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# How Public Banks Can Help Finance a Green and Just Energy Transformation

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#### ABOUT THIS PUBLICATION

Every day public banks are developing new and innovative ways of financing a green transformation. To illustrate how public banks can provide green financing in a public way, this issue brief explores two specific and distinct examples: Costa Rica's BPDC (Banco Popular y de Desarrollo Comunal, or Bank of Popular and Community Development) and Germany's KfW (Kreditanstalt für Wiederaufbau, or Reconstruction Credit Institute). Much of the information provided on the BPDC and KfW draws from primary resources, including the banks' annual reports. The case of BPDC benefits from a series of confidential interviews undertaken in Costa Rica in April 2017.

For all but the most hard core of climate change deniers, the environmental challenge before us is real and substantial. We must transition from our current carbon-intensive and environmentally destructive regime to a low-carbon, environmentally resilient one. On this point, mainstream and radical perspectives converge. Divergence appears when discussing the nature and extent of change needed. Mainstream commentators focus on technical fixes and market-friendly mechanisms. Critics, radical scholars, activists, and civil society organisations argue for a more substantive socioeconomic transformation process.

Colleagues from the Transnational Institute capture the popular desire for more substantive environmental change in the concept of 'energy democracy', which has emerged out of activist and community struggles.<sup>1</sup> Struggles for energy democracy demand more decentralized and socially controlled energy systems, which may be realized as smaller scale local initiatives provided by cooperatives and community associations or as larger scale initiatives provided by reclaimed public municipal and state-owned providers. The lynchpin remains the substantive democratisation of energy generation and distribution based on renewables.

For many, the struggle for energy democracy is a necessary one. But alone it is also insufficient. Any green transformation must also be financed. And if the financing required does not share the same societal or public interest orientation then the struggles for green transformation are likely to be stillborn. Money may trump even the best of intentions. Public and 'public-like' cooperative banks may therefore hold the key to the future of a just global green transformation and energy democracy.<sup>2</sup>

The current global context is favourable to raise the potential for public banks to support a green energy transition because the 2015 UN Sustainable Development Goals (SDGs) and Paris Agreement on climate change (COP21) both stress the need for investment in sustainable infrastructure. "Sustainable" in this context is intended to align new infrastructure with the requirement of keeping climate change "well below" 2° C (while also delivering on "development", which will be a major challenge). An estimated US\$5-7 trillion per year is needed to realize the SDGs (UNEP 2015). To date, the international financial institutions (IFIs), such as the World Bank, have done relatively little financing in this direction

## The looming energy transformation and the potential of public banks

Today the energy transformation debate goes hand-in-hand with global demands for new infrastructure, estimated to be in the range of US\$90 trillion.<sup>3</sup> Ideally for mainstream authorities like the World Bank, this new infrastructure *should* be low-carbon and climate resilient. Their first problem, however, is how to actually finance this new infrastructure, be it green or otherwise. The hoped-for private sources of capital have simply not materialized. This is not for lack of resources but because financiers prefer shorter term, lower risk, and more conventional investments (EPSC 2017; *Financial Times* 2016).

Rather than absorbing the investment risks themselves, private investors want public banks to invest with them in new infrastructural projects. That is, the private sector wants public banks and public finance to 'wrap' green infrastructure

projects in public guarantees so as to socialize the risks while allowing the privatisation of the returns (see Levy 2017). The IFIs appear all too eager to comply. Public banks, once the bugbears of most international development institutions, now seem to offer the financial panacea (OECD 2016). Instead of investing themselves, according to this narrative, public banks should help leverage private capital investment.

The idea has become popular. As stated in the 2015 UN Addis Ababa Financing for Development Report: "We note the role that well-functioning national and regional development banks can play in financing sustainable development" (2015, 13-14; emphasis added). Yet mainstream understandings of a 'well-functioning' public bank share little with the needs of energy democracy – focused, as they are, on securing higher and more stable returns on investment for private investors. This trajectory will mean the further subordination of the environment to corporate financial ends. Alternative, progressive and collective

efforts are needed to stem the private capture of public banks. The payoff of such a campaign could be substantial for energy democracy.

There is context to this public bank resurgence. Despite 40 years of neoliberal privatisation efforts, public banks remain major actors at the global, regional, national and provincial levels. There are today 586 ‘public’ banks spanning the globe, and their combined resources are massive. Public banks account for a quarter of all banking assets, worth some \$35 trillion – an amount equal to 46 per cent of global GDP (Orbis 2017; World Bank 2013). Public banks often embody important cultural and historical legacies. Governments and communities have long relied on public banks to channel financial and non-financial support to development initiatives (Schmit et al. 2011). This is not to say that public banks are without problems and challenges, but often the negative charges levelled against public banks are more ideologically driven than evidence-based (Marois 2013). There is real potential for public banks to lead and support popular struggles for green transformation and energy democracy.

