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Reinventing Development Banking in Frontier Economies: The Case of Romania

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I. Executive Summary

Since its accession into the European Union in 2007, Romania has consistently fallen short of its development objectives for the 2007-2013 period. Of particular concern is Romania's repeated failure to obtain sufficient and sustainable fiscal and financial resources for domestic development. While discussion and analysis of underlying problems has been prolific, the obscurity, generality, and uncoordinated nature of proposed solutions continue to hinder progress.[1] With these shortcomings in mind, this paper uses case studies, personal interviews, and policy analysis to examine two key aspects of development finance: EU funds absorption, and development banking. Following the examination are specific recommendations on how Romania should address the issues at hand in order to improve development financing over the 2014 – 2020 period.

Regarding EU funds, steps to mimic the successful absorption models of Poland and Czech Republic through regionalization of fund management have failed due to insufficient inter-party dialogue, political deadlock, barriers to skills diffusion, and inadequate resources for monitoring. The evidence suggests that instead of regionalization, a centralized and coordinated approach to EU fund management should be taken via management authority consolidation. Additionally, clear priorities for EU fund use and a set of best practices regarding risk assessment

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[1] See *National Sustainable Development Strategy: Romania 2013-2020-2030*

should be implemented so that banks, applicants, and government ministries are on the same page in terms of project acceptability.

To facilitate transparent, coordinated, and successful EU funds use, management should be consolidated into two development banks. While capitalizing a new bank would be difficult, if not infeasible, the existing capital and financial infrastructure vested in the two public banks, ExIm Bank and CEC Bank, is sufficient to meet current needs. Specifically, ExIm Bank should expand operations and take on the role of managing authority for funds allocated to long-term infrastructure development, export-oriented SMEs, and long-term agricultural investment. CEC Bank should take on the role of managing authority for funds allocated to human capital development, agriculture, and domestic SMEs. The transition should begin with ExIm Bank as a two-year trial and be expanded to CEC Bank, which presently faces greater volatility in terms of stakeholder view of future operations.

II. European Funds: Fortune or Fiasco?

Romania's accession into the EU in 2007 paired with the global financial crisis ushered in a period of rapid change for the Romanian economy. A generation of privatization and subsequent reliance on foreign capital led Romania into period of vulnerable and dependent growth (Gabor, 2012; Ban, 2013). In the period of prosperity prior to 2008, Romania privatized and sold its national development bank Banca Română pentru Dezvoltare (BRD) in 1999, increased the role of foreign investment in development, and altered its tax code to promote FDI. This tactic granted Romania a period of substantial growth, until the global financial crisis resulted in a sudden stop to foreign finance, which, apart from diminishing both domestic consumption and investment, put significant pressure on the Romanian tax base and public budget (Voinea, 2012; Daianu et al., 2011).

While efficiently boosting effective taxation is an important step toward sustainably financing the public budget, it is an example of an area where the current position taken by the Romanian government is on track to meet its defined goals. Instead of dwelling on this issue, this report tackles an aspect of development funding that is far from being on track and represents one of the most severe impediments to Romania's successful short- to mid-term development: European funds absorption. Currently, Romania has the lowest funding absorption rate of any EU member state. More shocking is the comparison between EU funded project approval and EU funding that is actually disbursed.[2] One reason for this disparity has been a lack of coordination between banks managing loans to applicants and the managing authorities approving projects. Until recently, approval could be granted by a government managing authority and then when the project was sent for funding to a bank, it was rejected due to not

[2] See Appendix Figure #1

passing adequate risk assessment criteria.[3] To try and account for this, banks began issuing letters of assurance that demonstrated that a particular program had passed its risk assessment and that if the government then approved a project it would be able to get funding. While this has helped to ensure that applicants visit banks before proceeding to the government, coordination between the two entities is severely lacking (Wegener, 2013). Even the public banks, CEC Bank and ExIm Bank, have experienced confusion and lacking coordination in regards to the project approval process of the public managing authorities.[4]

To try and improve the EU funding process the Romanian government adopted the successful Polish and Czech models for EU fund management, allowing regional development offices to act as managing authorities for EU funded projects and expanding local and state government co-financing of projects up to 80%.[5] Additionally, the Ministry of European Funds was created in 2011 and recently, under Minister Eugen Teodorovici, has achieved a 26% absorption rate in November of 2013, up from 10.6% in 2011.[6] Despite these clear gains, likelihood of Romania advancing beyond 35% absorption under current institutions is low and most successes have come at the state, rather than regional level. One reason is that Romania's astonishing absorption growth rate over the 2012-2013 period was largely due to correcting already approved applications so that banks would grant funding, or negotiating with the European Union to return 2.6 billion euros that the EU initially approved, but halted due to suspicion of fund misuse (Romania Insider, 2013). Thus, while a step in the right direction, this in no way predicates similar absorption increases over the next years. Additionally the decentralized Polish and Czech regional models for EU fund management have not been successfully enacted in Romania for other reasons including prevalence of regional corruption and politically non-homogeneous growth regions (Alexandru, 2012; Wegener, 2013; Matei et al. 2012). While anti-corruption watchdogs have been prominent at the level of the central government, local politics are much more prone to corruption in Romania (Mungiu-Pippidi, 2013; Pop et al., 2013). Additionally, disagreements between economic centers and surrounding communities over the proper use of EU funds has led to political deadlock, numerous unapproved applications for funding, and an inability to prioritize fund use due to political disagreement.[7] Thus, the adoption of the regionalized Polish model has not proven successful in Romania and nearly all successful EU funds acquisition during the post-crisis period has been at the state level via the Ministry of EU funds (Mihailescu, 2012).

