



ENABLING IPTs
& TRANSMISSION
PPPs IN KENYA

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Enabling Infrastructure Investment



ESMAP
Energy Sector Management
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ASSET RECYCLING PROGRAM INITIATIVE

THE WORLD BANK GROUP

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RELEVANCE OF ASSET RECYCLING FOR TRANSMISSION



RATIONALE FOR ASSET RECYCLING FOR TRANSMISSION IN KENYA

- 1 Considerable investment needs**
Transmission investment needs of ~9,600km, ~\$5 billion (during 2024-2043)
- 2 Need for innovative financing mechanisms**
Unlocking equity financing through AR approaches can attract private investment into operating, de-risked assets, complementing traditional debt-based financing schemes
- 3 Need for additional O&M capacity**
Leveraging private sector expertise through AR can complement KETRACO's potential resource constraints while increasing efficiency of asset O&M
- 4 Synergies with PPP approaches**
AR approaches for *sourcing* of public equity could be combined with PPP approaches for *reinvesting* the proceeds
- 5 Opportunity to partner with WBG for programmatic approaches**
Broad WBG solutions can assist Kenya in developing a program of AR in the transmission space, potentially combined with a multi-year PPP investment program

CONCEPT OF ASSET RECYCLING

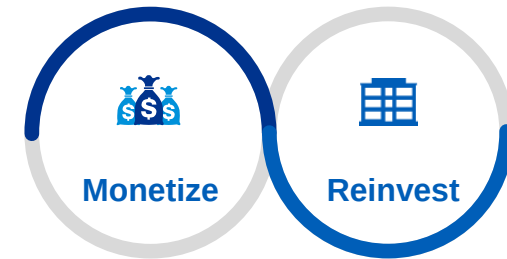


WHAT IS ASSET RECYCLING?

What is Asset Recycling?

Asset recycling (AR) entails monetizing existing infrastructure assets to unlock capital and reinvesting the proceeds raised in new infrastructure assets, while leveraging private sector efficiencies.

Asset Recycling



Key Objectives of Asset Recycling



Monetizing government assets to **reinvest proceeds in assets that communities need** – this may be implemented by various means, including granting concessions or securitizing cash flows generated by the asset



Developing and investing in new infrastructure **without increasing the government's debt levels and/or taxes**



Realizing opportunities for **efficiency gains and operational excellence** in existing infrastructure with the support of private sector expertise and innovation



Promoting infrastructure as an asset class by **broadening the potential investor base** to include institutional investors such as pension and insurance funds



Providing **diversified investment opportunities for investors in infrastructure as an asset class**, either through direct investment or through specialized infrastructure funds or pension funds



The Case for Asset Recycling

Infrastructure Investment Needs and Gap



To meet the significant investment requirement in infrastructure in EMDEs¹ across three areas:

1. Build new (greenfield) infrastructure
2. Meet the operations and maintenance expenses of existing infrastructure
3. Build climate resilience in, and rehabilitate, existing infrastructure

Constraints in Funding and Financing



To alleviate constraints in raising financing and funding to invest in infrastructure due to:

1. High level of government debt
2. High proportion of tax revenues utilized to service existing debt
3. Impacts of global macroeconomic shocks on government budgets

Private Sector Efficiencies in Existing Infrastructure



To leverage private sector to optimise operations of the infrastructure asset through:

1. Optimal asset utilization and risk allocation
2. Innovation and efficiencies in the operations of the asset through well-defined service standards
3. Access to private sector knowledge and skills to operate the assets and provide services

Other Considerations



1. Political economy considerations such as strategic control of public assets and public concern around privatization
2. Mitigate the impact of economic downturns and recessions
3. Promote infrastructure as an asset class to an investor base that includes both domestic and foreign institutional investors, and develop local currency financing
4. Climate change and resilience considerations

¹EMDE = emerging market and developing economics



Case Study: Asset Recycling in Australia and India

- Australia has explored and implemented asset recycling concept with the Asset Recycling Initiative (ARI) introduced in 2014, in which ports, power transmission, and land registries were dominant asset classes.
- The initiative was to boost infrastructure development within the country by providing monetary incentives for the states and territories to engage in asset recycling.
- States received up to additional 15% of estimated proceeds from the Federal Government when it monetized state asset and used proceeds to re-invest in new infrastructure.
- State and Territories governments that have actively participated in ARI are New South Wales, Northern Territory and Australian Capital Territory.
- Most states passed new legislation to provide for certainty, which helped maximized the proceeds earned from the exercise.

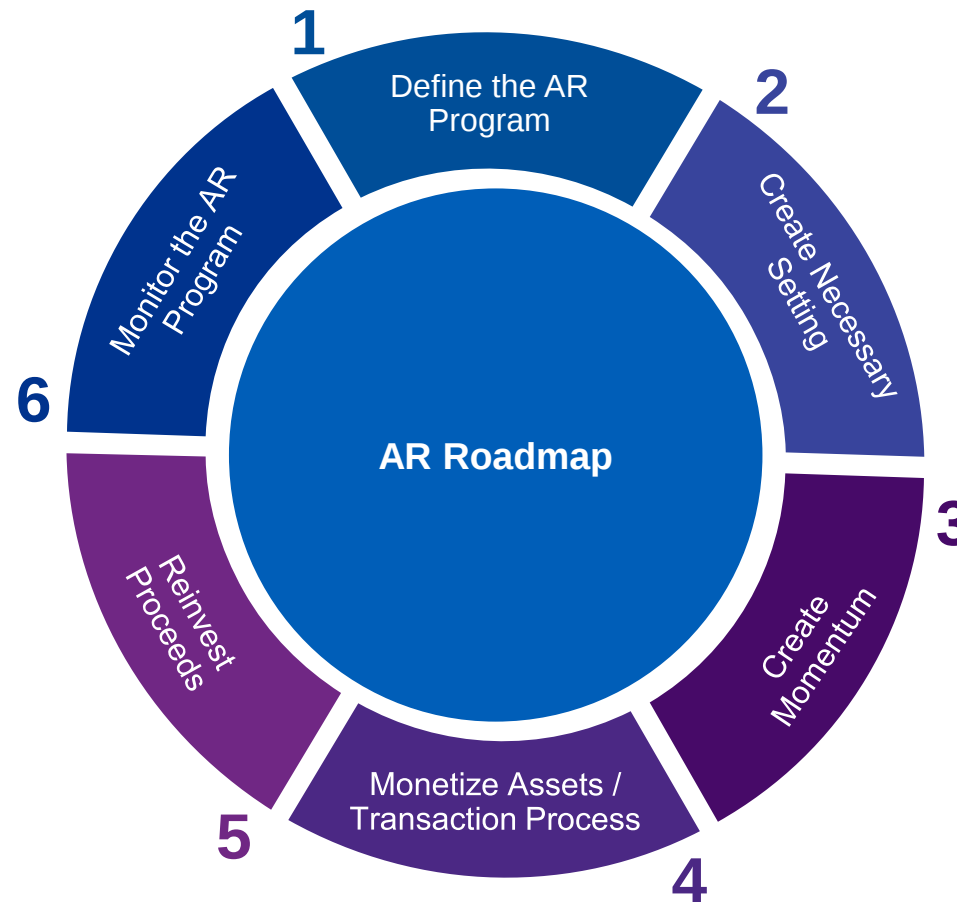
Australia – Asset Recycling Initiative

- The National Monetization Pipeline (NMP), launched in 2021, has been compiled on a best effort basis by collating the information provided by various stakeholders, including line ministries, departments, and the assessments of secondary information available on existing infrastructure assets in each of the sectors. A bottom-up approach was adopted whereby existing core infrastructure asset base managed under central sector agencies was identified and mapped.
- The pipeline of assets include roads, ports, airports, telecom, railways, warehousing, energy pipelines, power generation, power transmission, hospitality, and sports stadiums over a four-year period from 2022 to 2025.

National Monetization Pipeline (NMP), India

THE AR ROADMAP

The AR roadmap consists of six steps; (i) Define the AR program (goals and objectives, and scope and scale); (ii) Create the necessary setting (e.g., a public governance mechanism); (iii) Create momentum (through engaging public and private sector); (iv) Monetize assets / transaction process; (v) Re-invest proceeds; and (vi) Monitor the program.



