

Excerpts from a speech by David Dodge  
Governor of the Bank of Canada  
at the 13<sup>th</sup> Annual Conference on Public-Private Partnerships  
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“ . . . there are still relatively few existing PPPs in Canada. Other countries, such as the United Kingdom and Australia, offer many examples of successful PPP infrastructure. Unlike most jurisdictions in Canada, **these other countries already have a well-developed legal and regulatory framework for PPP investments.**”

“ . . . when infrastructure projects are solely publicly funded, the usual incentives to build and operate efficiently—the incentives to avoid bankruptcy and to make a profit—are not the driving motive behind the investment. **The most efficient and timely allocation of resources for infrastructure occurs when the incentives are right. And that framework of incentives usually includes some expectation of profit.** This applies equally to decisions on what to build and to decisions regarding how to operate the infrastructure once it is in place.”

**“A lack of pricing that appropriately reflects demand and supply conditions may be one reason why there have been relatively few PPP infrastructure projects in Canada.** It is particularly important to improve pricing mechanisms for services that are provided through public infrastructure. Governments have often been unwilling to price-to-market infrastructure-based services. As a result, shortages are managed through non-price rationing, such as rolling electricity blackouts, highway congestion, or waiting lists for government documents or services. And occasionally, we get the opposite problem—an over-build of infrastructure that cannot be justified by demand. New technologies, such as transponders on vehicles to monitor road use, and meters that allow peak-hour pricing of electricity, provide new opportunities to gauge demand for these services, and to price them accordingly.”

**“Private financing of infrastructure through the markets tends to lead to better assessment of the risks of the investment, because financial markets are better able to measure and price risk.** This is not to say that we should expect the private sector to shoulder all the inherent risks of major infrastructure investments without any public sharing of those risks. But financing through markets provides a mechanism by which we can better assess the economic merits of an investment.”

“Pension and endowment funds are now allocating an increasing share of their portfolio assets to infrastructure investments, in an attempt to increase returns and better manage risk through portfolio diversification. These funds are increasingly looking for longer-term assets that provide a better match to their liabilities. **So far, much of this investment has gone to**

**projects in other countries. This is partly because the domestic markets for PPP in these other countries are more developed than ours.”**

“In Canada, we currently see three conditions that present us with a vital opportunity. **We have governments that are committed to investing in infrastructure, a private market with an appetite for longer-term financial assets, and a pent-up need for those investments in Canada.** If we get this right, we can enhance Canada's productivity in two ways. First, the improved infrastructure can help to boost the productive capacity of the private sector and help to achieve more efficient resource allocation. Second, better infrastructure is a key component in attracting the companies and the people who spearhead continuous innovation.”

For a copy of the full speech, go to: [www.bankofcanada.ca/en/speeches/2005/sp05-17.html](http://www.bankofcanada.ca/en/speeches/2005/sp05-17.html)