What is additionally worrisome is that Romania is lacking clearly defined goals directed at how to use the funds for long-term inclusive development. A recent report found that Romania has yet to solidify a plan for the organized spending of EU funds beyond the end of 2013 (Mihailescu, 2013). Such a lack in foresight and coordination is likely due to the politicization of EU funds and the fragmented and uncoordinated policy of regionalization. With this in mind, it is evident that something needs to be done in terms of Romania's management of EU funds. Initially examining Romania's managing authority layout shows that it has a relatively low

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[3] Interview with Asociaţia Română a Băncilor (ARB) and Ministry of European Funds. November, 2013.
[4] Interview with official at CEC Bank. November, 2013.
[5] Interview with officials at Ministry of Public Finance. November, 2013.
[6] Interview with officials at Ministry of European Funds. November, 2013.
[7] Interview with former regional development official. November, 2013.

number of managing authorities at six (European Commission, 2012). However, all other countries report each regional office as a managing authority, while Romania does not, even though in actuality this is the case. Thus, given Romania's eight additional primary regional development offices it has a total of fourteen managing authorities putting it in the top third of all countries in terms of number of managing authorities and significantly higher than most countries with similar GDP and allocated funding.[8]

Given Romania's political reputation for lacking coordination between ministries, redundant management structures, and institutional overlap this model of fund management is both inefficient and unsustainable if Romania wants to hit its absorption targets over the 2014-2020 period (Wegener, 2011). In fact, a 2012 study by Matei and Dogaru finds that Romanian policy coordination, while appearing to exist in formal language, does not manifest itself in practical policy implementation (Matei et al., 2012). In place of this structure, following the absorption tactics of Slovenia and Estonia, having one centralized management authority would better address the needs of coordinated, prioritized, and efficient mid- to long-term development. France has even employed such a tactic of entity consolidation for its new national development bank (Bpifrance, 2013). Additionally, the Romanian government presently approves projects on more or less a first-come, first-serve basis without regard to a clearly defined "bigger picture" of development and without prioritizing applications with the potential for maximal positive external spillovers. Such a lack of foresight defeats the aim of EU funds as, not a source of quick financing for haphazard growth endeavors, but a source of long-term and convergence-oriented development financing aimed at bolstering inclusive growth.

While, the Ministry of European Funds has already demonstrated that there are certain benefits to a more centralized structure, there are also many potential problems. These include the continued politicization of EU funds management with representative minorities not having much say in fund allocation, the potential for cronyism between ministry officials and recipients of large funding projects, a lack of distribution infrastructure at the state-level to allow rural establishments access to funding, and an inability for the public sector to offer wages high enough to keep skilled finance and development experts in positions for an extended period of time. All of these problems are serious and real. It is for these reasons that examining alternatives for EU funds management outside of political institutions is both recommended and essential. The most natural place to look in order to boost coordination between finance and government project approval is at the public banks: ExIm Bank and CEC Bank. Turning initial control of EU fund management over to these two banks and giving them quasi-independent status with a clear and defined mandate for EU funds use, is perhaps the most salient solution to the problem of EU funds management given the extensive skills, experience, distribution infrastructure, and financial success that these banks have had without state-support in the wake of the financial crisis (CEC Bank, 2013; BNR, 2013).[9] Thus, the following section describes in detail the rationale and process for generating a branch of each of these two organizations to jointly act as managing authority for EU funds and a development bank to help to promote longer-term and sustainable finance for

[8] See Appendix Figure #2: Number of EU Funds Managing Authorities

[9] Interviews with officials at CEC Bank ExIm Bank, and Romanian Banking Association (ASB). November, 2013.

SMEs, infrastructure, agriculture, education, and the overall Romanian economy in line with Romania's defined sustainable development goals and the stated objectives attached to EU funds.

IV. A Development Banking Solution for Romania

Until 1999 Romania had a successful public development bank, BRD, that was privatized, sold to French investors, and now functions purely in a commercial capacity. While Romania still has two public banks CEC Bank and ExIm Bank, they differ from a traditional development bank in terms of their individual mandates, their ability to directly manage development funds, and the time horizon of many of their projects. While different, these two banks possess the seed capital, skills, regulatory requirements, and infrastructure needed for successful development coordination and EU fund management. Additionally, the economic and feasibility perception of development banks has drastically changed since the 1970s with agencies such as the World Bank and United Nations, as well as Harvard Business School researchers now supporting a new generation of development banks as a means both of long term development coordination and countercyclical lending (Scott, 2007; Lazzarini, 2012; United Nations Department of Economic and Social Affairs, 2005; World Bank, 2013).

While the history of development banking is a turbulent one with instances of both great success and great failure, modern development banks have often learned from past failures; taking away lessons in transparency, regulation, and risk assessment. In a study of 90 development banks in 16 countries by the World Bank, results showed that 64% of development banks were below the national average in terms of non-performing loans, 86% were profitable, and 53% had returns on assets exceeding average private sector banks (De Luna-Martinez, 2012). To specify success, a study conducted by the development planning division of the Development Bank of South Africa, identifies specific traits and characteristics that have allowed development banks to succeed.[10] These traits include: having a clear mandate, being supervised by the same bodies regulating private financial institutions, being held to high standards of transparency, having adequate initial capitalization, having strong internal governance, an independent board, and regular transparent assessment (Thorne, 2009; Vicente, 2012; Schapiro, 2012; da Silva, 2013; Hochstetler, 2013; Rudolph, 2011).