1 Define the AR Program

Define the goals and objectives and the scope and scale of the program

2 Create Necessary Setting

Provide the necessary setting through public governance (legal framework, institutional framework, capacity building, implementing guidelines, people and environment)

3 Create Momentum

Get public buy-in to asset recycling and engage private sector / investors by showcasing project pipeline of viable assets

4 Monetize Assets / Transaction Process

Select suitable monetization models and identify priority assets to be prepared and structured before the transaction through standardized transaction process and documentation

5 Reinvest Proceeds

Set up a re-investment mechanism for utilization of proceeds, and allocate the proceeds towards adequate uses

6 Monitor the AR Program

Assess the success of the program against defined goals and objectives

Checklist for Asset Recycling

Asset recycling (AR) is a mechanism that has been adopted by various governments to monetize existing, operational infrastructure assets (brownfield assets) to unlock capital and to reinvest the proceeds raised towards the development of new infrastructure assets.

Implementing an AR Roadmap

The AR Roadmap sets a framework to successfully develop and implement an AR program and encompasses six steps.

Check Point: Define the AR Program

Define goals, objectives, scope, and scale of an AR program: Governments should take a long-term view on (1) reducing funding constraints for additional infrastructure investment by monetizing existing infrastructure assets and (2) focusing on increasing economic activity, employment and living standards by developing new infrastructure assets. The key action points for the governments should be:

Define priority sectors and assets for re-investment

Provide visibility in meeting the funding gap for the new infrastructure assets through asset recycling

Ensure transparency and accountability in the application of sales proceeds



Check Point: Create Necessary Setting

Ensure appropriate governance framework (including legal framework, institutional framework, capacity building, implementing guidelines)

Define laws and the regulatory framework to enable and facilitate transactions

Develop an institutional framework to ensure proper governance and accountability

Incorporate a capacity building program to ensure that public sector officials are familiar with asset recycling process and procedures

Develop implementing process and guidelines

Engage with the public to obtain buy-in



Checklist for Asset Recycling

Check Point: Create Momentum

Set the right public perception through continual communication
Define mechanisms to engage with the public
Engage with the private sector
Identify key participants to engage
Develop and showcase project pipelines

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Check Point: Monetize Assets / Transaction Process

Select suitable monetization models and identify priority assets to be prepared and structured before the transaction through standardized transaction process and documentation
Choose the right monetization model
Prepare and structure the asset
Optimize the asset value
Develop standard transaction process information and documentation in the public domain

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Check Point: Reinvest Proceeds

Set up a re-investment mechanism for utilization of proceeds, and allocate the proceeds towards adequate uses
Define a fund retention mechanism
Define avenues for utilization of proceeds

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Check Point: Monitor the AR Program

Assess the success of the program against defined goals and objectives. An asset recycling program is a virtuous cycle that should be continuously improved through regular review of program outcomes against initial objectives, identify failures or mistakes and adjusting the objectives of the program to reflect market conditions more accurately.
Whether there was a reduction of funding constraints for additional infrastructure investment
Whether there was an increase in economic activity, employment and living standards
Whether there was an enhancement in the productive capacity of the economy

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MONETIZATION MODELS

MONETIZATION MODELS

Asset monetization can be undertaken through a range of instruments / mechanisms. This section broadly covers four models across three categories (1) direct contractual agreements, (2) divestments and (3) structured financing instruments.

Direct contractual agreements are utilized by public sector entities to monetize brownfield infrastructure assets without relinquishing outright ownership of the underlying assets. These arrangements include brownfield concession agreements, operations and maintenance (O&M) concession agreements and / or long-term lease agreements.

Direct Contractual Agreements (PPPs)

Infrastructure asset-backed securitization of public infrastructure assets can be used to unlock capital and raise financing without relinquishing ownership in the underlying assets. The government as the originator assigns the rights to future cash flows generated from the assets to a Special Purpose Vehicle (SPV). The SPV then issues fixed-income securities to investors with payments backed by the cashflow generated by the infrastructure asset.

Infrastructure Asset-Backed Securities (IABS)

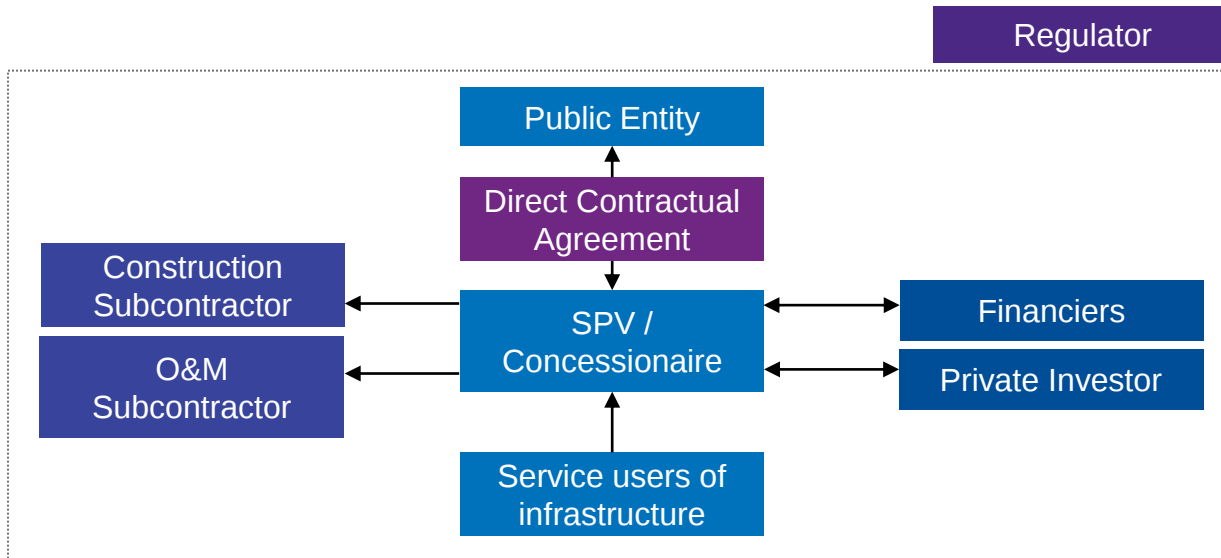
Divestment is generally classified into two main types, asset-based divestment or corporate divestment. Asset-based divestment can be further categorized into an outright sale of the asset to private sector or a partial sale of asset to private sector through a Joint Venture (JV) Special Purpose Vehicle (SPV). Likewise, under a corporate divestment model, the transaction can be structured as a partial or full divestment.

Divestment

InvITs are pooled investment vehicles like a mutual fund that allow infrastructure assets owners to monetize their assets by pooling one or more revenue generating assets under a single entity via a trust structure. This enables investors to invest in these assets without having to directly own these capital-intensive assets in return for distributable cash flow of the InvIT. For the asset owners, this monetization mechanism as a form of asset recycling unlocks capital invested in these assets and fund new projects.

Infrastructure Investment Trusts (InvITs)

DIRECT CONTRACTUAL AGREEMENTS (1/2)



Structure

- The SPV enters into an agreement with the public sector entity to obtain the rights to operate and maintain the asset in exchange for a lump-sum upfront concession fee, or a combination of upfront and regular payments.
- The lump sum payment is sourced from equity contribution and debt raised from financiers by the SPV.
- The SPV collects revenue from service users of the infrastructure.
- The cash collected is used to meet operating expenses, debt obligations and the remainder is distributed back to the investor as a return.
- The Construction (if any required) and O&M works are typically subcontracted to third-party contractors and operator respectively.

Objective

- Under a direct contractual agreement, the public sector is able to transfer risks of operating and maintaining the asset to the private sector while achieving upfront monetization of the underlying asset.

Key Risks Managed and Mitigated through DCA

- Inadequate performance, operation and maintenance risk, demand and traffic risk, financial risks (inflation, forex, financial close), strategic control / hand back

Stakeholders

- Public sector entity / infrastructure asset owner, Special Purpose Vehicle (SPV) / Concessionaire, Investors, Financiers / Lenders, Service Users, Regulator

Required Settings

- Macro-economic considerations and legal environment (legal and political stability, presence of clear framework and legislation), financial and market conditions (availability of long-term project financing, restrictions on foreign investment in infrastructure, private sector participation in infrastructure, availability of risk mitigation / hedging instruments), nature of assets (operational efficiencies, demand and cash flow stability, length of remaining life), operational control and ownership

DIRECT CONTRACTUAL AGREEMENTS (2/2)



Case Study – Toll Operate Transfer (TOT) of Asset Monetization (Bundle 1) in India

The TOT Bundle 1 consisted of 682 km of highways across nine highways in Andhra Pradesh and Gujarat, with strong traffic from the presence of ports, industrial and commercial areas in the vicinity of the project. The TOT Bundle 1 toll roads had a higher share of commercial traffic at 85% as compared to the corresponding national average of 75%.

