



## **Expert Meeting on International Investor Participation in Infrastructure**

### **SUMMARY REPORT BY THE SECRETARIAT**

*Paris, France – 3 March 2006*

#### **Session 1: Private participation in infrastructure: Recent success stories – and the opposite**

A **private sector participant** opened the discussion, stressing that objectives need to be clearly defined. Otherwise, success or failure cannot be assessed. Objectives need to be set at two levels: policy objectives (what do governments want with their infrastructure); and concrete project objectives. If either is not realistic, any given project is in trouble. Objectives are set politically; they may not reflect the needs of the end-users. Objectives sometimes change. Projects must be flexible enough to accommodate this fact. Finally, expediency is the worst kind of objective: projects that are undertaken as a “quick fix” are rarely successful.

One purpose of PPI is to provide better infrastructure services to the public – not to create “bricks and mortar”. Another purpose is to break out of a status quo (administrative inefficiencies, decrepit physical infrastructure, lack of funds etc.).

Judged by these standards, most PPIs have been successful: structures have been completed; services improved; coverage extended; customers and labour benefited; and technology transferred. However, there has been talk of failure when: expectations have been unrealistic; circumstances have changed; politics have changed (parties to PPI will have to live with this risk); failure to accommodate the wishes of some of the (many) stakeholders; ideology and propaganda; renegotiation and termination (but these may also be natural and necessary).

Partnership and relationship are essential. Regardless of formal arrangements there has to be a willingness to work together, including amid difficulties.

A few general observations: (1) from a private sector perspective, the public sector is a difficult client; (2) infrastructure is more complicated than most other services. It is always burdened by its own past – physically and in terms of the public mindset; (3) the private sector is not monolithic; (4) again, real problems are dynamic; (5) the “status quo” has enormous capacity to resist change.

Political change must be taken as the norm, and infrastructure is always a political subject. Operators should not play politics, but must work with politicians. Additionally, water projects are particularly hampered by “dysfunctional governments” because they tend to be carried out at the municipal level and hence may fall victim to a lack of coordination within the public administration. A good overall framework is necessary, which applies equally to public and private infrastructure providers.

Good contracts are vital, but insufficient to assure partners’ relative positions: operational flexibility and contractual protection are incompatible in over-detailed contracts; but, both flexibility and protection are necessary; so, contractual texts must include provisions to adapt to the range of complex changes that face infrastructure services. There is a tendency to over-detail contracts on the basis of the present situation. On the other hand, contracts should be written so as to provide incentives to make the agreement work rather than to look for loopholes. One way of doing that is to build in permanent dispute/review panels.

Conclusions: (1) policy and project objectives must be clear; (2) the specifics of individual sectors are of paramount importance; (3) the equity between partners is essential (a good contract, inequitably implemented, is almost worse than a bad contract equitably implemented); (4) maintain flexibility and keep up dialogue.

The **representative of an international financial organisation** argued that the relevance of any given project to improve infrastructure services relies on four parameters: (1) how will the public’s access to infrastructure be influenced; (2) what will be the quality of services; (3) how affordable with the services be to the public; and (4) what is the financial sustainability of the project? However, this does not provide guidance to the choice between public and private provision. Moreover, sectors differ. The following general guidance offers itself:

- *Water and sewerage.* Core problem is financial sustainability. Management arrangements and regulation should strengthen incentives to improve access, quality and affordability. Ownership of assets should in most cases remain with the public sector.
- *Energy.* End-goal is competition. Intermediate goal is unbundling and ensuring the financial viability of distribution.
- *Telecommunication.* Ensuring competition between the many private operators is the key. No strong rationale for public sector involvement.
- *Roads.* Public investment is the norm. Maintenance and repair is a concern, with which private participants may in some cases assist.
- *Rail, ports and airports* are generally seen as suitable for private involvement.

