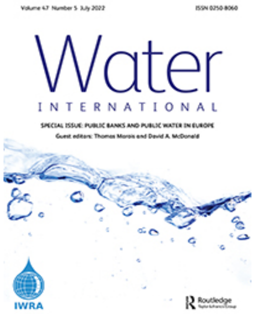

Water International

ISSN: (Print) (Online) Journal homepage: https://www.tandfonline.com/loi/rwin20

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To cite this article: Ali Rıza Güngen (2022) ‘No one can compete since no one dares to lend more cheaply!’: Turkey’s Ilbank and public water finance, Water International, 47:5, 771-790, DOI: 10.1080/02508060.2022.2096251

To link to this article: https://doi.org/10.1080/02508060.2022.2096251

WATER INTERNATIONAL
2022, VOL. 47, NO. 5, 771–790
https://doi.org/10.1080/02508060.2022.2096251

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‘No one can compete since no one dares to lend more cheaply!’: Turkey’s Ilbank and public water finance

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ABSTRACT

As a midsized public development bank in Turkey, Ilbank is crucial in financing water provision. It provides cheaper loans to municipalities and serves as an intermediary for accessing international funds. Being owned by municipalities and designed to serve them, Ilbank is unique in Turkey’s banking sector in terms of financing water provision. However, the potential of Ilbank to expand its role is limited due to recent revisions of its mandate, the attempts to divert its resources and its undemocratic structure. A reformed and democratized Ilbank could be a crucial player in building an integrated water and sanitation system management for Turkey.

ARTICLE HISTORY
Received 20 January 2022
Accepted 17 June 2022

KEYWORDS
Public water; Turkey; Ilbank; public bank; water and sanitation system

Introduction

As seen during the Covid-19 pandemic, public banks may implement counter-cyclical policies and credit campaigns, whether or not planned, to mitigate the impacts of financial volatility (McDonald et al., 2020). However, the uses of public banks depend on political projects and social struggles, which in turn influence the intensity and duration of crises as well as the direction of economic development. Thus, despite being crucial for managing financial risks and expanding the fiscal room, public banking is always contested (Marois, 2022). Since the 2008–09 financial crisis, the question of how to use public financial capacity amid low rates of growth and climate crisis has renewed interest in public banking. In some countries and regions, this policy debate is even more complex due to the varied uses of public banks for political and economic projects.

Since the 2000s, Turkey’s public banks have faced various social pressures, with the ruling elites using them to maintain the social bloc that they helped to cement at the turn of the century. A social bloc means a convergence of social forces and groups, based on cross-class alliances and aiming to advance particular accumulation strategies (Schedelik et al., 2021). In Turkey, public banks have been used to address the demands of various social groups and capital owners, supporting the ruling party and benefiting from state support. Still, public banks can and do serve the public purpose. One such public service is financing public water provisioning. As a crucial player in Turkey’s water sector, Ilbank exemplifies the significance of institutional legacy and context for evaluating public banks’ actions. The Ilbank case also supports a perspective on public

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banks that stresses how their various uses are the outcome of the interplay of the interests and power of different social groups and classes (Marois, 2021; Marois & Güngen, 2016).

This article examines public water sector networks in Turkey and explains how water provisioning is financed. I argue that, because it is irreplaceable in the municipal support system, Ilbank has played and continues to play a crucial role in financing water provision. As it is not possible for many municipalities to access cheaper water loans without Ilbank and there is no other effective mechanism devised, Ilbank's position has remained strong. However, the potential of Ilbank to expand its role is limited due to recent revisions to its mandate and due to the Erdoğan administration's attempts to divert Ilbank's resources for urban real estate development. This may lead to stagnation of water loans despite the challenges in the water sector amid the climate crisis. The undemocratic governance structure of Ilbank enables the central government's abuse of the bank. Four of the six members of Ilbank's board of directors are appointed by the Ministry of Environment, Urbanization and Climate Change, giving disproportionate power to the ministry, not the municipalities, in taking the major decisions regarding the bank's resources, loan extensions, and the maturity and the interest rates of the loans. Given mounting concerns over the politicized and pragmatic interventions of the Erdoğan administration and the new presidential system with centralized powers of the executive (Akçay, 2021; Tuğal, 2022), this creates opportunities to abuse Ilbank's public purpose.[1]

In this study, I explore the role of Ilbank in Turkey's public water financing. I argue that a reformed and democratized Ilbank could better channel more of its resources to water and sanitation infrastructure, advance its already existing capacity and be a crucial player in building an integrated water and sanitation system (WSS) management for Turkey. This paper is the first study of Ilbank to provide a critical analysis of public water finance in Turkey, revealing how Ilbank works concretely and the kinds of challenges that lie ahead for Ilbank functioning according to public purposes.

This study is based on an extensive review of Ilbank's annual reports, legal regulations and academic studies of Turkey's water sector. In addition, I draw on available data on Ilbank's operations and conducted seven structured interviews in 2021 with experts from Ilbank and with project managers from the State Hydraulic Works and water operators to document Turkey's water sector relations. The following section reviews Turkey's public water provision system and explains the role of water operators and their financing mechanisms. This is followed by a brief review of public banks and their market-oriented restructuring in the 21st century. The fourth section explains Ilbank's institutional structure, its contribution to public WSSs and the challenges. I also discuss the limits of Ilbank's actions and the potential for better water sector finance before concluding with a summary of the study's main findings.

Public water and financing water provision in Turkey

Responsibility for water provisioning and WSS in Turkey is divided between the State Hydraulic Works (Devlet Su Işleri – DSI) and the municipalities. The former focuses on constructing and operating rural water networks, whereas the latter oversee urban water infrastructure and provision.

Currently, all WSSs in Turkey are publicly owned and operated (interviews 1–7; for details on the interviews, see Appendix A). However, there are past examples of the transfer of water systems management to the private sector and WSS management services can be undertaken by the private corporations according to law.[2] Founded in 1953, DSI is responsible for constructing and managing large-scale irrigation systems and water infrastructure. It is funded from the central budget and focuses on the infrastructure necessary for agricultural irrigation, hydroelectricity production, flood prevention and drinking water systems. As the institution for building water infrastructure in non-urban areas, DSI is also charged with building facilities for wastewater treatment. However, it plays no role in urban water networks (Law no. 1053; Law no. 6200, cf. Kibaroğlu, 2020). According to one interviewee, DSI brings the water infrastructure to the door of municipalities and water and sewerage administrations (WSAs), and it is the task of urban authorities to organize water provision in their jurisdiction and maintain the urban network (interview 3).

