NATIONAL DEVELOPMENT BANKS AS THE DRIVERS OF POST CONFLICT RECONSTRUCTION IN EUROPE

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ABSTRACT

This paper examines the scope of European national development banks, their role, their objectives, their policy mandates, their financial services, which clients they target, how they are regulated and supervised, what business models they have adopted, what their governance structure is and what challenges they face. The research questions passed in the paper are to examine role that National development banks plays in times of post-conflict reconstruction, namely: gap between investment needs and financial capacity; examine the scope of National development banks, their roles, missions and business models in several EU member States; measure and compare their performance to each other and their business models; the actual level of control exercised by the public sector; analyze the missions and visions of public financial institutions in terms of their objectives, geographic scope, stakeholders, products and services.

The research methodology is based on empirical data of development banks from 2012 to the present: periodic reports of the World Bank, Annual reports for 2022–2023 of 23 National development banks (NDBs) from 16 European countries.[1]

Keywords: national development banks, public finance, financial instruments

JEL Codess: G21, G24, G32, G38

1 INTRODUCTION

In the history of banking, the National Development Banks (NDBs) is an important driver of National economic development. They contribute to a country‘s economic growth, SME development, export potential, and even to large private corporations whose financial needs are not met by private commercial banks or local capital markets. In the crisis and post-conflict times in Asia, Africa, Latin America and even Europe development banks have provided a ‘credit boost’ to private financial institutions when they experienced temporary difficulties for providing credit to the private sector. It is no exception that in the current period 2020–2024, when Europe is experiencing by the result of the transformation of it economics

[1] European National development banks content for study had been chosen on the base of the Wikipedia source: https://en.wikipedia.org/wiki/List_of_national_development_banks

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and consequences of Europe‘s transformation and post-conflict reconstruction are forcing European governments to pay more attention to the NDBs. They have come to be seen as instruments of economic and financial policy to overcome cyclical and structural difficulties. They have become a kind of complement to financial systems, helping to improve their functioning and support sustainability. Since new century the number of NDBs has grown on 25% of their total number (Jose de Luna Martinez, 2017, p.14.)

Public financial institutions fulfil a huge range of specific missions. Among themes, banks with a promotional mission stand out by primarily addressing market insufficiencies, such as the SME financing gap, covering the hidden transaction costs of exports and fostering innovation, whereas other financial institutions are more likely to address general-interest missions, from supporting the agricultural sector to developing infrastructure and promoting tourism. These missions all respond to market needs which, for various reasons – ranging from the extent of the investment horizon to the presence of external factors – are underserved by the private banking sector. Development banks are using public money and must be more and more transparent about the way they use it to reach their goals. NDBs need to cooperate with other institutions and complement their offer to efficiently fulfill their tasks.

The governmental interest of development banks was manifested in the need to promote growth and stimulate investment in EU countries. Therefore, NDBs have evolved into public financial institutions that provide financing for a country‘s economic development, addressing the shortcomings of a market economy while utilizing predominantly public financial sources. However, the questions raise: whether development banks can provide the “impetus” for the post-conflict reconstruction of Europe and whether their missions and business models can play a decisive role in transforming the economy through the public sources’ utilization?

2 METHODOLOGY RESEARCH AND RESEARCH QUESTIONS

Research methodology based on researchers and papers in sphere of National development banks: De Luna-Martínez, José and Carlos Leonardo Vicente, Györgyi Nyikos, Roland Berger, Mathias Schmit and Laurent Gheeraert and other researchers.

A great contribution on NDBs topic research made by Eva Gutierrez, Rudolph Heinz, Theodore Homa, and Enrique Blanco Beneit. They are investigating the mechanism of NDB efficiency. Ferrari, D.S. Mare, and Skamnelos make an interesting study on the nature of NDBs State ownership. The same topic has been touched on Micco, A., U. Panizza, and M. Yanez. The issues and Sustainable Infrastructure of Development were researched by Stephania Griffith-Jones. Behavior of Development banks in time of crisis 2008–2009 were devoted by Choi, Gutierrez, and Martinez Peria.

An empirical data for research from 2012 to the present by 2012 the World Bank periodical reports 2012, 2017 and annual reports 2022–2023 of 23 National development banks from 16 European countries were used.

The research methodology was also based on reports and releases of the United Nations Department of Economic and Social Affairs Financing for Development, European Commission’s COM(2005) 551; Commission to the Council, the European Parliament, the European Economic and Social Committee and the Committee of the Regions: Implementing the Community Lisbon Programme Modern SME Policy For Growth And Employment, Eurostat (2014); Manual on Government Deficit and Debt. Implementation of ESA 2010. Eurostat, Luxembourg; OECD’s Arrangement on Guidelines for Officially Supported Export Credits. For the EU Member Statesю

The grouping method was widely used in the course of the research. Grouping to divide the development banks of the countries of Central, Eastern and Southern Europe, as well as the countries of Western and Northern Europe was used in order to show significant differences and reserves in their functioning and development.

The research questions passed in the paper are the followings:

- RQ1. To study the role played by National Development Banks in European economies, the scope of their activities, missions, objectives.
- RG2. To analyze the key indicators of their performance.
- RQ3. To analyze the main concentrations of their activities.
- RG4. To measure and compare their performance with each other.
- RG5. To disclose the main discussion points of the polycrisis period.
- RG6. To propose policy recommendations.

3 ANALYSIS

3.1 Analysis of environment NDB operating

An important features of European development banks such as National Development Institutions (hereinafter referred to as NDIs) are that they are public (state) institutions and their shares are owned by the State. Their role is to promote economic and social growth of the country, and their main tasks are: mobilization domestic and international financial resources for development and solving systemic problems.

Development banks focus primarily on long-term financing of projects necessary for the country's development. National development banks can also be defined as National development financial institutions established to achieve the economic and social development goals, regional integration, providing mainly long-term financing or facilitating the financing of projects oriented towards positive effects for society. Another feature is that they operate in a non-competitive environment, as their interests do not 'overlap' with those of commercial financial institutions. Thus, development banks in Europe are a good example of public financial institutions with facilitating missions. As can be seen from Fig. 2, the rank of development bank tasks is extremely complex, diverse and even contradictory at first glance. On the one hand, they need to eliminate 'market failures, ensuring market conditions for their clients

