A PUBLIC BANK FOR THE PUBLIC INTEREST

Recommendations for the Canada Infrastructure Bank five-year review

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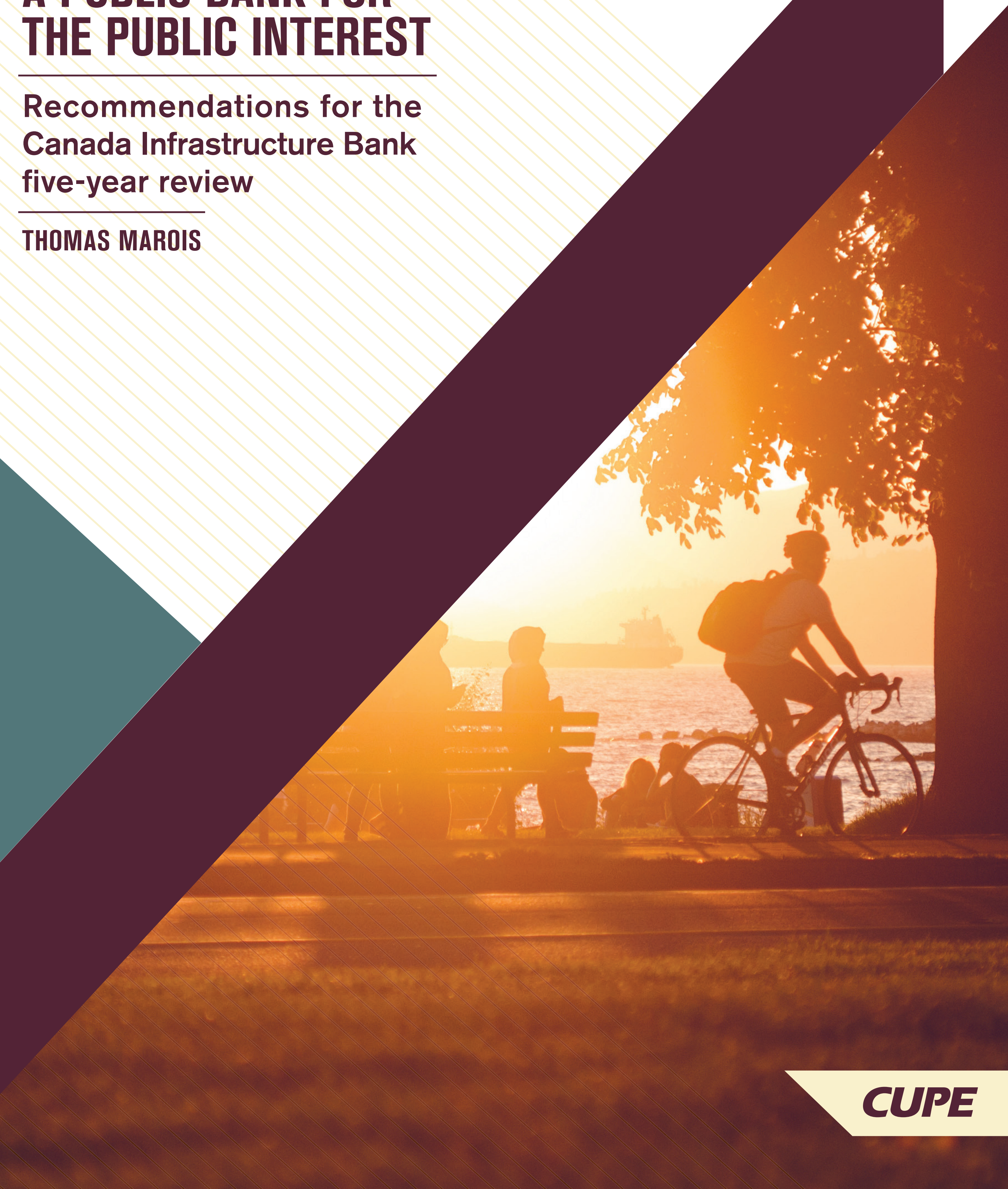

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Introduction

This report seeks to contribute to a much-needed public conversation about the purpose, track record and future of the Canada Infrastructure Bank. Published as the CIB faces its first formal review, it evaluates the bank's work to date and highlights lessons from successful public banking models around the world. We conclude the bank has failed in fundamental ways, and that Canada has an opportunity to reclaim the CIB as a bank to serve the public interest by meeting pressing community needs while tackling the climate crisis.

The Canada Infrastructure Bank (CIB) was created by an act of Parliament in 2017. The legislation defines the purpose of the CIB as follows: "to invest, and seek to attract investment from private sector investors and institutional investors, in infrastructure projects in Canada or partly in Canada that will generate revenue and that will be in the public interest by, for example, supporting conditions that foster economic growth or by contributing to the sustainability of infrastructure in Canada" (*Canada Infrastructure Bank Act* 2017). The legislation also called for a review of the CIB's performance after five years (in 2022).

In May 2022, the House of Commons Standing Committee on Transportation, Infrastructure and Communities (TRAN) issued a report with a sole recommendation: that the Canada Infrastructure Bank be abolished (TRAN 2022). In its report, the committee described how the CIB had failed to meet expectations related to efficiency, cost, transparency, community needs, and private sector involvement.

What happened in the five years from 2017 to 2022 that would cause a Parliamentary committee to recommend the government abolish the CIB? Simply put, the CIB has failed to live up to its expectations, has very few defenders, and needs to reorient its purpose.

CUPE, along with many other labour and civil society organizations, has been vocal in its criticism of the CIB since its creation. CUPE staff testified to the TRAN committee and their research featured in the committee's final report. CUPE agrees with many of the report's findings, which echo the union's work, particularly in the following areas.

- Efficiency: The CIB has not been able to close deals at a rate sufficient to support its mandate. In 2021, the Parliamentary Budget Officer noted that the CIB is unlikely to meet its spending objectives (PBO 2021).
- Cost: The TRAN committee report states that "in relying on private financing, the CIB is missing an opportunity to offer municipalities the significantly lower interest rates that could be obtained through the federal government." CUPE has long raised the alarm about the increased cost to the public sector of private financing, and this is a central weakness of the CIB.
- Transparency: The legislation creating the CIB specifically forbids the disclosure of information related to private companies or private investors in its projects, and it introduces new penalties for violating these rules. Even municipalities that may host CIB projects are denied access to key information. This is anti-democratic. CUPE released a report in collaboration with the Columbia Institute that examines this issue (Reynolds 2017).
- Governance: By law, municipal, provincial and federal government representatives are barred from being board members, even though the CIB will play a key role in large public infrastructure projects within these jurisdictions. Furthermore, the guiding legislation does not impose any representational requirements on the board. This is neither good nor common practice among public banks.

