Book

Strategy 2017-2019

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COUNCIL OF EUROPE DEVELOPMENT BANK
BANQUE DE DEVELOPPEMENT DU CONSEIL DE L'EUROPE

Important notices:

This document is based on the Development Plan 2017-2019 which was unanimously approved by the Governing Board of the CEB at its meeting of 2 December 2016, upon recommendation of the Administrative Council.

Attention is drawn to the fact that some editing adjustments were made to the original text.

Appendices intended for internal use have been removed from this publication.

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Purpose

The primary purpose of the Bank is to help in solving the social problems with which European countries are or may be faced as a result of the presence of refugees, displaced persons or migrants consequent upon movements of refugees or other forced movements of populations and as a result of the presence of victims of natural or ecological disasters.

The investment projects to which the Bank contributes may be intended either to help such people in the country in which they find themselves or to enable them to return to their countries of origin when the conditions for return are met or, where applicable, to settle in another host country. These projects must be approved by a Member of the Bank.

The Bank may also contribute to the realisation of investment projects approved by a Member of the Bank which enable jobs to be created in disadvantaged regions, people in low-income groups to be housed or social infrastructure to be created.

Article II of the Articles of Agreement
of the Council of Europe Development Bank (CEB)

About the CEB

The Council of Europe Development Bank (CEB) is a multilateral financial institution with a social mandate.

Founded by eight member states of the Council of Europe in 1956 in order to bring solutions to the problems of refugees, it is the oldest multilateral development institution in Europe.

The CEB invests in social projects that foster inclusion and contribute to improving the living conditions of the most vulnerable populations across Europe.

The CEB provides loans and guarantees to its 41 member states to finance projects meeting a certain number of criteria. Potential borrowers include governments, local or regional authorities, and financial institutions. Loan applications are rigorously reviewed and related projects are designed and implemented within national sectoral policies, when applicable.

The CEB is based on a Partial Agreement among member states of the Council of Europe, but has its own legal personality and is financially independent from the Council of Europe. The Bank supports the principles and values of the Council of Europe, which stands for the defence and promotion of human rights, democracy and the rule of law.

Our projects and loans

The CEB pays particular attention to the quality of the projects it finances, with a view to enhancing their social impact. Technical assistance and monitoring throughout the whole project cycle constitute key factors in the effective preparation and implementation of all its projects.

Once a project's financing has started, the Bank carries out rigorous monitoring and on-site visits in order to verify the physical progress of the works, compliance with cost estimates and procurement procedures, and the attainment of the anticipated social objectives. A final report is drawn up when the project is concluded. Selected projects are independently evaluated after completion.

Our resources

The CEB raises its funds on the international capital markets for its financing. It also receives resources entrusted to it by various member and non-member donors.

Thanks to its excellent rating (Aa1 with Moody's, outlook stable, AA+ with Standard & Poor's, outlook stable and AA+ with Fitch Ratings, outlook stable), the Bank raises its funds on competitive terms, thus enabling its borrowers to significantly reduce the cost of the loans they take out to finance social projects.

1956-2016:
60 years of European solidarity

Established in April 1956 by eight member states of the Council of Europe, the CEB is the longest standing European multilateral development bank and the only one with an exclusively social mandate.

While the CEB's mandate has evolved over time, broadening and adapting to social priorities and needs, the Bank's history since its inception has been intertwined with that of Europe.

- The "Iron Curtain" that came down on Europe led to the creation of the CEB as a "Resettlement Fund" tasked with financing projects to respond to the plight of refugees and displaced persons in the aftermath of World War II.
- The fall of the Berlin Wall, which prompted the re-unification of Europe, resulted in strong impetus and renewed relevance for the CEB endorsed at the highest political level of Heads of State and Government.
  - **1993:** the Council of Europe Vienna Summit signalled a wave of new member countries from Central, Eastern and South-Eastern Europe joining the CEB.
  - **1997:** the Council of Europe Strasbourg Summit widened the CEB's mandate to include strengthening social cohesion, alongside the statutory priorities set out in its Articles of Agreement.
- The **2004** EU enlargement marked European unity and was followed by the 2005 Council of Europe Warsaw Summit, which invited the CEB to contribute in its own way to the development of a free, democratic and more inclusive European society.
- The **2015** refugee crisis highlighted the relevance of the CEB's core mandate. Since then, the CEB has been at the forefront of support to migrants and refugees, as well as to the communities that host them across Europe.

Today, the CEB has 41 members and its membership reflects Europe's own geographical and cultural diversity. Through the provision of financing and technical expertise for a wide range of investment projects with a high social impact, the CEB contributes to improving the living conditions of the most vulnerable populations and, more broadly, to strengthening social cohesion in Europe.

Foreword by the Governor

The present document outlines the main points of the CEB's Development Plan for the period 2017-2019, which forms the Bank's medium-term strategy. The Plan sets specific objectives, provides a roadmap for action towards reaching these objectives, and establishes a framework within which CEB services can work efficiently and in a coordinated and targeted manner.

While economic and financial prospects are improving, social cohesion in Europe will remain under pressure owing to several ongoing challenges: geopolitical tensions in and around its territory, migratory inflows, stubbornly high unemployment rates combined with slow or moderate economic growth, governments implementing structural reforms and facing public spending constraints.

Hence, there is a need for the CEB to adapt to a changing environment and shift its focus onto new priorities in order to be able to fully support the social policies of its member countries. The Bank's three-year strategy concentrates its efforts on three priority areas. First, promoting sustainable and inclusive growth through the development of social public infrastructure and supporting job creation. Second, facilitating the integration of vulnerable groups, including migrants, refugees and displaced persons. And third, developing climate change mitigation and adaptation measures in order to contribute to global efforts to protect the environment.

To fulfil its objectives in these areas, the CEB is further strengthening its partnerships, intensifying the social screening of projects under consideration, placing emphasis on technical assistance through the use of grants, and ensuring the high quality and sustainability of funded projects through the combined use of grants and loans. In addition to these, the CEB is offering new financial instruments, such as the Cross-sectoral Loan Programme (CSL), which, alongside the Bank's existing loan instruments, will allow for a more flexible approach to the financing of social projects.

