Public banks working for public services

A report for EPSU
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Counter Balance is a coalition of 9 NGOs whose mission is to make European public finance a key driver of the transition towards socially and environmentally sustainable and equitable societies. It holds EU public financial institutions to account to their public mission, challenging harmful decisions, policies and projects, and promoting alternatives.

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Introduction

There are 115 multinational, national and local public banks and similar financial institutions in the European Union with combined assets of €11.2 trillion in assets, equivalent to 70% of the

EU's gross domestic product (GDP – economic output).[1] Public banks and financial institutions play a central role in the European economy and society but have the potential to do much more.

These financial institutions represent 40% of the banking sector across Europe and can finance projects that aim to meet the highest societal needs, such as public services and other non-profit activities. This potential is even more important at the current time as increasing demands on public services, combined with the prospect of public spending restraint arising from the revised EU fiscal rules that are set to become law in May 2024, mean that public authorities will need all the help they can get to maintain and improve services.

This report looks at public banks in Europe, how they work and how they are governed. It provides a particular insight into the workings of the European Investment Bank, which is central to the funding of major projects, particularly ones that involve key public services. The report asks whether the Bank is doing enough to promote public services and public investment and how it might do better if it followed the practices of other public banks.

The report also raises the question of trade union involvement and how the labour movement could work with civil society to press for an EIB that puts projects to boost public services and public investment ahead of initiatives that are tailored more to supporting private sector provision and investment in public services.

Chapter 1: How public banks can help close the public investment gap

This report explores how public banks could be used to help finance public services and how trade unions can appropriate this issue and integrate public banks in their fight for a society that puts people and the public services before profits. Universal access to quality public services, without any discrimination or exclusion, is fundamental to uphold human rights and fulfil people's basic needs. Vital public services include education, energy, food, health and care services, housing, social security, transportation, waste collection and disposal, water and sanitation. Equitable access to these services is crucial to reduce inequalities and to realise social justice. Public services are a collective social commitment by the state and/or other public authorities and their democratic control helps ensure they serve the needs of users and workers.[2]

Public services also play an important role in the transformation of the economy from one based around fossil fuels energy and focused narrowly on growth, towards a socially just and sustainable system that respects ecological limits. Many sectors which must be radically transformed to tackle climate change have an important public service element such as housing, energy or transport. Despite the rhetoric in the European Green Deal to 'leave no one behind', the current priority is more about supporting competitiveness in clean technologies and offsetting the risks faced by private investors rather than providing sufficient public funding for affordable and environmentally-friendly housing, public and multimodal transport and energy.[3] There is widespread public support for a strong climate agenda, but many people have concerns about whether there will be environmentally-friendly solutions for their basic needs.[4] Ensuring the provision of public services is therefore crucial to make a profound environmental transition socially and politically feasible.

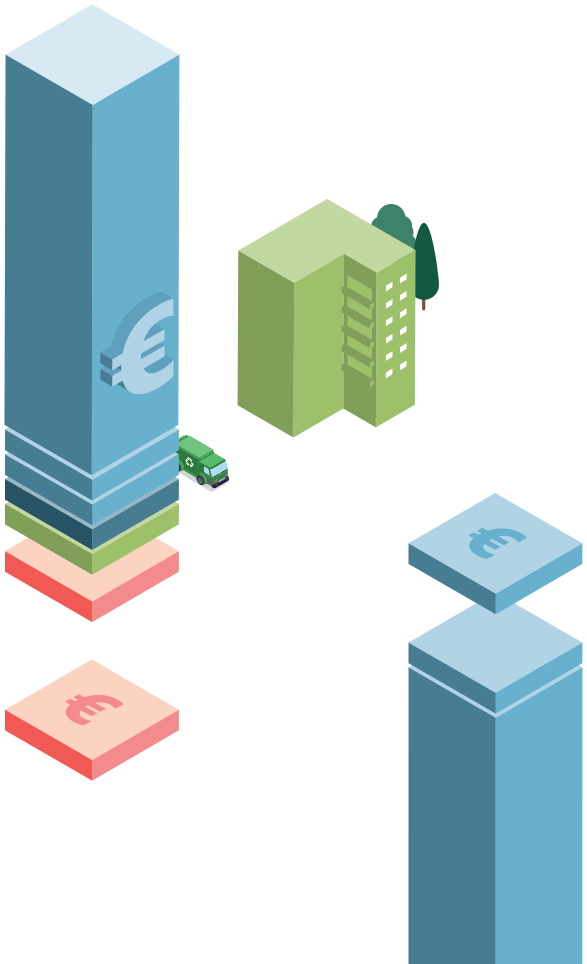
The investment gap in social infrastructure and public services

Public services in many parts of the EU suffer from chronic underinvestment as a result of austerity and various forms of privatisation. A 2018 study by the Alliance of European Long Term Investors (AELTI), a European network of 31 national and multilateral public financial institutions, estimated the investment gap in social infrastructure (education, health and affordable housing) in Europe at €170 billion per year, or €1.5 trillion for the period 2018-2030. The financial crisis has a major impact on the level of investment in social infrastructure, which fell by 20% between 2007 and 2016. The AELTI report argues that this gap increases inequality and it calls for a boost to long-term social investment, targeting first of all regions at the lower end of a diverging economy and aiming to benefit people with low incomes.[5]

Closing this investment gap requires sufficient and stable fiscal resources, with increased funding potentially coming from more progressive taxation, including on corporate profits

and wealth and fighting tax avoidance and evasion. However, in April 2024, new fiscal rules were adopted in the EU, following their suspension in response to the Covid-19 pandemic, and these threaten to hamper member states' capacity to make sufficient public investments. One estimate suggested that new restraints could lead to €100 billion in budget cuts across the EU.[6]

Advantageous, concessional lending by public banks reinforced by EU and other public guarantees cannot replace direct public funding, but can be a powerful complement to finance part of the public services' investment needs. Public banks are especially suited to fund projects in the public service sector that have long-term economic viability and a high positive social and environmental impact but which don't match up to what the markets consider as commercially viable or profitable in the short term.



Chapter 2: How public banks work

Public banks are in many ways similar to commercial banks. They both channel money from where there are reserves in capital available towards companies, individuals, organisations or governments that are in need of money. These reserves can come from deposits or from capital markets and public or commercial banks can use them to give loans or take ownership in companies. But public banks are different from commercial banks in at least one of the three following aspects.

- **Ownership**: they are majority owned by governments, states or public entities, perhaps jointly, and at any level – local, regional or national;
- **Mandate**: they typically have a binding mandate that defines their mission and core activities; and
- **Governance**: they have official government representatives in their governance structure, for example in their board of governors, with some including also trade unions or other civil society organisations.

The activities of public banks can vary with some operating as traditional deposit banks, financed largely through retail clients' savings, that offer basic personal financial services and loans such as mortgages, insurance, retirement savings, etc. These often have branches and are locally anchored with the Sparkassen, local German public savings banks, being a typical example.

At the other end of the spectrum are national or multilateral public investment banks, such as the European Investment Bank (EIB), the largest multilateral public investment bank owned by the members states, Kreditanstalt für Wiederaufbau (KfW), the German national public investment bank and the European Bank for Reconstruction of Development (EBRD), a multilateral investment bank owned by 73 countries. They don't have retail clients but borrow cheap money on the capital markets over the long term and lend to states, public institutions, corporations and other financial institutions. These banks tend to finance larger projects and when they want to finance smaller projects or companies, they typically do so by lending money to other public or private financial institutions who in turn lend this money to the final recipient companies or to other public or private financial institutions who in turn lend the funds to projects.

In between there are what they call public universal banks. These combine features of deposit and investment banks, because they take deposits, but can also borrow on financial markets and have the ability to finance larger development projects.[7]

Public banks' potential to deliver systemic change

Public banks have the potential to go beyond the logic of an economic and financial system that focuses on short-term profit. The word potential is crucial here, because a public bank may

have public ownership and governance, but a weak mandate or a mandate that aims to create profitable investment opportunities in sectors or companies that attract little investment because private investors don't find them profitable enough. For the EIB attracting private investors is one of the main goals in its lending.

Alternatively, a public bank may be publicly owned and have a strong mandate, but governance could be weak and allow the bank to lose track of its mission. This is what happened to some regional public banks (Landesbanken) in Germany in 2008 because they started to invest in risky financial products related to the American subprime mortgage scandal. One of the problems at the Landesbanken was the closeness of political representatives to managerial decision making. In contrast, at the local savings banks – the Sparkassen – local political representatives sit on the supervisory board, but are further away from such decision making. They have to make sure that managers fulfil the mandate, but their roles are limited and they cannot even decide to sell the bank if they would want to.[8]

In spite of these pitfalls, public banks have a great potential to deliver when the market can't or won't. If a publicly owned bank has a strong social and environmental mandate and the right governance structure, it can use its resources to finance projects which have a high positive social and environmental impact and a long term economic viability. Where they have state backing, such banks can operate on a scale that local bottom up initiatives have difficulties to reach on their own. This allows for public banks to have an impact on the general dynamic of the economy and contribute to a shift of priorities to focus on addressing the social, environmental and other crises we face in the long term.