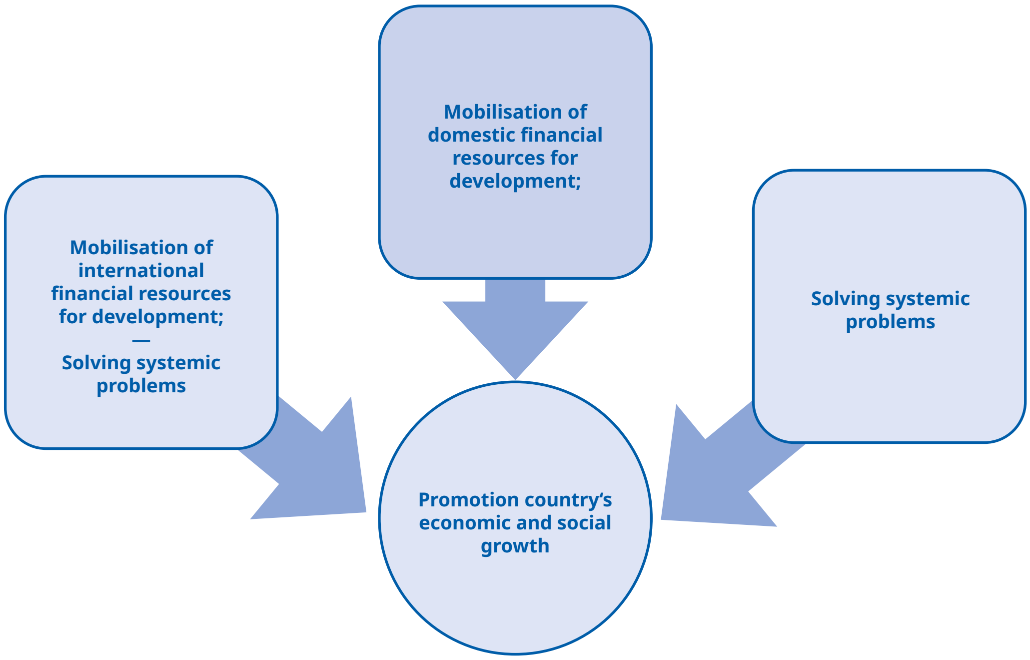


Fig. 1: Role and task of NDIs
Source: Complyed by author

without creating competition. On the other hand, they need to withstand EU competition rules and state aid rules while respecting commercial principles of operation to 'manage' conflicts of interest. Nevertheless, development banks in the role of INRs can and must address the challenges of 'market failure'. They can also contribute to financial sector development by offering long-term credit facilities and other financial products by helping to build financial sectors in the economy.

They can expand the scope of the business climate and attract private sources of capital into the national economy. They function as a catalyst for promoting and supporting small and medium-sized enterprises.

The financial infrastructure of European countries usually consists of national development institutions engaged in lending by pooling government medium-term, long-term and private financial resources. Infrastructure projects supported by INRs have a very wide range: transport networks (railways, highways, airports) and infrastructure-transport projects; energy networks (power grids, gas and oil pipelines), energy generation networks (power plants, renewable energy, etc.), as well as rental, social housing and educational infrastructure. Several options are available for choosing long-term financing:

- Subsidized lending (up to certain amounts) proposals; long-term loans proposals to domestic as well as foreign investors.
- Forming a resource pool. Banks issuing bonds offer two important advantages: risk reduction and economies of scale.
- Developing special instruments: co-financing, credit lines, equity issuance, meso-level finance (subordinated loans or participation certificates) or syndication with other financial institutions.
- Functioning as a market participant. Such participation may be desirable for designing institutional arrangements in which development banks play a significant role in creating new markets, including various mechanisms for long-term lending.

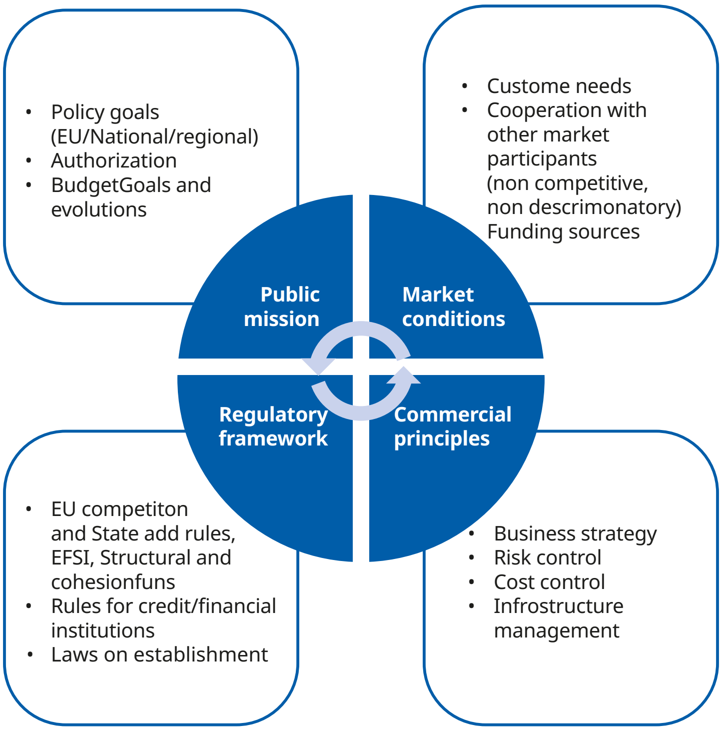


Fig. 2: Scope of development banks functioning and the range of their tasks: Between the State and the market

Source: compiled by author on the data of Investitionsbank Berlin, Deutsche Bank Research.

There are vertical and horizontal dimensions to the European INR system. The vertical dimension means that development banks operate at both European, national and sub-national levels. The horizontal dimension is the heterogeneity of the organization of the banks and the implementation of facilitating tasks. Some institutions are supervised by the European Central Bank (fully or partially); others remain under the supervision of National central banks and public authorities. At the international level, there is general agreement that INRs should be governed by regulatory and supervisory standards, like commercial financial institutions. For example, 72 percent of NDBs are regulating by the same financial Institutions regulation and the save rules regulation normative as a commercial bank's supervising (Jose de Luna Martinez, 2017, p.38).

Before the beginning our analysis, we divided the NDBs studied by size and number and categorized banks by assets into five groups: small (less than €1 billion); medium (€1–99 billion); large (€10–99 billion); mega (more than €100 billion); and super-mega (more than €1 trillion). This is to better show how banks are concentrated by assets and number, and to use the groupings for further detailed analysis. The grouping method is summarized in Figure 3 as follows.

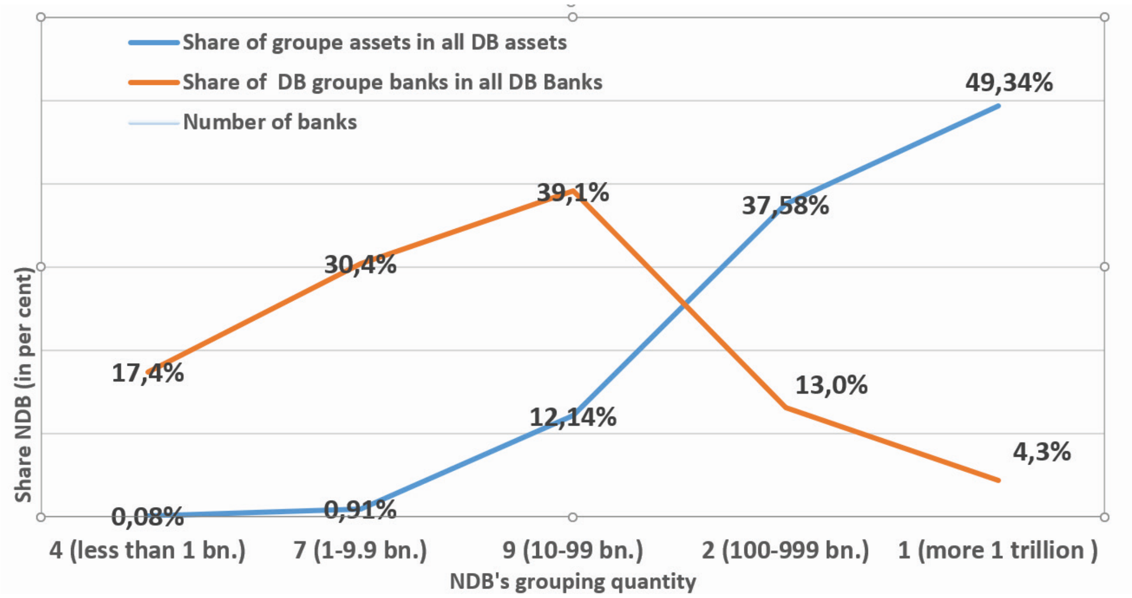


Fig. 3: NDBs concentration by assets and quantity
Source: Authors calculations on the base of annual reports 2023