Thanks to its strategy for 2017-2019, the CEB is heading into the future well-equipped to continue supporting its members, with its social mission reaffirmed and its focus firmly fixed on its strategic objectives.

Rolf WENZEL

Tackling the challenges ahead

Europe at a tipping point

In 2016, the lingering effects of the 2009 financial crisis are still keenly felt across Europe, doubled by the shock created by the United Kingdom's vote to leave the European Union. The "Brexit" vote brought with it uncertainties with economic implications, heightened volatility in financial markets and lower confidence levels with a consequent impact on growth. All these elements could affect monetary policies and investment in several CEB countries with consequences in the social sectors. In addition, the United Kingdom's vote could fuel nationalistic sentiment (and Euroscepticism) across several CEB countries. Thus programmes related to long-term integration of people with a migrant/refugee background are more important than ever.

In response to the ongoing migrant and refugee crisis, public investments in the social sphere (especially housing) are already taking place in several countries. Moreover, according to the European Commission, the Investment Plan for Europe (the so-called "Juncker Plan") is expected to provide an up-tick in public and private investments as implementation is expected to start on a growing number of projects under the scheme. Nevertheless, narrow fiscal space and tighter debt control continue to curtail public spending in many CEB member states.

High debt, low inflation and low growth have increased the fiscal pressures in most CEB member states. Fiscal space is limited and, in many countries, the burden of public debt remains higher than previously forecast[1] with consequences on the capacity of these countries to borrow for investments related to the social sectors. Indeed, in several CEB members states faced with budgetary constraints, governments are continuously concentrating their efforts on sectoral restructuring and structural reforms rather than on new investments.

Although high structural unemployment, especially among the young, represents a still very tangible legacy from the crisis, improved cyclical conditions, contained wage growth and labour market reforms in some places have been contributing to positive trends in the labour markets. Thus, while unemployment disparities among countries (and regions) are set to persist, the unemployment rate in the euro area as a whole is expected to shrink from 10.9% in 2015 to 9.9% in 2017[2].

The European economic outlook is nevertheless exposed to considerable downside risks on the back of several factors, such as a sudden increase in the price of oil, slower than expected world growth, especially in China, or more pronounced geopolitical tensions.

1. IMF 14/4/2016 "As a result, the ratio of debt to national income in Europe - currently 107.6 per cent of national income - is now expected to begin to decline only in 2017"
2. Source: European Commission European Economic Forecast Spring 2016.

Heightened pressure on banks

Given the on-going accommodative monetary policy stance, a low interest rate environment continues to persist in Europe. Meanwhile, the easing of borrowing conditions and reduced financing costs, coupled with the waning of corporate deleveraging pressures and capacity utilisation rates above their long-run average have set the stage for acceleration in MSME and corporate investments. However, as the EU financial sector continues to underperform, the accommodative monetary policy stance will make for a more challenging environment for the CEB in the years to come.

The continually changing banking regulation environment may impact IFIs, including the CEB. Requirements in line with IFRS 9 rules, especially as regards provisions on loans at inception, will have an effect on the interplay between capital requirements and the required level of provisions, and, among other things, will result in the creation of loan loss provisions. This in turn could impact the profitability of IFIs, including that of the CEB.

Highly competitive environment

The highly competitive environment in the banking sector, favoured by the ECB's target long-term refinancing operations (TLTROs) – first put in place in 2014 and currently extended to 2016-2017 – remains unchanged. Under TLTRO II, announced in March 2016 by the ECB, the commercial banks will have access to ECB loans at a zero nominal rate, further discounted depending on their activity in terms of the amount they lend[3]. Moreover, governments and local authorities can also finance themselves on the local markets, in many cases at very competitive rates and without onerous monitoring requirements and quality constraints. In effect, local commercial banks are keen to lend to the public sector, especially given the existing difficulties in the corporate and SME sectors. Close-to-zero or even negative interest yields on some parts of the yield curve in the case of several CEB borrowers might further affect the CEB's competitive position. In addition, the close-to-zero lending rates are pushing the banks, including the CEB's peer IFI group, to seek yields in longer tenors.

3. The interest rate applied to TLTRO is fixed for each operation at the rate applied in the main refinancing operations prevailing at the time of allotment. All operations have a maturity of four years from their settlement date.

Uncertainty and global challenges ahead

The overall environment in which the CEB operates is affected by a high level of economic and political uncertainty, stemming from both inside and outside Europe:

- In 2016, higher than budgeted spending on issues related to the integration of refugees and migrants pushed up the demand for CEB loans in certain recipient countries. Nevertheless, in the current fragile political context, a sharp turnaround in national policies regarding the willingness to continue receiving and integrating refugees and migrants could bring about a sudden softening in this demand or lower its social content – one more reason for the Bank to strengthen its upfront social screening.

- The on-going process of restructuring the banking sector in Europe could affect CEB business and the financial profile of the countries concerned. In several countries, the process is mainly driven by the efforts deployed by the banks to free up capital and concentrate resources where they can earn the best returns or generate business growth. In some cases, the high proportion of non-performing loans is negatively affecting the process. In addition to the financial profile of some CEB borrowers, banks or countries concerned, the process could also affect the appetite of the banks for SME lending.

- CEB member states could be affected by the slowdown in emerging market growth which could turn out to be more pronounced than currently forecast and trigger considerable spill-overs with consequences for Europe's economy[4].

- Meanwhile, uncertainty regarding the evolution of spreads could jeopardise the CEB's competitive position in terms of spreads in certain countries vis-à-vis the EIB and other major AAA/AA development banks, and have a "crowding-out" effect on the CEB.