Equally this role of investing when the profit expectations are low is why public banks can have a counter cyclical role, with their investments supporting the economy in a downturn when the market does not want to invest. During the credit crunch that followed the financial crash of 2008, public banks increased their activities and lent more to boost the economy, with the EIB, for example, increasing its lending by 41% in 2009.[9] Public banks can also help with the definancialization of the economy, slowing speculative flows by holding capital locally[10] and linking financial markets with the real economy.[11]

This is also why public banks are crucial for the climate transition and the continuous investment needed over the coming decades. In the past 15 years we have seen many financial, economic and other crises which lead private investors to stop investing. Public banks create the possibility to keep on investing when the market retreats. We see this currently in the renewable energy sector, where rising interest rates and material costs lead to a slowing down of investment in wind energy.[12] Much of the public investment strategies for increasing renewable energy and other climate action are based on attracting private investors and have more difficulties mobilising investments. Higher interest rates have an especially big impact on middle and low income countries. This translated into a situation where multilateral development banks increased their climate finance by 25% between 2021 and 2022, but having a much harder time to attract private investors in middle and low

income countries.[13] According to the United Nations Environment Programme, the climate finance needs of developing countries are 10-18 times bigger than current international public finance flows.[14] The Common Wealth research organisation argues that it is more effective, cheaper and advantageous to use public investment in public energy companies to develop renewable energy. Governments and public banks have an important role in this, because they can borrow and lend at cheaper rates. And if they lend to public companies, the revenue generated does not have to be paid out in dividends, but can finance new renewable energy development.[15]

Public bailout banking vs public service banking

The role of public money in general has increased enormously since the financial crisis of 2008, marking a significant shift in attitudes with greater acceptance of the importance of using public money to boost the economy.

In the European Union, public investment via public banks and guarantee schemes became an important policy tool in the aftermath of the Eurozone crisis which had led to low growth and low levels of investment, aggravated by the austerity that limited governments' ability to invest. In 2015, the European Commission launched the Juncker plan (officially the European Fund for Strategic Investments (EFSI)), which aimed to use €26 billion from the EU budget in the form of guarantees and public loans from the EIB (who could also cooperate with other national public investment banks in the EU) to help finance infrastructure projects. The guarantees and EIB loans were intended to make projects more attractive and profitable for private investors.

The Commission claimed that it was able to mobilise more than €400 billion through the Juncker Plan, but the European Court of Auditors claimed that the amount was overstated and that in some instances the public loans and guarantees replaced existing investments instead of creating new investment capacity.[16] In 2019 the programme was rebranded as InvestEU, included direct participation by other European and national public investment banks and became more focused on financing green infrastructure. In 2023, InvestEU was adapted again to include financing for raw materials supply chains and clean technology development in the context of competition over strategic raw materials and technologies.[17]

The basic question remains: whose interests should be served through the increased use of public banks? We have to distinguish between public bailout banking and public service banking. A lot of public investment today serves the purpose of bailing out companies and financial institutions. The consulting firm McKinsey, in a study for the European Commission, estimated that less than half of the investments needed for the climate transition in Europe were commercially viable.[18] This is where public banks can step in. Former EIB President Werner Hoyer stated in 2021 at the G20 that the bank's aim "is to bring something that attracts and crowds in other market participants. (...) We know that if we are not making projects more attractive for private investors to come onboard, we are not doing something right. Nowhere is this more important than in climate finance".[19]

While the reduction of risks for private investors and the use of public-private partnerships play a central role in their operations, the EIB and other banks and investment initiatives like InvestEU can still finance very important public services like environmentally-friendly social housing. Other public banks like Council of Europe Bank (CEB) have a more explicit social mandate and can apply a non-profit mission and finance projects which have a high positive social and environmental impact and a long term economic viability can also be very beneficial for public services.

The Foundational Economy collective is a group of researchers who look at socio-economic development by focusing on how to provide everyday universal basics like food, housing, health services and transport within planetary limits.[20] It argues, for example, that there are many options in construction projects, whether new build or reuse, that can improve access to environmentally-friendly affordable housing or care with long-term economic viability, because here there is an income stream which can pay off a loan. These spaces can also provide accommodation for young and old with other cultural facilities open to the wider community. The limit here is that a lot of social infrastructure draws a lot of their income for capital expenditure and operating costs from tax payer revenues. Public-private partnerships are not an option because of the risk that a private partner would drain the benefits from the public investments. As we mentioned above, the potential of public banks to finance public services can only be met if they are a complement to fiscal resources.[21]

The AELTI study reveals that about 90% of social infrastructure is publicly financed and its operating costs are also covered by public revenues, with the exception of the health sector, student housing and young and elderly care, which have relatively more revenue from end user fees. Social infrastructure projects are also relatively small, with almost all costing below €1 billion and the majority below €30 million.[22]

Getting an idea of how much end user fees are compatible with a high quality and democratically accessible public service are key to understanding to what extent investment needs can be financed by public funding. If there are at least modest end user revenues, these can partly cover loan repayments. To the extent that asking such revenues excludes access or deteriorates the quality of the public services, a public service will be more reliant on direct tax payer funding. Investment projects which are not profitable in the short term, but have a long term economic viability are good candidates to be financed by public banks.

Public services are often provided and managed by local and regional authorities, even though they are usually the levels of government that have suffered most from austerity and underinvestment.[23] This is why public service banking in Europe is also about creating a network between the European and the local level. By creating synergies between the large public financial institutions and mechanisms which can easily attract cheap and large amounts of capital and channelling this money via cooperation with national and local public authorities and investors to the often small-scale public service projects.

Chapter 3: The importance of ownership, mandate and governance

Public ownership, an appropriate mandate and a governance structure that includes representatives of public authorities are what distinguish public banks from commercial banks. In this chapter we will focus on how these elements can ensure that public banks fulfil their role in society and how workers can influence them.

If a bank is publicly owned, with no private shareholders, then there is the potential to focus on other objectives than profit maximisation. However, a 100% publicly-owned bank may not have a formal public mandate or governance structure. Belfius, for example, has been owned by the Belgian state for more than 10 years, but is run like a commercial bank. The government uses the bank as a cash cow, systematically using dividend payouts to fund the state budget.

Ownership rights can also make a difference. While local government organisations own the Sparkassen, for example, they don't receive dividends and cannot agree to sell the bank, acting more like a caretaker than an owner in the classical sense of the word. The added value for government and society is that the bank can finance projects with high social benefits that might not get private funding, because they are not profitable on the short term. By not paying dividends, revenues stay in the bank and can be used to fund more projects.

The mandate of a bank is also crucial if the aim is for public banks to finance public services. The CEB, for example, has an explicit social mandate, while that of the EBRD is to push for market development of the economy and privatisation. A strong social mandate creates the opportunity for parliaments and/or civil society to engage with the bank or put public pressure on it to better implement its mandate.

However, the true test of the democratic accountability of a public bank lies in its governance structure. Some banks have a very institutional and formal vision on governance. The EU member states of the EIB are represented on its board of governors and board of directors. But neither the European Parliament, nor civil society have many options to influence the strategies and operations of the bank. The Parliament is limited to making non-binding reports and the only formal way for civil society to influence the bank are public consultations on certain policies and strategies and a rather flawed complaints mechanism.[24]

Other public banks have much stronger governance structures. The KfW's supervisory board is headed by the finance and economic affairs and climate action minister and its members include the other federal and regional ministers, parliamentarians, trade unionists and representatives of business associations.[25] The local public German savings banks, Sparkassen,

have a supervisory board, composed of municipalities and other local stakeholders, whose task it is to ensure the bank fulfils its public mandate.

Public ownership models, mandates and governance structures are all tools that can be used to strengthen the positive social and environmental impact of a public bank and to steer it towards the financing of public services. Where these structures are stronger, the internal mechanisms can be used to engage and advocate for change at the bank. When they are less present, more external pressure will be needed to change the course of the bank. But, as Thomas Marois, Professor of Political Economy at McMaster University in Canada, argues, even the best of structures will only take you so far and are no guarantees. In order for a public bank to serve the public good, it is crucial that civil society and trade unions hold it to account and push it to deliver for society's most important needs.[26] Both inside where possible and outside where necessary, trade unions have a crucial role to play to make sure public banks fulfil their potential to finance a just transition and public services in general.

