

Intelligence MEMOS



From: Benjamin Dachis
To: The Hon. Dominic LeBlanc, Minister of Intergovernmental Affairs, Infrastructure and Communities
Date: March 31, 2023
Re: **THE CANADA INFRASTRUCTURE BANK LEGISLATIVE REVIEW**

In 2018, the federal government launched the Canada Infrastructure Bank (CIB). After some initial set up steps, and criticism on rollout, the CIB is now providing significant investment financing across the country. The federal government is now reviewing the legislation and whether the premise that underpinned the CIB's creation still exists. The answer is "yes," as long as the CIB's focus remains on bringing in private investment.

The review offers two opportunities: first, to assess why we in Canada have so little private investment in infrastructure; second, to consider what the CIB review means for the government's role.

With elevated debt levels at the federal and provincial levels, Canadian governments should worry about their limited ability to raise debt to finance infrastructure investment. So what about private money? Major Canadian institutional investors are investing in such programs abroad. They invest abroad because Canadian governments have opened few opportunities for institutional infrastructure investment here.

This is the first problem the CIB was originally meant to tackle. It should maintain, and build on, that focus on attracting private capital.

It is important to remember the benefits of using private investment in place of taxpayer-supported debt for infrastructure projects. Government funding for infrastructure has hidden costs on the economy.

Consider. One of the most common arguments favouring government infrastructure investment is its lower borrowing rate compared to pretty much anyone else. This lower interest rate is a result of lenders viewing taxpayers as the guarantors of any cost overruns or late delivery. But risk has a cost, and not charging for it is a hidden subsidy given by taxpayers to builders and investors.

Every taxpayer dollar a government uses for infrastructure has to come from someone's taxes. However, when users pay for infrastructure instead, there is no wider economic cost. Around the world, it is [common for users](#) to fully finance infrastructure provided by private companies (often Canadian pension plans) in everything from transit to water and wastewater to electricity. That is far less common in Canada. Fixing that was a core goal of the CIB upon its formation.

The role of the CIB to encourage more private investment is a core element of what makes it unique compared to the alternative of direct investment by the government. The CIB's metrics of success should be based on how much private equity investment it has catalyzed into infrastructure backed only by future user fees.

It should do so both internally, in determining where and with whom to invest, and externally, in terms of public accountability. Indeed, such a framework is now very much part of the CIB [investing strategy](#) and [corporate plan](#). The International Monetary Fund [provides](#) a similar framework for judging the role and success of the CIB. It focuses on bridging the difference between the return for a private company and society's rate of return.

The government could articulate its goal for how much private investment should come along with government investment. That will help investors know what projects the CIB might support. The [original](#) goal of catalyzing \$4 of private investment for every \$1 of public investment would lead the CIB to prioritize revitalizing and growing existing assets. Recognizing differences in timing and sectors, a lower target could enable newer, and riskier, investment that has a bigger social return.

This brings us to the second priority for the review: what is the right role for the government? The government should be involved in determining the end goals that the private infrastructure should be mobilized towards – that is, the social rate of return. The outcomes of the CIB's portfolio-wide goals should align with government priorities.

That is where government involvement – and the temptation of involvement – should stop. The government should align only on the aggregate outcomes it wants. The public should judge the government on what the CIB does. The public and the government should judge the CIB on the outcomes, not process, of getting there across the entire investment portfolio.

Again, this is now the order of the day at the CIB. The CIB no longer has government involvement in selecting or executing specific projects. It has instead received front-end input from the government on broader goals.

Where matters get tricky is on the intersection of these two priorities. Investment with private firms involves confidential discussions to get taxpayers the best value. How then do we as taxpayers know that a specific project is a good use of taxpayer dollars to catalyze private investment?

Also, once cost-benefit disclosures of individual projects become available before projects are completed, governments will have a heightened interest. That will undermine the process and make it harder to bring in private investors.

This is where the CIB's newest mandate on research and performance will be useful. It is only now putting dollars into projects under construction. But construction shouldn't be the end of the CIB's involvement. It can do a rigorous *ex post* cost-benefit analysis, long after the risk of political interference in a project's decisions is high, to assess whether the assumptions and forecasts in decision-making were realistic. That will benefit all parties, and taxpayers in particular, in future investment decisions.

The CIB review is a window into the intentions of the government itself. Is it committed to opening opportunities for private investors in sectors it and other governments currently dominate? What outcomes will it task the CIB with? What is the targeted level of private investment per dollar of public investment? Will it be able to recommit to the independence of the decision-making process once those are set?

Benjamin Dachis is Associate Vice President of Public Affairs at the C.D. Howe Institute.

To send a comment or leave feedback, email us at blog@cdhowe.org.

The views expressed here are those of the author. The C.D. Howe Institute does not take corporate positions on policy matters.