At the same time, the adoption of the 2030 Agenda for Sustainable Development and the global agreement reached at the Paris Climate Change Conference have given new impetus to sustainable development for the years and decades ahead. In a joint statement released at COP21[5], the world's six largest Multilateral Development Banks (MDBs) pledged to increase their climate finance, to leverage funds from other sources and to support the outcomes of the Paris conference through 2020. For its part, the European Union's 2030 climate & energy framework, agreed in October 2014, sets key targets for the year 2030: a minimum 27% share for renewable energy and a minimum 27% improvement in energy efficiency. Such commitments will necessitate substantial additional investments in the area of climate change adaptation and mitigation measures in the years to come.

4. Study European Economic Forecast, Spring 2016.
5. http://www.worldbank.org/content/dam/Worldbank/document/Climate/Joint%20MDB%20Statement%20Climate_NOV%2028_final.pdf

Setting the new strategic course

Supporting solutions to socially-oriented challenges

The CEB operates within the institutional framework established under the supreme authority of the Council of Europe (CoE); it therefore supports the Council's social and environmental priorities and principles aimed at protecting human rights and the environment. The Bank's approach in terms of social responsibility thus draws upon the principles enshrined in the Council of Europe Convention for the Protection of Human Rights and Fundamental Freedoms and the European Social Charter.

In the current context, the need to address the significant economic disequilibria and the related long-lasting deterioration in the social situation in most of the Bank's member states remains a pressing challenge. The CEB's mandate is more relevant than ever and its strategic response is therefore set around strengthening its responsiveness, increasing its alignment with CoE policies, and standing ready to respond to higher demands in terms of projects coming within its historical mandate.

Lines of action

In preparation for the Bank's new Development Plan, the Collegial Organs commenced the debate on the CEB's strategic perspectives in June 2015. The thematic debates focused on the CEB's response to the major long-term challenges facing Europe today as well as on ways in which the Bank can continue to carry on its mission and reaffirm its relevance, effectiveness and distinctiveness in the face of a fast-changing, complex environment. The lines of action approved by the Administrative Council and confirmed by the Governing Board are as follows:

- *Sustainable and inclusive growth* with emphasis on socially-oriented components and particularly on public infrastructure with a social vocation, job creation and preservation, access to labour markets, housing and integration of vulnerable groups.

- *Integration of refugees, displaced persons and migrants.*

- *Climate action: developing mitigation and adaptation measures.*

The Governing Board agreed that these lines of action should underpin the new Development Plan and give the general direction for the Bank's activity without prioritising one above the others. Meanwhile, the Organs underlined the importance of strengthening the social content of the CEB's actions and its comparative advantage as "the social development bank" in Europe. Acting within the framework of the Council of Europe, the CEB supports its social and environmental priorities and principles aimed at protecting human rights and the rule of law.

In parallel, the Administrative Council also approved proposals related to adopting a cross-sectoral approach that will enable the CEB to better encompass both the greater complexity of the development projects it finances and the full added value of its own contribution. As emphasised by the Administrative Council, the financial instruments, both lending and non-lending, as well as the methodologies related to screening, monitoring and assistance in project preparation and implementation, should reflect the Bank's trademark and socially-oriented specificities and yield comparative advantages for the CEB with respect to its peers.

The CEB and the Council of Europe

Set up under a Partial Agreement of member states of the Council of Europe, the CEB is subject to the Council's "supreme authority" (Article I "Establishment of the Bank" of the CEB's Articles of Agreement).The CEB has nonetheless a separate legal identity and full financial independence, both essential conditions for operating as a fully-fledged bank. Acting within the framework of the Council of Europe, the CEB supports its principles, values and overall objectives.

Successive Council of Europe Summits, held at the highest political level of Heads of State and Government, have each given new impetus to the Bank's action and contributed to shaping its current identity as the social development bank in Europe. In all, relations with the Council of Europe are at the very core of the CEB's identity and, in a way, constitute the Bank's distinctive "brand" within the community of international financial institutions.

In preparing the Development Plan 2017-2019 due consideration was given to key European priorities addressed by the Council of Europe: at the Joint Meeting in June 2015, the CEB's collegial organs debated on the ways in which the Bank can best address the challenges of ensuring "renewed and sustainable growth in Europe", improving "social cohesion in order *[inter alia]* to reduce the risk of radicalisation" and supporting "the collective fight against climate change". These challenges were then taken up by the Bank as a basis for designing the Bank's revised lines of action. Consequently, the sectoral challenges of particular relevance for the Bank's role and contribution in the years ahead have been defined as: "sustainable and inclusive growth" with a focus on socially oriented projects, "integration of refugees, displaced persons and migrants" with emphasis on medium- to long-term integration, and "climate action: developing mitigation and adaptation measures".

Taken together, the new sectoral lines of action for the 2017-2019 Development Plan serve to translate the CEB's social mandate into operational terms. While mirroring the core long-term challenges facing Europe today, they also take account of the rapidly changing context, making it possible to improve and adapt the instruments at the Bank's disposal so as to ensure it can continue to provide an effective response to borrowers and to make a contribution to social development.

Sustainable and inclusive growth

In alignment with the key long-term objectives for Europe, this line of action reflects the overarching goal of the CEB as a social development bank to promote sustainable and inclusive growth with a socially-oriented approach. Consistent with EU and non-EU member states' long-term strategic investment initiatives, sustainable and inclusive growth also integrates environmental safeguards and energy efficiency considerations into the objectives and priorities of any given investment. Having consistently promoted this approach, the Bank is well positioned to strengthen its position as a privileged partner in social development areas that increasingly require cooperation due to the sheer scale of the issues at stake.

Under the general heading of "sustainable and inclusive growth", the Bank has identified several fields of particular focus, namely public infrastructure with a social vocation, job creation and preservation, access to the labour market, housing and integration of vulnerable groups.

The tenets of sustainable and inclusive growth place particular emphasis on vulnerable groups and the importance of reducing inequality and poverty[6]. Projects related to access to the labour market, social and solidarity economy services, housing, local infrastructure and energy efficiency all provide solutions for alleviating vulnerability situations. Since they often share complementary objectives, they are better served when tackled through a global approach rather on a stand-alone basis.

