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Development banks – promoters of economic development?

Dan Costin NIȚESCU
Bucharest University of Economic Studies, Romania
dan.nitescu@fin.ase.ro
Valentin MURGU
Bucharest University of Economic Studies, Romania
valentin.murgu@fin.ase.ro

Abstract. *The article addresses the issue of development (promotional) banks, discussing the role these institutions have in the economy. At the beginning of the work, it integrates the aspects analysed in the context of the latest crises, which determined the modification of the financial-banking governance at the European and international level.*
Relevant papers and studies are cited to reflect the activity and different perspectives on development banks. The specific conceptual approaches of development banks, sources of funds attracted and used, business models, instruments and products, the structure of mandates taken over by these institutions are reflected in the second part of the article. In the third part, contributions of development banks are highlighted, as well as, the component elements of an added value matrix, which can be built and developed, to make aware and reflect the strategic component of this typology of financial institutions. The article ends with a section that includes the authors' conclusions.

Keywords: development banks, government policies, economic development, European Union.

JEL Classification: G21, G28, O47, O52.

Introduction

In the context of multiple crises, generating structural changes at the level of economies and societies, it is necessary to design and consolidate hybrid financial mechanisms, which support both post-crisis recovery, the increased economic resilience and the future developments.

The financial crisis of 2008, the sovereign debt crisis of 2010, the pandemic, the crisis of raw materials and distribution chains, the geopolitical context of 2022, have determined changes in European and international economic-financial governance. These were also reflected in the emergence of new institutions, new roles and mandates for existing institutions, new programs, mechanisms, and tools for financing and guaranteeing. The challenges related to obtaining macroeconomic balances, support growth and economic development require policy coordination and specific action plans.

At the level of governments and companies, the strategic planning component involves a consistent approach, in the medium and long term, which integrates sustainability alongside technological developments.

Reconsolidation of economies and sustainable economic development can be achieved based on a new economic "design", focused on the integration of value chains, with a regional focus, on minimizing the vulnerabilities reflected by the interruptions of global supply, distribution, and production chains.

Government programs that propose important financial resources, together with the contributions of the banking systems, financing provided through the capital markets, alternative financing structured by the private sector, through specialized vehicles, can provide financial support for a new, sustainable economic perspective. A key aspect is the harmonization of these mechanisms and instruments, focusing on their complementarities and potential synergies. Specialized financial institutions, such as the export-import banks, export credit agencies, development banks, sovereign funds, can bring significant added value to this economic reconstruction effort.

The article aims to address the issue of development banks, as relevant actors within the new economic-financial ecosystem. Their activity is found at the confluence between the government priorities and the need to support some sectors/activities, which are not supported, consistently and with the appropriate instruments, by the traditional banking sector, being considered in the specialized literature, as activities of the market failure type[(1)], but which can generate synergistic, beneficial effects for the respective economy, in the long term.

The state of knowledge includes reference works for the issue of development banks. This research analyses and highlights the role of development banks, the mandates granted to them, business models, as well as, aspects related to corporate governance, prudential supervision, the contribution of such institutions, at the European level.

1. State of knowledge and review of specialized literature

Historically, development banks have been an important mechanism for governments to promote the economic growth through the provision of credit, along with a wide range of advisory and capacity-building programs for households, small and medium-sized

enterprises, and even to large private corporations, whose financial needs are not sufficiently met by the private commercial banks or local capital markets. Development banks have been established in both, the former socialist economies, advanced capitalist countries, and the emerging economies, primarily to finance the construction of roads, highways, power plants, dams, and telecommunications infrastructure. These banks have also been involved in encouraging the start-up industries and small and medium-sized enterprises (SMEs) (Luna-Martinez, 2012).

According to Marodon (2020), from a historical perspective, the establishment of public financial institutions aimed at a dual objective. The first is to channel the investment into infrastructure or to sectors that the government considers a priority (Diamond, 1957). For example, the Channel Tunnel – a project left over from 1801 – was completed thanks to the business plan promoted by the European Investment Bank (EIB)[(2)] for a consortium that included private banks, with political support from the French and British governments, but without direct budget expenditures for the two states. The second objective aims to overcome the market imperfections, those related not only to: (i) the governance, environmental and social components that accompany any development project, but also to (ii) the problems of coordination and implementation of public policies, and (iii) informational asymmetries in some sectors, which leads to their underfinancing (Hausmann et al., 2020).

