



GLOBAL INFRASTRUCTURE

The Changing Face of Infrastructure: Public sector perspectives

Global research commissioned by KPMG International
from the Economist Intelligence Unit

KPMG INTERNATIONAL

Economist Intelligence Unit

The
Economist



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Due to rounding graph totals may not equal 100 percent.

The World Bank definition of "governmental effectiveness" was provided to respondents during the survey, and specified as "the quality of public services, the quality of civil service and the degree of its interdependence from political pressure, the quality of policy formulation and implementation, and the credibility of the government's commitment to such policies."

About the survey

In order to understand the challenges that public sector officials face in creating and maintaining infrastructure, the Economist Intelligence Unit (EIU), commissioned by KPMG International, conducted a survey in November and December 2009 of 392 senior public sector officials involved in infrastructure policy, procurement or development. Of these, 47% were at the level of senior manager or above. Thirty-seven percent came from organizations that operate at the city or local level, 28% from those at the state or regional level, and 35% at the national or federal level. None were elected officials. Respondents came from 50 countries and territories around the world, including Europe (32%), North America (32%), Asia-Pacific (30%), Latin America (3%) and the Middle East and Africa (3%).



Foreword

As the global economy recovers from the economic and financial turmoil of 2008-2009, it is crucial to reflect upon next steps to support infrastructure development – a key part of stimulus programs worldwide. Seeking views and opinions from leading public sector officials involved in infrastructure has been a valuable exercise towards this end.

This is the third infrastructure focused survey that KPMG International has commissioned from the Economist Intelligence Unit (EIU). The first survey looked at views on infrastructure amongst business leaders generally. The second surveyed those companies involved in the delivery of infrastructure. This time EIU surveyed 392 senior public sector officials involved in infrastructure policy, procurement or development across the globe.

The headline result of this survey is that despite the belief that the stimulus monies mobilized in the past two years will help in meeting medium-term infrastructure needs, these funds still fall well short of being a sustainable solution to the far greater long-term challenges of global infrastructure development. It is also clear that given limited public sector resources, many governments and the private sector would be well-advised to work better in partnership to deliver infrastructure more effectively.

A renewed push for deeper collaboration is only one starting point. Many governments face difficult decisions as they try to balance budgets whilst continuing to invest in infrastructure. Prioritization of infrastructure development is critical to maintain economic growth and address the needs arising from a growing global population.

We believe it is important to continue to survey the views of leading individuals concerned with infrastructure related issues and, in future, we will be taking a closer look at the issues highlighted by this report. In the meantime, this survey should offer industry leaders important issues to consider as well as a backdrop against which to debate those issues.

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KPMG's view

KPMG's interpretation of the survey results

This survey is the third in an ongoing series commissioned by KPMG International from the EIU. In prior editions we sought the views of private sector business leaders across industries and infrastructure providers. In this current survey, we close the loop with views from the public sector.

By bringing together the views and opinions of these three groups, we can get a better picture of where the future for the industry could lie. Business leaders are saying that the lack of infrastructure is holding back the economy. Infrastructure providers feel that the government is not responding appropriately, whilst public sector officials think that stimulus packages are an inadequate solution. Unless a way forward is found, infrastructure development could potentially hinder economic growth across the world. We firmly believe that the solution should involve the public and private sectors working closer together in partnership.

Stimulus is only a start

Whilst the global financial and economic crisis have prompted many governments to launch stimulus packages and direct funding towards infrastructure, this initial funding only gets us over the starting line in the longer term

challenge of meeting global infrastructure needs. In the public sector's view, as reflected in the findings of this survey, the inadequacy of stimulus money beyond addressing some near-term, relatively smaller-scale needs is unequivocal: the lack of stable, adequate, long-term financial resources is considered by respondents the greatest impediment for infrastructure investment.

In terms of the stimulus packages, spending fast and spending well is a challenge in its own right. Governments around the world want to spend stimulus money in a manner that generates the greatest possible economic impact in the short term while also raising the long-run productivity of the local economy. These two aims are often complex to reconcile, especially in the case of new build projects. The financial and economic crises created this pathway for short term

stimulation. But is there a cost to longer term infrastructure investment or will these tangible short-term benefits whet the appetite for making longer-term investments a significant priority?

Private sector involvement is crucial

The public sector acknowledges that the private sector should be part of its solution for delivering infrastructure more effectively. The skills, resources and innovation of the private sector, deployed worldwide, alongside those of the public sector, are needed to address the infrastructure challenge. However, it is important to understand that the involvement of the private sector alone cannot solve governments' long-term infrastructure funding challenges. Infrastructure must be funded from taxes raised, service charges levied to users or contributions made by third party beneficiaries such as property developers.



A key to ensuring successful cooperation and extracting value from limited funds is to find mechanisms for harnessing private sector skills effectively. This survey highlights some of the cultural differences between the public and private sectors as an important barrier to address in this area. The infrastructure industry should consider ways to improve the relationship between the public and private sector and focus on incentivizing partnership behavior.

Governments can do better

Governmental effectiveness is an issue – and not only in the eyes of the private sector. Public sector officials surveyed put their hands up and admitted: “Yes, we can do better.” The public sector survey respondents included suggestions for more focus on training, increased transparency and accountability, as well as taking short-term political considerations

out of the process of planning how best to manage long-term infrastructure needs.

Competing objectives and misaligned incentives appear to be a major challenge. They exist, in particular, in systems that incentivize short-term thinking, rather than thinking through the long-term consequences of infrastructure development. This situation is often made worse by a lack of good quality information and a lack of specialist skills.

First-class information can help de-politicize infrastructure

Effective consultation of the appropriate stakeholders is paramount, whether in the context of a new construction project or a disposal of an existing piece of infrastructure. The more open the conversations, and the harder and more robust the evidence base to support process, the stronger the consensus on the way forward.

Stakeholder consultation can help in de-politicizing and increasing transparency of decision-making on infrastructure projects, two issues highlighted in the survey as important by government officials. It is easier to agree if the facts are clear and verifiable.

Final thoughts

This survey illustrates that increasing accountability and transparency is a way forward, whether in the context of getting more out of stimulus money or locking in long-term outcomes from infrastructure. The survey strongly supports the increased involvement of the private sector, which is likely to help in delivering additional infrastructure more effectively. Increased private sector involvement is not a total solution and the public sector should also bear responsibility for how it leverages the private sector to best add value.

The survey report

Written by the Economist
Intelligence Unit

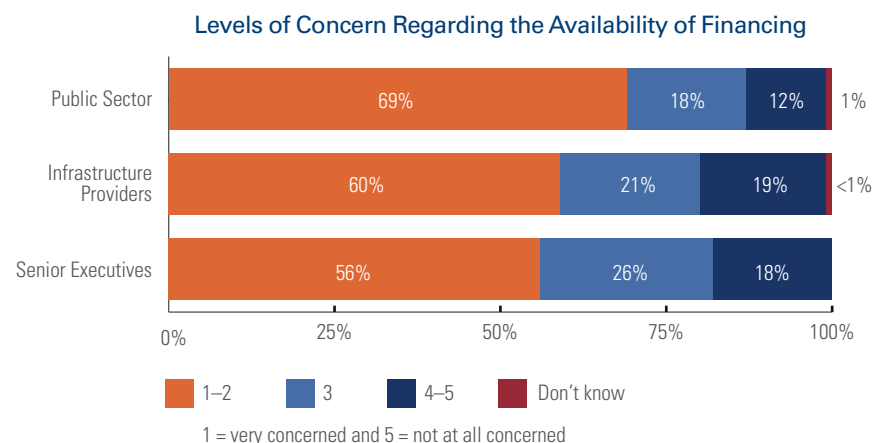
Corporate executives and private sector infrastructure providers point to a lack of effectiveness within the public sector as a major hurdle to a more efficient infrastructure. A survey of 328 C-level executives and board members conducted by the Economist Intelligence Unit (EIU), on behalf of KPMG International, found that 68 percent rated government effectiveness as a concern in this regard – making this their biggest worry, surpassing even economic conditions.¹ A subsequent survey of 455 executives from infrastructure providers found an almost identical number (69%) expressing great concern that public sector ineffectiveness would inhibit their industry's ability to deliver what their countries need.²

In order to find out if the private sector views are warranted, the EIU on behalf of KPMG International, conducted a survey in November and December 2009 of 392 public sector officials involved in infrastructure policy, procurement or development. Eighty-one percent of these survey takers agree that the concerns are justified. Other key findings include:

Stimulus money is not eliminating the pressing need for infrastructure funding.

Headlines about the amount of stimulus money going into infrastructure grab attention. China has set aside up to half a trillion dollars, the United States some U.S. \$150 billion, Canada U.S. \$14 billion, Germany U.S. \$18 billion, the World Bank U.S. \$55 billion, – the list goes on.³

Even with this sort of expenditure, however, the survey shows that public sector infrastructure officials see a lack of funding as the leading infrastructure problem worldwide. With regard to their own organizations, respondents say that a lack of funding is the single largest impediment to effective delivery of infrastructure, cited by half of respondents.



Source: *The Changing Face of Infrastructure: Public sector perspectives*, KPMG International, 2010

1 Bridging the Global Infrastructure Gap: Views from the Executive Suite, January 2009

2 The Changing Face of Infrastructure: Frontline Views from Private Sector Infrastructure Providers, August 2009

3 The Changing Face of Infrastructure: Frontline Views from Private Sector Infrastructure Providers, p.7

4 Bridging the Global Infrastructure Gap, p.16, The Changing Face of Infrastructure, p.10.

Looking ahead, 69% are concerned that a lack of financing will inhibit their organization's ability to provide the necessary infrastructure to support long-term economic growth within their jurisdiction. This indicates that the public sector sees availability of financing as an even more pressing issue than do senior executives as a whole (56%) and private sector infrastructure providers in particular (60%).⁴ Nor do public sector respondents see help on the horizon: 67% are concerned that the economic situation will inhibit their ability to deliver the needed infrastructure.

Too little cash is a particular issue at the local level: 66% of respondents working for cities or local governments, for example, cited a lack of money as a leading impediment to deliver infrastructure more effectively, compared to 36% of those at the national level. Seventy-one percent of those working at the city level also see insufficient funding as the biggest impediment to higher investment in their jurisdiction, compared to 40% of those at the national level.

In the downturn, national governments have spent more on infrastructure as an economic policy response. But many cash-strapped lower levels of government have cut back at the same time. A survey by Globescan for the United States Conference of Mayors in April and May 2009, for example, found that 77% of cities had lower infrastructure budgets in 2009, including more than one in five who expect the drop to exceed 15%.⁵ Available stimulus funds have not been filling the gap quickly enough. In fact, respondents cite a slow approval process (50%) as the greatest impediment to spending such money effectively.

The situation in the United States illustrates how these factors are working together. American respondents show a higher than average concern about funding: 66%, for example, see inadequate funding as interfering with their own organization's ability to deliver infrastructure more effectively; 69% see a lack of funding as the greatest impediment to more public sector investment in the area; and 78% are very concerned that the availability of financing will impede their ability to provide the infrastructure the country needs for long-term growth.

The politicization of infrastructure delivery and inconsistent political will are creating investment uncertainties and hampering effective policy-making and outcomes.