For instance, increasingly considered by public authorities as an instrument for fighting and preventing poverty[7], housing programmes often address important cross-sector needs of different categories of populations and cohesive communities, including vulnerable groups, such as migrants and refugees. Integrated projects that combine housing and community services – such as education, health, accompanying child or social welfare facilities – provide more focused support and may thus contribute in a more substantive manner to social cohesion or to addressing gender inequality issues.

Gender inequality will be addressed by the Bank as a crosscutting, structural issue, considered within the framework of the social aspects of the projects it finances. The Bank will thus be deploying efforts for the identification and mainstreaming of gender equality actions during the appraisal of its projects in an effort to influence gender dynamics, reduce inequalities and improve the social outcome of its investments.

In response to severely curtailed investment levels following the global financial and economic crisis, the Investment Plan for Europe, introduced in 2014, seeks to provide a mechanism for coordinating efforts at European level to bring investments back in line with their historical trends by removing obstacles to investment, providing visibility and technical assistance to investment projects and making better use of new and existing financial resources. Within this context, the CEB sees its role as a provider of "downstream", i.e., close to final beneficiaries, support to local development banks and local communities in order to fill the financing gaps for successful implementation of socially-oriented investments registered as national priorities.

6. See various projects related to micro-credit, or preparatory steps for labour market integration as those related to vocational training or support for student loans programmes, or "business incubators" initiated by the local authorities.

7. In 2013, 24.5% of the population of the CEB member states, members of EU, were at risk of poverty or social exclusion. See also: http://ec.europa.eu/eurostat/statistics-explained/index.php/People_at_risk_of_poverty_or_social_exclusion

Integration of refugees, displaced persons and migrants

The CEB's Articles of Agreement state that the primary purpose of the Bank is to help in addressing the social problems with which European countries are or may be faced as a result of the presence of refugees, displaced persons and/or migrant flows.

The CEB's emergency assistance focuses mainly on the provision of accommodation facilities. In the longer-term perspective, the CEB provides financing for local infrastructure, decent and affordable housing, language acquisition, skills development and job creation to help those entitled to stay to integrate as effectively and quickly as possible. Depending on the type of assistance needed, the CEB provides loans and, in occasional specific cases, grants.

Above and beyond the current unprecedented migrant and refugee crisis in Europe, migratory pressures across CEB member countries are expected to increase over the coming decades, driven by economic and non-economic (e.g. demographic, political and environmental) factors. The integration of migrants and refugees is in itself a complex multi-dimensional, long-term challenge that goes beyond economics and labour markets. It implies social, educational and spatial aspects – all closely interrelated, with failure in one area having negative implications for the rest.

Multi-sector integrated programmes will become an essential element of the response by recipient countries in the years to come. While not explicitly labelled as projects in favour of refugees, migrants and displaced persons, the added value of such projects is based on their direct and indirect social impact on migrants in addressing different but essential and complementary needs.

A multi-sector approach in the field of integration of refugees, displaced persons and migrants will require enhanced financing instruments that can facilitate blending mechanisms combining grants and loans, increased reactivity on emergency aid, and bridge finance, since a timely, customised response remains extremely important in such programmes.

Climate action: developing mitigation and adaptation measures

This line of action is of a more crosscutting nature, since the underlying objective is to mainstream climate action measures in all of the Bank's activities and projects. In so doing, the CEB is playing its part in the global effort to fight against climate change and to foster the environmental transition to low-carbon economies; here the Bank can usefully build on the steps already taken to tackle environmental issues, while maintaining its social focus.

The CEB already has a long history and broad experience of tackling environmental challenges both through its "Managing the Environment" sectoral line of action and via the environmental screening and impact assessment carried out on all its projects.

"Aid to victims of natural or ecological disasters" constitutes one of the CEB's two statutory priorities. Its scope, as that of other environmental projects financed by the Bank, has widened over time from immediate emergency response to long-term preventive action:

- Environmental protection: upgrading infrastructure (solid waste, water and wastewater management).
- Climate change mitigation: "greening" the built environment (energy efficiency in buildings, cleaner and renewable energy, and sustainable public transport).
- Climate change adaptation: strengthening resilience to (extreme) climate events (urban and rural adaptation), and disaster risk management.

The CEB has gradually tightened its screening of the environmental standards and policies adopted and implemented by intermediating financial institutions, both for public investments and for MSME financing. These rigorous standard procedures act as safeguards, providing additional assurance that the CEB's Environmental Policy standards are respected during project appraisal and implementation.

The bulk of climate protection and mitigation investments, ranging from energy efficiency in transportation or buildings to the treatment of solid or liquid waste, are expected to be promoted by the public sector. Although many may be of a smaller scale, when taken collectively, these programmes have a considerable socio-economic and environmental impact, tying in closely with the theme of sustainable and inclusive growth.

With rare exceptions, all CEB-financed projects and programmes already include climate adaptation and mitigation measures, particularly since the necessary measures are incorporated during the appraisal stage. In addition to continuing to address environmental investment needs with a social focus, the CEB intends to further mainstream environment and climate change considerations across all projects registered in the Bank's pipeline.

Working together for more social value

Making projects financially sustainable

Grants provide a way for the CEB to overcome the lack of financial capacity of borrowers. The Bank uses grants in various ways to achieve this result, in the first instance to provide financing in the early stages of project preparation. The CEB may thus finance, through a grant, part or even all of a project. Alternatively, the CEB may, by means of a grant, subsidise the interest on the loan it provides. In both cases, grants reduce the project implementer's financial burden by decreasing the amount of capital or interest that must be paid back. Alternatively, the Bank may set aside grant funds to guarantee a loan that it provides. Loan guarantees reduce the risk of a loss for the Bank if the borrower defaults on its loan. They enable the Bank to provide a loan to a project sponsor who, on their own, would not meet the Bank's stringent risk management requirements.

