

## 4 Making water “public bankable” in Uganda and Tanzania

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This chapter examines the potential for state-owned public banks to play a positive role in the equitable and sustainable expansion and improvement of public water and sanitation services (WSS) in Uganda and Tanzania. Both countries have relatively strong and successful public water operators, stemming in part from failed experiments with privatization followed by sustained efforts to rebuild public water systems.

But lack of finance remains a major barrier to improved WSS in both countries, with national governments struggling to meet the increased spending required to achieve the Sustainable Development Goals (SDGs) for water and sanitation. Multilateral and bilateral funding agencies continue to be the largest financiers of WSS in Uganda and Tanzania, yet they too appear unable to meet the full financing needs of the sector. Official development assistance (ODA) in the region has been slowly declining, and there are concerns with an over-reliance on donor agencies that can impose problematic conditionalities on water utility operators.

Private finance has done little to close this financing gap. Despite repeated calls from powerful multilateral actors, and efforts to de-risk the water sector for private investors, private capital plays a tiny part in the funding of WSS in Uganda and Tanzania, and this is unlikely to change soon.

Could state-owned public banks help with this financing gap? We argue in this chapter that it is a real possibility. Drawing on international examples, we illustrate how Uganda and Tanzania could commit themselves to working towards a model of national public banks that provide long-term patient finance with low interest rates, helping to advance universal WSS coverage while building local financial expertise with a public purpose that goes beyond short-term political and electoral cycles.

This shift will not happen overnight, and there are no guarantees that positive synergies between public banks and public water agencies can be created. Public banks in Uganda and Tanzania are relatively new to the WSS sector and are relatively small financial institutions with limited capital for which

there is much demand from other sectors. Building a larger investment base and training staff with necessary expertise and political autonomy to engage effectively in the water sector will be a medium- to long-term undertaking, with many obstacles en route. And, as with any public institution, public banks are prone to state capture and other forms of abuse. There are also important caveats related to the impact of debt financing on affordability for end users, as well as deeper philosophical questions related to the potential for financing to intensify the commodification process by entrenching neoliberal forms of exchange value that can override water's broader public use.

As such, we do not argue that state-owned public banks are a panacea for WSS financing in Uganda and Tanzania. Even the wealthiest of countries continue to rely on central governments for increased WSS spending, and donor funding will remain an important component of water financing in the region (UN Water 2021; Pickbourn et al. 2022). National public banks should therefore be seen as one piece of a complex financial puzzle—albeit a piece that has been largely ignored in the literature and policy making on WSS finance to date (McDonald et al. 2021; Marois & McDonald 2022).

Importantly, there appears to be a real appetite for building public bank capacity in the WSS sector in Uganda and Tanzania—both from public banks and from public water operators—although there are no formal plans in place to scale up these activities. We hope this chapter can contribute to promoting such discussions.

We begin the chapter with a brief historical review of public WSS in the two countries. Our focus is on the two largest public water operators—the National Water and Sewerage Corporation (NWSC) in Uganda and the Dar es Salaam Water and Sewerage Corporation (Dawasco) in Tanzania—in part because they are highly influential in their respective WSS sectors and in part because of the inherent tensions within these utilities arising from their need to balance the competing commitments of equitable service provision with that of being “financially viable.” These tensions lie at the heart of the WSS financing question, highlighting the need for additional finance as well as the potential pitfalls of increased public debt. A review of existing sources of finance demonstrates just how urgent the need for new and expanded sources of WSS funding is.

We conclude with a critical discussion of the potential for national public banks to play a larger role in the water sector, focusing on the Uganda Development Bank (UDB), the Housing Finance Bank (HFB) in Uganda and the TIB Development Bank (TIB) in Tanzania. We then explore the potential for these national public banks to partner with multilateral and bilateral financial institutions to build capacity in the sector and raise additional capital. Public–public partnerships (PUPs) of this kind have been popular amongst water operators for many years (Beck 2019) but have not been attempted between public banks (Marois et al. 2023). Having a better sense of the benefits and pitfalls of such partnerships is a necessary precondition to attempting them in practice. The fact that Uganda and Tanzania are amongst

only a handful of countries in Sub-Saharan Africa where national public banks are engaged in the water sector makes this exploration even more useful.

Methodologically, the research consisted of a combination of primary and secondary literature reviews (for example: bank reports, government reports, water operator reports, academic and NGO articles) as well as information collected from senior officials in various organizations engaged in financing water services in the region, including UDB, HFB, NWSC, TIB, Dawasco (and two smaller water operators in Tanzania) as well as six multilateral banks and bilateral donors providing WSS financing in the region. Information was gathered via a combination of in-person interviews, online meetings and written responses to prepared questionnaires between late 2022 and early 2023 (collectively referred to as “author interviews”). For purposes of confidentiality, we have kept the names and positions of interviewees and some of the organizations anonymous.

### **Brief background on water operators**

Similar to other parts of Sub-Saharan Africa, Uganda and Tanzania’s experience with “modern” (i.e., piped and reticulated) WSS have been plagued from the outset by colonial neglect and racialized forms of exclusion. Fears of contagion by European settlers led to highly segregated urbanization, while racism resulted in unequal service delivery, with the vast majority of Africans (and other racialized groups) receiving little if anything in the way of formal WSS (Nilson 2006; Hungerford & Smiley 2016; Njoh 2016).