The activity of development banks is not only about correcting the market failures, but also about creating and shaping markets and strategic development policies (Mazzucato and Penna, 2014). Also, due to their long-term perspective, the development banks could promote macroeconomic stability, growth and an investment-friendly environment, all factors that can attract private lenders (Eichengreen and Mody, 2000; Kidwelly, 2017). Similarly, the presence of development banks can signal to the private market donor the confidence in the country's institutional capacity and commitment to reform, increase creditworthiness, and consequently, support private capital inflows (Morris and Shin, 2006; Basilio, 2014). During the global financial crisis of 2007-2008, the most development banks assumed a countercyclical role by increasing the supply of credit to private firms in their jurisdiction to partially alleviate the credit crunch associated with the global financial crisis. The development banks increased the short- and long-term lending, not only to the existing customers, but also to new customers from private commercial banks that faced temporary difficulties in refinancing loans or acquiring new lines of credit. Even the large multinational companies, such as the car manufacturer Chrysler, have benefited from loans provided by development banks in the middle-income countries (de Luna-Martinez et al., 2012).

2. Conceptual approaches specific to the development banks

2.1. Concepts and typologies related to the development banks

According to the specialized literature, the development bank represents a specialized financial entity, which is established mainly to contribute to the development of infrastructures, to encourage the development of the industrial and agricultural sector, by granting medium and long-term loans. The development bank (sometimes referred to in the European directives as a promotional bank) can also provide other services such as:

underwriting shares, financing investments and granting guarantees, promotional activities for the commercial entities. The main function of development banks is to provide loans for capital-intensive investment projects, especially long-term and with a low rate of return. The overall mission of a development bank is to support economic and social development, competitiveness, innovation and economic growth. Additionally, the strategic objectives of the development banks consist of facilitating access to finance for SMEs, ensuring access to finance for economically viable infrastructure projects and attracting private investment, improving the absorption of European funds and related leverage, providing services of consultancy and technical assistance, encouraging industrial growth, creating employment opportunities, removing regional imbalance to support less developed areas, financially supporting the housing sector, promoting and providing finance to less developed industries, which can support vulnerable parts of respective society, the community.

Development banks have built synthetic investment evaluation indicators to capture, in an efficient and eloquent manner, both production growth and environmental, technological, and social aspects (Bassanini et al., 2014). The developed good practice has also generated certain controversies, both from the perspective of the responsibility of the use of public funds and from the perspective of governance, the selection of key sectors for which significant financial resources will be allocated, to avoid inefficient investments. Another concern concerns the “moral hazard”, i.e. the possibility that the fiscally irresponsible policies of the recipient countries are effectively rewarded and therefore encouraged by “bailout” loans. Although a theoretically a serious concern, the existence of such moral hazard has not been proven.

By contributing to the financing of the economy, development banks represent a component of public policy (Marodon, 2020). Five common criteria can be identified, characteristic of development banks:

- *Legal*: requires that the institution to have its own legal personality and separate financial statements.
- *Financial instruments*: requires the institution to use income-producing financial instruments (loans, own investments, guarantees and insurances).
- *Source of funding*: the institution must be able to finance itself, beyond the periodic budget transfers from the government (in addition to the grants or subsidies it benefits from).
- *Mandate*: unlike the mandate of a commercial bank, whose main and often unique purpose is to maximize the profits, in the short term for the private shareholders, for development banks, the mandate is represented by the financing of investments, in the long term; must be supported by the adequate governance, has an impact on business development, performance indicators, risk indicators, dividend policies, differs from the approach applied in the private sector, for commercial banks; the mandate of development banks must be substantiated and supported by public policies, correlated with the national development plans.
- *Governmental support*: this can take different forms: one or more governments can create a development bank, holding partly or all the necessary capital, they can provide financial support, they can nominate representatives in governance and management structures; these include sub-regional or multilateral development banks owned by groups of states, subsidiaries of public development banks, or institutions owned by central banks or local governments.

The main differences between the development banks and commercial banks are represented by the method of setting up funds, registering and reporting financial resources and their specific orientation. The elements of differentiation between the development bank and the commercial bank are presented, selectively, in the Table 1.

