The topic of the book gravitates around the concept of national development banks in Europe, also known as promotional banks (although the two terms can be used interchangeably, European legislation typically refers to “promotional” entities).

National promotional banks (NPBs) came back in the spotlight after the onset of the 2008 financial crisis, when they proved the ability to restore the functioning of the credit market and channel liquidity towards real economy. At present they are gaining momentum, especially at European level, being increasingly perceived as key financial institutions within the broader EU policy framework meant to enhance investment, growth and employment. Thus, once the financial turmoil had been overcome, NPBs returned to their basic mission, namely to provide support for structural change in national economies through a smarter use of national and European public financial resources.

National promotional banks are a natural complement of mainstream banking, due to their broad expertise and knowledge of the local business and investor communities as well as of national development strategies and to the capacity to mobilize both national and European funding and catalyze long-term finance.

Consequently, a topical issue on the European Commission’s agenda is represented by national promotional banks and practical manners they could actively get involved in supporting structural change in economies. In a European Commission communication launched in July 2015 it is strongly outlined their role in providing financing to different key sectors where market failures have been identified and which are underserved by commercial banks. In this respect, it is envisaged the role that NPBs have to play in providing financing through the new financial instruments designed by EC (such as ESIF, COSME and InnovFin, NCFF and PF4EE under the LIFE programme, Creative Europe), in order to support the Investment Plan for Europe launched by European Commission in November 2014. It is also
proposed a flexible definition of NPBs, meant to expand the coverage area of the more traditional one, which included only the national development banks. This relaxation of the conceptual framework opens the debate related to the typology of financial intermediaries that should fall under the scope of the flexible definition. The European Association of Public Banks acknowledges the high degree of diversity and complexity which characterizes the business models of promotional banks and other financial institutions and argues that these coexisting highly specialized financial institutions are able to best serve the different financing needs in a national economy.

National promotional banks across Europe are a trending and timely topic to be further investigated, the more so as in February 2016 the Committee on Budgets within EC launched a call for proposals for a briefing on new financial instruments and the role to be played by national promotional banks for the benefit of Small and Medium Sized Enterprises.

The book aims to provide a comprehensive overview of European NPBs business model specificity, as well as a manifold perspective on its financial performance, by employing both qualitative and empirical (mathematic and statistical) approaches. The theme developed in this publication aims at filling a major gap in the research literature devoted to promotional banks and is expected to exert an impact especially among decision makers, financial institutions, professionals and academics interested in this topic. To the best of my knowledge this research approach distinguishes from existing working papers due to several novel, unique features, namely:

1. Comprehensiveness of the sample of banks, by relying on all the national promotional banks operating at present in Europe;
2. A time span that relies on the most recent available data (years 2011 - 2014);
3. The use of real data taken from NPBs annual financial statements;
4. An interdisciplinary nature, bringing together the financial markets with social sciences (economy), mathematical and statistical methods;
5. A gradual presentation and succession of arguments, from conceptual ones, to case studies and empirical analyses, all focusing on the 18 NPS considered.

The first chapter explains the context that triggered the revival of national promotional banks’ concept and emphasizes the market failures that can be successfully addressed. It has been described the traditional acceptation on national development/promotional banks launched by international organizations, financial institutions and academia, as well as the newer, flexible
definition proposed by European Commission. Further, it has been outlined their business model specificity in terms of promotional mandate, ownership structure, the features of their funding mechanisms, the allocation of financial resources on destinations and the specific sources of risk. It has been performed a case study approach, by analyzing the 18 European national promotional banks included in the sample against each business model feature.

The second chapter discusses the contribution exerted by national promotional banks to economic and social welfare. The chapter follows a three-tier structure in order to discriminate between the views expressed by policymakers and market participants (financial institutions, consultancy firms and practitioners in the financial sector), by academia/research centers and by the historical data. Information and analyses in this chapter depict a practical nature and are strongly connected to current realities, as they:

1. Clearly state the European countries comprising a NPB or having recently launched one and explain the reasons a country decides to set up a NPB;
2. Outline the NPBs involvement in implementing EC’s financial instruments by receiving funding under the various EC’s financial programs;
3. Assess the contribution of NPBs activity to increasing a country’s welfare, measured through several financial, economic and social indicators within the resident country.

The third chapter provides an exploratory approach, in order to identify resembling NPBs, in terms of:

1. Several financial indicators related to profitability, capital adequacy and size, and
2. Financial structure indicators.