The post-colonial era saw the expansion of WSS to some neglected areas, but this growth tended to have an urban bias and trailed behind investments in other infrastructure. Political machinations, rent-seeking and corruption played a part in the slow and uneven pace of WSS delivery, setting the stage for neoliberal-era attacks on public water services. In the context of structural adjustment in the 1990s, the World Bank and a host of other multilateral and bilateral banks and donors began to push for private sector participation in WSS throughout the Global South, enforced in part by conditionalities on loans (Bayliss 2003, 2008; Bayliss & Fine 2008; Bakker 2013; Estrin & Pelletier 2015).

Uganda is illustrative of these privatization pressures. By the mid-1990s, the National Water and Sewerage Corporation was considered a “basket case”: too heavily reliant on international donors and financially unviable (Bukenya 2020, 2). By the end of the decade, the NWSC was on the verge of bankruptcy (Muhairwe 2009). To “salvage” the corporation, donors recommended major institutional reforms that “centred on promoting market-based practices, such as private sector participation in urban water service delivery” (Bukenya 2020, 11; see also World Bank 1998).

To test the theory, NWSC was split into two parts: one section of the utility focused on the capital city, Kampala, and was run by a private

for-profit water company on a contract basis; the remaining NWSC towns continued to be operated by public sector employees (Muhairwe 2009). The initial Kampala contract was awarded to a German firm from 1998 to 2001. Following its “unsatisfactory performance,” a French company, ONDEO Services, was contracted from 2002 to 2004, but its record was also problematic (Bukonya 2020, 11). Meanwhile, the publicly run portion of NWSC outperformed the private companies on a wide range of indicators, convincing the Ugandan government to jettison the privatization experiment and reunite the two sections of NWSC (Muhairwe 2011; Heymans et al. 2016).

The newly revitalized NWSC was given semi-autonomous standing as a corporatized utility and was mandated to adopt a commercial orientation, “introducing private sector management principles and practices, including efficiency orientation, competition, performance management and entrepreneurialism” (Mbuvi & Schwartz 2013, 380). NWSC headquarters became the contract management unit responsible for asset holding and performance monitoring while management teams in towns “acted like private operators responsible for management, operation and maintenance services” (Bukonya 2020, 13; see also Banerjee & Morella 2011).

The early years of this corporatization saw NWSC focus on revenue collections, cost-cutting measures and outsourcing, bringing together “the political elite, key technocrats and donors into a rare coalition that enabled a six-year programme of harmonised and uninterrupted support for NWSC” (Bukonya 2020, 2). This transformation was seen by many to be a success story, with NWSC outperforming its peers in the region on indicators such as non-revenue water and cost management coverage, achieving “remarkable turnarounds” in a context characterized by “low national income, rapid urbanisation, as well as weak governance involving high public sector corruption and authoritarian tendencies” (Bukonya 2020, 2, 5).

But improvements began to slow in the late 2000s and have been uneven since, with concerns that a skewed focus on costs and profitability has motivated too much of the decision making. According to one government official, NWSC “only cares about preserving its autonomy and financial viability” (as quoted in Bukonya 2020, 23). Even the expansion of NWSC to smaller towns and rural areas appears to be shaped by financial criteria, with the “NWSC mainly adhering to the logic of first connecting those areas that were deemed most profitable” (Tutusaus & Schwartz 2020, 258; see also Kitonsa & Schwartz 2012). Herein lies what Tutusaus and Schwartz (2020, 248) refer to as “organized hypocrisy,” with the NWSC needing to “show adherence to a commercial public utility model in order to access resources from donors and the national government,” while at the same time providing water in places where full cost recovery is impossible due to low household incomes.

This conflicting mandate is reflected in the uneven state of WSS in contemporary Uganda. Although the share of the national population with access to basic water services increased from 24 to 39 per cent between 2000 and

2015—with NWSC increasing water coverage in urban centres under its jurisdiction from 40 to 80 per cent—there are significant disparities between rural and urban areas and across income groups, with many low-income families unable to afford the level of services they require (Alabaster & Krůčková 2015; Tsimpo & Wodon 2018; Mugisha 2019; Bukenya 2020). Progress on sanitation has been particularly weak, with almost a quarter of the country’s rural population, and close to 10 per cent of its urban population, still forced to practice open defecation, while access to handwashing facilities has “largely stagnated over the past 5 years” (Government of Uganda 2022, 146).

Tanzania’s water and sanitation story is very similar. Although access to WSS was expanded considerably in the early post-colonial era (notably in rural areas with the creation of *ujamaa* villages), by the mid-1990s, most public water services were seen to be on the brink of collapse by aid agencies, resulting in a push for privatization (Pigeon 2012; Smiley 2013). In response, the Tanzanian government revised its National Water Policy, effectively codifying private sector involvement in WSS. The focus was on the largest city, Dar es Salaam, where a highly secretive process saw a consortium of German, British, Asian and local firms awarded a lease contract in 2003 to manage water and sanitation. But performance was so poor—particularly in low-income areas—that the contract was terminated after a mere 21 months, with police arresting the company’s executives and expelling them from the country (Allen et al. 2006; Bayliss 2008; Pigeon 2012).