- Meeting the needs of communities: The CIB's focus on privatization through public-private partnerships (P3s) hinders its ability to address the most vital infrastructure needs of Canadians by providing supportive financing. P3s are cumbersome, more expensive, and not appropriate schemes for the vital infrastructure that Canada needs.

Despite these serious shortcomings, CUPE does not believe that abolishing the CIB is the best response. Rather, the Government of Canada must change the CIB in four main ways that will reorient the bank to the public interest:

1. Change the CIB's core mandate.

   Currently the CIB operates primarily to attract private sector partners and private investment. This is the purpose of the CIB prescribed by the legislation. The CIB's primary purpose should change to focus on public financing of public infrastructure.

2. Make the CIB more transparent and its governance more representative.

   The CIB is doing work for Canadians, and its operations should be transparent and subject to the broadest disclosure regime. Likewise, its board of directors should be representative of Canada and of the communities for which it finances projects. Representation from and collaboration with Indigenous peoples should advance reconciliation.

3. Make sustainability a requirement for CIB funding.

   We are in the midst of a global climate crisis. It is an 'all hands on deck' moment. The CIB should seek out and fund infrastructure projects that will have a direct impact on Canada's transition away from fossil fuel extraction and consumption, and towards sustainability and climate change adaptation and mitigation. If a project does not advance sustainability, it should not be financed.

4. Accelerate the CIB's work by focusing on local financing including for municipalities and Indigenous communities.

   P3s are expensive, risky, and slow.[1] The CIB should provide direct financing to local governments and Indigenous communities. This approach will maximize the bank's ability to accelerate public infrastructure projects.

Around the world there are many examples of successful public purpose banks for the CIB to draw upon, rather than the outdated and exhausted P3 model. Many of these public banks may facilitate private investment, but they do so without giving away project control or undermining the public purpose of infrastructure and services. The purpose of these public banks is not simply to de-risk private investment and privilege private finance interests, but instead is to prioritise low-cost, long-term, and appropriate finance for public purposes. These examples would be more appropriate models for the CIB. This paper outlines a few examples below.

[1] CUPE has demonstrated this time and time again. For example: Loxley and Loxley 2021.

The backroom origins of the CIB

In their 2015 election platform, Justin Trudeau and the Liberal Party of Canada promised to establish a Canada Infrastructure Bank "to provide low-cost financing for new infrastructure projects." This commitment was reiterated in the ministerial mandate letters[2] Prime Minister Justin Trudeau provided as instructions to both the minister of finance and minister of infrastructure and communities. The prospect of a public bank that would provide cheap financing for public infrastructure was exciting to CUPE and many others who had fought against attempts by the government of then-Prime Minister Stephen Harper to force mass privatization of the public sphere through Public-Private Partnerships Canada[3] and other neoliberal schemes.

Unfortunately, it soon became clear the new Liberal government would use the CIB to continue a privatization agenda. Two months after taking office, Prime Minister Justin Trudeau met with Larry Fink, CEO of US-based BlackRock Inc., the world's largest investment firm, and other powerful bankers and investors at a breakfast organized by Dominic Barton, the global head of McKinsey Consulting (Wherry 2016).

Shortly after, Liberal Finance Minister Bill Morneau announced he had appointed Barton to serve as chair of his Advisory Council on Economic Growth (GoC news release 2016). The vast majority of other council members were CEOs or investment executives, with no one present from labour, local or municipal governments, or civil society groups.

In addition to Barton, key members of Morneau's council included Michael Sabia, CEO of the Caisse de dépôt et placement du Québec*,* Quebec's largest pension fund investor (Figure 1), and Mark Wiseman, who was CEO of the Canada Pension Plan (CPP) investment arm but left a few months later to join BlackRock as Global Head of Active Equities.

Morneau outsourced policy making about the proposed CIB from his department to this group of powerful private investors and consultants. The council quickly went to work to bend the election promise of a public bank to their own advantage. Their first set of recommendations included a proposal for an infrastructure bank that would rely heavily on higher cost private sector financing. The envisioned bank would leverage private financing, often in ways that promoted the privatization of public infrastructure, instead of directly providing appropriate low-cost financing as the Liberals had promised. The infrastructure bank model that Morneau ultimately proposed changed very little from this proposal.

In fact, as Access to Information researcher Ken Rubin and *Globe and Mail* reporter Bill Curry revealed, the briefing notes and presentation prepared for delivery by Trudeau and his ministers at a session for investors about the CIB were developed in conjunction with BlackRock officials (Curry 2017). In effect, the Liberal government turned over bank design and development to the very investors who would profit most from it: the largest private sector and pension investment funds in the world, such as BlackRock.

This led Alexandre Boulerice, the NDP finance critic at the time, to say, "If this isn't a major conflict of interest, I don't know what else you could call it" (Curry 2017).

It is clear the CIB was not created with a public purpose in mind, but to privilege the needs and interests of private investors.

[2] For example: [ARCHIVED - Minister of Infrastructure and Communities Mandate Letter (pm.gc.ca)]

[3] Also known as PPP Canada, this crown corporation was created by the Harper government and required large infrastructure projects to go through a "P3 screen" to assess their suitability for privatization. The Trudeau government wound down PPP Canada in 2015-2016.

The CIB money pit in a world of alternatives

The federal government seeded the CIB with $35 billion in callable funds,[4] with expectations that this investment would attract up to five dollars of private financing for every public dollar. Over the course of 2019-2020, and through a number of CIB leadership changes, the CIB's projections on this front were lowered to two private dollars for every one public dollar, a significant reduction in expectations for private sector investment. Even this less optimistic projection fails to state the reality: the CIB is not even maintaining a one-to-one ratio of public and private investment.

The federal government recently disclosed in a Parliamentary Order Paper, dated March 10, 2021 (Q-536), that three CIB projects only attracted one private dollar for every 1.9 public dollars. The Réseau express métropolitain (REM) is the only project securing more than one private dollar for each public dollar. If recent zero emission bus and municipal retrofitting projects are accounted for – all of which have attracted no private investment – the outlook for the CIB is well below government expectations. Add to this the multitude of complaints about the speed of disbursement, and it is clear the CIB is failing.

Another problem with the CIB is that its strategy of securing expensive private financing is competing with much cheaper funding and financing available from other federal programs. The massive Investing in Canada plan, as well as the grants and low-cost loans being offered by other programs (as well as the CIB itself in some cases), present a disincentive to enter into slow, cumbersome, and privatized P3s. Why would a municipality consider an expensive P3 when it can get the same money cheaper and faster through another federal program, or through the CIB itself? The CIB's own performance record and the federal government's other commitments to funding infrastructure compete with, and crowd out, costly private financing.