As can be seen from fig.3, three banks out of 23, whose share is 14.3% belong for almost 87% of total NDBs assets, while the remaining 20 banks only 13% of total assets. At the same time, only one bank – CDC (France) accounts for almost 50% of total NDB assets. This shows the extremely uneven distribution of bank assets and capital among the NDB countries and dominating share of Western European development banks and a smaller one of Central and Eastern European banks and other countries. This is explained by the fact that the economies of these countries are smaller than those of developed Western Europe and their development banks were established in the period after the collapse of the Soviet Union and the disintegration of the CMEA countries

However, as Györgyi Nyikos argues, that in recent years increasing governmental pressure on European development banks has been linked to demands for efficiency in their functioning and justification of confidence in the use of government support funds (Nyikos., G, 2017). Increasing demands for a high level of transparency, accountability and professional management in the use of public funds are becoming a real necessity regardless of whether the development banks operate at the European, national or regional level. The above-mentioned requirement requires compliance with clear, transparent objectives and key performance indicators – KPIs based on broad public

consensus, while seeking the best offer for the taxpayer and achieving the objective economic policy. A transparent strategy and objectives allow for the evaluation of institutions and their performance under established market conditions across the economic cycle. In order to identify the most successful development bank model, it is necessary to analyzes key aspects of the different models. Carrying out such a comparative analysis revealed some successful combinations in the heterogeneous structure of development banks (see Table 1).

Tab. 1 Key aspects of the most successful development banks in Europe

Mission, vision, goals and KPI	Greater differentiation and breadth of tasks of development banks – from assisting small and medium-sized enterprises to supporting the government's economic policies in the private and public sectors
Organisation and administration	Government/stakeholder funds and channels influence strategic decisions. Operational management in banks has differences, especially in maturity between Western European and Eastern European banks
Market environment, customers, segments, distribution	Different customers and market segments (private segment, public sector), complexity of banking product mix, product/service distribution model are areas of significant differences among banks that are managed based on their strategies and objectives
Finances and risk management	The sources of funding, revenue structure differ significantly, although the regulatory rules and standards are similar to commercial banks in terms of risk management, banking product/service lifecycle management, etc.
Business and operational model	Banks are under pressure from both the market and shareholders to increase operational efficiency and customer service from a purely market-based approach to government subsidies.

Source: Györgyi Nyikos, 2017

3.2 Main key development indications

The main evaluation indicators of NDBs that allow judging their potential are the indicators of their share of assets in the country's GDP, as well as the share of assets in the aggregate balance sheet of the country's banking system, the share of loans and borrowings in assets, as well as efficiency indicators ROA & ROE.

The analysis of NDB by assets to GDP and banking system resources of their countries in 2023 is shown by the following picture, which is illustrated in Figure 4.

As the Figure 4 shows, most development banks keeping the share of total assets in the GDP of their countries are within 5–6%. Among the "heavyweights" are development banks of Western European countries: France, Italy and Germany. This is quite understandable due to the developed economic potential of these countries, the long history and traditions of banking in these countries, as well as the long experience of functioning of these banks compared to the banks of Central and Eastern Europe, which have emerged recently.

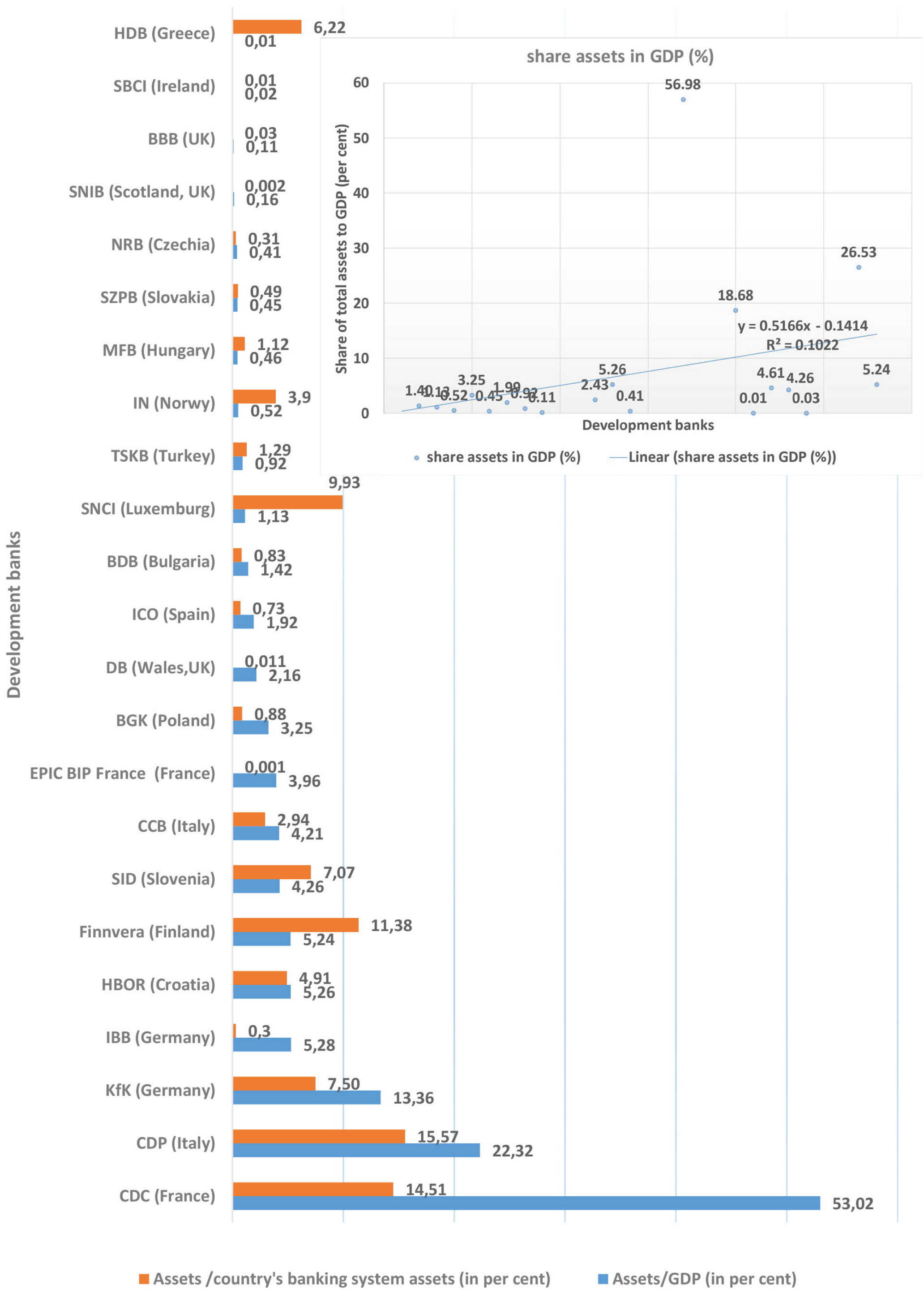


Fig. 4: Total assets of NDBs as percentage to GDP and to total assets of banking system (2023)
Source: comply with the author's calculations on the basis of 2023 annual reports of banks

The next object of analysis was the indicator of development banks' assets in the sum of total banking balances of their countries, where the picture looked somewhat different (see Fig. 4). Here the following banks changed their positions: SNCI (Luxembourg), Finnvera (Finland), SID (Slovenia), TSKB (Turkey), SZRB (Slovakia). The main reason for the discrepancy between Figures 3 and 4 is that in the banking systems of many countries the size of total assets is smaller than the size of GDP. Therefore, development banks that had rather low asset to GDP ratios looked better in Figure 4.

Therefore, development banks in those countries that had a lower ratio of GDP to total banking assets moved to higher positions in this ranking. For example, IN Bank (Norway) had the lowest ratio of 0.13, Bank Finnvera (Finland) – 0.46, SID (Slovenia), TSKB (Turkey) – 0.71, CZRB (Slovakia) – 0.92.in comparison those who had totally big gaps.