According to World Bank assessments 37% of PPI projects in water and sanitation are cancelled or “distressed”, compared with 9% in the total infrastructure sector. How to minimise the risk of such an outcome? First, avoid “ad hoc” projects; need to have a clear policy framework. Second, uphold the sanctity of contracts and minimise the incentives for opportunistic renegotiations.

Another **representative of an international financial institution** drew the attention of participants to three overarching issues:

*Importance of contracts.* Contracts, including the cash-flow and the balance of risks and rewards they stipulate, are central to getting a project financed. Unbalanced contracts (e.g. public sector imposing too many requirements; private sector not committing enough capital) may make financiers walk away. Agree that flexibility is needed, but it should be explicitly acknowledged in the contract itself. In economists' jargon, PPIs are typically incomplete contracts in the face of asymmetric information, and the way to deal with this is to build in as many mechanisms as possible to internalise problems and avoid moral hazard.

*Selecting private partners.* Having an open, transparency and competitive process for contract awards is essential – especially in developing and transition economies where there's a need to build trust in market-based solutions. Where one has to content oneself with second-best solutions (direct negotiations) transparency, fairness and an absence of corruption become even more important to avoid risk.

*Development of local capital markets.* Loans to, and other assets held against, infrastructure projects can be securitised and hence greatly help develop local capital markets. Funds for investment in such instruments are available in the insurance and pension sectors of most countries. (Escobar seconded.)

A **participant** reminded the other discussants that the PPI discussion is not necessarily equivalent to PPP: a large number of infrastructure partnerships have been formed entirely within the private sector, including between OECD and developing country corporate entities. A challenge for PPI is that the legacy infrastructure providers are often inefficient. The challenge begins prior to the transfer of responsibilities to the private domain, with efforts to improve the governance and performance of public infrastructure providers.

A **public sector representative** argued that some of the failures of PPI projects have been due to administrative failures in host countries, fears of employment consequences of restructuring and the fact that the directly affected communities have been the better-off consumers. Foreign operators are often seen as lacking “legitimacy” *vis-à-vis* their domestic partners or consumers.

A schism between domestic groups may arise when an increase in tariffs is agreed to finance an extension of services. In these cases there is a need for a “pedagogical” effort that could be more suitably undertaken by the host country authorities than the private investor. This issue is set within a more general challenge of public sector reform. It could be dealt with in the context of a general joint undertaking between enterprises and public sector.

Another **public sector participant** noted that projects change, partly because of “learning by doing” as one goes along, partly because of a changing external environment. Countries with a very flexible legal framework surrounding infrastructure contracts find themselves faced with concerns over a lack of transparency or, even, scope for corruption. Clearly there a balance needs to be struck, and best practices should arguably be developed.

## **Session 2: Shaping the project, picking the partners, working together: lessons for policy makers**

Two **representatives of the UK government**, drawing on their national experience, opened the session with the observation that one of the main benefits of PPIs is that they allow an efficient management of risk, by dividing between the public or private domain those risks that are best borne by each sector. Secondly, they allow a move to “output specification” – that is, the public sector setting targets for public services and specialised providers deciding by what infrastructure to attain them most efficiently. By focusing on delivery whilst having the private sector’s capital at risk, one almost definitely obtains a higher quality of services. At the same time, the public sector must secure the availability of services, so contracts must provide protection for the public sector should the private partner fail to deliver.

Seven basic preconditions for a successful PPI programme (as opposed to project): (1) major capital investment programme; (2) both sides need a demonstrated expertise to deliver; (3) structure of the service needs to be appropriate (e.g. risk apportioning possible); (4) capable of costing on a whole-life basis; (5) value of the project is sufficiently large (to justify project and bid costs); (6) technology and other main aspects of the sector are stable (so that it is clear what is being contracted); (7) planning horizons are long-term. Moreover, the United Kingdom assures coherence by giving the PFI unit of the UK Treasury authority to develop policy, ensure compliance and approve all large and complex projects.