Chapter 4: The role of public banks in Europe

In this chapter we will first look at the European regulatory framework within which public banks have to operate and give an overview of the presence of European public banks.

The European regulatory framework

In its 2015 communication, *Working together for jobs and growth: The role of National Promotional Banks (NPBs) in supporting the Investment Plan for Europe*[27], the European Commission promotes the use of public banks and lays out the framework within which they must operate. A first key point is that the debts of these banks do not count as government debt in the European budgetary rules if there is sufficient operational distance between the government and the daily management of the bank.

Since public banks are in most cases financed and supported by the state, their resources are considered state aid in the meaning of Article 107(1) the Treaty on the Functioning of the European Union and their interventions qualify as state aid if all the other criteria of Art. 107(1) are met. This means that existing as well as new public banks must *"ensure that the interventions of NPBs are well-targeted to remedy market failures and thereby contribute to economic and financial development, while at the same time not distorting markets, crowding out private operators or keeping companies alive that would otherwise have exited the market."* With the exception of investments in certain sectors (agriculture, aquaculture and forestry), public banks are required to make ex-ante evaluations of market failures and must demonstrate the need for intervention.

A few of the decisions of the Commission are relevant to see the potential and limits of the state aid regulation for using public banks to finance public services. The Commission views participation in centrally managed EU investment programmes (such as InvestEU or co-financing with the European Investment Bank (EIB) or European Bank for Reconstruction and Development (EBRD)) as positive. On the other hand, the Commission is also in favour of public banks intervening indirectly via financial intermediaries to reduce risks of crowding out and discriminating against private finance providers.[28]

These decisions by the Commission may explain how under InvestEU, there are several cooperations between the EIB and national or regional public financial institutions, while at the same time the loans made under these collaborations are often channelled through commercial banks and investment funds. Such public-private financing schemes often target private sector companies or households. On the other hand we also see that the Investment Committee of InvestEU, which is responsible for approving projects, endorses giving EU

guarantees for loans by public banks such as the EIB, CEB, EBRD, etc, to local authorities and social housing companies for the provision of public services like social housing and local public transport among others. They legitimise the approval of such projects by addressing market failures.[29] This is an indication that, even though such instruments are often used for derisking the private sector, there is also scope within the rules to use concessional finance via public banks and EU guarantees to fund public services.

What prospect do the state aid rules create for financing public services? Protocol 26 of the Lisbon Treaty on Services of General Interest lays out the values of the EU in respect of services of general economic interest and includes the essential role and the wide discretion of national, regional and local authorities to provide, commission and organise services of general economic interest as closely as possible to the needs of the users; the diversity between various services of general economic interest and the differences in the needs and preferences of users that may result from different geographical, social or cultural situations; a high level of quality, safety and affordability, equal treatment and the promotion of universal access and of user rights.

The provisions of the Treaties do not affect in any way the competence of member states to provide, commission and organise non-economic services of general interest.[30]

The European Commission's 2013 communication *A Quality Framework for Services of General Interest in Europe*[31] brings together in a single quality framework the comprehensive set of actions which it is pursuing on services of general interest. This was to take better account of the specific nature of these services, and to meet the challenge of delivering them in a way which incorporates the values of quality, safety and affordability, equal treatment, universal access and users' rights recognised in the Protocol. The specific services mentioned were: healthcare, childcare, care for the elderly, assistance to disabled persons, social housing, education, training and employment services.

Services of general interest are services that public authorities in EU member countries classify as being of general interest and, therefore, subject to specific public service obligations. The term covers both economic and non-economic services, with the latter subject neither to specific EU legislation nor covered by the internal market and competition rules of the Treaty. They can be provided either by the state or by the private sector.

Services of general economic interest are basic services that are carried out in return for payment, such as postal services. These services are subject to European internal market and competition rules. However, there may be derogations from these rules if necessary to protect citizens' access to basic services.

Certain social services are exempted (irrespective of the amount of compensation) from the ex-ante notification and assessment process by the Commission, if they fulfil some basic conditions of transparency, correct definition and no overcompensation. This list now includes, in addition

to hospitals and social housing, services of general economic interest meeting social needs as regards health and long-term care, childcare, access to and reintegration into the labour market, and the care and social inclusion of vulnerable groups.[32]

The situation for the financing of public services which have an economic nature is different. But here there are also situations where the financing is not seen as state aid. According to the ruling of the European Court of Justice in the Altmark case, there is no state aid where:

(1) the public service obligations are clearly defined;

(2) the parameters used to calculate the compensation are established in an objective and transparent manner;

(3) compensation for the public service merely covers costs and a reasonable profit; and

(4) where the undertaking is chosen by a public procurement procedure allowing for the selection of the tenderer capable of providing those services at the least cost to the community, or the compensation is determined on the basis of an analysis of the costs of an average "well-run" undertaking in the sector concerned.[33]

The state aid rules also do not apply when the financial support is less than €500,000 over a three-year period.[34] The stipulation that compensation for the public service should merely cover costs and a reasonable profit is a crucial element here, since it defines the boundaries within which public banks can offer loans for public services with conditions that are lower than market rates. This is especially relevant, since many of the public service projects which can be financed by public banks are services of general economic interest. The payment of these services creates a revenue stream with which loans can be paid back.

In conclusion, the EU rules allow for public banks to finance public services, but state aid rules may apply or there may be limitations to what extent compensation, in this case concessional loans and guarantees, can be given, depending on the sector, service and scale of the project, However, the public service projects funded by InvestEU show that there is scope to finance several economic and non-economic public services, such as social housing, energy and transport projects operated by public companies and also community, social and voluntary organisations.

Given the size of the investment gap in public services, a lot more needs to be done, particularly if the new fiscal rules lead to another round of austerity. But if we want to tackle this investment gap, it is also important to look beyond the national scope of the budgetary rules.

The energy crisis and the economic competition over green and other strategic technologies have shown that derogations from state aid rules can also reinforce inequalities within Europe. In the EU, almost a third of the €540 billion government support given or earmarked by

member states to tackle the energy crisis was spent by Germany alone.[35] Of course, giving member states more fiscal space will allow all member states to spend more on public services, especially if they would increase their public revenues by taxing wealth more efficiently. However, overcoming inequalities in spending and financing power to finance public services would require a more holistic European approach.

The current focus on creating loopholes for supporting companies to become more competitive in the green technology race[36] should be replaced by an investment plan which combines both national and EU fiscal and public finance resources which focus on providing affordable green energy and other environmentally-friendly public services such as energy efficient housing and transport, but also health care and eduction, allowing also the economically less powerful member states to finance and provide these services.

Public banks in Europe

The central role of the European Investment Bank

The EIB is not the largest public bank in the EU, even though it is the largest multilateral development bank globally. However, it plays a central role in the European economy and to a lesser extent also on the international scene. The EIB was founded in 1958 and at the end of 2022 had €544 billion in assets.[37] The bank signed €87 billion worth of loans in that year, with most going to projects inside the EU and around 10% (€8.4 billion) to projects outside the Union.[38]

The EIB mandate of the bank is defined by the Treaty of the Functioning of the European Union (art 309) and it must contribute to the balanced and steady development of the internal market in the interest of the Union. It operates on a non-profit-making basis, providing loans and guarantees to finance projects in all sectors of the economy. These projects must have at least one of the following objectives: develop less-developed regions, modernise undertakings or develop new activities to support the internal market if they cannot be entirely financed by the member states and projects of common interest to several member states. The bank also facilitates financing of investment programmes in conjunction with assistance from the Structural Funds and is the main implementer of other EU financial instruments such as InvestEU or the Global Gateway outside of the EU (via the instrument EFSD+).[39]

The bank is governed by EU member states, with each represented, mainly by finance ministers, on the board of governors, the highest decision making body. Member states also appoint people, often senior functionaries from national finance or other ministries, to the board of directors which takes decisions on financed projects and investment policies. The European Commission also has a seat on the board of directors. The governance of the EIB is, however, quite undemocratic, because the only check on its activities are non-binding reports by the European Parliament and equally non-binding decisions by the EU Ombudsman.

The bank has a lot of potential, but has a tendency to support the private sector, financing projects with corporations or via other, often private banks and investment funds, which make up 60% of the bank's loans. The other 40% of lending goes to states or public institutions.[40] The EIB finances mostly projects in the transport, energy, health and education sectors. Making projects more profitable for private investors is also a key part of two core strategies of the bank: the Climate Bank Roadmap[41] and the EIB Global Strategic Roadmap[42].