## Financing the green transformation: Costa Rica’s BPDC and Germany’s KfW

Every day public banks are developing new and innovative ways of financing a green transforma-

tion. To illustrate how public banks can provide green financing in a public way, this issue brief explores two specific and distinct examples: Costa Rica’s BPDC (*Banco Popular y de Desarrollo Comunal*, or Bank of Popular and Community Development) and Germany’s KfW (*Kreditanstalt für Wiederaufbau*, or Reconstruction Credit Institute). Much of the information provided on the BPDC and KfW draws from primary resources, including the banks’ annual reports. The case of BPDC benefits from a series of confidential interviews undertaken in Costa Rica in April 2017.

Before proceeding it is important to specify the intent and scope of this issue brief. First and foremost, the intent is not to uncritically advocate either the BPDC or the KfW as ideal models of public banks. Rather, the issue brief intends to draw out positive and promising elements of each bank’s *green* operations and *public* ethos. It follows that the scope of the exercise does *not* extend to a full analysis of these banks. Neither bank is perfect; both can be improved. By comparing different cases, however, the issue brief intends to signal where improvements might be made. For example, the KfW could be more democratic *a la* BPDC and the BPDC could have a stronger green lending portfolio *a la* KfW. In short, there is something interesting, if imperfect, going on in each public bank that is significant for energy democracy struggles.

Table 1. KfW and BPDC at a glance, 2016 (USD)

	KfW	BPDC
Mission	As a promotional bank, KfW supports change and encourages forward-looking ideas – in Germany, Europe and throughout the world.	<i>Banco Popular</i> serves the social and sustainable welfare of Costa Rican inhabitants.
Type of Bank	Developmental/Promotional	Universal (commercial and developmental)
Ownership	Federal Republic of Germany 80%; German federal states 20%.	Workers of Costa Rica
Total Assets	US\$545 billion	US\$5.4 billion
Net Income	US\$1.4 billion	US\$68 million
No. of Employees	4,767	4,269 (in 2015)
No. of Branches	80 offices (no branch network)	103

## Costa Rica's BPDC

The BPDC is a public-like bank that is legally owned by the workers of Costa Rica.<sup>4</sup> Control of the bank, however, is exercised both by worker and government representatives. The Government of Costa Rica created the BPDC in 1969 to promote development and to offer economic protection for the country's workers. Established under special law, the BPDC is defined as a non-state but public institution that is 100 per cent owned by the workers of Costa Rica (BPDC 2012, 7). A worker's right to share ownership is dependent on having a mandatory savings account for at least one year.

The BPDC's overarching mission is to serve the social and sustainable welfare of Costa Ricans (BPDC 2015, 15). In 2010, a nationwide consultative process gave rise to five new 'Guidelines' for the Workers' Assembly:

1. The promotion of the social economy;
2. A quality offering of services by the Conglomerate;
3. The competitive management of the institution;
4. Regional and local development; and
5. The conglomerate as an entity for development.<sup>5</sup>

Three strategic axes further guide banking decisions: gender equity, accessibility and environmental responsibility.

The BPDC's governance model (i.e. control of strategic decision-making) is impressive, representing perhaps the most democratic bank in the world. The highest governing body of the BPDC is the Assembly of Workers (*Asamblea de los Trabajadores y Trabajadoras*). While not initially mandated in law, legal changes in 1986 established the Workers' Assembly as the peak of the bank's governance. As of late 2016, the Workers' Assembly represents nearly 1.2 million savers (BPDC 2017, 13). That is about 20 per cent of the population! Operationally, the Workers' Assembly itself is constituted by 290 individual representatives from

10 social and economic sectors in Costa Rica (artisanal; communal; cooperative; self-managed; independent; teachers; professional; confederated syndicates; non-confederated and solidarity syndicates).

Unlike examples of successful European cooperative banks that are often locally or regionally focused, the BPDC is national (see Kalmi 2012). This geographical spread can create challenges of representation, solidarity and political will to sustain the cooperative model. That said, BPDC has explicit and formal links to the 10 social sectors, which are themselves founded on a strong historical tradition of solidarity and cooperative development in Costa Rica. Through its lending, the bank strengthens these sectors.

## Democratizing finance: The BPDC way

To inform a new direction for the BPDC in promoting the social economy, the bank's National Board of Directors organized a series of nationwide forums. The BPDC social sector leaders in the Workers' Assembly and senior management participated in the forums, which connected with nearly 1,500 participants across Costa Rica's 11 different regions. The results have shaped the future of the bank (BPDC 2015, 25).