Table 1. *Comparative analysis between development bank and commercial bank*

Criteria	Development Bank	Commercial Bank
Role	provides financing for infrastructure and economic development	provides basic banking and financial services to individuals and legal entities
Orientation	to long-term economic development and job creation	to maximize the profit
Purpose	pursues government policy objectives, to achieve social profit	to make a profit, based on the applied pricing policy
Regulatory framework	established under a specialized act (mix of banking and government regulations)	established in accordance with the Commercial Companies Law, as banking companies
Customers	government and institutions in the government area	individuals and legal persons/companies
Source of funds	funds from loans, from the issue and sale of securities, from government program	funds from accepting the deposits from the public (individuals, legal entities, institutions)
Products	long term financing products, guarantee products	short- and medium-term loans
Services offered	promoting government services, technical assistance services, advisory services for accessing European programs	business consulting services, credit investigation, legal services

Source: authors' processing and https://keydifferences.com/difference-between-commercial-bank-and-development-bank.html.

A study carried out by Deutsche Bank (2015) concluded that national development banks are characterised by three key elements, respectively: official mandate established by the national legislation, full or majority state capital and competitive neutrality in relation to the other financial intermediaries. National development banks are characterized by heterogeneity, being also influenced by the economic particularities of each state. The same approach is taken by the European Commission (EC, 2015) which defines this type of bank as any institution created by an EU member state that offers promotional loans on a non-competitive and non-profit basis, with the aim of promoting the objectives of public policy agreed by the government of the respective country.

In his work, Marodon (2020) appreciates that public development banks operate on four geographical levels, sometimes simultaneously:

- National to finance the economic development in a certain territory, which can be a city, a region or a federal state (most often, these institutions finance small and medium-sized enterprises) or carry out a specific mission to support a certain sector of the economy.
- Regional or sub-regional, or based on a specific criterion that may correspond to a geographical, religious, or political preference, we mention:
  - Regional development banks, such as:
    - European Bank for Reconstruction and Development (EBRD), with the mandate: support for the transition to a well-functioning sustainable market economy, promotion of private and entrepreneurial initiative in Central and Eastern European countries, and
    - Asian Development Bank (AsDB), with the mandate: promoting economic growth and cooperation in Asia and the Far East and contributing to the acceleration of the economic development process of developing member countries in the region, collectively and individually.

  - Sub-regional banks, such as: Eurasian Development Bank (EDB), with the mandate: strengthening and developing the market economies in member countries and reinforce the trade and economic integration between them (Engen and Prizzon, 2018).
- Multilateral, with an orientation towards financing at the international level; a Multilateral Development Bank (MDB) is an international financial institution established by two or more countries with the aim of encouraging economic development in poorer countries. Multilateral development banks are made up of member states from developed and developing countries. MDBs provide loans and grants to member nations to finance projects that support social and economic development, such as building the new roads or providing clean water to communities. In addition to the financial assistance, the MDB often provides member nations with advisors, auditors and specialist assistance in the implementation and monitoring of bank-financed projects. The MDB are subject to international law. There are two main forms of MDB:
  - The first, which includes the largest and well-known institutions, grants loans and grants. Examples include the World Bank, founded in 1945, and the European Investment Bank (EIB) with the mandate: contributing to the balanced and steady development of the common market in the interest of the European community.
  - The second type of MDB consists of the governments of low-income countries, which can then borrow collectively through the MDB to secure more favourable interest rates. The Caribbean Development Bank (CDB), founded in 1969, is one such example.

2.2. Source of funds and capital base

Development banks can borrow from the other financial institutions or raise money from the capital markets, which involves government approval, especially when the debt is to be guaranteed by the government. There are various options for development banks to finance their business operations, including: (i) raising savings and deposits from the public, (ii) borrowing from other financial institutions, (iii) raising money from the domestic or international capital markets, (iv) use of own capital and (v) receipt of budgetary allocations from the government. Most development banks combine all these financing options. Except in the situations where the mandate of development banks is to promote savings, some authors (Rudolph, 2007) argue that it is not desirable for development banks to take deposits from the public. Avoiding this aspect allows the development banks to focus on their lending operations, avoid competition with private banks and limit the exposure of potential contributors to losses (de Luna-Martinez et al., 2012). In general, the expectation is that development banks are profitable and financially self-sustainable, not relying on government subsidies or transfers to finance their operations partially or fully.

The capital base of all MDBs includes the paid and payable contributions of their members and retained earnings. Paid-up capital represents cash contributions made by members, while callable capital represents a guarantee provided by member countries, which supports the MDB for bond issues. The redeemable portion of the capital subscriptions is subject to call to meet the MDB's obligations for borrowing funds or guarantees. Retained earnings is the net income (i.e. loan and investment income, net of loan expenses with loans, non-

reimbursable customer services and administrative costs) that is retained and added to the capital, as accumulated reserves. MDBs retain the full amount of their net income, this practice significantly strengthening MDB balance sheets. Accumulated reserves represent the main source of capital accumulation of these institutions (Artecona et al., 2019).