Relevant case studies in terms of both success and specific characteristics that can be implemented by ExIm Bank and CEC Bank in expanding to take on the joint role of national development bank are those of the Brazilian National Bank for Economic and Social Development (BNDES), the Croatian Bank for Reconstruction and Development (HBOR), the Public Investment Bank of France (Bpifrance), and China Development Bank (CDB). Three key areas will be examined using these banks as examples of successful behavior: long-term profitability and risk diversification ability, successful management of EU funds, and coexistence with private banking sector and EU regulations.

[10] See Figure #3

For profitability and risk diversification, no better examples exist than the China Development Bank and the Brazilian National Bank for Economic and Social Development. As evidenced from both banks, a state-run bank can operate with consistent financial success while also promoting growth and managing state development financing. A study of BNDES found that BNDES chooses its clients based on the same types of risk-assessment processes that commercial banks do, with some additional leeway given by capital meant to service higher risk investments (Lazzarini et al., 2012; da Silva, 2013; Hochstetler, 2013).[11] Additionally, there is no evidence to support that BNDES systematically bails out non-performing firms or interferes with the operational structure of successful firms that it loans to (Lazzarini et. al., 2012). The reason for BNDES success is likely due to its stringent transparency requirements, clear development mandate, high level of skilled employees, and subjection to the same regulatory body as the Brazilian financial system (Schapiro, 2012). The China Development Bank also has clearly defined risk assessment criteria for all types of potential risk exposure and uses a risk-adjusted return on capital approach to optimize performance. Such tactics have led the China Development Bank to become consistently profitable, and achieve a non-performing loan ratio of just 1% (China Development Bank, 2005). While achieving the scale and scope of these leading development banks is beyond immediate future possibility for Romania, their models for demonstrate clear paths to success rely on sound risk assessment and diversification training, a tangible and clear mission statement, and a variety of sources for development financing. To better visualize the scale of a Romanian development bank, it is possible to compare the asset share of BNDES with the asset share of CEC Bank. Such a comparison shows that BNDES comprises of about 10% of total banking assets in the Brazilian economy while CEC Bank comprises about 7% of banking assets in the Romanian economy (BNR, 2013).[12] This means that, in terms of relative size, a combined development bank composed of ExIm Bank and CEC Bank would be only slightly smaller compared with total banking assets in Romania than BNDES is in Brazil.

Given past performance, it is evident that ExIm Bank and CEC Bank already possess many early signals for future success in development banking in terms of risk assessment experience, a clearly defined mission statement, and previously demonstrated profitability, even during a financial crisis period. Such pre-existing proof of performance and demonstrated success is rarely available when setting up a national development bank and thus, Romania has a high potential for national development banking success. Additionally, given the Romanian public banks' combined capital share of 8% and unique ability to use existing capital and EU funds as an initial means to begin expanding funding opportunities for appropriate development activities means that additional government support would not likely be needed.[13] In the future, as both BNDES and the CDB have done, a Romanian development bank could issue special development bonds on European financial markets to raise additional capital. Such fundraising may be presently feasible given the two banks' history of success and Romania's attractiveness to foreign investment. In sum, both BNDES and the CDB demonstrate that state-run national development banks can be financially successful while still provide previously non-existent credit opportunities during times of crisis, which is important because existing public banks in Romania

[11] For the role of BNDES in the Brazilian political economy see Ban (2013).
[12] See Appendix Figure #5 & Figure #6
[13] See Appendix Figure #6

demonstrate early signals of potential success as highlighted by these leading development banking institutions.

In terms of specifically handling EU funds, Croatia's state development bank HBOR, provides an example of a development institution that was responsible for successfully managing pre-accession funds through second-tier lending to other commercial banks in Croatia. Through its unified assessment of risk and selection of projects to be approved on strict criteria of meeting EU standards, HBOR successfully handled EU funds through Instruments for Pre-accession Assistance allowing it to absorb over 70% of its pre-accession funds by 2012 and in 2011 was still significantly ahead of nearly all Eastern European countries in terms of absorption rate of European funds (HBOR, 2013).[14] Such success could be replicated in Romania, especially when most of the necessary banking infrastructure is already in place via CEC Bank (CEC Bank, 2013). The importance for the Croatian case is that HBOR worked directly with public banks and both the government of Croatia and the European Union to efficiently manage EU funds in a centralized and linear fashion. Private banks could get access to EU funds for approved projects through HBOR and the proper channel for EU funds application was clearly defined (HBOR, 2013). This is not the case in Romania. Until recently, the immense regionalization of EU funds generated confusion and overlap of funding activities (Alexandru et al. 2012). Applications were sent to the government, approved for funding, and then rejected by banks due to a lack of risk assessment.[15] Croatia clarified this issue by creating a clean channel for funding applications that utilized HBOR's risk assessment procedure on the government end to avoid superfluous government approval of programs that were unlikely to succeed (HBOR, 2013). While Croatia has only recently joined the European Union, its success in handling EU sponsored pre-accession funds should be internalized by the Romanian government. While plans of regionalization of EU funds have worked in other countries including Czech Republic and Poland, Croatia provides demonstrated success of the alternative, a more centralized and less political approach to handling funds from the European Union.