While worker-owners provide strategic direction to the BPDC through the Assembly, effective control over daily operations is exercised by the National Board of Directors, which is the bank's highest administrative unit. The bank's Board of Directors is composed of seven members: four represent the Assembly and three, the Government. Presently, there are four women and three men on the Board, fulfilling the requirement that it be at least half women. This has earned the BPDC an important marker of democratisation, namely that it became the first public organisation in Central America to establish at least 50 per cent of women in their decision-making bodies (BPDC 2017, 13).

The operational strategy of the BPDC reflects its status as a universal bank (which combines retail commercial and developmental functions) and its mission to serve the working class of Costa Rica.

Target clients include workers, peasants, and micro-, small- and medium-sized enterprises (MSMEs) as well as communal, cooperative and municipal development associations. This is significant: the BPDC prioritizes working with cooperatives and public institutions, as well as with those people typically excluded from financial services. This is qualitatively different from the bulk of corporative private banks.

The BPDC approach to financial sustainability is much broader than maximizing returns. Rather, as directed by the Workers' Assembly, the BPDC now operates according to what it refers to as a triple bottom-line: the economic; the environmental; and the social (BPDC 2012, 21). That is, the environmental and social good is placed alongside a need to generate positive financial returns within the bank – another qualitative difference from typical private banks.

Unlike strictly public banks, however, the Costa Rican government does *not* explicitly guarantee the BPDC. Nevertheless, BPDC experts suggest that the bank benefits from implicit state backing. That is, most people believe that the BPDC has state backing and that, should push come to shove and the BPDC face economic troubles, it would receive state support. This, together with the fact that the bank is founded according to a specific public law (unlike private banks) and thus operates according to that law, supports the bank's credit rating and societal trust in the bank. In short, the BPDC has the confidence of markets and of the people.

## A middle road between profits and social lending?

As a universal bank, the BPDC offers a wide variety of lending and financial services. Since 2000, it too has grown into a larger financial conglomerate (and the third largest bank in Costa Rica) that incorporates not only its commercial and development banking services, but also pension, stock market, investment and insurance services.

Its banking division is separated into three areas: personal banking (*Banca de Persona*); business and corporate banking (*Banca Empresarial y Corporati-*

*va*); and social development banking (*Banca de Desarrollo Social*). Notably, 25 per cent of the entire BPDC Conglomerate's returns are channelled into a series of 'special funds', which are explicitly intended to meet the social needs of those typically excluded from the banking system in Costa Rica (BPDC 2017, 58).

The BPDC returns are nonetheless in line with other universal banks in developing countries, averaging around 1.5 per cent return on assets in the last few years. In simple terms, that is at least 50 per cent more earnings than your average private bank (e.g. HSBC or Citibank) in the US or Europe.

Confidential interviews with BPDC personnel reveal insights into its daily operations. In the past, generating returns via commercial activities was less important, but since the late 1990s it became more significant, even overarching. Profits began to override its worker-oriented mandate. However, more recently, the Workers' Assembly has demanded a return to the bank's core mandate and to servicing the social economy.

These changes experienced in the BPDC operations have created an interesting situation. The financial returns now generated by the more commercial-oriented operations are seen by some personnel as enabling the bank's other concessionary lending (meaning not-for-profit, discounted, or made cheaper in one way or another) programmes (such as the 'Social Development Bank'). Others, however, argue that the whole banking operation should be geared towards more social and concessionary lending. Presently, the BPDC has taken a middle road between profits and social lending, with an aim to enhancing the social economic and environmental role of the BPDC.

## How BPDC is linked to the working class and the public sector

It should be noted that a defining characteristic of the bank derives from a unique source of capital, which is linked to the workers of Costa Rica. Article 5 of the BPDC Law states that all public and private employers must contribute 0.5 per cent of paid monthly wages to the bank's

capital base. Additionally, workers must contribute 1 per cent of their monthly wages. These contributions (or ‘obligatory savings’) are deducted by the employer and deposited in the BPDC. After a year, 1.25 per cent of these savings are transferred to each worker’s own pension fund. The BPDC, for its part, gets to hold onto the other 0.25 per cent as a means of permanent capitalisation. This feature provides economic stability to the bank, and infuses a sense of publicness into the capital resources held by the bank.

The BPDC is also shaped by its unique links to Costa Rica’s public sphere. The BPDC accepts over 40 per cent of the *public* sector payroll deposits (BPDC 2012, 42). In addition, and unlike private banks, the BPDC – because it is governed under *public* law – is not required to hold capital reserves in the central bank. This frees up capital for lending. Additionally, the BPDC relies on long-term deposits and loans from other *publicly owned* development banks to support its own lending operations. In this way, the BPDC has a diversity of sources of capital that, moreover, inextricably link the BPDC to the working class and to the public sector. In interviews with BPDC senior managers, the bank’s historic ties to workers and the public sphere were clearly recognized and celebrated as important and unique characteristics of the bank’s history and operating ethos.