2.3. Business models

To carry out their activity, development banks have adopted different business (lending) models, most of them – such as SZRB Slovak Guarantee and Development Bank – granting loans through a combination of first tier (loans granted directly to final customers) and second-tier operations (loans granted to other private financial institutions that subsequently lend to final customers). Two lending models are highlighted in the specialised literature:

1) *Prime lending model (focused on direct customer interaction)*, development banks interact directly with the end customers, which results in many branches to access and serve their target customers. The interest rate offered to end customers can be lower, because the resources are not intermediated through other financial institutions, but the credit risk remains completely on the respective bank's balance sheet.
2) *Second-tier lending model (or wholesale)*, development banks tend to have lower operating costs, with financing provided to private financial institutions that then screen and evaluate end-customer loan applications. Under this model, development banks can reach to more end-customers and cover more locations without incurring high operating costs, but the interest rates for end-customers tend to be higher, being focused on the private financing and the transfer of costs of financial intermediation. The credit risk is partially absorbed by the intermediary private financial institution, thus leading to lower NPL rates than in the case of the first-tier development banks (de Luna-Martinez, 2012).

2.4. Specific products and tools

Most of the loans offered by development banks are long-term loans, followed by working capital loans with or without subsidized interest; development banks also provide syndicated loans and unsecured loans. Subsidized interest lending by development banks remains a controversial issue. For some authors, this practice could undermine the solvency and profitability of the development banks and to distort the competitiveness of the economic environment, while for others, the use of subsidized interest could be justified to support the creation of new enterprises, if subsidies to be granted transparently and used for the intended purposes (Scott, 2007). Lending at subsidized interest rates is a practice adopted by the most development banks that finance these grants using transfers from their governments. In some countries, the practice has become unsustainable, given the pressures it causes on the state budget. However, in some countries, the practice has become unsustainable, given the pressures it causes on the state budget. Development banks also offer loan guarantee products to partially offset the losses faced by a private financial intermediary. Guarantees usually take different forms in terms of coverage and pricing policy, with the most development banks seeing this type of financial product as a useful tool to encourage private commercial banks and other financial institutions to lend with their own resources the same clients and sectors targeted by development banks. The Table 2 below shows the financial and non-financial products and the instruments offered by the main MDBs:

Table 2. *Financial and non-financial products and the instruments offered by the main MDBs*

MDB	Loans	Grants	Working capital	Technical assistance	Guarantees	Equity	Total
Asian Development Bank (AsDB)	x	X	x	x	x	x	6
African Development Bank (AfDB)	x	X	x	x	x	x	5
European Bank for Reconstruction and Development (EBRD)	x		x	x	x	x	5
European Investment Bank (EIB)	x		x	x	x	x	5
World Bank	x	X		x	x	x	5
Eurasian Development Bank (EDB)	x	X		x	x	x	5
Caribbean Development Bank (CDB)	x	X		x	x		4
ECOWAS Bank for Investment and Development (EBID)	x			x	x	x	4
Asian Infrastructure Investment Bank (AIIB)	x				x	x	3
West African Development Bank (BOAD)	x				x	x	3
New Development Bank (NDB)	x						1

Source: Engen and Prizzon, 2018.

One of the most important challenges for the development banks is the need to improve their risk management capacity, which reflects the difficulties that such banks face throughout the entire lending cycle, which includes the assessing the creditworthiness of prospective clients, how in which they assess the risks, the type of lending policies they follow and the ability they must collect loans or execute guarantees.

The credit ratings assigned to development banks depend largely (but not exclusively) on the composition of the shareholders (mainly, the state). The ratings granted by the three major credit rating agencies (Standard & Poor's, Moody's, and Fitch) are considered the most relevant. The largest development banks all have AAA ratings, while many of the smaller banks have no credit rating (Engen and Prizzon, 2018).

2.5. Mandate, governance, and regulation of development banks

Depending on the type of mandates entrusted, the development banks can be divided into institutions with a mandate: (i) narrow and specific, which explicitly refers to the economic sector, type of clients or activities expected to be supported, and (ii) extended, which are formulated in general terms, without reference to a specific sector or activity. Institutions with limited mandates do not have the flexibility of exposure to several sectors, an aspect that can also affect the risk diversification component.

