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Policy Brief

National Public Development Banks (PDBs): Key Actors Financing Water and Sanitation

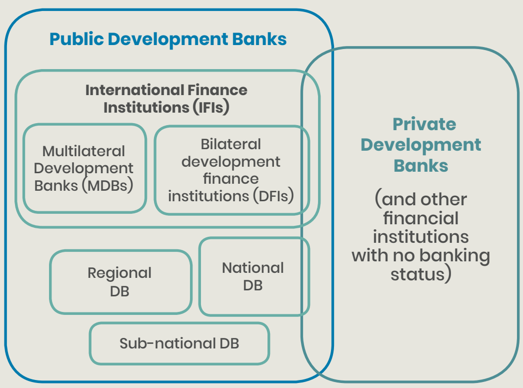
- Investment in the water and sanitation sector is essential not only to facilitate the fulfillment of Sustainable Development Goal 6 (SDG 6 "Ensure availability and sustainable management of water and sanitation for all"), but also to cope with the necessary investments for climate change adaptation and mitigation. Such investment also contribute to protect biodiversity.
- Despite its strong positive externalities, the water sector is underfinanced, and current levels of financing will not allow the goals of access to water and sanitation for all (SDGs 6.1 and 6.2) to be met by 2030.
- Historically, in many countries, national public development banks (PDBs) have played a major role in financing water and sanitation infrastructure. Today, in some countries, they continue to be successful in this role.
- In numerous other countries, national PDBs could make a significant contribution to the financing of the water sector, but do not currently do so. To unlock this potential, governments must work both on regulating the water sector and provide the mandate to national PDBs to ensure that the water sector can access financing from them.

Water, an Underfinanced Sector

This *Policy Brief* is based on a study[1] funded by the Agence Française de Développement (AFD; French Development Agency) and conducted by IRC (www.ircwash.org).

Today, more than 2 billion people still do not have access to safe drinking water, and more than 3.6 billion people do not have access to sanitation. In many countries, climate change is increasing the risks related to the water cycle; at the same time, the quantitative and qualitative pressure on water resources threatens people and ecosystems. Lack of access to water and sanitation and failure to sustainably manage water resources have dramatic consequences in terms of health, gender equity, the economy, and the environment.

Despite this, the water and sanitation sector remains underfinanced. According to the World Bank,[2], more than 110 billion USD would be necessary each year to ensure access to water and sanitation for all. Only a third of this amount is currently provided each year.



Source: Fonseca C., G. Mansour, S. Smits, M. Rodriguez, IRC (2021).

[1] FONSECA Catarina, Goufrane MANSOUR, Stef SMITS, and Maricela RODRIGUEZ. *The Role of National Public Development Banks in Financing the Water and Sanitation SDG 6, the Water-Related Goals of the Paris Agreement and Biodiversity Protection.* ICR, 2021. https://www.ircwash.org/resources/role-national-public-development-banks-financing-water-and-sanitation-sdg-6-water-related.

[2] HUTTON Guy and Mili VARUGHESE. The Costs of Meeting the 2030 Sustainable Development Goal Targets on Drinking Water, Sanitation, and Hygiene: Summary Report. Washington D.C.: World Bank Group, 2016. https://www.wsp.org/sites/wsp/files/publications/Summary.pdf.

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PDBs, Water, and Sanitation

PDBs are banks located within the public sphere by mandate, ownership or governance. PDBs have a specific mandate to deliver on public policy objectives that support the economic and social development of a country or region.

This *Policy Brief* focuses in particular on national PDBs and on recommendations to their shareholders, states and governments. However, some of the recommendations also apply to regional and sub-regional PDBs.

National PDBs played an important historical role in financing water and sanitation infrastructure in Europe. They also currently provide significant financing for the water sector in numerous countries. In other countries, national PDBs do not finance the water sector, or have only a limited role. This is often because their mandate does not include this sector, but also due to a lack of internal "water expertise" within these banks. Moreover, some characteristics of the water sector in many countries (such as low level of cost recovery and poor financial performances of water and sanitation utilities) do not encourage national PDBs to direct their financing to this sector, as it is perceived as too risky.

National PDBs can provide various types of loans, often at better conditions than those offered by commercial banks. Moreover, national PDBs are often able to provide technical assistance both during project's preparation and execution. Sometimes they can even assist borrowers in structuring cofinancing with commercial banks and/or international financial institutions.

Finally, national PDBs are well-placed to mitigate certain weaknesses of the water sector and to unlock the sector's capacity to obtain loans. For example, they can provide technical assistance or grants in order to support water services to improve their technical and financial performances, and thus reduce their credit risk. National PDBs are institutions at the intersection of finance and technical expertise. Thanks to this unique positioning, they can bring added value to water sector public policy key challenges including tariff, cost-recovery and regulation of water and sanitation services.

PDBs have come to play a growing role in financing and supporting the water sector. Many of them now meet regularly as part of the Water Finance Coalition[3] and have signed the joint declaration[4] on financing water and sanitation, which was released at the second Finance in Common Summit (FiCS)[5] which took place in Rome from October 19 to 21, 2021.

[3] See the Coalition's website: www.waterfinancecoalition.org.

[4] FINANCE IN COMMON. *Joint Declaration of All Public Development Banks in the World*. Finance in Common, 2020. https://financeincommon.org/sites/default/files/2021-06/FiCs%20-%20Joint%20declaration%20of%20Public%20Development%20Banks.pdf.

[5] https://financeincommon.org/.

Recommendations for Governments

1) Develop political support for the inclusion of water and sanitation in the mandates and strategies of national and regional development banks

It is imperative that shareholder states foster political support for the importance of including the water and sanitation sector in PDBs' mandates and strategies, and encourage these institutions to finance the sector. Despite the importance of the water sector in development, adaptation to climate change, and biodiversity protection, the mandates of many national and regional PDBs do not include this sector.

2) Devise national financing strategies for the water sector that make use of the financing potential from national PDBs

It is also essential that governments (finance ministries, departments responsible for water, and regulators) set out a financing strategy for the water sector that identifies the support that national PDBs can offer in terms of loans. In particular, they can play a key role in financing loans to small and medium-sized towns (and/or their water and sanitation services). National PDB teams can also help to shape these financing strategies, contributing thanks to their experience and technical expertise.

3) Facilitate the rolling -up of national PDBs into the water sector

If a national PDB has no or little experience in financing the water sector, it may be useful for the government to allocate public funds as loans or grants in order to create an earmarked or trust fund, and in this way allow their national PDB to improve its understanding of the sector, develop its technical expertise, and facilitate its entry into this sector.

4) Establish sector frameworks and regulation that address water sector inefficiencies and improve its financial and operational weaknesses

In many countries, reforms are necessary to improve the regulation, performance, and financial stability of the water sector, and thus enable the financing of key investment (both required to meet the SDGs and climate change adaptation and mitigation goals). To this end, it is imperative that governments and regulators act to put in place effective frameworks for the sector that promote access to water and sanitation for all. In particular, a key step for the water sector is to enable institutions (municipalities, utilities) to be able to finance its investments through loans including those from PDBs.

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