In addition to failing to achieve its goal of attracting private investment, the CIB's model is cumbersome and slow. In April 2021, the Parliamentary Budget Officer found that the CIB was weighed down by its mandate to engage in P3s, noting that "funding delays are common for public-private infrastructure investment projects" (PBO 2021). Indeed, funding delays are only one of numerous characteristics of P3s that make them wrong for critical infrastructure projects.[5]

P3s are also more expensive than traditional procurement, both up front and over the long term. In 2014, Ontario's auditor general found that the provincial government overpaid by $8 billion for 74 P3 projects run through Infrastructure Ontario (Auditor General of Ontario 2014). The auditors general of Canada, British Columbia, Quebec and Nova Scotia have separately found significant problems with P3s in their jurisdictions.

High interest payments are a defining feature of P3s. For example, in 2014, the Auditor General of British Columbia reviewed 16 P3 projects in seven different government organizations and two ministries. The interest rates on this $2.3 billion of P3 debt ranged considerably, from 4.42% to 14.79%, with a weighted average rate of 7.5%. Over the previous two years, the interest rate paid by the government on its debt was only about 4%, so direct government borrowing would have saved 46% of total interest payments on these projects (Auditor General of British Columbia 2014).

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[4] Callable funds are funds that can be 'recalled' before the due date, for example, 10 year bonds that can be recalled at any time. The issuer would pay the face value plus any interest owing at the time of recall.

[5] The Council of Europe Development Bank, for example, states it may support P3s, but specifies that "[P3] projects, especially in the case of direct lending, might require extensive use of consultancy and legal services at considerable additional costs for the Bank. Depending on project, the CEB might consider charging fees to cover these additional costs." (CEB 2020, Ch. 4.7)

In addition, the legal, technical, and administrative requirements of P3s are much greater than under conventional public sector procurement. P3s involve complex bidding, corporate and financial arrangements. They also require extensive legal documentation about the financing, design, construction, operation, and maintenance of infrastructure projects, as well as the long-term project handover. In 2020, Mapleton, Ontario, found itself with a $367,000 legal bill – a huge sum for a small municipality – merely for exploring the P3 option promoted by the CIB, and ended the year with a $120,000 deficit it would otherwise not have had (Raftis 2020). The size and impact of these costs has led Vining and Boardman to conclude that "the potential benefits of P3s are often outweighed by high contracting costs" (Vining and Boardman 2008).

A wide variety of alternative public infrastructure and investment bank models have played and continue to play important roles in economic development around the world. These public banks are often seeded with initial capital from governments and backed with formal government guarantees. This backing allows public banks to borrow at lower rates on financial markets and to pass along these preferential rates to clients. We discuss four promising examples below.

Public banks can offer low-cost financing because they are distinct from private banks. This is because public banks are owned by a public authority or entity, run according to a binding public purpose mandate or law, or governed through official government representation on its board of directors, or some combination of these factors (Marois 2022).

However, just because a bank is public does not mean it will have an explicit public purpose. As we see with the CIB, public banks can be mandated to support private financial interests, such as de-risking investments to ensure high returns for investors. There is also nothing ultimately good or bad about public banks. Public banks can be corrupted, abused, and poorly run – just like private banks. Yet given sufficient societal will and oversight, public banks can effectively and efficiently support more democratic, definancialized,[6] and decarbonized societies (Bourgin and Sol 2021; Marois 2021; McBride 2022). This is far more than a theoretical exercise. There are more than 900 public banks in existence worldwide that together hold USD$49 trillion in assets (Marois 2021, 43). That figure is 10% larger than the combined 2021 GDP of the United States, Germany and China.

Canada's legacy of public banks and financial institutions

Canada has a long history of powerful public banks and financial institutions playing important and diverse roles in society. The federal government's Business Development Bank of Canada (BDC) provides loans and other financial services primarily to small and medium sized businesses. Export Development Canada (EDC) assists exporters with trade financing, credit insurance and other services. The Canada Mortgage and Housing Corporation (CMHC) provides low-cost loans, loan insurance and other services to increase the supply of affordable housing and the stability of the housing market and financial system. Provinces may also have financing authorities, such as the Municipal Finance Authority of British Columbia, that provide municipalities with loans at lower cost than if they borrowed individually from financial markets.

There are nine public financial institutions of interest in Canada that command over CAD$973 billion in combined assets in areas as diverse as farming, business development, housing, exports, and retail services (Figure 1). However, this legacy is neither well-known nor fully appreciated. Canadians need to better understand their public financial institutions.

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[6] Financialization is when assets derive their value from the role they can play as financial assets, rather than their use value. For example, when the value of housing is driven too high for people who need it to live, because of its high value to investors.

Canada's first public bank, the Alberta Treasury Branch, is over eight decades old and was created to support struggling farmers in the province (see Anielski and Ascah 2018). In 1944, the federal government created early versions of today's Business Development Bank and Export Development Canada to support post-war economic reconstruction and development. Similarly, the Canada Mortgage and Housing Corporation was established in 1946 with a public purpose to support the housing needs of returned war veterans and a growing population. Farm Credit Canada emerged just over a decade later in 1959 to exclusively service the credit needs of farmers and agricultural expansion. In more recent years, the InBC Investment Corporation was created with $500 million from the provincial government with the intent to catalyze investments in climate action, advance reconciliation, support inclusive communities, and drive innovation in BC (see Mazzucato 2022).

Figure 1: Major public banks and financial institutions in Canada, 2021

Name	**Established**	**Total assets (millions CAD)**	**Net income (millions CAD)**	**Employees**
Alberta Treasury Branch (ATB)	1938	$57,052	$586	5024
Business Development Bank of Canada (BDC)*	1944	$37,148	$1650	c. 2300
Export Development Canada (EDC)	1944	$60,615	$2287	c. 1550
Canada Mortgage and Housing Corporation	1946	$300,357	$1924	c. 2150
Farm Credit Canada	1959	$43,860	$813	c. 2200
Caisse de dépôt et placement du Québec	1965	$472,366	$26,859	1454
Canada Infrastructure Bank	2017	$1260	$169	c. 46
FinDev Canada	2017	(up to $300)	n/a	n/a
InBC Investment Corporation**	2021	(up to $500)	n/a	n/a
		c.$973,158		

Sources: Orbis Bank Focus database (https://bankfocus.bvdinfo.com/; accessed 24 July 2022); bank websites.
*First founded as the Industrial Development Bank (IDB).
**InBC can invest up to $500 million in the coming years.

