



PLANNING MALAYSIA:

Journal of the Malaysian Institute of Planners

VOLUME 24 ISSUE 5 (2026), Page 397 – 412

TOWARDS SHARIA COMPLIANT MARKET SOUNDING PRACTICES IN PUBLIC-PRIVATE PARTNERSHIPS: EVIDENCE FROM INDONESIA

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Abstract

This study examines whether Sharia principles emphasising transparency and full disclosure can be operationalised within market sounding practices in Public-Private Partnership (PPP) schemes. The study adopts a qualitative research design based on semi-structured interviews with 21 expert stakeholders from government institutions, financial organisations, private investors, advisory bodies, and Sharia authorities. Data were analysed using thematic analysis to identify recurring patterns and to develop a conceptual framework. The findings reveal a strong convergence among stakeholders that transparency and full disclosure are fundamental requirements under Sharia and are consistent with principles of good governance in PPPs. However, practical limitations, including limited project readiness, institutional capacity constraints, and the need to preserve competitive innovation, restrict the feasibility of full disclosure at early stages. The study is limited to the Indonesian context and expert perspectives. Future research may incorporate comparative studies across jurisdictions and quantitative validation of impacts on investor participation. This study contributes to the emerging discourse on Sharia PPPs by proposing market sounding based on transparency and full disclosure as a foundational mechanism bridging Sharia principles and conventional PPP practices.

Keywords: Investor; Market sounding; Public-private partnership; Sharia PPP; Transparency

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INTRODUCTION

Public–Private Partnerships (PPPs) have emerged as a central mechanism for infrastructure delivery, particularly in developing economies seeking to bridge financing gaps while enhancing efficiency and innovation (Asian Development Bank, 2018; Sunandar & Indiyati, 2023; Sunandar et al., 2025d). In recent years, the expansion of Islamic finance has introduced new dimensions to PPP structuring, especially in jurisdictions such as Indonesia, where Sharia principles are increasingly integrated into public investment frameworks (KNEKS et al., 2024; Sunandar et al., 2025c). These principles emphasise transparency, full disclosure, fairness, and the avoidance of excessive uncertainty, collectively shaping the ethical and contractual foundations of Sharia compliant transactions (Imaduddin & Kassim, 2025; Sunandar et al., 2025a). Within this context, market sounding plays a critical preparatory role by facilitating early engagement between governments and potential investors, enabling the refinement of project assumptions and the assessment of market appetite (APMG International, 2026; Ministry of National Development Plan, 2023).

Despite its importance, conventional market sounding practices in PPPs often operate with selective disclosure. Governments typically share high level financial indicators, such as internal rates of return or general project parameters, while withholding detailed cost structures, profit margins, and underlying assumptions (APMG International, 2026; Ministry of National Development Plan, 2023). This approach is intended to preserve competitive tension and encourage innovation among bidders. However, such practices may not fully align with Sharia principles, which require clarity and mutual understanding of contractual elements to avoid ambiguity and informational asymmetry. The increasing interest in Sharia compliant PPPs therefore raises a fundamental question as to whether existing market sounding practices can be adapted to meet stricter requirements of transparency and full disclosure.

The existing literature on PPP governance has extensively examined issues such as risk allocation (Sunandar et al., 2024), contractual design (Feng et al., 2023), and sustainable frameworks (Alqahtani et al., 2024). Parallel scholarship in Islamic finance has explored Sharia compliance in financial instruments, including sukuk structures and profit sharing arrangements (Balative et al., 2025; Mahama & Yakubu, 2025). However, there remains limited intersection between these two strands of research, particularly in the context of early-stage PPP processes such as market sounding. Current studies tend to focus on financial structuring at later stages of project development, while overlooking how Sharia principles can be operationalised during market sounding between public authorities and investors (Imaduddin & Kassim, 2025; KNEKS et al., 2024; Sunandar et al., 2025c). This gap is significant because market sounding

shapes investor perceptions, influences project bankability, and establishes the foundation for subsequent contractual arrangements.

