

NATIONAL POST

Stakes are huge as Liberal government moves forward on Canada Infrastructure Bank

Jason Fekete, Ottawa Citizen | March 18, 2016 6:34 PM ET



THE CANADIAN PRESS/Adrian WyldThe planned Canada Infrastructure Bank would make it easier and more affordable for municipal and provincial governments to finance capital projects.

As the federal Liberal government prepares to deliver its first budget on Tuesday, behind the scenes it has been slowly laying the groundwork for a mammoth, multibillion-dollar undertaking that could revolutionize how infrastructure projects are planned and funded in Canada.

[Why Trudeau's infrastructure plan may not be a quick and easy fix](#)

Solving Canada's economic woes sounded so easy during the election campaign. The Trudeau Liberals promised a \$125-billion infrastructure plan — billed as the biggest in Canadian history — that would “kick start” the economy and, they're expected to follow through now that they're in power.

We'll get our first detailed look at what the Liberals actually have in mind on March 22 when they release the federal budget in Ottawa. But in the meantime it's worth thinking about the infrastructure promise: Can a federal government spend its way to economic Nirvana?

A federally backed Canada Infrastructure Bank (CIB) that would make it easier and more affordable for municipal and provincial governments to finance capital projects was a key election promise by Prime Minister Justin Trudeau and the Liberals.

While it's expected the budget will address the government's commitment to create the CIB, the exact structure and mandate of the CIB — including how project financing and approval would

work and whether it will be a Crown corporation — won't be determined until the coming months.

Municipal and provincial governments, large firms and the broader financial markets are closely watching the government's blueprint for the bank and exactly how it will operate because the stakes are huge: The creation of the CIB could save lower levels of government hundreds of millions of dollars on large capital projects by allowing them to access low-interest financing from the federal government and its top credit rating.

Ottawa has already taken steps to move the CIB project forward.

It has recruited a Canadian investment banker working at Bank of America Merrill Lynch in the U.S. to help design the CIB and advise Infrastructure Minister Amarjeet Sohi on the project.

The adviser will work pro bono as an unpaid volunteer and will be based out of Sohi's office for up to six months, beginning in late March. The individual will also work with large pension funds in Canada as part of the Liberal government's efforts to persuade them to invest in Canadian infrastructure such as transit projects.

Meanwhile, the government has also created a new, executive group position of Chief, Infrastructure at Finance Canada to advise Finance Minister Bill Morneau on the development of the Infrastructure Bank, the plans and priorities of the Infrastructure minister, and the Finance Department's relationship with PPP Canada, a Crown corporation that delivers public infrastructure through public-private partnerships (P3).

The broad structure of the Canada Infrastructure Bank was laid out in the Liberal party's election platform, which said the CIB will "provide low-cost financing for new infrastructure projects."

The bank will offer "loan guarantees and small capital contributions" to provinces and municipalities where a lack of access to capital is a barrier to projects proceeding.

"The federal government can use its strong credit rating and lending authority to make it easier and more affordable for municipalities to build the projects their communities need," the platform says.

"Lending from the CIB will be linked to balance sheet assets, and won't require any increase in the federal government's accumulated deficit."

The Canada Infrastructure Bank also will issue green bonds to fund projects like electric vehicle charging stations and networks, renewable energy transmission lines, and building retrofits, the Liberals have promised.

The Federation of Canadian Municipalities, in its budget submission, recommended the federal government work with the FCM on the design of the Canada Infrastructure Bank to help reduce administrative burdens, ensure both renewal of capital projects and new construction are eligible for funding, and that it allows for maturities exceeding 30 years.

The FCM, which represents nearly 2,000 local governments across the country, also wants affordable housing construction to be eligible for infrastructure bank financing.

A federal infrastructure bank can produce widespread benefits for communities across the country, including more affordable financing for municipalities and provinces, but that's just one component of what should be included in it, says a recently released report from **Matti Siemiatycki**, an associate professor in the Department of Geography and Planning at the University of Toronto.

A Canadian investment banker has been recruited to help design the Canada Infrastructure Bank and advise Infrastructure Minister Amarjeet Sohi, above.

The bank could provide low-interest loans directly to governments and private project sponsors to finance infrastructure, his study says.

But it could also offer “credit enhancement” services – such as loan guarantees, a reserve fund to cover lenders in case of borrower default, and loan loss insurance – that improve the chances the loans will be repaid by borrowing municipalities and provinces.

The report notes that, on average, the federal government borrows money at rates approximately 1.25 percentage points lower than large municipalities and around one percentage point lower than provinces that have provincial financing authorities, like Ontario and British Columbia.

If financing through the CIB can shave one percentage point off of the cost of a municipality or province borrowing \$500 million, it would save the borrower \$100 million in interest payments over a 35-year loan term, the study says.

In his report, titled “**Creating An Effective Canadian Infrastructure Bank**,” **Siemiatycki** says municipal and provincial government don't have a problem accessing financing, but do have trouble paying it back because of revenue challenges.

However, he believes “the real benefit” would come by creating an infrastructure bank that is a “centre of excellence” in project delivery by providing rigorous project evaluation and procurement expertise, along with the financing component.

The bank must fund “shovel worthy” projects that will realize long-term economic benefits, rather than just “shovel ready” projects that could end up being a drain on public finances.

“We have a chronic history of picking projects that don't deliver on its benefits,” **Siemiatycki said in an interview.**

His report recommends the Canada Infrastructure Bank be capitalized with funds that are on top of – and not a replacement for – existing federal capital grants, and that a primary focus be on lending services for large infrastructure projects worth at least \$10 million.

Lending from the CIB will be linked to balance sheet assets, and won't require any increase in the federal government's accumulated deficit.

As well, all projects applying for financial support from the bank should have a credible, independent study of the project's costs and benefits.

There are various forms of infrastructure banks and capital financing authorities scattered across Canada, the U.S. and the world, including:

- In Western Canada, the Municipal Finance Authority of British Columbia provides low-cost financing to municipal governments, while the Alberta Capital Finance Authority finances capital projects for municipalities, school boards and other local entities;
- The Ontario Financing Authority and Infrastructure Ontario provide financing to public sector organizations and municipalities to help finance capital projects like transit, roads and health facilities;
- In the U.S., Democratic frontrunner Hillary Clinton has promised a \$25-billion, government-owned national infrastructure bank as a key plank in her platform, with the hopes it will help unlock hundreds of billions of dollars in private capital for American infrastructure;
- Overseas, the European Investment Bank is owned by the EU's 28 member states and provides financing and advice for infrastructure projects that meet the bloc's policy objectives; In the United Kingdom, the U.K. Green Investment Bank, which is owned by the British government, invests public funds in green infrastructure projects and mobilizes private sector capital into the green economy; and
- The Beijing-based Asian Infrastructure Investment Bank, which just opened its doors, finances sustainable infrastructure projects in Asia that promote economic development and regional co-operation.