The CIB can be remade to effectively fund public infrastructure, guided by a green and just public purpose. This requires change in four core areas of the bank: its mandate; its governance structure; its sustainability policy; and its approach to local infrastructure funding. Relevant European public development banks illustrate the viability of more promising, public purpose practices for the CIB. Civil society, trade unions, municipal leaders, policymakers, and academics can learn from these European examples of public banks with a public purpose to remake the CIB according to a true public purpose.

Recommendation 1: Change the CIB's core mandate

The legislation creating the CIB mandates that its primary purpose is to attract private and institutional investors. This must change. The purpose of public banks is not neutral or natural. What public banks do and why they do it is subject to contending views and conflicting demands. Public banks can focus on serving private or public interests. The direction taken is driven by political and economic forces that influence public policy decision making.

Conventional business-as-usual views of public banks suggest that if they are to exist, they should only 'fix markets' and 'de-risk' private investments to protect expected financial returns (IMF/World Bank 2015). In other words, some argue public banks should focus on using public money to leverage new private investments. Others argue that public banks should focus on delivering 'additionality,' which means focusing on doing only what private banks will not or cannot do (Skidelsky et al. 2011). In recent years, World Bank and conventional economists have pushed pro-market additionality as a way of using public finance to crowd-in private finance to (ideally) spur green infrastructure investment by socializing the risks (Bhattacharya et al. 2016; Badré 2018cf. Marois 2021; Dafermos et al. 2021).

Based on the advice of global private investment firm BlackRock, the Liberal government gave the CIB a private interest-oriented, pro-market additionality view, embedding it directly into the bank's legislative mandate. But public banks can instead embed public purpose in their core mandate and institutional functions as a matter of public policy. The Dutch Municipalities Bank (BNG or Bank Nederlandse Gemeenten) provides a promising example of a public-purpose public bank which runs counter to conventional business-as-usual views.

A pro-public purpose BNG approach

Public banks can and do function according to an explicit pro-public purpose (Schmit et al. 2011; McDonald et al. 2020; Marois 2021; Barrowclough and Marois 2022). To function according to a public purpose is to privilege the collective needs of the community and society rather than private individual or corporate interests. It is to work in the public interest as defined by the affected community. Public banks can focus exclusively on meeting a public purpose because their public nature can help shield them – to lesser and greater degrees – from global financial market competitive forces. Public ownership and government guarantees help protect against default and bolster credit ratings. Public policy can determine operational priorities rather than short-term shareholder profit horizons. When governing authorities require that a public bank work towards certain policy goals, public sphere shielding enables the bank to pursue those goals according to public purpose rather than profit maximization. But public banks must be designed to function in this way.

The Dutch BNG is a public bank that functions according to an explicit public purpose. First incorporated in 1914 as the 'Municipal Credit Bureau' (Gemeentelijke Credietbank) by the Association of Dutch Municipalities, the BNG is more than a century old. The BNG is a fully publicly owned bank: 50% is held by the Dutch state and the other 50% by Dutch municipal authorities, provincial authorities and a water board.[7] The purpose of the BNG is clearly public: to finance Dutch municipalities and, in doing so, help these public authorities to address social and infrastructural challenges.

[7] BNG Bank, 'Ownership and Structure', https://www.bngbank.com/About-BNG-Bank/Ownership-and-Structure.

Figure 2: The BNG at a glance

	2021	2020	2019	2018	2017
Total assets (Euros billions)	149.1	160.4	149.7	137.5	140.0
Return on avg assets (ROAA) (%)	0.15	0.14	0.11	0.24	0.27
Return on avg equity (ROAE) (%)	5.43	5.19	3.88	7.95	9.86
Net income (Euros millions)	236	221	163	337	393
Number of employees	353	321	309	302	303
Long term ratings	Moody's Investors Service Aaa	S&P Foreign currency AAA	Fitch AAA		
Year of incorporation	1914				

Source: Orbis Bank Focus 2022.

This public purpose is central to the BNG. According to the bank, the "BNG Bank is of and for the Dutch public sector. Instead of maximizing profits, our priority is to maximise the social impact of our activities."[8] This is only possible because the BNG is shielded by the Dutch public sphere.

By conventional financial measures of success, such as generating high returns for shareholders, the BNG would be seen as a failure. Over the last five years, returns on average assets (ROAA) averaged just 0.18 % (Figure 2). This is a small fraction of what Citibank or Bank of America shareholders would expect. For the BNG, however, maximizing returns is not its public purpose. Instead, social impacts and municipal services are its primary concern, and so the BNG focuses on providing appropriate financing to the Dutch public sector. Moreover, it does not lend to the private sector. This allows the BNG to focus its accumulated knowledge, experience, culture and financial resources on working in pro-public ways.

The BNG is a dynamic institution that evolves and responds to public priorities (Swartz and Marois 2022). For example, the BNG has committed to advancing the UN 2030 Sustainable Development Goals (SDGs) by supporting SDGs 3, 4, 7, and 11 (BNG 2021).

SDG 3: Good health and well-being

SDG 4: Quality education

SDG 7: Affordable and clean energy

SDG 11: Sustainable cities and communities

Source: BNG Bank, 'Sustainability', https://www.bngbank.com/Sustainability

[8] BNG Bank, 'About BNG Bank', https://www.bngbank.com/About-BNG-Bank.

The BNG funds its public purpose tasks by issuing bonds in international financial markets, not by de-risking private investments. The BNG mainly funds government-backed public entities, which means there is zero risk of credit default and allows the BNG to maintain a triple-A credit rating (Figure 2). As a result, the BNG can access global finance at the cheapest possible interest rates and pass on these low rates to its public sector clients. The funds raised are primarily directed towards Dutch public housing associations and municipalities, which account for 49% and 36% respectively of BNG long-term assets (BNG 2021). Health care makes up eight per cent of long-term assets, with other public entities (like in the education sector, public utilities, and waste management) accounting for the remaining seven per cent.

The BNG shows that a public bank can be active in financial markets and function in the public interest by providing appropriate support for municipalities, social housing and public services.

Recommendation 2: Make the CIB more transparent and its governance more representative

Conventional economic approaches want public bank governance to mirror that of private banks by being exposed to the same market discipline forces and corporate structures (Scott 2007). Related calls for transparency and accountability are a welcome push to ensure public banks report openly and regularly on their activities. However, demands for the same exposure to competitive behavior are misplaced. This is because these views are based on an ideological, rather than historical, understanding of public banks.

Conventional economists are biased against public banks. For example, economics professor Andrei Shleifer states that private ownership constitutes the only source of market-based incentives to innovate and be efficient, which “politicization” (that is, public ownership) jeopardizes (Shleifer 1998, 136-7; 148). To believe anything else, these economists argue, is to be both idealistic and naïve about public banks (Barth et al. 2006, 34-5). Political firms like public banks are therefore “predestined for political uses” (Marcelin and Mathur 2015, 529). In the words of the World Bank (itself a public bank), “bureaucrats make bad bankers” (2001, 123). Public banks are presented as inherently inferior to private banks. In the view of conventional economists, there is ultimately only one solution to this perceived inferiority which is privatization (ignoring that private banks too fail, sometimes spectacularly, as with the 2008-09 global financial crisis).