The problem addressed in this study lies in the tension between the need for comprehensive transparency under Sharia principles and the practical constraints of PPP market sounding. On one hand, full disclosure of financial elements, including cost structures, profit margins, and sharing ratios, is essential to ensure Sharia compliance and to build trust among stakeholders. On the other hand, premature disclosure may be constrained by incomplete project preparation, limited capacity among project owners, and the need to maintain flexibility and innovation during early project stages. This creates a critical governance challenge in determining the appropriate level and timing of disclosure within Sharia compliant PPP frameworks.

This study contributes to the literature by advancing an integrated perspective on Sharia compliant market sounding within PPPs. It provides empirical insights derived from expert stakeholders across government, financial institutions, private investors, and advisory organisations in Indonesia. By capturing both convergent and divergent perspectives, the study identifies practical pathways for embedding transparency and disclosure requirements without undermining the functional objectives of market sounding. In doing so, it bridges the conceptual gap between Islamic economic principles and conventional PPP practices, offering a nuanced understanding of how ethical requirements can be translated into operational mechanisms.

The originality of this study lies in its focus on market sounding as a critical yet underexplored stage of Sharia PPP governance. Rather than concentrating solely on contractual or financial instruments, the research highlights the importance of early-stage interactions in shaping Sharia compliance outcomes. It introduces the notion of a balanced disclosure approach, whereby core financial and project information is communicated transparently while retaining flexibility in areas subject to uncertainty or innovation. This approach contributes to the development of a more adaptive and context sensitive framework for Sharia PPP implementation.

The aim of this study is to examine the applicability of Sharia principles within market sounding practices in PPP schemes, drawing insights from Indonesia. The research objectives are as follows:

1. To identify the main themes concerning the applicability of Sharia principles within market sounding practices in PPP schemes in Indonesia.
2. To develop a conceptual framework for the application of Sharia principles within market sounding practices in PPP schemes in Indonesia.

RESEARCH METHODOLOGY

Data Collection

Primary data were collected through semi-structured interviews with 21 expert participants, reaching a point of data saturation (Saunders et al., 2018). Each interview followed a common interview protocol consisting of open ended questions exploring the applicability of Sharia principles in PPP market sounding. Interviews lasted approximately 45 to 90 minutes, were conducted with participants' consent, audio recorded, and subsequently transcribed verbatim for analysis (Sunandar, Abd Karim, et al., 2026b). Participants represented a broad spectrum of stakeholders, including senior officials from government ministries, representatives from financial institutions, private investors, advisory organisations, and authorities (Sunandar, Andriyanti, et al., 2026a; Sunandar et al., 2025b). The selection of participants followed a purposive sampling strategy, drawing initially from members of the PPP Indonesia Office and complemented by snowball sampling to ensure that respondents possessed relevant expertise. A summary of all expert participants is presented in Table 1.

Table 1: Details of Experts

Code	Organization
P1	Ministry of Public Works
P2	Ministry of Investment
P3	National Committee for Islamic Economy and Finance
P4	Ministry of National Development Planning
P5	Ministry of Finance
P6	Ministry of Public Works
P7	Ministry of Transportation
P8	Ministry of Transportation
P9	National Public Procurement Agency
P10	National Public Procurement Agency
P11	Sharia Bank
P12	PPP Financier Company
P13	PPP Private Investment
P14	PwC Indonesia
P15	PPP Private Investment
P16	PPP Private Investment
P17	Sharia Bank
P18	Sharia Bank
P19	Indonesian Ulema Council (MUI)
P20	Asian Infrastructure Investment Bank
P21	Indonesian PPP Expert Association

Source: Author's Own Creation (2026)

Data Analysis

The data were analysed using thematic analysis to identify patterns and key themes emerging from the interviews. This method enables systematic coding and interpretation of qualitative data while remaining sensitive to context and meaning (Sunandar, Abd Karim, et al., 2026a; Sunandar, Andriyanti, et al., 2026b). Following Saldana (2021), the analysis involved familiarisation with the transcripts, first cycle open coding, category development through iterative comparison, and refinement into higher order themes. Coding was undertaken manually across all transcripts, and emerging themes were continuously reviewed against the original interview data to ensure consistency, credibility, and conceptual coherence. Finally, themes were refined and synthesised into a coherent interpretation that integrates multiple stakeholder perspectives. The resulting thematic structure informed the development of a conceptual framework for Sharia compliant market sounding, balancing normative requirements with practical implementation considerations.