Among survey respondents, 58% are concerned that the political environment in their jurisdiction will impede them from delivering the infrastructure needed for the long term.

Several factors play a large role in defining this environment. The first is a lack of consistent focus by governments on infrastructure. After funding, respondents cite a lack of political will as the second leading barrier to more effective provision by their organizations (38%). In third, they put lack of a sense of urgency (27%). The last

⁵ The United States Conference of Mayors, Metropolitan Infrastructure Sustainability Study: A research project prepared by GlobeScan and sponsored by Siemens, 2009.



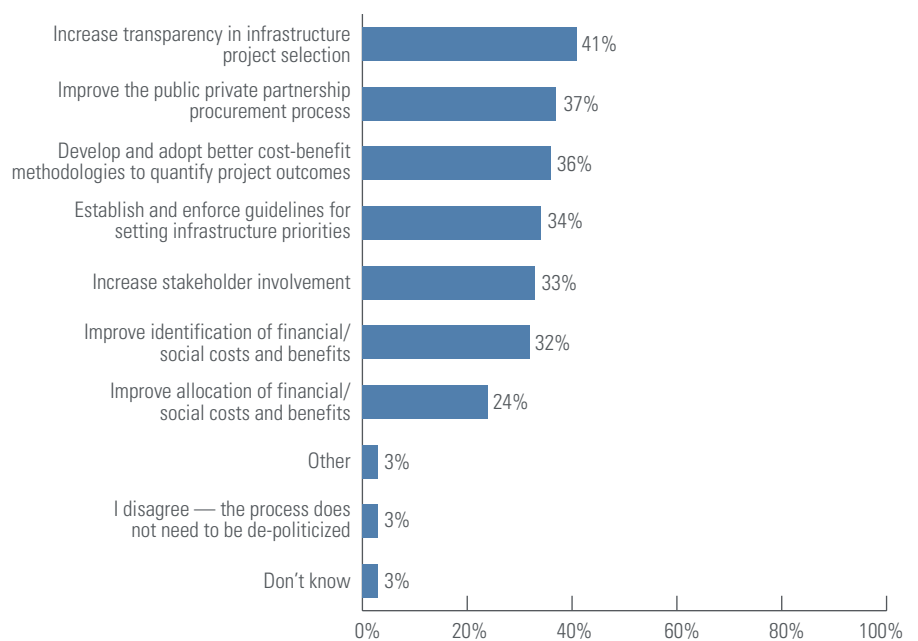
problem is particularly pronounced at the national level, where the impact of poor infrastructure may be less immediately apparent. For respondents from that level of government a lack of political will is the greatest hurdle to better delivery by respondents' organizations (40%).

Surveyed public sector officials – none of whom are elected – also expressed concern about the politicization of the whole field of infrastructure. Here they are not alone. Private sector infrastructure providers considered politicization the greatest impediment to infrastructure investment (42%), and conversely that de-politicizing the relevant policy processes was the most frequently cited method for improving government effectiveness in this area (45%).⁶

Respondents in the current survey generally agree. Only 3% believe that infrastructure delivery prioritization does not need to be de-politicized. Instead, a third say that politicization of such priorities is a leading impediment to greater investment in infrastructure – the second most common answer – and 35% believe that de-politicizing it is an important way to improve infrastructure development where they work – again the second most frequent reply.

Among survey respondents, the most common suggestion for how to de-politicize infrastructure priorities is greater transparency (cited by 41%). Other leading solutions involve finding ways better to insulate long term commitments from short term political cycles, including a greater use of public-private partnerships (37%); establishing cost-benefit methodologies for infrastructure projects (36%) and setting and enforcing formal guidelines for the creation of infrastructure priorities (34%).

Public Sector Suggestions for the Most Effective Ways to De-politicize Project Prioritization

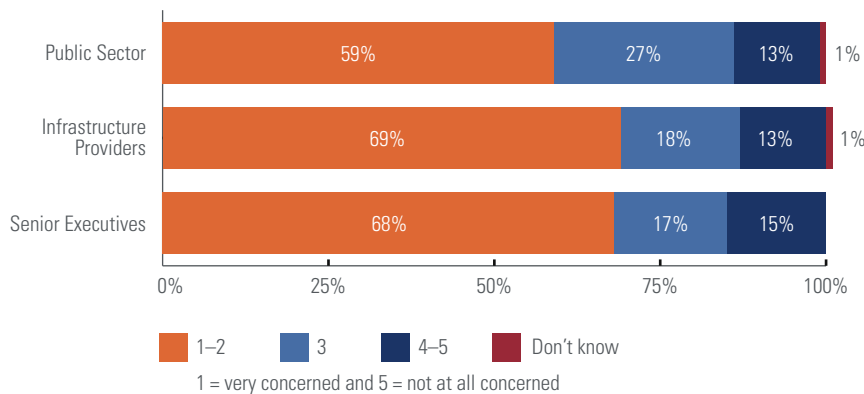


Source: *The Changing Face of Infrastructure: Public sector perspectives*, KPMG International, 2010

Public sector officials acknowledge that government effectiveness is a serious issue.

Twenty-three percent of respondents agree that the concerns about government effectiveness voiced by private sector infrastructure providers – that it is the most widespread obstacle with respect to infrastructure delivery – are “very justified.”

Levels of Concern Regarding Governmental Effectiveness Inhibiting Infrastructure Development



Source: *The Changing Face of Infrastructure: Public sector perspectives, KPMG International, 2010*

A further 58% call them “somewhat justified” and only 12% say that there is no justification for them. Even more telling, 59% of public sector officials have a high level of concern over a lack of governmental effectiveness impeding their ability to provide infrastructure – the most widespread worry after funding and the economic environment, and not all that far from the 69% in the earlier survey.

A major reason is money: 35% point to the size of budgets for projects as a leading obstacle to the effectiveness of public sector’s management of infrastructure. Equally important, however, is the lack of direction provided by decision takers: 35% blame a lack of consensus among policy makers and stakeholders over priorities for the problem. Survey takers also indicate that poor management practices have a marked impact on effectiveness. Thirty-one percent see a lack of accountability as a leading obstacle, the same proportion that say there is too little performance management, and 28% cite insufficient performance-based pay.

Ineffective control, accountability, and transparency measures are hurting the ability of governments to deliver infrastructure.

However uncomfortable a topic, public sector officials also recognize that the misuse of funds is a serious infrastructure issue. It is the area where they are least likely to rank themselves as effective (only 39% do so). In fact, 55% describe themselves as at best mediocre, including almost one in eight admit to being not at all effective here.

There is a direct impact on infrastructure provision. Three of the five biggest challenges in spending stimulus money effectively, for example, relate to the issue: providing accountability (31%), instituting appropriate controls (31%); and creating transparency (28%). Looking at the bigger picture, the misuse of funds was the fourth biggest impediment to more public sector infrastructure spending (18%). This is not a field in which to have weak defenses. According to Transparency International (TI), the public works contracts and construction sector is perceived to be most likely to engage in direct bribery of officials and of those charged with creating relevant regulations.⁷

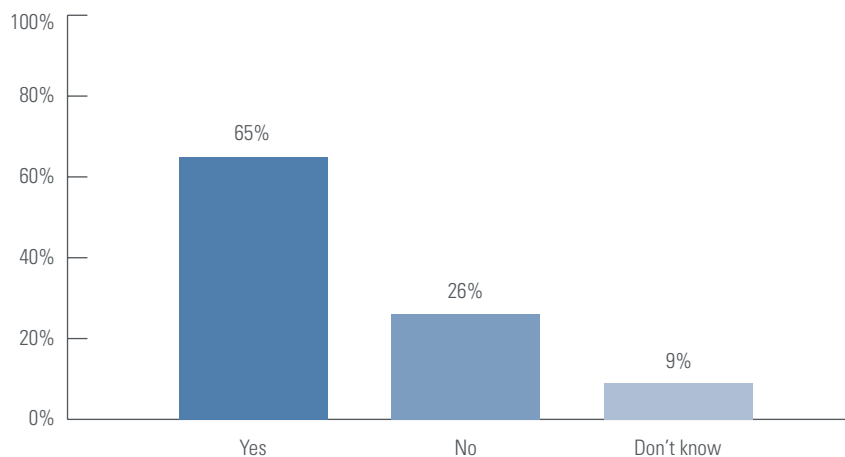
Although certainly not absent from developed countries, developing countries face a particular challenge in this regard. There, the misuse of funds is the second biggest barrier to more public investment (37%) and trying to establish accountability for stimulus spending the greatest challenge in distributing that sort of funding (45%). The results are expensive. TI cites two studies which show that, controlling for other factors, corrupt environments drive up water costs in a range of African states on average by 64%, and electricity costs in Latin American ones by 23%.⁸

Public sector respondents believe that collaborating with the private sector could lead to better infrastructure, but cultural differences stand in the way.

In an earlier survey, 80% of executives agreed that governments should work more with the private sector in order to finance infrastructure improvements.⁹ The public sector officials surveyed here see important advantages to such cooperation:

- 65% believe that it could help their own organizations deliver infrastructure more effectively, while only 26% disagree;
- 37% think it would help de-politicize infrastructure procurement, the second most frequently cited solution; and
- 27% even see a lack of cooperation with the private sector as a leading impediment to more effective delivery of infrastructure, tied for the third most common choice.

Can the Private Sector Help Deliver Infrastructure More Effectively?



Source: *The Changing Face of Infrastructure: Public sector perspectives*, KPMG International, 2010

7 Transparency International, *Bribe Payers Index 2008*, p.11 <http://www.transparency.org/content/download/39275/622457>

8 Paul Collier and Anke Hoeffler, "The economic costs of corruption in infrastructure," in Transparency International, *Global Corruption Report 2005*, pp.16-17, http://www.transparency.org/publications/gcr/gcr_2005#download

9 *Bridging the Global Infrastructure Gap*, p.16.



But cultural differences stand in the way. Respondents say that the biggest impediment (45%) the public sector to work effectively with the private sector in all areas of infrastructure is the range of cultural differences between the two. These cultural issues lead to a lack of trust between the public and private sectors – mentioned by 27% and the third most frequently cited impediment – and sometimes even confrontational relationships, cited by one in seven. When asked specifically about their own organizations, 27% say that their internal attitudes would need to change in order to work more closely with the private sector – the second most common issue after shortage of cash.