The third key topic to examine is coexistence with private banking sector and EU regulations. While regulations of the European Union prohibit state run national development banks that impede competition, are overly protectionist, or that rely solely on government aid, a new type of development institution, France's Banque publique d'investissement (Bpifrance), demonstrates that new development banks in the European Union are a possibility and important, even for successful and developed member states. Bpifrance is a new development bank founded in 2013 and under joint ownership of the state of France and the Caisse des Dépôts (Bpifrance, 2013). It was created in order to more efficiently provide funding for technological innovation, developing enterprises, and the social economy by combining the services previously provide by the OSEO, a bank lending to SMEs and R&D, CDC Entreprises, and the Strategic Investment Fund (FSI). The purpose of this merger is to create a more efficient and centralized channel for all development financing so that long-term development goals can be coordinated over a broader scope of projects and so that parties interested in accessing funds have an efficient and simplified one-stop shop rather than several overlapping institutions (Bpifrance, 2013).

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[14] See Appendix Figure #4

[15] Interview with the Romanian Banking Association (ASB). November, 2013.

Bpifrance, thus, has several traits important to a future Romanian development bank: it is built from previously existing institutions, it is grounded in the idea of boosting coordination and consolidating institutions, and it has been accepted by the European Union as a legitimate development bank. The baseline model for Bpifrance comes from early models of Germany's KfW, and consolidates regional development finances while still having elected regional representation on the board of governors to protect regional interests (Bpifrance, 2013). Romania has the potential to mimic this model in setting up its own development bank by creating an overlapping branch between CEC Bank and ExIm Bank which consolidates the management of state funds for regional development as well as EU funds with funds derived from existing bank capital. As Bpifrance seeks to do, this would give parties in Romania access to a depoliticized and one-stop shop for development financing which would greatly improve efficiency and ease of EU funds accession. Additionally, Bpifrance seeks to improve coordination of development funds in France to meet national development goals (Bpifrance, 2013). This provides an example of a developed and successful EU member state establishing a development bank for the expressed purposes of development coordination and increased efficiency of development financing. Such goals are also desired in Romania, and thus Bpifrance provides another model for successfully consolidating existing organizations and capital into a new type of centralized and consolidated development bank. The result would be one entity that can specialize and focus on optimal development finance to meet both short and long-term national development objectives. Additionally, being a bank subject to the restrictions and regulations of other private banks in Romania and with close ties to both the private financial sector and government should help to prevent political hijacking of such an institution.

While one of the biggest difficulties identified by new development banks is adequately diversifying and assessing risk, both CEC bank and ExIm Bank have experience and skills in this area and neither institution required any kind of aid from the Romanian government during the global financial crisis.[16] Additionally, both CEC Bank and ExIm Bank reported non-performing loan (NPL) ratios below national averages in the post-crisis period (CEC Bank, 2013; National Bank of Romania, 2013). Specifically, comparing the third quarter figures for 2013 of CEC Bank, who owns 7% of total banking sector assets, to other leading private banks in terms of NPL ratios clearly shows that CEC bank's 19.5% NPL ratio is not only below the national average of 21.56%, but also below BCR at 29.2%, BRD at 24.41% and Banca Transilvania at 20.3% (Popescu, 2013; Nadasan, 2013, CEC Bank, 2013, National Bank of Romania, 2013, BRD 2013, Business Review 2013).[17] Such performance paired with consistent profitability and an under-performing private banking sector is sound evidence in support CEC Bank's continued public ownership and a potential signal of future success in larger-scale development banking. This success can be visualized by CEC Bank's four consecutive year receipt of the ANEIR Grand Prize for banking excellence in the post-recession period (CEC Bank, 2013).

While facing opposing criticism on whether to remain public or privatize from the National Bank of Romania, Ministry of Public Finance, and private stakeholders, CEC Bank has not formally commented on its willingness to or ability to expand its role to acting as a national development bank. ExIm Bank, albeit smaller at only about 1% of total banking sector assets, has

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[16] Interview with official at ExIm Bank and CEC Bank. November, 2013.

[17] See Appendix Figure #5

stated that it currently possesses the required skills, seed capital, and corporate management structure that would allow it to immediately take on the role of a development bank with specific foci on long-term infrastructure investment, export-oriented agricultural projects, and SMEs, if the Romanian government would legally grant this expansion of scope.[18] For long-term and sustainable development banking to be a success in Romania, however, CEC Bank must be included and expanded to take on the role of development bank in terms of smaller scale SME and rural development funding as CEC Bank's infrastructure is more expansive and focused on rural development than ExIm Bank. While the assets of ExIm Bank alone are not enough to be considered comparable to other successful development banks, the combined assets of CEC Bank and ExIm Bank, in addition to assets derived from EU Funds and state development finances would be.[19]

Some problems may arise in terms of CEC Bank's ability and willingness to take on this task given the instability of stakeholder perception of where the bank should be headed. After several successive quarters of stagnant profits, many have called for CEC Bank's privatization, even though it has consistently outperformed many private banks during the crisis and post-crisis period (CEC Bank, 2013; BNR, 2013). Such instability, however, could be detrimental to a large expansion of development financing activities and EU fund involvement, which is why initial policy should be piloted with ExIm Bank with the discussion and plans to phase in CEC Bank. Additional criticism of development banking that needs to be addressed include: propping up non-competitive enterprises, lack of financial profitability outside of state-funding, inexperienced risk assessment techniques, unregulated state control of development finances, lack of elected representation in finances, and inability to attract qualified long-term employees (Schapiro, 2012, Hochstetler, 2013). While these criticisms have been quashed for leading development banks such as BNDES and CDB, a Romanian development bank will have to prove itself. Utilizing CEC Bank and ExIm Bank's resources and skills should ensure profitability, adequate risk assessment procedures, and qualified employees however several recommendations are necessary to ensure that the other criticisms of public development banking are not realized.