As with Uganda, failed privatization led to a return to public management, also with a corporatized model. National government created a state-owned enterprise (Dawasco) which entered into a lease agreement with the public asset holding agency, the Dar es Salaam Water and Sewerage Authority (Dawasa), later expanded to include agreements with water authorities in other urban and rural areas in Tanzania. A PUP was then established with Uganda’s NWSC to assist in capacity building, which included the participation of local community organizations and NGOs (Dill 2010; Pigeon 2012).

Significant improvements were made at Dawasco within the first few years: financial stability improved, information systems were upgraded, household connections expanded, staff training was more effective, infrastructure investments increased and more progressive tariffs were introduced, including targeting non-payment from high-income users. Staff morale improved, as did public support for the company (Mugisha 2011; Triche 2012). As Pigeon (2012, 53) notes, it is a “remarkable achievement that...-Dawasco was able to rise from the ashes [of failed privatization] and reverse the performance trend to increase coverage and revenue,” demonstrating once again that public water services can be better than private ones.

But as with the NWSC—and perhaps because of its close mentoring role—concerns have been raised over the emphasis that Dawasco places on financial viability. Critics argue that Dawasco senior executives have been fixated on comparing themselves to the private sector, prioritizing financial efficiency

and profitability over reliability, quality, safety and affordability (Pigeon 2012, 46). There are also concerns that overly centralized decision making provides little space for citizens to express their opinions (Mdee & Mushi 2021). And although the government appears committed to a public WSS model—including the creation of a National Water Fund and a Rural Water Authority with mandates to provide water supply to marginalized areas—the recently enacted Water Supply and Sanitation Act once again re-opens the possibility of private sector participation (Government of Tanzania 2019).

In the end, the results of Tanzania’s WSS restructuring have been mixed and tension laden. There have been some important gains, but SDG targets for water and sanitation are being missed by a wide margin, particularly in rural areas, low-income urban neighbourhoods and in sanitation. Only 61 per cent of households have access to a basic water supply, 32 per cent have access to basic sanitation, and 48 per cent have access to basic hygiene (World Bank 2022). More than 30,000 Tanzanians die annually due to poor or non-existent sewerage services in the country, many people struggle to pay their water bills, and water inequities remain deeply gendered (Brown 2010; Masanyiwa et al. 2017; Smiley 2017; Mwesongo & Mwakipesile 2023).

### **Paying for WSS**

Addressing these water and sanitation shortfalls in Uganda and Tanzania will require significant investment. Money alone will not solve the problems, of course—reforms to governance and administration will also be important—but without a substantial increase in WSS spending, both countries will continue to face dire social, economic, health and environmental consequences related to water and sanitation.

How much money is required? Government estimates in Uganda put the costs of meeting their SDG targets of universal access to safely managed water and sanitation by 2030 at US\$935 million a year—three times the current level of investment in the sector (Pickbourn et al. 2022, 2). In Tanzania, the third phase of the Water Sector Development Program (intended to address all its water resource management and WSS needs over the 2022–26 period) has an ambitious spending target of US\$6.5 billion, four times higher than the first two phases of the programme combined, and several multiples more than the government’s historical spending in the sector (World Bank 2022).

But even these estimates do not account for the full costs of water and sanitation needs. Repairing old (and buried) infrastructure is often not included in estimates, and there is the added challenge of rapid urbanization and informalization, which can make water operators feel as if they are running just to stand still. The demands of climate change and the costs of new technologies compound these expenditures. Addressing these needs will far exceed country budgets.

Where will this money come from? The following sections explore different possible sources of existing and prospective finance and their potential to

improve and expand Uganda and Tanzania’s public water and sanitation systems.

### *National governments*

Decisions on the financing of water services are highly centralized throughout Sub-Saharan Africa, and Uganda and Tanzania are no different in this regard (UNICEF 2019). This centralization is partly political (Bukonya 2020) but also because most local governments and their local water operators do not have the fiscal capacity to generate sufficient funds through taxation or tariffs. In other words, the burden and responsibility of state funding for WSS in Uganda and Tanzania falls on national authorities.

Yet in both countries, national government spending on WSS is well below what is required to meet the SDGs and is unlikely to increase significantly anytime soon. In Uganda, national spending has increased slightly in real terms over the last decade, but it “remains low in comparison to needs” (Mutono et al. 2019, 111). Funding to WSS as a share of the national budget also lags other sectors, averaging a mere 2.9 per cent between 2015 and 2018 (Pickbourn et al. 2022, 2). According to Uganda’s minister of water and environment, the national government’s budget allocation “is far below the projected funding to achieve the [sector’s] outcomes and implement the interventions as outlined in the [National Development Plan]” (Government of Uganda 2022, 3). The Tanzanian government’s budget for WSS also falls far short of what is required, at about 1.7 per cent of expenditures, although this is not unusual amongst countries in the Global South (Joseph et al. 2020; World Bank 2022).