In response to its deepening environmental direction, the BPDC has developed specialty green lending facilities, such as the Eco-savings and Eco-credits, geared specifically towards MSME projects in which the environment is a key element of the project. In 2017 for example, the BPDC, in collaboration with a local provider, launched a programme to purchase and install solar energy panels in residential settings.

As another part of its developmental mandate, the BPDC supports local communal associations in the provisioning of sustainable, safe local water supply systems (ASADAS). According to one local BPDC manager: “The BPDC is doing training and supporting ASADAS to help them run better, more sustainably”.<sup>6</sup> This type of assistance too must be considered green and sustainable lending.

The BPDC has begun to produce annual Sustainability Reports, which follow the Global Reporting

Initiative<sup>7</sup> guidelines. The bank now tracks its own consumption of energy and can more concretely strategize around reducing its own carbon impact. The Pensions division, for example, has been certified as ‘carbon neutral’ for the last four years and been awarded a Five-Star climate change award three years running (BPDC 2017, 72). In the words of the BPDC: “In environmental matters we are promoting green products, accountability and the incorporation of this theme throughout the chain of value” (2017, 68).

## Spotlight on financing energy democracy: The BPDC and COOPELESCA

“In this case, the community is socializing the responsibility of taking care of the environment” (author interview with BPDC Employee in Business Management, San Carlos, Costa Rica, 7 April 2017)

In the central valley of Costa Rica, an important strategic ‘green’ alliance exists between the BPDC and a regional energy cooperative, COOPELESCA.<sup>8</sup> COOPELESCA was formed in 1965 and began distributing energy in 1969. Today, the cooperative supplies about 10 per cent of Costa Rica’s energy and it is doing so sustainably. In 2013, the Costa Rican government certified the cooperative as “Carbon Neutral”, giving COOPELESCA the distinction of being the first energy distributor in Latin America to achieve this certification. By 2015, COOPELESCA was able to fully offset its carbon footprint by using its own resources and through its own environmental initiatives.

### *COOPELESCA environmental policy*

COOPELESCA expresses its commitment to systematically avoid, mitigate and compensate for negative environmental impacts and to optimize the positive environmental impacts derived from its economic and social projects.

Two examples show how the BPDC has facilitated the ‘greening’ of COOPELESCA, and by extension, its community. First, the BPDC financed the

conversion of all lighting within COOPELESCA to low-energy LED. Together with the energy cooperative, local BPDC staff analyzed the potential cost savings from the switch, and then granted a low-cost loan based on these savings. The switch to LED contributed to gaining carbon neutral certification, and even continues to provide COOPELESCA additional cost reductions beyond the cost of financing.

Second, the BPDC financed a COOPELESCA initiative to purchase land for conservation purposes. Beginning in 2009, the community of San Carlos recognized that the border areas of the Juan Castro Blanco National Park were at risk of over-exploitation by local farmers. This, in turn, jeopardized the valley's clean water supply. In response to a broad-based community preservation initiative, the Associates' Assembly of COOPELESCA decided to purchase land in order to help preserve the park's natural water resources, biodiversity, air, soil and scenic beauty. Cooperative members raised US\$1 million in funds, and with this approached the BPDC for an additional \$2 million-loan at not-for-profit concessional rates. This collaboration enabled COOPELESCA to purchase and protect 1,124.7 hectares in the national park. COOPELESCA workers maintain and protect the forest, and the cooperative is developing research collaborations with public universities to support student environmental and biodiversity programming in the reclaimed areas. The farmers who sold their land to COOPELESCA have moved on, but there remain more areas within the park in need of reclaiming for the ecological and common good of the community.

In summary, the BPDC exemplifies a large, national, universal, public-like cooperative bank that also has a long history and significant lending capacity in Costa Rica. Its governance model of ownership and control is substantially democratic insofar as it represents broad sections of Costa Rican society and government. Uniquely, the bank is unmistakably oriented towards serving the needs of workers and the poor in Costa Rica. Over the last five to 10 years, the BPDC has taken significant steps towards internalizing environmental (and gender equity) goals into its operations. Initial interviews suggest that BPDC personnel deeply share this vision.