In the case of extended mandates, other categories of risks may arise, including from the perspective of the selection of requirements, objectives and the influence exercised by certain ministries, government agencies. A development bank's mandate should be flexible, but regularly reviewed to accommodate the possible changes in market conditions, substantial changes in government economic policy directions, various crises, as they have happened since 2008.

In terms of corporate governance, the experience and reputation of managers, risk management systems, the set of tools and mechanisms developed for the management of the banking organization are key points. The mix of political connection with the financial-banking expertise must be very well calibrated.

The ownership structure and control of the development bank can be more complex, involving many government institutions. Mainly, the following can be highlighted:

(i) banks with full state capital; (ii) banks with mixed capital, public and private. In all categories of development banks, the government retains the right to appoint and remove the board members and managing directors.

Internationally, both development banks and other state-owned banks or controlled financial institutions are subject to the regulatory and supervisory standards of private financial institutions. In good banking practice, most development banks are actually regulated and supervised by the same institution that supervises private commercial banks in their countries (i.e. the central bank or banking supervisor). Also, certain development banks may be overseen by the same government ministries and agencies that provide them with the strategic direction (ministries of industry, commerce, agriculture, as appropriate). This manner of supervision can have implications regarding the identification, monitoring, and assessment of activity risks, including from the perspective of a dynamic and rapidly changing context.

Regarding the development banks active on the European financial-banking market, there are differentiations on several levels: ownership structure (full or partial ownership by the state), entrusted mandates (restricted vs. broad), financing mechanisms (which include acceptance or not of deposits), lending models (first level or second level), pricing of lending products (subsidized or offered at market interest), regulation and supervision (under special regime or the same regime applicable to private banks), corporate governance (independent or government-controlled boards) and the applied transparency standards. Adopting the best institutional design is important because the development banks operate under difficult conditions serving the high-risk clients and the market segments that are usually not served by private financial institutions. According to the analysis carried out by Luna-Martinez (2012), over time had success only those development banks with clearly defined mandates, with high standards of corporate governance, with good risk management capacity, with adequate regulation and supervision and strong management. From the past experiences, the problems faced by the development banks mainly stemmed from certain lending decisions, large stock of non-performing loans, undue political interference, capture of the bank's business policy by groups of interests, of the lack of clearly defined mandates.

3. International good practice, contribution of development banks

3.1. Development banks at European level

The new financial-banking governance, developed especially after the financial crisis of 2008, determined the emergence of new bodies and institutions, as well as the development of new mechanisms and instruments. The strategic need was reflected, that alongside the European banking pillar, the capital markets and European financial markets should be developed and integrated. The series of crises that followed, namely the sovereign debt crisis/Greece crisis, the pandemic crisis, the distribution chain crisis, the energy crisis, the geopolitical conflict, impresses the need for a permanent adaptation, shaping the European financial ecosystem, to face all these challenges and to supports the European economy.

Cooperation on several levels, between different financial actors, can bring the support to different segments of companies, households, SMEs, which further support jobs and develop the economy.

Within this European financial-banking ecosystem, development banks have a special role. In partnership with the European Investment Bank, national development banks make a key contribution to the implementation of the Investment Plan, including the European Fund for Strategic Investments (EFSI)[3], with product ranges, local knowledge and skills, based on a complementary geographical extension.

European states have created development banks with various mandates and roles to support their economies and societies and the European economy.

Table 3. *Development banks active in European countries*

(KfW) Kreditanstalt für Wiederaufbau Development Bank in Germany, Europe	**(BGK) Bank Gospodarstwa Krajowego** Development Bank in Poland, Europe
(BPI) Bpifrance Development Bank in France, Europe	**(BDB) Bulgarian Development Bank** Development Bank in Bulgaria, Europe
(CEB) Council of Europe Development Bank Development Bank in France, Europe	**(MFB) Hungarian Development Bank Private Limited Company** Development Bank in Hungary, Europe
Proparco Group Development Bank in France, Europe	**(SZRB) Slovak Guarantee and Development Bank** Development Bank in Slovakia, Europe
(FMO) Netherlands Development Finance Company Development Bank in Netherlands, Europe	**(Kredex) Kredex Estonian Credit and Export Guarantee Fund** Development Bank in Estonia, Europe
CDC Group Development Bank in United Kingdom, Europe	**(SID Bank) Slovenska izvozna in razvojna banka** Development Bank in Slovenia, Europe
(OEeB) Development Bank of Austria Development Bank in Austria, Europe	**Altum** Development Bank in Latvia, Europe
(ICO) Instituto de Credito Oficial Development Bank in Spain, Europe	**(SZRB)** *Slovak* **Guarantee and** *Development Bank* Development Bank in Slovak Republic, Europe
(CDP) Cassa Depositi e Prestiti Development Bank in Lithuania, Europe	**(Invega) Investicijų ir verslo garantijos** Development Bank in Lithuania, Europe
Norwegian Industrial and Regional Development Fund Development Bank in Norway, Europe	**(***HBOR***)** *Croatian* **Bank for Reconstruction and Development** Development Bank in Croatia, Europe
Innovation Norway Development Bank in Norway, Europe	**(CMZRB) Czech Guarantee and Development Bank** Development Bank in Czech Republic, Europe
Hellenic Development Bank Development Bank in Greece, Europe	