Transaction Details

Asset Type	Toll Roads
Investor	Macquarie Infrastructure and Real Assets
Transaction Size	INR 96,820,000,000
Initial Estimated Concession Value	INR 62,580,000,000
Concession Period	30 years

Bidders

Bidders Profile

Macquarie Group (winning bidder)	MAIF Investment of Singapore (Macquarie), an investment bank and financial services company.
Brookfield Asset Management	An alternative asset management company focusing on real estate, renewable power, infrastructure and private equity.
IRB Infrastructure	An Indian highway construction company.
Roads and the National Investment and Infrastructure Fund (NIIF)	JV of a road developer and operator, and an infrastructure specific investment fund (set up by the Government of India).
Macquarie Group (winning bidder)	MAIF Investment of Singapore (Macquarie), an investment bank and financial services company.

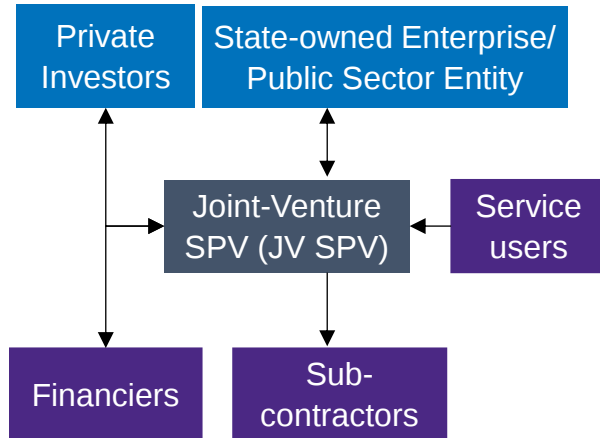
Source: Ministry of Road Transport & Highways

- **Asset selection:** Assets should be (i) be operational with observable traffic demand from historical data and be supported by (ii) reliable traffic forecast with (iii) substantial capital expenditure have already been incurred thereby de-risking the concession from any substantial development and construction risks.
- **Risk allocation:** Market-appropriate commercial terms and risk allocation, such as, (i) ensuring no competition during concession period (ii) providing downside protection by extending the concession period under certain circumstances (iii) toll charges are subject to periodic escalation indexed an appropriate index (iv) market accepted termination clauses (v) and an independent body for dispute resolution significantly encourages participation by investors.
- **Market testing:** Ensure that key terms in the draft concession agreement are made available for stakeholder consultation prior to the tender process, including investors, and for public consultations.

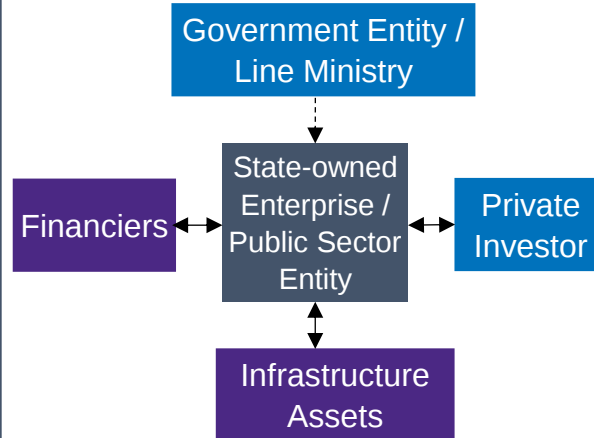
Key Takeaways

DIVESTMENT (1/2)

Asset-based divestment model



Corporate divestment model



Structure

- In an asset-based divestment model, the government can, through an outright sale, divests the asset to the private investors.
- Under a corporate divestment model, the government can divests shares in the project company (SPV) that holds the asset to private investors. It can also divest only part of the shares in the SPV; thereby creating a JV with the private investor (JV SPV).
- A full divestment results in a relinquishment of the government's ownership in the asset.
- Divestment can be effected by way of a competitive bidding process with the private investor financing its acquisition of the asset or the shares through debt.

Objective

- The objectives under the divestment model are largely similar to those cited for DCA including retention of ownership (except in the case of a full divestment), leveraging private sector expertise, greater accountability and risk allocation and mitigation.

Key Risks Managed and Mitigated through DCA

- Inadequate performance, operation and maintenance risk, demand and traffic risk, financial risks (inflation, forex, financial close), strategic control

Stakeholders

- Public sector entity / State-owned Enterprise (SOE), Infrastructure Asset SPV / JV SPV, Private Investor(s), Financiers / Lenders, Service Users

Required Settings

- Macro-economic considerations and legal environment (legislation on sale of public assets / corporates, regulatory regime for the asset), financial and market conditions (restrictions on foreign investment in infrastructure), nature of assets (political sensitivity and national interests, operational efficiencies, demand and cash flow stability) operational control and ownership (shareholding rights and economic interest)

DIVESTMENT (2/2)



Case Study – Full Privatization of Air India

Air India is the national flag carrier of India and has experienced financial difficulties for multiple years under the operational control of the Indian government. The acquisition bid by Tata Group was one of two total bids for the loss-making airline. The government has over many years spent about USD 15 billion in public funds to pay increasing debt and expenses used to keep the airline operational. The sale realized USD 360 million in equity value to the government.

Transaction Details

Asset Type	Airlines
Investor	Tata Group
Transaction Size	USD 2.4 billion

Investor Class

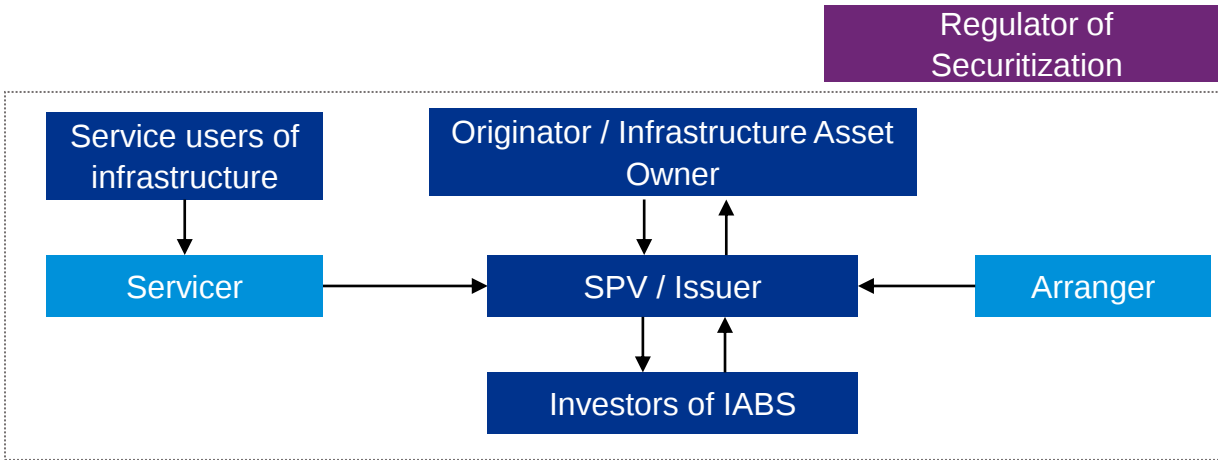
The winning bid was made by Tata Group, an Indian conglomerate with operational expertise and experience through the two airlines under its portfolio, full-service carrier, Vistara and budget airline, AirAsia India.

- Preferred investor's experience: Tata Group has previous successful privatization experiences in the telecommunications and hospitality industry.
- Private sector efficiency: Private sector entities run based on commercial decisions and are often more efficient than government's operations; with Tata Group's efficient management, operations and costs are intended to be streamlined in addition to service improvements.
- Reducing the debt levels: With the increasing debt levels of Air India, divestment was the only sensible option for the government instead of continuously funding the loss-making entity with tax revenue.

Key Takeaways

Source: IJ Global

INFRASTRUCTURE ASSET-BACKED SECURITIES (IABS) (1/2)



Structure

- A Special Purpose Vehicle (“SPV”) is set up by an arranger in the form of a trust or other mechanism and is the issuer of the fixed-income securities. The SPV ensures that the underlying assets of the IABS are separate from the other assets owned by the Originator. The securities issued will typically be rated by a credit rating agencies based on their risk level and probability of default.
- Investors subscribe to the IABS in the form of fixed-income securities. The securities entitle the investor to the rights to future cashflow generated by the infrastructure assets.
- Revenue generated from users of the infrastructure is collected and paid to the SPV.
- Investment proceeds which include principal repayments and interest payments are then distributed by the SPV to investors based on the classes of the fixed-income securities.

Objective

- Conventionally, public sector infrastructure asset owners/raise funds through debt instruments such as commercial/ concessional loans, or through government equity. IABS, on the other hand, serves as an alternative form of financing, allowing infrastructure asset owners to diversify their financing sources in addition to traditional forms of debt and equity project financing.