ANALYSIS AND DISCUSSION

Theme 1: Convergence on the Normative Imperative of Transparency in Sharia-Compliant Market Sounding

The first prominent theme emerging from the data is the strong convergence among stakeholders regarding the normative necessity of transparency and full disclosure within market sounding practices. Across the interviews, participants consistently emphasised that the principles of transparency, clarity, and fairness are not only compatible with PPP practices but are also foundational requirements under Sharia. This convergence reflects a shared understanding that market sounding, as an early stage of engagement, should embody ethical and governance standards that minimise information asymmetry and promote trust between public authorities and private investors. While conventional PPP practices often adopt selective disclosure, the findings suggest that stakeholders perceive Sharia principles as reinforcing, rather than contradicting, the broader objectives of good governance. This theme is further elaborated through three interrelated categories, as summarised in Table 2.

Table 2: Theme 1 Normative Imperative of Transparency

Category	Coding	Source
Alignment with Sharia principles	transparency as obligation; full disclosure required; avoidance of uncertainty; compliance requirement	P1, P9, P16, P18, P19
Transparency as good governance	alignment with GCG; fairness and accountability; equal information access; ethical conduct	P2, P7, P20, P21
Transparency to build trust	reducing uncertainty; preventing disputes; informed decision making; investor confidence	P5, P8, P15, P21

Source: Author's Own Creation (2026)

The first category highlights the strong alignment between market sounding transparency and Sharia principles. Several participants explicitly stated that transparency and disclosure are not optional but constitute a fundamental requirement for Sharia compliance. As P19 explained, “the fundamental philosophy of Sharia is transparency,” while P18 emphasised that transparency is “not just important, but mandatory.” Similarly, P9 asserted that failure to disclose key financial information would render the process “non-compliant” with Sharia principles. This indicates that stakeholders perceive transparency not merely as a technical feature of market sounding, but as an essential condition for the legitimacy of Sharia-compliant PPPs.

The second category situates transparency within the broader framework of good governance. Participants such as P2 and P7 highlighted that transparency is already a central principle of PPP governance. P2 noted that “the principle of transparency is one of the main principles upheld in the development of PPP in Indonesia,” while P7 stressed that “the agreement must be clear and transparent” and aligned this principle with good corporate governance and Islamic economics. Similarly, P20 argued that transparency and accountability are universally important, regardless of whether a project adopts a Sharia or conventional framework. P21 further suggested that transparency enhances the credibility of the market sounding process by ensuring that all participants have equal access to information. These perspectives indicate that Sharia principles reinforce existing governance norms rather than introducing entirely new requirements, thereby facilitating their integration into PPP practices.

The third category emphasises the role of transparency in building trust and improving investor engagement. Participants consistently noted that comprehensive disclosure reduces uncertainty and enables more informed decision making. P5 argued that “the government must disclose everything; nothing should be hidden,” enabling investors to assess project viability using transparent assumptions. Likewise, P21 observed that transparency allows the market to make informed decisions so that investors “won't feel deceived or misled.” Collectively, these insights demonstrate that transparency is not only a

normative requirement but also a practical mechanism for improving the effectiveness of market sounding.

Theme 2: Practical Constraints and Contextual Limitations in Implementing Full Disclosure

Despite the strong normative support for transparency, the second theme reveals significant practical constraints that limit the full implementation of disclosure requirements during market sounding. Participants acknowledged that while Sharia principles advocate comprehensive transparency, the realities of PPP project preparation, institutional capacity, and market dynamics necessitate a more nuanced approach. These constraints highlight the tension between ideal principles and operational feasibility, particularly in early project stages characterised by uncertainty and evolving information. This theme is further elaborated through three categories, as presented in Table 3.