Still, there is room for improvement. In terms of

ownership and effective control, at times it seems the government can exercise deciding influence. Should workers assume complete governing control? What if workers decided to privatize the BPDC, would this be in the public interest? The issue remains open to debate in Costa Rica. In terms of the bank's green profile, it is certainly orienting operations in this direction. Yet the BPDC does not systematically measure the impact or levels of green lending programmes. Consequently, what the balance of environmental versus regular lending is remains unknown. As with most public banks today, it is important to work towards substantively greening the bank from start to finish, so that lending in one area does not offset the green lending in another. This is especially important when trying to find the balance between concessional and non-concessional lending, or between generating returns and maximizing social and environmental impacts. There is much to commend the BPDC for, not least of which as a strong example of financial democratisation and mobilisation of public capital, but it is not perfect and there is work yet to be done.

## Germany's KfW: A global developmental juggernaut

Germany's KfW is quite a different bank from the BPDC. It is a fully public or state-owned and controlled development bank ('promotional' bank in European terms), whose existence is also inscribed in public law. Ownership rests with the Federal Republic of Germany, which holds 80 per cent of KfW shares, and the German federal states, which hold 20 per cent. While today the KfW aims for the "sustainable improvement of the economic, social, and ecological conditions of people's lives", the bank was born out of post-WWII reconstruction efforts (founded in 1948).<sup>9</sup> The German government decided to create a bank to manage the incoming Marshall Plan reconstruction funds, rather than directly spending the money.

The decision had foresight. Since then, the KfW has grown to be one of the largest national development banks in the world. Many scholars cite KfW as a good example of a public development bank that is also 'green' (Griffith-Jones 2016). Yet no public bank should be idealized, and the



KfW has its problems. Dramatically, the KfW and its subsidiary, the IKB (*Industriekreditbank*), got deeply embroiled in the 2008-09 global financial crisis. The IKB wanted a new source of returns, and the subprime mortgage mania seemed to be the answer. Yet when the crash hit the consequences cost it dearly (and the KfW by extension). When market logics begin to drive public sector decisions, this is often the consequence. Social forces must actively ensure that public banks are run transparently and democratically in the public, not private, interest.

The KfW nevertheless has a solid, if imperfect, governance structure. At base, it enables the representation of German government and society within the bank (KfW 2015, 174-6). This is not the case for every public bank. The KfW's shareholders (i.e. the government) are represented by the Board of Supervisory Directors, which functions as a general shareholders' forum (KfW 2015, 179). The Federal Minister of Finance and Federal Minister for Economic Affairs and Energy hold the Chair and Deputy Chair positions in alternation. The Board is composed of 37 additional members from across German society. These members include federal ministers specified in the Law Concerning KfW; members appointed by the legislative branch of government, the *Bundestag* and *Bundesrat*; representatives of banks and savings banks; and representatives of industry, the municipalities, agriculture, commerce, handicrafts, housing and the trade unions. Transparency is maintained by the KfW Executive and Supervisory Boards being subject to the Public Corporate Governance Code, and the KfW is required to have its annual financial statements audited by an independent auditor.

Over the decades, KfW has built up substantial lending capacity that has become increasingly green in orientation. In 2016, new lending amounted to €81 billion while 44 per cent of this lending (over €35 billion) was dedicated to environmental and climate protection projects (KfW 2017, 2). Importantly, the KfW does not strive to maximize returns but instead to offer low-interest loans. Its returns, therefore, are well below that of the private sector's average. This is not a problem, though, because KfW excels at fulfilling its man-

date of supplying low-interest loans and grants. That is its underlying rationale.

The operational strategies of KfW are diverse and complex given its large size and scope of business. The KfW has four banking divisions separated along domestically and internationally oriented operations (KfW 2016, 2). For domestic-oriented lending, which constitutes about two thirds of lending, the SME Bank (*Mittelstandsbank*) supports small and medium-sized enterprises (SMEs), business start-ups and other commercial clients. The Municipal and Private Client Bank (*Kommunal- und Privatkundenbank/Kreditinstitute*) provides private financing for housing, education, and climate or environmental protection and public funding for municipal infrastructure and regional development banks (see Box 2 below). For internationally oriented lending, which is about a third of lending, the KfW IPEX-Bank supports international export and project finance. The KfW Development Bank (DEG) supports developing and transition countries. In October 2012, KfW opened a fifth charitable division, the KfW *Stiftung*, as an independent non-profit foundation operating under the banners of responsible entrepreneurship; social commitment; environment and climate; art and culture (KfW 2015a, 13-14).

Unlike commercial banks like the HSBC or Citibank, development banks like the KfW do not accept personal deposits or lend directly to individuals. The KfW lends directly to other banks, municipalities and developing country governments. And, instead of accepting individual deposits, the KfW draws in capital from financial markets and then lends on to various banking intermediaries, institutions and organisations that have more direct access and contact with individual customers. One benefit of official state ownership for the KfW is that it comes with an explicit sovereign guarantee, which supports the KfW's very strong credit rating (S&P AAA). This enables the KfW to access market-based funds at cheaper rates of interest, and pass these savings along.