Ensuring project quality and social outcomes

The CEB's staff resources are key to ensuring quality and representing the CEB's added value. In recent years the CEB has significantly changed its operational modalities to address the increased need to improve the design and quality of the challenging projects it is called upon to finance, particularly in the Bank's target countries. CEB services are called upon to work much more closely with borrowers to improve design, scope and implementation modalities at an earlier stage in project development. Most of the projects implemented have needed several technical missions – often involving the use of specialist consultant support – before the project was ready for consideration for financing by the Administrative Council. The need for this close and staff-resource intensive support continues throughout project implementation. Most of the reviews of the Bank's technical services have been focused on projects developed in the CEB target countries.

Technical assistance grants complement the work of CEB staff on these difficult projects. They are used both to improve project quality at entry and to enhance the project sponsors' implementation capacity. This support enables project implementers to meet the Bank's requirement that projects are implemented in accordance with best practices, while keeping project ownership with the implementers. Both the staff work and the technical assistance grants represent the CEB's added value, and through the focus on institution building, deliver enduring benefits in terms of capacity building.

All in all, grants and guarantees act as catalysts. They enable the CEB to support highly social projects it could not otherwise finance and help to ensure that such projects are effectively implemented. In the coming years, the Bank will continue to increase its grant support, alongside its loan operations. To do so, the CEB will focus on several major areas: first, raising more funding from donors, second, further aligning the Bank's fiduciary activities with its evolving strategic priorities and third, deploying further efforts on risk-sharing instruments with donors/ member states and international organisations.

More partnerships

Raising supplementary funds from donors

The blending of grants and loans has become an important tool for the CEB to increase the quality and sustainability of its projects, as detailed above.

The Bank will therefore continue to participate in EU facilities such as the Western Balkans Investment Framework, the Neighbourhood Investment Facility and the Eastern Europe Energy Efficiency and Environment Partnership (E5P), and will seek closer cooperation with the managing authorities in member states since they manage a large share of European Union Funds. The CEB could also seek to benefit from EU guarantees or other risk-mitigation mechanisms, when and where deemed appropriate and provided that adequate conditions are met in the future. At the same time, the CEB will strive to raise more donor funding, develop its fiduciary accounts and respond to needs with specific instruments, as in the case of the Migrant and Refugee Fund (MRF).

Further strengthening European and international cooperation

The EU and its institutions are partners of choice for the CEB, given the numerous and deep geographic, statutory and sectoral interactions between them. First, 26 of the Bank's member states are already members of the EU and a majority of the remaining 15 may aspire to join it. Furthermore, the CEB shares many objectives endorsed by the European Commission and by the European Investment Bank (EIB). As a result, the Bank's partnerships with European institutions reinforce its operational capacity and expertise. In the context of its new Development Plan, the CEB will therefore continue to strive towards strengthened cooperation with the EU, which will enable it to continue to promote its now generally acknowledged distinctiveness.

The CEB also intends to intensify and deepen its relations, in terms of financing and expertise, with other international financial institutions (IFIs) such as the EBRD, the World Bank Group or the Nordic Investment Bank (NIB) in areas of common interest. The Bank may partner on a case-by-case basis with international organisations such as the agencies of the United Nations whose mandates and activities are close to its own (UNHCR, UNDP, UNICEF) or the International Organization for Migration (IOM).

Since 2014, the CEB has been added to the list of ODA-eligible international organisations by the OECD, which testifies to recognition of the Bank's role in the field of social development. In addition to this, the CEB envisages enhancing its cooperation with the OECD, especially on matters related to growth, unemployment and migration in order to better grasp the many social issues affecting its member states and to be in a position to respond to them with adequate project financing.

To sum up, the CEB will be seeking to enhance its visibility and to promote its specific know-how among all social development stakeholders in Europe.

Adapting the Bank's means of action

Flexible financing for greater impact

With the Development Plan 2014-2016, the Bank introduced two new lending instruments, namely the PFF and the ECF. Both these new financing instruments have proved versatile in their practical application by the Bank and have been welcomed by borrowers as tools for addressing investments in diverse social sectors.

In an effort to respond to cross-sectoral needs, with the new Development Plan the Bank has introduced the Cross-sectoral Loan Programme (CSL) as a new type of programme loan. CSLs cover eligible costs related to the development of social infrastructure in several sectors of action linked through a set of related aims and objectives as a cross-sectoral element defined during appraisal. This element defines the project's social added value; it should therefore be quantifiable and measurable in its various vectors e.g. number of beneficiaries from a vulnerable group, energy savings, etc.

CSLs respond to the cross-sectoral needs of public authorities with the ultimate scope of facilitating access to the financing of socially oriented projects and thus boosting public investments in these areas. In preparing CSLs, particular attention will be paid to the country-specific situation and social priorities, with priority being given to disadvantaged areas, social and solidarity economy services, national or local priority programmes in social sectors as well as to communities hosting refugees and migrants. CSLs are available to public authorities, whether national, regional or municipal, as well as to state-owned development banks and other intermediating financial institutions in parallel with the other CEB lending instruments.

Under the new Development Plan, the CSL is mentioned in the Loan Policy together with the Public Finance Facility (PFF) and EU Co-financing Facility (ECF), and has a dedicated chapter in the Handbook for the Preparation and Implementation of Projects[8].

Sustainable funding

The CEB strives to remain innovative not only in terms of the lending instruments it offers to its borrowers but also in terms of keeping pace with market developments. In this respect, and as the social development bank in Europe, the CEB has also considered the possibility of issuing its first Sustainability Bond[9].

Emphasis on the historical mandate

The CEB underlines the importance of its historical social mandate with particular interest in socially oriented investments in all the countries in need and, in some of them, with particular focus on refugee/migrant hosting communities. To emphasise the importance of fostering labour market integration for vulnerable groups, including people of migrant/ refugee origin and facilitating job creation and preservation, the Bank has modified its Social Dividend Account Policy and allow micro-credit projects access to the risk-sharing window of this trust account. The Bank will thus get closer to CoE Resolutions related to micro-credit and its role in the integration of these categories of population by facilitating access to the labour market for vulnerable groups.