Table 3: Theme 2 Practical Constraints and Limitations

Category	Coding	Source
Limited project readiness	incomplete data; lack of documentation; capacity constraints; early stage uncertainty	P2, P4, P10, P12
Need to preserve innovation	competitive tension; non-disclosure of financial models; bidder differentiation; flexibility	P4, P14, P11, P12
Uncertainty in early stages	evolving assumptions; undefined profit sharing; case by case application; provisional information	P3, P10, P11, P12

Source: Author's Own Creation (2026)

The first category relates to the limited readiness of project owners and institutions to provide comprehensive disclosure. P2 highlighted that project owners “may not necessarily be prepared to provide the required documents,” reflecting institutional readiness challenges despite strong support for transparency. P4 noted that even in conventional PPPs, detailed cost structures are rarely disclosed, suggesting that existing practices may not yet support the level of transparency required under Sharia principles. Likewise, P10 questioned whether implementation should become “more detailed or more technical,” indicating uncertainty regarding the practical scope of disclosure. P12 further emphasised that many stakeholders still lack a clear understanding of PPP mechanisms, which complicates efforts to introduce more rigorous transparency requirements. These findings suggest that institutional capacity is a critical determinant of transparency in market sounding.

The second category highlights the need to preserve innovation and competitive dynamics. Participants expressed concern that full disclosure of financial models and assumptions could undermine competition among bidders. As P14 explained, certain financial baselines are intentionally withheld because

authorities expect bidders “will not just copy” government calculations, thereby preserving innovation and competition. Similarly, P4 observed that “not everything is disclosed” in conventional PPP market sounding, suggesting that Sharia implementation may require a different regulatory approach. P11 and P12 further suggested that disclosure should be adapted on a case-by-case basis, depending on the nature of the project and the level of market maturity. These perspectives indicate that transparency must be balanced against the need to maintain a competitive and dynamic bidding environment.

The third category addresses the inherent uncertainty of early-stage project development. P3 explained that the profit-sharing ratio “doesn’t necessarily have to be included” during market sounding because project assumptions remain uncertain. P11 emphasised that implementation should be context specific, acknowledging that not all projects can provide the same level of detail. Similarly, P12 suggested that disclosure should focus on “the range of the margin” rather than precise financial figures during the early stages. These insights suggest that full disclosure may not always be feasible or meaningful during early stages, and that flexibility is required to accommodate uncertainty.

Theme 3: Towards a Balanced and Adaptive Disclosure Framework

The third theme synthesises the findings by proposing a balanced approach to transparency that reconciles Sharia principles with practical constraints. Rather than advocating absolute disclosure or maintaining conventional selective practices, participants emphasised the need for an adaptive framework that distinguishes between essential and flexible information. This approach seeks to ensure compliance with Sharia requirements while preserving the functional objectives of market sounding, including innovation, competition, and iterative project development. The key dimensions of this theme are summarised in Table 4.

Table 4: Theme 3 Practical Constraints and Limitations

Category	Coding	Source
Core information disclosure	cost structures; profit margins; key assumptions; data transparency	P5, P9, P16, P18
Flexible disclosure elements	indicative ranges; evolving details; staged disclosure; non-fixed ratios	P3, P11, P12, P14
Interactive and iterative process	market feedback; dialogue; joint refinement; stakeholder engagement	P8, P2, P15, P21

Source: Author’s Own Creation (2026)

The first category emphasises the importance of disclosing core information as a minimum requirement for Sharia compliance. Participants such as P5 and P9 stressed that essential financial information should always be

disclosed. P5 argued that “the source and formula of the calculations should also be disclosed,” while P9 maintained that “everything must be clear, no secrets should be kept” to ensure Sharia compliance. P16 reinforced this by linking disclosure to the prevention of uncertainty and speculative behaviour. P18 further described transparency as mandatory, indicating that certain information cannot be withheld without compromising Sharia compliance. These perspectives suggest that a baseline level of disclosure is necessary to uphold ethical and contractual standards.

The second category introduces the concept of flexibility in disclosure. Participants acknowledged that not all information can or should be fixed during market sounding. P3 reiterated that profit sharing ratios are “not mandatory” during market sounding, whereas P14 argued that some internal financial models remain undisclosed to encourage bidder innovation, if transparency regarding project fundamentals is maintained. This indicates that transparency can be achieved through indicative ranges and evolving details rather than rigid specifications. Such flexibility allows market sounding to remain responsive to changing conditions while maintaining alignment with Sharia principles.

