5 Public banks and public water in Colombia

The case of the Findeter development bank

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This chapter focuses on the role that the Territorial Development Financial Institution (Financiera de Desarrollo Territorial S.A., Findeter), a national development bank, plays in financing the water supply and sanitation (WSS) sector in Colombia. The evolution of the public banking sector and the public services sector must be understood in the context of the diversity of geographical and hydrological, social, political, economic and cultural characteristics of the Colombian territory. These public systems have been influenced by local, national and transnational dynamics, including the prioritization of particular political and economic interests, entrenched social inequality, and a prolonged armed conflict that has played a decisive role in the growth of cities, spurring rural–urban migration (Camargo et al. 2022).

Financing WSS infrastructure requires a significant amount of investment. Most water operators cannot afford to cover the costs of their operations through tariffs and taxes, let alone those of infrastructure maintenance and expansion (Reis 2022, 831). In developing countries like Colombia, austerity measures have made it difficult for governments to provide adequate subsidies to maintain or expand services to achieve universal coverage, especially in rural areas. Climate change has further increased the need for investment due to a higher likelihood of landslides, droughts, floods and hurricanes. The United Nations has recognized that water is also a basic necessity and a human right. In the case of Colombia, access to drinking water has also been recognized as a fundamental right by the Constitutional Court (Judgments T-578 of 1992, T-418 of 2010, T-740 of 2011 and T-012 of 2019). It is therefore both undesirable and difficult to measure the benefits of providing access to quality WSS services according to financial criteria alone or the "laws of the market" (interview 6).

In this chapter, we highlight how Findeter has been recognized as "the water bank" since its inception (interview 5). As a national development bank, Findeter has been committed to providing technical assistance and financing to water operators at the municipal and departmental (that is,

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provincial or state) levels through financial intermediaries. We highlight in particular the crucial role Findeter played during the COVID-19 pandemic (as did numerous other public banks globally) (McDonald et al. 2020). Faced with the imminent financial crisis that water operators were experiencing, the government authorized Findeter to open direct credit lines under favourable conditions to mitigate the impacts of the loss of income due to the economic crisis and the effects of public health measures. Thanks to the support and financial backing of the central government, Findeter increased its commitments to public water operators.

On the other hand, many challenges in the sector remain, such as the wide gap in access to drinking water between urban and rural areas. This leads us to discuss the important role that development banks such as Findeter could play in putting the human right to water into practice by supporting community-based water management in marginalized areas, protecting water sources and addressing climate change.

Research for this chapter draws on both primary and secondary sources. Primary sources entailed semi-structured interviews conducted between September 2022 and September 2023 with various experts in the field, including officials from Findeter, water operators and community members, as well as economists and experts on finance (see Appendix A for list of interviewees). To maintain confidentiality, the identities and positions of certain interviewees have been withheld. Secondary sources include bank reports and documents related to public water services.

The chapter is divided into three sections. The first offers a brief history of public banking and public water in Colombia, focusing on the role that national development banks such as Findeter and its predecessors have played in the latter's evolution. The second section presents information about Findeter's current programmes in the WSS sector, focusing on the positive role that it played in guaranteeing access to services during the COVID-19 pandemic. We also observe that the majority of Findeter's investments for water and sanitation projects to date have been concentrated in more central, urbanized departments, while financing for projects in peripheral regions has been more limited. This uneven spatial investment pattern raises questions about the limits of debt financing for addressing issues of equity in service delivery. Finally, the chapter concludes with lessons learned and poses questions for future research.

The history of public banking and public water in Colombia

The banking and WSS sectors in Colombia have not followed a linear trajectory from public to private or vice versa. Throughout the 20th and 21st centuries, the Colombian government has oscillated between periods of centralization and decentralization as well as privatization and nationalization, which has created a blend of public and private models of ownership and service delivery in both sectors (Kalmanovitz 2015; Ocampo et al. 2018).

The Colombian banking sector

From the late 19th century to the early 20th century, Colombia made efforts to establish a banking system, which included the creation of the National Bank in 1880 and the Central Bank in 1905. However, the first public bank to successfully consolidate and endure to the present day is the Bank of the Republic (Banco de la República, BR), which was founded in 1923 (Meisel Roca 1990; Kalmanovitz 1983). Initially, the BR functioned as a semi-public entity, adopting the structure of a joint-stock company in which the government held a 50 per cent stake, while national and foreign commercial banks, along with other private entities, held the remaining portion (Kalmanovitz 2015). In line with recommendations from the commission led by American economist Edwin Walter Kimmerer, its primary objective was to serve as a modern central bank, modelled after the United States Federal Reserve, tasked with issuing currency and regulating monetary policy. Over the ensuing decades the BR, as the central bank in the country, expanded its role to encompass various spheres of the economy (Meisel Roca 1990).

The government established Colombia's first national development bank, the Industrial Development Institute (Instituto de Fomento Industrial), in 1940. The aim of the Industrial Development Institute was to promote the establishment of new enterprises, both public and private, through rediscount operations and by collaborating in the reorganization of existing companies (Ocampo et al. 2018; Ocampo & Torres 2021). Since then, national development banks such as the Industrial Development Institute have mostly acted as second-tier lending institutions. A second-tier bank, otherwise known as a rediscount financial institution, lends money to other financial institutions so that they can on-lend to their own clients.

Second-tier development banks often receive funding from the government or directly from borrowing in domestic and foreign capital markets. They differ from first-tier banks (public and private), which provide daily banking services like savings and chequing accounts, mortgages, credit cards and other services such as direct lending to clients. Smaller financial institutions can obtain loans from rediscount institutions at generally lower interest rates than they could secure elsewhere, which enables them, in turn, to lend to individuals and businesses at more competitive interest rates. The purpose of second-tier banks is to create a support system that aids in maintaining the flow of money in the economy. These banks have played an important role in the Colombian economy during both state- and market-led phases of development.