The following object of analysis was the main development bank's products in their total assets. Most NDBs issue loans to customs and banks and direct invest. The share of these products is dominated in business models, but not without exception which are illustrated in Fig.5.

Figure 5 shows that 14 banks conduct more than 50% of their active operations in the form of loans and investments. This implies a successful asset structure in fulfilling their direct missions, goals and objectives. But this does not mean that the rest of the banks are weakly involved in their missions, goals and objectives. In their active resource allocation policies, they emphasize resource distribution channels through other banks to wholesale their products. As a rule, the most successful development banks in Western Europe use an indirect lending channel: Germany, France, Italy.

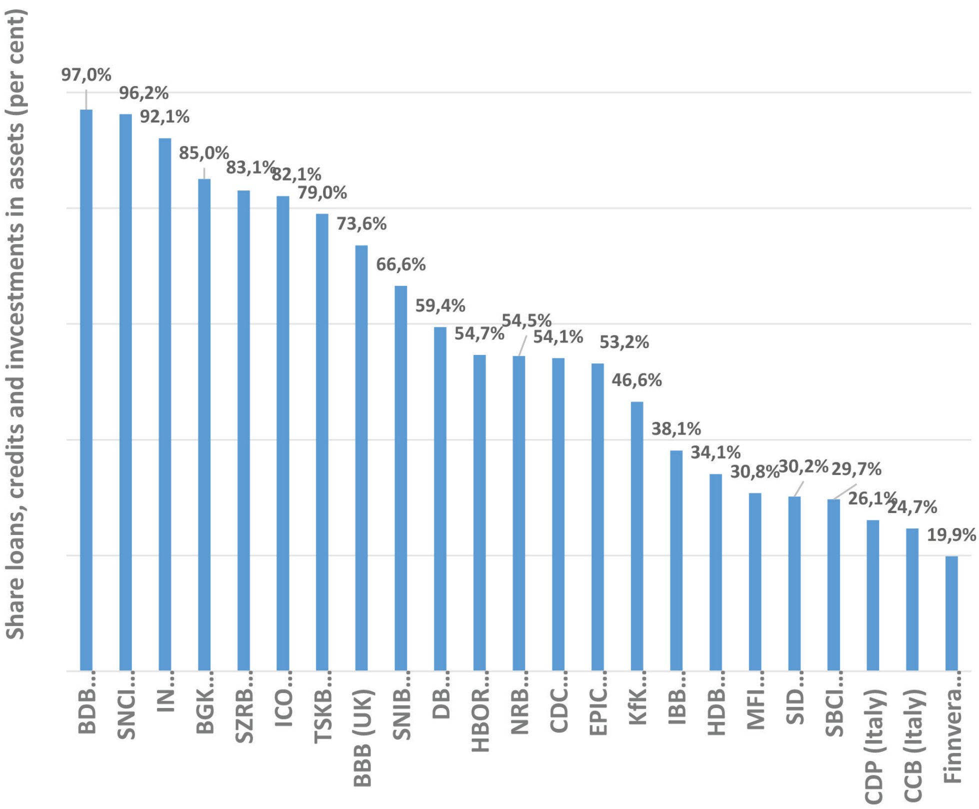


Fig. 5: The share of the loans to customers and banks and direct investments in total assets (in per cent)

Source: comply with the author's calculations based on 2023 annual reports of banks

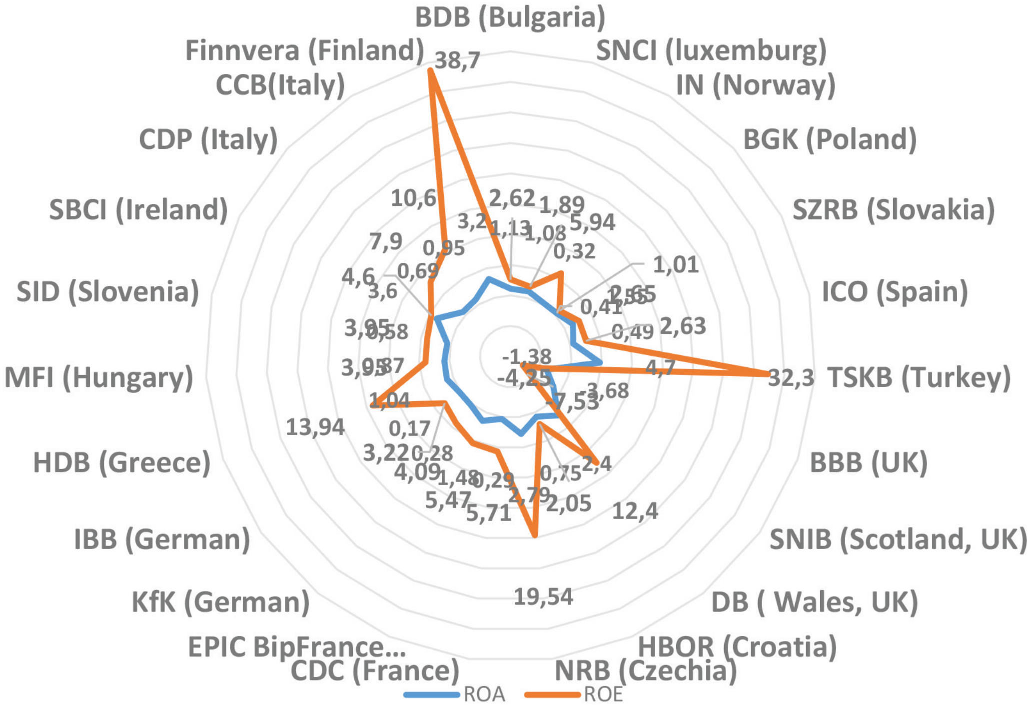


Fig. 6: ROA &ROE indicators of NDBs
Source: Compiled by the author on the Data Fitch rating, 2023 www.fitchratings.com

The final analytical object was ROA & ROE indicators in NDBs activity. As known the events of the last few years have had a negative impact on their behavior. Consequences of COVID-19, and war in Ukraine and other. military conflicts directly or indirectly affected the loss of part of NDBs assets, and with them on the loss of their profits. Thus, BBB Bank (UK) ended FY 2022–2023 with losses and negative ROA & ROE. The same can be said about, the Scottish Development Bank SNIB, which ended the financial year with a negative financial result. Figure 5 illustrates the following picture with these indicators.

The analysis made it possible to discover findings in further research of NDBs.

4 FINDINGS & RESULTS

4.1 Changes in NDBs missions, objectives and cores

Over the last 8–10 years, there have been major changes in the missions, goals and tasks of NDBs by the issues of European cohesion and economic and social development. Both internal factors and external ones are the development vectors of such changes. First, we should emphasize the outstripping needs of the European countries in comparison with available sources of their formation, the impact of scientific and technical progress on the European countries' development, the emergence of breakthrough technologies, wars and conflicts that complicate the pace of European economic development. Under the influence of these factors, the missions, goals and objectives of development banks changed (see Table 2).