It has been employed the Cluster Analysis method as it is best suited for assessing the proximity between banks, for identifying the homogenous ones and establishing optimal group membership. The algorithms at the core of Cluster Analysis divided the initial sample of 18 NPBs into distinct, meaningful groups, by relying on several financial indicators in such a manner that the degree of similarity between two NPBs is maximal if they are included in the same cluster or minimal otherwise. This method is a valuable statistical tool for uncovering latent, hidden structures existing in the sample considered and for performing an operational classification of promotional banks into more manageable, meaningful clusters. It helps at investigating whether
NPBs across EU countries have aligned their business practices and balance sheets structure, or on the contrary, there is evidence of heterogeneity across financial positions and financial indicators. The research direction developed in this chapter hasn’t been addressed by any other study devoted to national promotional banks, being the first screening exercise of the European NPBs.

The fourth chapter develops another so far unexplored research direction as it investigates the financial performance recorded by NPBs, by relying on the concepts of efficiency and productivity. To estimate the relative degree of efficiency recorded by each national promotional bank in the sample, it has been employed the Data Envelopment Analysis nonparametric technique. At the core of this method is the solving of several linear programming problems, the final outcome being the computation of efficiency scores for each NPB and the construction of a best practice or efficiency frontier. These findings allow us to discriminate between efficient and inefficient banks and make a ranking, to understand how each NPB performs relative to others in the sample, which are its closest peers and how it can improve its performance to become efficient. DEA analysis has been run distinctly for each year in the time span 2011 – 2014. It has been tested an output-oriented DEA model, with variable returns to scale and single-input single-output specification, in the assumption of a financial intermediation approach, because the role of NPBs is to act as mediators between the demand of money, represented by small and medium sized enterprises, and the offer of money, comprising both national and European sources. Further, to gain a complementary and dynamic picture, it has been computed a DEA-type Malmquist index of total factor productivity to measure the productivity changes over time for each NPB in the sample. This technique also allows the identification of the main sources of changes in total productivity levels, in terms of catch-up effect (technical efficiency change) and technological progress (developments of banking activity driven by new information technology). The Malmquist index is constructed by relying on Data Envelopment Analysis’ distance functions and a panel data that reconciles the 18 European NPBs and all the 4 years considered.

The last chapter of the book has its roots in several recent debates which have raised the question on the opportunity to expand the coverage of the promotional banks’ main definition so as to include other types of non-banking financial institutions that could also exert a significant influence within the process for the implementation of the Investment Plan for Europe. Consequently, the chapter launches several proposals for widening the coverage of NPBs typologies, according to European Commission’s flexible definition. It has been performed a radiography of the diverse, coexisting typology of
financial intermediaries that depict the potential for operating as NPBs, due to their public commitment for making a valuable contribution for pursuing and achieving medium and long-term economic, environmental and social goals. The financial intermediaries envisaged are represented by cooperative banks, ethical/social banks, and sustainable/socially responsible banks, because their business models imply holding specific knowledge on the economic and financial territorial realities, and in addition comply with the criteria defined by the European Commission in its flexible definition of promotional banks. It has been performed an incursion into the definition and peculiarities of each financial institution’s business model by following an in-depth documentation and data collection strategy. Moreover, to reveal the territorial spread across European countries of each type of financial institution identified as operating according to the principles of NPBs, it has been created a geographical map. Further, the chapter has investigated whether these types of financial institutions have applied for obtaining European funding from EU or the European Investment Bank. It has been detailed the EU sources of finance, the type of financing provided and the typologies of customers benefitting from it.

Throughout the book it has been adopted both a practical and empirical strategy for addressing this subject from multiple perspectives, as it is in the spotlight of European and national decision makers, financial institutions, academia and research centers. To date, existing research on this particular topic takes the form of working papers or policy research papers published by financial institutions’ research departments or academia. Their emphasis is on discussing the importance of NPBs both in crisis and non-crisis periods, issues related to their business model, regulatory and supervisory practices, pros and cons of establishing a new NPB. However, they all lack a quantitative assessment of NPBs activity or impact on national economies, being preponderantly related to a theoretical approach.

This publication aims at bringing a fresh, topical and comprehensive analysis of NPBs already established in EU countries, as well as the survey of the most recent incentives in this regard. The practical approach brought by the first two chapters (the review of the mandate they have in each EU country, the status of their application for receiving funding under the newly launched EC’s financial programs, past involvement in channeling EU funding to national SMEs, the impact their activity had on macroeconomic fundamentals in the country of residence) is complemented with an empirical assessment of their business model’s resemblance, their efficiency in performing their financial intermediation function, the productivity change one year from another and the drivers of these changes.
The book is appropriate for the use of multiple audiences, from European and national decision makers, to professional associations and financial institutions (World Bank, United Nations, Deutsche Bank Research department, the European Central Bank, the European Association of Public Banks, the Network of European Financial Institutions for Small and Medium Sized Enterprises, the Long-term Investors Club).

It also might be of importance for academia, research centers within universities and for the use of under-graduate and graduate students. In this respect, there are envisaged the faculties/universities providing lectures on Credit Institutions or Banking/Financial Systems which might devote several hours to the study of NPBs.