Source: authors' processing.

The path to the creation of development banks was correlated and determined by the specific context and the strategic economic-financial vision, at the level of the countries that promoted such initiatives.

Specialized mandates, extended and narrow, can be found at the level of development banks in Europe. For example, Germany considered it appropriate to establish two development/promotional banks: Kreditanstalt für Wiederaufbau (KfW) and Landwirtschaftliche Rentenbank, specialised in the agricultural sector and rural areas. The German bank Kreditanstalt für Wiederaufbau (KfW) was founded in November 1948 with the aim of supporting the reconstruction of the country after the war. Although it initially had a different mandate, KfW's activity later evolved into a long-term financing component for infrastructure, simultaneously with the review of the activities carried out. KfW became a promotional bank [4] for the German economy, as well as, the development bank for

developing countries (Grünbacher, 2004). On behalf of the German Federal Government and the Federal Ministry for Economic Cooperation and Development, KfW finances projects that mainly involve public sector actors in developing countries and emerging economies. Financing models include grants and loans from budget funds, but also loans that combine budget funds and KfW's own funds, the conditions for these types of loans being favourable (from the perspective of interest, terms of granting).

Bpifrance integrates, "under the same roof", operations specific for the French National Promotional Bank, Innovation Agency, Sovereign Fund and Export Credit Agency. Its general missions are defined by law, as a public bank dedicated to promoting the financing and development of companies operating in France, in particular SMEs. The bank is controlled by the French State through EPIC Bpifrance (49.18%) and the Caisse des Dépôts (49.18%), which is fully owned by the French State. According to Fitch rating agency "the group has played a key role during the pandemic in sustaining French companies' cash flows, which in Fitch's view, confirms its strategic importance for the state."

In Italy, the Development Bank Cassa Depositi e Prestiti has a mandate for priority financing of infrastructure, exports and internationalization of Italian companies, the real estate sector, and the social housing component. In Spain, the mandate is different, with the Instituto de Credito Oficial focusing on the financing environmental, cultural and social projects, on innovative activities.

Poland has built a different strategic vision for its development bank. Bank Gospodarstwa Krajowego (BGK) is the Polish development bank, founded in 1924. BGK's mission is to support the sustainable social and economic growth, to provide support for building a strong and stable economy. The bank focuses on investment projects in energy efficiency, supporting public utilities, financing the real estate infrastructure, and providing guarantees for SMEs. BGK's strategy is based on five pillars: sustainable development, commitment, business and international cooperation, digital and process transformation, effective management model, by harnessing the full potential and skills of the bank's employees, emphasizing teamwork and the interdisciplinary model.

Slovenska izvozna in razvojna banka, d.d. (SID Bank) is a development and export bank 100% owned by the Republic of Slovenia. Through its banking and insurance services, SID Bank promotes the sustainable development[(5)] and improves the competitiveness of the Slovenian economy. SID Bank's activity consists in financing of various activities, such as the development of small and medium enterprises and entrepreneurship, research, development, innovations, environmental protection activities, energy efficiency and climate change, international trade transactions and international economic cooperation. SID Bank also finances regional development, economic and public infrastructure projects in Slovenia.

The Hungarian Development Bank (MFB) (Magyar Fejlesztési Bank) is a credit institution fully owned by the Hungarian state. Its legal status, tasks and scope of activities are defined in the MFB Law of 2001, in the Memorandum of Association and in the strategy approved by the Hungarian Parliament and Government. Core activities include providing financing for growth and favourable conditions to Hungarian enterprises, supporting the long-term development goals of the state, obtaining funds from the money markets. Since 2003, MFB has received individual international credit ratings from Moody's Investors Service.

