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## Critical Factors for Re-Investment Mechanisms

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***On this page:** There are two critical factors for successfully developing a re-investment strategy for asset recycling. Read more below, or visit the main page for the [Asset Recycling Handbook](#) and [Content Outline](#), or [Download the Full Report](#)*

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### Critical Factors for Re-Investment Mechanisms

Irrespective of the choice of re-investment mechanism, based on best practices for accountability and transparency, there are two critical factors for successfully developing a re-investment strategy for asset

recycling:

- establishing a clear regulatory and governance framework for re-investment of proceeds into new, high priority infrastructure projects
- ensuring clear and transparent use of proceeds - this includes developing a list of new, high-priority infrastructure projects where the proceeds of monetization will be utilized

The lack of clear regulatory and governance framework has impeded the success of asset recycling programs in some jurisdictions. This is further exemplified through the case study on Indonesia’s Limited Concession Scheme.

## Case study on Indonesia’s Limited Concession Scheme

Indonesia first established its nationwide Asset Recycling Scheme, Limited Concession Scheme (LCS) of Asset Recycling under Presidential Regulation No. 32/2020 on Financing of Infrastructure through Limited Right of Utilization (PR 32/2020). In 2024, significant revisions have been introduced with the enactment of Presidential Regulation No. 66/2024, to enhance the effectiveness of the asset recycling mechanism.

	Initial mechanism	Revisions to the mechanism under Presidential Regulation No.66/2024	Impact
	Participating state-owned enterprise (SOE) must identify asset(s) to be improved or developed from the list of Priority Infrastructure Projects (PIP) and/or National Strategic Projects (NSP) of Indonesia	Participating state-owned enterprise (SOE) must identify asset(s) to be improved or developed from the list of Priority Infrastructure Projects (PIP) and/or National Strategic Projects (NSP) of Indonesia.	No change
<b>Asset selection</b>	-	New mechanism allowing private entities to propose LCS projects, provided they meet specific criteria (e.g. adding value to the assets, economically viable)	Encourage private sector involvement in AR
	Assets need to have a positive cash flow for two consecutive years or be fully operational for at least two years before being eligible for recycling	Assets can be considered if they are partially operational or require partners to enhance their commercial value.	The criteria for LCS assets are now more flexible.

## Asset

recycling transactions only limited to infrastructure  
Eligible sectors have been expanded to include health, tourism, government office buildings and housing

Broadens potential for private sector participation across various infrastructure projects

Proceeds from undertaking an asset recycling transaction are now directed into a **specific fund** dedicated to the development of new infrastructure assets

## Usage of proceeds

Proceeds were not clearly allocated to specific funds for the development of new infrastructure assets

This new regulation ensures that proceeds are used specifically for:

1. projects listed under PIP and/or NSP categories and
2. enhance the operational functions for similar assets

The monetization proceeds are now more clearly defined, and designed to support a related SOE infrastructure/ Government entities holding assets have more incentive to undertake transactions under the newly enacted Presidential Regulation, allowing them to benefit from the proceeds from the monetization of their assets.

**Figure: Case study on Indonesia's Limited Concession Scheme**

## Utilization of Proceeds under Limited Concession Scheme

Priority Infrastructure Projects (PIP) and National Strategic Projects (NSP)

Re-invest in "similar" assets (Financing for improvement)

Other infrastructure assets

The allocation of funds shall be prioritized for "increasing the operational functions" of infrastructure assets which are "similar" to the SOE's assets.

Where there are no "similar" infrastructure assets, then financing "other type" of infrastructure assets.

Infrastructure listed as Priority Infrastructure Projects and/or list of National Strategic Projects

The initial LCS scheme under the Presidential Regulation 32/2020 had limitations in design such the absence of incentives for asset owners and of accounting regulation. Under the Presidential Regulation No 66/22024, these shortcomings were addressed and clarified. While its effectiveness remains to be seen, it is important for governments to respond to market signals and amend regulations accordingly to encourage adoption of the scheme.

## **Clear Regulatory, Governance, and E&S Framework**

A clear regulatory and governance framework is at the core foundation for re-investment strategy and for successful implementation and function of both the retention-based mechanism and the fund-based mechanisms.

Strong, established, and clear regulatory framework provide the confidence that the expectations of the mechanism will not be ever-changing. An issue that is frequently observed in jurisdictions with unclear regulations and lax policies is the constant flip-flops which contributes to the uncertainty and lack of trust in the system.

Ideally, the use of the proceeds should be enshrined in law to ensure that there is a set of governance framework for the use of proceeds. The law should set out how the proceeds is to be used.

### **Figure 16: Best practices for regulatory and governance framework for re-investment**

## New Infrastructure Projects Priority List

1

Governments are encouraged to develop a New Infrastructure Projects Priority List that sets out the infrastructure pipeline in line with the country's visions and multilateral commitments, such as NDCs or SDG 2030. This should be compiled via consultations with relevant stakeholders.