Tab. 2 Comparison NDBs missions in 2015 and 2023

NDBs	Missions in 2015	Missions in 2023
Bulgarian development bank (BDB), Bulgaria	BDB's mission is to ensure the implementation and promotion of public economic policies. The Bank has received a public mandate from the national government to finance projects of regional and national importance, encourage the growth of export-oriented companies, help SMEs compete internationally and promote sustainable development	BDB's mission is to provide financing and professional consulting to support the industrial growth of the Bulgarian economy. BDB implements special mandates of the Bulgarian government: anti-crisis measures to overcome the negative consequences of COVID-19; the National Energy Efficiency Program, etc. Implement investments in key sectors of the economy: energy efficiency, infrastructure, agriculture, urban development, exports.
Cassa Depositi e Prestiti (CDP), Italy	CDP Bank's main objective is to promote and support economic growth in Italy	We foster sustainable development in Italy, using savings responsibly to support growth and boost employment, supporting innovation, business competitiveness, infrastructure and local development. Main cores: Climate change and ecosystem protection; Digitization and innovation; Rethinking value chains.
Czech-Moravian Guarantee and Development Bank (CMZRB), Czechia. In 2017 the bank was transformed in **Development Bank (NDB), Czechia (Brno)**	The main mission is to facilitate SMEs' access to funding through specialized banking products and to assist in the development of other economic areas that require public support in accordance with the economic policy objectives of the Czech Republic government and their regions.	NRB's mission, as defined in its mid-term strategy, is based on three pillars. The first is to continue to finance the investment and operational needs of Czech enterprises. The second one is the NRB supports specific segments of the Czech economy in cooperation with ministries, regions or cities/municipalities. The third one focuses on project financing of public infrastructure, particularly transport, social, energy, environmental and digital infrastructure.
Investitionsbank Berlin (IBB) German	Support for Berlin's business companies, including the housing sector, through business development-oriented tools and assistance to companies, taking into account their use of local resources.	Our mission is to make Berlin an even better place to live and work. We help people get started and finance companies so that they can create jobs and housing. Our financial reports give you an insight into our activities. Main areas of focus: Housing and urban development; Public sector (public sector services); Specialized financing; Labor market support (new jobs, etc.)
Banca del Mezzogiorno – MedioCredito Centrale S.p.A., Italy	The Bank has two missions. The first mission is to manage government programs to support and develop businesses in Italy. The Bank acts on behalf of the central and regional governments. The second one is to support investment and economic growth in the Mezzogiorno by providing long-term loans to industrial and agricultural companies and other credit instruments to small and medium-sized enterprises.	Mission is to make a real contribution to the economic, social and cultural development of local communities. Our aim is to promote the wellbeing of our members and of the regions we operate in. Contributing to the common good and creating wellbeing to pass down to future generations, following a sustainable path. With our products and services to meet all the needs of a lifetime.
Strategic Banking Corporation of Ireland, (SBCI), Ireland	The mission is to provide effective financial support to Irish SMEs, as well as timely support to other sectors experiencing difficulties in accessing the credit market, in an environment of increased competition, innovation and efficient use of available EU funds.	Our mission is to support growth, prosperity, and the transition to sustainability by driving competition, enabling innovation, and improving access to finance in the Irish credit market. Our vision: support economic development in Ireland by driving increased access to finance.
SID banka, d.d., Ljubljana, Slovenia	Promotion of Slovenian companies and aid of the country's economic growth by providing financing in intermediate market segments. facilitating access of various companies to financing (especially project and infrastructure financing) by implementing national and European policies on green and renewable economy, etc.	The mission of SID Bank is to develop, provide and promote long-term financial services designed to supplement financial markets for the higher competitiveness of economy, creating new jobs and sustainable development of Slovenia.
Slovak Guarantee and Development Bank, Slovakia	Supporting SMEs in Slovakia	The SZRB's mission is to provide funding to support SMEs, agriculture, towns, municipalities and housing in the Slovak Republic.
Bank Gospodarstwa Krajowego (BGK), Poland	Supporting social and economic growth in Poland and public finance sector in process of implementation of their tasks.	The mission of Bank Gospodarstwa Krajowego is to support the sustainable social and economic development of Poland. Positive changes in the economy influence the development of society, and vice versa: an active and integrated society around common goals and values contributes more effectively to economic development.

Source: : Compiled by author on the basis of the Annual reports NDBs 2015, 2017, 2023

From the 2023 Annual Reports, we may find out that NDBs can be "sector banks" focused on specific sectors of the economy, such as SME development banks, merchant banks or universal development banks, and export-import banks. The latter perform traditional trade finance operations. They facilitate trade with foreign countries by providing financing and/or insurance for exports and imports. Most development banks focus on providing services to both the public and private sectors, irrespective of the size of firms and companies, the directions of which are illustrated by the following Figure 2. In some cases, development banks such as the Polish bank BGK (Bank Gospodarstwa Krajowego), the French bank CDC (Central Depositary Company); the Italian bank CDP (Cassa Depositi e Prestiti), the Spanish bank ICO Istituto de Crédito Official) provide a wider range of banking products in relation to export-import transactions.

4.2 What are NDBs now focused on?

Over the 2015 to 2023, shifts in the target concentrations of banks have been occurred which characterized by the following Figure 7.

As we can see there was a shift in the NDBs focuses. If in the last decade the leading focuses of activity were supporting the sustainability of the national economy and its economic growth, promotion SMEs (Periscope, 2015), then they have been replaced by knowledge-intensive areas such as: green economy, digitalization, innovation, support for energy transition, environmental development and zero emissions. Traditionally stable and unchanged companions of NDBs remained: support for SMEs, start-ups, as well as regional. The regional, local, and urban government positions in these ratings are a little down.

Grouping investment focuses by the Western and Northern banks and Central, Eastern and Southern Banks shown the interesting picture (see Fig. 8).

As we see, .in dominating focuses the Central and Eastern banks led more than Western and Northern bank's grope. But in regional local and urban development focuses the situation were totally different.

The inconsistencies and bureaucratic complexities of previous years have been forced by developing banks to manage resources based on short-term criteria have forced. The shift to these criteria was because development banks often showed rather poor reporting on their borrowers. According to a World Bank study provided in 2012 (Jose de Luna-Martinez ***et al***, 2012) both the inability to manage risks based on knowledge and the lack of methods and

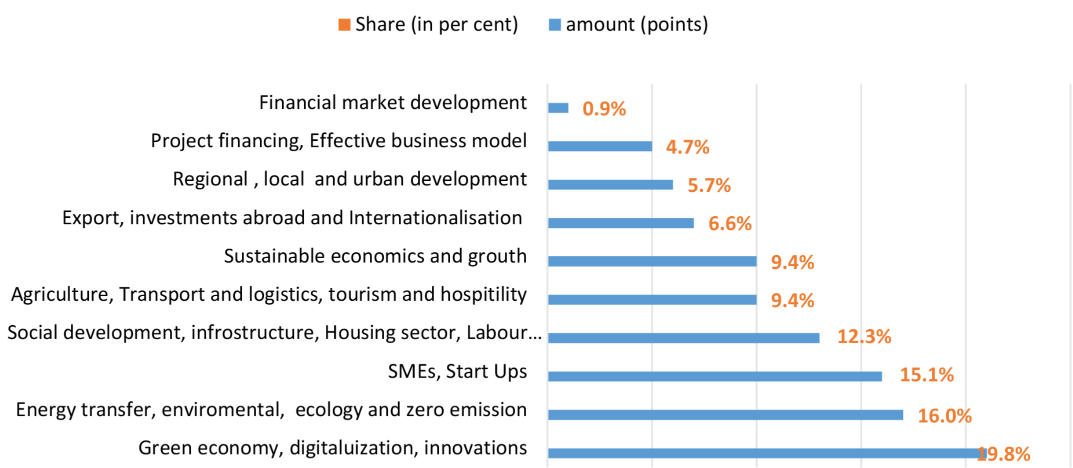


Fig. 7: Investment focuses of European NDBs
Source: Compiled by author on the base of the Annual reports NDBs 2023