From 1951 to 1967, when the government pursued policies of import substitution industrialization (ISI), the BR acquired the functions of a development bank. The government also created various investment funds managed by the BR to support different sectors of the economy such as coffee, livestock, export promotion, industry and electricity generation (Kalmanovitz 2015; Ocampo et al. 2018; Ocampo & Torres 2021). During this period, the

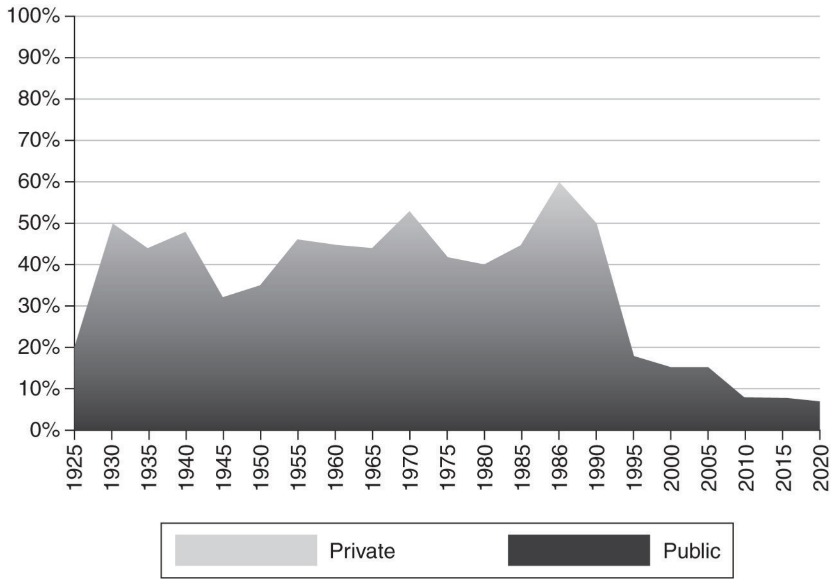


Figure 5.1 Composition of the banking system by assets between 1925 and 2020.

Source: Adapted from Ocampo & Torres (2021, 160).

involvement of the public banking sector in the country's economy began to expand, experiencing a significant increase throughout the 1970s and 1980s, as illustrated in Figure 5.1 (Kalmanovitz 2015; Ocampo & Torres 2021).

In 1968, the government established the Financial Urban Development Fund (Fondo Financiero de Desarrollo Urbano, FFDU), which was used to finance municipal projects such as purchasing land for recreational parks and water and sanitation infrastructure. The FFDU acted as a rediscount entity, financing loans administered by the BR, which were granted to municipal governments through commercial banks and financial corporations (DNP 1972; Banco de la República 1970; Domínguez Torres & Uribe Botero 2005; Hernández & Jaramillo 2017). The main intermediary institutions in the rediscounts were public banks such as the Caja Agraria and the Central Mortgage Bank (Banco Central Hipotecario, BCH) as well as private commercial banks. FFDU loans were capped at a maximum term of ten years, with a grace period of one year, and amortization was gradual and planned in uniform annual instalments. Smaller cities with a population between 30,000 and 350,000 received a lower interest rate of 14 per cent per year, and cities with 350,000 inhabitants or more were charged 15 per cent (DNP 1972). This fund was suspended only two years later in 1970, due to a lack of resources. In 1974, the management of the FFDU was transferred to the Central Mortgage Bank (Hernández & Jaramillo 2017, 235).

The gradual weakening of the state-led ISI process and the determination of governments in power from 1958 to 1979 to stimulate economic development through opening up the economy to global market forces encouraged a tentative shift in policies from the 1960s onwards. Although development in this period was state-led—for example, the BR played a central role in stabilizing the national currency—the country was already entangled in the dynamics of economic globalization. Colombia had a thriving coffee export market and had acquired considerable foreign debts to finance the construction of railways, roads and public services (Kalmanovitz 2015). In the 1970s, the government was already considering promoting the liberalization of import and export markets, which would become standard neoliberal restructuring policies across Latin America within a decade. However, this process was interrupted by the deep financial crisis that hit the region in the early 1980s known as the "lost decade" (Palacios 2004). In Colombia, the government dealt with this widespread economic crisis by liquidating various financial entities and nationalizing several private banks such as the Bank of Colombia (El Banco de Colombia), currently known as Bancolombia. As a result, and somewhat paradoxically, in the context of neoliberal structural adjustment in the 1980s, public banking grew in strength while private banking deteriorated (Ocampo 2021) (see Figure 5.1 above).

The trend towards economic liberalization resumed in the late 1980s and early 1990s. Colombia saw an unparalleled era of institutional and economic policy transformation between 1989 and 1992 as the social and political crisis reached its peak (Suarez 2021). The Colombian state's legitimacy was at stake on all fronts, so its reconstruction was entrusted to a collective, popular-based agreement: the Political Constitution of Colombia of 1991. The Constitution of 1991 and subsequent legislation transformed the public banking system as well as the way that public services were delivered, as will be discussed in further detail below. The new constitution made the BR more independent from the central government, and new regulations prohibited it from lending money to the government. Its role was narrowed to a focus on inflation targeting—a role widely associated with the deepening of neoliberal finance-led structural adjustment policies in the Global South.

In the restructuring process, the development functions of the BR were delegated to three newly established development banks: Findeter was established in 1989 with a mandate to finance local infrastructure development; Finagro was established in 1990 to finance the agricultural sector; and Bancóldex was established in 1991 to finance non-traditional Colombian exports (Ocampo & Arias 2018) (see Table 5.1). While creating new public sector financial capacity, the government simultaneously sold off many state-owned enterprises in processes that favoured foreign investors to fulfil the government's efforts to attract foreign direct investment (Kalmanovitz 2015). Furthermore, the path to privatization was paved for banks that had been nationalized during the 1980s crisis (such as Banco de Colombia). Subsequently, almost all national development banks like the Central