DSI may transfer the management of some irrigation systems to irrigation associations, which are public legal entities in charge of irrigation systems in rural areas (Law no. 6172). These associations sign a protocol with DSI, collect fees from users, primarily farmers, and maintain secondary and tertiary canals. These irrigation systems are important because most drinkable water in Turkey is used for agricultural irrigation. DSI authority was imposed on these irrigation associations in 2018 (Law no. 7139), and they can be abolished by the Ministry of Agriculture and Forestry if DSI recommends it (Kibaroğlu, 2020).

All municipalities are legally obligated to supervise urban water networks, maintain the water system serving the residents and monitor wastewater discharge (Law no. 5393). Metropolitan municipalities (30 large cities, including the most populated ones such as Istanbul and Ankara) perform these tasks through their WSAs, which receive 10% of the funds transferred by the central government to metropolitan municipalities from the general budget (Law no. 2560; Alıcı, 2020, p. 249).[3] However, this transfer provides only a minuscule portion of their revenues, which comes almost entirely from charges collected from users (Pehlivan, 2019, pp. 160–161; see also Yılmaz & Çelik, 2016, for the case of Istanbul). Since water administrations and municipalities largely pass on the investment and maintenance costs to the users, water remains expensive in Turkey despite being publicly provided.

Metropolitan municipalities and their WSAs finance water sector investments from revenues, money borrowed on international markets and from Ilbank loans. More than 90% of Turkey's population lives within municipalities with sewerage systems and over 78% lives in municipalities with wastewater treatment facilities (Turkstat, 2021). This implies that there is a need to construct more WSSs within municipal jurisdictions and that there is a growing demand for the renovation of water networks (interview 4). Under these circumstances, there emerged a striking difference between the biggest municipalities with large, established WSAs, such as Istanbul and Ankara, and smaller municipalities (including new metropolitan cities such as Balıkesir and Mardin, which were promoted to this status in 2014 with other 12 municipalities). Smaller municipalities and the WSAs of smaller urban areas lack sufficient funds to undertake new investments to meet the demand for new water systems and renovations (interviews 2 and 5).

As the primary credit institution providing loans for water infrastructure investment in Turkey, Ilbank is crucial for small and medium-sized metropolitan areas. Because of its mandates and unique structure within Turkey's public banking universe,[4] Ilbank has been one of the least affected public financial institutions during the governments' restructuring and privatization efforts in the early 21st century (explained below). Founded in 1933, Ilbank's original name was Municipalities Bank. During the 1930s, Turkey's administrative structure prevented the bank from extending loans to villages and newly urbanized areas. In 1945, the bank was renamed Ilbank (or Iller Bankasi) and reorganized to serve all levels of local administrative bodies (Ilbank, 2020). There are two other public development banks besides Ilbank in Turkey: Eximbank (established in 1987) and Development and Investment Bank (established in 1975). Both belong to the Ministry of Treasury and Finance. Eximbank aims to increase foreign exchange revenues by supporting exporters, and the Development and Investment Bank describes its mission as contributing to the developmental efforts and structural transformation of the economy. Unlike these two public banks, Ilbank is owned by municipalities and provincial administrations in Turkey. As a public development and investment bank, its legally set objectives include meeting the financing needs of special provincial administrations and municipalities, developing investment projects for municipal and local services, providing consultancy and assistance for municipalities, and performing all sorts of services related to development and investment banking (Law no. 6107).

Given this mandate, Ilbank serves as a consultant in various infrastructure projects conducted by municipalities. It is also an intermediary for accessing international funds. Being owned by municipalities and designed to serve them, the institutional context and its mandate make Ilbank unique in Turkey's banking sector in terms of financing water provision. According to one interviewee, there appears to be no competition in public water finance: 'No one can compete since no one dares to lend more cheaply!' (interview 1). Ilbank's position within the financial system and its place in water finance contradict the Maximizing Finance for Development strategy of the World Bank and the predominant approach of the international financial institutions in WSS finance (McDonald et al., 2021) because Ilbank's support for small and medium-sized metropolitan areas in Turkey discourages the development of private water finance and the flourishing of blended finance options, which combine public loans and grants with private capital flows. However, Ilbank's unmatched support to the municipalities and the set of relations between them are not fixed. It collaborates with various international financial institutions and the demands of municipalities, and the way Ilbank's mandate has been interpreted by political authorities plays a considerable part in shaping bank actions.

Figure 1, which outlines public water finance in Turkey, illustrates the many simultaneous roles that Ilbank plays in supporting municipal services and investment. These municipal functions are unmatched by the other banks, public or private, in Turkey. Regarding the division of labour mentioned above, there is no legal mandate for Ilbank to prioritize support to certain local administrative bodies. The support by Ilbank in the water sector partly depends on demand from municipalities and WSAs. Prominent water operators have accumulated significant expertise in project management and can employ highly educated professionals. These older WSAs retain some autonomy from their metropolitan municipality and have developed the capacity to borrow from other