The KfW can fund projects alone or in collaboration with other funders and donors. The types of financial instruments used vary across the divisions, but include:

- **Grants:** financing provided exclusively from German Federal Government budget funds, which does not have to be repaid.
- **Standard loans:** subsidized loans from federal budget funds that have to be repaid by the borrower.
- **Development loans:** a combination of federal budget funds and funds that KfW raises on the capital market. Combining funds enables the loan terms and conditions to be adjusted to the economic strength of the borrower country and features of the project.
- **Promotional loans:** loans to partners in developing countries as mandated by the Federal Government. The loans are used for projects that have a development impact, but for which financing via the commercial banking sector alone is not offered (e.g. due to the longer financing period necessary).
- **Official donations:** KfW may also accept funds from other donors.
- **Green bonds:** for investors who place high value on sustainable investment.

The funding of projects may be not-for-profit (concessional) or at market rates (non-concessional). Research suggests that the KfW tends to prefer ‘promotional loans with subsidized credits’, that is, programme-tied loans that explicitly target government-determined priority projects geared towards overcoming society’s grand challenges, such as climate change (Mazzucato and Penna 2015). In this way, KfW funds can help to promote the public interest.

Green lending figures prominently in the KfW, which has adopted a strong focus on renewable energy development (KfW 2015, 18). Notably, KfW’s green activities have been guided by a series of legal and governmental initiatives undertaken in Germany society since 2000, notably the *Renewable Energy Act* (2000); the *Integrated Energy and Climate Programme* (2007); the *Climate Initiative* (2008); and the *Energy Initiative* (2010). These public policy initiatives provide important context for why the KfW has committed 44 per cent of all lending to green, environmental and low-carbon projects.

### *KfW diversity in green lending programmes*

- Energy-efficient construction and refurbishment
- Renewable energy (solar; wind)
- Renewable energy storage capacity
- Biodiversity conservation projects
- Green bonds
- Biodiversity days
- Botanical gardens
- Municipal and social infrastructure projects
- Municipal energy supply
- Urban energy-efficient rehabilitation
- Social business projects for women

### *KfW and the greening of municipalities*

Through its Urban Energy-Efficient Rehabilitation programmes, the KfW financially supports the greening of German municipalities, local authorities, municipally owned companies and non-profit organisations via energy-efficient building refurbishment loans. The Bank provides long-term, low interest-rate loans whose terms are sweetened by repayment bonuses linked to the energy efficiencies realized. Details include:

- Loan maturities up to 30 years, with a fixed interest rate for 10 years;
- Repayment bonuses of up to 12.5 per cent of a loan’s amount, subject to expert verification;
- A repayment-free, start-up period of up to five years.

It is not just a top-down venture, but one that aims at initiating “broad and locally adjusted investments in energy efficiency and renewable energies” . In 2016, the programme accounted for nearly €750 million in *public bank–public sector* financing for municipal retrofitting to support greater energy efficiencies.

Sources: Bach 2017; Hubert and Cochran 2013.

The KfW thus exemplifies a large, developed country development bank that has a long, stable history and significant contemporary lending capacity. Its governance model is broadly democratic, drawing in representatives of German society. Over the last 15 years or so, moreover, the KfW has made impressive strides towards reorienting its lending towards environmental ends and promoting a low-carbon future.

Yet, there is room for improvement. While 44 per cent of lending is deemed 'green', presumably 66 per cent cannot be or is not assessed along environmental lines. In other words, the KfW engages in programme lending that does not appear fit for 'green' purpose or that undermines its otherwise good environmental work. Furthermore, in confidential interviews with German stakeholders, some suggested that there may exist forms of 'corporate capture' of KfW green resources. That is, some of Germany's largest corporations may disproportionately benefit from certain KfW green lending, such as solar panels, in ways that may undermine social equality. These same stakeholder interviews revealed that the decision-making processes within KfW could be improved and democratized. If the KfW's experience with the 2008-09 financial crisis can be taken as a failure to work in the public interest, then perhaps deeper democratisation can counteract any such future problems. Just like Costa Rica's BPDC, Germany's KfW is a work in constant progress. Social forces must ensure these banks work and evolve organisationally in the public interest and for energy democracy.