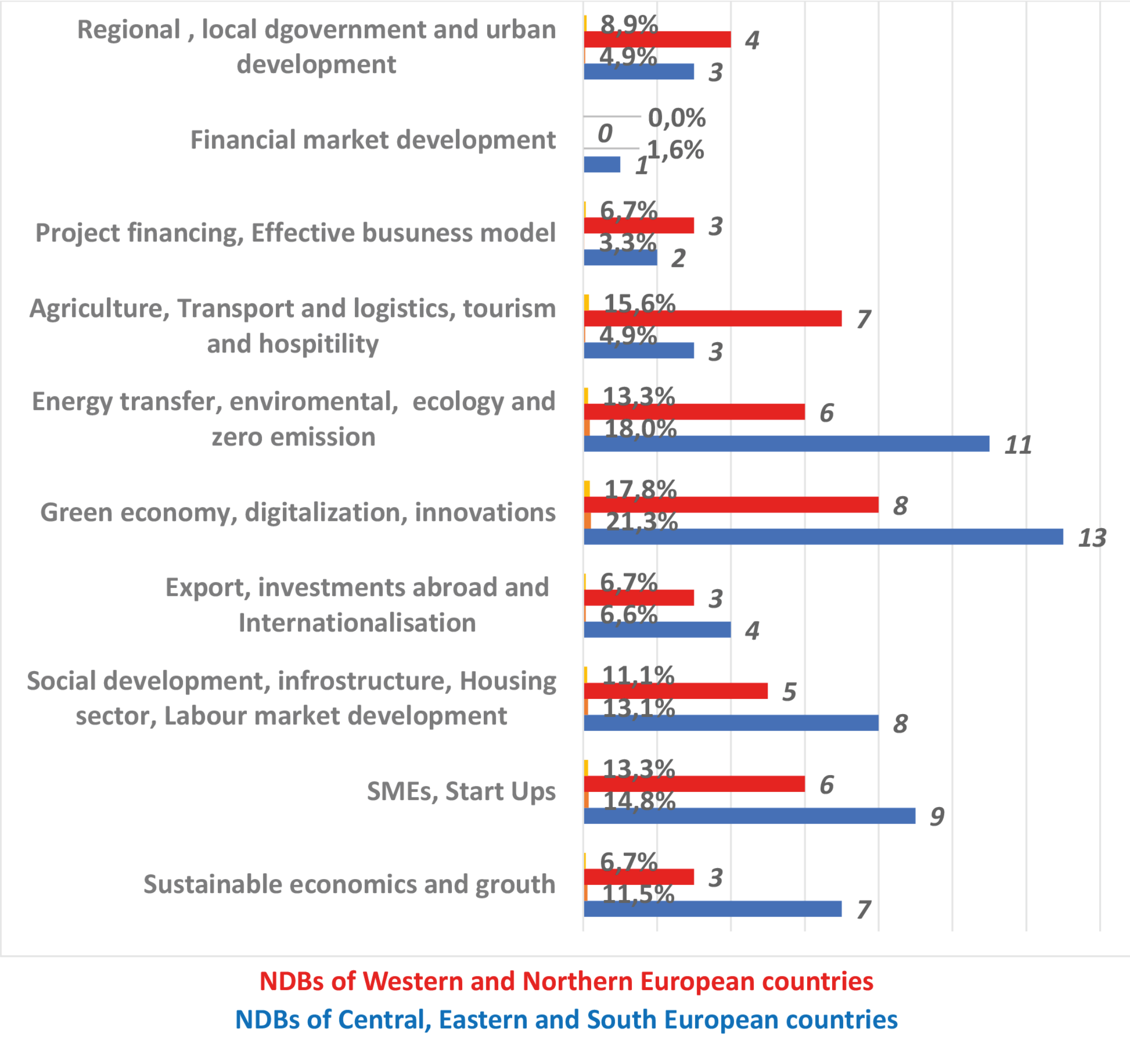


Fig. 8: Investment focuses spread by the NDBs 2023
Source: Compiled by author on the base of the Annual reports NDBs 2023

tools for sustainable development often remain among the main challenges faced by INDs They are: improving risk management capability; maintaining financial sustainable; corporate governance improvement; more flexibles in the recruitment and savement of qualified personal; reducing inappropriate interference.

4.3 Governmental participation extent in the European development banks

Dealing with management issues in development banks with government involvement is a challenge. NDBs are governmental institutions and government influence should be unquestioned. In practice, however, the degree of government involvement in decision-making divides development banks into independent institutions and government sector organizations. A high degree of government involvement in decision-making is noticeable where the government, ministries and banking authorities determine strategy as well as the creation of new products or managing through the Supervisory Board (indirect influence). Examples of such banks are BGK (State Economy Bank, Poland), MFB (Magyar Development Bank, Hungary), SZRB (Slovak Guarantee and Development Bank, Slovakia), NDB (National Development bank, Czech Republic). The degree of government involvement in decision-making also occurs if the bank prepares a business plan and defines its strategy. In this case, the government only approves it, while the Board of Directors defines the strategy and focuses on the key issues of the business plan. This is subsequently discussed with the government. An example it may be Finnish development bank Finnvera.

The governmental involvement influence tends to increase with the breadth of the mandate given. minimal government involvement in decision-making is typical when the focus is on SMEs. In the case of large deals, action is often supported from a political perspective, which leads to a higher degree of total dependence from government, including profitable orientation as opposed to subsidization.

The degree of involvement of government and for-profit and non-profit oriented organizations is determined by shareholders and usually depends on the institution profile. However, the role of government tends to be greater in Eastern European financial institutions. At the same time, younger institutions from Western Europe have a noticeably low degree of government involvement. Examples are the German bank IBB, the French bank Bpifrance, and the Finnish bank Finnvera. These institutions are profit-oriented and focus on finding the best deal for the taxpayer.

To develop an effective organizational structure, Institutes of National Development (INDs) are controlled by appropriate standards that are divorced from political patronage, lobbying and corruption. Governance and organizational efforts include the establishment and adequate selection of the Board of Directors, as well as a significant degree in decision-making autonomy. Functional committees consisting of board members and senior management should be formed to strengthen control in the IND management.

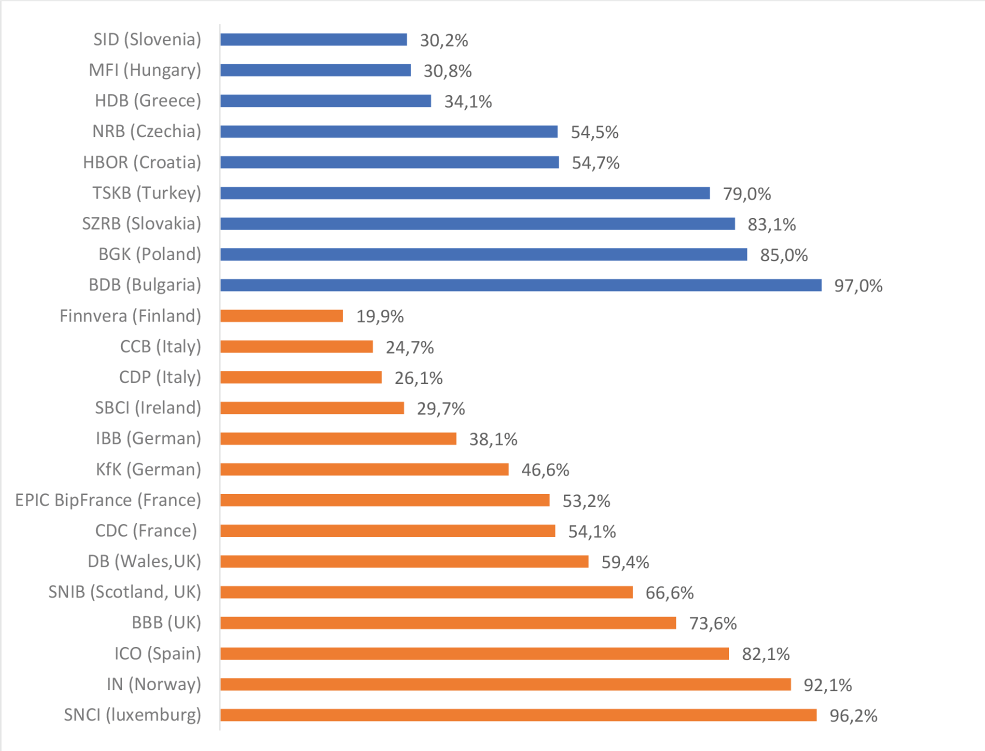
4.4 NDBs' lending policy and their specifics

Most banks manage a diverse portfolio of assets and, in addition to loans and guarantees, also engage in other activities such as venture capital investments or advisory activities.