8. Handbook for the Preparation and Implementation of Projects is available on www.coebank.org

9. The CEB issued its first social inclusion bond on 3 April 2017.

Strengthened social screening

One of the CEB's most important specificities and comparative advantages is its capacity to screen upfront the social aspects of the projects it finances, and therefore to identify the social added value and ways to increase it during appraisal. Under the new Development Plan, screening is fine-tuned according to type of project and lending instrument; the current "two-pronged Approach" project screening has therefore been revised and adapted to the particularities of each lending instrument. The screening now also includes aspects related to climate change[10].

Also under the new Development Plan, the Bank has introduced Social Safeguards Screening during appraisal to ensure that potential adverse social impacts are addressed in a formal and timely manner. Its revised project appraisal process thus includes a step that screens for the likelihood of such social risks which can trigger application of the safeguard requirements to undertake further risk analysis and prepare mitigation measures when appropriate.

By combining this strengthened project screening (related to the project's expected direct social added value) with the new social safeguards dedicated screening (related to the potential negative consequences that the project might have during implementation), the Bank creates a strong basis for evaluation, covering both appraisal and implementation, which are the main phases of the Bank's direct responsibility on projects in the project cycle.

In light of the above, the Bank has modified its Environmental Policy, which has become the Environmental and Social Safeguards Policy, as well as the related methodologies.

10. Approved by the Administrative Council in March 2016 and the Governing Board in April 2016.

Ensuring financial soundness

Taking into account the financial limitations

For reference, a Capital Adequacy Ratio (CAR)[11] of 20% is the minimum expected of an AAA-rated IFI by the rating agencies. It should also be noted that, although the CEB's prudential framework puts the CAR limit at 10.5%, in line with Basel Committee Banking Supervision requirements, in practice the Bank strives to keep its CAR above the 20% limit, in line with its peers.

It should be noted that the Bank's capital base is strengthened exclusively by the incorporation of profits and reserves. However, against a backdrop of low interest rates and intense competitive pressures, the Bank's net profit is expected to trend downwards.

Considering the still slow pace of global macro-economic recovery and the lagging improvement in credit risk in Europe, the CEB will be required to carefully balance the future volume of activity with its risk profile. Identifying and financing a greater proportion of projects with high social content and acceptable levels of credit risk – be it on a stand-alone basis, with guarantees or risk sharing instruments – will thus remain a persisting challenge for the Bank. Meanwhile, a periodic review of the CEB's capital adequacy is recommended, in line with peer best practices.

Prudential Framework, close monitoring of parameters

The Bank is implementing a new Financial and Risk Policy. The aim of the CEB's new Policy is to maintain the Bank's solid financial standing so as to allow it to pursue and achieve its social mandate with success. Against the background of current developments that stress the importance of the Bank's mission and call for redoubled efforts and commitments, the new policy is well suited to accompany implementation of the new Development Plan. Coupled with the careful introduction of elements of flexibility in financial management to respond to changes in market and regulatory environments, the new policy preserves the CEB's prudent approach to its financial strategy and ensures the financial solidity of the Bank in the changing circumstances.

Meanwhile, it should be noted that the operational objectives of the new Development Plan assume a stabilisation of the CEB's risk profile and do not consider either the accession of new member states with considerable impact on the CEB's capital or the Bank receiving additional paid-in capital.

Based on the current context assumptions, the CEB will strive to maintain and even improve the current Capital Adequacy Ratio[12] levels and bring the Indebtedness Ratio to levels below 6.

In order to ensure its healthy financial position, the Bank, like other IFIs, will carry out regular reviews of its capital adequacy, notably taking profitability constraints into account. The first exercise is planned for the first half of 2018.

11. The Capital Adequacy Ratio is calculated as usable equity over risk weighted assets. The CAR measures the Bank's capacity to cover any losses that might arise from its assets (loans and treasury portfolios).
12. The Indebtedness Ratio is calculated as total debt outstanding (debt evidenced by security after swap, ECPs, bank advances and term deposit accounts without collateral) after swap compared to Prudential Equity (paid-in capital, reserves and net profit).

More lending, increased efficiency

Striking the right balance between credit risk and volume

Taking into account the current challenges concerning both the socio-economic situation and the evolution of credit risk in Europe, enhanced attention must be given to balancing the Bank's future volume of activity with its risk profile. Hence, as under the previous Development Plan, the major determinants of the new Plan are related to the challenge of achieving greater integration between high social content and affordable credit risk.

