

Models of Asset Recycling

Full Description

Table 1: Models of Asset Recycling (*Monetization*)

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

Model	Definition	Parties to the Agreement	Use of Assets	Returning the Assets
Concession Model <i>(Build-operate-transfer, rehabilitate-operate-transfer, service/maintenance contract)</i>	<p>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).</p>	<p>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.</p>	<p>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.</p>	<p>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.</p>
Lease Model	<p>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.</p>	<p>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.</p>	<p>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.</p>	<p>The use of the asset is returned to the Relevant Authority at the end of the lease term.</p>
Joint Venture (JVC) Model	<p>In a JVC model, the Relevant Authority and the selected private sector investor(s) enter into a joint venture to jointly operate the asset under a long-term lease or concession.</p>			

Structured Financing	<p>Securitization 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.</p> <p>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.</p>			
	<p>Infrastructure Investment Trusts (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.</p>			
Out-right sale model/ partial divestment	<p>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.</p>			
	<p>Partial divestment - A partial divestment involves selling partial rights and ownership of the asset to the private sector for an upfront lump sum payment.</p>			

Useful Links

[Model Concession Agreement - Major Ports \(India\)](#)

[Laos PDR Model Concession Agreements](#)

[India Model Concession Agreement for Railway System on DBFOT Basis](#)

[Model Concession Agreement \(MCA\) State Ports - Overview of the Framework](#)

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[Joint Ventures / Government Shareholding in Project Company](#)

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The Guidelines have not been prepared with any specific transaction in mind and are meant to serve only as general guidance. It is therefore critical that the Guidelines be reviewed and adapted for specific transactions To find more, visit the Guidelines to Implementing Asset Recycling Transactions [Section Overview](#) and [Content Outline](#), or [Download the Full Report](#).