This problem is again even more pronounced in developing countries, where 41% say that a lack of trust is a leading barrier to greater cooperation with the private sector where they operate, the most common answer. Also, 30% cite internal attitudes at their own organizations, tied for first with use of performance-based measures. These attitudes will inevitably slow progress in improving infrastructure and take time to overcome. The Indian government's attempt to upgrade its Industrial Training Institutes through public-private partnerships, for example, has spent only a fifth of its allocated budget, largely because of the cultural mismatch between the two sectors is creating extensive delays. "You can't expect a cultural transformation over night," explains S J Amalan, a regional director with the Directorate General of Employment and Training.¹⁰

10 Shreya Biswas, "Work culture differences take toll on PPPs in ITIs," 11 August 2009, The Economic Times, <http://economictimes.indiatimes.com/News/News-By-Industry/Jobs/Work-culture-differences-take-toll-on-PPPs-in-ITIs/articleshow/4880017.cms>

Conclusion

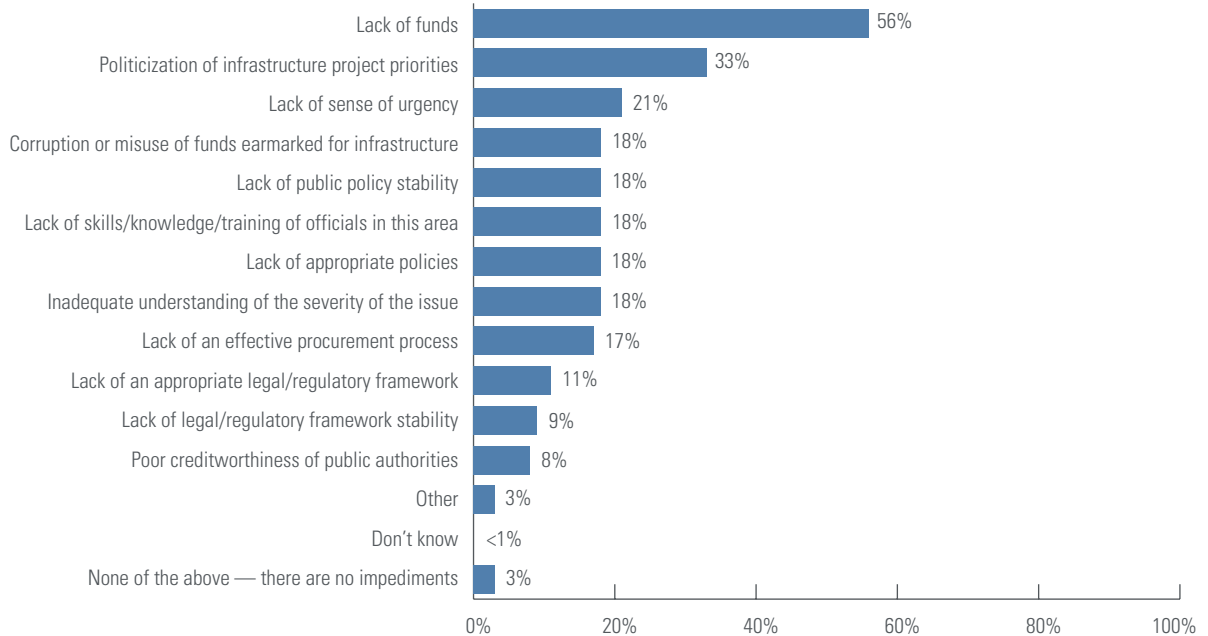
Public sector officials and private sector executives in the field of infrastructure do not see the world very differently from each other. They may differ slightly about the relative approach towards creating the improved infrastructure environment which countries around the world urgently need. But both groups recognize the most serious impediments for doing so: insufficient funding, a lack of engagement by policy makers, excessive politicization, and shortcomings in government effectiveness.

What this, and the earlier surveys, also make clear is that there is no quick fix. A flood of stimulus money will not alleviate the problem. Increased transparency, better trained infrastructure agencies, and greater public-private cooperation all hold out the possibility of improved results, although it will be difficult to overcome long-entrenched cultural differences rapidly. Indeed, one of the most positive results of this and earlier surveys has been a genuine appreciation of the benefits of the two sectors working together to create effective infrastructure delivery. Ultimately, it will take the lasting, consistent commitment of resources from the public and private sectors and improved ways of using those resources to provide the infrastructure that will enable societies to develop to their full potential.



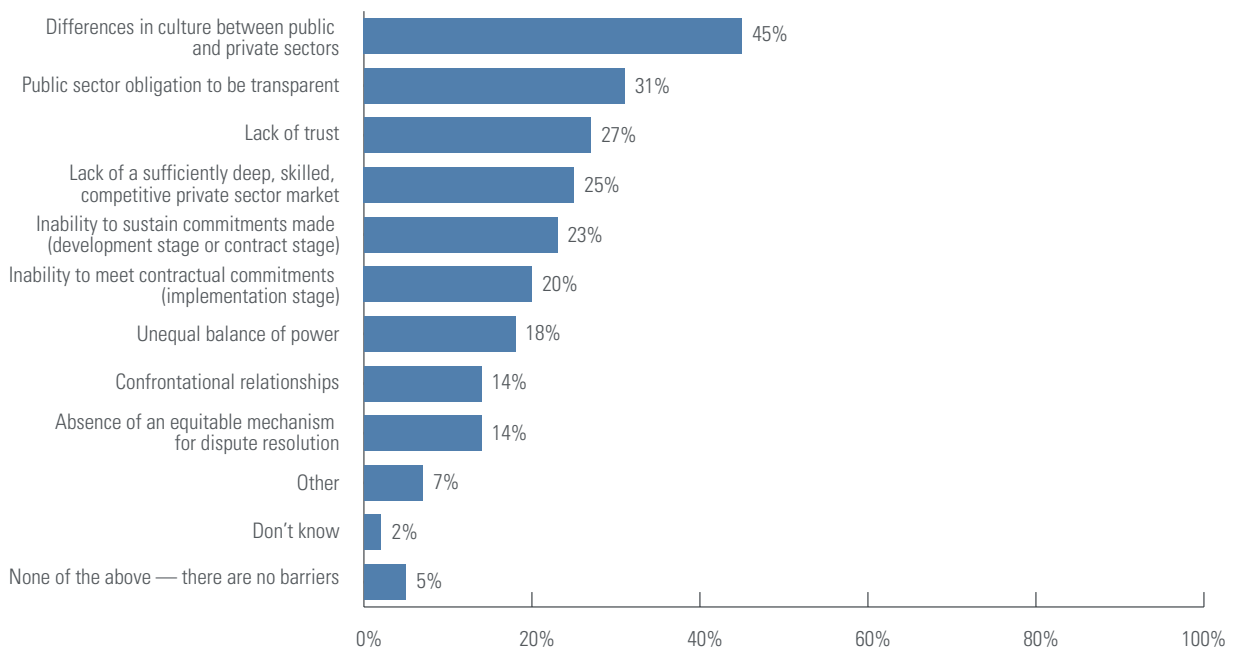
Appendix

Q1 Which of the following are the greatest public sector impediments to more infrastructure investment in the country where you are based? (Select up to three)



Source: *The Changing Face of Infrastructure: Public sector perspectives, KPMG International, 2010*

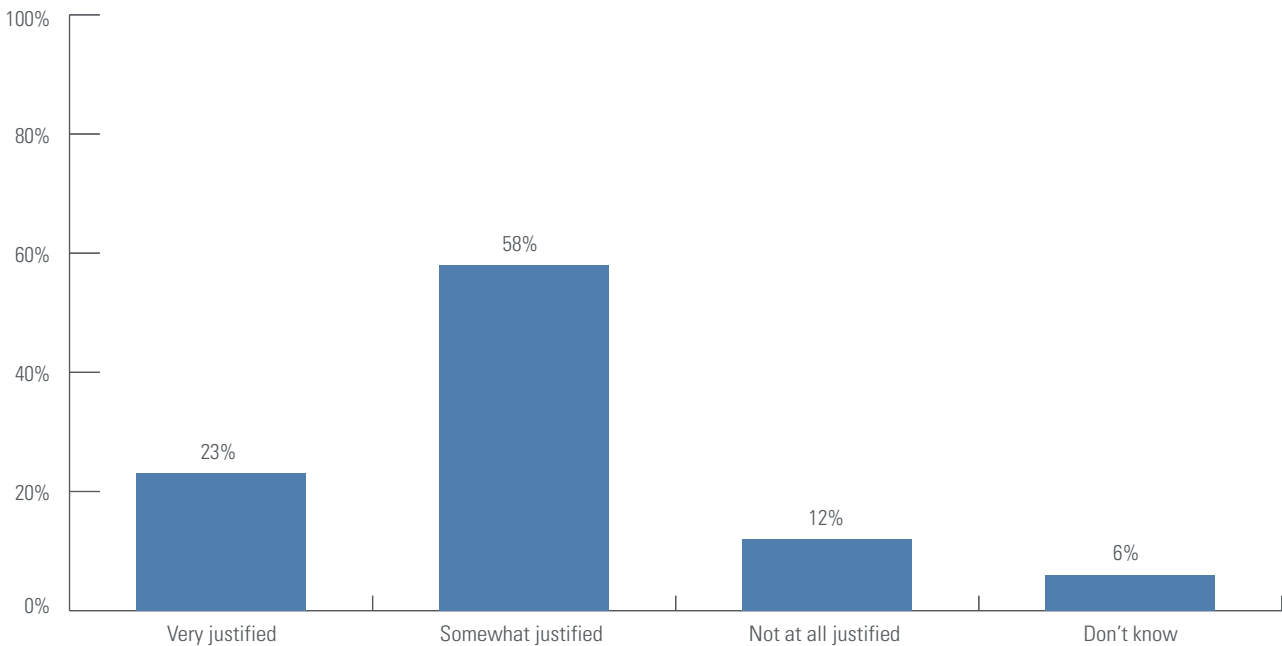
Q2 Thinking specifically about the country within which you are located, what are the greatest barriers to working effectively with the private sector in infrastructure (e.g., designing, building, financing and operating)? (Select up to three)



Source: *The Changing Face of Infrastructure: Public sector perspectives, KPMG International, 2010*

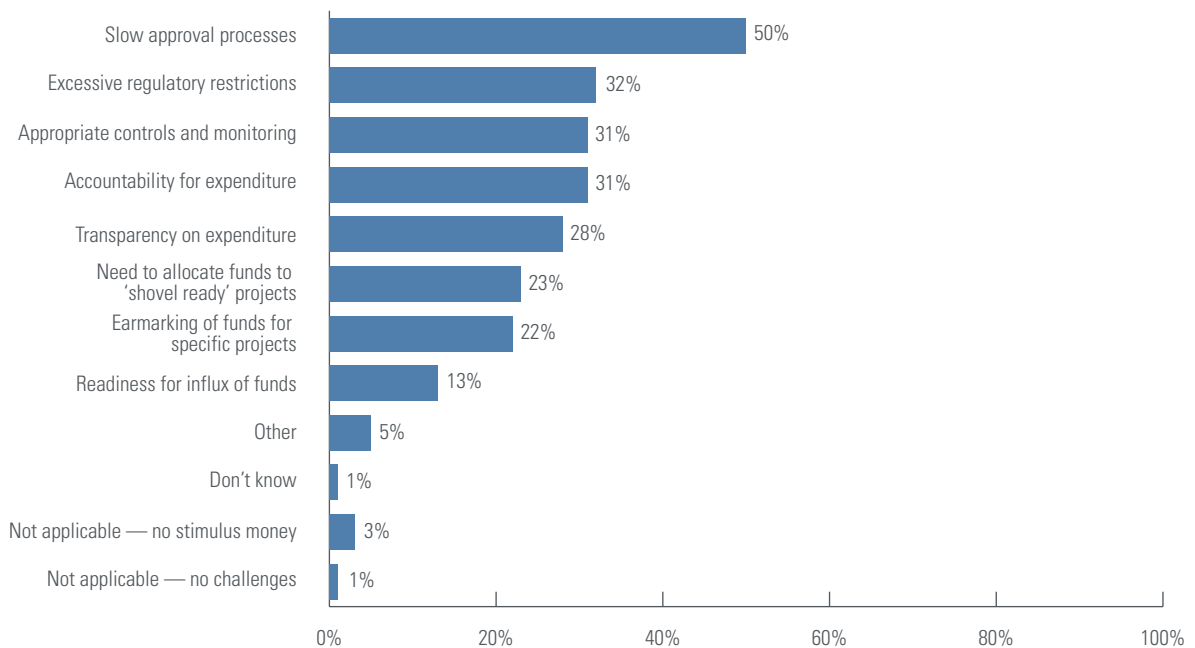
Due to rounding graph totals may not equal 100 percent

Q3 In a previous survey, 69 percent of private sector infrastructure providers cited governmental effectiveness as their biggest concern to the effective delivery of required infrastructure. Thinking specifically about the country within which you are located, do you think that these concerns over governmental effectiveness are justified?