The most reliable fact, however, is that both public and private banks can be abused and poorly governed by powerful actors. What is most important is to subject both public and private banks to open, accountable, transparent, and democratic oversight within the societies in which they operate. In Canada, that means the core governance features of the CIB should be transparency, increased representation (from local government, labour, civil society, infrastructure users), and Indigenous partnership in the spirit of reconciliation.

A representative democratic KfW approach

Public banks can democratize their governance system by building in legally defined social representation as well as transparent accountability mechanisms. The German public development bank, the KfW (Kreditanstalt für Wiederaufbau or Credit Institute for Reconstruction) offers a promising example of a well-governed democratic public bank, whose representative democratic governance structure is formally established in law.

Figure 3: KfW at a glance

	2021	2020	2019	2018	2017
Total assets (Euros billions)	551.0	546.4	506.0	485.8	472.2
Return on avg assets (ROAA) (%)	0.40	0.10	0.28	0.34	0.29
Return on avg equity (ROAE) (%)	6.71	1.66	4.43	5.54	5.12
Net income (Euros millions)	2,215	524	1,366	1,637	1,428
Number of employees	7734	7382	6705	6376	6113
Long term ratings	Moody's Investors Service Aaa	S&P Foreign currency AAA	Fitch AAA		
Year of incorporation	1948				

Source: Orbis Bank Focus 2022

Backed by US Marshall Fund aid money, the KfW was established in 1948 to take a lead role in post-Second World War reconstruction in Germany.[9] The KfW's first tasks were to deal with the refugee crisis, the mass destruction of housing (Image 1), and the renewal of energy generation by providing low-cost and appropriate financing. Over the decades, the KfW evolved to finance export promotion, small- and medium-sized enterprises, (SMEs), agriculture, international development, corporations, and industry. In the mid-1980s the KfW launched its first environmental protection finance scheme. Following German reunification in 1991, the KfW extended support to former East German SMEs and municipalities, as well as for five million housing refurbishments (half of all East German houses). The KfW continues to support government policy by financing energy efficiency transitions (known as the Energiewende) and economic supports, particularly in response to the 2008-09 global financial crisis and the ongoing global COVID-19 pandemic.

The KfW has emerged as perhaps the most widely known and respected (if imperfect) public development bank in the world (Griffith-Jones 2016; Ervine 2018; Marois 2017; Moslener et al. 2018). Its representative democratic form of governance contributes to this positive reputation. The Board of Supervisory Directors (or Supervisory Board) is the KfW's highest governing body. In contrast to the CIB, the composition of the KfW Supervisory Board is specified in law – the *Law Concerning Kreditanstalt für Wiederaufbau* (most recently updated in June 2020) (KfW 2020 [1948]). The KfW law stipulates that the Supervisory Board consists of 37 members, each representing designated positions in society and government. Figure 4 shows the constituencies that the 37 members must represent. For example, the Supervisory Board is chaired/deputy chaired in annual alternation by two federal government ministers, the minister of finance and the minister for economic affairs and climate protection. By law, the Supervisory Board must deliberate on and supervise KfW operations. To hold itself more accountable, the KfW Group implemented the 2009 federal "Public Corporate Governance Code," which details supervisory, transparency, and reporting requirements. Supervisory Board decisions are, by and large, taken by simple majority, with each member having a vote. In ties, the chair casts the deciding vote.

[9] See 'History of KfW,' available online at: https://www.kfw.de/About-KfW/.

Figure 4: Designated members of the KfW Board of Supervisory Directors

The federal ministers of finance and of economics and energy act as chair and deputy chair, alternating yearly

The federal ministers of foreign affairs; food and agriculture; transport and digital infrastructure; economic cooperation and development; and of environment, nature conservation and nuclear safety

Seven members appointed by the Federal Council (Bundesrat)

Seven members appointed by the Federal Parliament (Bundestag)

One representative each of mortgage banks, savings banks, cooperative banks, commercial banks, and a credit institution offering industrial credit*

Two representatives of industry and one representative each of municipalities (associations of municipalities), agriculture, the crafts, trade, and the housing industry*

Four representatives of trade unions*

Source: KfW 2020[1948].
*Representatives are appointed by the federal government, or Bundesregierung, after having heard from the specified groups.

The diverse composition of the Supervisory Board's 37 members helps connect the KfW to German society and community. As a development bank, the KfW tends not to lend directly to individuals, households, or SME businesses. Instead, the KfW mostly 'on-lends' (borrows money to lend to another entity) through other retail banks in Germany that have established branch networks. Applicants for KfW promotional loans typically apply through their local public Sparkasse savings bank, cooperative Volksbank and Raiffeisenbank, or private retail bank that then forwards the applications to the KfW (*cf*. Cassel 2021; Mertens 2021). The KfW can lend directly, but it does so only to larger entities like other banks, official agencies, municipalities, states, national governments, and large corporations. This is why other German banks have five representatives on the KfW Supervisory Board. Given the KfW's long-standing support for municipalities, agriculture, crafts, trade, and housing, these sectors also have representation on the board. Industry, typically meaning larger corporations, garners two representatives while trade unions have four.

The diverse membership, accountability processes, and forum for deliberation that the Supervisory Board provides are important examples of how public banks can be meaningfully democratized. This form of representative democracy is not without challenges. As in all complex and powerful institutions, there can be tensions between the bank's owners (the German government) and both those charged with governing it (the board) based on their societal position as well as those charged with managing it on a daily basis (the executives) based on their in-depth expert knowledge. The KfW is not immune to such dynamics, yet it persists as a credible institution within German society, offering a viable example of representative democratic public banking (Marois 2021).

The KfW representative model stands in stark contrast to the weak governance of the CIB and can serve as an appropriate model for reform.

Recommendation 3: Make sustainability a requirement for CIB funding

While the CIB has focused on green projects more recently, including several zero-emission bus projects, climate change mitigation and adaptation are not its primary focus.[10] This should change. Public banks can be bound to financing environmental sustainability in ways that are accountable and that show leadership across the financial sector.