Pivotal recommendations for successful development banking in Romania include government provision of ExIm Bank, and subsequently CEC Bank, with a defined mission to act in part as a platform for regional development as well as coordinated national development in line with the pre-defined targets of EU funds, emphasis on investments with maximal positive external spillovers, and long-term goal of eventual convergence to EU standards. The management of EU funds that relate to infrastructure, export-oriented SMEs, larger-scale agriculture, and research and development should then be consolidated into a development banking branch of ExIm Bank. Management of EU funds relating to and human capital, agriculture, and domestic SMEs should be consolidated into a branch of CEC Bank. These two branches should be required to meet and file joint progress reports of activities to ensure communication is maintained between the two groups. When government ministries or other individuals and institutions seek EU funds for projects, they must approach one of these two banks for funding and should be subject to the

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[18] Interview with official at ExIm Bank. November, 2013.
[19] See Appendix Figure #6

same risk assessment and goal-alignment procedures that private beneficiaries are subject to in order to limit wasteful and non-productive spending.

The main goal of this banking system is to depoliticize and coordinate EU funds use by placing them in an institution with quasi-independent management and behavior, such as is the case with the National Bank of Romania (BNR). These banks also have a standardized set of risk assessment and prioritization procedures to allow for greater absorption potential and also both minimize overlap in development activities while maximizing positive external spillovers. The mandate for these institutions must remain explicit and public in order for elected officials to monitor and be able to publically criticize the institution if it veers from its objective. Such a mandate is crucial as it will allow elected officials and the populations that they represent to act as a check on a national development bank and not be separated from it (Schapiro, 2012). In Romania's case, two institutions instead of one should be used due to the different natures of loans, the varied expertise present at each organization, and the varied nature of project types in terms of length, risk diversification potential, and the counseling needs of potential clients. A division of skills between these two institutions, permitted adequate trans-institution discussion occurs, would thus be ideal to offer maximally relevant and targeted service to potential customers. Additionally, monetary incentives should be offered both for merit and length of employment at these institutions ensuring that long-term and skilled workers remain in this sector, as the rapid loss of skilled development practitioners and EU funds experts in the Romanian public sector has severely hampered the ability of the Romanian government to adequately apply for and successfully absorb EU funds.[20]

Additionally, The same boards and regulatory bodies that regulate and monitor the private Romanian financial system will monitor these branches and they will be subject to inspection by Romanian anti-corruption panels to limit the potential for institutionalized corruption and unwarranted exclusion of eligible applicants. Ideally, an independent body would also be formed to ensure the development bank is meeting adequate transparency standards. To this end, following Bulgaria's example, all records and financing activities for EU funds must be recorded digitally and be made publically available online along with relevant supporting documents and the results of intermittent progress reports (Alexandru, 2012). The membership of both banks in the Romanian Banking Association (ARB) will also necessitate communication and connection with one another as well as the private sector, while government shareholding will also enable government input into development financing. All of these recommendations combined with the demonstrated success of case study examples should dispel criticism of the possibility for development banking success in Romania.

[20] Interview with officials at the Ministry of Public Finance and Ministry of European Funds. November, 2013.

V. Concluding Recommendations

The case studies in development banking ranging from Brazil to France and from China to Croatia all exemplify aspects of successful institutions that have key traits within reach of the Romanian public banks. These traits include: clearly defined mandates, a sizeable share of total assets, demonstrated profitability, risk assessment techniques similar to the private sector, a quasi-independent nature, subjection to a regulatory body, and separation from political volatility. Further data from personal interviews, government documents, and academic literature suggest that a diffusion of control over EU funds management is a major component contributing to low EU funds absorption and slow convergence toward EU standards. Establishing a national development bank responsible for all EU funds that is housed in both CEC Bank and ExIm Bank provides one solution to this problem of EU fund absorption and coordinated development. Looking specifically at what others have done in a European Union context demonstrates that both France and Croatia have found that consolidation of entities is an efficient and effective way to carry out development financing. Additionally, outside of the EU, the bpifrance model for development banking shares many common traits for success with other leading national development banks. Thus, in order for Romania to realize its goals in terms of financing development in the 2014-2020 period and progressing toward convergence with European standards it should:

- Centralize and depoliticize the management of EU funds by consolidating the numerous managing authorities into a development bank composed of both CEC Bank and ExIm Bank.
- Publically state the mission of a new development bank to emphasize long-term investment and coordinate development by prioritizing investments that maximize positive external spillovers.
- Standardize prioritization and risk assessment procedures used in program selection.
- Create a regulating watchdog body to monitor the use of funds by the development bank.
- Offer time and merit based rewards to attract long-term skilled employees.

VI. Appendix

Figure #1: Percentage of Project Selection (2007-11) and Paid Expenditure (2007-Jan 2013)[21]