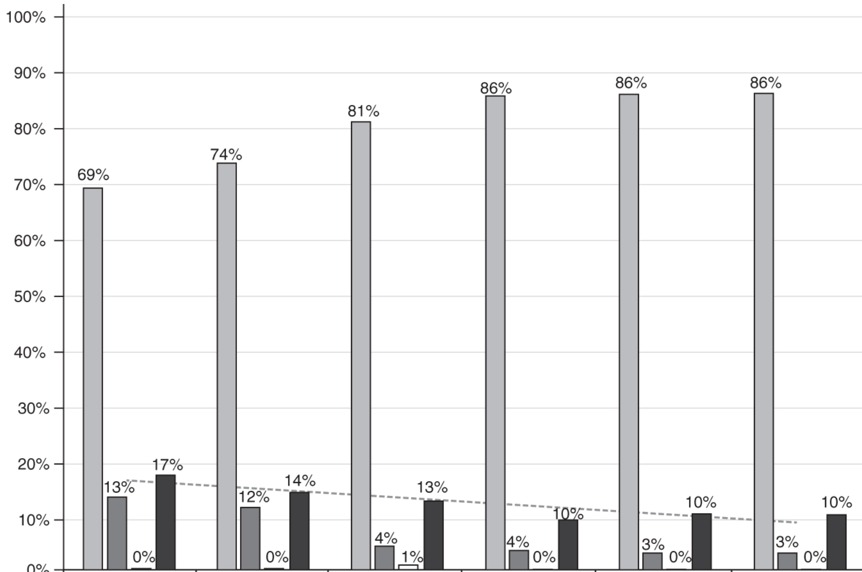
Table 5.1 History of Colombia's system of development banks

Entity	*Predecessor funds managed by BR*	*Sector*	*Dates*
Central Mortgage Bank		Mortgage market	1932–2001
Municipal Development Fund		Infrastructure for departments, intendancies, police stations, and municipalities	1940–50
Industrial Development Institute		Industrial development	1940–2002
Financiera Energética Nacional (FEN)/ Financiera de Desarrollo Nacional (FDN)	Electric Development Fund	Energy infrastructure	1982–2011
Territorial Development Financial Institution (Findeter)	Financial Urban Development Fund (FFDU)	Urban and regional infrastructure	1989–
Financial Fund for the Agricultural Sector (Finagro)	Agricultural Development Fund	Agriculture	1990–
Foreign Trade Bank of Colombia (Bancóldex)	Export Promotion Fund	Non-traditional exports/ business development	1991–

Source: Adapted from Ocampo & Arias (2018, 170).

Mortgage Bank were either sold or liquidated. Only the Caja Agraria, currently known as Banco Agrario, remained in public hands. Between the 1990s and the early 2000s, the majority of first-tier public commercial/retail banks, such as Banco Ganadero and Bancafé, had already succumbed to privatization (Ocampo 2021).

As Ocampo and Torres (2021) argue, the continued existence of second-tier national development banks such as Findeter helped to mitigate the negative effects of the dissolution of first-tier commercial/retail public banks in the 1990s. Overall, however, the participation of national development banks in the economy declined dramatically between the mid-1980s and the 1990s. As a percentage of the assets of financial institutions, the public development banks' share fell from 17 per cent in 2003 to 10 per cent in 2023 (see Figure 5.2). Nonetheless, Findeter's share of the total financial assets has remained fairly steady and even increased between 2005 and 2023, while other national development banks serving the export and electricity sectors have experienced relative decline (Ocampo & Torres 2021).



2003	2005	2008	2016	2020	2023
69%	74%	81%	86%	86%	86%
13%	12%	4%	4%	3%	3%
0%	0%	1%	0%	0%	0%
17%	14%	13%	10%	10%	10%

- Total private banks
- Total public 1st-tier banks
- Total cooperatives
- Total development banks or 2nd-tier banks

Figure 5.2 Composition of the national banking system by assets.

Source: Elaborated by the authors using data from the Superintendency of Finance of Colombia; the private sector includes both domestic and foreign institutions.

The Colombian water and sanitation sector

At the turn of the 20th century, water supply and sanitation (WSS) in Colombia were in the hands of small private companies. These private companies were unable to meet the growing demand for quality water in rapidly growing urban areas. Some local governments, in cities such as Medellín and Bogotá, made the decision to acquire WSS companies by municipalizing the services. In 1913, the national government granted municipal councils the authority to create administrative boards for public utility companies in an early move towards decentralization that transferred the responsibility for management of WSS to the local level (Arias et al. 2022).

From the 1920s onwards, a framework of public ownership began to emerge (Jaramillo 1995). Some departments of the country started constructing small water systems in urban areas, occasionally with the support of private capital. Water-related diseases began to prevail in densely populated areas where private companies failed to invest adequately, imposed rationing and continually increased tariffs. These problems resulted in public rejection of the private model of service delivery and prompted state intervention (Jaramillo 1995; Vanegas 2004).

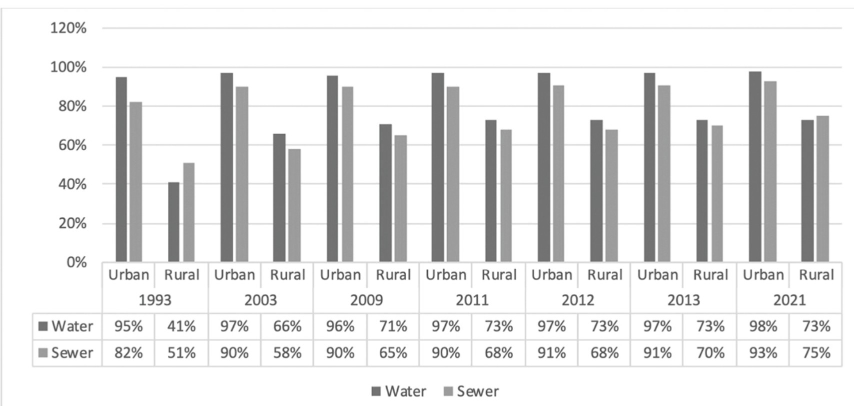
A significant challenge for municipalities was the lack of financing, leading many municipal governments to seek support from the national government and loans from private local banks. The private banks granted loans but demanded participation in the administrative boards of the water operators, giving them influence over decisions regarding tariffs, financial management and infrastructure expansion. In this way, the first measures related to corporatization (that is, the creation of arm's length state-owned utilities) were introduced in Colombia in the early 20th century, long before the introduction of New Public Management in other countries in the 1980s (Arias et al. 2022, 34).