Conventional views on how finance can advance environmental sustainability continue to privilege market-based competition and voluntary standards (BSI 2020). In this view neoliberalism holds sway, based on the ideology that greater exposure to the market and private ownership is the best way to resolve all economic, social, political, and ecological problems (see Marois and Pradella 2015). Promoters of this view argue voluntary ESG (environmental, social and governance) reporting is the financial sector's most viable response to the 2030 UN Sustainable Development Goals. In the words of Moody's, a credit ratings and financial services corporation that sells ESG expertise, "No two sustainability journeys are the same. Whatever your route and objectives, our market-driven solutions are here to help."[11]

Private financial institutions thus remain responsive, first and foremost, to financial returns. As the head of responsible investment at HSBC Asset Management stated, "investors should not worry about climate risk" and "who cares if Miami is six meters underwater in 100 years?" (Vetter 2022). Clearly, robust public interest alternatives are required.

A meaningfully sustainable Nordic Investment Bank approach

Public banks can be designed to be sustainable. The Nordic Investment Bank (NIB) offers a promising example of a public bank that is bound to financing environmental sustainability in ways that are accountable and that show leadership in the financial sector.

The NIB is a multilateral public bank that benefits from the creditworthiness of its member countries. The NIB was incorporated in 1975 by international treaty with Denmark, Finland, Iceland, Norway, and Sweden. Estonia, Latvia, and Lithuania joined in 2005. The member

[10] As noted above, the mandate to pursue "revenue-generating" projects rules out a primary focus on sustainability.
[11] 'Moody's ESG Solutions: Empowering your sustainability journeys,' direct marketing email received 22 June 2022. See also Moody's ESG website: https://esg.moodys.io/.

countries are the NIB's owners and they populate the bank's highest decision-making body, the board of governors.

Figure 5: The Nordic Investment Bank at a glance

	2021	2020	2019	2018	2017
Total assets (Euros billions)	37.6	35.4	32.7	31.7	30.0
Return on avg assets (ROAA) (%)	0.44	0.48	0.57	0.56	0.70
Return on avg equity (ROAE) (%)	4.05	4.34	4.98	4.92	6.27
Net income (Euros millions)	159	165	182	173	211
Number of employees	221	222	229	197	193
Long term ratings	Moody's Investors Service Aaa	S&P Foreign currency AAA			
Year of incorporation	1975				

Source: Orbis Bank Focus 2022.

Sustainability is a core mandate of the NIB, if not its only mandate. The NIB funds projects with a clear purpose. The 'purpose' is judged according to the bank's mandate: productivity and/or environmental gains. In turn, NIB mandate checks are useful to distinguish what the NIB does from private commercial banks (confidential interview, NIB senior environmental officer, February 2020, in Marois 2021, 131). These measures ensure sustainability forms part of the institutional DNA of the NIB and how it operates.

The NIB subjects all prospective projects to an internal environmental impact assessment to determine whether the project meets its environmental and social standards. The assessment also considers the borrower's ability to manage the potential environmental (and social) risks of a project. Projects that will deliver significant environmental benefits, can benefit from even lower-cost financing than usual through Environmental Bond funding. In terms of updating infrastructure, the NIB finances projects meant to confront climate change, particularly in electricity grids, sewage networks, and storm water control alongside projects that improve resource efficiency and reduce the use of energy, water, and raw materials.

Sustainability was not always part of how the NIB functioned. Yet the NIB was one of the first banks, public or private, to provide sustainability-targeted financing and to adopt binding sustainability policies setting out a clear 'green' floor for lending decisions (Marois 2021, 127). The NIB's turn to sustainability reflected societal and political priorities within the Nordic region. According to Finland's Minister of Finance Petteri Orpo, "Nordic countries have collectively recognized that climate action should be our primary goal."[12] Member states have demanded that the NIB respond to the climate crisis, and NIB staff have done so, for example, by releasing an updated Sustainability Policy in 2021.

[12] 'Finance Ministry Coalition for Climate Action to Meet in Helsinki', NIB News, 20 February 2019. Available at https://www.nib.int/cases/finance-ministry-coalition-for-climate-action-to-meet-in-helsinki. Accessed 18 June 2022.

The 2021 Sustainability Policy establishes solid for NIB financing decisions and practices. Notably, the 2021 policy made a significant step forward in terms of prohibiting the funding of fossil fuel energy or related projects. According to the NIB Head of Sustainability and Mandate, Luca De Lorenzo,[13] "NIB's updated Sustainability Policy reflects that we are running out of time, and that we really need to step up efforts to decarbonize the energy sector. So, we are taking a very clear stance, we will not finance any fossil fuel-based energy generation."

The NIB's approach to sustainability is a good example of how public banks can catalyze environmentally sustainable investments as a matter of policy and as a reflection of popular and political will. It is not perfect, however. The NIB mandate continues to place productivity and sustainability on relatively equal footings. The 2021 Sustainability Policy ruled out fossil fuels, but it did not establish a clear hierarchy wherein sustainability gains must precede productivity gains. There is a strong case for the NIB to establish a binding policy hierarchy wherein productivity follows environmental gains (Marois 2021a, 142-143). This would put the NIB in line with other Nordic public financial institutions' sustainability policies that specify that positive environmental gains must be demonstrated in advance of project consideration (such as the Finnish Climate Fund or the Invest-NL Fund, see Marois 2021b; Invest-NL 2021, 33).

As a matter of urgent public purpose, the CIB should follow best environmental practices and require that all projects demonstrate positive sustainability gains prior to receiving financing.

Recommendation 4: Accelerate the CIB's work

Public banks can function as effective and efficient direct funders of municipal and community infrastructure based on public-public collaborations. Indeed, where CIB funding has shown the most promise and has demonstrated the greatest capacity to catalyze green infrastructure projects is through public-public collaborations, not P3s (Marois et al. 2022). For example, the CIB has recently shifted to including direct financing options for municipal and community funding for zero-emission buses (CIB 2022). The CIB should adopt direct public financing as its core operational model.

Instead, we see more of the conventional business-as-usual approach in and around the CIB. Advocates assert that more private participation and investment is not only desirable but necessary to meet the public infrastructure needs of municipalities and communities. This is the public-private interest approach that was built into the CIB mandate, as advised by the private investment firm, BlackRock.

The utility of providing appropriate public financing for public entities is undermined and underplayed. MuniFin provides an alternative pro-public narrative that bears out in practice.