Development banks can lend directly to customers (Tier 1 model/retail product sales) or through lending channels to other (private) banks (Tier 2 model/wholesale product sales). There is a difference in whether the bank provides loans and guarantees through its own distribution network, as is the case with NRD bank, (former CMZRB bank), or offers a wide range of value-added services without its own distribution network (BBB). The two-tier model, meanwhile, is based on cooperation with other banks, which tend to apply for loans to end consumers. Many development banks operate on a mixed basis, as is the case with the Magyar Development Bank (MFB). The analytical results shown that Western and Northern bank group more prefer the second channel, and Central and Eastern – the first one. It evidenced by the average indicator of loans and credits to customers by groups (see Fig. 9)

The evolution of development banks in European countries is characterized by cooperation with other institutions to achieve the efficiency of the tasks performed. Cooperation activities create a mutually beneficial situation to improve the distribution network of partners, knowledge of clients, and access to resources and financing. By creating conditions of access (but not guarantees) to development banks, financial inclusion is an opportunity for those firms and companies that are unable to obtain financing on commercial terms from banks or other private financial institutions.

Most financial institutions obtain financing from the capital markets by issuing bonds and debt securities. Unlike regular savings, bonds issued by national development institutions are not always guaranteed by the government, but their issuance is subject to the same financial ratings as other financial institutions in the country, giving them access to financial markets.



Group: NDBs of Central, Eastern and Southern countries
Group: NDBs of Western and Northern countries

Fig. 9: Share of loans and credits to customers in bank assets by bank groups
Source: Compiled by author on the base of the Annual reports NDBs 2023

4.5 Ratings as a key indicator of NDBs

The most important evaluation indicator of European development banks is their ratings, which are strongly emphasized by consumers, governments and supervisors. Fitch rating provided in 2023 has shown the following picture (Fig. 10).

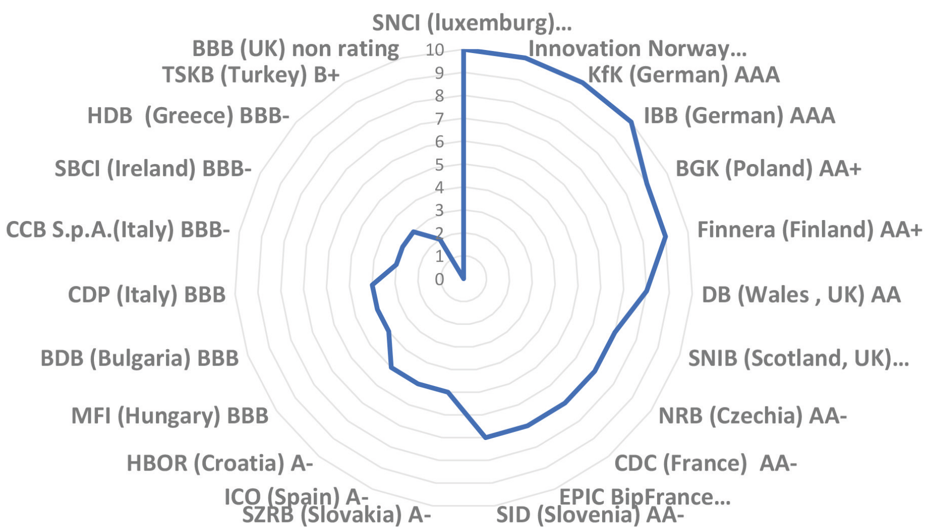


Fig. 10: Fitch rating indicators of the European NDBs
Source: Author’s compilation based on reports of Fitch ratings (2023)

As Figure 10 shows, German development banks, SBCI (Luxemburg), IN (Norway) have the highest AAA rating from Fitch. Banks in Central, Eastern and Southern Europe have lower ratings. In comparison with Fitch rations observe 2015 (Nyikos, 2017) Some banks improved their positions in Fitch ratings, for example BGK (Poland) from A– to AA+, ICO (Spain) from BBB+ to AA+, MFB (Hungary) from BBB– to BBB. Nevertheless, some western banks have had their ratings downgraded by CDP (Italy), from BBB+ to BBB– and CDS (France) from AA to AA–. However, this does not prevent them from borrowing to fulfil their missions. It should be noted that Central and Eastern European countries mainly attract EU resources or funds from the European Investment Bank/European Investment Fund (EIB/EIF) and often use Western development banks as seed funding. For example, the German bank KfW provides itself with resources, effectively utilizing its AAA rating and at the same time serving as a refinancing bank for many other financial institutions. Some banks receive very attractive capital market terms through government guarantees.

Concerning ROA&ROE analyses we have found that Central, Eastern and Southern banks get more gaps between ROA and ROA than Western and Northern group which illustrating in Fig. 11.

It can be assumed that the first bank group have more reserves and abilities for lending projects than the second one, because operating profit may cover more operating expediters for enlarge new projects.

