

Market Sounding

In addition to ‘public consultation, there is also a specific function and role for consultation with the private sector during the project implementation stages. This specific consultation is also called market sounding.

The main objective of the market sounding is to test the private sector’s ability to assume risks that are to be transferred via the concession contract from the public sector to the private sector. Naturally, if the client already has a good understanding of the issues and the position of the private sector (i.e. if it has already initiated similar tender procedures) this consultation phase could be relatively short or may even be omitted.

Market sounding should not be confused with public consultation but there are some similarities. Both should be carried out as early as possible in the project cycle so that the views of affected groups can be taken into account in project planning.

The focus of public consultations is on the general acceptability of the project among the affected stakeholders. Market sounding, on the other hand, focuses on the suitability and attractiveness of the business scheme and generates inputs and requirements from the potential partners, as a group.

It is therefore very important to view market sounding in relationship with other areas:

- **Public service need:** market sounding must be strongly related to the services that Government (through the Contracting Authority) is aiming to bring about
- **Creation of the PPP modality:** the most important link is between market sounding and the creation of a business scheme that is well suited to the market
- **Formal procurement process:** market sounding helps build-up market knowledge that will be useful in the procurement process

In each PPP scheme, the government is “selling” an investment opportunity to the private sector, therefore it must assess the market. Effective market sounding will improve marketability of the partnership opportunity and may significantly reduce procurement time, by bringing private sector perspective to the design of business scheme at an early stage.

Market sounding focuses on the private sector as a whole, rather than on any individual company. It includes no element of evaluation, and there is no commitment of any kind involved. Not every PPP project needs a formal full scale market sounding, some project can do with informal market sounding.

Market sounding is a cluster of activities which is a part of an integrated PPP cycle. The table below shows the usual timing of market sounding actions, which are generally related only to the first two stages of PPP project preparation: Stage 1: Selection and Prioritization of Projects for PPP, and Stage 2: Detailed Due Diligence.

Market sounding offers a chance to shape the business scheme at a very early stage, when this is relatively easy to do. When the business scheme is already published in formal documents there will be little opportunity to change.

The following section on Market Sounding includes:

- Important context and position of market sounding
- Definition, purpose and focus of market sounding
- Skills required and the use of consultants
- Benefit and risks
- Shaping business scheme and requirement
- Issues to discuss and questions at market sounding
- How to conduct discussion with private parties

Objectives of Market Sounding

Market sounding is likely to offer real benefits for those projects which present one or more of the following characteristics:

- There is uncertainty about the level of private sector's interest in the project
- The in-house knowledge of the market is superficial, incomplete or absent
- There is uncertainty about which will be the right business scheme
- There is a need to manage expectations of a project
- Meeting the requirement likely to involve a consortium – perhaps one with a new or unusual structure

Market sounding involves gathering knowledge which is focused in these key areas:

- **Viability:** whether the proposed business scheme is actually viable, or has it ever been done
- **Capability:** will the private sector (individual or in consortium) be able to achieve the requirement
- **Capacity:** whether the market have the capacity to achieve what is required quickly enough and with large enough scale
- **Maturity:** whether there is an established market

TIMING OF MARKET SOUNDING ACTIONS		
Stage in PPP Cycle	Stage 1 - Selection And Prioritization Of Projects For PPP	Stage 2 - Detailed Due Diligence Of The Projects Proposed For PPP
Primary Activities	Produces a ranked list of projects assessed as suitable for PPP which can then be considered as Potential PPP projects. They can be assessed at this stage as being Value for Money under PPP procurement through an additional but simple process. Priority PPP projects are then assessed for 'readiness' to progress to the next stage for feasibility study. Projects that are 'ready' are proposed to the Line Ministry for its approval for the Contracting Agency to undertake a much more detailed study	<p>Stage 2 consist of eight key components:</p> <ul style="list-style-type: none"> 1-A technical basis of the PPP project including demand and project preliminary/basic design. 2-Demand projections 3-A Social Cost Benefit Analysis (SCBA) which measures the social and economic value of the project to the nation as a whole. 4-A Financial Analysis, which is vital and presents the business case for the project and indicates the financial characteristics of a project. It must show whether (or how) the project will be attractive to the private sector and whether any fiscal support is necessary and/or warranted. 5-Environmental Impact 6-Social Impact Studies including resettlement issue 7-PPP Modalities and Business Scheme 8-A risk assessment including a preliminary allocation of risks
Market Sounding Actions	Early market engagement to build-up market knowledge and assess the existence and capacity of market. Input to a preliminary information memorandum.	<p>Obtain feedback on various technical/financial aspects of the project. Feedback from private sector including on concerns, issues and also conditions required sector for transactions.</p> <p>Obtain market feedback on potential business schemes/modalities and the structuring of PPP, as preparation of a full-scale information memorandum.</p>

Which private sector actors should be approached?

The crucial part of conducting a discussion is to know whom to have the discussions with, or in another words selecting which private party to approach.

Ideally the team should have discussions with private companies who have achieved outcome of a similar nature and scale to the PPP project we are seeking. If those are not available at least we should approach those who have demonstrated the required capacity and capability.

However doing discussion with individual companies may increase the risk of providing information to certain companies which will give them unfair advantage at the procurement process. A better solution is to approach business association (groups) which are closely related to the scope and nature of the project, and which may include the following:

- National Chamber of Commerce and Industry
- Investment (Finance) Association
- Construction Groups
- Property Developer Association
- Equipment Groups
- Association of Consultants
- Academic Community (not potential partner but they can give impartial comments)
- Once a suitable group has been identified, discussion can be arranged and held with the group or with each company.

Benefits and Risks of Market Sounding

For The Contracting Authority

For the contracting agency the main benefits obtained from market sounding are:

- Establishing that there is in fact a market for the requirements, alternatively an early understanding of the requirement may help establish the market
- Confirming, through market reaction, that the scope and objective of PPP scheme are sound and achievable
- Finding out about new, innovative or alternative solutions
- Identifying potential issues or problems with the project
- Gaining first hand knowledge of what private sector can and cannot do
- Establishing that the business scheme is packaged in such a way that the market is encouraged to respond, and that real competition is stimulated
- Laying useful foundation for contract and relationship management
- Managing stakeholders expectation of what will be achieved by the PPP project.

The risks for the Contracting Authority include:

- The risk of gravitating solutions toward ideas suggested by dominant and/or experienced player
- The risk of giving particular private party “inside information” which gives unfair advantage during the following procurement process

- The risk of misdirecting the project based on incomplete information or misleading information obtained during market sounding
- The risk can be reduced by deploying market sounding team with the necessary competence and skill. The team should also be able to maintain their impartiality and set a high ethical and integrity standards.

For Private Sector

The benefits of market sounding for private sector involved include:

- The chance to assess whether the opportunity will be suitable
- The chance to raise issues and queries about the opportunity, and about the procurement process
- The chance to gain valuable insight into public sector working practices, requirement and priorities

The risks for private sector include proprietary ideas and solutions may be compromised if spending valuable time without guarantee of any business.