EVIDENCE BRIEF

A Municipal Development Bank for Canada?

Key takeaways

- Municipalities require more and better financing for green and socially just transitions.
- Canada's municipal financing landscape is fragmented and likely not fit for purpose.
- A new public municipal development bank or ecosystem of development banks is a viable alternative.
- Further discussion of a new public bank by cities for cities is warranted.

A new Municipal Development Bank?

Is it time for a new public Municipal Development Bank or ecosystem of banks in Canada? There are good reasons to think yes.

Cities and towns are facing infrastructural deficits and climate challenges, which require rapid responses to support future prosperity. Much of the maintenance, replacement, and rebuilding expenses lie with municipalities, which are responsible for approximately 60 percent of Canada's essential infrastructure.[1] Estimates of the infrastructure deficit vary considerably but frequently cited cost ranges are from $123 billion to $570 billion.[2]

Where will this money come from? Municipal own-source revenues as well as provincial and federal transfers will provide the lion's share of funding. However, there is an enduring role for low-cost and long-term municipal financing.

The municipal financing landscape, however, does not appear fit for purpose – if that purpose is to deliver climate-aligned, public purpose, development financing at the pace, scale, and on the terms needed for rapid green and socially just transitions. A new public Municipal Development Bank or ecosystem of public banks could change this.

Municipal financing landscape and challenges

Canadian municipalities' own-source revenues cannot alone cover needed infrastructure expenses. Property taxes account for 45 percent of municipal revenues, user fees 21 percent, and provincial and federal transfers 22 percent. Goods and services taxes, property income, fines, penalties, forfeits, and other items make up the rest.[3]

To further support municipal regeneration and sustainability efforts, there are over 100 provincial, territorial, and federal programs and funds: from the $190 million Low Carbon Cities Canada network to the $1.5 billion Green Municipal Fund, to the $180 billion Invest in Canada Plan. Such diversity and fragmentation, however, can create obstacles for municipalities, such as finding an appropriate scale of funding or financing as well as meeting varied eligibility criteria.

To deliver capital investment projects, municipalities make use of all these financial resources. Yet so too do municipalities regularly finance projects, that is, they borrow money and then repay the investment over time.

In Canada, the municipal infrastructure financing landscape does not function as an intentional or coherent ecosystem. It is more a patchwork of some provinces lending to municipalities, of some provincial municipal finance authorities lending to municipalities; and of some cities borrowing from financial markets directly (bonds). In all circumstances, municipalities seek the most appropriate low-cost, long-term financing possible to finance capital projects. Therein, the municipal financing authorities can play an important role. According to their 2024 financial statements, the seven municipal finance authorities across Canada provided over $8.9 billion in new loans to municipalities as well as to eligible institutions and corporations. There may be good reason to build from what the municipal finance authorities do well to help meet municipal infrastructure challenges.

1 Federation of Canadian Municipalities (2024). *Making Canada's Growth A Success: The Case for Municipal Growth Framework*. FCM. https://fcm.ca/en/resources/making-canadas-growth-a-success.

2 CanInfra (2025). *Estimates of Canada's Infrastructure Deficit*. CanInfra. https://www.caninfra.ca/insights-6. For replacement values, see Statistics Canada (2024). *Canada's Core Public Infrastructure Survey: Replacement values, 2022*. (Component of Statistics Canada Catalogue no 11-001-X). https://www150.statcan.gc.ca/n1/en/daily-quotidien/241021/dq241021b-eng.pdf?st=q6xzuvMA.

3 Our calculation, based on Statistics Canada (2024). Table 10-10-0020-01: *Canadian Government Finance Statistics for Municipalities and Other Local Public Administrations (x 1,000,000)*. https://doi.org/10.25318/1010002001-eng.