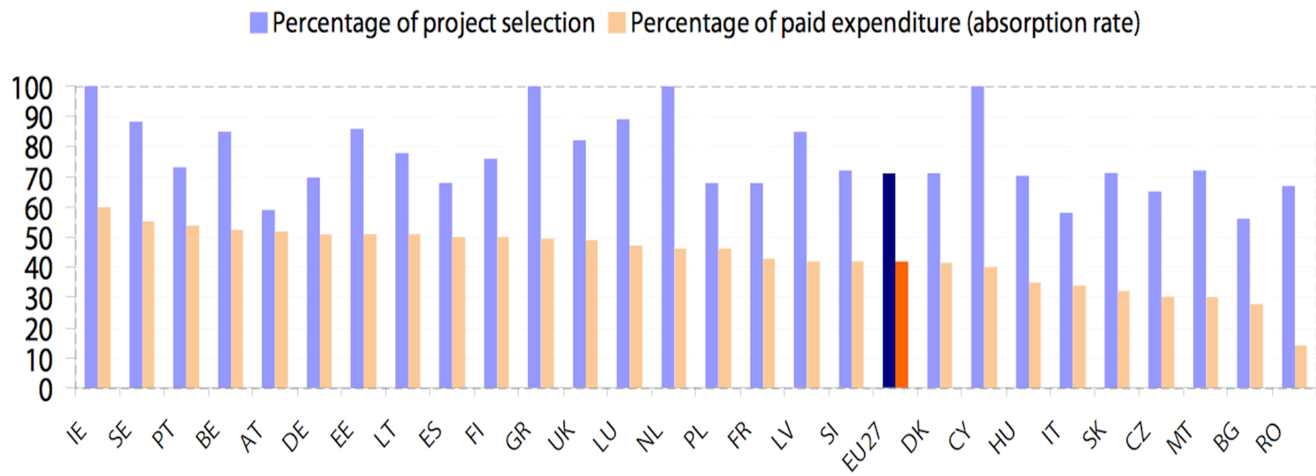
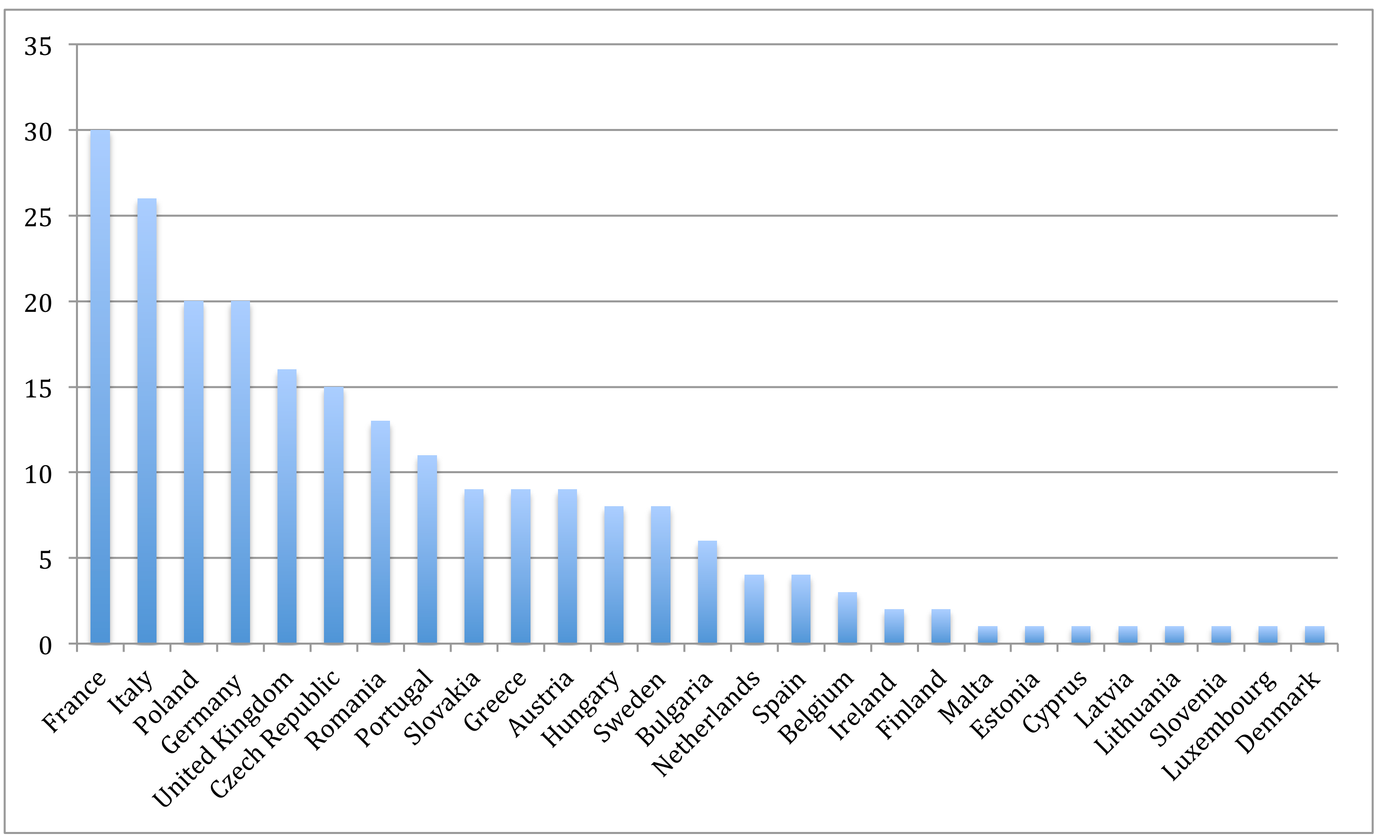
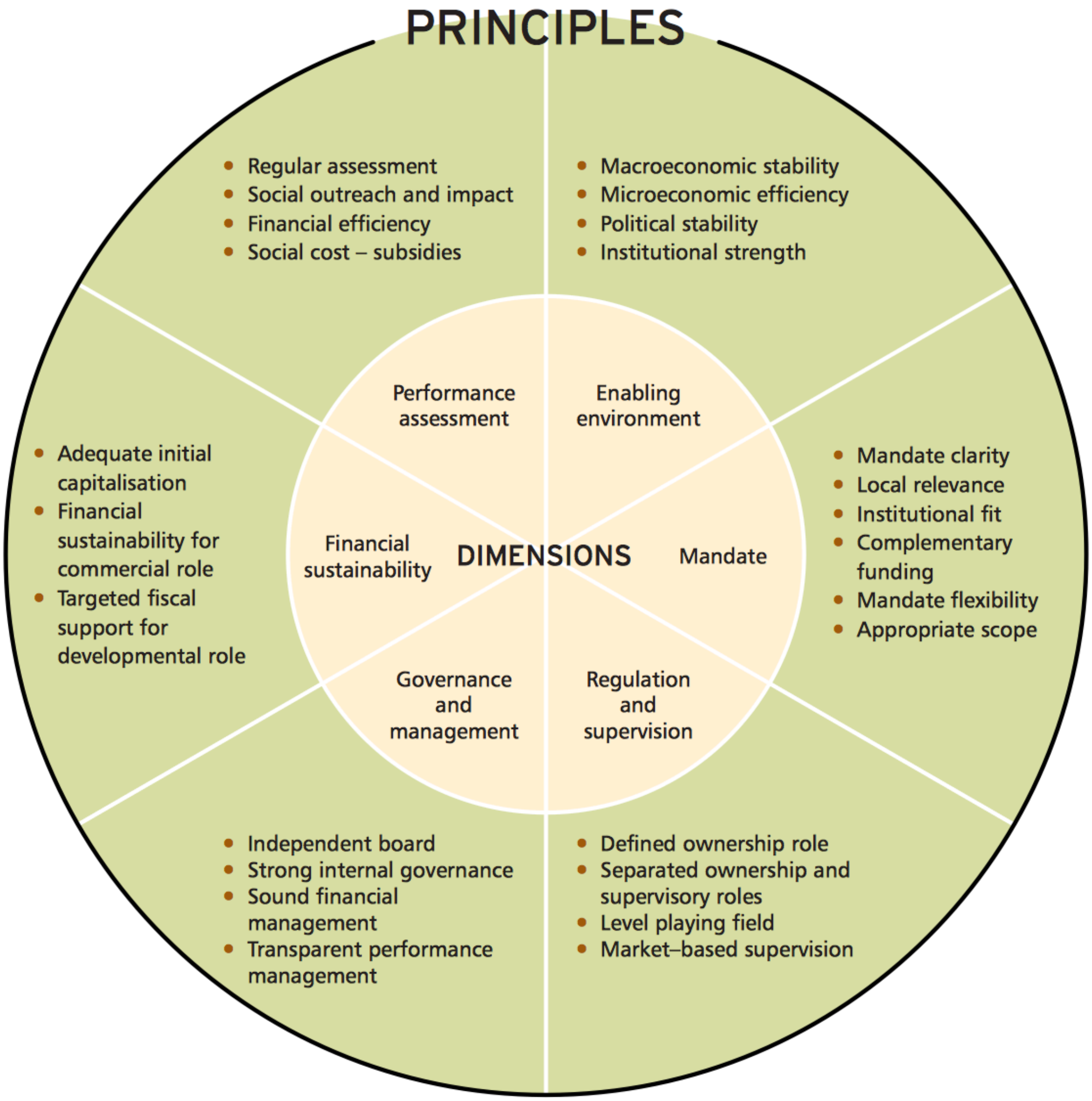


