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Activities and orientations of the Council of Europe Development Bank

Reply to Recommendation¹: Recommendation 1818 (2007)
Committee of Ministers

1. The Committee of Ministers has taken note with interest of Parliamentary Assembly [Recommendation 1818 \(2007\)](#) on the activities and orientations of the Council of Europe Development Bank (CEB). It has brought the recommendation to the attention of member states' governments, in particular paragraph 9.2 which recommends that the Committee of Ministers strongly encourage member states that are not yet members of the CEB to join it at the earliest opportunity. It notes with satisfaction that membership of the bank now includes 40 member states.

2. The Committee of Ministers refers to the comments from the governing board of the Council of Europe Development Bank which are appended to this reply. It considers that the elements provided constitute a comprehensive response to the issues raised by Assembly on the activities and orientations of the bank, in particular to the recommendations addressed to the bank and its member states.

1. Adopted by the Committee of Ministers on 21 May 2008, at the 1027th meeting of the Ministers' Deputies.



Appendix – Comments of the Council of Europe Development Bank (CEB) on Parliamentary Assembly Recommendation 1818 (2007)

Paragraph 3

“The CEB continues its work with the Council of Europe for the implementation of the 2004 Strategy for Social Cohesion, in particular in identifying and supporting, in co-operation with member states, concrete projects in support of the human rights of children, young people, migrants, ethnic minorities, people with disabilities and the elderly.”

Paragraph 5

“The CEB follows very closely with the Council of Europe the development, the adoption and the implementation of the Action Plan 2006-2015 for people with disabilities (Recommendation Rec(2006)5). The CEB was also represented at the conference organised in St Petersburg, Russian Federation, on 21 and 22 September 2006 on ‘Improving the quality of life of people with disabilities in Europe: participation for all, innovation, effectiveness’. The CEB stands ready to evaluate and finance projects proposed by the member states in this specific sector of action.”

Paragraph 6

“The CEB approved in November 2007 the first project in the sector of action ‘Infrastructure of administrative and judicial public services’, as referred to in [Resolution 1495](#), ch.1, I, 1.5. The CEB loan of €100 million to France comes in response to the French territorial authorities’ increasing need for financing, on the one hand, to build and renovate infrastructure for administrative and judicial public services and, on the other hand, to undertake investments linked to the health sector, such as hospital services and retirement homes.

Moreover, in close collaboration with the Council of Europe Committee for the Prevention of Torture and Inhuman or Degrading Treatment or Punishment, the CEB is examining the possibility of financing a project for the rehabilitation of prison infrastructure in one of the target group countries. This project is expected to be submitted to the Administrative Council in the course of 2008.

In the same vein, the Norwegian Human Rights Trust Fund was established in November 2007 between the CEB, Norway and the Council of Europe, in particular the Directorate General of Human Rights and Legal Affairs. This new co-operation vehicle will allocate resources to technical assistance, underpinning national efforts to implement the European Convention on Human Rights.”

Paragraph 8

“The CEB is reinforcing the co-operation with the European Investment Bank (EIB) and the European Bank for Reconstruction and Development (EBRD) in its member states. The co-operation has recently resulted in the co-financing of several projects in the CEB’s target countries (for example, education in Albania, environmental protection in Cyprus and municipal infrastructure in Poland). It should also be recalled that a Memorandum of Understanding between the CEB, the European Commission and several international financial institutions (IFIs), including the EBRD and the EIB, on “Cooperation for eastern Europe and Southern Caucasus, Russia and central Asia”, was signed in Paris on 13 July 2007. This agreement covers reinforced co-operation in matters of programming interventions by the signatories, exchanges of information, project co-financing and coordinated approaches in their implementation in favour of countries covered by the European Neighbourhood and Partnership Instrument (ENPI). Among the CEB member states, Georgia and Moldova are directly concerned.”