The bank is overly cautious in its profit target and loan loss allowances. In spite of its non-profit mandate, the EIB makes around €2.5 billion in profit a year with returns on assets comparable to a private bank.[43] It is often accused of being very conservative with its loan loss allowance more than 10 times less than the EBRD, which also benefits from a AAA status.[44] The often-raised concern that the EIB would lose its ability to borrow cheaply if it was to take more risk is thus overblown. In fact, the Standard & Poor's rating agency recognized the EIB's AAA status even when excluding callable capital pledges by member states[45] and the bank has maintained a loss rate of only 0.02%.[46] There seems little point to a public bank if it just lends to the same projects at the same rate as private ones. The EIB could lower its profit margin and take more risks in projects with clear long-term social and economic benefits and increase its share of investments in public services.

The EIB declared its intention to become the 'EU Climate Bank' in 2019 and was the first multilateral development bank to stop financing unabated fossil fuel energy projects. The bank also plays a key role in the implementation of the European Green Deal, more specifically in the Sustainable Europe Investment Plan which seeks to mobilise €1 trillion by 2030 from public and private sources.

In 2020, the EIB's developed 'The Climate Bank Roadmap', with the ambition to allocate more than 50% of its lending to climate action and environmental sustainability by 2025 and complement the Green Deal's trillion by leveraging €1 trillion in climate finance by 2030. The bank plans on investing €30 to €35 billion a year in climate action up to 2025, while ensuring its other lending is aligned with the goals of the Paris Agreement. The EIB calculates that through co-financing and leveraging private investments it will mobilise €100 billion annually. This strategy of mobilising private money means that the Green Deal and Climate Bank trillions are dependent on public-private partnerships and the consent of investors.[47]

In spite of the crucial pioneering role in stopping investments in fossil fuel energy projects, there are a number of important flaws in the banks' climate strategy. The weak climate criteria covering the companies and financial institutions it works with, means that the EIB still finances big polluters. But the more structural problem is that the bank will not be able to significantly contribute to the transformation towards an environmentally sustainable economy because it is focused on mechanical supply-side fixes to boost a low growth economy. The rationale is a cake mix concept of the economy which assumes that if policy makers add the right kind of supply-side investment in projects, all will be well.[48] On the one hand there is no focus on reducing resource use, and on the other hand, there is no explicit attention given to providing

environmentally-friendly and affordable public services such as housing, transport and energy which are key to decarbonising the economy (for example by ensuring the renovation of housing of low income households who don't have resources to finance these resources themselves), but also to make sure low income households have access to basic needs during the transition.

The EIB also lacks a robust policy to protect human rights, in spite of high-level commitments not to finance projects that have the effect of limiting people's individual and collective rights and freedoms or violating their human rights. But these commitments do little to prevent financing projects with detrimental impacts on human rights. Most of all, the bank has no specific tool to do a rigorous human rights due diligence on all its projects from start to end of the project. The result is that local communities and civil society have identified numerous human rights issues in projects financed by the EIB.[49]

The European Bank for Reconstruction and Development

The EBRD is owned by 73 countries across five continents (members of the International Monetary Fund), the European Union and the EIB. All shareholders are represented in the board of governors, which has overall authority over the bank and sets its strategic direction. It has €71 billion in assets on its balance sheet and can borrow very cheaply with its AAA status.

The bank was established in the aftermath of the Cold War and has a mandate to foster the transition towards open market-oriented economies and to promote private and entrepreneurial initiative in the Central and Eastern European Countries (also Mongolia and in the Southern and Eastern Mediterranean). Committed to the principles of multiparty democracy, pluralism and market economics, the EBRD also helps recipient countries to implement structural and sectoral economic reforms, including demonopolisation, decentralisation and privatisation.[50] However, as we see in the InvestEu operations, the EBRD also finances public services operated by local authorities and public companies.

The bank has not so far stopped funding fossil-fuel projects[51] but it does have a well-developed human rights policy, with a wide range of safeguards. While the implementation on project level requires better due diligence,[52] the EBRD does have a complaints mechanism that is better than other multilateral development banks. It is independent of the bank's management, can report directly to the board of directors and has better provisions to protect complainants from retaliation.[53]

The Council of Europe Bank

The CEB is owned by the 42 member states of the Council of Europe who each make a small contribution to its capital. The rest is callable capital which only has to be paid if the bank needs extra reserves. All member countries are represented in the governing administrative

councils. It is a rather small bank with €30 billion in assets but with its AAA status, it can finance its operations very cheaply on the financial market.

The CEB has an explicit mandate to promote social cohesion and strengthen social integration in Europe. It supports under-served, marginalised, and disadvantaged people and groups, often through other public banks and public service providers, including municipalities and governing authorities (for example, through employment support, urban renewal projects, infrastructure, social housing, and so on). The bank finances public infrastructure, health, social care, administrative infrastructure, urban, rural, and regional development, cultural heritage, social housing, crisis response, and environmental projects. It works with co-financing, taking on up to 50% of the financing costs for projects with the rest coming from project partners, governments or other public and private funders. The CEB borrows and lends cheap with small margins, leading to reduced financing costs for borrowers.[54]

The German network of national, regional and local public banks

Germany has a broad range of public banks, operating on the local, regional, national and even international level. They don't have an explicit mandate to finance public services, but their collaboration and governance models offer inspiration for how to create synergies and pool resources to finance public services. The more than 400 Sparkassen are local public savings banks, which, according to German law, have to stimulate savings, lend to small and medium-sized enterprises and promote financial inclusion. They form a network that pools resources for shared information technology infrastructure and liquidity and they are public law institutions that are legally independent from local authorities. No one directly owns the assets of the bank. Municipalities act as the responsible institution, but have no right to sell the bank or distribute profits. Their supervisory boards are composed of municipalities and other local stakeholders and they ensure the bank fulfils its public mandate.

This local network is complemented by the Landesbanken, Germany's regional public banks. These are partly owned by regional governments and partly by the Sparkassen. Their role is to support the domestic industrial sector with loans, access to financial markets and investment management. They also invest surplus deposits from the Sparkassen and help them to manage liquidity.[55]

There is also the KfW, the national, state-owned bank that also provides development finance abroad. It functions as a public investment bank that supports local business through the Sparkassen and supplements German development cooperation. In comparison to many other large public banks it has a relatively democratic governance model, including a supervisory board headed by the finance and economic affairs and climate action minister. The rest of the board is made up of other federal and regional ministers, parliamentarians, trade unionists and representatives of business associations.[56]

While the Sparkassen finance their activities with savings from their clients, the Landesbanken have a more hybrid model based on deposits by the Sparkassen as well as borrowing from financial markets. The KfW is a typical investment development bank, financing its activities by borrowing on financial markets.[57]

Despite their significant past contributions to society, the demise of some of the Landesbanken during the financial crisis of 2008 demonstrates that public ownership is no guarantee that banks will prioritize their public mandate. In an effort to create a more 'competitive market' between private and public banks in the 1990s, the Landesbanken lost their state guarantee and were pushed to increase their profitability. This led some of them to go beyond their original mission and field of expertise and to invest in highly profitable, but complex and risky financial products such as mortgage-backed securities that were at the heart of the American subprime mortgage crash. The more prudent Landesbanken that did not lose as much in the crisis were often the ones where the Sparkassen had a more direct and dominant role as co-owners.[58]

Cooperation among European public banks

The European Commission uses public banks and cooperation among them to pursue its policy goals as it set out in its communication on national promotional banks[59] (NPBs) that followed the launch of the Juncker Plan (European Fund for Strategic Investments). The plan aimed to stimulate economic growth by financing infrastructure projects with EIB and other public bank loans and EU guarantees.

Public banks from eight countries had already pledged to participate in its operations. They were:

- Bulgaria: Bulgarian Development Bank
- Slovakia: Slovenský Investičný Holding and Slovenská Záručná a Rozvojová Banka
- Poland: Bank Gospodarstwa Krajowego; Polish Investments for Development
- Luxembourg: Société Nationale de Crédit et d'Investissement
- France: Caisse des Dépôts et Consignations; Bpifrance
- Italy: Cassa Depositi e Prestiti
- Spain: Instituto de Crédito Oficial
- Germany: Kfw

By 2017, public banks from 12 other European countries had committed funds but most of EFSI's operations with NPBs were concentrated in four countries: France, Germany, Italy, and Spain. These four accounted for 77% of NPB lending in the Infrastructure and Innovation Window, for example, despite representing 57% of the EU's population.[60]

In 2019, InvestEU was announced as a follow up to the Juncker Plan, with a more specific focus on financing the EU's climate agenda, the European Green Deal with sustainable infrastructure, among other investments. The EIB plays a less dominant role in this programme, but still covers 75%, with the remaining 25% available for other public banks.