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The Municipal Finance Authority of British Columbia

The Municipal Finance Authority of British Columbia (MFA BC) offers valuable insights into how the financing of sustainable infrastructure can be addressed by cities for cities. The MFA BC offers long-term, low-cost, and appropriate financing to B.C. local governments, based on cooperative values and the MFA BC's pro-public mandate. Because the MFA BC is owned by cities for cities, it can pool the borrowing capacity of local governments in B.C. The MFA BC is also backed by local property taxes, meaning there is very little chance of the bank ever going bust. Financial markets, from which the MFA BC borrows, like this, and hence the MFA BC has a very strong AAA credit rating (which is higher than the Province of B.C.'s). This, plus the fact that the MFA BC is the sole lender to B.C. municipalities and does not need to compete with private banks, means it can provide the most competitive interest rates possible to local governments (and other public bodies). Only 19 employees manage over $10 billion in assets, making the MFA BC perhaps the most efficient bank in the world (in terms of assets per employee managed). It has also never suffered a loan default.

The MFA BC also offers municipal and public bodies an investment option with very low fees charged. At the same time, the MFA BC helps the training of local government employees. The MFA BC collaborates with other public entities to assess climate threats and align municipal operations with sustainability principles. The MFA BC is a successful, financially sustainable, and democratically governed public municipal development bank that provides low-cost, long-term loans.

The MFA BC does so by functioning as a policy maximizer, not a profit-maximizer (like private banks must do). Policy-maximizing public development banks are widespread, as are other public municipal and subnational development banks (MSDBs). Over 100 MSDBs globally control over US$1.1 trillion in assets.[4] There is broad-based recognition that MSDBs, like public banks more generally, have the potential to be effective and responsive entities, capable of delivering favourable lending conditions to local governments while advancing sustainable development.[5] MSDBs can function accountably and effectively, if affected communities command that of their public banks.

Canadian municipalities and public bodies can benefit from a new nationwide public municipal development bank or ecosystem of provincially and regionally constituted public municipal development banks. What principles might guide this discussion?

Five principles for a new Municipal Development Bank

We suggest five principles or pillars for discussion.

Ownership positions the new bank within the public sphere, but municipal bank ownership can be at different levels of government, including municipal, provincial, federal, or a combination thereof, including other public entities (like pension funds). There are many real-world examples of municipal bank ownership. How might ownership be structured?

Financial sustainability involves developing strong regulations, procedures, and processes that ensure the institution's long-term viability, even during economic downturns. Financial sustainability does not mean profit maximization. It can mean supporting public policy mandates. How should a bank by cities for cities pursue financial sustainability?

Democratic governance takes many forms in public banks worldwide, which is increasingly vital to effective sustainable transitions. There is no best model, but transparency, accountability, and inclusion are key. How might a new national municipal development bank or ecosystem of banks build in democratic governance structures?

Climate alignment means shaping the bank functions in ways that not only mitigate the harmful impacts of climate change but also works to reverse those impacts through biodiversity actions and support for green projects. What will anchor this institution's sustainable future?

Technical expertise and being a knowledge hub are important features of public banks globally, including their understanding of local contexts. But they carry financial costs. Should a new national municipal development bank or ecosystem of banks (or some collaboration therein) assume this knowledge-producing and sharing function?

A New Legacy Financial Institution?

Canada recognizes the need to better support municipal transitions and regeneration. However, financial support is often fragmented and complex. There is a need for a systemic alternative. A new public municipal development bank, or an ecosystem of municipal development banks, established by municipalities for municipalities, can help. Green transitions can be financed faster, cheaper, and on terms more appropriate to socially just development. By doing this, municipalities will establish a new legacy institution that can enhance their future financial and knowledge capacities.

4 INSE – FICS (2025). Institute of New Structural Economics and Finance in Common Database. http://www.dfidatabase.pku.edu.cn/.

5 UN FfD4 (2025). *Financing for Development Outcome Document.* United Nations Fourth International Conference on Financing for Development. June 30 – July 2, 2025. https://docs.un.org/en/A/CONF.227/2025/L.1; Marois, T. (2021). *Public Banks: Decarbonisation, Definancialisation, and Democratisation*. Cambridge University Press.

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