An effective public municipal and local infrastructure MuniFin approach

The Finnish Municipality Finance ('MuniFin') credit institution, incorporated in 1989, offers a promising pro-public example of a public bank tasked with providing appropriate financing for cities and communities. MuniFin is neither the first nor last to do so, as public banks supporting municipalities are nothing new or novel. In fact, the earliest public banks were municipal banks designed to provide city financing – for example, the Taula de Canvi in

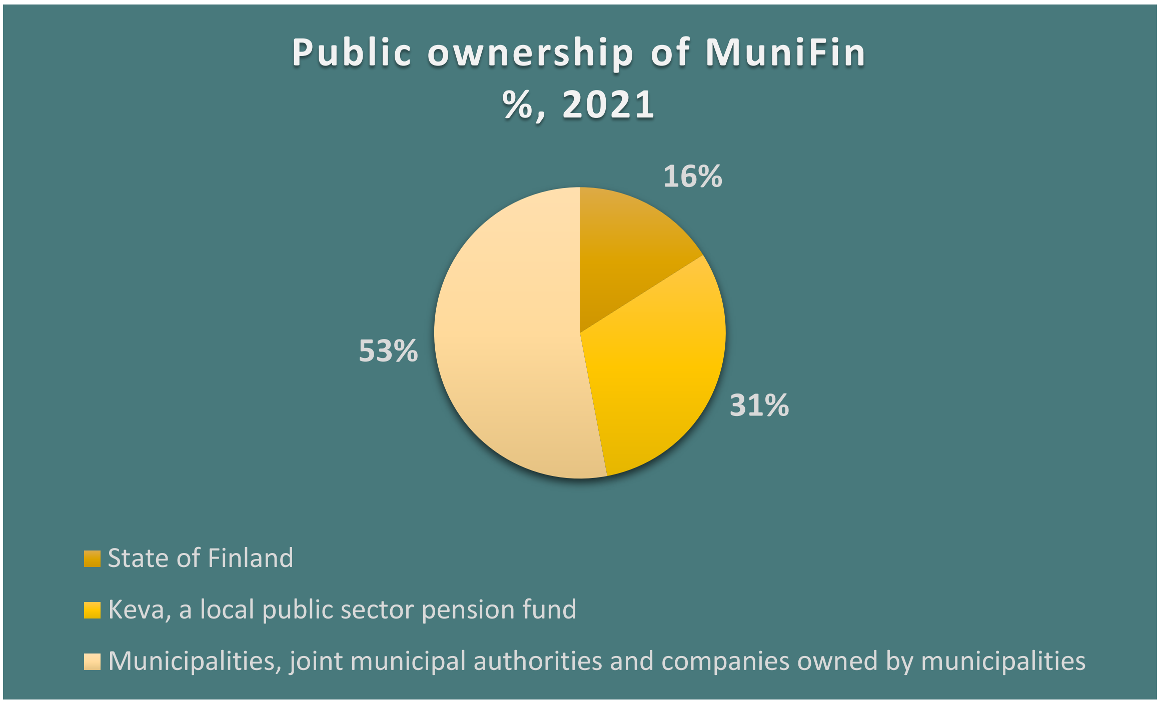
[13] 'Sustainability Policy Updated', NIB, https://www.nib.int/who-we-are/our-impact/disclosure/public-consultation-sustainability-policy. Accessed 09 June 2022.

Barcelona, which began operating in 1401 (Milian 2021). In the early 1800s municipal public savings banks (Sparkassen) began to emerge in modern day Germany (Cassell 2021). Today there are 385 local Sparkassen in Germany holding more than USD$2 trillion in combined assets. In 1878, the Banco Ciudad (City Bank) of Buenos Aires was created to combat usury. As discussed earlier, the Dutch BNG was founded in 1914 with an explicit municipal mission. Recently, the US public banking movement has focused on creating new municipal public banks to support democratic and community-led development (Brennan 2021), with advanced planning now underway in San Francisco and Los Angeles.

Not all municipal or local banks have the same purpose. Some focus more on retail financial services and others on supporting city finances and infrastructure. MuniFin is an example of the latter (see Juuti et al. 2022). MuniFin was created with the purpose of supporting the development of the "Finnish welfare state" through its support for cities and communities.[14] One of MuniFin's key responsibilities is ensuring its public sector clients "can acquire funding regardless of the market situation" (MuniFin 2021a, 5). Unlike private banks, MuniFin does not put away its financial umbrella when it rains.

MuniFin has over €46 billion in assets (Figure 7). It is 100% publicly owned by public entities and authorities, including the state of Finland, eight Finnish municipalities, and the public sector pension fund, Keva (Figure 6). According to MuniFin, its public shareholders are the reason it does not seek to maximize profits but rather to be the "best financing expert in the field" (MuniFin 2020, 5). MuniFin's core customers are also its owners, the Finnish municipalities, which benefit from MuniFin financing of domestic public transportation, hospitals, health care centers, schools, child care centers, not-for-profit housing, and homes for those with special needs.

Figure 6: MuniFin's public owners, percentage



Source: MuniFin 2022, 6

As with many public development banks, the main source of recurrent funding for MuniFin financial operations comes from issuing bonds in international financial markets. The funds

[14] "Sustainability," MuniFin, https://www.munifin.fi/sustainability/#file_widget-27. Accessed 08 June 2022.

raised are directed exclusively "to the Finnish public sector and government-subsidized housing sector."[15]

All financing provided by MuniFin to the public sector and social housing is explicitly guaranteed by the Finnish Municipal Guarantee Board. Established in 1996, the board's public purpose is to safeguard and support joint funding for Finnish municipalities. If a public borrower (for example, a city) fails to repay MuniFin and default, the Municipal Guarantee Board injects capital into MuniFin to protect the institution against insolvency and possible collapse.[16] The Municipal Guarantee Board performs this function by holding its own reserves and by establishing stand-by credit facilities. Furthermore, the Municipal Guarantee Board is backed by 295 municipalities in Finland as its ultimate guarantors.

The collaboration between MuniFin's operations and the Municipal Guarantee Board also highlights the potential of public-public financial collaborations. In addition to backing MuniFin, a public financial institution lending to the public sector, the Municipal Guarantee Board has also collaborated with the Nordic Investment Bank. For example, in 2019 the NIB provided the Municipal Guarantee Board with a €200 million loan in support of a stand-by credit facility that enables continued lending to the municipal public sector through MuniFin.[17]

Figure 7: MuniFin at a glance

	2021	**2020**	**2019**	**2018**	**2017**
Total assets (Euros billions)	46.4	44.0	38.9	35.7	34.7
Return on avg assets (ROAA) (%)	0.42	0.37	0.28	0.43	0.46
Return on Avg Equity (ROAE) (%)	13.34	11.93	8.80	14.26	17.35
Net income (Euros millions)	192	155	105	152	159
Number of employees	164	165	167	151	134
Long term ratings	Moody's Investors Service Aa1	S&P Foreign currency AA+			
Year of incorporation	1989				

Source: Orbis Bank Focus 2022.

[15] 'For Investors', MuniFin. https://www.munifin.fi/investor-relations/#file_widget-21.
[16] See 'Finland. Municipal Guarantee Board', NIB, https://www.nib.int/loan/municipal-guarantee-board-22810. Accessed 09 June 2022.
[17] See 'Finland. Municipal Guarantee Board', NIB, https://www.nib.int/loan/municipal-guarantee-board-22810. Accessed 09 June 2022.