Paragraph 9.1

“The interaction between the CEB and the Council of Europe is ongoing at different levels. An example of this is the organisation of the Second Health Ministers’ Forum held in Skopje in November 2005. In addition, the CEB is represented on various Council of Europe steering committees, inter alia, on social cohesion, and participates regularly in ministerial conferences. Direct co-operation has been established between the CEB and Council of Europe communication services. As regards the Council of Europe-CEB co-operation on identifying and preparing projects in the target group countries, liaison meetings have been regularly organised since 2004, and the last one was held in Paris on 31 May 2007.

The Norwegian Human Rights Trust Fund will also contribute to an increased interaction between the Council of Europe and the CEB. As already mentioned, this fund will allocate resources to technical assistance, underpinning national efforts to implement the European Convention on Human Rights.”

Paragraph 9.2

“On 19 November 2007, Montenegro officially became a member state of the Council of Europe Development Bank. With this new membership the CEB now has 40 member states, of which 18 are central and eastern European countries.

Contacts are maintained with other Council of Europe member states interested in becoming members of the CEB.”

Paragraph 9.3.1

“The CEB is increasingly working with local and regional authorities. For example, it has approved a series of loans for €400 million, providing financing to Danish local authorities for the construction and renovation of housing for the elderly. The CEB has also provided a series of smaller loans to the autonomous region of Castilla La Mancha in Spain. These loans have been financing projects aimed at improving education facilities, constructing or refurbishing social centres for young children and elderly people, developing cultural facilities and rehabilitation of historical heritage.

With the aim of capacity building in target group countries and in line with the principles enshrined in the European Charter for Local Self-Government, in particular Article 9 – ‘Financial resources of local authorities’, the CEB organised meetings in Paris to promote the Nordic model of municipal authority financing among target group countries.

The work in support of the development of local and regional authorities is also carried out in close cooperation with other international financial institutions. For instance, the CEB approved in November 2007 a loan of €95 million to the region of Mazovia (Poland), which complements funding provided by the EIB and European Union structural funds for a project to upgrade local and regional infrastructure.”

Paragraph 9.3.2

“The CEB’s action is guided by the Development Plan 2005-2009, which stipulates that the bank should consolidate its action as the reference European financial institution for projects concerning refugees and displaced persons. The CEB reiterates that programmes for refugees and displaced persons are a high priority and therefore stands ready to evaluate and finance projects proposed by the member states in this specific sector of action.”

Paragraph 9.3.3

“The CEB’s co-operation with the Council of Europe in this field follows the lines of the Revised Strategy for Social Cohesion, approved by the Committee of Ministers of the Council of Europe on 31 March 2004. The CEB has already approved several projects which are in line with national programmes for social cohesion. The 2007 project for the Shkodra hospital in Albania makes explicit reference to the South-East Europe Health Network. Another project for the part-financing of physical education facilities in “the former Yugoslav Republic of Macedonia” refers to the Committee of Minister’s Recommendation Rec(2003)6 on improving physical education and sport for children and young people in all European countries. The CEB also approved in November 2007 a loan of €100 million to OKO Bank, Finland, which will focus on low-income populations in need of better housing, including the elderly, handicapped persons and students.”

Paragraph 9.3.6

According to Article XII of the Articles of Agreement of the CEB: “In its annual report, the auditing board shall certify that the balance sheet and operational accounts accord with the books, that they give an accurate and true picture of the state of the bank’s affairs as at the end of each financial period and that the bank is being managed according to the principles of sound financial management. The board shall receive copies of any documents useful to it in its work, such as the reports of the external and internal auditors. At the request of the organs of the bank, the board shall perform any other task pertaining to the supervision of the bank’s financial activity”.

Paragraph 9.4.1

“The activity strategy set out in the 2005-2009 Development Plan provided for an expansion of the CEB’s activities in a target group² of countries of central and South-Eastern Europe. Important efforts have been made in order to achieve this ambitious objective of rebalancing the bank’s loans portfolio.

The percentage of projects in favour of target group countries in the overall stock increased from 67% at the end of 2004 to 83% at the end of 2007.