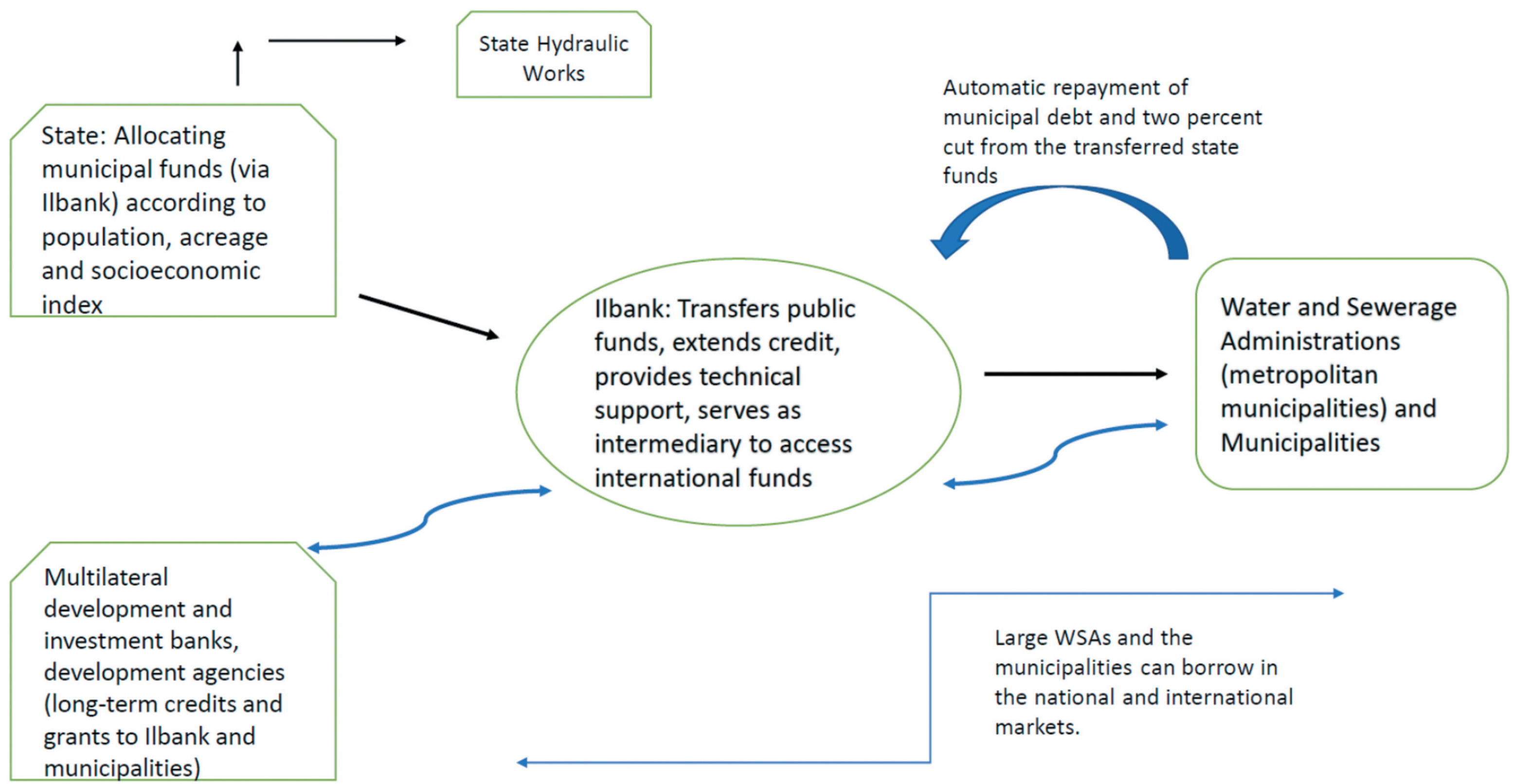

Figure 1. Public water finance in Turkey and Ilbank's role.

national and international institutions. Generally, smaller municipalities and WSAs find it much easier to access water infrastructure funds via Ilbank than via international financial markets. In contrast, large WSAs rely less on Ilbank support because they can access international markets independently and have a sustainable if not perfect fiscal structure (Pehlivan, 2019). The bank's technical support is also crucial for smaller and recently founded WSAs. The interviewees explained this difference by citing the lack of project management expertise in smaller municipalities and new WSAs (interview 2) and the bank's invaluable technical support, which cannot be accessed otherwise (interview 5). Smaller scale administrations moreover access long-term credit more easily via Ilbank. Consequently, Ilbank continues to occupy the key position in public water finance for many actors within the sector.

Ilbank's key role in public water finance is accepted as almost natural because it is owned by the municipalities and special provincial administrations. However, as the interviews with experts from Ilbank, WSAs and DSI show, it is not a natural outcome. Rather, Ilbank's involvement in water finance has been contested both in the recent past and currently. Before proceeding to this point, however, I will first position Ilbank within Turkey's public banking universe.

Turkey's public banking universe and Ilbank

The institutional content, activities and evolution of Turkey's public banks have largely depended on historical political projects. Most public banks in Turkey were founded to support the industrialization programme of the newly established republic after 1923.[5] Throughout the 20th century, the Turkish public banks primarily operated within a developmentalist framework and supported capital groups and various social groups, such as peasants, artisans, and small and medium-scale enterprises following the transition to multiparty democracy (in the period from 1945 to 1950) and through the implementation of import substitution industrialization strategy in the 1960s (Türkiye Bankalar Birliği (TBB), 1999). Historically, 'public banks have helped to produce, stabilize, and reproduce otherwise exploitative capital-labour relations in Turkey, if not without unintended consequences' (Marois & Güngen, 2016, p. 1304).

Following the authoritarian transition to neoliberalism in the 1980s and the capital account liberalization in 1989, the new accumulation strategy resulted in boom–bust cycles. At the same time, the policymakers started to rely on public banks to mitigate Turkey's fiscal problems. The consequence of their preference was the accumulation of duty losses in the late 20th century, which was a crucial factor in Turkey's financial crisis of 2001 (Marois & Güngen, 2016). Duty losses are mandated financial losses assumed by public banks while supporting various government programmes and via lending cheaply. Prior to the 2001 financial crisis, duty losses did not have to be paid by the government in advance. As a result, Turkish authorities allowed the public banks to accumulate unpaid duty losses, and this increased the risks facing public banks in the late 1990s (which contributed to the 2001 crisis).

After the 2001 financial crisis, the government restructured Turkey's public banks as market-oriented, profit-seeking financial institutions, further undermining their public interest mandates (Marois, 2012, pp. 172–177; Marois & Güngen, 2019, pp. 138–139). However, the restructuring did not result in wholesale bank privatization despite the inclinations of some neoliberal economic policymakers under the first Justice and Development Party (AKP) government (2002–07). The 2008–09 global financial crisis and the counter-cyclical uses of public banks further marginalized privatization attempts since these financial institutions provided fiscal room for the ruling party (Marois & Güngen, 2016).