In the Juncker Plan the participating public banks had to cooperate with the EIB but under InvestEU[61], there are seven implementing partners so far:

- European Investment Bank
- Caisse des Dépôts et Consignations
- Cassa Depositi e Prestiti
- Council of Europe Development Bank
- European Bank for Reconstruction and Development
- European Investment Fund
- Nordic Investment Bank

InvestEU is to a large extent focused on supporting the private sector and using public banks to set up funding schemes with commercial banks and investment funds. In contrast, public banks such as the EIB, CEB and EBRD, set up public-public partnerships with local authorities and social housing companies for the provision of public services like social housing and local public transport and energy provision.

Chapter 5: Public banks and investing in health

The Covid-19 pandemic exposed the poor state of healthcare systems in the EU. Although health expenditures as a share of GDP (economic output) remained stable across Europe, averaging 10%,[62] this number hides significant inequalities and poor results. Some countries saw little growth in spending and health expenditure as a share of GDP decreased in countries hit hard by the financial crisis, including Ireland, Greece, Portugal, Spain and Italy.[63] Even in absolute terms gains were limited: annual growth in per capita health spending in Greece and France was below 1% in the 2013-2019 period, while in Italy it averaged only 1.2%.[64] The number of hospital beds in the EU fell by 7.3% between 2009 and 2019, even though half of the EU member-states saw an increase in hospital beds in privately-owned hospitals.[65] Austerity and downward pressure on healthcare expenditure by the EU had a deadly legacy on healthcare systems across Europe.[66]

The EIB: pitfalls and promises

Since its first project in the sector in 1989, the EIB has invested about €43 billion in healthcare.[67] However, to put this into perspective, between 2009 and 2019, roughly after the financial crisis and before the Covid-19 pandemic, the health sector accounted for only 2.3% of EIB's total investments. This increased to 6% between 2020 and 2022 but is relatively low, in comparison with the CEB, for example, where the health sector made up 25% of its projects in 2022 and 17% of all funding, with the bank maintaining the same AAA credit rating as the EIB.[68]

There is also a question about the nature of this lending, with the EIB often promoting the private provision of public services, for example through public-private partnerships (PPPs), which erodes the quality of services and heightens inequalities. There is thus a need to reclaim the EIB to make sure it acts for public purposes rather than for the market.

In this section, we assess the EIB's efforts in funding healthcare. Detailed below are the benefits of having public banks financing healthcare.

The ability of public banks to provide long-term loans with favourable conditions can be helpful for financing part of the investments needed in the health care sector. Projects typically include construction, renovation, and modernisation of infrastructure such as hospitals and neighbourhood healthcare centres. The EIB also finances healthcare infrastructures but its projects often involve the private sector – 35% of its health investment in 2022 and the first half of 2023, [69] most of this going to research and development and medical suppliers. But the bank also lends to private providers of healthcare.

During the Covid-19 pandemic, there was mounting evidence that the private sector contributed less to fighting the pandemic than the public sector, having saved on acute care beds and referring complicated and costly cases to the public sectors.[70] A 2020 study of health expenditures data from 147 countries showed that a 10% increase in private health expenditure led to a 4.3% increase in Covid-19 cases and a 4.7% increase in Covid-19-related deaths.[71]

Despite this, in 2023, the EIB approved a new €150 million loan to the French care multinational Korian (now Clariane, the second biggest private care home operator in Europe). The EIB also has a legacy as the major promoter of PPPs in Europe. Between 2008 and 2019, 25% of the EIB's investments in health were PPPs, amounting to €3 billion,[72] although PPPs have been proven to be inefficient and costly and undermine public services.[73]

If the EIB were more of a pro-public bank, it would divert fewer resources to private service providers. Having a public bank with the ability to provide cheap and long-term finance is useless if it then favours private service providers. In funding for public services, local governments shouldn't have to compete with private entities for public money. The EIB already works with local governments often on a single-project basis, the most common in the health sector being funding for hospital construction or renovation. But recently the bank has started to integrate a programmatic approach: rather than lending to a single project, the EIB can invest in a group of projects in line with pre-defined objectives. Such lending can take the form of a regular investment loan allocated to a group of pooled projects, for example a single loan for the construction and rehabilitation of five hospitals and 11 primary care centres in Madrid.[74]

The EIB can also use framework loans, which are pre-approved loans, usually more than €100 million, under which the borrower suggests multiple projects that are approved by the EIB on an annual basis until the loan is used up, usually in a 3-5 year time period. One advantage of framework loans is that the EIB can fund smaller projects: the bank's regulations prevent it from lending directly to projects worth less than €30 million. This restriction may be a reason why the bank's efforts in healthcare have historically been focused on big and expensive hospitals. If this limitation were removed then the EIB could embrace a more people-centred and preventive healthcare vision by helping local governments fund a wide array of projects to improve the accessibility and quality of public services.

Crisis management

Most public banks are born in times of crisis or in response to one, be it social, economic, or development[75] and the pandemic revealed how they could help respond to pressures on health services.

The Council of Europe Bank (CEB), for example, was able to quickly disburse €3 billion in the first three months of the lockdown through its public sector finance facility, which represents about two thirds of its usual annual lending. The EIB on the other hand reacted more slowly and it wasn't until April 2020 that additional lending was approved. In fact, the EIB's financial

commitments were not so straightforward because a lot of projects were approved but not signed in 2020, while others were approved and signed for lower amounts or ultimately never signed.[76]

While the EIB was able to provide some support, with a €1 billion loan to the Italian healthcare sector, for example,[77] it didn't manage to meaningfully restructure its healthcare investments. In 2020, the EIB invested €3.9 billion in healthcare, or slightly less than 6% of its lending for the year.[78] In contrast, the CEB invested €2.9 billion in 2020, accounting for 47% of its total annual investment, despite being much smaller than the EIB.

The EIB's response to the pandemic was also qualitatively misaligned with the immediate needs of the crisis. A lot of its Covid-related projects were long-term investments in future health facilities. While in normal times these would not be bad investments *per se, they now seem out of touch with the urgent needs of the pandemic. The CEB meanwhile changed its eligibility criteria for lending to include additional medical staff salaries and medical equipment.*[79] Finally, the EIB was accused of "Covid-washing" as many projects supposedly designed for the pandemic were in the end not related at all, such as a loan to the IT group Amadeus for the development of technologies used by "airlines, travel agencies and rail operators".[80]

Health innovation

When including research and development (R&D) and medical suppliers, about a quarter of the EIB's investment in health in 2022 and in the first half of 2023 went to innovation in the health sector. There are good reasons for public banks to invest in innovation, particularly as R&D can be risky and costly because it is time-consuming, and risks of failure are high. Although society may benefit from research activities, firms do not always see a good business case for this kind of investment or they conduct research in the products and technologies that are the most profitable, but not necessarily those best for society at large. Because medical breakthroughs in the form of new medicine, treatment, or tools to support healthcare workers may save lives, public banks are right to correct the economic risk inherent to research by investing in innovative firms who otherwise wouldn't get funding from the public sector.

Until 2007, the EIB only funded innovation through grants but today, many instruments are used such as direct loans, venture debt or equity participation in investment funds specialized in high-growth start-ups. The EIB's direct participation in innovative projects often comes with a guarantee. This means that in order to spur private investments, the EIB, sometimes with the European Commission, makes a pledge to cover a certain share of the losses if the project fails. That is the case, for example, for projects funded though the European Guarantee Fund, or the InnovFin Infectious Diseases Finance Facility, set up in 2020 in the context of the pandemic. The EIB played a major role in funding innovation during the pandemic with its flagship €100 million loan to BioNTech in June 2020 for the development of a Covid-19 vaccine, which was approved by regulatory authorities in December the same year.[81]

But spurring innovation comes with challenges. The first is how to manage risk. One danger of pouring money in private sector-led innovative projects is to mutualize the losses, but not the gains. This leaves the public sector absorbing the losses if the project fails but the private sector will keep the profits if the project is successful. This is especially true for guarantees. For instance, the development of a Covid-19 vaccine by BioNTech was a crucial step in curtailing the pandemic, but the company ended up making substantial profits on sales to the governments that funded its research.

A possible solution would be to shift from "de-risking" to "risk-sharing".[82] Instead of wholly transferring the risk of failure from the private sector to the public one, the EIB should seek to share risk with private investors without too favourable terms as well as sharing the profits.

One creative way the EIB has applied this solution is through the use of venture debt which is a loan with equity characteristics. It has been pioneered in Silicon Valley in the US by the Silicon Valley Bank (which collapsed due to bad risk management and generated significant financial unrest in early 2023[83]) and other private funds to ensure start-ups have enough liquidity between funding rounds. Funding may be a time-consuming task for young enterprises that lack access to traditional loans. Moreover, successive funding rounds dilute the shares of original investors.

