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Remodeling infrastructure financing: A Q&A with CDPQ Infra's Macky Tall

Montréal's Réseau express métropolitain (REM), a new light-rail network currently under construction, serves as a model for how investors can help build crucial infrastructure quickly and sustainably.

Macky Tall

Head of Real Assets and
Private Equity, CDPQ
President and CEO, CDPQ Infra

Mass public transit remains a crucial component of city planning and development, even in a post-COVID-19 era. Consistent city-wide traffic and the pursuit of carbon-neutral alternatives favor the development of public transit options. However, too many governments struggle to finance such projects, especially large ones. That's where institutional investors are increasingly stepping in. In Québec, CDPQ Infra is in the middle of delivering Réseau express métropolitain (REM)—the CAD $6.5 billion, all-electric, largest public-transportation network in half a century—which will interconnect multiple communities as well as the business center with the Montréal–Trudeau International Airport.

CDPQ Infra is a subsidiary of Caisse de dépôt et placement du Québec (CDPQ), an institutional investor that has been investing in infrastructure, including transit, around the world for more than 20 years. In this interview, Macky Tall, head of Real Assets and Private Equity at CDPQ and CEO of CDPQ Infra, discusses how the right business model can create win–win solutions for public and private partners as well as local citizens.

McKinsey: Why is CDPQ interested in infrastructure, and what challenge is CDPQ Infra trying to help solve?

Macky Tall: Investing in infrastructure means investing in tangible assets that generate stable and predictable returns—which is aligned with our clients' long-term needs. With CDPQ Infra, our model dedicated to the execution of major public infrastructure projects, our vision is to be a trusted partner for governments around the world as they try to solve their infrastructure challenges. Many governments today are heavily indebted. They either won't or can't invest in the major projects—like public transit, ports, roads and bridges—that hold the potential to improve a country's economic future and communities' quality of life. As a result, the global infrastructure gap continues to grow every year. Long-term investors such as CDPQ can play a meaningful role in reducing this gap by providing the capital and the know-how to ensure these important projects are executed. It is a win–win scenario. Local governments and countries provide the infrastructure people need to work and live better, and long-term investors can generate the reliable returns and predictable cash flow they need over time, all the while advancing public interest.

McKinsey: How does the business model work?

Macky Tall: Beyond providing capital, CDPQ Infra seeks to provide a one-stop shop for project delivery and development, with capabilities to support each project from A to Z. The REM illustrates how the model works. CDPQ Infra is working closely with every level of government: local, provincial, and federal. They outlined their needs, and we put forward the design for an integrated transit system to meet those needs. As one of the few organizations in the world with both the financial capacity and the technical expertise required to carry out major infrastructure projects from end to end, we manage design, permitting, procurement, construction, and, eventually, operations.

This unique kind of partnership is not devoid of challenges. We first needed to recruit a broad spectrum of talent that we did not have internally. But the project's scope and ambition appealed to professionals at the very top of their respective fields. Second, we had to convince governmental partners and the public of the benefits of our model, which is distinct from that of other public–private partnerships because of our involvement at the design and development phases. Third, we had to demonstrate that the model would allow us to plan, finance, and begin the construction of a major transit infrastructure project within an efficient time frame.

Finally, the REM is very much a coming together of old and new. We needed to use and upgrade the existing rail line that runs through downtown Montréal. Otherwise, the project wouldn't have been financially viable and socially acceptable. The promised result is a fast, frequent, and reliable light-rail service that serves a much wider area than we could have covered without reutilizing existing rights of way.McKinsey: How would you describe the REM as a "project of the future"?

Macky Tall: This model is a new way for governments to accelerate the development of much-needed infrastructure, so it's inherently a model for the future. The REM is a great illustration of how that model can work to serve people today—and well into the future. Like most big cities, Montreal struggles with congestion, which negatively affects productivity, quality of life, and the environment. Without action, these problems will only intensify over time. The REM project can deliver meaningful progress, improving how people travel for leisure, to work, to home, and to the airport, all in an efficient way. It will better connect the city in a sustainable way. What truly makes this a project of the future is our focus on the longer term. We are building the REM to last for many generations, to keep pace with changing habits, and to reduce greenhouse gas emissions to help fight climate change.

McKinsey: REM development has moved at a fast pace relative to other major infrastructure projects of this size. What strategies have enabled this momentum, and are they applicable globally?

Macky Tall: From the start, we established a clear system of governance involving our partners and stakeholders. Our goal was to create the conditions for decisions to be made in a timely and informed manner. The bottom line is that everyone is on the same page and committed to the successful delivery of the project. We made a point of avoiding the linear approach to planning and construction. Operating on a single track—with Decision A followed by Decision B followed by Decision C—can be a recipe for delay and inertia. Instead, we chose to function with a design-build model. We are moving along in parallel on several fronts, which means we are allowing for progress to begin immediately on certain aspects such as planning and land acquisitions while we are ironing out design elements and compliance.

The CDPQ Infra model could be easily exported because today so many cities need efficient, safe, and adaptable mobility solutions. We've had a great deal of preliminary expressions of interest from around the globe. Decision makers are intrigued by the model and its potential to create growth.

McKinsey: In September 2019, CDPQ committed to a carbon-neutral investment portfolio by 2050. How does CDPQ Infra fit into that goal?

Macky Tall: Infrastructure plays a crucial role in reducing emissions. And as an organization, we understand that our long-term returns are directly linked to the long-term stability of our economy and the communities we invest in. CDPQ formally committed to fighting climate change in 2017 by pledging to reduce the carbon intensity of our overall portfolio by 25 percent by 2025. And, by the end of 2020, our goal is to increase investments in low-carbon assets by more than $14 billion compared with 2017. We would like to be seen as a leader in sustainable infrastructure. The REM, for instance, is fully electric and will be carbon neutral from beginning to end. It will help reduce 115 million vehicle-km, which translates to a significant reduction in the distance being covered by cars. We want to show that the future of urban mobility can—and should—be efficient and carbon neutral.