Some lessons were learnt in the course of the UK PFI programme. First, resources must be available on both sides. Private sector participants repeatedly stress that they wish their public partners had more expertise. Also, operational staff needs to be brought in before a contract is signed; too often deals are struck involving performance and payment mechanisms that are impossible to implement in practice. Secondly, the public sector is often not good at picking up “snagging issues” and prone to sign on deals prematurely. (A consequence of an over-eagerness to get hold of assets and start providing services to the public.) Reporting and monitoring mechanisms are also often lacking. Thirdly, “soft services” as part of performance requirements have give rise to negative reactions. Partly, this relates to labour market issues surrounding the transfer (or non-transfer) of staff from public to private service provision. Also, in the context of long-term infrastructure contracts benchmarking mechanisms have to be developed to ensure the quality of the associated soft services.

Concluding, any activity must be anchored in a credible overall PPI programme. This is needed to ensure proper implementation from the public side, and as a communication tool *vis-à-vis* the private partners. Sufficient expertise and (human) resources must be available within the public bodies charged with running PPIs. PPI must create “value for money” relative to other models; it should never be done on grounds of affordability alone.

The **representative of an international financial institution** noted that the supposed benefits of PPI are the infusion of private sector managerial efficiency and private capital into public infrastructure projects. However, it is not always clear that private sector managers are more skilful or innovative than their public sector counterparts. Also, the private sector usually pays more for its funding than general government.

To reap real benefits from PPI, governments need to get four things right. First, one needs to take full advantage of the “bundling” of assets: governments contract with one provider who can tailor the asset to the optimal provision of the service. This makes infrastructure a relatively strong contender, as

the private partner (unlike for instance in social services such as health and education) is in direct contact with the end-consumer.

Second, the risk transfer needs to be appropriate. Usual presumption is that government shall retain policy and regulatory risk, and other kinds of endogenous risks, whereas the private sector can hedge or diversify other kinds of risk or pass them on to consumers. Third, there needs to be capacity in government. For instance, projects need to be picked well, using solid cost-benefit analysis (a practice that is patchy in many countries). Capacity to regulate and renegotiate infrastructure contracts need to be permanently available. Fourth, there is a need for competition wherever one can get it. As many infrastructure projects are inherently monopolistic this means a reliance on competitive bidding for the contracts.

The problem in many developing countries is, their economic and political realities do not confirm with these pre-conditions, whereby their chances of successful PPIs are slimmer than in some OECD countries. Many of these undertake PPIs nevertheless for another reason: the cost of such projects is recorded off-balance sheet in the public finances. Governments in both rich and poor countries have accepted the bulk of risk in PPIs while still treating it off-balance sheet, which is contrary to good budgeting practices.

A **private sector participant** argued that a key question to ask oneself is: what are the basics for governments to successfully procure and operate projects on a public-private partnership basis? These basics are alike for developed and developing countries. The issues fall into two categories: country requirements and project requirements.

*Country requirements.* A country needs to provide a continued support, politically and in public opinion, for the process of PPI. Where PPI is new, most resistance comes from within the general government administration from people who fear for their jobs or influence. The central government needs a strategy for how to deal with such resistance.

Stability of laws and institutions are also a major issue. This covers not only concession or privatisation law, but a whole body of other legislation bearing on business. Often PPI has been held back by tax and procurement laws that were seen as unsuitable for private infrastructure investment. The availability of local finance is of great importance where a currency is not traded freely in order to avoid currency mismatch in the project finance.

*Project requirements.* A prudent selection of projects is the necessary starting point. For example, if political concerns negate the revenue basis for a given project PPI should not be the preferred model. The tender preparations are also of paramount importance. Any lack of clarity in this phase forces the bidders to add risk margins. Sufficient data (technical, economic, environmental...) must be made available to the bidders, as must precise definitions of the works and services required and the prospective assistance by the public partner. Information about the checks that the government is going to apply to the infrastructure providers, and the penalties for under-performance, is also essential.