As of 2022, Turkey has three public universal, three public development and three public participation banks. The majority shares of the two biggest public banks were recently transferred to the Sovereign Wealth Fund of Turkey (TWF), which was established in 2016 and has been active since 2018. The TWF aims to finance domestic investments that upgrade the manufacturing sector's technological level (Kayıran, 2016; Konukman & Şimşek, 2017). Though the Erdoğan administration intended the TWF to be gargantuan, it ultimately only involved 16 corporations (including the two largest universal public banks, Ziraat and Halkbank), with assets transferred from the state to the fund. President Erdoğan appointed himself as head of the TWF in 2018, and the borrowing limits of sub-funds were abolished in 2020 (Law no. 7222) to enable the TWF to borrow more loans and assume greater risks (Güngen, 2021). The AKP established two public participation banks (participation bank refers to Turkey's version of Islamic banks) (Ziraat Katılım and Vakıf Katılım) in 2015 to deepen Islamic financial markets. In the 2010s, Turkey's public banks have become more instrumental for political projects, such as large-scale infrastructure developmental projects (Birinci, 2016). They have also been used to channel resources to capital groups with close ties to the AKP (Turkish Court of Accounts (Sayıştay), 2020a, 2020b, 2021) and alleviate, via subsidized credits, the socially traumatic consequences for a considerable segment of the AKP's electoral base of the fluctuations of the Turkish economy (Güngen, 2020a). In short, over the last decade, Turkey's public banks have become the most significant actors in crisis management and state-sponsored credit expansion. The public banks have become the key means to meet the demands of various social groups and ultimately maintain the social bloc supporting successive AKP governments and, from 2018 onwards, the Erdoğan presidential administration (Akçay & Güngen, 2022; Güngen, 2020a). As a result, their share in Turkey's loan market increased from around 25% in the early 2000s to over 40% by the late 2010s (Marois & Güngen, 2016; see also Banking Regulation and Supervision Agency (2014–22) weekly bulletins).

Table 1. Ilbank profile.

Date formed: 1933 (took its current name in 1945)
Ownership: 100% by municipalities and provincial administrations
Assets: US$6.08 billion (2020)
Liabilities: US$3.44 billion (2020)
Return on assets: 5% (2020)
Credit ratings: long-term AAA stable/short-term A-1 stable/long-term FX BB+ stable (issued by Kobirate in 2017)
Total lending: US$4.22 billion (2020)
Ranking (by assets) in their country: 14th of 48 banks, third biggest development bank among 15 development banks in Turkey (2020)
Percentage of market share: 0.8% of total banking assets in the country (2020)
Water and sanitation system (WSS) portfolio size: 19% of total portfolio (2019)
Green bonds portfolio size: none (2021)

Today, the Erdoğan administration uses public universal banks for various purposes, including corporate and household debt restructuring (Güngen, 2020a). Continuing the growing activism of the 2010s, the administration has used them to launch credit campaigns at reduced interest rates to stimulate the economy. The burden of income losses[6] arising from such campaigns is paid directly by the Treasury to the public bank incurring the losses. The new duty loss mechanism avoids undermining public banks' credit ratings, while the cost of the campaigns is postponed to the future and gradually converted into public debt. In recent years, including during the Covid-19 pandemic, total duty losses from these credit campaigns swelled rapidly. However, the total amount of duty losses in 2020 was still less than 1% of total budget revenues (Ministry of Treasury and Finance of Turkey, 2021), making public bank loans an effective and less costly option to stimulate economic activity for policymakers.

Ilbank maintains its unique position among Turkey's public development banks since, legally, it is owned by the municipalities and provincial administrations not by the Ministry of Treasury and Finance. As of the end of 2021, Ilbank had a nominal capital of 30 billion Turkish lira (TRY) (roughly US$4.3 billion), of which 22.5 billion TRY was paid-in capital. The bank's source of recurrent capital has always been municipal revenues. Turkey's Ministry of Treasury and Finance transfers each municipality's share of tax revenues using Ilbank infrastructure, and Ilbank adds a small part of the transferred fund to its reserves. In 2008, the money to be taken from municipal funds and transferred to Ilbank was set at 2%. In addition, 30% of the bank's annual returns go back into its reserves to increase its year-on-year lending capacity. In short, Ilbank stays a mid-sized bank (Table 1) and tries to increase its resources.

To add financial capacity, the state transfers resources to Ilbank via various protocols, without which the bank's capacity would be significantly diminished. In 2019, Ilbank's investment programme amounted to 7.44 billion TRY (about US$1.3 billion) (loans to municipalities, grants and resource development activities), of which 22% came through national and international protocols. In 2020, the volume of the investment programme was 10.6 billion TRY (about US$1.5 billion), with 32% of total resources used being related to national and international protocols (Ilbank, 2020, 2021).

Ilbank has been a crucial partner in Turkey for various international financial institutions in providing municipal loans and grants. It has assumed the primary role in channelling long-term funds to Turkish municipalities accessed through the World Bank, the Japan International Cooperation Agency, the Islamic Development Bank, the European Investment Bank and the Council of Europe Development Bank (Fonseca et al., 2021; Ilbank, 2022a). In recent years, the public–public collaborations in which Ilbank participated mostly took the form of Ilbank joining real estate and urban transformation projects run by the Ministry of Environment, Urbanization and Climate Change (before October 2021, the name of the ministry founded in 2011 was the Ministry of Environment and Urbanization). This orientation was in line with attempts to stimulate economic growth against the background of growing economic problems.

Even though the Turkish municipalities own Ilbank, the bank's undemocratic governance structure provides the ministry with significant power over the use of Ilbank resources (explained below). The AKP governments and (from 2018 onwards) the Erdoğan administration pushed Ilbank towards urban transformation projects. However, Ilbank also continued to address the municipalities' growing demand for services, including water finance. Thus, Ilbank's support for public WSSs remains contested, but it continued and can be used to exemplify its current role in municipal services funding.