2

### Technical and Operational Assessment

- Conditions and operational performance of existing infrastructure assets
- Requirement of additional services
- Identification of new investment projects

### Economic and Social Impact

- Assessment of macro and socio-economic conditions
- Value of project to the society and the economy
- Public interest test

### Financial Assessment

- Ensure robust business case
- Financial feasibility studies
- Project investment value

3

## Independent Review Process

To review, verify and ascertain the above assessments

<b>Clear and defined laws and regulations</b>	<b>Stakeholder engagements with the public</b>	<b>Transparent and inclusive decision-making</b>	<b>Building government capabilities</b>
Clear and transparent mechanisms for implementation are crucial to provide clarity to the stakeholders involved	Public trust can be engendered through transparent stakeholder engagements to address their needs	Public accountability with transparent and firm decisions builds the community's trust	Adequate staffing, expertise, and resources to be employed within the public sector entities

### **Examples: Regulatory and governance elements of Restart NSW fund for utilization of proceeds**

The Restart NSW Fund is governed by the Restart NSW Fund Act 2011 which established the Restart NSW Fund. The purpose of this fund is to enable the funding and delivery of high-priority infrastructure projects that improve the State's economic growth and productivity. It is supported by the government's asset recycling program, with proceeds deposited into the Restart NSW Fund before being invested into infrastructure projects.

Under the Act, Infrastructure NSW is responsible for assessing and recommending Restart NSW projects which improve the economic growth and productivity of NSW across all sectors. Infrastructure NSW is an agency that provides independent advice to assist the Government in identifying and prioritizing the delivery of critical public infrastructure.

- The main objective of the Act is to establish the Fund for the purpose of setting aside funding for and securing the delivery of major infrastructure projects and other necessary infrastructure.
- It provides the Government oversight of the Restart NSW expenditure and clearly sets out the process for the allocation of funds.
- The Act prescribes the responsibilities of Infrastructure NSW, an independent decision-making authority established to advise the NSW Government on the identification and prioritization of critical public infrastructure.
- In addition to the clarity of the mechanism, the Act also requires the Fund to adhere to stringent reporting standards for enhanced accountability.

Source: Infrastructure Australia (<https://www.infrastructureaustralia.gov.au/infrastructure-priority-list>)

## **Clear and Transparent Use of Proceeds**

Irrespective of the re-investment mechanism employed, the following framework presents steps for governments to implement clear and transparent use of proceeds. While the framework for re-investment is agnostic to whether the projects are procured on traditional public procurement or private sector procurement, the infrastructure assets towards which the proceeds are utilized may not be suitable for private sector investment at this juncture.

### **Funding new, high priority infrastructure projects**

Funding new, high priority infrastructure projects, including but not limited to national priority projects, sector-specific projects or ensuring green and sustainable development, should be the primary objective of utilization of proceeds in an asset recycling program. This offers the strongest link between monetization of assets and re-investment of proceeds for a successful asset recycling program.

A government or a single public sector entity would typically set out critical infrastructure to be built in the country's priority and strategic list, sector plans. Such a list should be based on best effort basis by aggregating the information provided by various stakeholders including line ministries, departments, state governments and private sector across infrastructure subsectors.

A framework for selection of new, high priority infrastructure assets (New Infrastructure Priority Projects List) is presented below.

The government can also develop its own strategic criteria and operational criteria to identify the priority sectors/assets in which to invest proceeds. Given the importance of building climate resilient and socially sustainable infrastructure, governments should incorporate climate resilient considerations when putting together the New Infrastructure Priority Projects List to meet their commitments to combat climate change and to environmental and social sustainability.

### Figure 17: Framework for selection of new, high priority infrastructure assets

#### New Infrastructure Projects Priority List

Governments are encouraged to develop a New Infrastructure Projects Priority List that sets out the 1 infrastructure pipeline in line with the country's visions and multilateral commitments, such as NDCs or SDG 2030. This should be compiled via consultations with relevant stakeholders.

Technical and Operational Assessment	Economic and Social Impact	Financial Assessment
<p>2</p> <ul style="list-style-type: none"> <li>• Conditions and operational performance of existing infrastructure assets</li> <li>• Requirement of additional services</li> <li>• Identification of new investment projects</li> </ul>	<ul style="list-style-type: none"> <li>• Assessment of macro and socio-economic conditions</li> <li>• Value of project to the society and the economy</li> <li>• Public interest test</li> </ul>	<ul style="list-style-type: none"> <li>• Ensure robust business case</li> <li>• Financial feasibility studies</li> <li>• Project investment value</li> </ul>

#### Independent Review Process

3

To review, verify and ascertain the above assessments

Firstly, the governments or public sector entity may set out near term (0-5 years), medium term (5-10 years) and long term (10-15 years) infrastructure investment plan for the country. This investment plan is usually developed with a focus to achieve the strategic goals that are aimed at enhancing economic activity, improving the standard of living, enhancing quality of life, and promoting a dynamic and sustainable economy.