Efficiency gains through private involvement hinge on the flexibility accorded to the private infrastructure operator. Over-detailed contracts are an impediment in this respect. Much better is to specify contracts in terms of the output results and the infrastructure services that are to be delivered and leave it for private sector to provide them in the most efficient manner.

The risk should as a general rule be given the contractual party that can best control it. For instance, if a private operator is burdened with a risk out of his control this will be added to the contract cost, which is hardly a cost-effective form of insurance. However, there is a limit to this approach. Contract and operation companies are often not strongly capitalised. They may not be financially able to carry even such risks as are “more appropriately” allocated to them.

Another **private sector participant** raised the general question of when PPI is a good idea. In Europe a decision was made at the EU level that telecommunication markets should be opened to competition, subject to certain safeguards for end-users. However, competition does not always result in investment. This may be the case where market entrants have to compete with entrenched (e.g. publicly-owned) providers of infrastructure services. The challenge is putting in place a regulatory framework that encourages private sector participants to continue to invest.

Another, more interesting, case is where there is a widespread lack of infrastructure but the private sector is still not willing to invest. Policy makers need then to keep a long-term decision horizon. One way of providing additional incentives to invest may be granting market entrants a free choice of technical solutions.

If this is not sufficient, public-private partnerships must be considered. Recent examples from Eastern and Central Europe include public authorities acting to bundle satellite-based communications, which are made available to end-users by private providers. However, the public participation should be limited to the infrastructure level and kept away from the service level. Put differently, vertical integration should be kept to a minimum in the interest of encouraging competition.

A **third private sector participant** proposed three general observations on the basis of the experiences from the water sector. First, water and sanitation must be considered as the most problematic sector for PPI. As pointed out the share of “distressed” projects is higher than anywhere else, and recent years have witnessed a withdrawal of many of the largest international investors from this sector. What remains is a large diverse group of private operators, opting for modes of participation with a lower risk exposure.

A major problem for water operators is the asymmetry of information, with the public partner being more well-informed at the outset. They cannot verify the quality of the underground network and they are usually required to offer universal services within urban areas over whose future development they have no influence. Under the circumstances – that is, accepting that pieces of crucial information will become available only later – a strategy of underbidding may be understandable. In a competitive bidding process some of the caveats can be overcome, but a process of competitive bidding is often not feasible in smaller municipalities. This has in the past created problems with a perceived lack of legitimacy of process and outcomes.

Secondly, an “asymmetry of power” creates regulatory and contractual risk. As soon as the initial investment is completed, power shifts to the local authorities. Delays in regulatory approvals and denial of previously agreed tariff increases become commonplace. Thirdly, water projects suffer from a devaluation risk, since revenues are in local currency whereas the finance is mostly international. Even where local finance would in principle be available, this is in practice often discouraged by the host country treasury which fears for the effect on the cost of government borrowing.

A **public sector participant** noted on the issue of risk allocation, several discussants have tended toward the position that exchange rate risk should be borne by the public partner. However, this hardly makes sense in a floating exchange rate regime. It is one thing if governments link their credibility to fixed exchange rate arrangements, but if they do not the private sector can hardly expect third parties, including international financial institutions, to bear their exchange rate risk.

Another **public sector participant** opined that the introductory presentation failed to take into account the broader position of governments which, being under fiscal pressure, may see PPI as a way of gaining a greater room of manoeuvre for their overall policy formulation. First, transferring infrastructure from the public to the private domain under those circumstances raises an issue of the correct valuation of the assets prior to the transfer. Second, there is a question of what happens to the asset, including the risk of economic or environmental degradation, following the involvement of the private sector.

### **Session 3: Experiences with PPI outside the OECD area**

A **public sector representative** informed the meeting of Brazilian experiences with legal and regulatory frameworks for privatisation. Efforts need to be anchored in an adequate government planning, co-ordination and capacity, as well as an ability to operate infrastructure in a way that is compatible with the realities of private investment. In the case of Brazil, the first step toward co-ordination was the passing, in the 1990s, of three key pieces of federal legislation: privatisation guidelines; standards for concession contracts and bidding procedures; and standards for the payment of subsidies by the public partner.