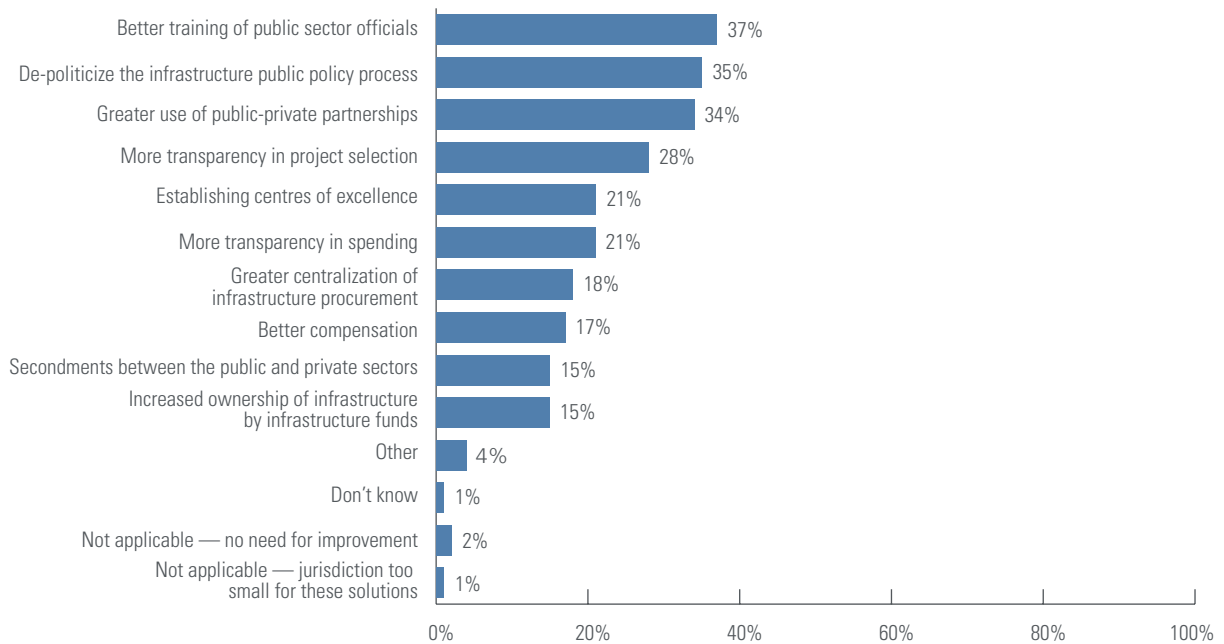
Source: *The Changing Face of Infrastructure: Public sector perspectives, KPMG International, 2010*

Q4 Thinking specifically about the country within which you are located, what do you see as the greatest challenge in spending the available stimulus money effectively? (Select up to three)



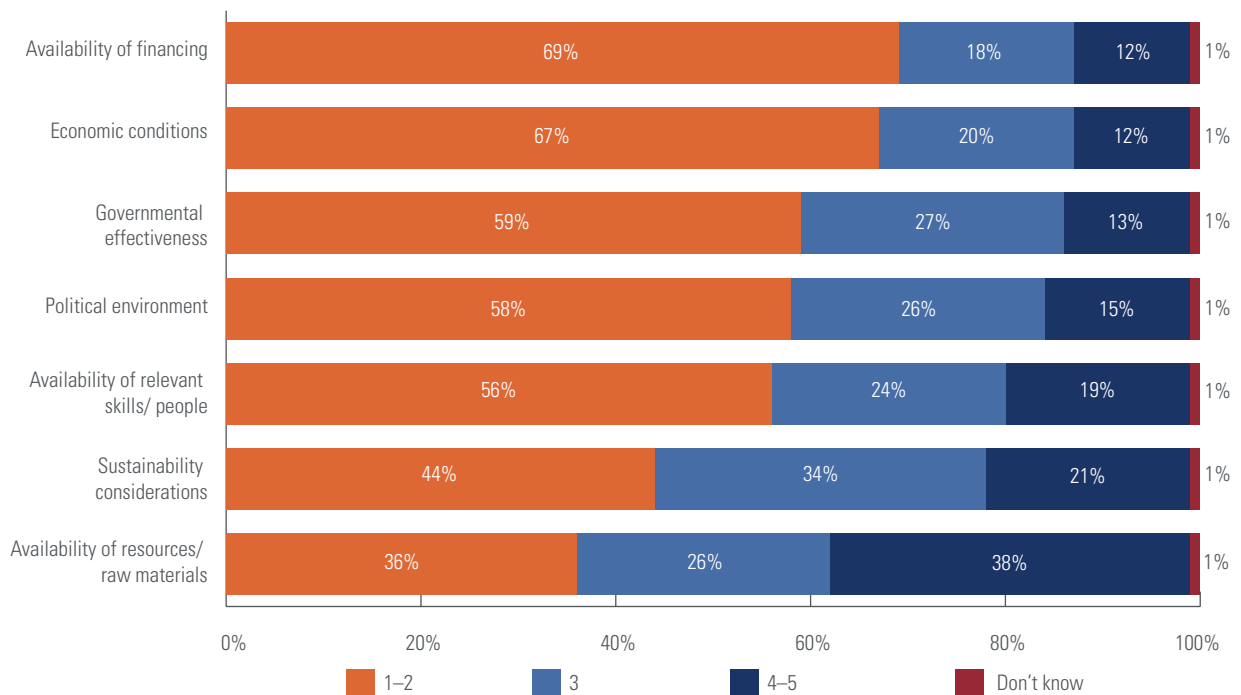
Source: *The Changing Face of Infrastructure: Public sector perspectives, KPMG International, 2010*

Q5 Which of the following factors would likely produce the greatest improvement in infrastructure development in the jurisdiction for which you work? (Select up to three)



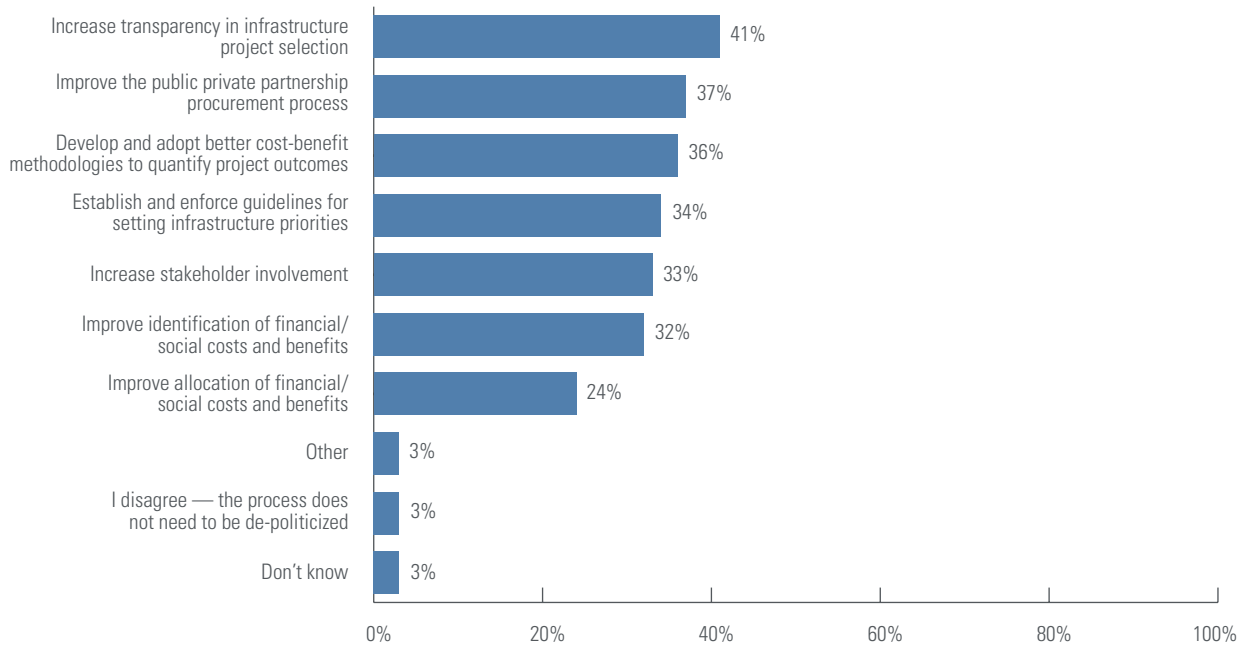
Source: *The Changing Face of Infrastructure: Public sector perspectives, KPMG International, 2010*

Q6 Thinking specifically about the jurisdiction for which you work, how concerned are you that the following factors will inhibit your organization's ability to provide the relevant infrastructure that would support the long-term growth of the economy in that jurisdiction? (1 = very concerned and 5 = not at all concerned)



