

CANADA - CANADA INFRASTRUCTURE BANK (CIB)

Background and Establishment

The Canadian Government announced that it would set up a national infrastructure bank – the Canada Infrastructure Bank (CIB) – in the 2016 Fall Economic Statement. The bank is now operational but is still developing as an institution – the President and CEO were only appointed in June 2018 – and it has announced one investment to date.

The original rationale for establishing the bank was to provide low-cost financing for new infrastructure projects, and to provide support where a lack of capital represented a barrier to progressing infrastructure projects. The rationale has been further developed since that time – the bank has been given the responsibility for developing a pipeline of projects and potential investment opportunities at different levels of government (federal, provincial and municipal), and to act as a centre of expertise on infrastructure projects involving private sector investment.

Mandate

The CIB's mandate is to make investments in revenue-generating infrastructure projects that are in the public interest, and to seek to attract investment from private sector and institutional investors to those projects, focusing on new (i.e. 'greenfield') infrastructure or infrastructure with new elements. It has a secondary objective to identify opportunities that provide the greatest economic, social and environmental returns, and to build a portfolio of investments that will make a substantive contribution to supporting Canada's greenhouse gas reduction goals.

Institutional Structure

The CIB was established via the Canada Infrastructure Bank Act 2017. It is structured as a Crown corporation – this means that it is wholly owned by the federal government but will be operated at arms-length from government. This allows the bank to pursue its public policy objectives whilst balancing commercial and financial pressures.

Governance Structure

The CIB is governed by an independent Board of Directors and led by a Chief Executive Officer, all of whom are appointed by the federal Cabinet on the recommendation of the federal Minister of Infrastructure and Communities. The CIB has the flexibility to hire qualified employees with the commercial experience and professional skills needed to enable the Bank to execute its mandate.

This arms-length structure should provide the CIB with the independence required for it to be a credible commercial counterparty with investors, and to make recommendations to governments based on commercial assessments and analysis. However, the bank remains accountable to Parliament through the Minister of Infrastructure. The CIB is also required to submit an annual corporate plan to government, with operating and capital budgets. The annual corporate plan provides an opportunity for the bank and the government to align on a strategic vision for the organisation. The government can intervene directly in the management of the CIB by having the Minister of Infrastructure issue a directive to the CIB Board, ordering it to take a specific action (it is expected that this power would likely only be exercised in limited circumstances).

The day-to-day management of the CIB is carried out by the CEO and his leadership team. As of 30 November 2018, a number of leadership positions had been recently recruited, including Head of Investments, with the recruitment of other senior posts ongoing. There is currently little available detail on how the CIB will originate and approve projects, but the direction of travel is clearly for the bank (in coordination with other levels of government) to develop and maintain a national pipeline of opportunities which are presented to a form of investment committee. The government has also mandated that the CIB should consider unsolicited proposals from private sector investors.

Capital Structure and Sources of Finance

There is a nominal amount of equity capital in the CIB, provided by the Government of Canada. It has no creditors and it does not appear to have any plans to raise debt.

The CIB has a mandate to invest up to CAD 35 billion (USD 26 billion) supported by federal funding. CAD 15 billion (USD 11 billion) will come from existing funds committed in the government's Investing in Canada infrastructure plan to three priority areas, including:

- CAD 5 billion (USD 3.8 billion) for public transit systems;
- CAD 5 billion (USD 3.8 billion) for trade and transportation corridors; and
- CAD 5 billion (USD 3.8 billion) for green infrastructure projects.

Whilst the CIB will not be providing grant funding¹, it is unclear whether the CAD 15 billion (USD 11 billion) allocated to the three priority areas identified above will be disbursed in the same fashion as the other CAD 20 billion (USD 15 billion) which the CIB is authorised to invest.

Financing Activities

The CIB will invest in the form of debt, equity or other innovative tools. It can provide finance at below-market rates or on subordinated terms in order to attract private sector investment to projects that would not otherwise be viable, but the bank should be able to demonstrate that the project would not have been viable without such concessions. The CIB should also be able to demonstrate how its investments benefit Canadians relative to standard financing and procurement as well as public-private partnership approaches.

The CIB has a stated objective to make public dollars go further, meaning that the bank's investments should be selected and structured in order to attract as much private sector and institutional capital to projects as possible. In addition, the CIB must be careful to not compete with, or crowd-out, private sector investment where the capacity to invest already exists.

Loan guarantees, or equivalent instruments, should be limited in nature and used only if they can be structured to ensure private capital is also at risk. The CIB should take only a minority shareholder position whenever it invests in equity, and also be a minority (i.e. less than 50 percent) participant in the overall financial exposure of a project.

The CIB is still in the relatively early stages of development, and has only supported one project to date:

- **The Réseau Express Métropolitain Project (REM).** The CIB reached a "business agreement" in August 2018 with CDPQ Infra to invest CAD 1.28 billion (USD 1 billion) in a 67km high-frequency light rail project in Montréal. The bank's investment will take the form of a 15-year senior secured loan at a rate starting at one percent escalating to three percent over the term of the loan.
- CDPQ Infra has invested CAD 2.95 billion (USD 2.2 billion) and has a 70 percent equity stake in the REM project. The Government of Québec has invested CAD 1.28 billion and has a 30 percent equity stake. There is also a CAD 295 million (USD 222 million) contribution from Hydro-Québec and CAD 512 million (USD 286 million) from the Autorité Régionale de Transport Métropolitain.
- Any dividends from the project will flow to CDPQ Infra until it has met its target eight percent return, and then the Government of Québec (3.7 percent), after which returns will be shared between the owners².

¹ Canada Infrastructure Bank. Presentation to the CCPPP Conference. (November 2018). [Online]. <<https://cib-bic.ca/wp-content/uploads/2018/11/CIB-Presentation-to-C2P3-Slides-English.pdf>>.

² CDPQ Infra. Financial Information Note - Update following the confirmation of the Government of Québec's financial commitment. (March 2017). [Online]. <https://www.cdpqinfra.com/sites/default/files/pdf/2017-03-28_notefinanciere_no2_en.pdf>.

Green Financing

Green energy is one of the three focus areas for the CIB (the other two being public transit and trade and transportation). To advance Canada's efforts to build a clean economy, the government will make CAD 5 billion (USD 3.8 billion) available for green infrastructure projects through the CIB.

Project Preparation and Technical Assistance Activities

The CIB has also been asked by the government to act as a centre of expertise on infrastructure projects involving private-sector investment and to help identify a pipeline of projects and potential investment opportunities. As of November 2018, there is limited detail about the CIB's anticipated role in respect of the first of these two requests, except that it is intended to work with public sector project sponsors/procurement agencies and private sector sponsors, possibly with a focus on unsolicited project proposals, market development ideas and other specific investment requests. The CIB is also working on the requested inventory of Canadian infrastructure project proposals – with the content provided by project proponents but managed by the CIB – which is expected to launch by mid-2019³.

Performance Monitoring

The CIB must review its operations and performance every five years and present this review to the federal Minister of Infrastructure.

³ Canada Infrastructure Bank. Presentation to the CCPPP Conference. (November 2018). [Online]. <https://cib-bic.ca/wp-content/uploads/2018/11/CIB-Presentation-to-C2P3-Slides-English.pdf>.