Venture debt is designed for young and fast-growing companies that are not yet ready for public equity markets and lack the capacity to repay traditional loans. In the EIB, venture debt consists of a four-to-six-year loan with repayment based on performance and is a very flexible instrument for young companies. It can also capture the upside of an investment as it typically comes with a warrant, allowing the EIB to retain the right to convert a part of the debt into equity if the project is successful. Profits made can then be used by the bank to fund future projects. It is a positive development in the bank's operations, and it is also positive that venture debt products issued by the EIB have a greater share of potential debt conversion into equity than private financial institutions (10% vs 1%).[84] Innovation in health is a key sector with life sciences accounting for 44% of the EIB's venture debt operations.[85]

Even though this risk sharing is interesting, the EIB uses a bad economic rationale in its use of venture debt. Part of the reason why the bank uses it is to attract venture capital in the EU. In that field, the EU is playing catch-up with the US, where the sum of venture financing is nearly five times higher than in Europe.[86] Financing startups is important because they can be more innovative than established companies, but venture capital has a specific way of directing innovation, as it tends to go for the first profitable exit available, sometimes giving-up on longer-term research that might produce greater benefits for society.[87] Conditionalities could be attached to loans to make sure the EIB's money funds R&D to its fullest extent. Another problem is that venture capital is only fit for a few types of research and technologies, those who have a shorter research time and higher response to changes in demand like software.[88] While drugs and medicine might fit that criterion, it is unclear how venture capitalists can help fund research in health on its whole spectrum, as life sciences have typically been a lower priority

in venture capitalists' portfolio.[89] Finally, contrary to their reputation, venture capitalists are not likely to fund very radical new technologies because of the high concentration of venture capital in a handful of firms and cities.[90]

An interesting alternative would be for the EIB to invest in the whole innovation ecosystem. The bank has for now mostly pursued high-profile innovation. While major medical or technological breakthroughs are important, so is their commercialization and use by the final beneficiaries. But a healthy ecosystem innovation is not achieved only by funding new players, but also by plugging them in. An innovation ecosystem includes different actors across fields and organizations.[91] In the health sector, that might include researchers in different disciplines, but also health practitioners, hospital managers, patients, and medical suppliers. A problem restraining innovation is network failure, where for example someone with a great idea can't put it on the market or a firm or an agency need workers with a specific set of skills.[92] Innovation requires collaboration between multiple researchers, companies, and organizations, like universities, government agencies and venture capitalists.

Public banks can have a meaningful role in promoting such synergies. Some innovative projects couldn't exist without investments on several fronts and for different organizations. While private entities may not be able or willing to provide such broad financing, public banks can solve this coordination problem. Therefore, the EIB should encourage firms or governments to pool proposals if they benefit from a common input or if their projects are mutually beneficial. One could easily see for example the EIB on-lend to local authorities to fund symbiotic relationships between universities, national research agencies, hospitals, and startups. As economist Dani Rodrik put it, industrial policy in the future will rely more on collaborative interactions and the supply of a portfolio of customized public services rather than top-down policy instruments like subsidies and tax incentives.[93]

At the same time, public banks are uniquely positioned to identify network failures on the basis of the information they can monitor through their lending and applications-screening operations.[94] They can identify what business venture the private sector is exploring, what type of inputs they need, what are the bottlenecks, what experiences from a specific sector could be shared or what activities could generate inter-sectoral coordination. The intelligence role of public banks could thus be enhanced.

The way forward: good investments in health and healthcare

Public banks can support healthcare in many ways. They can provide low-cost and long-term financing to local governments, they can step up their support in times of crisis, and they can spur innovation. Other uses for public banks in healthcare can and will be found. What is sure at this point is that there is a role for public banks in investing in health and healthcare.

Good investments in healthcare improve the provision of health-related public services by extending coverage and accessibility and by increasing quality and efficiency. It can include

funding for health infrastructures in under-served regions, stepping up innovation to find new cures or improve productivity and assuring the stability of healthcare systems in times of need.

One new approach could involve public banks in supporting a new industrial policy for services. As Rodrik notes, long-term care workers' productivity and wages could be improved by investing in workers skills and by introducing and contextualizing labour-friendly technologies such as digital tools that provide real-time information.[95] Healthcare is a labour-intensive sector with growing needs, but many health workers still have precarious wages and conditions. It would be a good field, therefore, to introduce an industrial policy with a focus on delivering good jobs. Health care digitalization is, of course, no panacea. As the Debt Observatory in Globalisation (ODG) highlighted in its study of Strategic Projects for Economic Recovery and Transformation in Spain funded by Next Generation EU funds, health policy should not succumb to techno-optimism – the idea that technology will drive healthcare solutions.[96] Then, there are of course the risks of privacy breach and digital inequalities. But what Rodrik suggests is to develop labour-friendly digital technologies – in other words tools to help health workers do their job better. Digitalization here supports public services by enhancing health workers productivity and working conditions.

Not every investment in healthcare is, however, an equally good investment in health. An investment in health should be understood as an investment that improves health conditions over a lifetime and helps pursue a meaningful life. Applying this requires a shift away from intervention to prevention.

The EIB's health overview for 2023[97] warns of the risks of future emergencies, with a 47%-57% chance that there will be a new pandemic in the next 25 years. According to the EIB, health is central to development, prosperity, and national security. This is in line with the European Commission's view of health as a defence against health threats.[98] A narrow definition of health also implies a narrow set of solutions, mostly focusing on medicine and vaccine supply and the resilience of hospitals and healthcare systems.

These investments are by no means unimportant. The pandemic highlighted the shortcomings in crisis preparedness in many hospitals and healthcare systems. But focusing too much on these specific solutions comes at the expense of prevention and public health. Between 2000 and 2016, for example, 83% of the EIB's lending in health went to hospitals.[99] While hospitals receive the biggest share of health expenditures across the EU, they still account for around 38% of total spending.[100] The EIB tends to play to its strength by financing hospitals because they are capital-intensive and require important upfront investments. But the bank still overlooks many important aspects of healthcare that help people live a healthy life. Moreover, countries who were successful in handling the Covid-19 pandemic relied more on public health interventions and the empowerment of local officials and health practitioners than on acute treatments in hospitals.[101] There are other better instruments at the European level to deal with health threats and epidemic preparedness, such as EU4Health which focuses on surveillance and monitoring of potential health crisis and the availability of medical countermeasures,

but such securitization of health threats should not reverberate in every aspect of healthcare systems.[102]

In contrast to the EIB, the CEB published a technical brief in 2021, *Investing in Effective, Inclusive and Resilient Health,*[103] that showed how the Covid-19 pandemic has exposed large inequalities in access to healthcare overlapping the prevalence of multi-morbidity (simultaneous chronic conditions). Today, in Europe, non-communicable diseases are the main cause of mortality, and two-thirds of people over 65 suffer from multi-morbidity. But most of these conditions are largely preventable: two thirds of deaths under 75 in Europe could be avoided with better health and primary care. The problem is that there might be an over-reliance on hospitals with a quarter of all trips to hospital in Europe made because primary care was unavailable.

The CEB technical brief suggests that there should be more person-centred care, promoting healthy behaviour and lifestyles. Addressing the large share of preventable deaths and the high rate of multi-morbidity will require the multidisciplinary provision of primary healthcare. Local health care centres are less expensive to operate than hospitals and are better equipped to identify future health complications, thus improving quality of life and saving costs to healthcare systems. A successful project in that regard is the financing of primary health care centres in Bosnia & Hercegovina. There, the CEB helped rebuild 425 primary health care facilities and equipped a further 399 with standard sets of equipment. Of course, hospitals would still be needed in the future but would increasingly focus on specialized care for acute conditions.

The EIB, despite being engaged in the health sector since 1997, has a lot of room for improvement. It could step up quantitatively and qualitatively its role in financing local governments, in handling crises and in spurring health innovation. We don't have to rebuild and imagine everything from the ground up as we can learn from positive precedents in pro-public public banks financing healthcare systems. There is not just the CEB, but other good examples from the more than 900 public banks across the world.[104] Many lessons could also be learned from banks outside Europe, such as Findeter in Colombia which has 40% of its total spending dedicated to healthcare.[105]

Chapter 6: How public banks can cooperate to fund public services

In this chapter we will look at the potential for public banks to cooperate to finance public services in the EU and the role trade unions can play to mobilise and put such a collaboration on the agenda.

The Canada Infrastructure Bank (CIB), set up in 2017, has a similar profile to the EIB. Both banks tend to support profit-making projects and see supporting the private sector as one of their main goals. The mandate of the CIB was written without consultation with trade unions but with plenty of private sector input supportive of public-private partnerships. Public sector unions in Canada heavily criticised the CIB for promoting the privatisation of public services and this seems to have helped shift the emphasis towards also providing long-term, low-interest loans directly to municipalities and communities.

