



Public Banks and Public Water in Europe

KEY POLICY MESSAGES

- Public banks are able to offer accessible and universal forms of lending and technical support that benefit all manner of public water operators.
- Public banks already play an important role in funding sustainable and equitable water and sanitation services in Europe, but they have considerable untapped potential to do more to meet the funding needs of public water operators.
- Research on public banks in Europe reveals an enormous potential and appetite for progressive and sustainable forms of public bank financing of public water services.

■ Water pipe. © Freepik.

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Despite institutional roots dating back more than 600 years, the role of public banks in financing public water and sanitation services has long been understudied.

A public bank, broadly considered, is a financial institution that is majority owned by the state or another public entity, or governed under public law or by public authorities, or that functions according to a binding public mandate. Due in part to a bias toward private finance in mainstream academic and policy circles, research on public banks has been less prolific. A special issue of *Water International* seeks to begin to fill this gap by illuminating the links between public banks and the public provision of water and sanitation in Europe.

The general public is familiar with other public institutions such as public libraries or public utility systems, but not public banks. Research has been constrained in recent decades by the perception by some that public banks are prone to serve the whims of politicians, making them inherently less efficient than private banks, and by others that the purpose of public banks is to provide additionality, doing what private banks cannot or will not do, such as to stabilize markets or help overcome market failures.

Even the number and capacity of global public banks has been underestimated and misunderstood, given conventional preferences for market-based development. While national development bank assets fall substantially short of the estimated US\$90 trillion required to fund the sustainable infrastructure investments needed to achieve the SDGs, a wider view of the public finance ecosystem—including central banks, multilateral banks, and public pension funds—encompasses 1650 institutions with US\$82 trillion in assets (Marois, 2021, p. 55), which, if mobilized appropriately, would lessen the need for private finance significantly

PUBLIC BANKS AND THE WATER SECTOR IN EUROPE

How do public banks operate in the water and sanitation sector? What can they do? Drawing on eight case studies of public banks and public water

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operators in Europe, the special issue editors identify eight trends that are promising for public banks' role in the sector, as well as some cautionary principles.

Public banks can contribute to the water and sanitation sector in a variety of ways:

- They can be effective and efficient providers of financing for public water operators, able to provide large volumes of low-cost, easy-to-access, reliable, and patient lending.
- They are often able to provide financing on terms that private financial institutions are rarely able or willing to compete with.
- They are accessible: although they work within a wide range of complex political, social, historical, and institutional contexts, the most effective public bank systems for funding public water are simple and can be understood by most.
- Public banks can offer universal forms of lending and technical support that benefit all shapes and sizes of public water operators regardless of their wealth, population, or location.
- Public banks demonstrate that democratic forms of ownership and governance in one form or another can exist within the financial sector.
- Unlike private institutions, public banks can have clear public purpose mandates that prioritize public services, sustainability, and other criteria that go beyond financial metrics.
- Public banks can collaborate with other local, national, regional, and multilateral banks in the form of public–public partnerships, and they can be leaders in green finance.
- Public banks can persist in ways that are less prone to political and electoral cycles due to their robust governance structures and institutional legacies.

There is no single model of success.



AN EXAMPLE OF LONG-TERM ENGAGEMENT BY A PUBLIC-PURPOSE BANK WITH THE WATER SECTOR THAT OFFERS AN OPPORTUNITY FOR INCREASED SUPPORT OF SUSTAINABLE TRANSITIONS IN THE SUPPLY OF DRINKING WATER TO THE PUBLIC.

The Dutch Water Bank (NWB), the first public bank founded on the premise of providing public financing for water infrastructure and service provisioning, has provided long-term, low-risk patient and appropriate financing to public entities, including drinking water

companies in the Netherlands, since the 1950s. The bank's model has been successful over NWB's seven decades of existence, as it has expanded beyond the water sector to support the public sphere and Dutch society more broadly. Policy changes could facilitate and amplify its ability to finance the transitions needed by Dutch water companies (DWCs) to meet the sustainability challenges looming due to climate change, population growth, and rising pollution of water resources. Key recommendations include explicit guarantees by the Dutch government of the DWCs against credit default, which will help the NWB protect its triple-A credit rating and ability to access capital in global markets cheaply. This would enable the bank to uncap financing to achieve national sustainability objectives and capitalize on some DWCs' willingness to leverage their own creditworthiness to demand ESG conditions from financiers (Schwartz and Marois).

AN EXAMPLE OF PUBLIC FINANCE PRINCIPLES SUPPORTING PUBLIC WATER.

With the termination of a 20-year water concession contract in 2017, the city of Valladolid, Spain, embarked on a water remunicipalization process, which it chose to fund in reliance on its own revenues rather than by securing financing from an external source. The city opted to create a publicly owned and managed water company that operates with a tariff structure based in principles of local public finance, environmental considerations, increasing

block tariffs, and progressive social tenets. Interviews with key actors revealed no engagement with public funding sources in Valladolid, but the authors' evaluate the remunicipalization process in the city as successful and argue that the well-designed strategic plan, business model, and tariff structure are "elements of a genuine public finance/public water model that takes into account not only efficiency considerations but also issues of equity and environmental sustainability, without financial intermediaries involved" (Garcia-Arias et al.).



The contributors to the special issue are careful to emphasize that, despite these positive trends, there is no single model of success and no guarantee that public banks' potential can be achieved universally or in perpetuity. Public banks are "neither inherently good nor bad but rather [are] historically contested social, political, and economic institutions" shaped by many complex factors (Marois and McDonald). Borrowing from public banks is not sufficient to meet infrastructure needs; massive injections of capital from governments will also be necessary. Financing from public banks also presents a challenge in light of the growing emphasis on cost recovery in water and sanitation services—the political cost of raising

water tariffs to ensure cost recovery may make bank funding of any sort unviable. Public banks may also be challenged by unclear and unreliable societal commitments to public water systems.

Public banks themselves are targets for privatization, commercialization and financialization, which may undermine their ability to support public water.

BASED ON THE SPECIAL ISSUE

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