Ilbank's performance in the water sector and challenges

The slow drift of Turkey's economy into crisis in the late 2010s dramatically reduced total municipal revenues in real terms from 2018 onwards (Ministry of Treasury and Finance of Turkey, 2022). Even before the 2018–19 crisis in Turkey, both metropolitan municipalities and smaller administrations were facing difficulties accessing long-term loans for transportation, urban renewal, sanitation and sewerage projects. There is a limit on the debt stock of municipalities, affiliated institutions and affiliated corporations, which is calculated each year according to annual revenues and the revaluation ratio, and officially declared. Municipalities can also issue bonds and borrow from international financial markets for project financing. There are no data provided by the banking sector that give the volume of loans extended to municipalities in Turkey. In recent years, some metropolitan municipalities have resorted to international financial institutions for large-scale infrastructure projects mainly because they could not get new loans from Turkey's public banks. Not only the economic crisis but also the politicized approach to lending, further promoted by the Erdoğan administration in the aftermath of the 2019 local elections, can be counted among the reasons for growing interest by metropolitan municipalities in international financial institutions.[7]

As the bank of local administrations, Ilbank hosts the municipalities' accounts and is their primary financial partner in accessing both international funds and domestic public resources. It also undertakes project work for many municipal WSSs, sewerage systems, renewable energy investments and urban transformation initiatives. Despite the Covid-19 pandemic, for example, Ilbank finished 169 investment projects during 2020 as a partner or as the main undertaker (Ilbank, 2021). The bank's unique position in Turkey's financial system also applies to the water sector. According to the interviewees, Ilbank monopolizes water and sanitation loans extended to smaller and mid-sized municipalities. It also transfers the central government grants to smaller municipalities to complete their water infrastructure investments. There are no cases in which Turkish public banks jointly fund water projects. Despite the lack of public–public financial partnerships in Turkey's water sector, Ilbank's experience confirms the benefits of having a public financial institution serving municipalities. Ilbank personnel emphasized the bank's expertise in raising capital and managing funds for municipalities (interviews 1, 2, 4 and 6). The public–public financial partnerships missing in the water sector can be observed in urban transformation plans of the Erdoğan administration. In recent years, Ilbank has joined other commercial banks in several real estate projects and signed a protocol with both the subsidiaries of public universal banks and the TWF for infrastructural work for the Istanbul Financial Centre, the decade-long project of the AKP to turn Istanbul into a regional financial centre and an alternative hub for Islamic finance (Güngen, 2019).

By 2020, Turkey had 1068 municipal wastewater treatment and sanitation facilities (Turkstat, 2021). The Turkey Population and Health Survey (Hacettepe Üniversitesi Nüfus Etütleri Enstitüsü (HUNEE), 2018) estimates that over 96% of the population have access to basic drinking water services. However, this does not mean that water infrastructure investments will decline in future. Demand for new sanitation systems and maintenance and for the renewal of urban water and sewerage systems will ensure Ilbank has a constant flow of new proposals. Ilbank tries to devise medium-term plans for the investment schedule, though the actual number of projects financed changes according to municipal demands. According to Ilbank's annual report (Ilbank, 2022a), of 36 projects in Ilbank's investment plan for 2022–24, 19 are in the water sector. Of 302 projects that Ilbank completed in 2021, 63 were related to water and 39 to sewerage systems (Ilbank, 2022a). There are no exact figures for water and sanitation-related loans for longer periods. For 2019, water and sanitation-related loans comprised 19% of Ilbank's total loan portfolio (Fonseca et al., 2021, p. 54). Given that more than half of its planned investments for 2022–24 are for the construction and maintenance of water and sewerage systems, we can expect that the ratio will grow in the upcoming years. However, this ratio also partly depends on the interpretation of Ilbank's mandate by political authorities under the current structure. As of 2021, the number of municipal infrastructure projects and buildings, unrelated to the water sector and completed in that year, surpassed the number of water sector investment projects completed. Still, the water sector accounts for the largest share of the bank's new projects according to the investment plan (Ilbank, 2022a).

SUKAP as the flagship

Ilbank's apparent monopoly of water and sanitation loans for smaller and mid-sized municipalities has been consolidated by projects such as the Municipal Services Project and SUKAP (Water and Sewerage Infrastructure Project). The negotiations for the Municipal Services Project between the Ministry of Development, Treasury and the World Bank started in 2003. In the first step of the project (approved in 2005), the World Bank provided €212 million to Ilbank. The project did not have a geographical concentration and it aimed to increase the pace of water investments. It was followed by a second agreement in 2010 for €178 million. Ilbank was an intermediary between the World Bank and municipalities. Ilbank's borrowing in this project was backed by a state guarantee against default. Ilbank then extended long-term credits to 14 municipalities, which continue repayments as of 2022.

Ilbank continues to work with international financial institutions after this first contract, which it considered a success. The main issue in these long-term relationships is the currency risk assumed by the bank. Though it was not a concern during the early 2010s and Ilbank presents a sound balance sheet (Table 2), currency depreciation may become an obstacle given the 2018 currency crisis and the Turkish lira's rapid devaluation in recent years.

Table 2. Ilbank's assets and loans, 2012–20.

	2012	2013	2014	2015	2016	2017	2018	2019	2020
Total assets (US$ billions)	7.09	6.88	7.02	6.33	6.20	6.62	6.12	6.07	6.08
Total liabilities (US$ billions)	1.60	1.86	1.86	2.1	2.19	2.27	2.97	2.88	3.44
Gross loans and advances (US$ billions)	5.02	5.32	4.95	4.42	4.60	5.94	5.37	4.78	4.22
Return on assets (%)	2.43	2.39	3.38	3.32	4.08	4.21	5.81	5.22	5.00
Return on equity (%)	3.29	3.36	4.87	4.82	6.16	6.54	9.61	9.02	9.20

Source: BankFocus. Volumes of assets, liabilities and loans are derived by converting TRY data into US$ according to the annual exchange rate data of Turkey's Central Bank.

SUKAP was initiated in 2011. It is a national project addressing the water infrastructure needs of municipalities. Within the SUKAP framework, Ilbank lends 100% of investment costs to municipalities with a population above 25,000. Notably, SUKAP loans are exceptionally not counted as adding to municipal debt under the Law of Municipalities. For smaller municipalities, Ilbank extends long-term credit for 50% of the investment cost. To cover the rest, these municipalities can obtain central government grants transferred to the local authorities by Ilbank. By the end of 2021, SUKAP had mobilized 13.3 billion TRY (US$1.49 billion), 41% of which was grants (Ilbank, 2022b). It is still the flagship loan programme for Turkey's water sector.