Public sector trade unions in Europe can play a similar role towards the EIB. The bank has become a lot more political in recent years. It aims to become the Climate Bank of the EU and a main implementer of the European Green Deal. Pressure from civil society also led the bank to become the first large-scale multilateral development bank in the world to stop financing unabated fossil fuel projects. It means that creating pressure works.

Many governments as well as the European Commission now want to use the EIB even more to reduce risks for the private sector in the name of boosting the competitiveness of profitable European corporations. Along the same vision they want to use the bank more to tackle climate change by focusing on technology-based solutions, with polluting and profitable corporations often securing cheap EIB loans for 'clean tech' projects that contain a lot of greenwashing and ineffective allocation of public resources.

The Foundational Economy, the international collective of researchers, has argued that such a profound transformation requires access to essential public services for all. There is a structural neglect of the need for all to have access to affordable and environmentally friendly essential publicly owned services like housing, energy, water, food and transport. These sectors play a crucial role in tackling the environmental crisis. But we also need to make sure there is sufficient public funding for supporting services like education, health, care and social public infrastructure. This is a basic human right and of crucial importance if we want to safeguard and heal the social fabric of our societies.

Given the large investment gap in public services in Europe, we need to call for public investments in public services from both EU and national government budgets, as well as public banks. The public banking capacity in the EU represents 40% of its banking sector and

equals 70% of its GDP. We can maximise its potential for financing public services by creating and upscaling collaborations between EU, national and regional public investment banks and funds on the one hand and national, regional and local governments and public companies on the other hand to create a network of public-public cooperation to leverage and pool resources to finance the delivery of essential public services.

Recently an enlargement of the guarantees for InvestEU has been proposed as part of the Strategic Technologies for Europe Platform (STEP) programme to finance the development of strategic technologies.[106] A further enlargement and reorientation of the programme should be implemented to act on the findings in the EU Commission's Strategic foresight report that the cost of living crisis has caused an urgent problem for low income households to access essential public services.[107] Moreover, the cost of living crisis was on the top of the list of concerns mentioned by EU citizens in the EU barometer.[108] Protocol 26 of the Lisbon treaty on services of general interest provides the basis to call for such an EU investment programme.

The rules on financing services of general interest leave space to use such collaborations between public investment banks on the one hand and national, regional and local governments and public companies on the other hand. We should call for a mechanism such as InvestEU, but with the explicit aim of financing public services. This should be in line with state aid rules because the greatest potential of public banks to finance public services lies in their capacity to provide stable and cheap long-term loans for projects with high social and environmental benefits and a sound long-term business case but with expected returns that are below market expectations. Already in some InvestEU projects that focus specifically on financing public services and where the InvestEU investment committee gives high scores to projects for their capacity to tackle market failures.

When advocating for a European public banking cooperation for public services we should refer back to the Commission's communication calling on member states to use 'National promotional banks' to address market failures and stimulate growth.[109] This communication was linked to the launch of the Juncker Plan which gives guarantees with EU budget for EIB and other public bank loans for infrastructure projects with the goal of stimulating economic growth in the context of the banking and Euro crisis which led to reduced credit from commercial banks and further downward pressure on growth due to widespread austerity policies and cuts in public investment across Europe. The goal was to encourage member states to use their public financial institutions or create new ones to collaborate with the EIB to implement the Juncker Plan and co-finance projects. We should call on the EU institutions to bring this idea back to life and reorient it towards the financing of public services.

For such a collaboration between public banks supported with EU guarantees, it would be interesting to combine the EIB's access to vast cheap resources on the financial markets with the CEB's explicit social mandate.

For the EIB to perform this role, the bank should adapt its business model. Instead of using a third of its €550 billion balance sheet to lend to other financial institutions or the 60% going to corporations, the EIB should enhance its cooperation with national, regional and local banks to set up programmes to provide low cost finance for public service projects all over Europe. The collaboration between the KfW and the Sparkassen in Germany provides inspiration for this. Proposing such a collaboration can build on existing partnerships between public banks for financing of public services and there are several involving the EU, EIB, EBRD, CEB and national public banks.

Under InvestEU, there have been several loans that benefit from EU guarantees to enhance public financing conditions for public services. These include loans of more than €2 billion for railway infrastructure in Spain and Italy and €60 billion in EIB loans to Hanova, a social housing company in Germany for the building of affordable and energy efficient social housing. The CEB, meanwhile, has provided loans to the Institut Català de Finances, which lends the money to municipalities and social organisations for buying, building and refurbishing social housing in Catalunya, and a €20 million loan to community, social and voluntary organisations in Ireland.[110]

The EBRD set up a sustainable infrastructure programme focused on green projects in cities in Bulgaria, Croatia, Czech Republic, Estonia, Greece, Hungary, Latvia, Lithuania, Poland, Romania, Slovak Republic and Slovenia that will finance municipalities or municipal-owned companies in supporting energy and transport projects.

In 2020, the EIB, the CEB, the Caisse de Dépôts et Consignations (CDC) and l'Union pour l'Habitat Sociale set up a joint project in France, combining European and national funding for long-term investment in social housing. Loans under this partnership contribute to building social housing as well as renovations for energy efficiency.[111]

By 2023, the CEB had approved six loans totalling €750 million for various CDC Group entities to finance social housing projects and aid for priority and vulnerable populations, including refugees and migrants.[112] The EIB also lent €500 million to CDC at the beginning of 2023 to finance projects by local authorities with a focus on climate, including energy efficiency measures in public buildings, water management and public transport.[113]

Since 2015, the CDC has been able to mobilise €7 billion from the EIB, or almost €1 billion per year on average which has been divided equally between public sector financing (loans to local authorities) and social housing. The loans to local authorities have helped facilitate small and medium-sized investments in energy efficiency of buildings and urban renewal, water and sanitation networks, education, sustainable mobility and clean public transport. In the field of social housing, the EIB loans distributed by CDC have enabled the creation of new social housing and thermal renovation programmes.[114]

In 2022, the EIB and the Italian public bank Cassa de Depositi e Prestiti (CDP) set up a partnership providing €535 million in guarantees for loans from the CDP to regional governments that will

allow for €1 billion worth of projects by 2025. Of this, 20% is reserved for initiatives combating climate change and a further 20% for regional projects in the southern regions and areas affected by the 2016 earthquake in Central Italy.[115]

Trade unions can play a big role in putting this public banking for public services mechanism on the political agenda. They are key actors in European civil society with large numbers of affiliates across economic sectors, including public service providers, and have a strong mobilisation capacity. Moreover, trade unions are already represented in the governance structure of some public banks, such as the KfW in Germany. Trade unions have a crucial role to play to push public banks to fulfil their potential and finance a just transition and public services in general.

There are several examples where trade unions and civil society have campaigned together for pro-public, public banks. In Belgium trade unions, NGOs and social movements set up a platform in 2017 to demand that Belfius, a bank that was nationalised in the aftermath of the financial crisis of 2008, remain public, be set a social and environmental mandate and establish democratic governance. The bank has its roots in both the labour movement and local government finance, but was privatised in the 1990s. While the bank still does not have a public mandate, governments no longer call for its privatisation.[116] More generally in Belgium, trade unions and environmental organisations have joined forces on climate action and written memorandums calling on Belgian and EU levels of government to demand more and better public banking and finance for a just transition.[117]

Local government can play a key role in the provision of public services but often has limited fiscal resources and lacks the access to cheap money on financial markets that public banks like the EIB have. The potential to link up with federations of local governments as well as existing campaigns on local public services and their need of public finance, is reflected in the mPower project by the Transnational Institute[118], the work on green cities by CEE Bankwatch[119], and initiatives from the Foundational Economy collective[120].

Recommendations

The following measures are aimed at getting public banks in Europe, especially the EIB, to prioritise the financing of public services and high quality projects with a positive social and environmental impact.

1. Change project appraisal to allow for more public service projects

The appraisal of projects should be changed to allow for more public and non-profit initiatives that have long-term economic viability and high socially and environmentally positive impacts. The EIB should allow for more risk taking and include the non-cash value of imputed social benefits and environmental gains also for projects without public guarantees. Guarantees and grants can then be used to go beyond the EIB's own ability to take on risk and allow for more upscaling and more complex projects supporting essential services with high environmental and social benefits.

2. Work more with national and regional public financial institutions to back environmentally-friendly essential services on a local level.

Create lending programmes with European, national and regional public financial institutions to co-finance public services like affordable housing, energy, public transport, healthcare and education. These should aim to bring together different local actors such as regional and local governments and local companies including cooperatives and other non-profit initiatives, workers and citizens to design projects. At the EIB, part of the financing capacity currently going to large projects could be split into different smaller projects or framework loans to allow for more small actors to get access to funding for public services.