## Putting green public banks' potential in context

To achieve the SDGs and the ambitions of the Paris Agreement, an estimated US\$90 trillion worth of infrastructure need to be financed. To date, the IFIs have done relatively little. From 2012 to 2014, IFI investments promoting energy efficiency equated to a mere 14 per cent of IFIs' energy portfolio, which equates to only 3 per cent of IFI total investments (CPI 2017). Commentators also lament that public and private investors (read: private) see a lack of investment-ready, 'bankable'

projects as a major constraint to future green investment as the culprit for such dismal results. This has given rise to (existential?) questions of whether the private sector is willing or able to deliver.

It remains the case that public spending by governments on infrastructure constitutes the largest proportion of investments, by far, estimated at about US\$1.5 trillion annually (Levy 2017). Public-Private Partnerships (PPPs) generated an additional \$112 billion in 2015, with a financing leverage ratio of about 1:1 (for every dollar invested publicly, another private dollar would follow). In 2015 the Multilateral Development Banks contributed about \$80 billion. Given the estimated US\$90 trillion in investments required in the near future, the burning questions are how to increase investment, and how to *green* it.

The fact is that public sources of funding are doing much, and that there is also potential for public banks to do more in the current context. This is a point of agreement by the 'Right' and advocates of market-oriented approaches and by the 'Left' and advocates of solutions driven by the public interest. The position taken in this issue brief is that there is a whole world of *potential* public bank catalyzers for a green and just energy transformation. That said, public banks must not be taken as a panacea in and of themselves, for the mere fact that they are public. Their potential depends on the actual policies and practices of the public banks and the extent to which these practices are defined democratically and in the public interest.

The burning issue of financial sustainability must also be raised. Disagreements continue to rage over the financial viability and desirability of public banks. Conventional economists and neoliberal market advocates remain firmly against public ownership, arguing that it leads to corruption and economic inefficiencies. Heterodox economists contest such claims, arguing that the economic evidence against public bank ownership is not as strong as suggested and that public banks can be as efficient as private banks (Levy et al. 2007). Others, too, would argue that profitability is secondary to the public banks' capacity to drive innovation, address society's grand challenges,

and to their capacity to rebuilding and reclaiming a progressive public ethos (Marois 2015; Mazzucato and Penna 2015; Povel 2015).

In the end, there is no compelling evidence that public banks cannot be financially sustainable for the simple reason that they are publicly owned (as the KfW and BPDC suggest). Most studies claiming private banking superiority, moreover, are methodologically flawed. Their approach is typically to assess whether public banks are *as efficient as* private banks at making money. One might as well ask if oranges are better at making apple juice than apples. Many public banks either do not have a profit mandate or profitability stands alongside other social and development goals, as with the BPDC and the KfW. Private corporate banks seek profits alone, and are essentially oriented in this sole direction. This, in turn, is what has prevented more substantial private investments in a global green transformation. It is also why private investors are unlikely to support social goals like energy democracy.

That being said, public banks can perform their mandated duties *in financially sustainable* ways in at least two different ways:

- on a not-for-profit basis, which implies that returns are re-invested by the bank in society; and
- via explicit loss-making operations, which implies that the government or another part of the bank subsidizes such losses to ensure the bank's overall long-term sustainability.

It needs emphasizing that, as for any public or public-like entity, financial sustainability needs to be accounted for across the full spectrum of the public bank's activities and impacts. Accordingly, appropriate incentives and training need to be put in place to incentivize bank management and staff to approve projects according to this long-term practice of financial sustainability in the public good. In any case, the issue of financial sustainability needs to be democratically decided in line with a public bank's mandate and mission – as opposed to the ideologically driven profitability imperatives of conventional economics – and this should be made fully understood by the public.

Finally, financial sustainability should be considered beyond 'lending' to also include forms of 'ownership and equity'. Public banks can fund public infrastructure and other venture projects, and in return take a stake in the new institution. Over time the equity stake can pay dividends back to the bank, which in turn benefits the public purse (see Mazzucato 2015). This is nowhere without risks, but the payoffs can be financially and developmentally astounding. Cooperative banks such as the BPDC can also consider taking a stake in new coop investments as a way of promoting cooperativism in society. Building strong coop-coop collaborations helps to solidify a future of social solidarity development, which in turn helps to provide for the political and economic will required to maintain truly cooperative and public operations working in the public interest.

## Conclusion: What can public banks do for a just energy transformation?

There are real concrete benefits in having public banks involved in the green transformation of society. A look at Germany's development bank KfW and Costa Rica's universal BPDC helps to illustrate their potential, but also shortcomings. Banks can be public and serve the public good, and do so democratically. Public banks can raise the needed capital for personal and infrastructural investments, and channel this towards low carbon and climate resilient programmes. Profitability need not be the primary measure of a bank's success, and the bank's stability need not be threatened by such an approach. As public banks take on greater roles in green transformation they can help build the needed public ethos and necessary technical expertise. These are important possibilities.