Challenges: undemocratic structure and fiscal squeeze

Ilbank's unique position in the water sector gives it significant influence. However, as a public bank, its activities are contested, with ongoing controversies and significant challenges. For example, during its latest reorganization (2011–12), in line with the demands of the newly founded Ministry of Environment and Urbanization, Ilbank's mandate was expanded to include conducting real estate and special urban projects (Decree no. 648). Ilbank staff and bank experts expected that a new institution would be formed from the bank during this period to resemble Turkey's Mass Housing Administration (Toplu Konut Idaresi – TOKI), infamous for its support for Turkey's construction boom (interview 4) (see also Doğru, 2016; Yeşilbağ, 2020). Although Ilbank has not yet withdrawn resources from other projects, its resources could be used mainly for real estate projects if the ministry chose to. The ministry could do this because it appoints four of the six members of the board of directors, and the general director is selected by the president (Okur, 2019).

The municipalities are equally represented in Ilbank's general assembly meetings, which might seem disadvantageous for metropolitan municipalities (Okur, 2019). However, municipalities have no power in Ilbank's key decision-making processes or budget preparation. The Erdoğan administration can postpone the loan payments or restructure debt by its own will. Local authorities cannot harness the power of Ilbank for their agendas if they contradict the preferences of the presidency. The current undemocratic structure is designed to erect hurdles against the meaningful participation of municipalities in the decision-making processes. Moreover, the auditors of the bank are appointed by the Ministry of Environment, Urbanization and Climate Change and the Ministry of Treasury and Finance (Okur, 2019). Given Turkey's construction sector's exposure to interest rates and credit crunches, the 2011 mandate change remains a swinging pendulum. The use of Ilbank to support the construction sector creates the risk that smaller municipalities will face difficulty accessing consultancy services and much-needed funds. Under these circumstances, more Ilbank resources could be diverted to real estate projects. Initial attempts to turn the bank into a special finance house for real estate have not succeeded mainly because the central government failed to develop an alternative finance mechanism, while Ilbank continued to provide long-term loans for municipal infrastructure.

Officially, Ilbank (2021) is embracing this shift in mandate to real estate. The bank has presented this reorientation since the early 2010s as a new way of collaborating with municipalities and it promotes it as a form of urban transformation. Ilbank has plans to purchase some municipal land and to work with the municipalities to design new housing projects. Ilbank presents the real estate focus as having two main objectives: first, to reduce financial pressure on municipal administrations; and second, to support the urban transformation needed to prepare for natural disasters such as earthquakes (Ilbank, 2021, pp. 26–27; 2022a, pp. 30–31). Notably, the threat of natural disasters has long been used in Turkey to legitimize new housing projects (Saraçoğlu & Demirtaş-Milz, 2014). However, since Turkey already has one of the highest housing production volumes in Europe (Erol, 2019), the additionality of Ilbank support for such projects remains questionable. More importantly, Ilbank's turn to real estate will drain the precious resources needed for cheap loans to construct and maintain municipal WSSs.

Another challenge resides in the Turkish state's fiscal problems in the late 2010s. The 2018–19 crisis in Turkey and the Covid-19 pandemic slump reduced municipalities' revenues. The fall in municipal revenues was partly mitigated by transfers from the central budget, while the total expenditures fell in real terms since 2018 (Ministry of Treasury and Finance of Turkey, 2022). The fiscal squeeze faced by many local administrative bodies increased their dependence on Ilbank. At the same time, financial volatility and Turkey's growing public debt stock forced the Erdoğan administration to make municipalities pay for any increase in Ilbank's financial capacity. The latest capital injection to Ilbank (started in 2019) was not financed by a special bond issuance (as was the case for the public universal banks) but by withholding some of the funds to be transferred to local governments from the central government.

After the decision in 2019 to increase its nominal capital from 18 billion to 30 billion TRY (about US$5.28 billion at that time), Ilbank started to withhold the transfers from the central government to local administrations. Although this capital injection strengthens Ilbank in the medium to longer term, it is costly for municipalities and has become controversial during the Covid-19 pandemic. In other words, although the capital injection was consistent with the bank's reliance on municipal funds as a recurrent source of capital, it appeared as if the municipalities were supporting Ilbank rather than Ilbank supporting municipalities amid the economic crisis and in the first wave of the Covid-19 pandemic. This contrasts with how other public banks around the world explicitly and boldly supported governments and municipalities at the time of the Covid-19 outbreak (Barrowclough & Marois, 2022). After a severe backlash from several municipalities and the Union of Municipalities of Turkey, Ilbank postponed withholding money for capitalization in 2020. During the first months of the Covid-19 pandemic, however, Ilbank did not defer municipal loan repayments to support the local administrations weather the pandemic. Ultimately, however, after intense pressure from the Union of Municipalities of Turkey, Ilbank changed its policy and postponed the municipalities' loan repayments following a presidential decree (Güngen, 2020b). According to Fatma Şahin, the president of the Union of Municipalities from 2018 onwards, the union applied to the Ministry and the Presidency for Ilbank's policy change (Karadeniz, 2020). Ilbank took the postponement decision after the negotiations between the union and the ministry, showing that the key decision-maker was not the municipalities and provincial administrations but the central government.

These features remind us of both Ilbank's crucial role in financing municipal projects and the limits of support under an undemocratic governance structure. These limits can be seen in water finance and support for public water investments, and they can erode the public purpose perspective dominant in the water sector in the medium to long term.