The ex-ante efficiency gains from private participation are well documented in the case of Brazil due to a generally high cost of publicly provided services. This should not discourage an evaluation of efficiency on a case-by-case basis, but in practice cost data from the public sector have been such low quality that thorough assessments have been rare.

Brazilian legislation stipulates that concessions must always be awarded through competitive bidding. Furthermore, wherever feasible competition should also be encouraged within the market itself. In markets where competition is not feasible the onus is on regulators to implement “yardstick based” regulation. However, many of them still lack the knowledge and capacity to do so satisfactorily.

A main argument for privatisation was the release of public resources for other purposes than infrastructure investment. One consequence was that until recently little PPI involving a subsidy to the private partners has been undertaken. Now, subsidised projects increasingly take place, subject to a system of checks and oversights at the federal level. Safeguards are also in place against government defaulting on its obligations toward its private partners. This is achieved through a private trust-fund acting as a backstop facility for the public commitment.

Infrastructure concessions have moved toward output-based contracts allowing the private partners a relatively free hand in design. (Over-detailed contracts are seen as a major source of excessive number of renegotiations in the past.) Risk allocation is done on a case-by-case basis and laid down in individual contracts. Contracts are required by law to contain “economic equilibrium” clauses. The credibility of these clauses has been buttressed by recent court rulings finding in favour of the private investors.

A second **public sector representative** focused on Asian experiences with using technical assistance to encourage PPI projects. He noted that the interest of the partner governments in such

projects picked up during the 90s, especially following the Asian crisis in 1996-97, and development agencies have tried to respond to the challenge. The experiences so far suggest: (1) a general enabling environment for investment needs to be in place; (2) pro-poor mechanisms need to be designed and implemented at the sector-wide level (not on a project basis); and (3) projects are sustainable only if they generate demonstrable gains to governments, investors and beneficiaries.

Japan's approach to supporting PPI is based on a framework, a key element of which is the mapping of risk and agreements on risk-sharing among stakeholders in the project phases. Technical assistance to enhance legal and regulatory frameworks is set in the context of this framework, as it is intended to mitigate risk. This assistance, however, is implemented as part of governance and/or trade facilitation programmes.

The **representative of an international financial institution** discussed recent African experiences with PPI. Involving private investors in African infrastructure is high on everybody's agenda, including NEPAD. Eight general lessons for policy makers may offer themselves:

1. PPI needs to be approached with pragmatism. Policy makers need to base their policies on the rationale for private involvement (efficiency gains, knowledge transfers, broader tax base...) rather than consider PPI as a tool merely to achieve short-term goals.
2. The tradeoffs in PPI need to be understood. Many African decision makers confuse "partnership" with "friendship". Occasional conflicts between the interest of investors and the general public need to be understood and accepted.
3. "Can do better". There may be some complacency in Africa since PPI has become much more widespread, but the continent is lagging behind global trends.
4. Suitable legal and regulatory frameworks, and negotiation capacity, need to be put in place up front. Specialised assistance to government should be called in early. One also needs to limit the number of government departments involved, especially in the case of cross-border activities.
5. Ensure continuity through projects' life. Many worthwhile projects have withered because the government or administration officials in charge were replaced by others with no knowledge of the subject matter.
6. Have a plan to develop local suppliers' capacity. (Not a prerequisite for success, but beneficial in the development context.)
7. Use innovative financing schemes to mitigate risk. Some recent African projects have involved both public and private partners and financial institutions in commonly-agreed risk sharing arrangements.
8. Adopt a holistic approach. Many policy makers have approached PPI solely in terms of project financing. However, investors are motivated largely by their degree of confidence in the host location and host government, including their perceived future prospects.

A **public sector participant** suggested that the UK experience seems to indicate that PPIs have been generally successful in a national context of a strong legal framework and a mature civil society. In most developing countries these structures are much stronger. The Japanese approach to PPI is interesting: coupling the support of private participation with technical assistance to develop legal and regulatory structures and mechanisms for stakeholder involvement.