The third category highlights the importance of interaction and iterative engagement in achieving effective transparency. P8 noted that transparency “also requires feedback from the market,” highlighting the importance of two-way communication. P2 noted that collaboration between government and stakeholders is essential for developing Sharia-compliant frameworks. P15 stressed the need for continuous refinement of data and assumptions to ensure accuracy and relevance. Likewise, P21 argued that honest disclosure enables investors to make informed decisions without feeling “deceived or misled.” These insights suggest that transparency is not a static outcome but an ongoing process that evolves through stakeholder engagement.

Discussion and Conceptual Framework

The first theme reveals a strong convergence on the normative imperative of transparency, which is well supported in both PPP and Islamic finance literature. Transparency has been widely recognised as a cornerstone of good governance, enhancing accountability, reducing information asymmetry, and strengthening investor confidence in PPPs (Ministry of National Development Plan, 2023; World Bank, 2017). Early disclosure and stakeholder engagement have been shown to improve project bankability and procurement outcomes (Hössl-Neumann & Torggler, 2021; Lombardo & Mucciarelli, 2019; Payne, 2024). In parallel, Islamic finance scholarship emphasises that full disclosure and clarity of contractual terms are essential to ensure validity and to avoid excessive uncertainty or *gharar* (Hamid et al., 2019; Zultaqawa et al., 2025). The findings of this study reinforce these perspectives, demonstrating that stakeholders

perceive transparency not only as a governance requirement but also as a moral and religious obligation. This aligns with the argument that Sharia principles complement conventional governance frameworks by strengthening fairness and informed consent in economic transactions.

The second theme highlights practical constraints in implementing full disclosure, which is consistent with prior PPP research. Institutional capacity limitations, including insufficient technical expertise and incomplete project preparation, have been identified as key barriers to effective market sounding in developing economies (APMG International, 2026; Asian Development Bank, 2018). Furthermore, the literature on competitive procurement suggests that selective disclosure is often necessary to preserve bidder innovation and avoid standardised proposals that reduce value for money (Arijeloye et al., 2024; Mat Aron et al., 2024). The concern that full transparency may undermine competitive tension is therefore well established. In addition, uncertainty in early-stage project development has been widely acknowledged, with project parameters often evolving as more information becomes available (Dewulf & Garvin, 2020; Song et al., 2018). The findings corroborate these insights by showing that stakeholders recognise the limits of disclosure in contexts characterised by uncertainty, limited readiness, and the need for flexibility.

The third theme proposes a balanced and adaptive disclosure approach, which resonates with emerging perspectives in governance and stakeholder engagement. Importantly, the findings do not advocate universal or immediate full disclosure. Instead, they support proportionate transparency in which the scope of disclosure evolves according to project readiness, institutional capability, and the certainty of available information. In practice, this may be implemented through a staged disclosure process. During the initial market sounding stage, public authorities should disclose a minimum set of information comprising project objectives, procurement scope, indicative cost structures, funding sources, key financial assumptions, principal project risks, and the methodology underpinning financial calculations. Subsequent market sounding rounds may progressively refine project specific elements, including indicative profit-sharing ranges, preliminary financial projections, financing arrangements, and technical specifications, as additional information becomes available. Throughout this process, investor feedback should be systematically incorporated to refine project assumptions, while periodic Sharia review ensures that evolving disclosures remain consistent with the principles of transparency, fairness, and the avoidance of excessive uncertainty. This approach ensures that essential information is communicated from the outset while allowing project specific elements to evolve without compromising either market sounding effectiveness or Sharia compliance. From an Islamic perspective, such adaptability is consistent

with the principle of *maslahah*, which prioritises public interest and practical feasibility in applying Sharia rules (Abd Razak, 2020; Arifin, 2025).

Building on these discussions, this study develops a conceptual framework for Sharia compliant market sounding in PPPs. The framework consists of three interrelated dimensions. The first dimension is the normative foundation, grounded in Sharia principles of transparency, full disclosure, fairness, and the avoidance of uncertainty. The second dimension comprises contextual constraints, including institutional capacity, project readiness, competitive dynamics, and early-stage uncertainty. The third dimension represents the operational mechanism, defined as a balanced disclosure approach that differentiates between core information, such as cost structures and key assumptions, and flexible elements, such as indicative ranges and evolving details. These dimensions interact dynamically through iterative stakeholder engagement, enabling continuous refinement of project information. This integrated structure forms the basis of a practical and adaptive framework, as illustrated in Figure 1.