Key Risks Managed and Mitigated through DCA

- Credit risk, bankruptcy risk, concentration risk, better credit quality

Stakeholders

- Originator, arranger, SPV / Issuer, Rating Agency, Investors, Servicer, Service Users, Regulator

Required Settings

- Legal and regulatory framework considerations (presence of legislation and framework on securitization, accounting and taxation framework for securitization), financial and market conditions (market liquidity, restrictions on foreign investment in infrastructure, access to capable credit rating agencies, availability of credit enhancement / hedging instruments), nature of assets (size, scale and stable cash flow, creditworthiness of asset owner), ownership and operational capabilities

INFRASTRUCTURE ASSET-BACKED SECURITIES (IABS) (2/2)



Case Study – Securitization of Jakarta-Bogor-Ciawi (Jagorawi) toll road project, Indonesia

In August 2017, Jasa Marga, the largest toll road operator in Indonesia, sold its rights to future cash flow from the Jakarta-Bogor-Ciawi (Jagorawi) toll road, the country's oldest toll road, to a collective investment contract (KIK) established by PT Mandiri Manajemen Investasi (the investment manager) and PT Bank Rakyat Indonesia (the custodian bank). The KIK issued asset-backed securities (ABS or EBA) of IDR 2.0 trillion with the right to future cash flow as the source of payment for the principal, coupon, and all expenses related to the transaction.

Collective Investment Contract of Asset Backed Securities (“KIK-EBA”): The KIK-EBA structure does not require an SPV. A KIK-EBA is a quasi-legal entity established by way of contract by the investment manager and custodian bank. A KIK-EBA has its own assets and liabilities as well as its own tax obligations separate from the obligations of its founders.

Transaction Details

Originator and Collection Agent	PT Jasa Marga (Persero) Tbk
Investment Manager	PT Mandiri Manajemen Investasi
Custodian Bank	PT Bank Rakyat Indonesia (Persero) Tbk
Underlying Assets	5-year future cash flow from Jagorawi toll revenue
Total Cash Flow Amount	IDR 2,600 billion
Total EBA Issuance (Class A and B)	IDR 2,000 billion
Tenor	5 years
Principal Payment	Equal annual amortization
Coupon Payment	8.4% (annual rate) paid quarterly

Credit Enhancement:

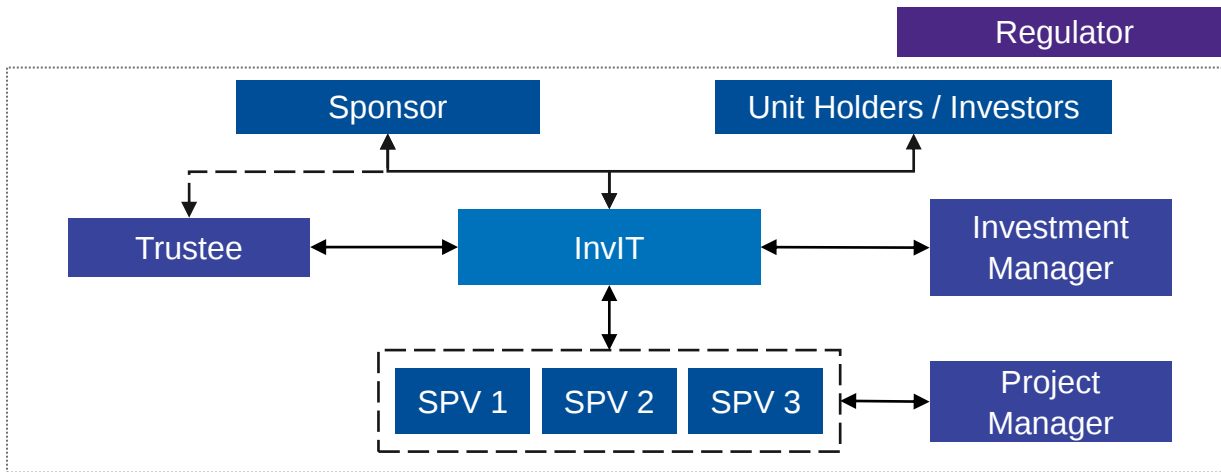
Internal credit enhancements in terms of sub-ordination of Class B EBA and liquidity reserves were utilized. PEFINDO has assigned the highest debt security rating of AAA based on:

- The obligors' capacity to meet its long-term financial commitment on the debt security, relative to other Indonesian obligors, is superior.
- The rating reflects the very strong profile of the Jagorawi toll road, the very strong profile of Jasa Marga as the collection agent, and strong future cash flow projections.

- Alternative source of funding: The securitization of the toll revenues provides an alternative funding source from investors such as large international pension funds, asset management companies and banks.
- Internal credit enhancements in terms of sub-ordination of Class B EBA and liquidity reserves were utilized. PEFINDO has assigned the highest debt security rating of AAA based on:
 - The obligors' capacity to meet its long-term financial commitment on the debt security, relative to other Indonesian obligors, is superior.
 - The rating reflects the very strong profile of the Jagorawi toll road, the very strong profile of Jasa Marga as the collection agent, and strong future cash flow projections.

Key Takeaways

INFRASTRUCTURE INVESTMENT TRUSTS (InvITs) (1/2)



Structure

- The Sponsor pools its interests in SPV(s) (which holds infrastructure assets) into an InvIT and transfer the shareholdings of these SPVs into the InvIT.
- Unitholders make investments into the InvIT by way of subscribing units. Income generated from the underlying infrastructure assets are distributed to the unitholders in return for their investments.
- The InvIT, otherwise known as the trust, holds the assets that were transferred by the Sponsor. Alternatively, the assets can be held through a holdco. The InvIT or the holdco must hold not less than certain per cent of the equity share capital.
- The Trustee holds the investments on behalf of the Trust in return for a trusteeship fee.
- The Investment Manager manages and makes investment decisions in return for a fee. The Project Manager oversees the day-to-day operations and management in return for a fee.

Objective

- InvITs present an alternative form of financing for infrastructure assets from the usual debt instrument and equity funding.
- For infrastructure asset owners, InvITs enable lower cost of borrowing, access to a larger pool of funds and earlier realization of revenue. For investors, investing in InvITs allow for diversification of investment, stable returns on investment, assurance of asset management quality and higher standards of corporate governance for the assets.

Key Risks Managed and Mitigated through DCA

- Development risk, concentration risk, credit risk, liquidity risk

Stakeholders

- Sponsor, Trustee, Unit Holders / Investors, Investment Manager, Project Manager, Valuer

Required Settings

- Macro-economic, legal and accounting considerations (legal and political stability, presence of established framework and legislation, accounting and taxation framework), credit rating to issue debt securities, restrictions on foreign investment in infrastructure, high standards of governance, assets with stable cash flow

INFRASTRUCTURE INVESTMENT TRUSTS (InvITs) (2/2)



Case Study – PowerGrid Infrastructure Investment Trust, India

POWERGRID Infrastructure Investment Trust (PGInvIT) was registered with the Securities and Exchange Board of India on January 7, 2021, as an infrastructure investment trust. It is a publicly listed InvIT, listed on the National Stock Exchange and the Bombay Stock Exchange. The sponsor is Power Grid Corporation of India Ltd (PGCIL), a state-owned enterprise and the first to offer an InvIT as part of the government's brownfield asset monetization strategy. Proceeds from fresh issue of the units were used towards the repayment or pre-payment of debt availed by the SPVs.

Asset Portfolio

The initial portfolio assets include five power transmission projects across five states of India. Assets comprise of 11 transmission lines, including six 765 kV transmission lines and five 400 kV transmission lines, with a total circuit length of approximately 3,700 km and three substations with 6,630 MVA of an aggregate transmission capacity and 1,955.66 km of optical ground wire.

Parties to PGInvIT

Role	Party
Sponsor	POWERGRID
Trustee	IDBI Trusteeship Services Limited
Investment Manager	POWERGRID Unchahar Transmission Limited
Project Manager	POWERGRID

Source: PowerGrid Infrastructure Investment Trust

- Presence of established regulatory framework: The relatively clear regulatory framework for InvITs in India, provided the private sector with comfort and reassurance of the outlook of investing in the InvIT.
- Quality of assets and stability of cash flows: The assets portfolio consisted of five fully operational and revenue generating assets with no development risk. These assets had proven financial and operational track record giving assurance that these assets are able to generate stable cash flows which will in turn be available for distribution to the unitholders.
- Payment mechanism backed with established regulatory framework: The Indian power transmission segment is well regulated with an established framework providing risk mitigation provisions such as availability-based payment structure, minimal counterparty risk and strong payment security mechanism.
- Strong lineage and support from Sponsor and Project Manager: The InvIT is backed by the world's third largest transmission utility as Sponsor and Project Manager.