Do these budget gaps represent a lack of WSS prioritization on the part of the Ugandan and Tanzanian governments? Yes and no. On paper, water and sanitation feature prominently in both country’s development plans, and their public water operators have benefitted from long-standing financial and political support from their national governments (Alabaster & Krůčková 2015; Tsimpo & Wodon 2018). It is also true that the Ugandan and Tanzanian governments face enormous fiscal demands from a broad range of sectors, including health, education, electricity and housing (to name but a few). Combined with the structural features of a global economy that have left most African nations heavily indebted and trapped in trading relationships that do little to generate sustainable economic growth, particularly in the wake of COVID-19, the options for increased national spending on WSS are highly circumscribed, even if the political will exists (Ayadi & Ayadi 2008; Ndung’u et al. 2021).

This observation is not to absolve the governments of Uganda or Tanzania of the urgent moral, economic, health and environmental necessity of investing more money in WSS. The fact that 40 per cent of Tanzania’s WSS budget has gone unspent in recent years is indefensible (Kwezi 2021). Nor is it to deny the ongoing reality of rent-seeking, corruption and politicization

of water services that continue to hamper effective service delivery in both countries. But Uganda and Tanzania cannot pull a financial rabbit out of their hats. It is unrealistic to expect these governments to cover the full costs of their water and sanitation crises on their own. A major portion of WSS funding will need to come from other sources.

### *Multilateral and bilateral funders*

The biggest financiers of WSS in the region have long been multilateral development banks and bilateral donors through a combination of grants and concessional loans. In fact, the region received the largest share of ODA disbursements for the water sector of any region in the world in 2019 (UN Water 2021). In Uganda, approximately 30 per cent of total financing in the WSS sector comes from donors (Pickbourn et al. 2022, 2), while for capital expenditures this can be as high as 75 per cent (author interviews). Similar figures apply to Tanzania (Kwezi 2021; World Bank 2022).

There is a long list of multilateral and bilateral agencies involved in the water sector in the two countries, including the World Bank, the African Development Bank, the European Investment Bank, Agence Française de Développement (AFD), KfW Development Bank, India Exim Bank, Kuwait Fund, Arab Bank for Economic Development in Africa, Islamic Development Bank, Netherlands Development Bank and the Japan International Cooperation Agency. Some have been involved in WSS funding in the region for decades and are very knowledgeable about the sector. Some are relatively new.

However, the outsized influence of these agencies raises a number of troubling questions about long-term financing of WSS in Uganda and Tanzania. The first is the unpredictability of donor financing. Only a small portion of ODA goes to the water and sanitation sector (UN Water 2021), and there has been a “steady decline of disbursements” to WSS in the region over the past two decades (Pickbourn et al. 2022, 2), consistent with an overall drop in WSS-related aid in Sub-Saharan Africa from 32 to 22 per cent of ODA between 2017 and 2020 (GLAAS 2022). Water officials in Uganda and Tanzania interviewed for this research all noted their worries with this downward trend.

Another concern relates to what some water managers in Uganda and Tanzania see as restrictive and counterproductive conditionalities attached to funding from the multilateral and bilateral agencies. According to one senior water official:

We have no problem with the financial due diligence and reporting required, and understand the need for checks and balances, but there are too many conditions related to operational decisions—such as choice of contractors—which end up making loans quite expensive. We could do things much more efficiently if we had more control over the funding.

Some WSS officials have taken these criticisms a step further, arguing that international financial institutions can undermine local autonomy and capacity building through the creation of paternalistic forms of dependency. As a senior Dawasco official noted in a previous study, loans allow these agencies to “get the country under their thumb and force Tanzanians to develop as they are told to.” Another executive remarked: “If you want to get rid of them, you have to pay them their money back! But in the meantime, they own you.” Yet another complained about wasting time in meetings where his only role was to sip coffee and nod here and there as proof that “the local stakeholders have participated in the project” (quoted in Pigeon 2012, 52–3).

Yet it is impossible to imagine sufficient financing for WSS in the region without multilateral and bilateral funders, at least for the foreseeable future. Many WSSs would collapse, and there would be no hope of achieving the SDG goals. There is therefore a continuing case to be made for an obligation on the part of high-income countries to continue their support to WSS in the Global South through grants and concessional finance (Bexell & Jönsson 2017).

But at the same time, business as usual is not an option. Donor funding levels must increase if the SDGs are to be met, while lending and grant conditionalities will need to be more flexible to promote capacity building and create more equitable relationships with local actors. There are valid concerns on the part of donor agencies around the need for improved political transparency in Uganda and Tanzania, and there are ongoing problems with rent-seeking and corruption in the WSS sector, but as Pigeon (2012, 55) concluded more than a decade ago in the case of Dar es Salaam, “if political sovereignty is a condition for sustainability, then the limited choices imposed by donor conditionality must be seen as one of the biggest obstacles to solving [the city’s] water woes in the long run.”

On a more promising note, the issuance of a 10-year water infrastructure green revenue bond valued at TZS 53.12 billion (US\$20.8 million) in early 2024 to support the expansion of infrastructure at the Tanga Urban Water Supply and Sanitation Authority was developed with the support of the United Nations Capital Development Fund (UNCDF 2024). Acting as a third-party guarantor, UNCDF’s support allowed the water authority to tap into local capital markets, raising funds in local currency and reducing risk and volatility.