Water as a public sector task

According to all the interviewees, Ilbank, its experts and the other public actors in water finance share a sense of public purpose. This sense of public task, however, does not mean that Turkey lacked examples of privatization in public water provisioning. There have been a few examples of the transfer of water systems management to the private sector in the past by either privatizing part of water and wastewater treatment services or by providing the private sector with the right to deliver water services and maintain the network via public service concession agreements (Çalcalı, 2014). Currently, WSAs are able to transfer part of their services to the private sector. However, water prices rose significantly after the World Bank-supported privatization efforts in a few provinces during the 1990s (e.g., Antalya from 1997 to 2002). The experience still haunts municipal administrations, which have to consider elections and political ramifications (interviews 2 and 4). Private contractors can still participate in constructing facilities and can even apply under certain circumstances to public banks (specifically, Ilbank) for loans (interview 4). Nevertheless, all the interviewees asserted that water and sewerage systems management is considered a public sector task.

Aside from Ilbank loans to municipalities and water administrations for urban water investments, the DSI's planning expertise and institutional capacity support infrastructural investments in rural areas and help water basin management (interviews 3 and 7). Although relations between the water administrations and DSI are not always smooth, DSI, Ilbank and the large WSAs maintain the support for public water. Ilbank remains active in designing water projects as it has an organic relationship with municipalities and ties with most WSAs. However, support from both Ilbank and the local administrations for the public water sector should not be taken for granted since there are many challenges. For instance, most of the municipalities do not have a climate mitigation strategy or long-term planning.

These challenges are exemplified by the near catastrophe during the summer of 2021 in Turkey's coastal waters. Large sections of the coastline suffered from widespread mucilage and seawater pollution, which caused widespread distress to fishing and tourism and threatened ecological diversity (Çevre Mühendisleri Odası (ÇMO), 2021). The municipalities and marine experts are now searching for solutions to save sea life in the Marmara and North Aegean seas. Most of the experts interviewed argued that these regions needed to change their water sanitation and water discharge systems and claimed that there would be several projects in the upcoming years to reduce marine pollution.[8] Though aggravated by climate change, the mucilage was mainly caused by inadequate sanitation systems in coastal regions and by unmonitored water discharge protocols. The municipalities and the WSAs only mobilized personnel after it became impossible to fish or swim. Ilbank has yet to lead any projects aimed at preserving sea life in these areas. The near catastrophe, nonetheless, undermines Turkey's narrative of success in developing water infrastructure, Ilbank's supposedly proactive stance on sustainability and Ilbank's capacity, which the World Bank emphasized while extending loans for sustainability-linked projects (World Bank, 2019, pp. 53–54).

An integrated water management system?

There is a vast financing need, particularly in the Global South, to achieve the targets of the United Nations' Sustainable Development Goal (SDG) 6 (i.e., to ensure access to water and sanitation for all) (McDonald et al., 2021). From the perspective of the international financial institutions, the use of public financial capacity to meet the demand should be limited to 'pro-market additionality' (Marois, 2021, pp. 69–70). Such a de-risking perspective indicates the need for increasingly market-oriented public financial institutions and state-led enabling of private sector finance (for an evaluation, see Gabor, 2021; Mertens & Thiemann, 2018). In the water sector, however, neither private finance nor blended finance, which combines loans and grants with private capital flows, were able to realize the desired impact in the late 2010s (McDonald et al., 2021). Meanwhile, as evidenced in this special issue, public banks can directly and adequately finance public water operators and WSS infrastructure investments. The Turkish case, too, offers noteworthy lessons regarding both successes and failures in achieving the SDG 6 targets.

In the early 2000s, in line with its mandate, Ilbank was mobilized to collaborate with local administrations to meet universal water supply and sanitation targets. Due to crucial steps that the bank has taken since then, most of Turkey's population can now access basic drinking water services and Turkey can claim that it has met SDG 6's first target by the deadline. However, it has not yet met other targets that are as significant, such as reducing pollution, minimizing untreated wastewater discharge, protecting water-related ecosystems and developing integrated water resources management. In short, Ilbank, the municipalities and ministries responsible for protecting Turkey's water basins and the environment have a long way to go.

As of early 2022, there are no precise estimates of the required investment and projections regarding the water poverty that Turkey will likely face in the coming decades. In the early 2000s, state institutions estimated that total WSS investment between 2007 and 2023 would reach €18 billion (about US$21.25 billion; Kalkınma Bakanlığı, 2018). However, there has been no updated estimate of the infrastructural gap, partly due to expected water basin management plans, which will only be completed by 2023, according to the Ministry of Agriculture and Forestry (Tarım ve Orman Bakanlığı, 2018), and partly due to the lack of coordination between numerous state branches that share responsibilities in water management.

Sustainable WSS management also remains a problem. Many interviewees were concerned that neither non-metropolitan urban centres nor smaller local administrations could afford their WSS maintenance and operating expenses. Indeed, the Special Committee of the Ministry of Development (Strategy and Budget Office under the Erdoğan Presidency) noted that some local authorities were unable to use newly constructed WSSs due to fiscal constraints (Kalkınma Bakanlığı, 2018, p. 72).

As the need for water infrastructure and the problems mentioned above indicate, a comprehensive mobilization of state financial resources is necessary to meet the remaining SDG 6 targets. In the meantime, it remains vital to increase Ilbank's capacity to meet the challenges, such as WSS maintenance amid upcoming water poverty, and building an integrated water management system against the background of the climate crisis.

Conclusions

Though they retain remnants of a developmentalist past, Turkey's large universal public banks have evolved into profit-oriented institutions under neoliberalism. In recent decades, the social content of public banking in Turkey has reflected the ruling AKP's pragmatic, neoliberal and authoritarian governing mentality. Due to its specific position within the state's financial apparatus, however, Ilbank has been affected by this transformation in a protracted and mitigated way. The bank supports municipal projects and provides local administrations with technical knowledge for urban projects. It also mediates between local Turkish administrations and international financial institutions. Ilbank's mandate and the organization of water sector in Turkey make the bank indispensable for financing water projects in urban areas.

Various factors shape Ilbank's functions in the water sector. Among the challenges Ilbank faces, two of them remain particularly crucial: The main challenge in recent years has been the AKP's desire to reorient Ilbank towards real estate projects. The government's efforts have not yet wholly transformed Ilbank's activities, so the bank's WSS portfolio might continue growing in the near future. The Erdoğan administration was also unable to replace Ilbank's services (e.g., by privatizing water sector finance) while maintaining municipal-level support. The Ilbank example shows that a public financial institution can meet the demands of various actors in the water sector, access long-term international funds on behalf of local public authorities, serve public purpose and reinforce positive public water perception. Still, the Erdoğan administration continues to push Ilbank to fund new real estate projects.