Key Takeaways

Checklist for Selection of Monetization Models

The selection of specific monetization models namely, direct contractual agreements (DCA), divestment, infrastructure asset-based securitization (IABS) and infrastructure investment trusts (InvITs) by the government depends on the four decision factors of ownership retention, operational efficiencies, revenue risk transfer and target investor type. The table presents the comparison across the four models and parameters on relative terms.

Choice of monetization model based on decision factors		DCA	Divestment (Partial / Full)	IABS	InvITs
Asset ownership	Monetization models that allow full retention of asset ownership by government	●	🕒 / ○	●	🕒
Operational efficiencies	Monetization models allows for private sector operational efficiencies	●	●	🕒	🕒
Revenue risk transfer	Monetization models that transfer revenue risk to the private sector	🕒	🕒 / ●	○	🕒
Mobilization of institutional capital	Monetization models that mobilize investors beyond strategic investors	🕒	🕒	●	●

Recommendation of monetization model

DCA	Suitable for retention of asset ownership, leveraging private sector efficiencies and transfer of revenue risk to private sector.
Divestment	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 requirements level of control and extent of risk transfer on the part of the government.
IABS	Suitable for retention of asset ownership and existing operating arrangements, and mobilization of institutional capital.
InvITs	Suitable for transfer of revenue risk to private sector and mobilization of institutional capital.

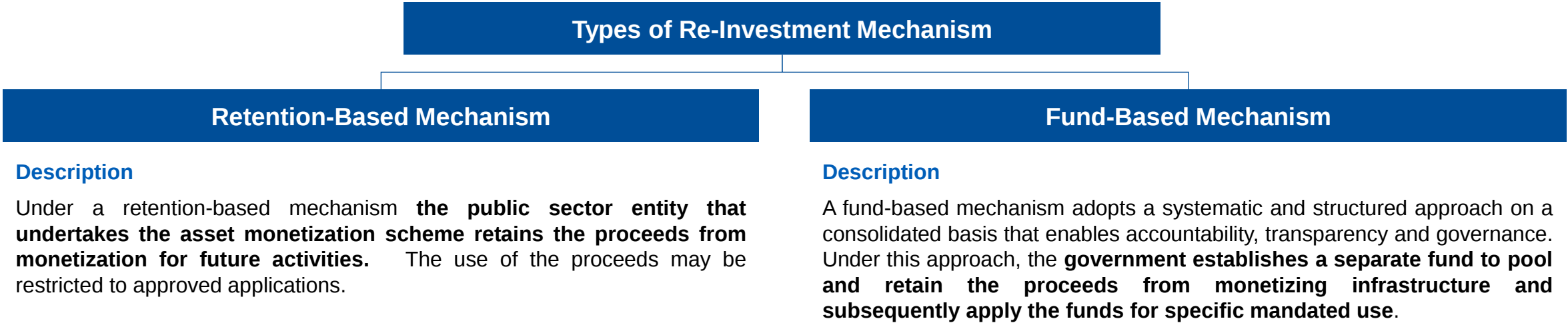
				
Most Favorable—————→Least Favorable				

RE-INVESTMENT



Re-Investment of Proceeds from Monetization

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

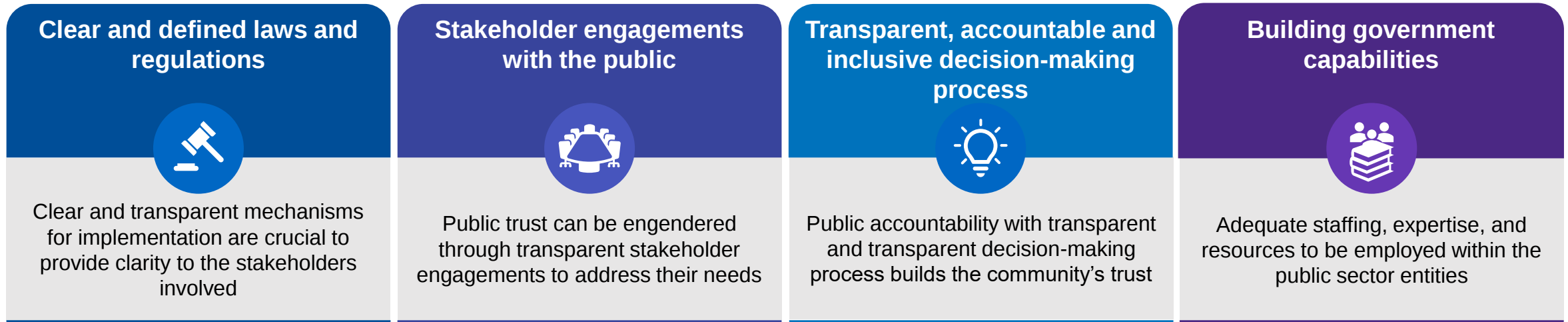


Re-Investment Mechanism Framework

Classification	Re-investment mechanism	Political system and consideration for choice of mechanism	Pros and Cons	
Retention-based mechanism	- 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	Pros Provides incentives for the asset owners and less reluctance to monetization as the proceeds from the crown assets is retained by the respective agencies originally owning the assets	Cons Lacks visibility and comprehensiveness of infrastructure planning on a national level
Consolidated fund-based mechanism	- Proceeds from monetization are paid into a fund controlled and managed by the Government - Funds are hypothecated for specific use/s	Jurisdictions where political power rests largely with the central government (or where local or regional governments are willing to devolve re-investment decisions to the central government).	Pros - Comprehensive review and assessment of the infrastructure needs on a national level, including monitoring of the asset recycling program - Allows for the prioritization of assets and sectors that are on national priority list	Cons 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

1 Clear Regulatory Framework and Governance

- A clear regulatory and governance framework is essential for re-investment strategy and for successful implementation and function of both the retention-based mechanism and the fund-based mechanisms.
- A clear regulatory framework engenders confidence that the approach will remain consistent over the long term.
- Rules governing the application of the proceeds should be enshrined in law to ensure that there is a set of governance framework. The law should set out how and the circumstances under which the proceeds is to be used.



Case Study – Regulatory and governance elements of Restart NSW fund for utilization of proceeds

The Restart NSW Fund is established and governed by the Restart NSW Fund Act 2011.

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 with 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.**

Restart NSW Fund

Source: Infrastructure Australia

2 Clear and Transparent Use of Proceeds

Step 1



New Infrastructure Projects Priority List / Initial Screening

- The government 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 government's 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.

Step 2



Comprehensive Assessments

- 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 that the proceeds are optimally utilized for reinvestment in new, sustainable and economically viable infrastructure assets.

Step 3



New Infrastructure Projects Priority List / Initial Screening

- An independent review process of the assessments in *step two* ensures 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.



Case Study – Indonesia, National Strategic Projects

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, defence 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 clearly assigned Authority and related Ministries committed to running the project.

Indonesia, National Strategic Projects

Source: KPPIP

Checklist for Re-Investment

Under a holistic asset recycling program, the proceeds realized from monetization of infrastructure assets should be re-invested in developing new infrastructure assets; thereby creating a virtuous cycle of monetization and re-investment.

Check Point 1: Choice of Re-Investment Mechanism – Choose either one of the re-investment mechanisms to implement.