That said, there are a number of barriers to realizing the potential of public banks to finance a green and just energy transformation. Internally, public banks need to find effective ways of translating popular democratic aspirations into effective and sustainable operational strategies.

Sometimes this can lead to conflicts between

Table 2. The potential of public banks for a green transformation

Criteria	Characteristics of KfW and BPDC
Ownership	• Can be 100% public and operate effectively under public law
Governance	• Can democratically internalize governmental and popular direction into their core mandates and daily operations
Operational strategies	<ul style="list-style-type: none"> <li>• Can be sustainable without prioritizing financial returns over social, gender equity, and environmental mandates</li> <li>• Can benefit from explicit and implicit state guarantees, and use this to fulfil their mandates</li> <li>• Can magnify existing public resources for the public good</li> </ul>
Green transformation	<ul style="list-style-type: none"> <li>• Can take the lead in developing innovative, green, supportive lending</li> <li>• Can promote a public ethos around a just, green future</li> <li>• Can build internal expertise to support transformation</li> </ul>

those who own the bank (shareholders and associated stakeholders) and those who control it (senior management and technical experts). This politicisation of the banks should not be shied away from, but embraced through open, representative and transparent democratic structures. Likewise, public banks need to confront possible abuses by either governing parties or bank functionaries. No one benefits from the abuse of public banks or the wasting of collective resources via ineffective banks. Accountability and transparency must reign supreme.

Externally, public banks face the seemingly insurmountable structural context of neoliberal financial capitalism. For one, neoliberal ideology and development practices threaten the very legitimacy and existence of public banks. Mainstream neoclassical economics and liberal political economy, by definition, see public banks as suboptimal market actors, which by virtue of public ownership are inherently inefficient and corrupt entities. The solution is invariably privatisation. While some international institutions have had to begrudgingly accept a role for public banks in addressing the global climate challenge (and recurrent global financial crises), their hard-core belief in private sector superiority remains rock solid.

For another, the context of global financial capitalism has created an intensely competitive context for public banks. Gone are the days of a purely national developmental strategic orienta-

tion and the possibility of banks ignoring global financial markets. Today's public banks are intertwined globally, borrowing funds from abroad, dealing in global financial markets and currencies, and mitigating global financial risks and crises nationally. The experience of KfW in the global crisis is instructive. Moreover, public banks are under constant threat of takeover, nationally and from foreign banking giants. Public and cooperative banks must vigilantly promote a social and public ethos in society through their operations. Private actors will manifestly oppose this as inefficient, biased and corrupt.

Yet lamenting the influence of neoliberal agents and the power of global finance capital forms no effective strategy of resistance. Progressives must think strategically and transformatively. Support for and capacity in public finance is a necessary, if not sufficient, condition for any break with neoliberal financial capitalism (Marois 2015). Likewise, a green and just energy transformation requires, among other things, financing based on solidarity and oriented in the public interest.

To this end, society must hold their public banks to account and, in fact, demand their substantive democratisation and 'greening'. The strides towards these positive goals in the KfW and BPDC, while distinct, society-specific and incomplete, are substantial. Such positive examples must not be taken for granted, but used as a basis to deepen and extend the political and economic democratic

foundations of society and, in particular, to build progressive campaigns around democratizing finance for sustainable and just energy transformation.

In terms of specific strategies around defending and improving public banks, we have elsewhere considered a range of actions for progressive campaigns.<sup>10</sup> These are worth revisiting, by way of closing, vis-à-vis public banks and energy democracy. These include:

1. **Framing public finance as a common good:** The financial sector is the nervous system of society, and it needs to be conceived of in the public interest.
2. **Democratized banking:** The struggle to defend public banks must also involve their democratisation as a long-term strategy of social sustainability.
3. **Collective ownership and control:** State or public ownership is only one form of ownership. Many other progressive, collective forms of cooperative and worker-controlled banks should be pursued and not be undermined by neoliberal ideology.
4. **Radical scholarship:** Critical scholars must engage more systematically in the real problem of understanding and advocating for effective public financial alternatives.
5. **Linking the green transformation to public provisioning:** Environmental sustainability demands effective, long-term and accountable sources of finance. Public banks are uniquely capable of playing a lead, proactive role in a global green and just transition.
6. **Collective organisation in the banking sector:** Bank workers need effective union representation, and unions can be powerful actors of resistance to neoliberalism and financialisation as well as powerful advocates of progressive social change.
7. **Solidarity across sectors:** Too often dialogue and solidarity between traditional trade unionists, finance workers and (other) public sector workers is non-existent, and this needs to change for a green and just energy transformation.

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