The second significant challenge regarding Ilbank's actions and possible public–public collaborations in Turkey's water sector comes from the perspectives supportive of private finance in water investments. International financial institutions, with which Ilbank cooperates, continue to emphasize blending options and call for using the public financial capacity to de-risk private finance in the water sector.

Ilbank has the potential to play a more significant role in providing sustainable finance, fulfil its mandate to develop new investment projects concerning municipal services, advance its relations with water operators, and help develop integrated water and sanitation management in Turkey. Ilbank's current undemocratic governance structure, however, restricts municipal participation and forms a threat to erode its public purpose focus. This study showed that Turkey's public financial capacity has been crucial for increasing access to basic drinking water services in recent decades. However, there is still a need to develop integrated WSS management to protect water resources and avoid further pollution. Reforming Ilbank to increase the municipalities' influence within its governance structure and making lending policies wholly transparent might better prepare Ilbank for developing an integrated WSS management. It would also allow Ilbank's accumulated technical knowledge to be used in public–public collaborations.

Future research should address the impact of the recent economic crisis in Turkey and the Covid-19 pandemic on the relations between the municipalities and Ilbank. Combined with the political survival strategies of the Erdoğan administration, the fiscal squeeze faced by municipalities might also undermine the technical and financial support Ilbank provides. More significantly, Ilbank will have to address the climate crisis and its ramifications with the local administrations. The question is whether the crucial roles played by Ilbank in Turkey's water sector can be advanced and an integrated sustainable water management system can be achieved using public financial resources. Amid already existing and future challenges, this question extends to scholarly and political discussions on the need to reclaim public financial institutions to make them serve public interests in an accountable way.

Notes

1. Turkey underwent a political regime change in 2018. The new system provides extraordinary authority to the head of the executive branch. The ministers are appointed by the president, and the council of ministers lost its previous significance. For these reasons, I use the term 'Erdoğan administration', referring to the post-2018 period.
2. Article 168 of Turkey's Constitution maintains that:

   > Natural wealth and resources shall be under the authority and at the disposal of the State. The right to explore and exploit these belongs to the State. The State may delegate this right to persons or corporate bodies for a certain period. Of the natural wealth and resources, those to be explored and exploited by the state in partnership with persons or corporate bodies, and those to be directly explored and exploited by persons or corporate bodies shall be subject to the explicit permission of the law.

   Following the constitution, legal regulations in the water sector enable the transfer of water management to the private sector for certain periods. In this vein, the public management of water systems is not guaranteed but depends on the decisions taken by the national and local authorities.
3. Law no. 2560 was promulgated to specify the mandate and functions of ISKI (Istanbul WSA). In 1986, an article was added, making the regulation binding for all WSAs. Since then, the central government transfers 10% of the municipal funds (the money allocated to municipalities in the general budget) to the WSA of that territory.
4. Ilbank remains unique in Turkey's financial sector, but municipal banks and municipal development funds can be found in various countries, notably in Europe, as illustrated in this special issue. The mandates and capacities of these municipal banks change in accordance with the development of the financial systems and needs of local governments.
5. Halkbank (People's Bank) was founded in 1938, and Vakifbank was founded in 1954. Halkbank has the specific mandate of supporting industrial production by funding small and medium-scale enterprises. Vakifbank's mandate was to mobilize *wakf* (foundations with specific purposes) resources for industrial development. Though established in 1863, Ziraat Bank (Agriculture Bank) was reorganized in 1924 to expand credit opportunities for other businesses alongside supporting agricultural production.
6. After the restructuring of the banking system in 2001, duty losses arising from specific loans and cheap credits extended to large social segments were paid by the Turkish Treasury in the same month they were incurred and labelled as income losses until 2021. Despite the terminological controversy, income losses were accounted for as duty loss payments until further changes in 2020–21. They can be traced monthly in Turkey's budget expenditures.
7. The electoral victories of opposition parties changed the municipal landscape after the 2019 local elections in Turkey. More than half of the population lived in the municipalities controlled by opposition parties after 2019. However, this ratio changed dramatically in late 2019 and 2020. A total of 48 municipalities previously ruled by the People's Democratic Party are now ruled by trustees appointed by the Ministry of Interior, and the tensions between the municipalities ruled by opposition parties and the Ministry of Interior grew.

Politicized lending and the use of grants grew in importance in recent years. In 2020, for example, 99% of the infrastructure projects that Ilbank transferred grants from the central government belonged to the parties that supported the Erdoğan administration (Bildircin, 2022). In my interviews, a few experts implied that it was easier and quicker for the AKP municipalities to access loans for infrastructural investment.

8. When asked about Ilbank's future projects or the most pressing issues in the water sector, interviewees listed the climate crisis and environmental protection high on the list of priorities (similar sustainability issues are raised elsewhere in this special issue, notably by the Dutch Water Bank). The objectives in recent Ilbank reports have included supporting renewable energy projects and reducing carbon emissions. However, Ilbank still lacks a comprehensive environmental strategy, while Turkey's municipalities are ill-equipped to cope with the ramifications of the climate crisis.

Acknowledgements

I thank the editors of the special issue and two anonymous reviewers for their comments and suggestions. I also thank the public water experts for their time and patience during the interviews. Any remaining errors are my responsibility alone.

Disclosure statement

No potential conflict of interest was reported by the author.

Funding

The author has no funding to report.

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Appendix A: Interviews (ordered by the date of interview)

Interview 1: Manager at Ilbank, June 2021.
Interview 2: Expert (Strategic Planning) at Ilbank, June 2021.
Interview 3: Expert at the General Directorate of the State Hydraulic Works (DSI), June 2021.
Interview 4: Expert (Infrastructure and Project Implementation) at Ilbank, July 2021.
Interview 5: Project manager at the Balıkesir Water and Sewerage Administration, July 2021.
Interview 6: Expert at Project Works at Ilbank, July 2021.
Interview 7: Project manager at the State Hydraulic Works (DSI), July 2021.