Over the 20th century, the national government played a significant role in financing the expansion of WSS. For example, it established a Special Aqueducts Section within the Ministry of Public Works in 1936 and created the Municipal Development Fund (Fondo de Fomento Municipal, FFM) in 1940. The government allocated 1 per cent of national fiscal resources to the Municipal Development Fund over the next 10 years to finance WSS expansion (Domínguez Torres & Uribe Botero 2005). The decree specified that this fund would also receive income from certain taxes and profits of state-owned enterprises. Additionally, it received sums from the national budget, departments and municipalities. The allocation of resources from the fund took the population of the municipalities into account (Decree 503, 1940).

From the 1950s onwards, the administration of the WSS sector underwent many changes. In 1950, the central government created the National Institute for the Promotion and Development of Local Works (Instituto Nacional para la Promoción y Desarrollo de Obras Locales, INSFOPAL), which was linked to the Ministry of Economic Development. In 1968, INSFOPAL was transferred to the Ministry of Health. INSFOPAL continued to serve larger urban populations, and through the National Institute of Health (formerly known as the National Institute of Special Health), the Ministry set up a special health programme to serve smaller municipalities. The National Health Institute created the Rural Basic Sanitation Program (Programa de Saneamiento Básico Rural) to encourage community self-management, a programme which was in operation from 1968 to 1987. During that time, it managed to build about 2500 rural water systems, thereby improving the quality of life for at least two million people (Comisión Reguladora de Agua et al. 1997). However, with decentralization measures implemented between 1987 and 1990, the Rural Basic Sanitation Program was eliminated, and its responsibilities were transferred to departmental authorities. The result was a loss of valuable experience and knowledge of rural community water and sanitation management, which has never been entirely recuperated (Carrasco 2016). By the end of the 1980s, the central government dissolved INSFOPAL, which only reached half of Colombia's municipalities (Hidroestudios 1991). It transferred the responsibilities for financing and managing WSS projects to the FFDU, which, as noted in the previous section, is the direct predecessor of Findeter (see Table 5.1) (Departamento Nacional de Planeación 1991).

In the 1980s, public investment was primarily directed towards the country's largest cities with only minor attention paid to intermediate cities. Rural areas were almost completely neglected. On average, investment in the WSS sector in the 1980s amounted to approximately US$150 million per year, with 11 per cent coming from central government transfers; 9 per cent from capitalized national gross savings allocated to the sector; 36 per cent from external credit; 5 per cent from territorial entity transfers; and 39 per cent from internal company-generated funds (Hidroestudios 1991). The bulk of this investment, 60 per cent, was directed towards the country's three major cities—Bogotá, Medellín and Cali—while 35 per cent was directed to intermediate cities and a measly 5 per cent to rural areas (Hidroestudios 1991). This uneven investment exacerbated regional disparities in Colombia, a nation marked by high levels of social inequality amidst a prolonged armed conflict.

In the 1990s, other entities carried out WSS projects, but again, the investment was mostly channelled to urban areas. The Constitution of 1991 involved a withdrawal of the state in the direct provision of WSS services, and further decentralization delegated the responsibility of service delivery to municipalities and regional governments. The municipalities did not have the technical or financial resources to deal with the level of need, and many turned to the private sector, which only served to further exacerbate regional gaps in service delivery (Carrasco 2016). To make a bad situation worse, between 2006 and 2014, the central government encouraged municipal



	1993 Urban	1993 Rural	2003 Urban	2003 Rural	2009 Urban	2009 Rural	2011 Urban	2011 Rural	2012 Urban	2012 Rural	2013 Urban	2013 Rural	2021 Urban	2021 Rural
Water	95%	41%	97%	66%	96%	71%	97%	73%	97%	73%	97%	73%	98%	73%
Sewer	82%	51%	90%	58%	90%	65%	90%	68%	91%	68%	91%	70%	93%	75%

Figure 5.3 Coverage of water supply and sewerage in Colombia.

Sources: Compiled from Hidroestudio (1991); Departamento Nacional de Planeación (1991; 2013); Comisión Reguladora de Agua et al. (1997); CONPES (2005); and Republic of Colombia (2021).

administrations to allocate a significant portion of their transfers to projects in urban areas of municipalities, not rural ones. The net result of decentralization and privatization in the WSS sector in Colombia has been underinvestment in rural areas of Colombia (Comisión Reguladora de Agua et al. 1997; Carrasco 2016). Figure 5.3 presents the gaps in service coverage in urban and rural areas based upon available data.

Today, while Colombia boasts high rates of access to potable water compared with many countries in Latin America and the Caribbean, it lags significantly behind Chile and Brazil. According to the United Nations (2022), the rate of access to "safe" water in Colombia is 74 per cent at the national level, but 81 per cent in urban areas and only 40 per cent in rural areas. Focusing on the percentage of the population that has access to services obscures the problem of water quality as well as additional challenges facing the sector, such as the increase in demographic pressure in both cities and rural areas, the way that climate change is affecting water source availability, and the rising number of disputes over water in the context of unequal power relations between communities and extractive and industrial enclaves (López 2016; Budds 2018).

For the water supply and basic sanitation sector, the new Constitution of 1991, with its strong orientation towards decentralization, paved the way for Law 142 of 1994 by which the regime of domiciliary public services was established. Following neoliberal guidelines, Article 15 of this law provided municipalities with options to transform service provider companies into Industrial and Commercial State Enterprises (Empresas Industriales y Comerciales del Estado), owned by the state, departmental or municipal governments; mixed-ownership companies, with both public and private participation; or private companies. Although the corporatization of these institutions dates to the 1970s, this new law made it the norm. However, many cities resisted, and several of them, such as Medellín and Bogotá, managed to retain ownership of the companies under the supervision of local governments (Superintendence of Public Services 2021; Arias et al. 2022). Despite this, the law established strict market economy regulations.

