.6 (AUD 655.7)
Parramatta Light Rail	Approx. USD 334.1 (AUD 522.0)
Pinch Points and Clearways	Approx. USD 222.6 (AUD 347.8)
Smart Motorways	Approx. USD 256.0 (AUD 400.0)
Gateway to the South	Approx. USD 167.0 (AUD 260.9)
Regional Road Freight Corridor – New England Highway	Approx. USD 129.3 (AUD 202.0)
Regional Road Freight Corridor – Princes Highway	Approx. USD 224.0 (AUD 350.0)
Regional Road Freight Corridor – Mitchell Highway	Approx. USD 23.9 (AUD 37.4)
Regional Road Freight Corridor – Newell Highway	Approx. USD 336.0 (AUD 525.0)
Total Estimated Investment Amount	Approx. USD 9346.8 (AUD 14,604.3)

Sydney Metro City Stage 2 project – a key recipient of NSW Government’s Asset Divestments

The Sydney Metro City Stage 2 project received AUD 11,303.5 million, 77% of the total estimated investment amount by the NSW Government, under the NPAR, allowing the delivery of the project to be accelerated by five to seven years. The Sydney Metro City Stage 2 is a transformative public transport project in New South Wales, designed to provide a high-capacity, fast, and reliable metro rail service. It

is a 30km line that extends the metro network further into the city and surrounding areas, connecting Sydney Metro Northwest at Chatswood to Bankstown via the central business district.

The Sydney Metro City Stage 2 met the NPAR's eligibility criteria and demonstrated capacity to improve the long-term productive capacity of the economy.

Parameter	Assessment	Did project meet criteria?
Project beneficiaries	Public transport users benefit due to travel time savings and improved rail running reliability	
Economic assessment ¹	<ul style="list-style-type: none"> Benefit-cost ratio (BCR) is 1.3 – a net positive benefit Additional economic value of USD 5.4 billion per annum (approximately AUD 8.5 billion per annum) by 2036 Stimulate over 44,000 additional jobs in corridor by 2036 <p><i>Note: Present value of benefits includes travel time savings and reliability improvements. It did not include wider economic benefit (e.g. agglomeration impact and uplift in productivity).</i></p>	Yes
Strategic assessment	<ul style="list-style-type: none"> Provides alternative routes across the harbour and enhances network resilience against disruptions Demonstrates capacity to improve long-term productive rail capacity of the economy 	Yes

Sources: Infrastructure Australia (https://www.infrastructureaustralia.gov.au/sites/default/files/2019-06/Sydney_Metro_City_Southwest_Summary.pdf), Federal Financial Relations Australia (https://federalfinancialrelations.gov.au/sites/federalfinancialrelations.gov.au/files/2021-01/assess_recycling_initiative_np.pdf, https://federalfinancialrelations.gov.au/sites/federalfinancialrelations.gov.au/files/2021-01/nsw_ari_schedule.pdf, https://federalfinancialrelations.gov.au/sites/federalfinancialrelations.gov.au/files/2021-07/Review_NPA_asset_recycling-2019.pdf)

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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.