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Traffic between two buildings

Define the Asset Recycling Program

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On this page: *The government must first define the asset recycling program's goals, scope, and scale, taking a long-term view of its economic, social, and strategic impacts. Read more below, or visit the main page for the Asset Recycling Handbook and Content Outline, or Download the Full Report.*

The first step for a government in embarking on an asset recycling program is to define the program in terms of goals and objectives, and scope and scale based on the country's strategic priorities. In doing this, the government needs to take a long-term view on:

- Reducing funding constraints for additional infrastructure investment by monetizing existing infrastructure assets; and
- Focusing on increasing economic activity, employment and living standards by developing new infrastructure assets.

It is good practice for governments to be clear with respect to the application of proceeds raised from implementing an asset recycling program. This should include providing clarity on the nature of the intended investment program for new infrastructure assets to be developed, as well as the amount that is to be re-invested.

These actions will support governments in:

- Defining priority sectors and assets for re-investment;
- Providing visibility in meeting the funding gap for the new infrastructure assets; and
- Ensuring transparency and accountability in the application of sales proceeds.

Defining goals and objectives of an asset recycling program

Based on the motivations and strategic priorities, various countries have defined the goals and objectives of asset recycling programs as below:

- Monetizing government assets to private sector investors (by way of a long-term concession or divestment or structured financing) to reinvest proceeds in assets that communities need.

- Developing and investing in new infrastructure without increasing the government's debt levels and/or taxes, or reallocating budget from other crucial public service programs.

- Realizing opportunities for efficiency gains and operational excellence (and innovation) with the support of private sector expertise.

- Promoting infrastructure as an asset class by broadening the potential investor base to include financial and institutional investors such as sovereign wealth funds, pension funds, insurance funds and asset managers.

- Providing opportunities for citizens to invest in local mature infrastructure either directly or through their pension funds, thereby diversifying investment portfolios.

- Optimizing the use of public capital by reallocating it to economically beneficial/ commercially less viable uses.

Defining scope and scale of the asset recycling program

The scale and scope of the asset recycling program should be developed by aggregating the information provided by various stakeholders, including line ministries and departments, as well as assessments of secondary information available on existing infrastructure assets and future infrastructure assets to be developed in each of the sectors.

A bottom-up approach should be adopted wherein the existing infrastructure asset base (currently managed by the government) and the planned priority infrastructure (to be developed) should be identified and mapped. For each sector, the statutory bodies, public sector enterprises and other such undertakings within the purview of ministries/ departments should contribute to the mapping. The scope and scale should constitute the following key sets of information:

- **Identify potential asset base (for monetization) –** The potential asset base refers to infrastructure assets under the purview of the central line ministries covered as part of the asset monetization exercise. Rather than focusing on the entire asset portfolio under a ministry, it should focus on the assets that are sizeable and amenable to monetization. These include brownfield assets that are currently operational or expected to be operational over the monetization period. Given that many proceeds from monetization of revenue-generating assets may already be earmarked for debt servicing, cross-subsidization, or operational expenses, early-stage consultation with relevant ministries and state-owned enterprises is critical to identify viable assets for asset recycling.

- **Identify assets to be considered –** The assets to be considered would likely be a sub-set of the potential asset base identified in the above step. Assets that are appropriate for asset recycling should be assessed based on several factors. This multi-factor assessment should focus on the ability of the asset to generate stable revenue streams, the asset's commercial potential, investor appetite and the ability to introduce private sector efficiencies and to broaden investment in the sector. Environmental and Social aspects should also be considered to select assets that have the ability to become environmentally and socially sustainable and generate transactions that meet international

environmental and social standards. Further, governance and accounting complexities associated with repurposing assets from ministry or state-owned enterprise balance sheets should also be carefully navigated to ensure smooth execution.

- **Develop an indicative value from the asset recycling transaction –** The government should ensure that valuation is performed to obtain an indicative value of the transaction. The indicative value can be derived based on a market approach, capex approach, book value approach, enterprise value approach or a combination of these approaches.

- **Identify priority infrastructure projects (for re-investment) –** The identification of infrastructure sectors and projects in which capital proceeds from monetization are to be re-invested in is important. Generally, greenfield projects defined under national priority and strategic lists, vision plans, sector plans are the likely candidates. These projects are also assessed for their asset risk profiles and suitability for public financing. The government can also develop its own strategic criteria and operational criteria to identify the priority sectors/assets in which to invest proceeds. A structured consultation mechanism within the government should be established to align stakeholders, address resistance, and create a clear pathway for repurposing revenues and re-investing proceeds efficiently.

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)

The Asset Recycling Handbook 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.