

# **Market Sounding in Asset Recycling**

## Full Description

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The government should approach the market sounding exercise to assess the following:

- Project viability: whether the proposed asset put up for recycling is viable (from private sector's perspective);
- Capability and capacity of the private sector: the ability of the private sector to achieve the requirements both in terms of service delivery and financial obligations with respect to the project; and
- Maturity and competitiveness: the level of competition in the market (domestic and international) to ensure that the tender process is competitive and will drive an optimal financial outcome.

## **Pre-market sounding preparation**

In preparation of market sounding, the Relevant Authority should undertake the following activities:

- Participants to be invited: The Relevant Authority should prepare a list of the following stakeholders (domestic and/or foreign) to be invited for market-sounding:
  - Experienced Service Providers / Large Construction Contractors / Strategic Investors/ Institutional or Financial Investors – This is required to gain insights on market conditions, technical aspects of the project and the allocation of risks.
  - Lenders/ Financiers (including commercial and multilateral banks) – This is required to understand the bankability considerations (from lender's perspective).
- Invitation to participants: The Relevant Authority should share the invitation to market-sounding participants well in advance to plan travel arrangements when required; the invitation may be shared via email, virtual event, social media, newspaper / trade journal publications.
- The Relevant Authority should distribute, as part of the invite, a project briefing note, to enable participants to learn and acknowledge some information on the project beforehand. The briefing note should include the following topics:
  - Background of the sponsoring Relevant Authority
  - List of other government agencies involved - including roles and responsibilities of each agency

- Project description – brief description of the transaction
  - Scope of the project – scope of each engaging party and explanation on payment mechanism.
  - Summary of technical assessment - including condition of assets and supporting infrastructure
  - Summary of financial and commercial assessment – include summary of historical financial statement of the asset and key commercial terms
  - Legal assessment – includes the parameters of legal ownership of the project
  - Timeline of the project – information on expected timeline throughout the transaction of the project
- Appropriate timing of market-sounding: The market-sounding exercise should not be carried out at too early a stage; equally, it should not be carried out at too late a stage; a few weeks prior to the planned commencement of the bid process, would probably be an appropriate time to undertake formal market sounding (of course, the transaction advisory team may have also undertaken some market sounding to seek specific inputs for some aspects of the transaction structure and also to gauge preliminary interest in the transaction).

## **Market sounding checklist**

The following checklist represents some best practices while undertaking a market sounding exercise:

- Make sure that the market-sounding exercise is in line with relevant procurement rules.
- Consider market-sounding exercises after the project preparation stage and before formulating the procurement plans in detail.
- Invest time in preparing the background documentation; be clear about the issues to be discussed with the market (for example, information on proposed risk allocation, compensation, and structure).
- Involve multiple individuals with multiple skill sets (technical, commercial, financial and legal) from the Relevant Authority.
- Be consistent about the responses to the respondents; ensure that meetings are well documented.
- Regarding climate resilience and sustainability, it is recommended to:

- Approach local and international insurance companies to discuss the feasibility of insuring Asset's main climate risks identified at reasonable costs.
- Approach local and international financial institutions to discuss green / ESG / sustainability financing options that could apply for the Asset.

## Stakeholder Consultation

Better understanding of communities' concerns by engaging them directly to identify their key fears and threats, and how they might be addressed, can help tailor the Asset Recycling programme to the needs and values of local communities.

Mechanisms should be created that encourage the public community to engage throughout the whole process. These mechanisms include public opinion surveys and town hall meetings that can help identify people's concerns as well as the public's reaction to the rationale for the Asset Recycling programme, and to proposed solutions to address concerns. Adopting a more collaborative process with the local community during the planning and implementation stages can considerably reduce opposition and build support. The important messages that can be conveyed in community consultations include – avenues for reduced borrowing and reduced taxes resulting from proceeds generated, and increased employment from reinvestment of proceeds into new infrastructure development, and in particular, green and sustainable infrastructure.

### Box 7: Case Study on Lessons Learned from Asset Recycling Initiative in Australia

The approach for asset recycling transactions in Australia under the ARI was based on maximizing the level of proceeds without compromising policy outcomes. To facilitate bidders to maximize their offers, governments addressed the issues before going to market and looked to create arrangements that provided certainty to the concessionaire post concession. Some key success factors include:

#### *Pre-transaction planning*

- Appointment of specialist advisors across multiple areas
- Defining asset opportunity to be monetized
- Preparation on policy issues for SOE after monetization
- Identify “gaps” or “problems” that may affect value and address them

#### *Detailed vendor due diligence*

- Findings from the due diligence conducted by the government's advisors were made available to bidders, with the winning bidder able to rely on legal and technical reports

#### *Enabling legislation*

- Most assets required new laws / regulations to give certainty to the bidders
- New laws / regulation to cover gaps, protect the SOE and new private sector partner, were instituted

### *Policy and political decision making*

- Maximizing the upfront premium for the asset, was balanced with the longer-term interests of the public
- The policy issues go beyond price maximization, including:
  - investment environment and appetite
  - the size and shape of the transaction package

### *Bidder engagement / Market sounding*

- As the market appetite may vary depending on size and shape of transaction package, soft market sounding was useful to seek the views of investors on matters that go to the attractiveness of the asset
- Information memorandum sent to interested bidders in advance

### *Transaction documents*

- Key transaction documents typically included Sale and Purchase Agreement, Long-term Concession / Operation Deed, Lease of Land / Property, Lease of Chattels on Land, Transitional Service Agreement, Financier Deed, Other miscellaneous documents

### *The bidding process – “M&A” Approach*

- The process for an asset recycling transaction has been run like a "corporate investment" or "M&A" deal as opposed to an infrastructure procurement

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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](#).*