The net result of decades of decentralization and privatization is a fragmented archipelago of WSS service provision. As of December 31, 2020, there were 2711 providers of WSS services (Superintendence of Public Services 2021). Some of these providers specialize solely in either water or sewage services, others deliver both, and some include waste management. In urban areas, 38 per cent of WSS services are delivered by anonymous societies (S.A.)—corporations with shareholders, limited liability and a board of directors, regulated by the Commercial Code and requiring at least five shareholders; 24 per cent through direct provision by the municipality; and 14 per cent are managed by other forms of industrial and commercial state enterprises. In terms of ownership, 52 per cent of water operators are state-owned, 26 per cent are private and 15 per cent are mixed public–private (Superintendence of Public Services 2021).

Community-based water management organizations, which play an important role in providing water services to marginalized populations in Colombia, are not reflected in the statistics above (Roca-Servat et al. 2020). According to the National Network of Community Aqueducts (Red Nacional de Acueductos Comunitarios [RNAC] 2022), there are around 30,000 community-based water management organizations in Colombia. Considering that there are approximately 35,000 hamlets as well as numerous informal settlements that also access water through community efforts, there are likely thousands of others as well.

Findeter and public water

Findeter was established on November 14, 1989, by Law 57 as a public corporation, linked to the Ministry of Finance and Public Credit. Under this law, the government also transferred the Central Mortgage Bank to Findeter, along with the responsibility for creating and executing the Sectoral Adjustment Plan (Banco Central Hipotecario 1987; Cuervo 1994). Six months after Findeter's founding, the government also transferred to it the assets, liabilities and loan contracts that had previously corresponded to the FFDU (Ocampo 2015).

Findeter is governed by a general assembly of shareholders, a board of directors and fiscal oversight. The general assembly of shareholders, consisting of Findeter's owners, reveals that as of July 2023, the central government holds 92.5 per cent of Findeter shares through Grupo Bicentenario S.A.S., a public holding company it established in 2020. The remaining shares are dispersed among the 32 departments nationwide or, in the case of the Norte de Santander department, their holding company, Ifinorte (Findeter 2023; Decree 492, 2020, cited in Findeter 2022a). Despite being wholly owned by government entities, Findeter operates under private law, making it subject to the same regulations as private banks within the country (Findeter 2023).

For most of its history, Findeter has exclusively acted as a second-tier lending institution that obtains its financing from various sources, including time deposits, government financing, issuing bonds in international markets and loans from multilateral development banks (Ocampo & Torres 2021; Findeter 2023). Its primary function has been to channel these resources towards first-tier financial institutions, such as commercial banks, cooperatives and others, with the aim of offering direct loans to clients with subsidized interest rates and other benefits to support projects in key sectors such as infrastructure, energy, water, transportation, health and ecological projects undertaken by municipalities, departments and other public and private enterprises (interviews 4 and 5, September 2022; Ocampo & Torres 2021). However, during the COVID-19 pandemic, the government allowed Findeter to take on the functions of a first-tier bank enabling it to provide direct credit to public service companies (Findeter 2020; Roca-Servat et al. 2021). In the following section, we describe the role that Findeter plays as a rediscount entity, the expansion of its role to include first-tier banking functions during the COVID-19 pandemic and its efforts to address regional disparities in WSS services.

Findeter as a rediscount entity

Findeter's main activity is to channel economic resources with subsidized interest rates and other benefits to support projects in key sectors such as infrastructure, energy, water, transportation, health and ecological projects carried out by municipalities, departments and public and private enterprises. This is accomplished through intermediary financial institutions using two mechanisms (interviews 4 and 5; Ocampo and Torres 2021). The first is that a water operator can request a loan from Findeter, which channels the resources through a first-tier financial institution such as a private commercial bank or a cooperative. The second is that the water operator can apply directly to a first-tier institution, which, in turn, can request resources from the public banking system (interviews 7 and 8; Bancóldex 2023).

When negotiating the terms of these loans, including the size of the loan and the specific payment requirements, Findeter evaluates both "the financial capacity of the applicant and the analysis conducted by the first-tier bank" (interview 5). Nevertheless, Findeter employees emphasize that as a national development bank they aim to consider other aspects of a project beyond narrow financial criteria, including the project's broader context, the characteristics of the territory and the target population, as well as the issues it aims to address (interview 5). Findeter must also have a deep understanding of the financial statements and ratings of the first-tier banks through which it disburses funds. Regarding the terms of payment, Findeter has established itself as a public development bank that provides long-term funding. The repayment terms for the rediscount credits offered by Findeter vary from 10 to 20 years, with grace periods of up to 3 years.

The cost of loans depends on various factors. Findeter sets the rediscount rate that will be applied to the intermediary financial institution, considering factors such as inflation, exchange rate fluctuations, the Fixed-Term Deposit Rate (Depósito a Término Fijo), the impact of monetary policy on variable capital, and the Reference Banking Indicator (Indicador Bancario de Referencia). The Reference Banking Indicator was created in January 2008 by the private sector with the support of the BR and other financial institutions (Banco de la República 2023). These rates inform the nominal interest rate at which banks lend money. At the time of the interview with a senior official from Findeter (interview 5), the Reference Banking Indicator was 9 per cent.

The financial intermediary will add additional points and will be responsible for determining the rate that the credit user will ultimately pay. Similarly, the risk of default falls on the various intermediaries "since they are the ones who are obligated to pay Findeter, even if the ultimate beneficiary does not meet their payments" (Findeter 2023, 383). To understand how this process functions, Findeter's Commercial Manager F. Carrero Parada provided the following example:

Table 5.2 Percentage of Findeter loan disbursements by key intermediaries (first-tier banks)

2019	Davivienda: 27.6% Bancolombia: 19.6% Banco de Bogotá: 13.1% Banco de Occidente: 12.4%
2020	Bancolombia: 26.8% Davivienda: 22.3% Banco de Bogotá: 17.3% Banco Bilbao Vizcaya Argentaria Colombia S.A.: 11.5%
2021	Bancolombia: 15% Davivienda: 14% BBVA: 7.6% Banco de Bogotá: 7.4%
2022	Davivienda: 30.6% Findeter: 25.4% Banco de Bogotá: 8.4% FDN: 7.8% Scotiabank: 6.0% Bancolombia: 4.8%

Sources: Findeter's Annual Management Reports (2019; 2021; 2022b; 2023).