	<u>Retention-Based Mechanism</u>	<u>Fund-Based Mechanism</u>
Description	Under a retention-based mechanism the public sector entity that undertakes the asset monetization scheme retains the proceeds from monetization for future activities.	Under a fund-based mechanism, the government establishes a separate fund to pool together and retain the proceeds from monetizing infrastructure and subsequently apply the funds for specific use.
Consideration	Jurisdictions with federal government structure, where political power is divided between a larger central government, the local government, and regional governments	Jurisdiction with a government with centralized power and responsibility for the planning, development and operations of infrastructure assets.
Choice of Mechanism	☐	☐

Check Point 2: Critical Success Factor – Clear Regulatory and Governance Framework

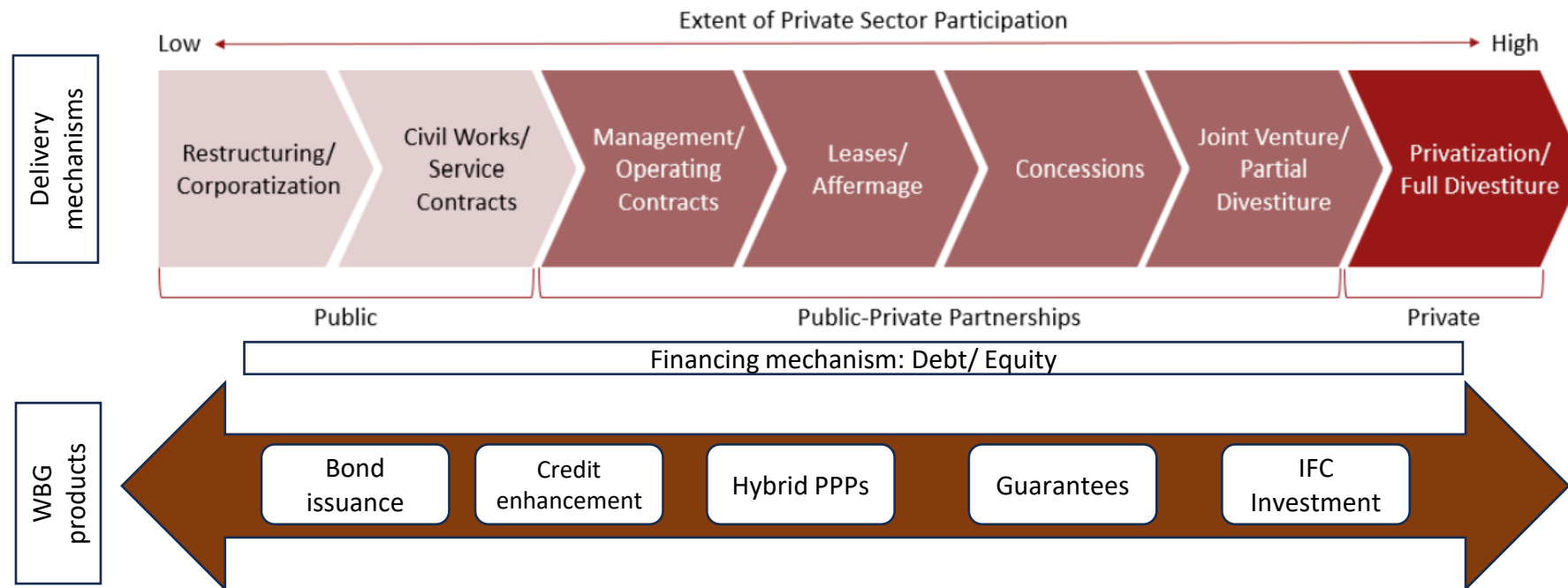
Clear and defined laws and regulations	☐	Stakeholder engagement with the public	☐
Transparent and inclusive decision-making	☐	Building government capabilities	☐

Check Point 3: Critical Success Factor – Clear and Transparent Use of Proceeds

New Infrastructure Projects Priority List	☐
Technical and Operational Assessment, Economic and Social Impact and Financial Assessment	☐

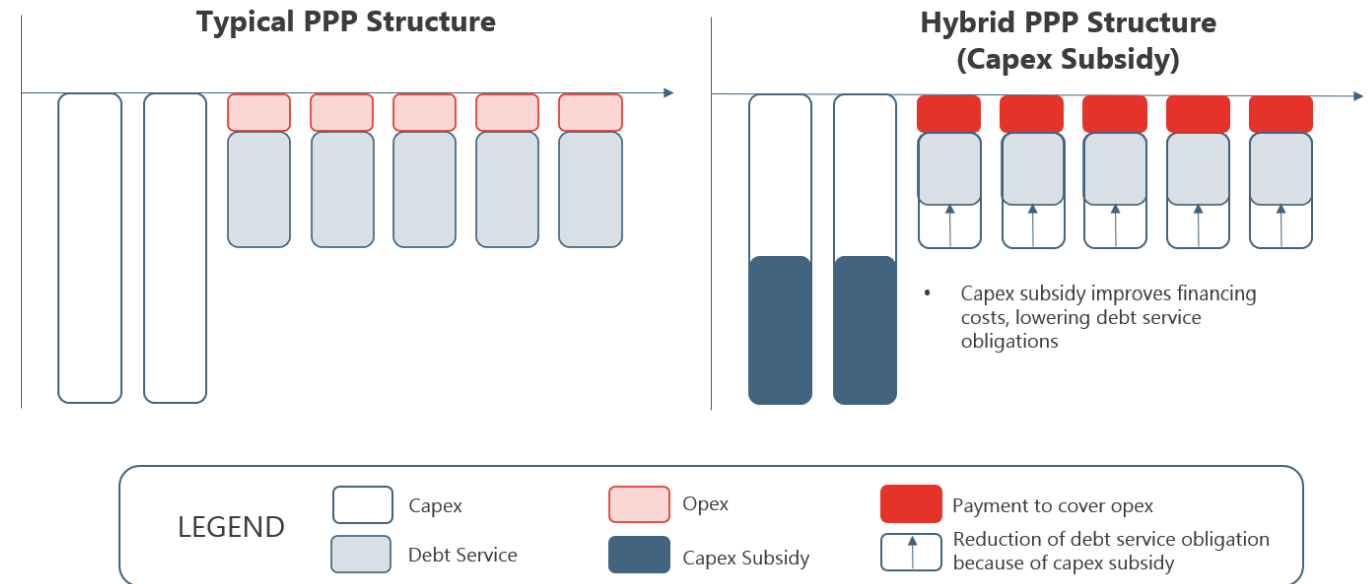
RE-INVESTMENT COULD HAPPEN THROUGH VARIOUS PPP STRUCTURES

- **Private Participation in Infrastructure** can take different models
- Certain modalities are more prevalent depending on the sector (e.g. affermage in water sector; performance-based contracts in roads sector)
- **PPI models can mobilize private capital**, delivering value for money and creating efficiencies



HYBRID PPPs CAN IMPROVE BANKABILITY AND AFFORDABILITY

- Sometimes economically justifiable PPPs are not affordable and/or bankable.
- Among other options, addressing this may require additional public resources (**“Viability Gap Funding” or VGF**)
- When the government is unable to provide the required additional public resources, the **World Bank Hybrid PPP structure may be considered to address bankability and affordability shortfalls.**



A Hybrid PPP is a specific PPP structure in which government support, using full or partial concessional financing, is provided to achieve project bankability and affordability.

*Viability gap funding (VGF) is a specific form of government support to PPPs, where the government deploys additional resources into the project through the provision of capital or operational subsidies to ensure project bankability and user affordability.

THREE VGF MODELS FOR HYBRID PPPs



Hybrid PPPs via VGF can cover a broad range of financing needs, including contributions to upfront construction capital and to operations and maintenance (O&M) subsidies.

While the structure depends on the project, three commonly used models have been identified.

1

VGF through a capital expenditure subsidy

Private party responsible for all components of PPP. To ensure bankability and/or affordability, the government contributes public funds towards the capital cost.

2

VGF through an operating expenditure subsidy

Private party responsible for full delivery of the PPP project. To ensure bankability and/or affordability, government contributes public funds towards opex or as performance-based revenue payments to subsidize services.

3

VGF through a build-concession

The project is divided into discrete components and the responsibility for financing and constructing these components is split between the government and the private sector.

MARGINALLY BANKABLE PPPs BENEFIT FROM HYBRID PPP STRUCTURES

Determine
Project's
Suitability



Is my project a strategic fit for WBG?

Aligned with sector dialogue/reforms?
Does it align with Industry/country strategy,
including anchoring within CPF?
Sufficient scale to attract qualified partners and
allow substantial development impact?

Is my project well-suited for the PPP model?

Does PPP model provide better value for money
over standard procurement?
Is project technically feasible?
Is it economically viable?

Is there demonstrated government buy-
in to pursue model?

Does project have
an affordability or
bankability issue?

If,
yes



Project is eligible to be
developed as Hybrid PPP

If interested in pursuing, reach out to the Hybrid PPP
Task Force for support on next steps

including the One WBG offer, identifying a transaction
advisor, and more...