Conclusion

Canadians have been told time and again we need private investors to deliver public infrastructure and to do so sustainably. When private investment failed to do so at the scale, speed, or level of sustainability needed by Canadian communities, the Liberal government promised to deliver a new public bank in the public interest. However, the architects of the Canada Infrastructure Bank had other plans and created a pro-market public bank. Measured against its own stated goal of leveraging private finance, the CIB has failed. The CIB has succeeded, however, in laying a potential pathway for appropriate direct public financing for the public sector. This may indeed be a case of 'failing forward' in a way that provides Canadians with an opportunity to reclaim the CIB for public purposes.

There are plenty of promising public banking practices to draw from. The Dutch BNG shows that authorities need not fear embedding an explicit public purpose in public banks. The German KfW shows that public banks can be governed democratically. The Nordic Investment Bank shows that sustainability policies can meaningfully shape what public banks finance and how they do it. The Finnish MuniFin shows that public banks can effectively fund municipal public services and infrastructure without private investor participation. These are all well-respected and financially sound public banks that have provided stable public financing for decades. Why wouldn't the CIB adopt similar promising practices as part of its five-year review? This would enable it to build forward better based on the best evidence.The Canadian government must learn from the experiences of European public banks and reclaim the CIB as a bank to serve the public interest by meeting pressing community needs while tackling the climate crisis.

About the author

Thomas Marois is a Reader in Development Studies, SOAS University of London, who specializes in political economy. He is a world-leading researcher on public banks and the financing of green & just transitions in ways that bridge north/south divides. He is the author of the 2021 book *Public Banks: Decarbonisation, Definancialisation, and Democratisation* and co-editor of the 2020 book, *Public Banks and Covid-19: Combatting the Pandemic With Public Finance*. He has written articles for numerous academic journals and is a research associate with the Municipal Services Project, a global network of researchers investigating public alternatives to privatization and commercialization. He works closely with research institutes like the Transnational Institute and the Democracy Collaborative, as well as with the United Nations Conference on Trade and Development and with numerous public financial institutions around the globe. He sits on the Advisory Board of the Public Banking Institute and has worked in the NGO, private, and public sectors in Canada and Latin America. He is of Canadian Métis ancestry.

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Appendix: CIB projects (current September 2022)

Project	***Partner(s)***	***CIB Commitment***
Alberta Irrigation	Government of Alberta	$407.5 million
Arrow Technology Group Broadband	CRTC, ISED, Arrow Technology Group	$10 million
Atlin Hydroelectric Expansion	Taku River Tlingit First Nation	Up to $80 million
Calgary-Banff Rail	Government of Alberta	Memorandum of Understanding
Contrecoeur Port Terminal	Montreal Port Authority	Up to $300 million
GO Expansion – Ontario corridor	Infrastructure Ontario, Metrolinx	Up to $2 billion
Highway 697 Toll Bridge	Government of Alberta	Memorandum of Understanding
Kivalliq Hydro-Fibre Link	Kivalliq Inuit Association, Sakku Investments Corp., Anbaric Development Partners, Ontario Teachers' Pension Plan	Memorandum of Understanding
Lulu Island District Energy	City of Richmond, Lulu Island Energy Company	Memorandum of Understanding
New Westminster Rail Bridge	Government of Canada	Project acceleration study
Oneida Energy Storage	Oneida Energy Storage LP	Memorandum of Understanding
Pirate Harbour Wind Farm	Port Hawkesbury Paper	Memorandum of Understanding
Réseau express métropolitain (REM)	CDPQ Infra, Province of Quebec	$1.28 billion
Taltson Hydroelectricity Expansion	Government of Northwest Territories	Advisory services
VIA Rail	VIA Rail Canada, Transport Canada	$55 million
Montreal-Trudeau Intl Airport REM Station	Government of Canada, Government of Quebec, Aéroports de Montréal	Up to $300 million
MD of Acadia and Special Areas Irrigation	Government of Alberta, Municipal District of Acadia and Special Areas Board	Memorandum of Understanding for project acceleration
Southern Manitoba Fibre	Valley Fiber Limited, DIF Capital Partners	$130 million
Edmonton Zero Emission Buses	City of Edmonton	Up to $14.4 million (20 buses)
Edmonton Retrofits	City of Edmonton	Memorandum of Understanding for project acceleration, will serve as advisor
OC Transpo Zero Emission Buses	City of Ottawa, OC Transpo	$380 million (~450 buses)
Brampton Zero Emission Buses	City of Brampton	$400 million
BC Zero Emission School Buses	Ministry of Education and the Ministry of Energy, Mines and Low Carbon Innovation, Association of School Transportation Services of British Columbia	$30 million

Autobus Séguin Zero Emission School Buses	Province of QC, Autobus Séguin	$15 million
Algoma Steel Retrofit	Government of Canada, Algoma Steel	$220 million
Dream Retrofits	Dream Group of Companies, various public partners in ON and SK	Up to $136.6 million
Enwave District Energy	City of Toronto, City of Mississauga, Enwave Energy Company	$600 million
Georgina Island Fixed Link	Chippewas of Georgina Island First Nation	Memorandum of Understanding
Johnson Controls Retrofits	Johnson Controls Inc., various public partners	Up to $100 million
Kahkewistahaw Landing Infrastructure	Kahkewistahaw First Nation, Government of Canada	$15.4 million
Newfoundland and Labrador Fixed Link	Government of Newfoundland and Labrador, NL Department of Transportation and Infrastructure	Memorandum of Understanding
Quebec Zero Emission School Buses	Government of QC, Bus Carriers Federation	Up to $400 million
Durham Region Zero Emission Buses	Durham Region, Durham Region Transit	Up to $68 million
Ontario Rural Broadband	Government of Ontario, ISED (universal broadband fund)	$1.3 billion
SOFIAC Retrofits	Government of QC, Société de financement et d'accompagnement en performance énergétique (SOFIAC), Fondaction, Econoler & Fiera Private Debt	Up to $100 million
Toronto Western Hospital Retrofit	University Health Network, Government of Canada, Vancity Community Investment Bank, Noventa Energy Partners & Enbridge Gas	$19.3 million
Tshiuetin Railway	Transport Canada, Société du Plan Nord, Tshiuetin Rail Transportation Inc., Tshiuetin LP	$50 million
Avenue Living Retrofits	Avenue Living	Up to $120 million
Efficiency Capital Commercial Building Retrofits	Efficiency Capital	Up to $50 million
University of Toronto Retrofits	University of Toronto	Up to $56 million

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