> When we have offset rates, we set limits for the intermediary bank so that the benefit generated by the rate is not captured by the bank but rather transferred to the end customer. […] First-tier banking always offers credit lines. For example, if you need a loan to finance a car, you get quotes from BBVA, Bancolombia, Davivienda, to see which one seems better. […] The same applies to water operators. They have learned that when they have funding from Findeter, they should inquire about the costs of first-tier bank intermediation. We tell the operator, "You already know that my funding costs IBR + 0.30, so the bank cannot charge you more than IBR + 4.30, but you can also negotiate not to be charged 4% because you are their client, because you already have business with them." From there they can negotiate and secure the best rate in the market. The choice of the intermediary bank is up to the client, and it's a free choice.
>
> (Interview 5)

According to the sustainability and management reports of the last four years, Findeter has developed strong relationships with first-tier, commercial private banks, as can be seen in Table 5.2. As of 2022, Findeter itself appears on the list as one of the main intermediaries due to changes to regulations during COVID-19 that allowed it to act as a first-tier bank. That is, Findeter was allowed to lend directly to municipalities and so on without having to go through private commercial banks.

As demonstrated in Figure 5.4, the disbursements of credit to WSS fluctuate from year to year, but in general, the amount has been trending downwards

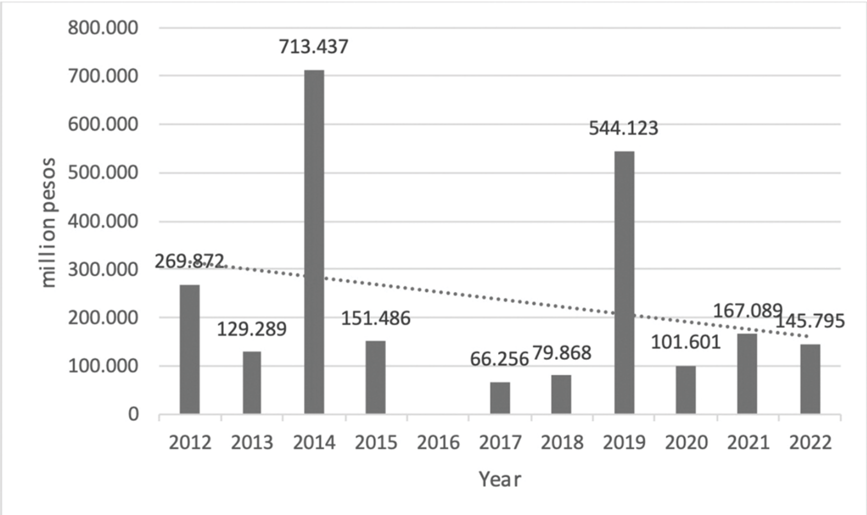


Figure 5.4 Rediscount credit disbursements of Findeter for WSS through years in COL$ million.

Source: Findeter's Annual Management Reports (2012 to 2023).

over the last decade. However, as noted further below, since 2020 Findeter has also been providing direct loans to the WSS sector that are not accounted for in Figure 5.4.

Findeter and COVID-19

In 2020, the government granted Findeter authorization to operate as a first-tier bank while continuing in its role as a second-tier development bank, which enabled it to carry out direct credit operations to finance projects and activities. Two years prior to the onset of the COVID-19 pandemic, Findeter was already assessing the feasibility of providing direct loans. Their analyses were based on the premise that, "by channeling resources through commercial banks—with the intermediation margin charged by banks—the interest rate, even if competitive, did not reach 100% as direct benefit to the territorial entities" (Findeter 2020).

The COVID-19 crisis prompted the government to expedite the implementation of this strategy. When the state of emergency was declared in March 2020, the Colombian government considered access to safe water a basic necessity to protect public health along with physical distancing. The profound inequalities in access to safe drinking water, which has been a constant feature of the country's history, became even more evident during the COVID-19 pandemic (Roca-Servat et al. 2021). In order to mitigate the health crisis, the government introduced a series of measures to guarantee continuity of service. In June 2020, Decree 819 established that service providers were required to subsidize public services starting on July 31, 2020, without generating interest or additional costs for users in the lower strata (Findeter 2023). To achieve this, the government created new credit lines to be administered by Findeter.

This decision represents an important shift in the role that national public development banks have played in financing development in Colombia (Ocampo et al. 2021). In 2020, the government allocated a total of US$213 million to the Emergency Mitigation Fund (Fondo de Mitigación de Emergencias) through Findeter (Findeter 2020), which was aimed at economic stimulation. In addition, the government contributed US$102 million to Findeter to be disbursed in direct credit lines with the purpose of financing 626 development projects across 104 municipalities in 26 departments (Decree 468, cited in Findeter 2020).

Findeter opened a time-limited Special Direct Credit Line for Companies of Domiciliary Public Utility Services (Línea Especial de Crédito Directo para Empresas de Servicios Públicos Domiciliarios) (Decree 581) worth US$70 million (Findeter 2020). These resources could be requested until December 31, 2020, or until resources were exhausted. This line of credit comprised highly preferential loans with a 0 per cent interest rate, repayment terms of up to 36 months, and a grace period of three months (Findeter 2020; interview 10). This funding was intended to provide public utilities with "liquidity or working capital, enabling them to implement payment deferral measures instituted by the national government to mitigate the effects of the economic, social, and ecological emergency" (Findeter 2020, 109). Just over half of the 156 companies (52 per cent) that benefitted from the Special Direct Credit Line were WSS service providers (Findeter 2020).

The Bogotá Waste and Sewerage Company was one of the public water operators that received a direct loan from the Special Direct Credit Line. The US$1.2 million loan helped the public water operator maintain services in the context of the heavy financial losses it was facing. Although residential consumption during the lockdown increased, consumption in commercial and industrial sectors plummeted. Furthermore, many residential water service users were unable to pay their bills (interview 10). To address the crisis, Bogotá Water and Sewerage Company had to reconnect water services in 40,000 households that had previously been disconnected, which resulted in a loss of US$5 million in revenues (Arias et al. 2022). In total, revenue collected from March 20, 2020 (the start of the lockdown), to July 31, 2020, was 14.25 per cent lower compared to the same period in 2019 (Concejo de Bogotá 2020).