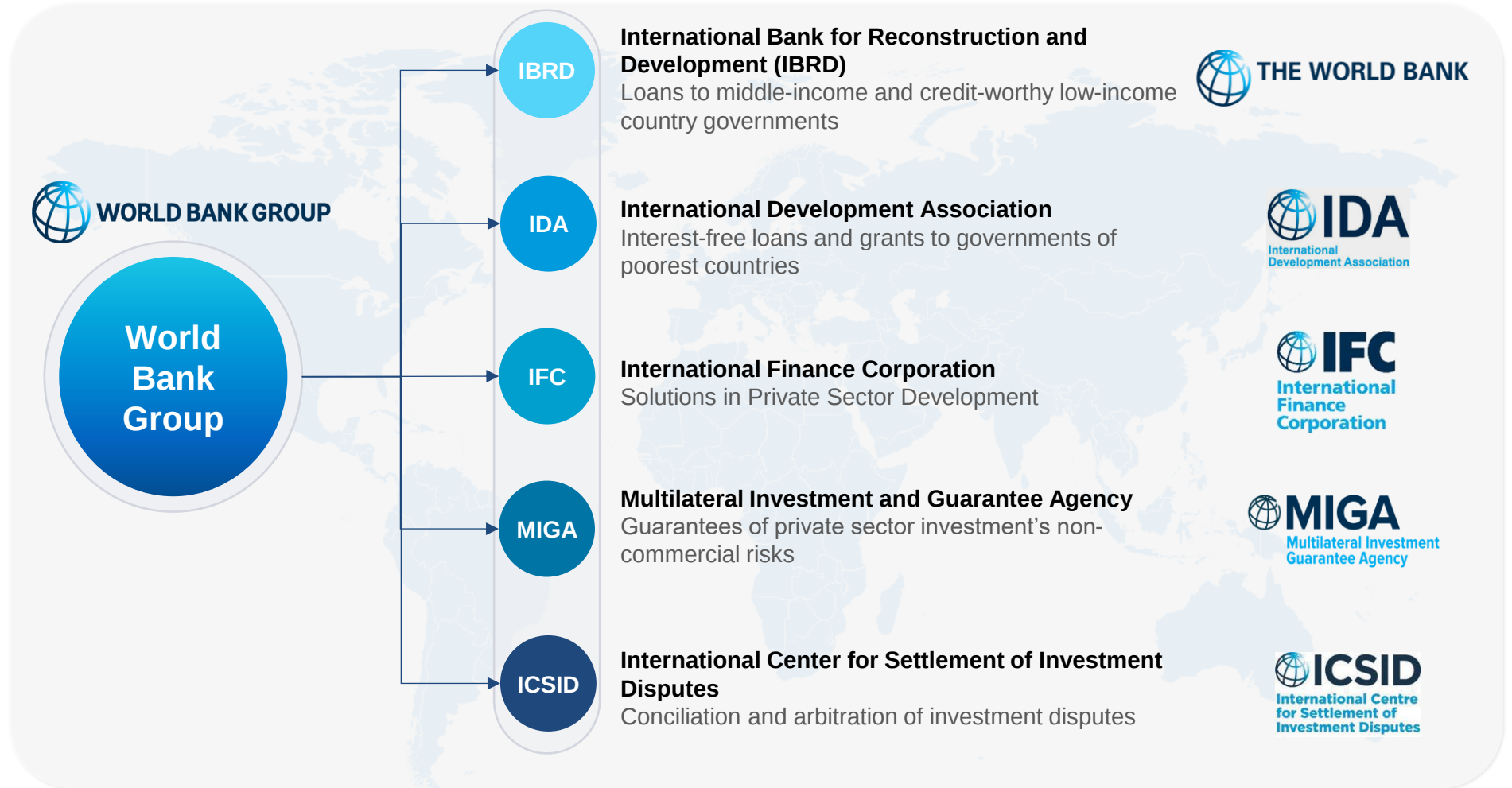
If,
yes

WBG's SOLUTIONS FOR ASSET RECYCLING PROGRAMS



WORLD BANK GROUP PRODUCTS AND SERVICES

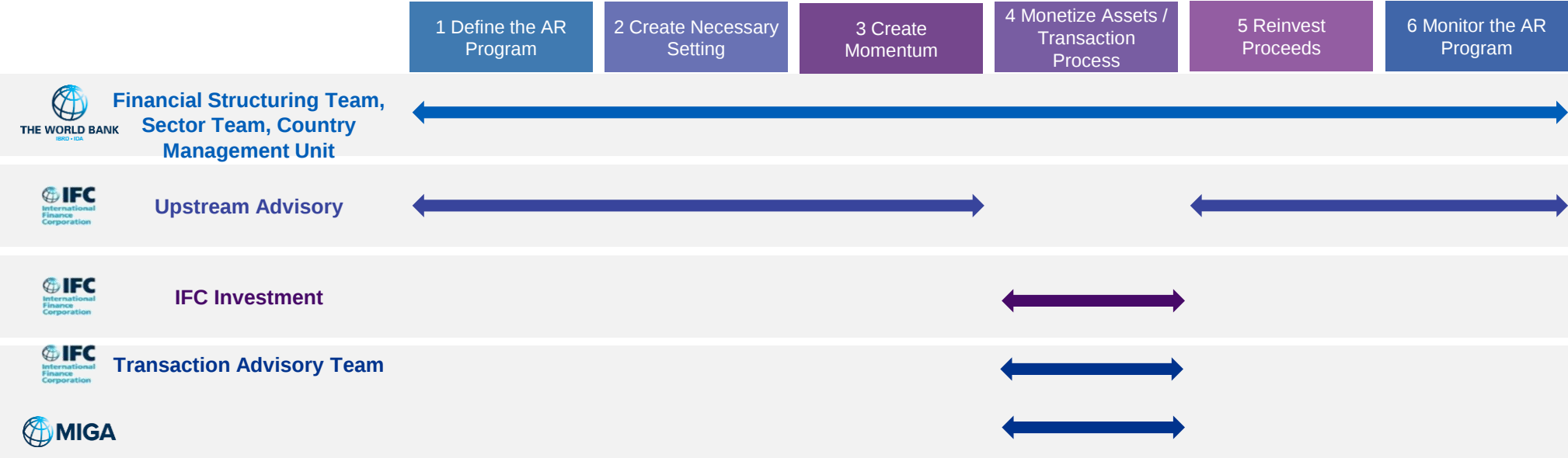
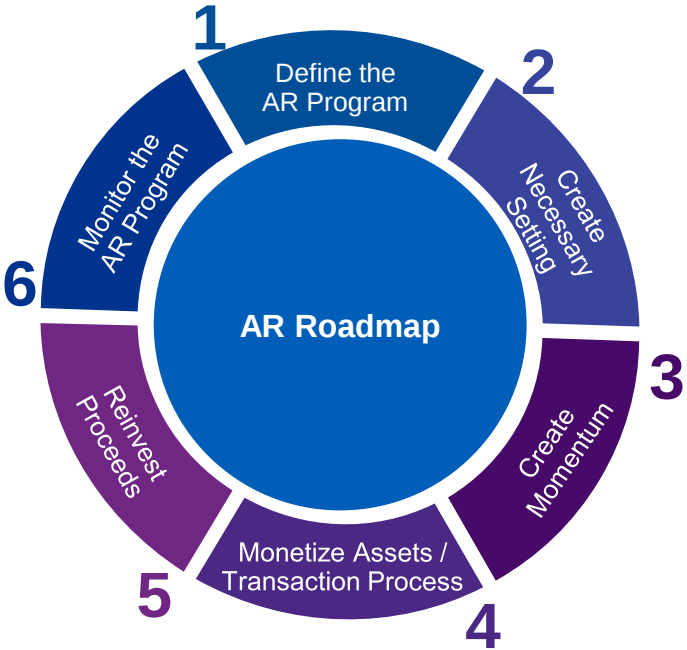
The WBG can help governments across the six steps of the AR roadmap to successfully implement an AR program via the utilization of the suite of WBG's products and services.



In the next section, specific challenges have been identified for each step in the asset recycling roadmap. Various products and services of the WBG, along with respective tailored solutions are mapped to identify where WBG can help alleviate these specific challenges in the asset recycling roadmap.

Solutions Mapped to the Asset Recycling Roadmap

The diagram provides an overview on how the entities within the World Bank Group can assist stakeholders involved in the implementation of an asset recycling program. As the mandate of each organization differs, this section identifies the specific products and services that can be utilized to best address the challenges stakeholders may face at each step of the asset recycling roadmap.



Solutions Mapped to the Asset Recycling Roadmap

The sub-teams under the World Bank Group entities, with relevant roles within the asset recycling roadmap, are further discussed below. The table below presents a comprehensive list of activities, clients, products and services, and budget for each of these sub-teams across the six steps of asset recycling roadmap.

World Bank

- **Infrastructure Finance, PPPs and Guarantees (IPG) Team:** The IPG team helps Sector teams with developing sustainable financing solutions by providing skilled experts, financial instruments, funding partnerships, tools and research to facilitate private sector participation through stronger investment environments and bankable infrastructure projects.
- **Sector Team:** Sector teams – or Global Practices (GPs) - consist of experts in the relevant sectors (e.g., for infrastructure: Transport, Energy and Extractives and Digital Development) who are leading World Bank projects in their relevant area.
- **Country Management Unit (CMU):** The Country Management Unit leads the dialogue between World Bank and governments in the respective country and coordinates overall country’ portfolio.