Figure #2: Number of EU Fund Managing Authorities per Member



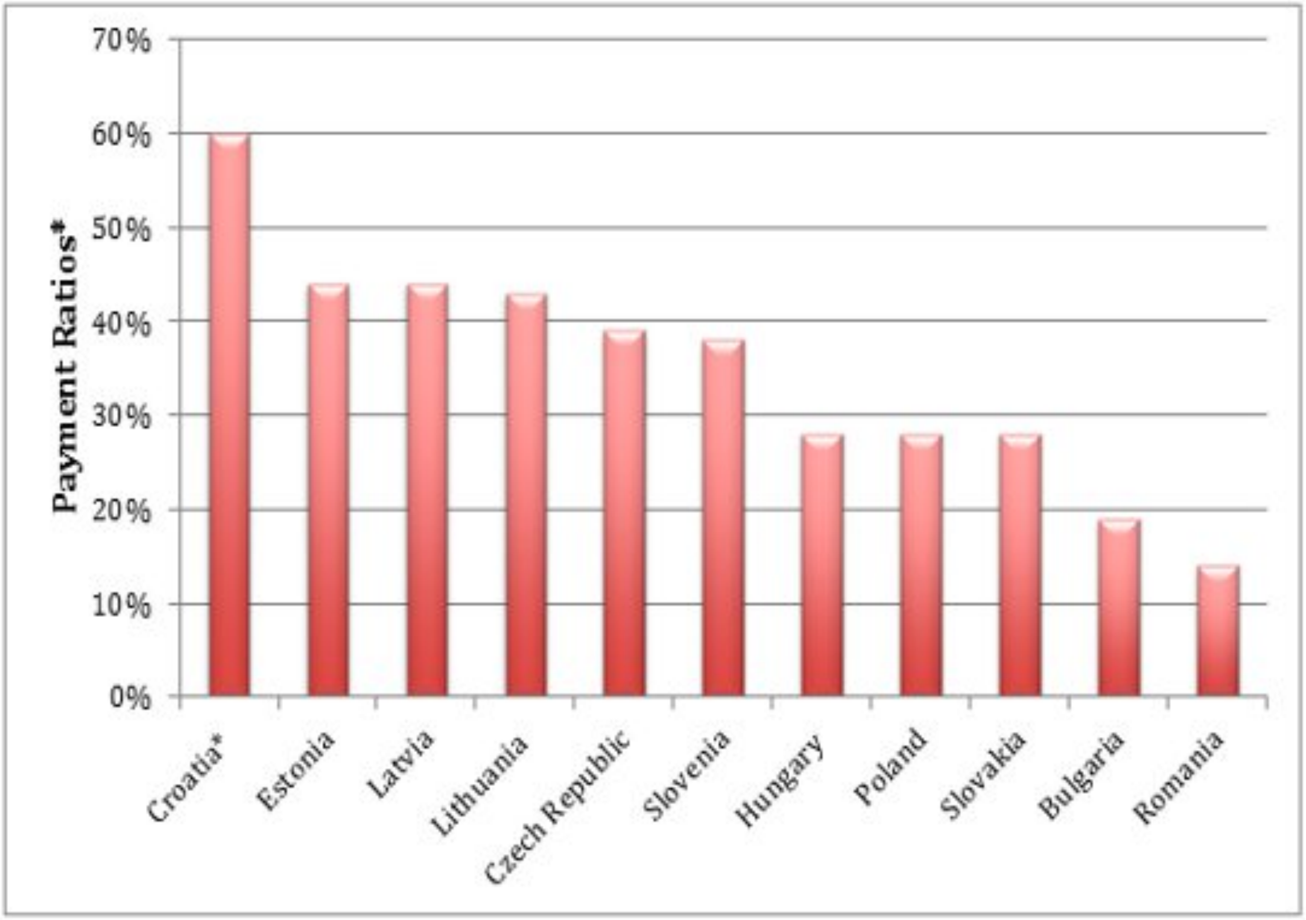
[21] Source: European Commission, Strategic Report on Implementation 2007-13. 2013.

