Citizens Democracy Forum

A Group of Citizens Concerned About the State of Democracy in Canada

Canada Infrastructure Bank
An Unfulfilled Promise

Second in a Series on the Essentials of a Participatory, Democratic Society

Attention Citizens of Canada September 9, 2020,

2015 promised an exciting fiscally responsible undertaking with the announcement of a Canada Infrastructure Bank "to provide low-cost financing for new infrastructure projects". This was welcome and exciting news given that Canada's aging infrastructure, i.e. roads, bridges, etc, have either reached, or are fast approaching, their end-of-life. The design and construction of decades ago cannot meet the demands of today. The potential of such a positive commitment cannot be overstated. Investment in Canada's infrastructure has been gravely neglected, and the decline and fragility of public services, transit and transportation systems, power grids, a vigorous economy and sustainable environment are sufficient proof.

The promise and the anticipated plan seemed too good to be true. And so it was! It soon became clear that what was hoped, what was believed, to be, apparently too naively, a government initiative drawing on the Bank of Canada was an hallucination. The Canada Infrastructure Bank sharply turned from providing public financing to finding private capital. The possibility of providing low-cost financing in the public interest evaporated through the heat of corporate pressure, leaving only the sludge of high-cost private and investment capital.

Not only did the funding (the source) of these public projects change from public to private, the very oversight, the board of directors, was given to finance professionals with nary a government representative in sight. Some of these professionals forming the bank's advisory council to "protect the public interest" were:

- Dominic Barton (Chair): global head of McKinsey & Company;
- Larry Fink: CEO Blackrock Inc;
- Michael Sabia: CEO Caisse de dépôt et placement (Québec's largest pension fund)
- Mark Wiseman: CEO of CPP Investment Board before being appointed global head of an active equities unit at Blackrock.

The private-populated advisory council took over the bank's policy-making and transformed the promise of fiscal independence and responsibility to private profit based reality. Control of the most basic framework, the underlying structure of Canada and its economy, the fixed installations that it needs in order to function, are in complete control of the corporate machine. The cost of this control far exceeds any benefit that can possibly be achieved for the public good. Canadians, with little or no choice must fund the investment returns of the fiscal elite through interest repayments, user fees, tolls, etc.

Repayment costs born by the public are the profits of the corporate and private investors. The following chart highlights the magnitude of this disparity.

The chart compares interest rates only and does not take administrative costs into consideration. Four different, reasonable interest rates are shown for each source of funds. The federal government can easily borrow below 2.5% and the expected rate of return for private infrastructure investment is 8%. Comparing just those two scenarios, private sourcing will cost Canadians $243,800,000 (two hundred and forty-three million, eight hundred thousand dollars) more in interest alone than financing with the Bank of Canada. Good for corporate and private investors, bad for Canadians.

Cost of Borrowing Comparison
Public Financing vs Private Financing

		Public Financing (Bank of Canada)	**Private Financing (Corporate & Investment)**
Amount Borrowed		200 mil	200 mil
Amortization Period		30 years	30 years
Interest Rate – Bank of Canada overnight rate and standard federal government borrowing rates	0.25%	7,600,000	-
	2.00%	66,100,000	-
	2.25%	75,200,000	
	2.50%	84,500,000	-
	6.5%	-	255,100,000
Interest Rate – Private Investment standard return.	7.00%	-	279,000,000
	7.50%	-	303,400,000
	8.00%	-	328,300,000

In addition to the exorbitant excess cost resulting from the private sourcing for projects basic to Canada's needs, there are other disturbing factors associated with direction of the Canada Infrastructure Bank. As the bank has materialized corporate and private investors will, at the very least:

- Determine what, where and when infrastructure projects go ahead;
- Influence and control the direction and operation of the projects;
- Be restricted from having any government representation on the board;
- Entirely control private sector interests;
- Entertain unsolicited bids for projects allowing for sole sourcing of the most profitable projects;

- Increase costs for Canadians, not only through interest payments, but new and increased user fees for our very necessities; (user fees are regressive to low and middle-income Canadians but have little affect on those imposing them);
- Have the potential to move to the privatization of public infrastructure through the control of both projects and funding.

As corporate accounting rules differ greatly from those of the government, most of the real costs which will be incurred as result of the way the Canada Infrastructure Bank has rolled out, will be hidden from the general public. Any modicum of transparency has been erased.

The intention of this article is to draw attention to the undermining shortcomings of an exciting fiscal responsibility   What could and should be done to right this wrong will be the subject of a future article in the series.

Feel free to share this information with friends and contacts. Thank you.

Note: *This is the second in a series of articles of significant importance to all Canadians. If you missed the first article, "A Matter of Interest" regarding the Bank of Canada, you will find it at the "Articles/Current" tab on our website* https://citizensdemocracyforum.org .

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