€ million	Stock of projects			
	End of 2004		End of 2007	
Target countries	1 781	67%	3 701	83%
Other countries	861	33%	752	17%
Total	2 642	100%	4 453	100%

Within the target group, the non-EU member countries received particular attention within the framework of the 2005-2009 Development Plan. Indeed, before their accession to the European Union in January 2007, the total amount approved in favour of Bulgaria and Romania amounted to €1 069 million for the period 2005 to 2006 (spread over 14 projects).

The CEB’s activities between 2005 and 2007 also targeted countries which are not members of the EU.³

€ million	2005-2006 (including Bulgaria and Romania)		2007 (without Bulgaria and Romania)	
	Projects approved	Amount approved	2 022	Amount approve
	Number of projects	40	Number of projects	13
Projects disbursed	Amount disbursed	716	Amount disbursed	189
	Number of projects	60	Number of projects	23

Accompanying mechanisms have also been proposed and implemented since the adoption of the Development Plan in order to support the development of projects in these countries. The different mechanisms were incorporated in the Policy for Loan and Project Financing adopted in June 2006 under Administrative Council [Resolution 1495](#).

These mechanisms include:

1. The possibility of granting interest-rate subsidies for projects in favour of countries covered by Poverty Reduction Strategy Papers (PRSPs) up to 300 base points. So far, 18 projects have benefited from the CEB’s Selective Trust Account’s (STA) subsidies in the amount of €36 million.

In 2007, the CEB approved three new projects benefiting from the STA’s conditions, all in favour of target countries (Albania and Serbia). These approvals correspond to €4 million payable through the STA’s resources. As a result, subsidised loans outstanding at year-end amount to €673.5 million.

2. Technical assistance through trust funds.

The CEB is making increasing use of innovative instruments such as trust funds to boost the value added of its contribution. In this respect, the trust fund fed by Norway (the “Norway Trust Account” (NTA)) has been playing a major role since 2004 in the preparation and appraisal phases of various projects for countries in the Balkans (use of consultants, preliminary studies, accompanying measures, institutional support).

2. Albania, Bosnia and Herzegovina, Bulgaria, Croatia, Cyprus, Czech Republic, Estonia, Hungary, Latvia, Lithuania, Malta, Moldova, Poland, Romania, Serbia, Slovak Republic, Slovenia, “the former Yugoslav Republic of Macedonia” and Turkey. Georgia and Montenegro were incorporated in this group following their accession in January and November 2007 respectively.

3. List of CEB’s target countries not members of the European Union (as of 1 January 2008): Albania, Bosnia and Herzegovina, Croatia, Georgia, Moldova, Montenegro, Serbia, “the former Yugoslav Republic of Macedonia” and Turkey.

In 2008, the Norwegian authorities extended the programme with a fresh contribution of €500 000 bringing the total contribution to €2.5 million. At the end of 2007, the NTA had provided support for 28 projects in the different eligible sectors.

During the past four years, the NTA has become a crucial tool to support CEB's operations in the western Balkan countries. It has allowed the CEB to diversify its operations (both in terms of sectors as well as geographically), increase the impact of its loans (often in cooperation with international partners⁴) and facilitate the preparation of projects with high social content. The NTA support has also a strong leverage effect: based on NTA-financed technical assistance and capacity building preparatory work, the CEB's Administrative Council has approved several projects partially financed with CEB loans, for a total loan amount of €69 million.

The aforementioned mechanisms have proven to be useful for the development of these projects as they require specific support. It is clear at this stage that the continuation and strengthening of these activities will require additional resources (see points 9.4.3 and 9.4.6 below)."

Paragraph 9.4.3

"In reference to point 9.4.1 above, the development of the CEB's co-operation with other IFIs can contribute to the development and implementation of quality bankable projects.

Partnerships are a key element for developing the CEB's activities among the non-EU member countries, considering the difficulties related to:

- project preparation;
- borrowers' creditworthiness and debt sustainability;
- project implementation.

In this connection, while the CEB is linked to other IFIs⁵ through several co-ordination instruments concluded under the aegis of the European Union, it has also signed three bilateral memoranda of understanding on general cooperation with, respectively, the EBRD, the World Bank (including the International Development Association – IDA) and the Nordic Investment Bank (NIB).