Figure #3: Principles for Successful Development Banks[22]



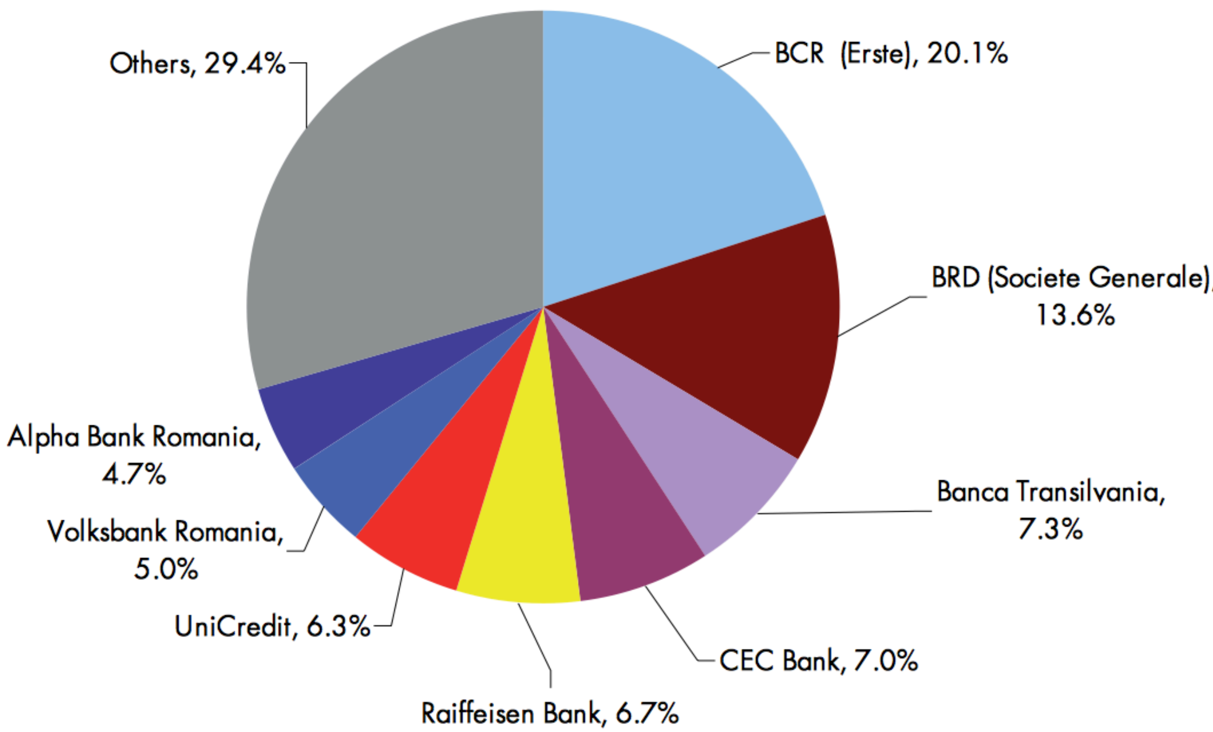
[22] Thorne, 2009

Figure #4: EU Fund Absorption Rates for Eastern Europe - 2011[23]



[23] (Oreskovic, 2013)

Figure #5: Percent of Total Banking Sector Assets 2013[24]



Per cent of total assets, preliminary data
Source: NBR, Raiffeisen RESEARCH

[24] (National Bank of Romania, 2013)

Figure 6: Market Share of Selected DBs in 2009[25]

DBs	Market Share
1. Agriculture Bank of Turkey	15%
2. Rwanda Development Bank	12%
3. Fiji Development Bank	11%
4. Brazil National Development Bank	10%
5. Land Bank of Philippines	9%

25 (Vicente et al., 2012)

VIII. Acknowledgements

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