

# THE DUTCH WATER BANK: A USEFUL MODEL FOR DEVELOPING COUNTRIES?

In the 1950s, regional water authorities in the Netherlands (the Dutch Water Authorities, DWAs) jointly established the world's first and, thus far, only Water Bank. This brief presents an overview of the Bank's origins and outlines how the Bank functions today. The Dutch Water Bank was initially established primarily to finance flood control, but the model is potentially applicable to other aspects of water resource management and WASH service delivery.

## ORIGINS OF THE DUTCH WATER BANK

Roughly two-thirds of the Netherlands lies below sea or river level: the history of the country's water management can be seen as a continuous struggle for dry feet! Farmers and land-owners in the 13<sup>th</sup> century created water boards, the precursors of today's DWAs, to protect their land from flooding. Seven hundred years later, in 1926, major river flooding placed a significant burden on the DWAs, which needed to repair dikes and improve the drainage system. Substantial investment was required for these infrastructure projects, but brokers charged very high commissions. In 1927, the newly established Association of Regional Water Authorities set up a credit agency to mediate the lending process in order to reduce commission costs for each DWA. However, the interest rates the DWAs had to pay were relatively high: too high given their strong creditworthiness.<sup>1</sup>

The DWA's financial challenges rapidly worsened after World War Two. Important water investment was desperately needed, but capital was scarce during the post-war reconstruction period. In addition, commercial banks provided mostly short-term loans. In order to avoid stagnation of the water infrastructure investment, the Association of Regional Water Authorities issued two long-term bonds in the early 1950s, guaranteed by several large DWAs. While this temporarily alleviated the financial crisis of the DWAs, the Association did not have the capacity to continue with lending activities on a large-scale basis. In consultation with several ministries and commercial banks, the Association transferred the financial interests of the DWAs to a separate legal entity: the Dutch Water Bank (NWB Bank).<sup>2</sup>

## STRUCTURE OF THE DUTCH WATER BANK

The NWB Bank was officially established as a public limited liability company in 1954, with a mandate to provide the DWAs with funding at the lowest possible cost. In its first five years, the Bank issued 323 long-term and 919 short-term loans. The Bank was capitalised mainly through private loans provided by institutional investors and banks, allowing the DWAs to attract resources on relatively favourable terms.<sup>3</sup> The

Bank immediately demonstrated its usefulness in the aftermath of the 1953 North Sea Flood, which killed nearly 2,000 people and caused material damage amounting to more than 5% of Gross Domestic Product (GDP). The Bank successfully facilitated the financing of the much-needed repair works.<sup>4</sup>

Today, the 22 DWAs are responsible for flood control and the management of water levels and water quality, including groundwater and wastewater purification.<sup>5</sup> The DWAs are largely financially independent and only receive some financial contributions from the national government, which subsidises the strengthening of primary flood defences. The majority of their income comes from regional taxes levied on households, farmers and businesses in each of the 22 regions: €2.7 billion in total in 2016 (see Table 2 overleaf).<sup>6</sup>

## THE DUTCH WATER BANK TODAY

Currently, 81% of the Bank is owned by the DWAs, 17% by the Dutch state and 2% by the provinces. The Bank provides the DWAs with: **i)** long-term loans; **ii)** financial services; **iii)** a central treasury function; **iv)** centralised financial expertise; and **v)** low interest rates.<sup>7</sup> The Bank does not focus only on the water sector: 63% of its investments are in social housing, 14% in water authorities, 13% in municipalities, 7% in healthcare and 2% in other public entities. In the first six months of 2015, the Bank's lending totalled €5 billion.

The Bank continues to be very important for the DWAs, holding 82% of their long-term loans. The DWAs invest €1.3 billion each year, 34% of which is invested in flood protection infrastructure, 32% in water systems, 26% in wastewater treatment and 8% in other investments. Since June 2014, the Bank has also issued 'green bonds' exclusively for climate-friendly DWA sustainability projects.<sup>8</sup>

The NWB Bank has AA+/Aaa ratings from credit-rating agencies Standard & Poor's and Moody's. The Bank is also under the direct supervision of the European Central Bank (ECB). In 2006, the NWB Bank established the NWB Fund to finance international projects of the DWAs and to support water management projects in developing countries.<sup>9</sup>

## LESSONS LEARNED

With over 60 years of experience, the NWB Bank offers some valuable lessons for those seeking institutional financial support for water management.<sup>10</sup>

- **Trust:** The confidence shown in the Bank from its inception was essential for attracting enough initial capital to guarantee the Bank's long-term existence.
- **Financial basis:** Due to their sound financial basis and comparative independence, the DWAs are regarded as relatively risk-free, ensuring that the NWB Bank attracts long-term loans to finance its major investments.
- **Low-cost:** The NWB Bank is a relatively small and lean organisation, which keeps costs low. The existence of the NWB Bank means that DWAs do not need to build up their own specialised financial expertise, saving costs further.
- **No profit maximisation:** Focusing on achieving optimum financial results instead of maximising its profits helps the Bank provide low-cost finance to its clients.

Table 1: Key figures of the NWB Bank as of 31 December 2014.

<b>Total assets*</b>	€90 billion
<b>Equity capital</b>	€1.3 billion
<b>Net profit</b>	€49 million
<b>Operating expenses/interest ratio</b>	13.8%
<b>Tier 1 capital ratio</b>	75%
<b>Credit ratings</b>	AA+/Aaa
<b>No. of employees</b>	48.5 FTE

\*as of June 2015, NWB Bank website, [www.nwbbank.com](http://www.nwbbank.com).

Source: NWB Bank (2014) Annual Report.

Table 2: Dutch water sector: responsibilities and financing mechanisms.

Task	Organisation	Financing
Flood protection, water quantity and water quality (main system)	State (public)	General resources, pollution levy national waters
Groundwater	Province (public)	Regional tax
Flood protection, water quantity and water quality (regional)	Water authority (public)	Regional tax
Wastewater treatment	Water authority (public)	Regional tax
Drinking water supply	Water companies (semi-public)	Price
Sewerage	Municipalities (public)	Local tax

Source: Dutch Water Authorities, water governance: the Dutch water authority model (2015) p.39, Table 3.

## PUBLIC FINANCE for WASH

The Public Finance for WASH initiative is grounded on two principles: i) that sustainable universal provision of high-quality water and sanitation services is fundamentally dependent on progressive domestic taxation systems, and that consequently ii) WASH-sector donors, donor-funded NGOs and in-country actors need to pay greater attention to ensuring that ODA is delivered in ways which support the development of effective and equitable domestic public finance systems.

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- 1 Havekes H & Dekking W (2014) Een diamanten relatie: 60 jaar Nederlandse Waterschapsbank en 60 jaar waterschapsfinancien, NWB Bank, The Hague
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