At the European level, there are also new initiatives for the creation of institutions such as development banks/promotional banks. Thus, in Romania, in 2022, the Government promoted the draft ordinance that regulates the general framework applicable to development banks. Within the project, the role of promotional banks is highlighted, namely supporting entrepreneurship, socio-economic and regional development by promoting investments, supporting the SME sector, supporting the absorption of European funds, managing investment funds. The arguments and opportunity for the establishment of such a bank derives, mainly, from the economic - financial - social context generated by the succession of crises, from the need for the Romanian State to benefit from the contribution of a strategic financial vehicle, in full accordance with European good practice, reflected at the level of all other European states.

These development banks have a specific role at the level of national economies, making an aggregate and determining contribution, including at the level of the European economy. In the context of the pandemic, the strong dependence of companies on credit guarantees and other measures to support liquidity has emerged. A significant part of the common response to the negative effects of the pandemic was the collaboration between the European Investment Bank (EIB) and four representative institutions (KfW from Germany, Bpifrance from France, CDP from Italy and ICO from Spain), entities who in the last decade have worked as government aids, in a European context (Mertens et al., 2020).

During the financial crisis of 2008 and the subsequent crisis in the euro area, these banks played an important countercyclical role, helping companies to mitigate the impact of the economic shock. Their role as advocates for the long-term transformations has been increasingly recognized in the context of EU industrial policy debates and the transition to a low-carbon economy.

At the EU level, in countries such as Germany, France, Italy and Spain, some common features can be observed in the way crises are approached, but also in the development model. Banks have been mobilized in response to the pandemic, with a focus on micro-enterprises and SMEs, given their heavy reliance on bank funding and their inability to directly access the capital market or liquidity measures provided by the ECB. Even the national loan guarantee schemes have certain common characteristics, in terms of risk coverage, loan amount, duration of the guarantee, which are consistent with the temporary changes in the state aid framework in which the development banks operate.

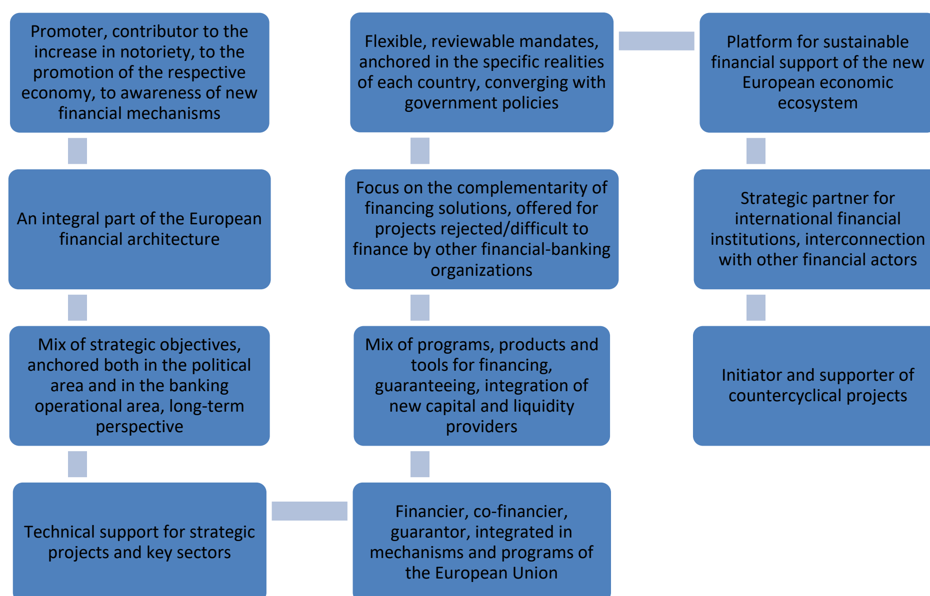
3.2. Development bank – synergistic role for economic development?

Development banks/promotional banks are institutions that attract and use a mix of financial resources, especially public. Thus, the government financing offered by the countries that own the respective banks, the European Union funds alongside funds from international financial institutions, funds attracted through the capital markets, contribute to the financing of national economies, the European economy and society. Along with the financing component, the issuing of guarantees is a key point of the activities carried out by the development banks/promotional banks, as well as, the purchase of financial instruments.

Within this part of the research, is highlighted the answer to the complex question, included in the title of the paper. The answer is yes, the development/promotional banks contribute synergistically to the economic development of the respective country. However, the answer is conditioned by the specific nuances to each institution, by the assumed strategic objectives, by the calibration between the political and the technical/operational/banking component, by the effective orientation of resources towards programs integrated into the gears of the respective economy and by consistent financial support, in the long term, through diversified financial mechanisms.