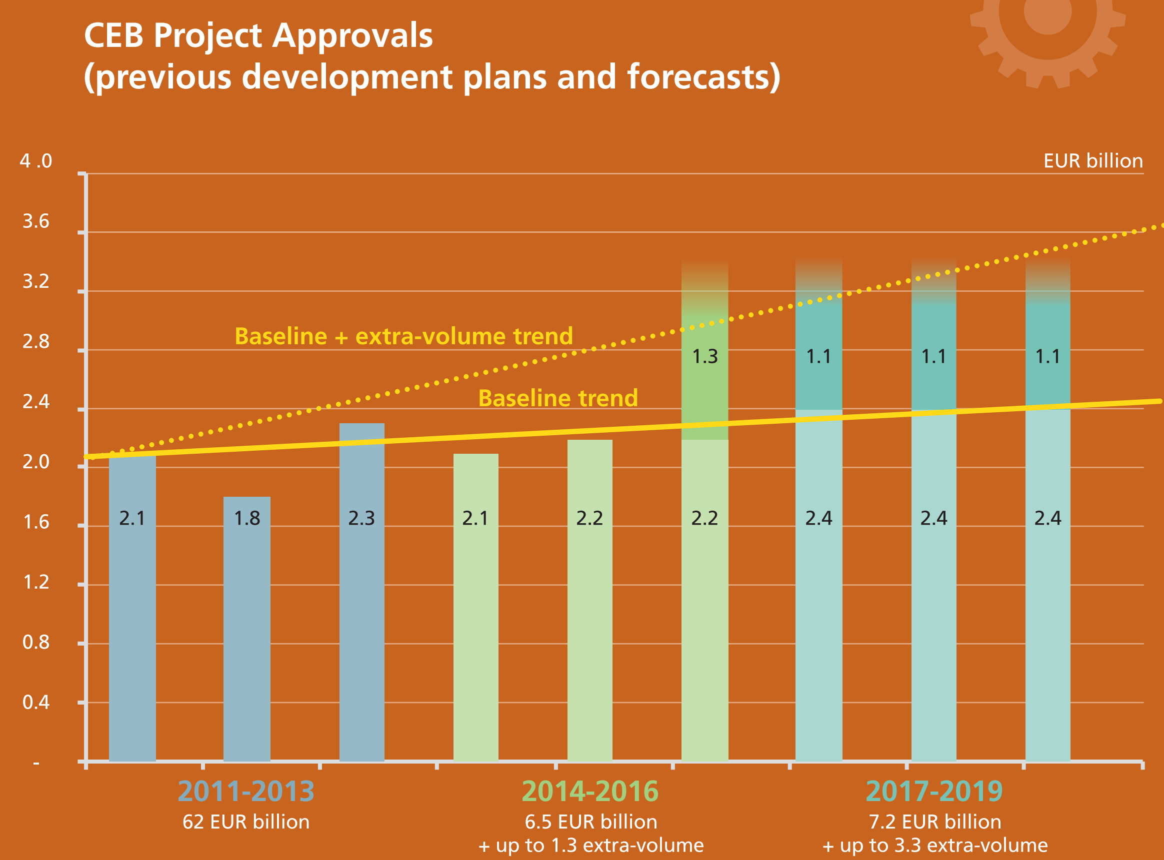
The CEB will increase its role by fostering the development of socially oriented projects with a pro-active business oriented approach. For this, it will combine all the institutional mechanisms at its disposal for the selection, monitoring and enforcement of social added value with the provision of loans at attractive interest rates in both Target and Non-Target Groups of countries. In particular, the Bank will continue to effectively exploit the potential complementarities between public and private sector financing operations.

Due to strong demand coming from communities hosting refugees and migrants, 2016 emerged as an extraordinary year in terms of total volumes of up to € 3.5 billion including around € 1.3 billion in approvals above and beyond the 2014 and 2015 baseline of € 2.2 billion.

Should the surge in financing demand coming from communities hosting refugees and migrants persist and spill over into 2017, then the apparently exceptional nature of 2016 will have to be put into perspective. Planning based on 2016 volumes has meant considering a possible new trend of extra volumes which, if confirmed, will mean the CEB taking into account an annual increase in approvals of up to 50% of the baseline for the coming three years, as presented in the diagram below.

In this context, the Bank will strive to keep approval and disbursement volumes in its group of target countries within this trend and record disbursements of above € 1 billion in CEB target countries each year of the new Plan; this, however, will depend on the loan demand emanating from borrowers in those countries and the absorption capacity.

The baseline operational objectives allow the Bank to steadily increase its contribution to target and non-target countries, in continuity with the operational orientations of previous Development Plans. Nevertheless, an increase in the volume of approvals, even if substantial, will not lead immediately to a comparable increase in the volume of disbursements due to (i) the current low interest rate environment and resulting competitive pressures and high volatility on the market, and (ii) the specificity of the CEB's lending instruments, mainly the EU Co-financing Facility and the Public Sector Finance Facility, which provide borrowers with long disbursement periods, adapted to the EU programmes and budgetary needs.



All the numbers are set with +/- 10% flexibility due to the considerable level of uncertainty. The variations could be more important, if some of the risks listed in the current document materialise or the interest for investments in social sectors is higher.

Taking full advantage of the balance sheet for increased efficiency

If the assumptions in terms of volumes are confirmed, the new Plan will allow the Bank to increase the efficiency of its capital by increasing lending without substantially increasing risks, through optimisation of the use of its financial resources. Depending on the trends in volumes mentioned above, the CEB's loan portfolio could go above €14.5 billion during the period, thus potentially increasing its share in the Bank's total balance sheet. This would allow CEB member states to take full advantage of the CEB's balance sheet potential without putting its financial position at undue risk.

The new Development Plan aims to further consolidate the CEB's social brand through the strenghtening of the Bank's mandate and a greater impact on projects with increased allocation of the Bank's resources to its core business.

Appendices

The CEB's member states

	Date of accession	Participation in capital as at 31.12.2016
Albania	24 June 1999	0.245%
Belgium	16 April 1956	3.003%
Bosnia and Herzegovina	18 December 2003	0.177%
Bulgaria	28 May 1994	1.141%
Croatia	24 June 1997	0.391%
Cyprus	18 November 1962	0.363%
Czech Republic	12 February 1999	0.786%
Denmark	1 April 1978	1.639%
Estonia	3 April 1998	0.233%
Finland	13 May 1991	1.275%
France	16 April 1956	16.735%
Georgia	10 January 2007	0.180%
Germany	16 April 1956	16.735%
Greece	16 April 1956	3.003%
Holy See	4 September 1973	0.003%
Hungary	10 March 1998	0.818%
Iceland	16 April 1956	0.185%
Ireland	30 November 2004	0.883%
Italy	16 April 1956	16.735%
Kosovo	4 November 2013	0.120%
Latvia	14 September 1998	0.234%
Liechtenstein	1 January 1976	0.053%
Lithuania	8 January 1996	0.230%
Luxembourg	16 April 1956	0.635%
Malta	1 March 1973	0.185%
Republic of Moldova	1 April 1998	0.100%
Montenegro	19 November 2007	0.120%
Netherlands	1 January 1978	3.633%
Norway	1 January 1978	1.27%
Poland	17 August 1998	2.344%
Portugal	1 August 1976	2.543%
Romania	5 March 1996	1.095%
San Marino	27 April 1989	0.089%
Serbia	23 April 2004	0.472%
Slovak Republic	22 December 1998	0.346%
Spain	1 January 1978	10.914%
Slovenia	1 February 1994	0.225%
Sweden	1 July 1977	2.543%
Switzerland	1 January 1974	0.984%
"the former Yugoslav Republic of Macedonia"	15 December 1997	0.233%
Turkey	16 April 1956	7.096%

Glossary

Title - CEB

Since its creation in 1956, the Bank has been known successively under three different titles. Since 1 November 1999, it has been known as the CEB-Council of Europe Development Bank.