The nature of essential service providers that accessed direct credits until 2022 and the amounts received were mostly private or public–private entities, as shown in Table 5.3.

Table 5.3 Nature of public utility service providers who accessed direct credits 2020–22, COL$

Domiciliary Public Utility Service Providers (not only WSS)	*Numbers of projects approved*	*Approved transaction amount*
Public	28	98.214 million (US$24.6 million)
Private	148	232.949 million (US$58.4 million
Public–private	28	85.449 million (US$2.1 million)
Total	204	416.612 million (US$104.5 million)

Source: Transition Report from Findeter (2022b).

In terms of its overall operations, however, a review of Findeter's management and sustainability reports reveals a pro-public trend since the pandemic. In 2014, the public sector received 39 per cent of disbursements, with 61 per cent going to the private sector. By contrast, in 2021, disbursements to the public sector accounted for 51 per cent while the private sector received 49 per cent. And in 2022, there was a slight shift in this ratio in favour of the private sector, with 45 per cent allocated to entities in the public sector and 55 per cent in the private sector. It is difficult to say whether this trend will continue now that the COVID-19 crisis has subsided.

Uneven development and the limits of debt financing

Economic development is a highly uneven process marked by cycles that sometimes promote certain spaces at the expense of excluding others. The heterodox "development" view of public banks, typically advanced by Keynesian-inspired economists, argues that public banks can play a positive role in the economy when they are "able and willing to facilitate economic development in ways that private banks are unwilling or incapable of doing, particularly when it comes to longer-term investments and less profitable but no less socially significant sectors" (Marois 2022, 359), such as the WSS sector (interview 6; Ocampo & Arias 2018; Ocampo & Torres 2021; Ocampo et al. 2018). An alternative "dynamic view" suggests that while public banks function within financial markets because they are positioned within the public sphere, they can also be shielded from competitive and profit imperatives when governments enable them to do so through public policy (Marois 2022; McDonald et al. 2021; Reis 2022). In other words, public banks that are guided by a strong pro-public mandate backed by guarantees have more potential to reach communities that are not considered credit-worthy by private banks. Public banks that do not have strong pro-public mandates, by contrast, are more likely to act more like private banks and pursue profitable investments. Findeter, as a national development bank, is also subject to these tensions.

While it is assumed that Findeter's services and credits are accessible nationwide, practical access depends on the varying state presence, as Findeter is an integral part of it. This presence exhibits different practices based on the region, its proximity to the country's centre, the local context and various involved stakeholders (Muzzopapa & Villalta 2011). As the dynamic view of public banks emphasizes, Findeter—like any public development bank—is comprised of actors with specific interests who establish relationships with local elites who control resources and decision making (Marois 2021). These relationships play a role in how Findeter prioritizes projects and the location of its investment (Serge 2012).

A review of Findeter's annual reports reveals that technical and financial resources have been concentrated in regions where the country's major cities are located, such as the Capital District of Bogotá, Atlántico, Antioquia, Bolívar, Casanare, Meta, Santander and Valle de Cauca (see Table 5.4). By contrast, the most peripheral departments of Putumayo, Guainía, Vichada, Vaupés and San Andrés have not been among the top departments to receive disbursements from Findeter—at least not in the past 12 years.

Nonetheless, more recently, there have been some efforts to expand services to rural and informal areas of Colombia. In March 2017, strong rains in the Putumayo department led to the overflow of the Mocoa, Mulato and Sangoyaco rivers, resulting in over 335 casualties as entire neighbourhoods were buried in mud (W Radio 2018). Various WSS systems also faced severe challenges. Immediately following the disaster, the Findeter staff visited this

Table 5.4 Departments that received the most Findeter financing in all sectors

Years	*Departments*
2010	Capital District of Bogotá; Atlántico; Antioquia; Bolívar; Santander
2011	Capital District of Bogotá; Valle del Cauca; Atlántico; Antioquia
2012	Capital District of Bogotá; Santander; Casanare, Atlántico; Antioquia
2013	Capital District of Bogotá; Valle del Cauca; Antioquia; Santander; Atlántico
2014	Capital District of Bogotá; Santander; Atlántico; Valle del Cauca; Meta; Antioquia
2015	Antioquia; Capital District of Bogotá; Santander; Valle del Cauca; Atlántico
2016	Capital District of Bogotá; Antioquia; Valle del Cauca; Atlántico.
2017	Antioquia; Capital District of Bogotá;
2019	Antioquia; Atlántico; Capital District of Bogotá, and Valle del Cauca.
2020	Capital District of Bogotá; Antioquia; Santander; Valle del Cauca and Bolívar
2021	Capital District of Bogotá; Antioquia; Santander; Valle del Cauca; Bolívar.
2022	Capital District of Bogotá; Antioquia; Valle del Cauca; Atlántico.

Source: Constructed using data extracted from Findeter's annual reports.

remote rural area. During these interactions, Findeter, in collaboration with the Risk Management Unit (which oversees the implementation of disaster risk management for the prevention and response to disasters in the territory) presented the project to the community for improving and adapting the water supply and sewerage system in Mocoa. One social leader from the community recalls, "I remember a young man from Findeter saying, 'If you encounter any issues, please contact me directly. I'm interested in keeping track of the natural resource management of the water system.' But then they left, and the contact was lost" (interview 1). She reported that after these initial meetings, the responsibility of the project shifted to the Risk Management Unit, which, in her opinion, disregarded many of the community's recommendations:

> [T]he decisions were made in a very uncompromising manner. Initially, the feeling within the community of Mocoa was like a form of re-victimization in the face of what had happened. Because there was a torrential flood, and in one way or another, we all thought about rebuilding Mocoa in line with the dynamics of the old Amazonian way, taking into account people's opinions. However, the institutional actions brought us down from that ideal, and the reality turned out to be completely different.
>
> (Interview 1)

In 2019, Findeter reported that it had approved a credit of US$7.8 million to the municipality of Mocoa to reconstruct the water supply system, which would benefit 45,947 inhabitants (Findeter 2019). But six years after the flooding disaster, the residents of the municipality of Mocoa still lacked access to potable water. A recent report by the Office of the Attorney General (2023) found that 94 per cent of the credit for the reconstruction of this water supply system had been executed. But according to one community leader in the municipality of Mocoa, the capital of Putumayo department, "no municipality in Putumayo has access to potable water" to this day (interview 1). The National Planning Department reports that the Putumayo department received the lowest score in the entire country for failing to achieve the goals of its departmental water plan (Departamento Nacional de Planeación 2023). The Office of the Ombudsman (2023) has also expressed concern.