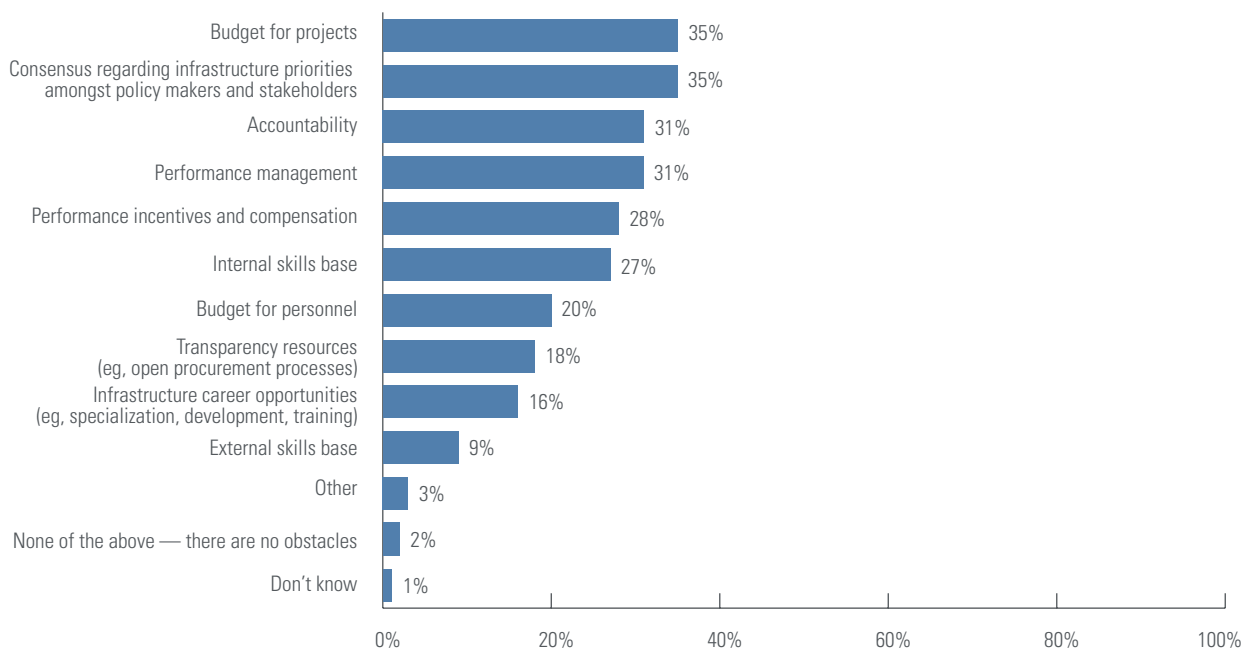
Source: *The Changing Face of Infrastructure: Public sector perspectives, KPMG International, 2010*

Q7 Thinking about the jurisdiction for which you work, what are the most effective ways to de-politicize infrastructure project prioritization? (Select up to three)



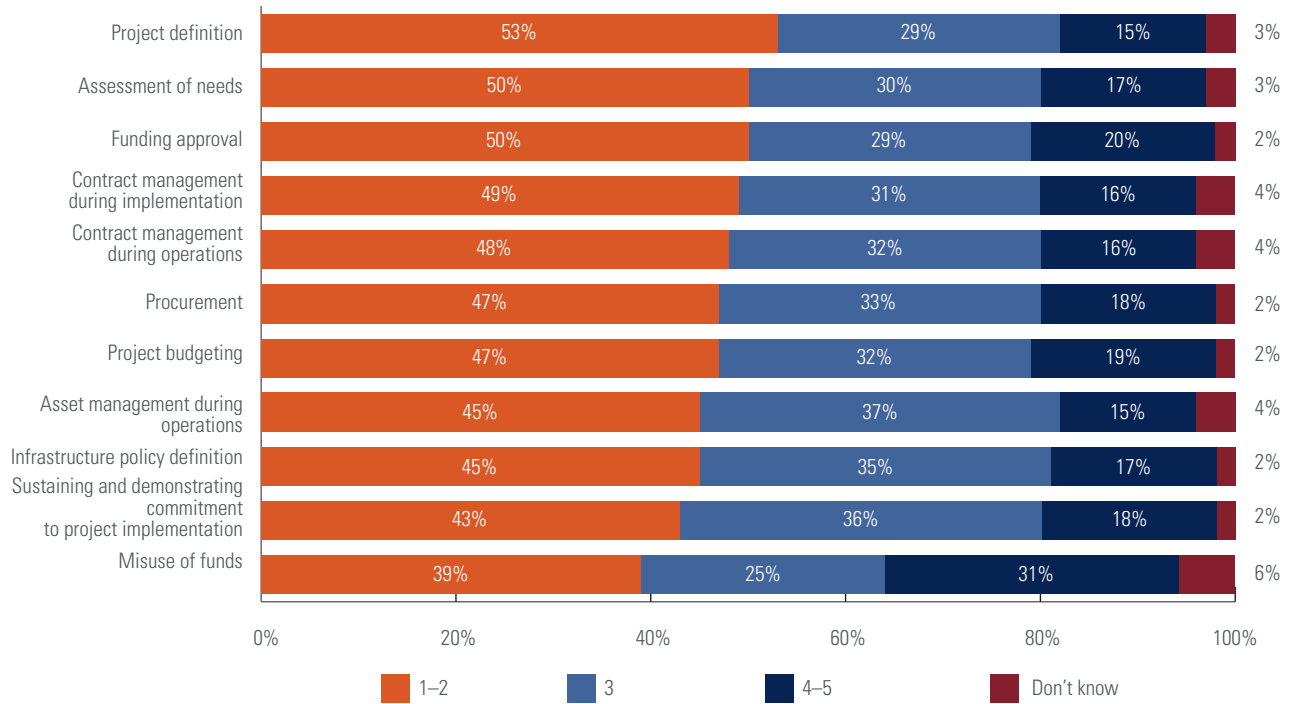
Source: *The Changing Face of Infrastructure: Public sector perspectives, KPMG International, 2010*

Q8 Thinking about the jurisdiction for which you work, what are the greatest obstacles to the effectiveness of public sector management involved with infrastructure? (Select up to three)



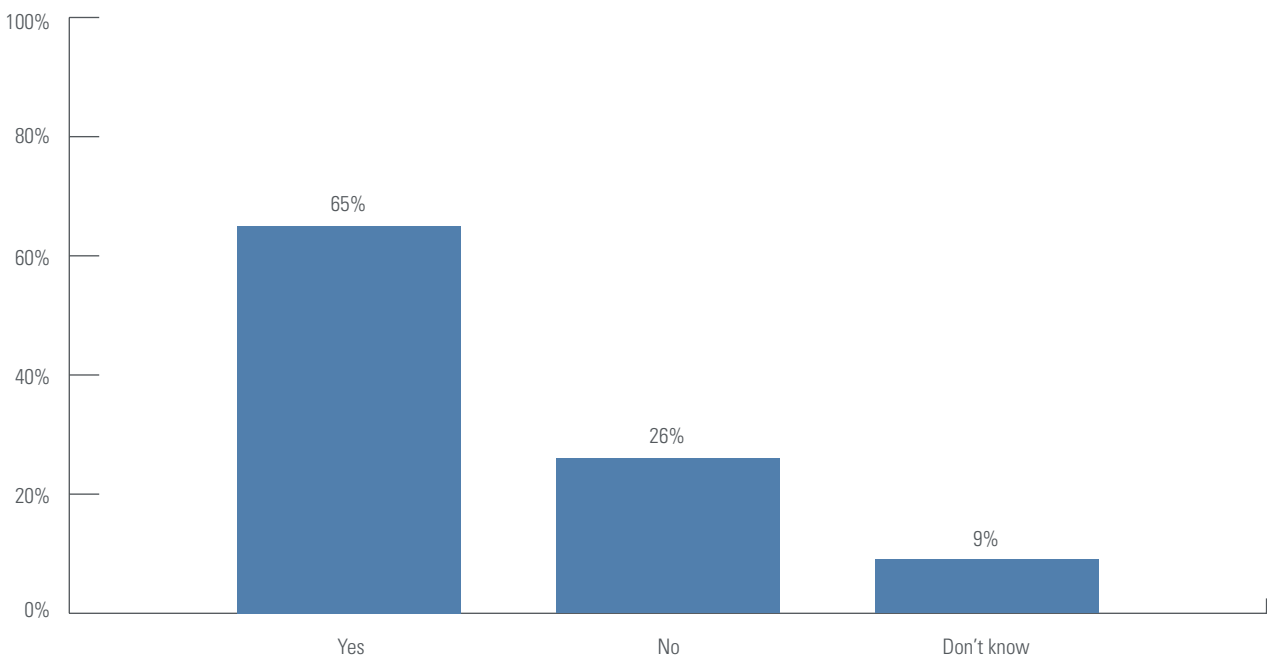
Source: *The Changing Face of Infrastructure: Public sector perspectives, KPMG International, 2010*

Q9 In your view, how effective are the following processes in your organization regarding infrastructure? (1 = very effective and 5 = not at all effective)



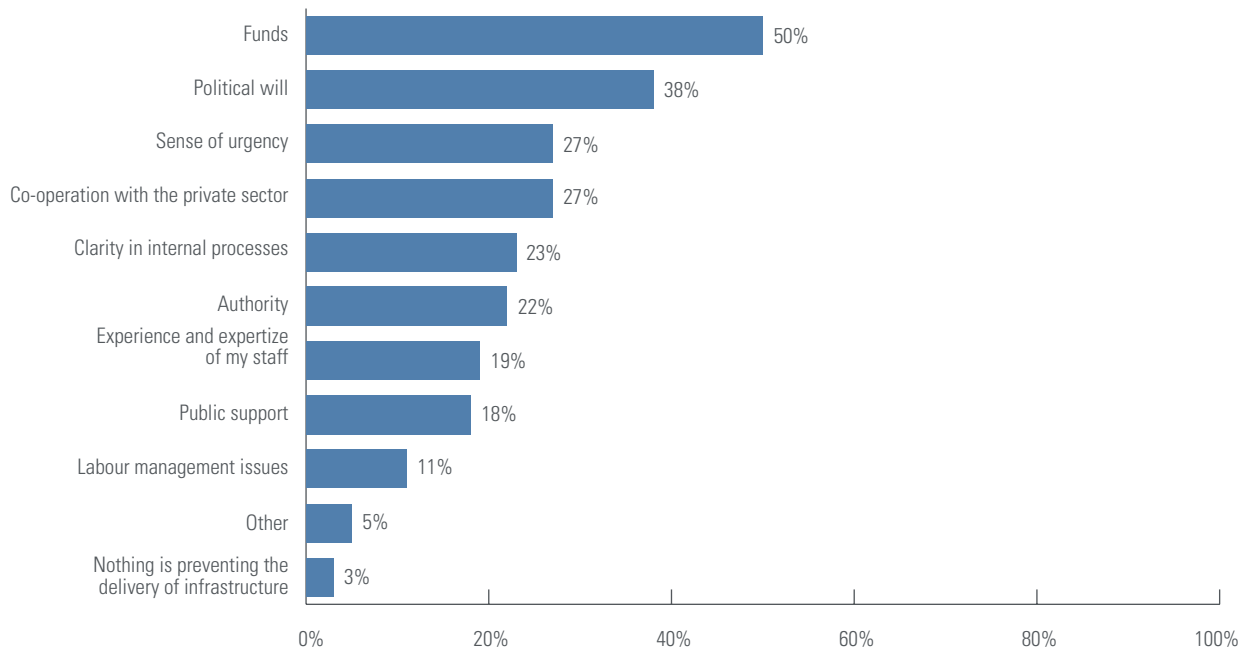
Source: *The Changing Face of Infrastructure: Public sector perspectives, KPMG International, 2010*

Q10 Thinking specifically about your organization, do you think the private sector can help it to deliver infrastructure more effectively?