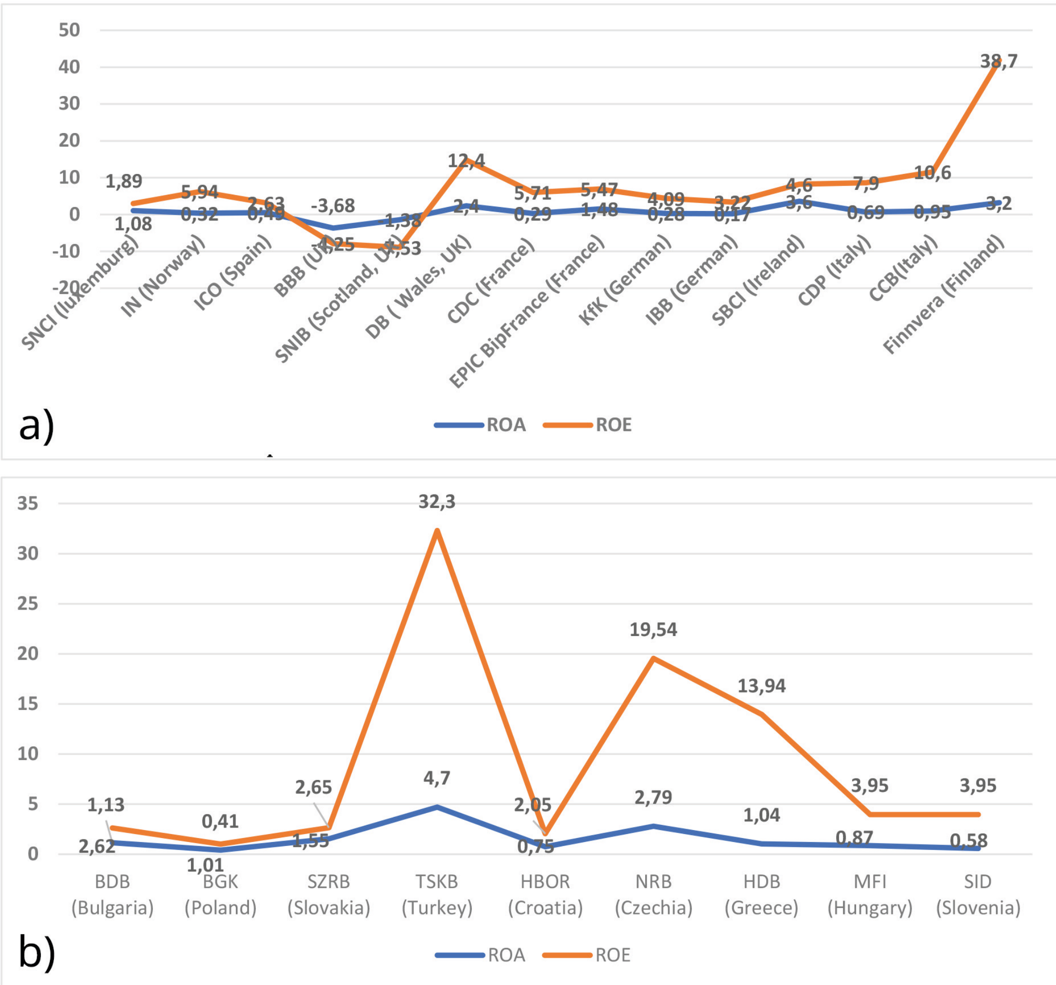


Fig. 11: ROA and ROE indicators by the NDB's groups in 2023; **a)** Western and Northern European countries 2023, **b)** Central, Eastern and Southern European countries in 2023

Source: Author's compilation based on reports of Fitch ratings (2023)

5 DISCUSSIONS

5.1 Focusing on better utilization of governmental support funds and tools

The main questions in the study of European development banks are why development banks should take on the role of drivers in the post-conflict reconstruction of Europe? Whether they can ensure a rapid recovery of the European economy during the transformation of the World Economy? Are there other alternatives? Studies of European economic recovery after the 2008-2009 crisis have shown that the NDBs have successfully managed this task and stabilized the situation in European countries. Another argument in favor of NDBs is their ability to mobilize governmental financial sources on a large scale to support the economy and perform public administration tasks. Of course, such an opportunity cannot be realized by private commercial banks due to high risks of uncertainty in the post-conflict reconstruction period. The ratings achieved by Fitch Ratings may still signal reserves for better utilization of public financial resources.

Other reason in favor of NDBs may best management and lifecycle's specifics. However, given the specifics of product lifecycle management, they should follow the same rules as commercial banks to prevent unnecessary risks and ultimately absolve themselves of the moral responsibility associated with the misuse of government support funds. The requirements for development banks should not differ from commercial banks in terms of their professional approach to risk management and banking operations in general. Development banks can effectively use other sources of financing. Finally, NDBs use public money and more transparent about the way they use it to achieve their objectives.

5.2 Main focuses in post conflict reconstruction?

The challenges of choosing directions and priorities for NDB activities in post-conflict rehabilitation are a debatable issue among practitioners as well. Scattering funds in the existing direction will not lead to the banks‘ success in stabilizing the economy. It is also clear that the orientation of NDBs towards the former objectives of the European Investment Plan, as laid down in Juncker‘s plans of ten years ago (MFB Periscope, 2015, p.6), is also no longer in line with the current situation and is being sidelined.

In the context of the poly-crisis, it is also obvious that something has to be abandoned in favor of those links in the chain that can pull the economy through the post-conflict recovery period. Judging by the current investment focus of banks, on the one hand, priority should be given to the energy transition, the green economy, digitalization, and innovation in costly sectors of the economy. On the other hand, regional and local governance (health, education, local development) should not be neglected to prevent the livelihoods of the population from 'drowning'. It can be argued that discussions on the selection and optimization of banks‘ investment concentrations will be continued.

5.3 Centralization or decentralization?

The current political crisis has seriously affected the cohesion of United Europe, where some countries have found themselves close to intergovernmental co-operation, while others, guided by their national interests, have focused on an isolationist logic and caution. Such different strategies inevitably shape the views of governments and their financial institutions on the centralisation-decentralisation dichotomy. At the same time, some are shifting towards centralization, while others are "overwhelmed" by the decentralization concept. Does this mean that national development banks, with a central government mandate, will push development along a centralized path?

The question is not simple and at the same time not unambiguous. National development banks and their national strategies have never deviated from democratic values, the rule of law and the principles of market economy throughout their operation. And this is an environment that persists now, in the face of recurrent and overlapping crises since the new century. However, being in this environment, it seems inappropriate to follow by rigid concepts of centralization or decentralization for future development. Each country, each government needs to take into account the specific conditions in which they find themselves and clearly understand one flexible rule: where centralization can bring together more benefits than losses, a decision must be made to centralize, and conversely, where decentralization will bring more benefits and effects than centralization, a decision must be made to deconcentrate and devolution.

6 CONCLUSIONS / POLICY RECOMMENDATIONS.

1. Increase the bank capital and liabilities of the National Development Banks (NDBs) in time of post-conflict reconstruction of European countries by the mechanism of State bond issuing. The main bond purchases should MoF and the Central bank, as well as other Public financial institutions. NDB capital and liabilities should be increased, especially for Central, Eastern and Southern European banks, which look weaker than Western and Northern NDBs.
2. Revise outdated and irrelevant missions, goals and visions of NDBs, taking into account support of green economy and green budgets, energy transition, innovation, digitalization, artificial intelligence, and regional and local development and governance as well. Traditional areas of focus: export, import, sustainable growth, project finance, strengthening of financial markets should yield to breakthrough areas of socio-economic development and, if possible, transfer them for lending in commercial banks and other financial institutions under special programs. The commercial banks may be supported by introducing a tax discount, providing an incentive effect on the reduction of taxable income.
3. It is necessary to create a mechanism of preferences for NDBs by reducing reserve funds normative in Central banks and other financial institutions, exemption or mitigation of NDB’s taxation and simplification of norms for regulation of their activities.
4. Also need to create a professional staff of highly qualified development bank personnel who are able to deal with social lending projects and hidden risks. Such specialists should be able to calculate the social effect, added value, and VfM, and possess costing methods when designing single banking products.
5. In NDBs, each product or program should be created by objectives similar to those on which the bank focuses. In addition, a normative criterion should be set for the amount of costs required per one project development. The lower the effect-to-cost ratio, the better.

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Abbreviations:

(NDBs) National Development Banks
(BDB): Bulgarian Development Bank, Bulgaria
(HBOR): Croatian Bank for Reconstruction and Development, Croatia
(NRB): Czech Republic: National Development Bank of the Czech Republic
(CDC): Caisse des Dépôts et Consignations, France
(EPIC): Bpifrance, France
(KfW) Kreditanstalt für wiederaufbau, Germany
(HDB) Hellenic Development Bank Greece:
(MFB): Hungarian Development (Bank, Hungary
(SBCI): Strategic Banking Corporation of Ireland: Ireland
(CDP): Cassa Depositi e Prestiti, Italy
(SNCI): Société Nationale de Crédit et d'Investissement), Luxembourg
(IN): Innovation Norway, Norway
(BGK) National Development Bank, Poland
(SZRB): Slovenská záručná a rozvojová banka, Slovakia
(ICO): Instituto de Crédito Oficial, Spain
(TSKB): Development Bank of Turkey (Kalkınma) and Industrial Development Bank of Turkey, Turkey
(BBB): British Business Bank, UK
(SNIB) Scottish National Investment Bank, Scotland, UK
(DBW): Development Bank of Wales, Wales, UK

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