### *Water operators*

Another important source of WSS finance in Uganda and Tanzania is revenue generated by water operators themselves. Since their creation as stand-alone corporatized water utilities, NWSC and Dawasco have been expected to recover as much of their costs as possible and to apply these to their operational expenses. Indeed, this was one of the primary motivations for creating them as ringfenced public agencies—part of a broader global shift over

the past three decades towards cost-reflective pricing models that can more easily attach individualized costs to water consumption by separating out expenses and revenues from other public services (Molinos-Senante et al. 2013; McDonald 2014; Furlong et al. 2018; Mitlin & Walnycki 2020).

But *full* cost recovery is virtually impossible for stand-alone water utilities, illustrated by the fact that few (if any) water operators in the world cover *all* of their operating and capital expenditures through tariffs. This is particularly true of sanitation services where it is difficult to attribute volumetric fees (Hall & Lobina 2008). The challenges of cost recovery are even more pronounced in low-income settings where poor households struggle to pay for essential goods and services, with less than 15 per cent of water utilities in the Global South even meeting their operational expenditures (World Bank and UNICEF 2017, 14). A survey of 30 water utilities in Africa found that only a third met their operating costs via tariffs and less than 10 per cent were able to contribute to capital expenditures (UNICEF 2019, 25).

In this regard, Uganda and Tanzania are exceptional, with many of their public water operators meeting operational costs via tariffs, and with some even raising sufficient revenues to contribute to capital costs (Government of Uganda 2022; Tutusaus & Schwartz 2020, author interviews). But tariffs alone are not enough. Only 13 per cent of capital expenditures are covered by revenues at NWSC, for example, with managers noting that “our tariffs are much, much lower than full cost recovery” (author interviews). The vast majority of capital project funding at NWSC comes from national government (13 per cent) and donors (74 per cent), with similar figures for Dawasco (author interviews).

A focus on tariffs and cost recovery has also led to criticisms that the water operators contribute to inequities (within cities and across urban–rural divides) by forcing managers to invest in areas that can generate a positive financial return (Tutusaus & Schwartz 2020; Pigeon 2012). These problems are not unique to NWSC and Dawasco (McDonald 2014; Furlong et al. 2018), but they do demonstrate the inherent tensions of relying on cost recovery as a mechanism for funding WSS in low-income settings. The fact that donor agencies continue to push for cost recovery in the water sector—partly as a condition of funding—makes the problem even more intractable.

### *Private finance*

Donor agencies also continue to push for private finance as a solution to the funding crisis in WSS. But the evidence to support these theoretical arguments is weak. A growing number of studies have now concluded that private finance has never been a major factor in the financing of water services in the Global South: “private-sector finance for water has remained minor” (Alaerts 2019, 8). While important in a handful of high-income countries such as France and the UK, private sector financing accounts for only “seven per cent of total spending on water and sanitation” globally;

in Sub-Saharan Africa, private finance accounts for less than 1 per cent of spending in the sector (Leigland et al. 2016, 4; see also Kolker et al. 2016 and Wu et al. 2016). The United Nations Inter-Agency Task Force on Financing for Sustainable Development notes, moreover, that private sector investment appears to be decreasing and is “well below the peak reached in 2012” (IATF 2019, 61). Even the World Bank admits that for most public water operators “private finance is almost non-existent” (Kolker et al. 2016, 1).

The primary reason for this lack of interest from the private sector is risk. Early expectations of high returns in the water sector quickly evaporated in all but the wealthiest of countries or in locations where guaranteed rates of profit had been negotiated (Bakker 2010; Jägerskog et al. 2016). Most private water companies have scaled back activities in risky locations, changed tactics to focus on more value-added niche markets and services (such as desalination) or have withdrawn altogether from money-losing contracts (Bauby 2014; Lazonick & Shin 2020). Political backlash against water privatization also helps explain why private water companies and financiers have reduced their financial exposure in the sector. The “botched” (Bukenya 2020) experiences with water privatization in Uganda and Tanzania, and the unceremonious expulsions of the company’s executives, has no doubt contributed to a lack of private sector interest in these countries.

In response to this challenge, many multilateral funders have been pushing for “blended finance”—the “strategic use of public taxes, development grants and concessional loans to mobilize private capital flows”—which is now the centrepiece of the World Bank’s “billions to trillions” SDG agenda (World Bank and UNICEF 2017, vii; see also IATF 2019). But here too, it would seem that efforts to de-risk private investment have failed to entice private finance to the water sector. The blended finance that does exist flows to a small cluster of middle-income countries such as Turkey, Nigeria and Brazil, with much of this being concentrated in highly profitable sectors such as financial services and energy rather than water. Only 2 per cent of global blended finance mechanisms have been allocated to WSS (IFC 2017; Benn et al. 2017). As Bernards (2024) has observed, it turns out that private finance is not all that interested in “blended finance.”