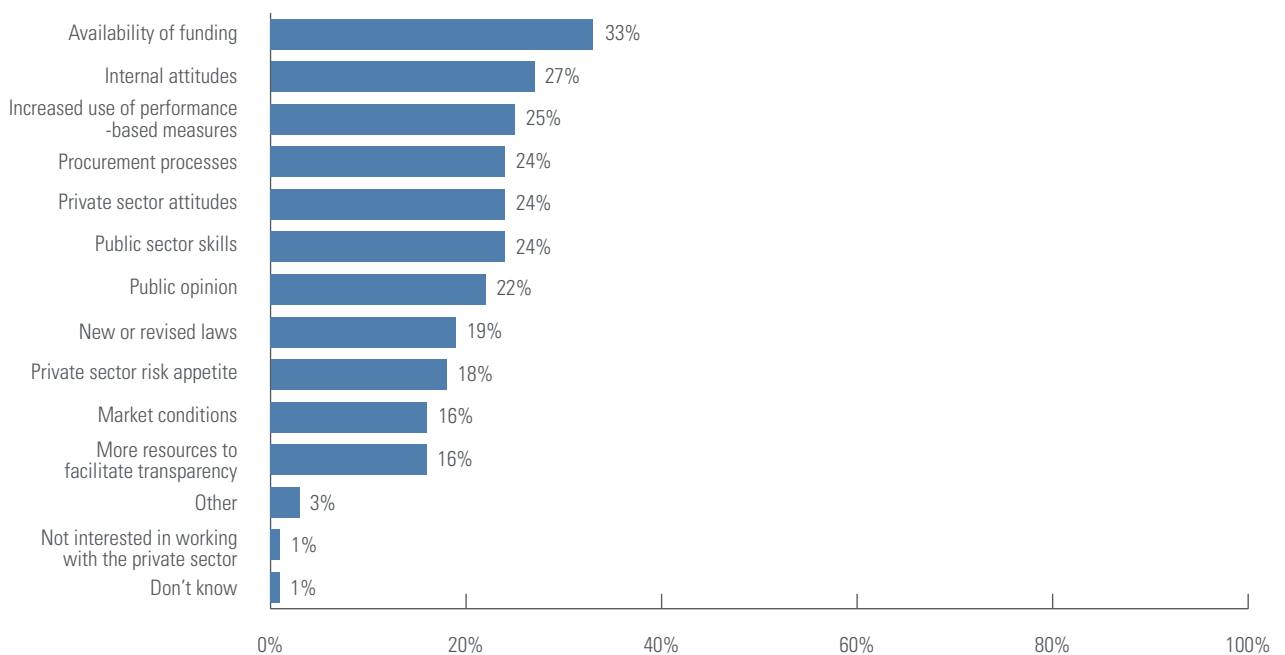
Source: *The Changing Face of Infrastructure: Public sector perspectives, KPMG International, 2010*

Q11 Thinking specifically about your organization, what is preventing it from delivering infrastructure more effectively? Lack of: (Select up to three)



Source: *The Changing Face of Infrastructure: Public sector perspectives, KPMG International, 2010*

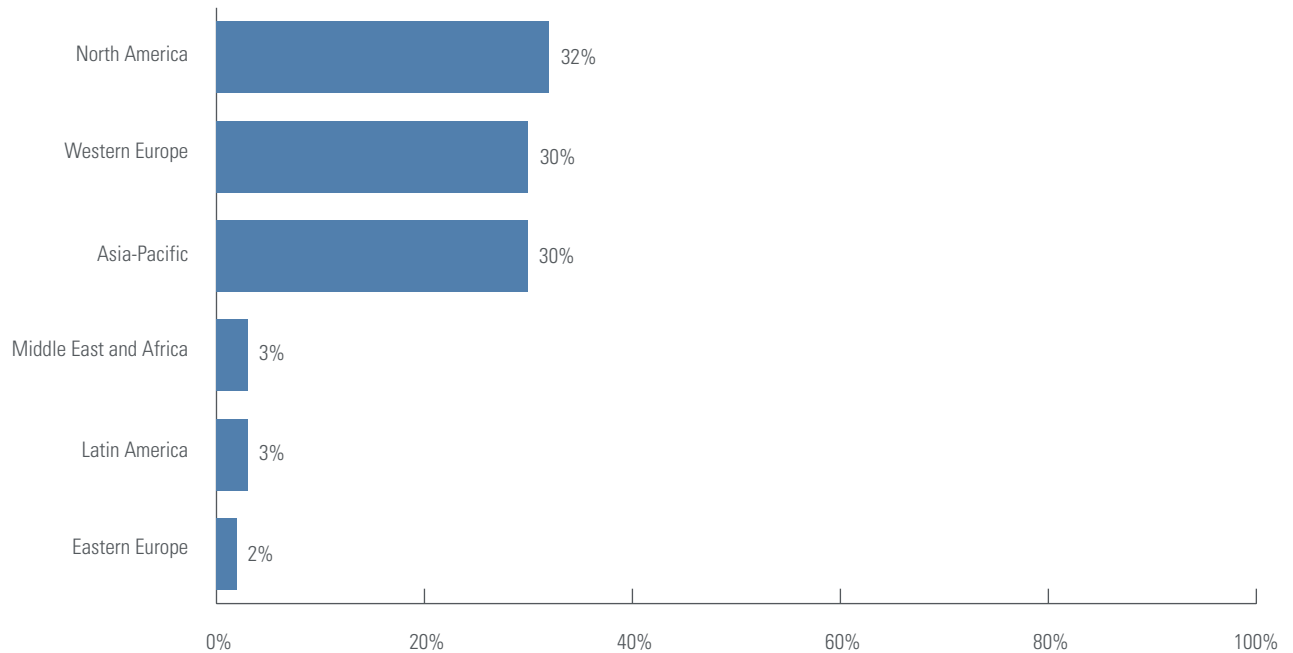
Q12 Thinking specifically about your organization, what would need to change in order for it to work more closely with the private sector? (Select up to three)



Source: *The Changing Face of Infrastructure: Public sector perspectives, KPMG International, 2010*

Demographics

Q In Which Region Are You Personally Based?



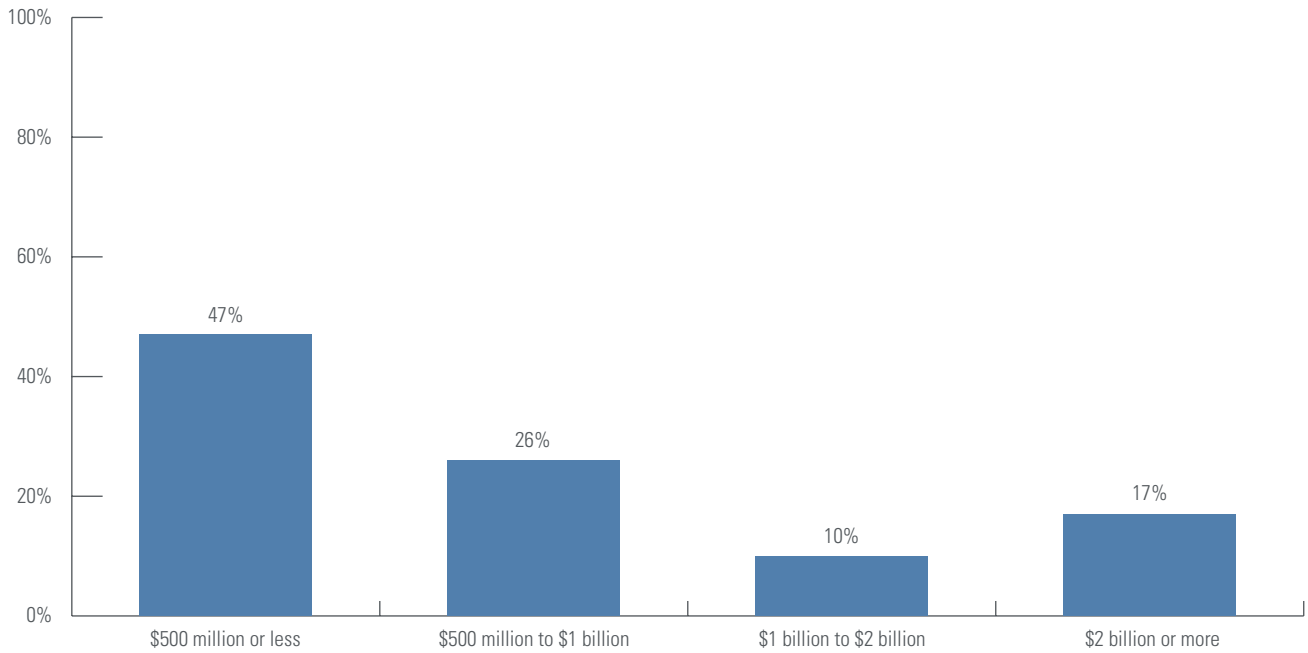
Source: *The Changing Face of Infrastructure: Public sector perspectives, KPMG International, 2010*

Q In which country are you personally located?

Country	Percentage	Country	Percentage	Country	Percentage
United States of America	30%	South Africa	1%	Finland	<1%
United Kingdom	17%	Hong Kong	1%	Guatemala	<1%
India	12%	Ireland	1%	Italy	<1%
Australia	6%	Isle of Man	1%	Mexico	<1%
Philippines	6%	Kenya	1%	Moldova	<1%
Turkey	4%	Netherlands	1%	Mongolia	<1%
France	3%	Nigeria	1%	Norway	<1%
Canada	3%	Switzerland	1%	Paraguay	<1%
Malaysia	3%	Albania	<1%	Serbia	<1%
Pakistan	2%	Bahrain	<1%	Slovakia	<1%
Spain	2%	Barbados	<1%	Sweden	<1%
Brazil	1%	Belgium	<1%	Tunisia	<1%
China	1%	Cape Verde	<1%	Uganda	<1%
Germany	1%	Czech Republic	<1%	Ukraine	<1%
Japan	1%	Denmark	<1%	United Arab Emirates	<1%
Portugal	1%	Dominican Republic	<1%	Zambia	<1%
Singapore	1%	Falkland Islands	<1%		

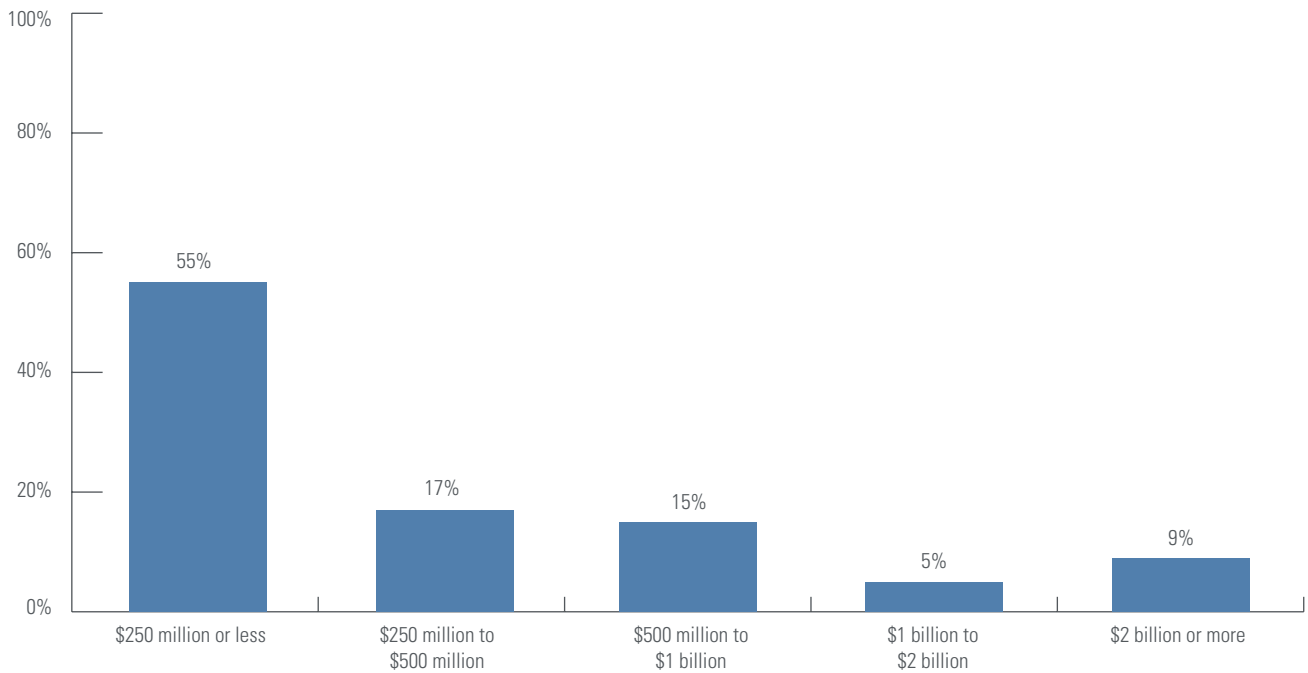
Source: *The Changing Face of Infrastructure: Public sector perspectives, KPMG International, 2010*

Q What is your organization's average annual operating budget in U.S. dollars?