3. Create a technical assistance programme to support household's quality of life and build up capacity of public institutions and local authorities.

Lending programmes for public services should also include a technical assistance facility to help local governments and local economic actors identify projects and improve quality. The facility should stimulate synergies among local actors and help with capacity building by transfer of knowledge through guidance and targeted training workshops. This technical assistance could be based on or be an extension of the EIB's TARGET[121] technical assistance facility currently reserved for EU coal, peat and oil shale regions and focus on areas with a high level of low- and middle-income households deprived of public services.

4. Set targets on construction projects that promote the circular economy and focus on reuse and energy efficiency for the social housing and care sector.

Construction for essential services is the first place where EIB lending in combination with EU grants and guarantees can have a significant positive impact on the lives of low- and middle-income households. These projects should promote the circular economy by focusing on the reuse of existing buildings and include energy renovation which is crucial given the

carbon costs of demolition plus rebuild. In cases like social housing or care homes, it is possible to construct projects which improve access to public services for low-income households and economic viability. Such projects also have scope for innovation to include new kinds of centres which combine accommodation for young and old people with facilities open to the wider community.

5. Go from climate criteria to working with companies that have business models which support social distribution and leave no one behind.

Public banks should not only stop financing fossil fuel projects, but also have strong climate and social criteria for their clients. The EIB's current PATH Framework climate criteria for companies and financial intermediaries should be strengthened to be fully compatible with 1.5 degrees scenarios and companies' decarbonisation plans should be accessible on the bank's website. The criteria should also include targets for a reduction of resource use to make sure EIB financing contributes to decreasing the broader environmental footprint of the European economy. Furthermore, companies receiving lending from the EIB or other public banks should pay their fair share of taxes, not engage in any tax evasion or tax avoidance activities and reinvest their profits in sustainable productive activities. Finally, these companies should respect labour rights, provide high job quality and decent salaries.

6. Act quickly in times of crisis

Public banks should follow the example of the CEB during the pandemic and review their lending practices to allow for fast-tracking projects in times of crisis. Similarly, these banks should be ready to increase their loan volume and to change eligibility criteria should the need arise.

7. InvestEU for public services

Guarantees from the EU budget and loans from public banks with favourable conditions can play a significant role in providing more investment capacity for projects that deliver essential public services. As we can see from some of the projects in construction and renovation of social housing, the roll-out of local public transport or renewable energy – programmes like InvestEU have more potential to scale up such funding. To achieve this, the strategy should focus more on a just transformation instead of clean technology and competitiveness. This can

be done by using the EU guarantees and financing from public banks to support projects and programmes that deliver public services and have long-term economic viability. In order to achieve this the following actions should be taken:

- Create dedicated funding streams for environmentally-friendly, high quality and affordable housing, water, energy, transport, food, healthcare and education projects. The allocation of this funding should be based on a mapping of where social needs and lack of access is highest across the Union.

- Favour public-public cooperation instead of attracting private investors. The current strategy of using public money to attract private investors is an unfair distribution of public investment capacity based on taxpayers' money. If we leverage public funding capacity by fostering cooperation between public financial institutions and local governments, we can better ensure the financing of projects that are less attractive to private investors but have high social and environmental benefits.

- The EIB can be a central hub in such a project, because of its significant size and access to cheap funding on capital markets. In order for the EIB to play this role, it should:

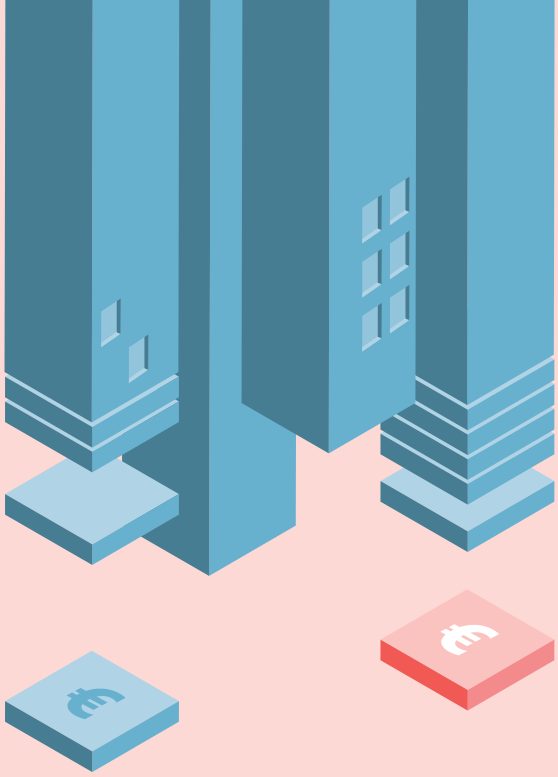
    - prioritise the financing of public services;

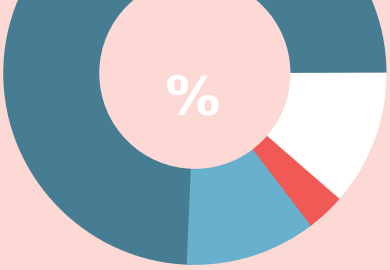
    - improve its climate and environmental criteria for projects and promoters;

    - increase its lending. Comparison with other public banks shows that it can do this without jeopardising its access to cheap funding;

    - increase cooperation with other EU and national public banks and other public financial institutions; and

    - better adapt its services to the capacity of local governments and other local non-profit actors and initiatives. This can be done by lowering the minimum size of loans and by providing more and better technical support.





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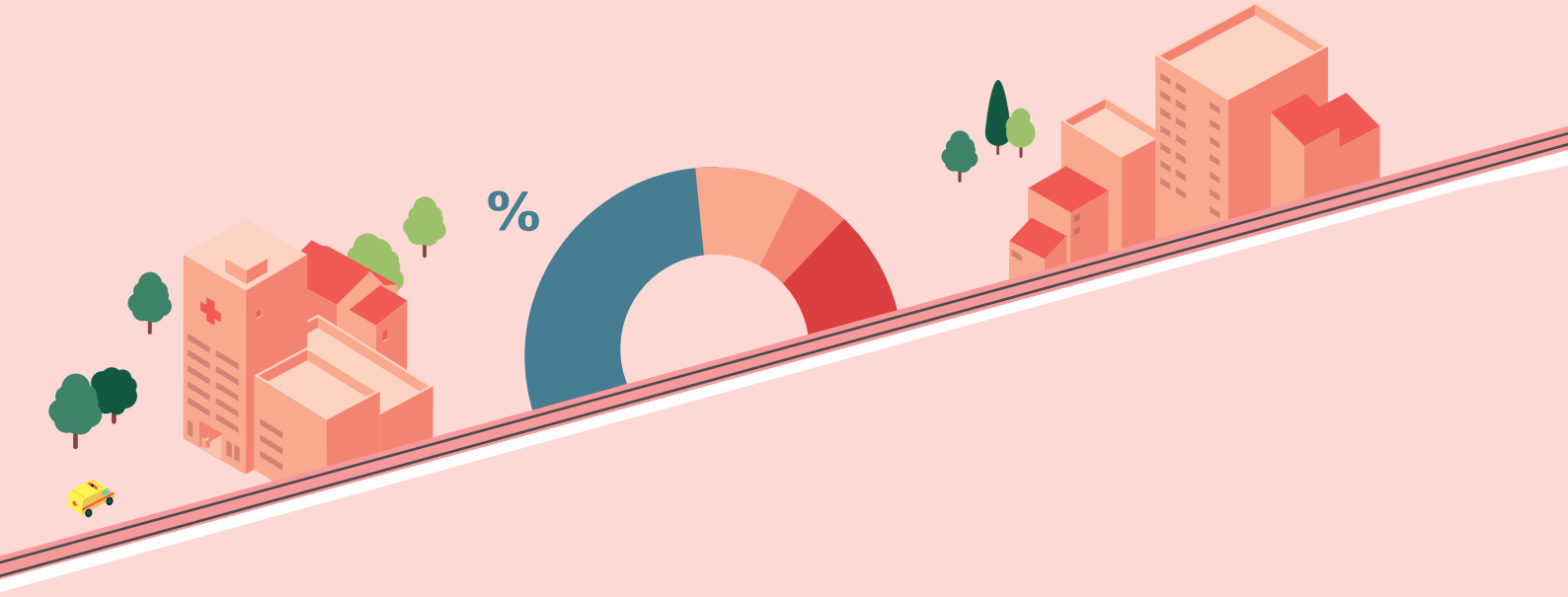
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