Given the history of uneven development in Colombia, it will take strong political will and a clear mandate if Findeter is to correct regional disparities. As a senior official with Findeter put it in an interview, "Findeter is [a government institution] … . [W]e adhere to public policies and try to help implement them, so it is necessary for us that the government defines how it wants and what it wants us to do" (interview 5). In this sense, the direction the bank takes will always be strongly influenced by the current government. This is in line with public banking practices globally, although there is significant variation in how government influence is integrated within bank governance models (Marois 2021).

One indication that the government is moving in a pro-public direction is the openness the current government has shown to community-based water managers. The election of the government of President Gustavo Petro (2022–26), who campaigned on an anti-neoliberal platform, provides a political opportunity to reform the way that public institutions operate. The last three years in Colombia have been marked by the circumstances of COVID-19 and a shift to a left-wing government with positions distant from the elite that traditionally has governed the country. Although free market principles will not completely disappear, changes are evident. In the National Development Plan (NDP) 2022–2026 entitled "Colombia, a global power of life," territorial planning is proposed around water resources. In an unprecedented move, the NDP included proposals from the National Network of Community Aqueducts to protect and strengthen community water management (articles 272, 273 and 274 of the NDP 2022–2026). In 2023, Findeter and the Ministry of the Interior launched a specific call for lending projects for various types of social organizations, although at the time of writing the conditions and requirements were still under development (Interior Ministry 2023). Further research will be required to follow-up.

Conclusion

This chapter analyzed Findeter's activities in the WSS sector. We scrutinized the historical evolution of public banking and WSS sectors throughout the 20th and the early 21st centuries, revealing that their evolution did not follow a linear progression. It is difficult to divide economic history in Colombia into distinct periods in which development has been state- or market-led (Arias et al. 2022). Instead, changes have responded to socio-economic and political dynamics, both domestic and international. National development banks have played a significant role in the WSS sector in Colombia throughout these periods, as exemplified by Findeter and its predecessors (Ocampo et al. 2021).

We also argued that during the 2020 COVID-19 pandemic, Findeter played a central role in guaranteeing the right to access drinking water services by providing interest-free loans to water operators. An illustrative case is the loan granted to the Bogotá Water and Sewerage Company, which facilitated the reconnection of households and mitigated the drop in revenues it was experiencing. We also argued that the central government relied on national development banks such as Findeter to support public service providers and achieve important policy goals during the crisis. This is reflected in the fact that they introduced new regulations and control mechanisms to allow Findeter to issue direct credits. However, given the exceptional nature of the pandemic, the recent efforts to strengthen this type of credits, and the unstable market dynamics that have followed, it is difficult to predict whether this trend will continue.

Moreover, it is important to recognize that national development banks were historically established as second-tier banks as a way of correcting market failures and focusing on sustainable development goals. Changing their operations as a first-tier or direct retail approach has its advantages and disadvantages. On the one hand, Findeter can now strategically identify key development projects to support, and interest rates can be kept lower for public sector clients. But Findeter can no longer draw on the lending and credit scoring expertise of financial intermediaries and must now assume the risk of non-payment directly (Weiss 2015). Under the second-tier model, the public development bank draws on the branch network, as well as the lending and credit scoring expertise of the financial intermediary.

In certain cases, such as Mocoa in the Putumayo department, there is a call for increased community participation in the planning of projects undertaken by Findeter, and regional and national entities. This demand underscores the fact that, despite global declarations, regulations and discourses about universality that are associated with the public sphere, public institutions are not monolithic. Public banks operate not only within the public sphere of nation-states but are shaped by the interactions amongst local and global powers (Marois 2022). Meanwhile, local and global powers have demonstrated a strong urban bias in Colombia despite the fact that the greatest service deficits are in rural areas. The majority of Findeter's technical and financial resources have been directed toward urban areas, emphasizing the need for a more substantial presence in peripheral regions. For example, we highlighted the fact that Findeter only began allocating resources to the Putumayo department after the 2017 flood, raising questions about whether efforts may be better spent to prevent risks rather than react to them after they happen.

In terms of future research, community water management systems in rural and peripheral areas in Colombia are fundamental players in providing services to marginalized communities, as well as promoting community autonomy and in the protection of water resources (RNAC 2022). In this context, state-backed public banks like Findeter could play a more important role in strengthening these community water services by offering loans on more flexible terms and with preferential interest rates, as modelled by the Banco Popular in Costa Rica (see chapter by Spronk et al. in this volume) and in many European countries (see Marois & McDonald 2023).

It is also important to investigate the role of development banking in water protection and conservation. Ensuring the human right to water requires more than just large infrastructure projects that expand the volume of water; there is a need to explore alternative visions. These issues have become even more pressing in the context of climate change. Further dialogue with local communities is needed, underscoring the complexity of WSS and emphasizing the importance of community involvement, particularly in underrepresented areas, in the pursuit of equitable and sustainable water access.

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Appendix A: Interviews conducted

Interview	*Name*	*Role*	*Date*
1	Anonymous	Community leader from the municipality of Mocoa, Putumayo	September 17, 2022
2	Anonymous	Former employee of Findeter	September 4, 2023
3	Anonymous	Water and Basic Sanitation Management	September 20, 2022
4	S. Blanco	Economic Research Department of Findeter	September 20, 2022
5	F. Carrero Parada	Commercial National Management of Findeter	September 20, 2022
6	L.M. Cuervo	Economist	September 23, 2022