Overall, the framework offers a theoretically informed and empirically grounded contribution to the design of PPP processes that are both Sharia compliant and operationally effective. Unlike existing PPP market sounding frameworks, which primarily emphasise investor engagement and procurement efficiency, and unlike Islamic finance governance frameworks, which mainly focus on contractual compliance and financial instruments, the proposed framework integrates ethical transparency requirements with the operational realities of early stage PPP market sounding. It therefore introduces a balanced disclosure mechanism that distinguishes between mandatory core disclosures and context dependent flexible disclosures, providing practical guidance for implementing Sharia principles without compromising market sounding effectiveness.

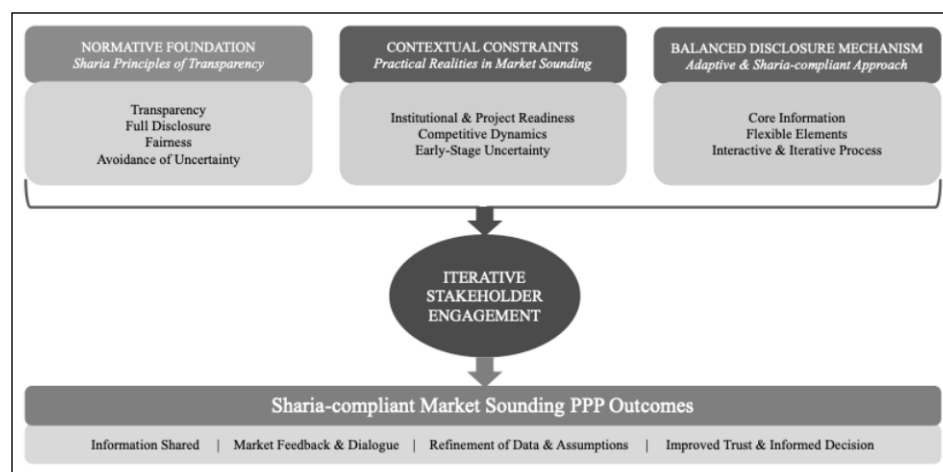


Figure 1: Conceptual Framework
 Source: Author's Own Creation (2026)

CONCLUSION

This study demonstrates that Sharia principles, particularly transparency, full disclosure, and fairness, are broadly compatible with market sounding practices in PPPs. The findings indicate a strong consensus among stakeholders that transparency constitutes both a governance requirement and a Sharia obligation. At the same time, the study identifies important practical constraints, including limited institutional capacity, early stage uncertainty, and the need to preserve competitive innovation. These factors necessitate a calibrated approach to disclosure rather than a rigid or universally applicable model of full transparency. Instead, Sharia compliant disclosure should be implemented progressively, taking into account project readiness, institutional capacity, and the maturity of available information.

The principal contribution of this research lies in the development of a balanced and adaptive disclosure framework for Sharia compliant market sounding. Although the framework is derived from empirical evidence in Indonesia, its conceptual foundations have broader relevance for Malaysia, Saudi Arabia and other Muslim majority countries with established PPP and Islamic finance ecosystems and improving infrastructure procurement practices within the built environment sector. For public authorities and PPP units, the framework supports the preparation of structured market sounding processes by distinguishing mandatory disclosures from information that may be refined as projects mature. For Sharia advisory bodies, investors, and financiers, the framework provides a practical basis for assessing disclosure adequacy,

strengthening stakeholder confidence, and facilitating more informed investment decisions throughout the early stages of PPP development.

Nevertheless, the study is subject to several limitations. It is confined to the Indonesian context and relies on qualitative data derived from expert perspectives, which may limit generalisability. Future research may extend this work through comparative studies across jurisdictions, as well as quantitative analyses examining the impact of implementing Sharia principles on investor participation, project bankability, and procurement outcomes.

ACKNOWLEDGEMENTS

This research was conducted without financial support from any grant.

DISCLOSURE

The authors declare that there is no conflict of interest associated with this research.

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Received: 12th June 2026. Accepted: 14th June 2026