Nowhere is this more true than Sub-Saharan Africa where “there is no indication that the vast amounts of global private equity and institutional investments is beginning to flow into infrastructure” (Lee & Gonzalez 2022, 22). Uganda and Tanzania are no different, with private international financing of infrastructure virtually non-existent in the water sector (Schiffler 2015; Pickbourn et al. 2022). To make matters worse, there is evidence to suggest that the ongoing push from multilateral agencies to promote private financing has had the incongruous effect of reducing public investment in water supply and sanitation, presumably because governments are being told that the private sector will fill the gaps (Heidler et al. 2023, 6; Hall & Lobina 2012).

Private local banks in the region have shown some interest in lending to water operators—with NWSC and Dawasco having borrowed from local private financial institutions—but this borrowing is minor. Water managers also noted that the terms of these private loans are shorter than they would like and that local private banks do not have sufficient capital to finance large projects, suggesting little potential for growth (author interviews).

### **Public banks to the rescue?**

Given these financing constraints, the prospects for finding sufficient money to meet the SDG goals for water and sanitation in Uganda and Tanzania would appear to be grim. There is, however, one other potential source of WSS funding that has been largely ignored in the literature to date: public banks.

Public banks are financial institutions that are owned and controlled by the state or some other public entity. They can operate at a municipal, national or even international level and can function according to differing logics and under different mandates (Marois 2021). There are public banks that are highly commercialized and neoliberal in their orientation, with explicit profit-maximizing mandates (such as in Turkey; see Yalman et al. 2019). There are others for whom profits are secondary to development and which support the provisioning of more “patient” finance—i.e., willing to wait decades for returns rather than years—such as with several Brazilian, Indian and German public banks (see Scherrer 2017). Still others have mandates that put social returns on par with financial ones, such as the Banco Popular in Costa Rica or the Council of Europe Development Bank (see Chapter 1 in this volume for a more detailed discussion of different types of public banks).

Some public banks have been involved in the water sector for more than a century (such as Kommunalbanken in Norway), while others are quite new, such as the Banque des territoires in France, created in 2018, which immediately took up the challenge of funding municipal water and sanitation (Butzbach & Spronk 2022; Juuti et al. 2022). Most lend to multiple sectors, but at least one public bank—the Water Bank in the Netherlands—was founded specifically to finance public water services and has since expanded to other service areas (Schwartz & Marois 2022).

Hence, there is no singular institutional model or lending mandate for public banks working in WSS. There are also mixed results in terms of their effectiveness (Marois & McDonald 2022). Nevertheless, a growing body of research has demonstrated important potential advantages associated with the use of state-owned public banks to finance public water and sanitation:

- Large volumes of low-cost, easy-to-access, reliable and patient capital.
- Universal forms of lending and technical support that assist all shapes and sizes of public water operators regardless of their wealth, population or location.

- Public purpose mandates that prioritize public water services, sustainability and a host of other criteria that go beyond the narrow financial metrics that dominate private financing discourses and operations.
- Knowledgeable institutions that are less prone to political and electoral cycles, providing the potential for long-term lending strategies that extend beyond political personalities.

Public banks in Uganda and Tanzania are still far from realizing these potentials, but UDB, HFB and TIB are amongst only a handful of state-owned banks engaged in the water and sanitation sector in Sub-Saharan Africa, and all have expressed a strong interest in expanding their role in the WSS sector (as did the public water operators they finance) (author interviews). And although they are all relatively small financial institutions, in global terms, these public banks provide an important opportunity to create a new source of funding and support for WSS in Uganda and Tanzania.

As shown in Table 4.1, the UDB is the largest of the three, established in 1972 to finance a wide range of industrial, mining, agricultural and service sectors, investing in projects that demonstrate “the propensity to deliver tangible socio-economic outcomes” (UDB 2021, 3). As of December 2022, UDB’s total assets were valued at USh 1.44 trillion (US\$383.6 million) (Kigozi 2023). The HFB, as the name suggests, focuses on personal and commercial mortgages. It began as a private bank in 1967 but was nationalized in 2007 by the Ugandan government and now offers a wide range of retail banking services as well as loans to government departments and agencies in sectors related to housing (such as water and sanitation). HDB’s total assets were USh 1.1 trillion (US\$293 million) as at December 2020 (HDB 2020). The TIB was also an early post-colonial creation (established in 1972), with a focus on infrastructure, industrialization, oil and gas and the services sector, with total assets of TZS 627 billion (US\$265 million as at December 2021) (TIB 2021).

For all three banks, water and sanitation constitute a small portion of their current lending portfolio (approximately 5 per cent of UDB and HFB and less than 2 per cent of TIB), with funds typically flowing indirectly to water operators through national agencies (although TIB does lend directly to some water service providers via the National Water Fund and administers funds from the Dutch government to support community water schemes) (author

*Table 4.1* Public banks discussed in this chapter

<i>Name</i>	<i>Year created</i>	<i>Total assets (year-end)</i>
Uganda Development Bank	1972	\$US 384m (2022)
Housing Finance Bank (Uganda)	1967/2007	\$US 293m (2020)
TIB Development Bank (Tanzania)	1972	\$US 265m (2021)

interviews). The banks also admit to being not particularly knowledgeable about the WSS sector—a point confirmed by public water operators we spoke to, with one manager noting that bank familiarity with their needs are “still scanty”—but all expressed a desire to learn more given the importance of water and sanitation to their country. As one bank put it, “we wish we could do bigger projects in the sector,” while another noted, “this is just the beginning!” Other sentiments included: “We are late to the party. We should have started a long time ago.” This enthusiasm was reciprocated by public water operators, with one noting that “water and sanitation services are a human right, and as such public banks should take a lead in providing finance” (author interviews).