Projects should go through an initial screening process at the central or federal government level to check for suitability and alignment with national priorities. This initial screening process should also evaluate potential projects at a high level through pre-feasibility studies to give early indications on technical, economic, and

financial feasibility.

This list should be developed collaboratively, involving substantive consultations with relevant stakeholders, including but not limited to the ministries, regulators, public sector entities and end-users.

## **Example: Infrastructure Priority List in Australia and National Strategic Projects in Indonesia**

### **Australia**

The Infrastructure Priority List is a pipeline of unfunded nationally significant proposals.

Potential proposals are deemed to be nationally significant if the identified problem or opportunity has an economic value of more than AUD 30 million per annum. Qualitative social and economic factors are also considered in determining nationally significant proposals.

The proposals are categorized according to the key stages of project development: early-stage, potential investment options and investment-ready proposals. Existing proposals are updated as they advance through the stages of development; new proposals positively assessed by an assessment framework are added into the list while proposals which have received funding are removed.

The assessment framework assesses the proposals against the following three criteria of (i) strategic fit or whether proposals present a clear rationale and if they are aligned with government priorities, (ii) societal impact or whether the proposal addresses the identified problem and adds value to the economy and society, (iii) deliverability or whether the proposal can be delivered successfully.

Source: Infrastructure Australia (<https://www.infrastructureaustralia.gov.au/infrastructure-priority-list>)

### **Indonesia**

In developing the list of National Strategic Projects (towards which the proceeds of asset recycling are intended to be utilized), the Committee for Acceleration of Priority Infrastructure Delivery (KPPIP) applies the following guidelines:

#### **Basic criteria:**

- Conforms to the national / regional medium-term development plan and the strategic plan for the infrastructure sector; and
- Conforms to the spatial and regional layout plans (without changing green spaces).

#### **Strategic criteria:**

- Strategic for economy, social welfare, defense, and national sovereignty
- Integration within infrastructure sectors and in-between regions (complementary effect); and
- Regional development balancing between developments in western and the eastern Indonesia.

#### **Operational criteria:**

- Pre-investment study has been conducted for the project; and
- The project investment value is greater than 500 billion IDR or the project has a strategic role in driving regional economic growth.
- Construction must be completed by third quarter of 2024.

- The project must have a clear assigned Authority and related Ministries committed to running the project.

Projects that are candidates should be the subject of detailed feasibility assessment. The public sector entity should undertake technical and operational, economic, and social impact assessment, and financial assessment. This detailed assessment provides confidence to the public sector entity implementing the project from the perspective of best optimal utilization of the use of proceeds for reinvestment in new, sustainable, and economically viable infrastructure assets.

Operational and technical assessment: This assessment focuses on the following:

- Condition of existing assets, including the number of years remaining in their useful lives;
- Service capacity of existing assets (e.g., peak hour passenger capacity for an airport terminal);
- Service standard provided by existing assets;
- Requirements of additional services and identification of new capital investment required.

Economic and social assessment: An identified project should be assessed to ensure that it supports economic growth and assists in achieving social objectives (e.g. by an environmental and social assessment) as highlighted in the chart below. The quantitative and qualitative assessments of the economic and social impacts must be clearly demonstrated by evidencebased analysis.

### **Figure 18: Economic and social impact assessment**

## Standard of living

Improve the standard of living in the nation



Quality of life

Improve the quality of life in the nation



High quality infrastructure assets

Access to high quality and affordable infrastructure assets with equitable access for all

# Impact on Economic and Social Goals

## Sustainable environment

Protect and promote activities for a sustainable environment



Lower unemployment rate



Reduce unemployment rate in the economy

Increased productivity and output

Increase productivity growth and national output



Sustainable economic growth

Promote sustained, inclusive sustainable economic growth

A quantitative assessment of the economic impact should be undertaken through a cost-benefit analysis. The cost-benefit analysis is a technique to assess the economic merits of the identified projects (in monetary terms) through the assessment of its economic, social, and environmental benefits and costs to the society. Specifically, the benefit-cost ratio (BCR) (calculated as the ratio of the present value of economic benefits to the present value of the economic costs) can be applied to compare more than one projects under consideration.

Lastly, an independent review process of the above assessment is conducted for assurance of accountability on the part of the government or asset owner utilizing the proceeds of monetization for new infrastructure asset. A review process conducted by a body independent of the administrators of the assets ensures impartiality and lack of bias.

This is important to gain public confidence in the re-investment process. The public can be assured that the projects selected have gone through rigorous reviews (including E&S review) and will be delivered in accordance with the strategic national goals.

## Checklists

See checklists for [Asset Recycling Roadmap, Selection of Monetization Models and Re-Investment](#).

### 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 \(Download PDF\)](#)

## Subsections



### [Checklists for Asset Recycling](#)

*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.*