An **OECD Secretariat participant** asked the question: What is meant by success of an infrastructure project, quantity or quality of services, or affordable pricing? If the success parameter is quantity then there can be little doubt that PPI has been successful in delivering services in developing countries. As for the other issues, problems arise in countries where the public do not have access to voice their dissatisfaction with services or tariffs. There is a need for enhanced mechanisms for public consultation in many developing countries. This is hardly an issue for private companies to resolve by themselves. Donor agencies may play a facilitating role.

#### **Session 4: Responsible business conduct and private participation in infrastructure**

A **private sector participant** opened the discussion reminding of the fact that in the absence of profits there will be no private investment in infrastructure – responsible or otherwise. It is essential for business to understand the goals, objectives and timeframe of what it is expected to deliver. For instance, infrastructure projects have a longer duration than the planning horizon of most politicians and officials, which is prone to create a problem of evolving expectations.

The issue of corporate responsibility is engulfed in the greater issue of the joint responsibility of the partners in PPI projects. Business generally is keen to abide by laws and regulation, and usually more than that. Companies may be willing to take steps to fulfil “societal expectations”, but they are faced with multiple stakeholder groups having multiple expectations. When operating on a cross-border basis, one may add to this the sometimes conflicting expectations of host and home country societies. From a corporate perspective the core issue may be how much of the political, social and environmental risk is shifted from the public to the private sector.

A **civil society representative** said that private participation in infrastructure in the last 15 years has been controversial – particularly when resulting in the privatisation of service delivery. Some of the main challenges for companies have been the following.

*Human rights.* Infrastructure providers work in countries where human rights abuses are prevalent and governments sometimes oppressive. In addition they have often had to rely for the protection of their assets on security forces whose human right records were dented. The conduct of infrastructure projects themselves may also result in human rights violations, for instance in the case of forceful relocation of affected communities. Companies are rarely the main agent of abuse, but they have in some cases become associated with these practices. Failure to acknowledge indigenous rights has also given rise to controversy.

*Corruption and governance.* Weakness of public governance and regulatory oversight can lead to corrupt practices. There have also been concerns about whether privatisation has occurred too quickly in some cases, and with limited monitoring, public consultation and accountability. Corruption and human rights issues are linked: both thrive in weak governance zones.

*Financial viability.* The cost of entry is high in the infrastructure sector. It may be particularly high for a socially responsible company, not least because effective stakeholder consultation and risk assessment procedures are time consuming. Even the most “responsible” company may not stay engaged if its profitability prospects seem threatened.

There is a strong business case for infrastructure providers to act responsibly. Basically, the provision of infrastructure services itself enhances the enabling environment for investment alongside

with filling societal needs in the host country. Secondly, by being the first to supply services that make a real difference to local living conditions companies may gain access to new markets. Third, responsible conduct strengthens corporate reputation and establishes a “social licence to operate”. Fourth, the involvement in infrastructure in difficult operating environments encourages corporate innovation and may result in efficiency gains of wider applicability. Finally, project finance, export credits and increasingly also access to participate in tenders may depend on ethical standards.

Seven lessons suggest themselves: (1) a sound enabling environment greatly assists companies aiming to act responsibly. It also encourages their participation in infrastructure more generally; (2) strong corporate governance mechanisms should be implemented. Companies need to “put their own house in order” by implementing ethical codes and strengthening management oversight; (3) the value of small-scale delivery systems should be acknowledged. These are attuned to local needs and provide an alley for corporate dialogue and involvement with affected communities; (4) project finance is key to involving investors interested in sustainable projects; (5) business activities should be aligned with development needs; (6) companies need to consider how to leave behind greater local capacity; (7) all actors need to engage in public policy dialogue.

A **trade union representative** asked the question whether private participation in infrastructure is really necessary. The interest of governments and private investors is clear, but it is less obvious that PPI benefits the general public. In many cases of privatisation the public has had to bear a direct cost either in the form of sharply increased tariffs or deteriorating utilities services.