The paper proposes the development of an Added Value Matrix, to reflect the synergistic role of development/promotional banks and to raise awareness of the sophisticated contribution, on multiple levels, made by them, to the economy and society of the respective country/monetary zone/region in which they operate. Within the work, there are selectively highlighted several elements that can be part of an Added Value Matrix regarding development/promotional banks.

Figure 1. *Elements of the Added Value Matrix, specific to the development/promotional banks*



Source: authors' processing.

All these elements, to the extent that they are properly coordinated, add value and contribute to the economic growth of the respective economy.

Our work contributes to the awareness of these elements, which have been put together and which can contribute to future policies, both in countries where development/promotional banks are not (yet) functional and in countries where they work based on mandates that require a new anchorage, in accordance with the strategic objectives of the European Union, resettled after the variety and multitude of crises, which have affected the European economy and society, since year 2008.

The awareness and harmonization of these elements can influence both the development component, through the role of catalyst, of the development/promotional banks, but it can also significantly improve the risk management component. By including and financing some sectors, projects, activities that are not financially supported by commercial banks, jobs are created, social profit is obtained, social risks present, meaningfully, in certain regions are managed, especially in the context between crises.

The issue of sustainability, the integration of ESG components (Environment, Social, Governance) in the business policies of development/promotional banks, their harmonization with European programs, will create the basis for the strategic support of the objectives assumed by the European authorities, for the transformation of the European economy.

Conclusions

Specialized financial institutions, such as the export-import banks, the export credit agencies, the development/promotional banks, the sovereign funds, can bring significant added value to the European economic reconstruction effort. If there is coordination. If an integrative vision is built and a "complex mechanism" is set in motion, coordinated by the authorities, for the fulfilment of long-term strategic objectives.

To answer the question in the title, international and European best practice reflects the fact that the development banks are promoters of economic development.

Development (promotional) banks can contribute to improving the institutional capacity of European governments to formulate and implement public policies. Through mandates, development banks can attract private capital that they can later direct to the provision and operation of public infrastructure, offering countercyclical loans. In this way, the conditions are created for increasing the resilience of national economies, for protecting the productive capacities owned by the countries of the European Union. Another relevant point is the correcting the dysfunctions of the financial market, by financing the projects of eligible beneficiaries, with a high risk profile, but with significant potential to create added value and jobs. In relation to these beneficiaries, the private sector shows a low appetite for securing financing.

The context, the economic and social fabric, the degree of economic sophistication, the structure of the financial-banking system in a country, the roles and mandates entrusted by the State to certain financial-banking institutions active in the market, the resources and key sectors existing in the economy of a country, influence, by default, defining the mandate and role of a development/promotional bank.

But the opportunity to establish and integrate a development/promotional bank into the financial ecosystem of a European country is obvious.

The transformation of the European economy, the transformations that are taking place at the global level, both in terms of economies and financial systems, the modification of the behaviour of political and economic actors, require the reanalysis of the national and European financial-banking architecture, with a strategic orientation and anchoring, synergistically, in the new perspectives.

Notes

[(1)] Market failures are situations in which the market provides a less than optimal level of a particular good or service (an example of a market failure is when a monopolistic seller sets high prices for products, leaving buyers no choice but to purchase the goods at excessive prices).

[(2)] The European Investment Bank (EIB) is the main lending lever of the European Union. The EIB is the world's largest multilateral financial institution and one of the largest providers of climate finance.

[(3)] The European Fund for Strategic Investments (EFSI) is the core of the investment plan for Europe, which aims to boost long-term economic growth and competitiveness in the European Union. The fund aims to help use public funding, including funding from the EU budget, to mobilize private investment for a wide range of projects in the EU (such as infrastructure, research and innovation, education, health, information and communication technology).

[(4)] National promotional banks are legal entities carrying out financial, development and promotion activities on a professional basis, which are given a mandate by a member state at central, regional or local level.

[(5)] Sustainable development goals: 1. no poverty, 2. zero hunger, 3. good health and well-being, 4. quality education, 5. gender equality, 6. clean water and sanitation, 7. clean and affordable energy, 8. decent work and economic growth, 9. industry, innovation and infrastructure, 10. reduced inequality, 11. sustainable cities and communities, 12. responsible consumption and production, 13. climate action, 14. life under water, 15. life on land, 16. peace, justice and strong institutions, 17. partnerships for goals.

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