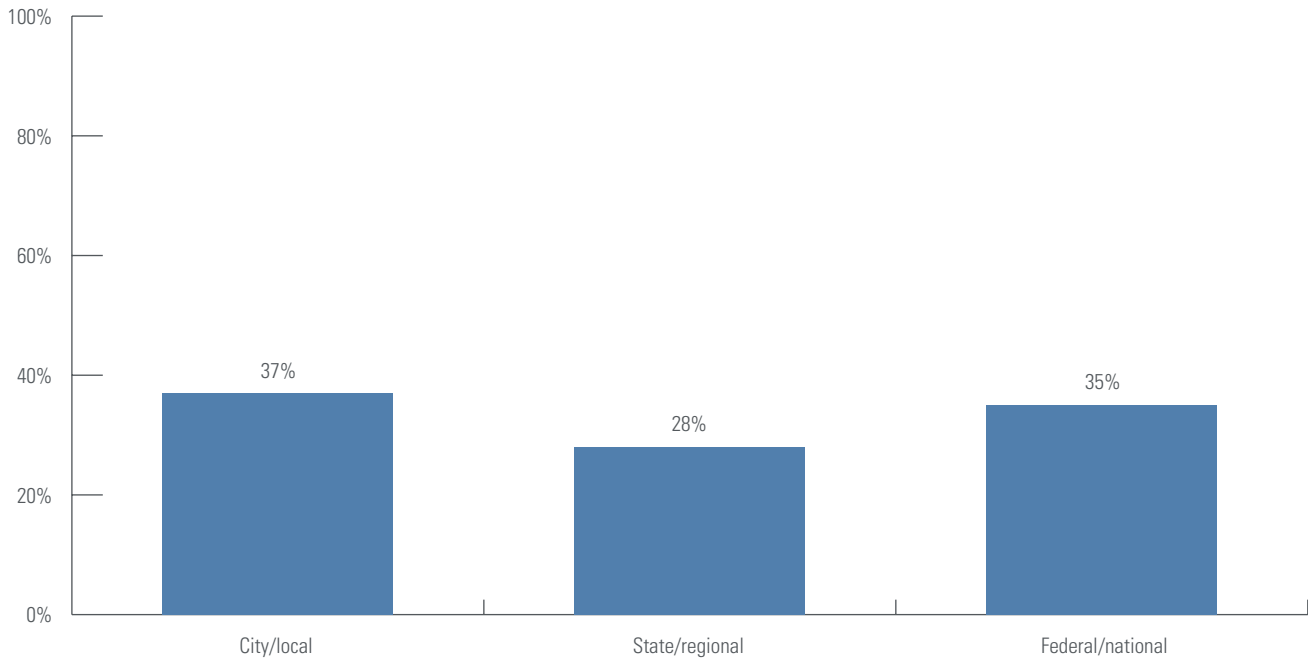
Source: *The Changing Face of Infrastructure: Public sector perspectives, KPMG International, 2010*

Q What is your organization's average annual infrastructure budget in U.S. dollars?



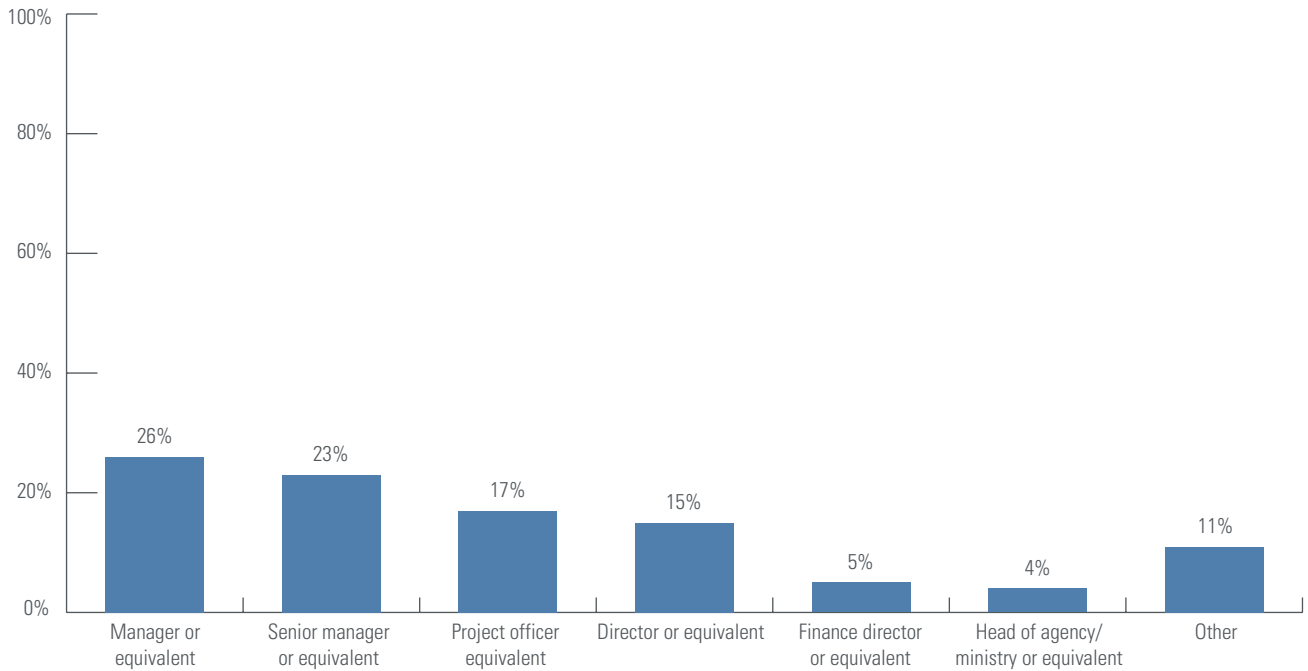
Source: *The Changing Face of Infrastructure: Public sector perspectives, KPMG International, 2010*

Q At which level of government does your organization operate?



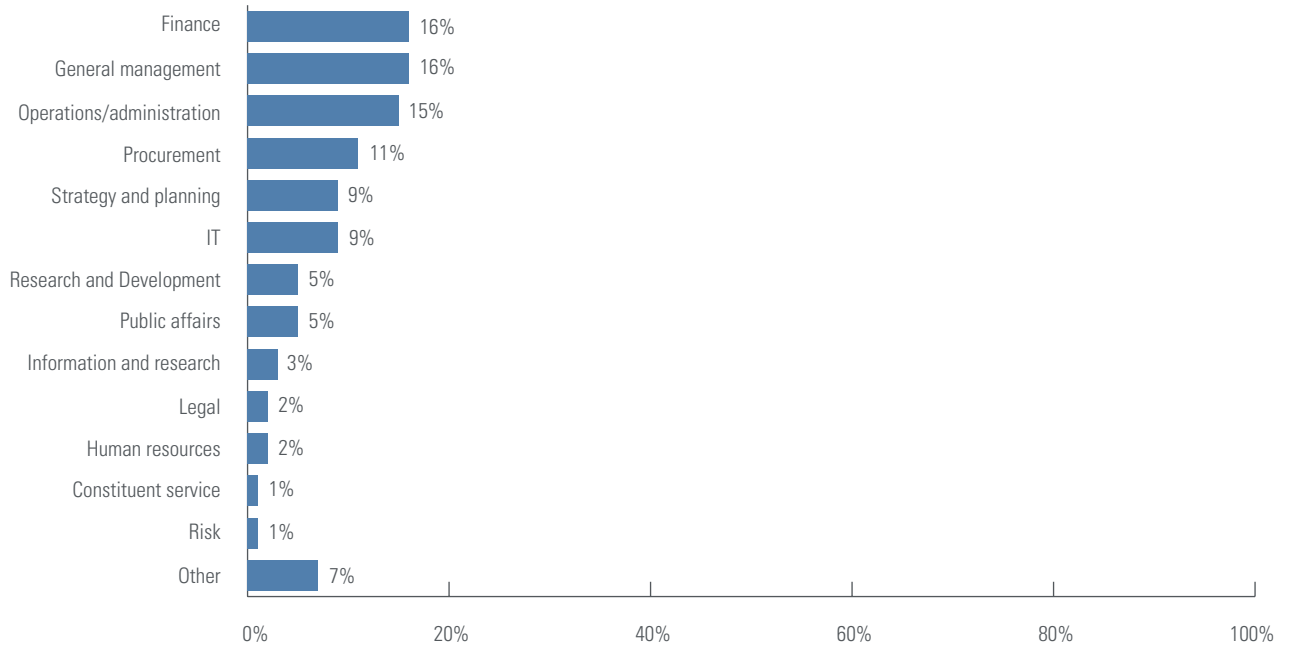
Source: *The Changing Face of Infrastructure: Public sector perspectives, KPMG International, 2010*

Q Which of the following best describes your title?