Limited capital, however, will constrain the potential for public bank involvement. As one water operator noted, “the amounts required for capital projects are usually much more than what the local [public] banks can afford to finance.” Another said that national public banks are “limited by their low capital base. They usually rely on the annual capitalization by the government and as such, they are subjected to compete for the national resource basket.” All three banks have seen their overall assets and lending portfolios grow over the past five years, but the potential to make a larger difference in WSS remains limited by their small capital base and demands on these funds from other sectors.

Capital is not the only challenge for these banks. Human resource constraints and competition for relevant skills with the private sector will make it difficult to expand, while developing expertise in the water and sanitation sector will take time. Sustained political commitment from public bank managers, government officials, and public water agencies will therefore be required to build the kinds of institutional knowledge and shared trust that exemplify successful public bank lending practices in the water and sanitation sector elsewhere in the world.

### **Public–public partnerships**

One possible way to speed up these processes is for public banks in Uganda and Tanzania to create formal partnerships with national and multilateral public banks from other countries (on this point, see Marois et al. 2023). Also known as PUPs, such arrangements between public agencies are popular in the water sector, where hundreds of formal and informal arrangements between public water operators have been created within and across countries to develop technical and managerial capacity on a wide range of topics, from the implementation of new technologies to the development of upstream water management policies (Hukka & Vinnari 2007; Fiasconaro 2020). Many of these technical partnerships are North–South (often part of a Northern country’s development contributions), but they are increasingly South–South as well, such as the aforementioned water operator partnership between NWSC and Dawasco.

We are not aware of any formal partnerships of this kind with public banks in Uganda and Tanzania, although there are examples of public banks co-financing water projects in the region (for example, UDB and HFB are co-financing a loan to NWSC, and TIB co-lends with multilateral and bilateral funders within the Investment Financing Facility in Tanzania) (author interviews). However, these collaborations are relatively small and appear to be limited to the relatively simple mechanics of co-lending—a common practice amongst public banks around the world (Marois 2021)—rather than more complex forms of knowledge sharing and capacity building.

Nevertheless, the potential for more robust and meaningful partnerships exists. The national public banks we interviewed were keenly interested in the possibility, as were some multilateral and bilateral agencies, two of which indicated they were “very open” to the idea. Some international institutions were more hesitant, however, expressing concerns about transparency, patronage and poor governance at the local public banks. One was outright dismissive of the idea, arguing that “the demand for this is not there” and that “water operators must become more business-like so that a private financing model can become a more significant fact.”

Efforts to create public bank PUPs in Uganda and Tanzania will therefore face significant challenges, working across different social, political, economic, cultural and institutional contexts and expectations. But creating effective PUPs in the public banking sector is not impossible, demonstrated by the growing success of PUPs in the water sector. Despite significant hiccups in its initial stages, partnerships set up through the UN’s Global Water Operators’ Partnership Alliance have become increasingly effective and more equitable over time (Laird & Bernal 2020). Some of this learning experience could be transferred to the development of PUPs in the banking sector. In fact, multipronged partnerships involving public banks and public water operators could be a particularly fruitful approach.

Still, we must be careful what we ask for. Many of the multilateral and bilateral agencies operating in Uganda and Tanzania continue to support privatization and commercialization in the water sector, making it unclear what kind of political commitment there would be for a *pro-public* position on ownership, management and financing of WSS. There is also the question of whether these multilateral and bilateral agencies would bring colonial attitudes to the partnerships, creating unbalanced PUPs with paternalistic one-way transmissions of “knowledge” (Marois 2022). This has been a problem with some PUPs in the water sector, where unsuitable technologies, managerial practices and cultural expectations have dampened or even undermined partnership objectives (Beck 2019). Local public banks will therefore need to ensure that knowledge-sharing partnerships with multilateral and bilateral institutions are developed in ways that advance and expand their own capacity and autonomy in appropriate ways (Marois et al. 2023).

### Avoiding a (financialized) debt trap

Perhaps the biggest challenge for public banks and public water operators in Uganda and Tanzania will be avoiding a debt trap. Debt itself is not necessarily the problem. Amortizing the costs of large infrastructure developments over a multiyear period can be the most cost-effective way to finance big projects. The returns on financing remain within the public sector, building public banks' lending capacity. There would also appear to be room for increased debt amongst (some) public water operators in both countries. The NWSC, for example, has a debt-to-equity ratio of just 4 per cent and an AA credit rating, with management noting that they could raise that ratio to 10 per cent if they wanted to: "we have no concerns about the debt that we hold at the moment" (author interviews).

But the NWSC also noted that, "we have to be very, very careful about our borrowing. We cannot simply raise prices to pay for loans, and central government is reluctant to borrow themselves and on-grant to us." In other words, without government guarantees, there are strict limits to how much public water operators can borrow if they are to keep tariffs affordable and equitable given their ringfenced financial model, once again highlighting the fact that public bank lending is not a panacea for Uganda and Tanzania's water sector woes.