An incentive problem may also derive from the length of concession and other contracts. These generally last for about 20 years, which means they are expected to outlive many of the companies that sign them. Secondly, the longevity of public-private partnerships in general makes them fragile, for even in the most highly developed countries financial upsets and macroeconomic crises can upset the balance between the partners. When this happens it can erode public trust in the national government. It may even lead to re-nationalisation of certain services.

The influence of PPI, relative to public service provision, on employment, life quality and social organisation is not well known. The public sector cannot abdicate its pivotal role in modern society. Social responsibility implies that all persons have the right to enjoy a certain level of public services; whether or not the public sector chooses to provide them in-house it remains responsible for fulfilling this expectation.

A **private sector representative** argued that the context in which PPI projects are being implemented is undergoing great change, in terms of process and substance. There has been a shift toward more of an interactive “fishbowl” process involving comparisons, benchmarking and discussions in the public domain. In terms of substance there seems to be a convergence of views on how infrastructure projects need to be conducted from a corporate responsibility perspective.

For instance, there is an evolving consensus that many of the big issues are interlocked. Efforts to address the quality of governance, the fight against corruption, legal and contractual frameworks, poverty reduction and sustainable development need to be considered as parts of one overall challenge. There also seems to be convergence around the importance of corporate responsibility as a key principle for the infrastructure sector’s involvement in developing countries. Much of the attention has focused on human rights issues, and is backed by similar developments on the public sector side (“rights-based

development”), and in civil society which increasingly stress their “right” to demand that projects are conducted in a certain way.

The issue of adequate legal and regulatory structures, while important, is essentially one of investor protection. A demand is increasingly being voiced for an offsetting protection of infrastructure users. Just like investors are looking to international arbitration for redress, civil society is addressing itself to international actors such as multilateral development institutions. A similar observation applies to investment policy frameworks. A recent example is the BTC pipeline, where civil society organisations took their objection over contractual “standstill” clauses to the international level.

There is also a greater general interest in involving the public in discussions about how projects should be set up and managed and an understanding that such stakeholder engagement should be maintained through the project life cycle. A specific issue relates to the fact that civil society considers the access to certain services – notably water – as a human right. Unless the corporate sector addresses this concern seriously stakeholder involvement may not be very fruitful.

The “project requirements” include the compliance with appropriate labour, environmental and human rights standards – including in environments where these are not actively enforced. There is further an expectation that infrastructure providers apply such standards to contractors and sub-contractors. (This may apply especially to the construction phase of infrastructure projects.) There is also a user interest in transparency around the payments involved in infrastructure contracts. IFC’s new performance standards include an encouragement for infrastructure providers to publish details of such payments.

Finally, infrastructure providers have increasingly turned to developing strategies for generating local benefits. These include employment, social benefits, local factoring and environmental benefits. Host governments in some cases tie such conditionalities to large-scale infrastructure projects.

A participant opined that one overarching problem is a lack of reliable data in many developing countries – financial as well as operational. Users complaining about tariff increases are themselves unaware of the financial realities of their infrastructure provider, and usually also unaware of the service extensions that are expected to flow from the enhanced financial position of the company.

A **public sector representative** argued that one of the greatest risks surrounding PPI is corruption. The public is acutely aware of this risk. Consequently, efforts by enterprises to combat corrupt practices are important not only to “clean” the enabling environment but also to win public support and acceptance of their activities.

A **private sector participant** offered the opinion that developing country governments that are reasonably happy with their incumbent infrastructure providers are normally not keen to invoke PPI. The private operators are called in when a problem with infrastructure services is perceived, and their task is to turn things around. In this process, services are being provided, governance is being enhanced and corruption is being fought. It would be unfortunate to paint corporate social responsibility mainly in terms of a need to check corporate misbehaviour. The private sector accepts being judged according to higher standards than government actors.