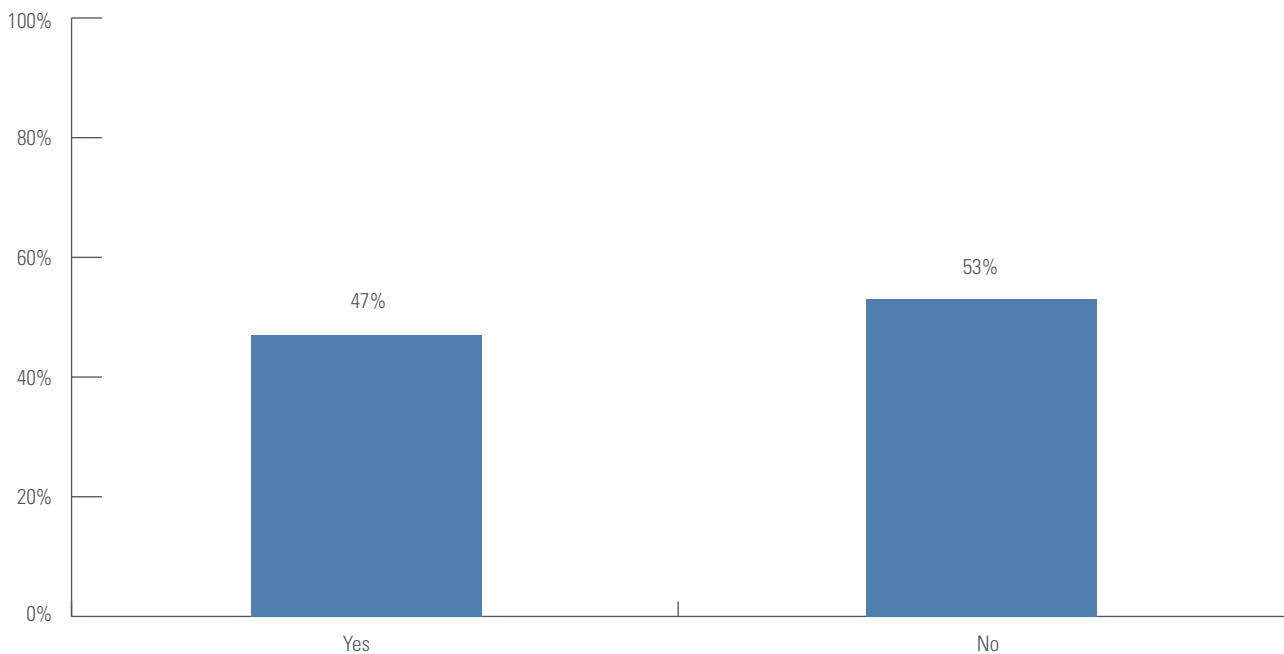
Source: *The Changing Face of Infrastructure: Public sector perspectives, KPMG International, 2010*

Q What is your main functional role?



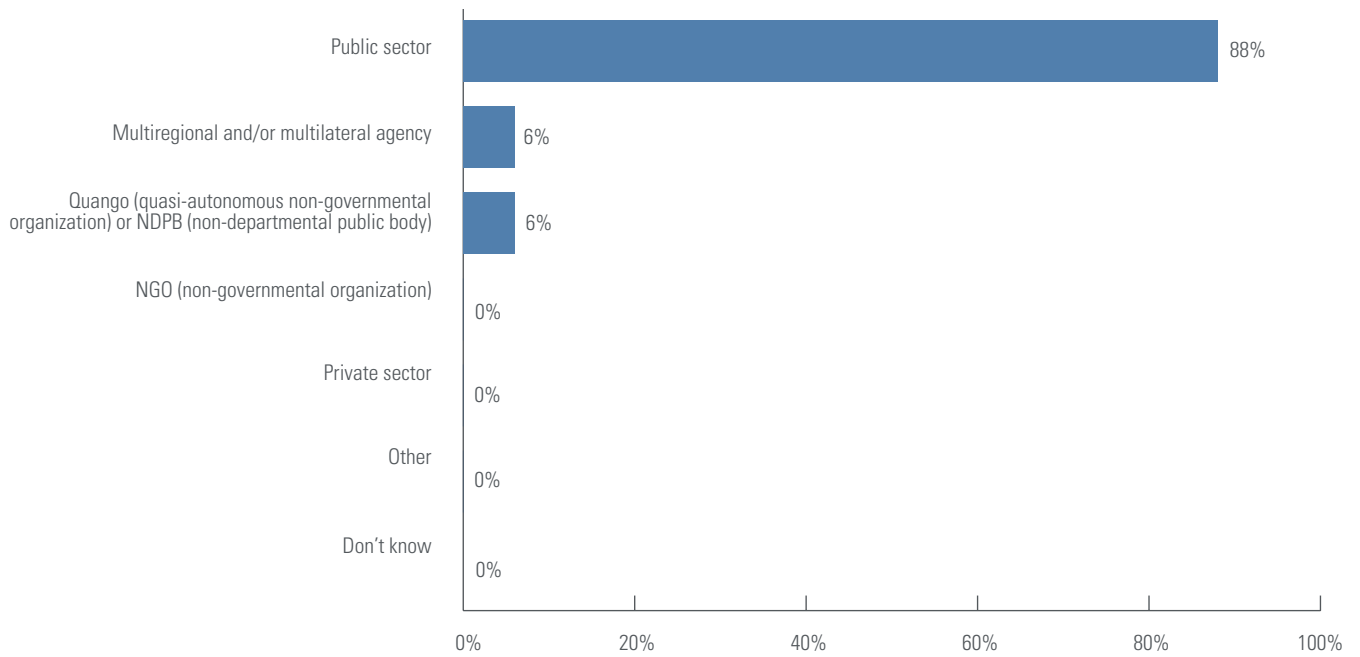
Source: *The Changing Face of Infrastructure: Public sector perspectives, KPMG International, 2010*

Q Are you or have you been directly involved in approving, applying for or using infrastructure stimulus funds?



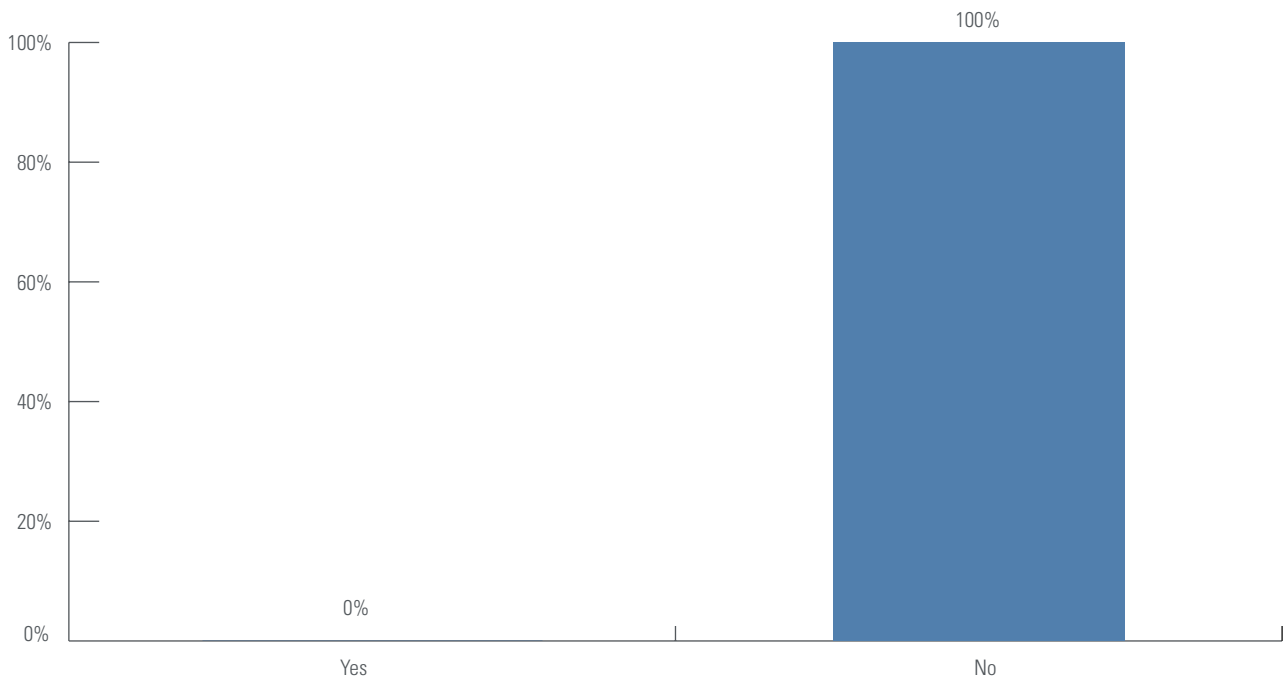
Source: *The Changing Face of Infrastructure: Public sector perspectives, KPMG International, 2010*

Q Which of the following best describes your organization?



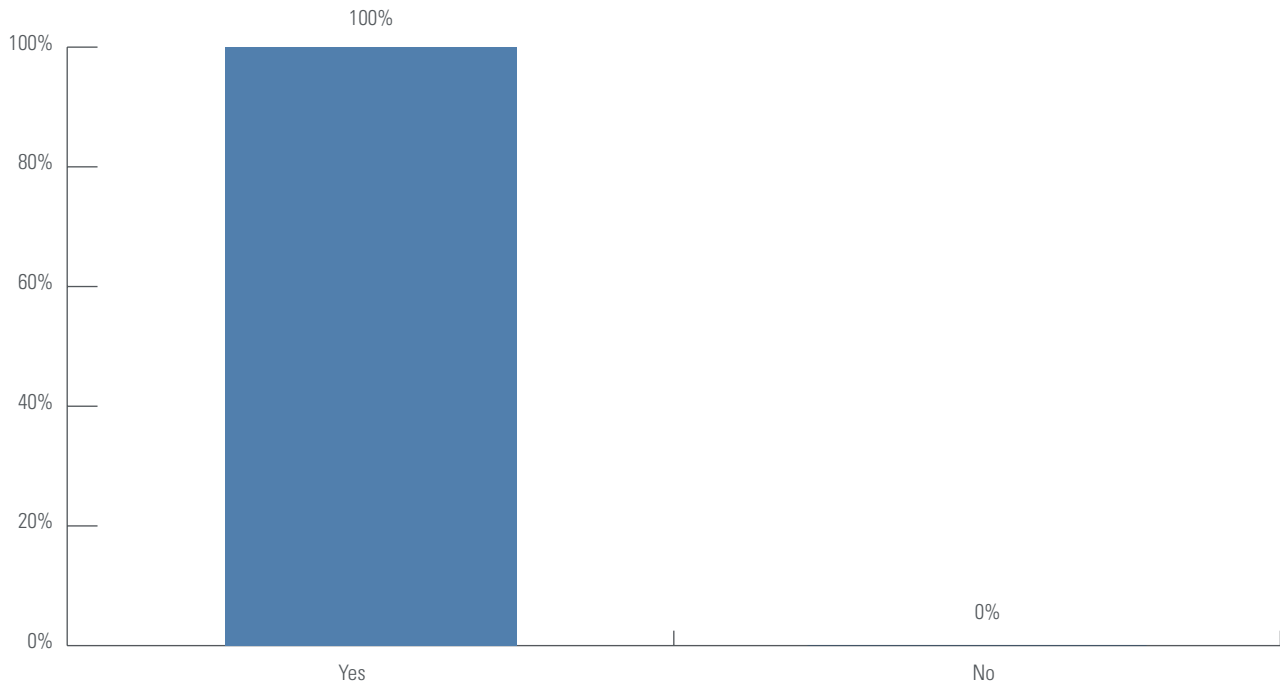
Source: *The Changing Face of Infrastructure: Public sector perspectives, KPMG International, 2010*

Q Are you an elected official?



Source: *The Changing Face of Infrastructure: Public sector perspectives, KPMG International, 2010*

Q Are you involved in infrastructure policy, procurement or development?



Source: *The Changing Face of Infrastructure: Public sector perspectives, KPMG International, 2010*

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