IFC

- **Upstream Advisory:** Upstream Advisory activities consist of Sector Upstream activities (largely enabling environment / sector development advisory, technical assistance etc. activities) and Project Upstream activities (firm-level advisory) that have a line of sight toward private-sector investment in 3-5 years
- **Transaction Advisory Team:** IFC’s transaction advisory team provides PPP and corporate finance transaction advisory, such as analyzing a project’s fundamentals, reviewing and recommending a transaction structure, providing financial modeling, promoting the project to investors, etc.
- **IFC Investment:** IFC Investment provides financing products to enable companies to manage risk and expand their reach in developing countries.

MIGA

- Provides political risk insurance (guarantees) to investors and lenders for projects in a broad range of sectors in developing member countries, covering all regions of the world

APPENDIX



HOW IS ASSET RECYCLING DIFFERENT FROM PRIVATIZATION ?

Parameter	Privatization	Asset Recycling
Objective	Takes a transactional view on selling or divesting the assets with focus on realization of proceeds	Takes a holistic view on monetizing the assets coupled with the re-investment of the proceeds for development of new infrastructure assets
Asset Ownership	Generally, there is loss of asset-ownership or control on the asset	Asset recycling allows for a range of mechanisms for the transfer of ownership and control of the asset.
Re-investment of proceeds	There is no/ limited policy objective or programmatic intervention for utilization of proceeds.	The utilization of proceeds for development of new infrastructure is part of the objective of an asset recycling program.
Public Perception	Generally, a negative public perception as privatization is seen as “selling” of public assets to the private sector.	With right messaging, asset recycling is perceived as a preferred “alternative funding” source for development of new infrastructure assets (as in the case of Australia).

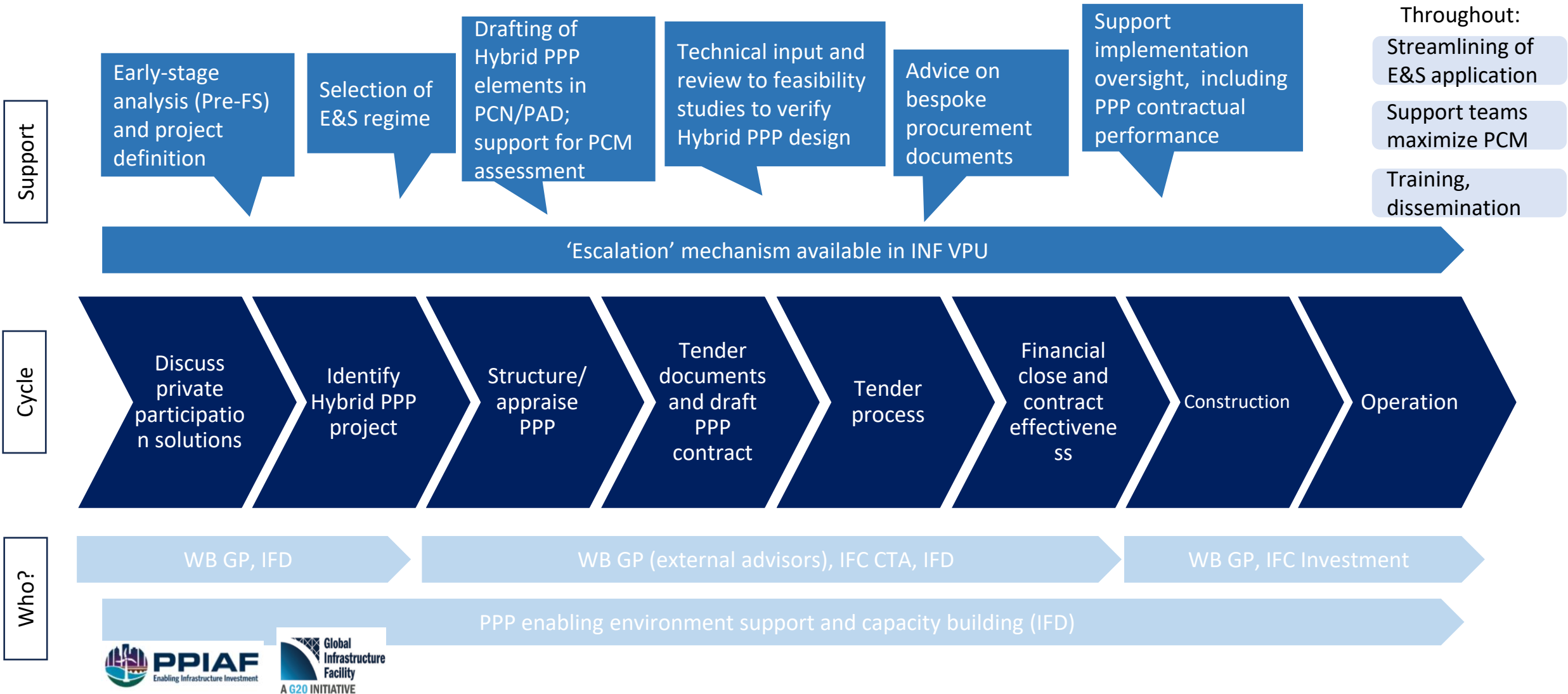


Define the AR Program	Create the Necessary Setting	Create Momentum	Monetize Assets / Process Transaction	Reinvest Proceeds	Monitor the AR Program
Financial Structuring Team: - Provide technical support to Sector Team in exploring asset recycling program suitability for a given sector and country - Share international experience and best practices Sector Team: - Discuss Government objectives for asset recycling - Support Government in defining scope, scale and strategy of the asset recycling program Country Management Unit: - Provide high-level inputs on country and CMU priorities related to asset recycling - Coordinate the World Bank's country dialogue Upstream Advisory: - Provide inputs on the relevance of the private sector in alleviating the infrastructure financing gap - Provide advice on best practices, challenges, and mitigation of challenges for a successful asset monetization / asset recycling program	Financial Structuring Team: - Help identify reforms to enhance asset recycling bankability - Share international experience and best practices Sector Team: - Lead discussion on required policy, regulatory and legal reforms - Coordinate reform discussion with potential parallel budget support (DPO) or investment financing (IPF) operations Country Management Unit: - Ensure alignment of proposed reform activities with other reform engagements / sectors, including relevant DPOs and IPFs Upstream Advisory: - Conduct gap analysis of enabling environment to ensure legal and regulatory framework is conducive for asset recycling - Stakeholder engagement and capacity building on reinvestment and monetization models, creation of communication plan / outreach to local governments or line ministries	Financial Structuring Team: - Support WB project identification - Analyze potential assets for monetization / reinvestment - Engage with private sector or potential interest Sector Team: - Identify potential new WB project - Analyze strategic and technical merits of proposed investments Country Management Unit: - Ensure strategic fit of proposed WB project with country partnership strategy Upstream Advisory: - Develop technical criteria to prioritize / select assets / appropriate model to prepare the asset monetization pipeline for immediate, medium, and long-term	Financial Structuring Team: - Structure WB financing / risk mitigation solutions or provide advisory under a new WB project Sector Team: - Lead new WB project preparation (either financing or technical assistance) Country Management Unit: - Review and provide quality control of WB project preparation and approval Transaction Advisory Team: - Develop transaction structure and monetization models for the identified assets - Develop procurement and transaction documents and support government with tender process - Engage with investors for provision of financing, credit enhancement and risk mitigation products IFC Investment: - Provide debt / equity / quasi-equity funding, anchor investor capital market transactions MIGA: - Provide Political Risk Insurance Guarantees/Credit enhancement	Financial Structuring Team: - Analyze and select potential assets for reinvestment through appropriate Government support (capital contribution, VGF, or similar) - Structure WB financing / risk mitigation solutions through WB project in reinvestment, if needed Sector Team: - Technical assistance in identifying and prioritizing projects for reinvestment - Project preparation for potential co-financing Country Management Unit: - Ensure strategic fit of WB technical assistance or co-financing with country partnership strategy - Upstream Advisory: Refine goals for infrastructure investment for the country in question, in accordance with changing priorities and/or greater clarity on investment needs	Financial Structuring Team: - Participate in AR program supervision Sector Team: - Lead AR program supervision Country Management Unit: - Review supervision process Upstream Advisory: - Develop metrics to evaluate the implementation effectiveness of the AR program in coordination with private sector partners, governments, bearing in mind the needs of the public

Legend

World Bank
IFC
MIGA

AVAILABLE WBG SUPPORT FOR PPP PROJECT PREPARATION



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