Equally concerning is the potential for debt to be *financialized*. Here, we refer to the increasing influence that finance capital plays in the decision-making processes of water operators, either through direct investment or indirectly through abstract financial mechanisms such as bundling water revenue streams into financial products that can be bought and sold on the open market (Ahlers & Merme 2016; Loftus et al. 2019). The result of this financialization has been a profound "restructuring of social relations and cultural practices around financial imperatives" in the water sector, which can lead to decisions that benefit the interests of finance capital at the expense of equity and sustainability for end users, resulting in uneven flows of capital into areas with the highest potential returns while unattractive sectors and regions "are side-lined and starved of credit" (Williams 2021, 1875–6).

The push to make water operators "bankable" is part of this financialization trend, forcing public water utilities to attract private lenders through the creation of reliable revenue streams, a focus on the financial bottom line, the use of highly financialized performance indicators and the diffusion of financial language into the daily operations and decision making of water managers (Elvas 2010; McCoy & Schwartz 2023; Rudebeck 2022).

Can public banks in Uganda and Tanzania avoid—or at least deflect—these financialization pressures? We offer a qualified "yes." As with public banks engaged in water and sanitation lending elsewhere in the world, there is no reason that governments cannot give state-owned public banks

mandates that go beyond market-based rates of return to include broader public purpose goals and performance markers such as improved equity, access and sustainability. Publicly owned and publicly managed banks can actively work towards the *definancialization* of lending by putting narrow financial indicators into a broader context of social, health, economic and environmental goals that extend beyond a single institution (Marois 2021). In short, public banks have the potential to shield public water from financialization.

Achieving these goals will require an explicit mandate and sustained political support in the face of ongoing pressures from multilateral and bilateral agencies to create market-oriented “bankable” water services in Uganda and Tanzania. It will also require institutional and managerial shifts within the public banks and public water operators themselves. Two decades of corporatization and commercialization have had far-reaching impacts on these institutions, with all the necessary preconditions for financialization already in place at NWSC and Dawasco: ringfenced forms of accounting, benchmarking systems that reward profitability and individualized market pricing mechanisms that can erode the public’s understanding of water’s broader public use values. Similar forms of corporatization and commercialization have taken place at the public banks we spoke with—witnessed in part by their shift in focus over the past decade towards assisting the private sector and their insistence that lending is shaped first and foremost by “commercial viability” (author interviews).

Balancing the inherent tensions of making public investments on commercial terms will therefore not be easy. It is a challenge made more difficult by the performance metrics that dominate the world of financial institutions and the inevitable comparisons that public banks make with their private sector counterparts. Creating partnerships with multilateral and bilateral institutions that support privatization and commercialization in the water sector will make *definancialization* even more difficult and point to the need for new types of benchmarking that better account for public purpose objectives (McDonald 2016).

But nothing is impossible. If, as they should be, public banks are viewed as a public utility like any other state-owned entity, there is no reason that their mandates, governance and benchmarking criteria cannot be oriented towards advancing a broad set of public use values. In the same way that water operators are sites of struggle over their public purpose, public banks can also be shaped to contribute to equity and decommodification (Marois 2021). Long-term, low-cost financing designed to enhance equity, improve transparency and create a sense of public value that promotes a fuller understanding of the social, cultural and environmental values of water and sanitation has proven to be possible with public banks in other parts of the world. There is no reason that similar objectives cannot be achieved in Uganda and Tanzania if the political will (and public pressure) exists to

create the kinds of legal provisions and governance mandates required to make them happen.

### **Conclusions**

This chapter has provided a first-of-its-kind study of the potential for public banks to play a positive role in the expansion and improvement of public WSS in Uganda and Tanzania. We have argued that there is potential for a different type of “bankability”—one that promotes broad social purpose and public policy over narrow financial gain, driven by the combined mandates of different public agencies. National governments and international donors will need to continue playing a central role in financing WSS for the foreseeable future, but building capacity within national public banks, and strengthening their relationships with and knowledge of public water operators, will be an important part of creating long-term sustainability and increased financial autonomy in the water and sanitation sector in both countries.

We do acknowledge that these possibilities will require hard work and commitment in the face of extreme poverty, inequality and rapidly shifting demographics. Highly centralized forms of decision making may assist with the initial push for such change, but a devolution of power and resources to public banks and public water operators will be necessary for skills development and autonomy, as will more transparent forms of governance within these institutions. None of this will be easy and will always be prone to capture by politicians, bureaucrats and other powerful forces that will try to benefit from rent-seeking and corruption. But the fact that national public banks have managed to play a positive role in water services in countries facing similar political and economic challenges suggests it is feasible, illustrated in part by the diversity of examples discussed in other chapters in this book, from Brazil to Costa Rica to the Philippines.

Additional research and active monitoring of progress will be an important part of this initiative. Involving national public banks from elsewhere in the region could also help to advance knowledge sharing and potentially contribute to a regional approach to public bank lending. All of this will depend on creating the institutional and intellectual space that allows (and encourages) policymakers and managers to think beyond the narrow market-based notions of success that have shaped water policy in Uganda and Tanzania over the past two decades.

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