



Policy Snapshot:

Public Development Banks

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POLICY SNAPSHOT PUBLIC DEVELOPMENT BANKS

WHAT ARE PUBLIC DEVELOPMENT BANKS?

Public development banks are government owned banks, they have been established by national and regional governments in many European countries and also operate at pan-European level. Public banks differ from commercial banks because their primary aim is to enable economic and social development rather than making a profit. Many public development banks provide loans, grants and loan guarantees to support the development and refurbishment of social housing

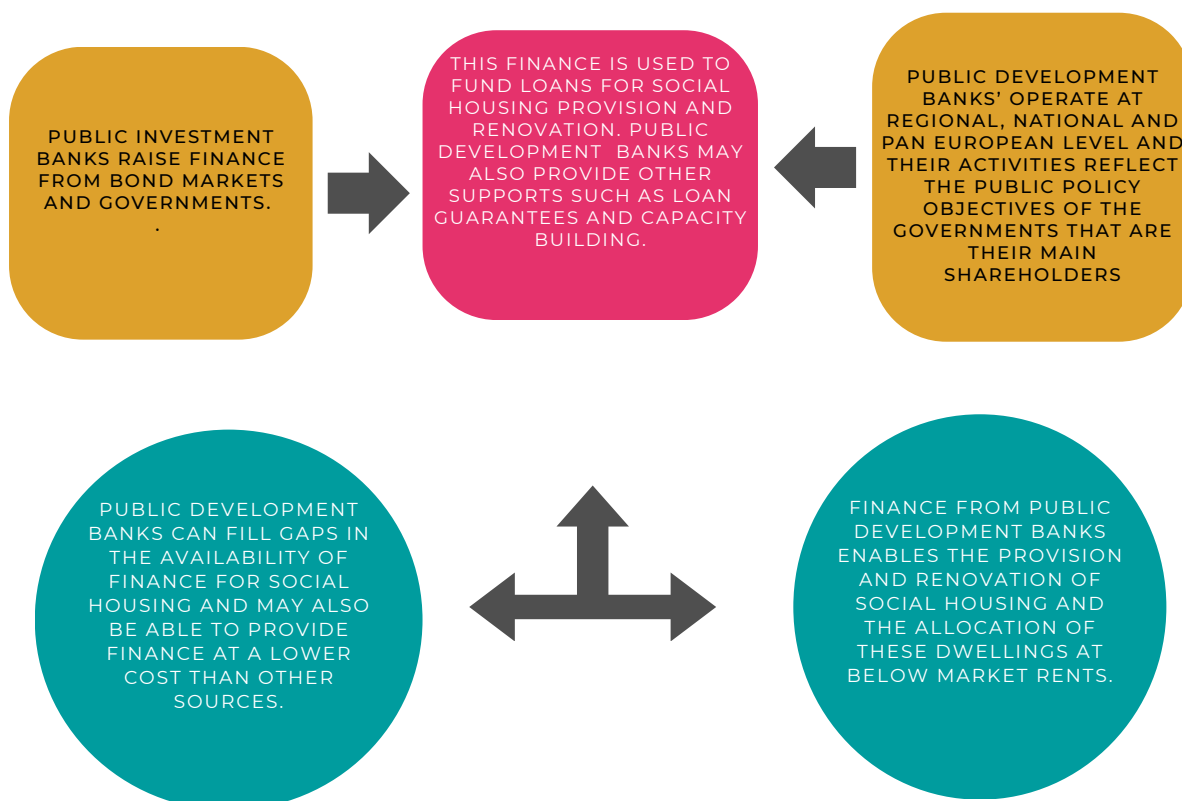
WHY ARE THEY USED?

Public development banks are used to (a) provide finance for social housing provision and renovation, and (b) to provide low-cost finance. They play an important role in filling gaps in the availability of finance from non-governmental sources such as commercial lenders. To this end, public development banks sometimes finance the full costs of social housing projects, but more commonly, they cover only part of these costs and co-finance projects, and social landlords source the remaining finance required from other sources.

Public development banks' lending is generally financed from bond markets, and because governments can generally borrow at lower interest rates than commercial lenders, public banks often lend at lower interest rates than those available from other sources. However, this is not always the case and depends on the creditworthiness of social housing landlords which is influenced by their size, resources, and level of regulation, amongst other factors.

In addition to providing finance, some public development banks, such as the Council of Europe Development Bank, which operates across 44 European countries, also provide capacity-building support for borrowers.

HOW DO THEY WORK IN PRACTICE?





WHERE ARE THEY USED IN EUROPE?

The European Investment Bank (EIB) was established in 1958. This public development bank is the financial arm of the European Union and is used to support the achievement of EU policy objectives across member states.

The EIB is a financially autonomous organisation that raises the majority of its finance for projects from EU member states, and also through bond issuance, including green bonds (for green projects) and leveraging the EIB's credit rating. Additionally, the EIB manages funds from EU budget allocations, including the Invest EU. Within the context of social housing, the EIB provides loans, equity investments, guarantees, and advisory services for the development of affordable and social, and sustainable housing projects across Europe. The primary aim of these loans is to foster social cohesion and to improve the living standards across the EU, contributing to long-term sustainable growth. Since 1959, the EIB has invested over €3 billion in social housing and close to €59 billion in urban development initiatives.

The Hospodarat Krajowego (BGK), a Polish development bank, was established in 1924 and is a public limited company wholly owned by the Polish government. Its mandate is to manage EU funding programmes and distribute these at the national and regional level across Poland. In 2020, the BGK sourced finance from the European Investment Bank to fund the development of new social housing for rent for low and moderate-income households across Poland. The EIB provided the GBK with up to PLN 3 million to finance the establishment of new housing associations across Poland, with a focus on needs that are not covered by previous national social housing programmes. In addition, the EIB financed 10 per cent of the costs for housing investments undertaken by housing associations to construct new affordable and social homes to rent.

WHAT ARE THE RELATIVE STRENGTHS AND WEAKNESSES?

Strengths	Weaknesses
<ul style="list-style-type: none">• Provide access to cheaper finance for social housing development.• Can enable the achievement of key housing policy objectives.• Address gaps in the market by providing finance where private banks may not be in a position to do.• Public development banks can be more aligned with the long-term nature of housing development	<ul style="list-style-type: none">• Provide access to cheaper finance for social housing development.• Can enable the achievement of key housing policy objectives.• Address gaps in the market by providing finance where private banks may not be in a position to do.• Public development banks can be more aligned with the long-term nature of housing development
Where can I learn more?	
<ul style="list-style-type: none">• European Investment Bank: https://www.eib.org/• Hospodarat Krajowego (BGK) https://www.bgk.pl/• EqualHouse Report on Financing Social Housing https://equalhouse.eu/media/Publications/Making_Housing_Affordable/EH%20WP5%20Finance%20Report%20Final%20for%20Website.pdf	



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