Council of Europe

Established under the Treaty of London on 5 May 1949, the Council of Europe is the continent's leading human rights organisation. It includes 47 member states. All Council of Europe member states have signed up to the European Convention on Human Rights, a treaty designed to protect human rights, democracy and the rule of law.

Articles of Agreement

The CEB's Articles of Agreement establish the Bank, its purpose, membership and means of action. They set down its governance, organisation, administration and supervision. The first Articles of Agreement were adopted by the Committee of Ministers of the Council of Europe on 16 April 1956 under Resolution (56)9. New Articles of Agreement, adopted by the Committee of Ministers on 16 June 1993 under Resolution (93)22, came into force on 18 March 1997 following their ratification by all the member states.

Member states

As at 31 December 2016, the CEB had 41 member states: Albania, Belgium, Bosnia and Herzegovina, Bulgaria, Croatia, Cyprus, Czech Republic, Denmark, Estonia, Finland, France, Georgia, Germany, Greece, Holy See, Hungary, Iceland, Ireland, Italy, Kosovo, Latvia, Liechtenstein, Lithuania, Luxembourg, Malta, Moldova (Republic of) Montenegro, Netherlands, Norway, Poland, Portugal, Romania, San Marino, Serbia, Slovak Republic, Slovenia, Spain, Sweden, Switzerland, "the former Yugoslav Republic of Macedonia" and Turkey.

Target countries

As at 31 December 2016, a group of countries comprising 22 CEB member states in Central, Eastern and South Eastern Europe, namely: Albania, Bosnia and Herzegovina, Bulgaria, Croatia, Cyprus, Czech Republic, Estonia, Georgia, Hungary, Kosovo, Latvia, Lithuania, Malta, Moldova (Republic of), Montenegro, Poland, Romania, Serbia, Slovak Republic, Slovenia, "the former Yugoslav Republic of Macedonia" and Turkey.

Appraisal

The process of identification and assessment of potential projects prior to their submission for approval by the CEB's Administrative Council. The process includes both an assessment of all relevant aspects of the project as well as a credit risk evaluation of the Borrower.

Approval (Project approved)

A project that has been submitted to the Administrative Council and approved for funding.

Borrower

A borrower may be a CEB member state, a central or local government entity, a financial institution or any other public or private entity approved to borrow from CEB.

CEB Loan Policy ("CEB Loan and Project Financing Policy")

The policy that defines the basic principles for the selection and implementation of the Bank's investment projects. In particular, the policy sets forth the guidelines given in matters of project financing, successively defining (i) the CEB sectors of action, (ii) the Bank's financial means of action, (iii) the mechanisms for approving loan applications and for managing the stock of projects, (iv) the financing and monitoring of projects. These provisions are completed by different implementation documents, namely the "Handbook for the Preparation and Monitoring of Projects" and the "Loan Regulations".

CEB Loan Regulations

The general conditions governing loans granted by the Bank and guarantees thereof. The Loan Regulations are attached to the Framework Loan Agreement signed by the CEB and the Borrower.

Cross-sectoral loan

A CEB loan instrument designed to finance socially oriented projects eligible in several CEB "sectors of action" at the same time. CSLs are available to public authorities directly, whether national, regional or municipal, as well as through state-owned development banks and other intermediating financial institutions.

Disbursement (Loan disbursed)

A loan that has actually been paid to the borrower.

European Co-financing Facility (ECF)

A loan instrument developed by the CEB in order to assist CEB member states in taking full advantage of different the EU financing instruments available for addressing their social investment needs and directly supporting current EU objectives, both within the EU and in other CEB member states eligible for EU fund support. To facilitate the absorption and use of the available EU grants in CEB sectors of action, ECF loans take into account the planned implementation framework and the likely funding gaps.

Loans outstanding

Total amount of loans disbursed and not yet repaid.

Public Sector Finance Facility (PFF)

Is a loan instrument developed by the CEB and designed to enable the provision of flexible financing in CEB sectors of action exclusively intended for investment programmes implemented by the Bank's member states or by their primarily budget-financed public entities with sub-optimal funding levels. PFFs aim to safeguard the viability of social investments faced with the lack of stable budget funding over time.

Programme loan

Loans made to intermediary institutions in order to finance a programme of diverse investments (smaller individual sub-projects) and multi-project programmes in one or several CEB sectors of action.

Social Dividend Account (SDA)

An account funded mainly by an earmarked portion of the Bank's shareholder-approved annual results and used to finance grants in favour of high social impact projects. These grants may take the form of interest-rate subsidies, technical assistance grants, loan guarantees or donations.

Two-pronged approach to project screening ("Two-pronged approach")

Developed by the CEB in order to guide Project appraisal, the approach recognises that the social added value of a project depends both on its intrinsic characteristics ("Project Rating") and on the context in which the project is carried out ("Country Rating").

Abbreviations and acronyms

CEB
Council of Europe Development Bank

CSL
Cross-sectoral loan

EBRD
European Bank for Reconstruction and Development

ECF
(CEB) European Co-financing Facility

EIB
European Investment Bank

EU
European Union

IFIs
International financial institutions

MDBs
Multilateral development banks

MSMEs
Micro, small and medium-sized enterprises

NIB
Nordic Investment Bank

ODA
Official development assistance

OECD
Organisation for Economic Co-operation and Development

PFF
(CEB) Public Sector Finance Facility

SDA
(CEB) Social Dividend Account

UNDP
United Nations Development Programme

UNHCR
United Nations High Commissioner for Refugees

UNICEF
United Nations Children's Fund

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