In addition, a bilateral agreement (Memorandum of Understanding) with the EIB is currently under preparation with a view to formalise and strengthen operational ties between the two institutions."

Paragraph 9.4.4

"The development of projects in favour of target countries relies in particular on the CEB's capacity to put in place the appropriate means to allow the development of the absorption capacity and the efficiency of projects.

In this connection, the CEB is therefore placing increasing emphasis on technical support during project preparation and on institutional capacity building. In practice, CEB teams are becoming increasingly closely involved in the process of designing, preparing and monitoring projects with a view to maximising resources and the quality as well as the prospects for success of projects.

In 2007, supporting the Directorate General for Loans, the CEB's technical advisers made 85 project visits (appraisal, procurement, follow-up and achievement), including 67 in target group countries, or 79% of the activity there.

The recommendations by the Department of Ex-Post Evaluation also strengthen the CEB's ability to support the institution's policy of funding sustainable projects."

4. Such partnerships include SPOLU International (Dutch foundation specialised in community development), the Open Society Institute, United Nations agencies such as the United Nations Development Programme (UNDP), the United Nations Economic Commission for Europe (UNECE), The United Nations Human Settlements Programme (UN-Habitat), the International Organization for Migration (IOM) and the World Health Organization (WHO).

5. Multilateral agreement signed in March 2000, revised in May 2003 and June 2005: the International Bank for Reconstruction and Development (World Bank), European Commission and EIB, EBRD, CEB, NIB, International Finance Corporation (IFC), Nordic Environment Finance Corporation (NEFCO), Black Sea Trade Development Bank (BSTDB).

Paragraph 9.4.5

“The CEB publishes full information on its missions, its projects and its operating methods via a wide variety of media (annual report, CD-ROM, website, thematic brochures, etc.). It should also be noted that the volume of information about the CEB available on the CEB’s website has increased by over 40% during the past twelve months. In compliance with the CEB’s Articles of Agreement, all the communication media are available in the two official languages: English and French.”

Paragraph 9.4.6

“The development of mechanisms such as trust funds answers this need. Intended for the financing of technical assistance activities, trust accounts give the CEB a new means of action in favour of target countries, in particular for preparing pre-feasibility and feasibility studies, setting up pilot operations or accompanying existing projects:

Instruments such as the NTA – see also point 9.4.1 above – enable the CEB to broaden the scope of its activities in favour of social development in the less favoured regions and to identify, prepare and increase implementation capacity of new CEB-financed projects. In addition, the NTA framework has provided a number of best practices that the CEB could apply in co-operation with other potential donors in the future as well as promote in its own technical assistance and project activities in the western Balkan region and beyond. Success stories have also raised awareness of the instrument’s social value and increased the local appetite for new projects”.

The CEB recently approved the setting up of a Human Rights Trust Fund in line with the recommendations of the 3rd Summit with the support of the Government of Norway, as founding contributor, and participation of the Council of Europe and the CEB. This new mechanism creates the conditions for an efficient partnership for the development of projects in this important and complex human rights sector.

There are two additional sources of funding connected to the European Union in favour of target countries: the Neighbourhood Investment Fund and an infrastructure project facility (IFA).

The Neighbourhood Investment Fund

This facility will enable joint European Union operations (combining bilateral and community grant funding) with eligible European IFI operations (among them the CEB) for the neighbourhood countries in the east (former CIS countries) and in the south (South Mediterranean countries). Among the first group of countries (that is, countries in the east), the CEB has two eligible member countries, namely Georgia and Moldova.

The financial envelope from the European Commission for this facility will be €100 million for the budgetary period 2007 to 2008. This amount would be supplemented by resources from bilateral donors (that is, EU member states).

For this facility, social sector projects have been expressly earmarked.

A new infrastructure project facility (IPF)

The European Commission has established – in collaboration with the three European IFIs (EIB, EBRD and CEB) a new facility for pre-accession and accession countries. Its purpose will be to finance technical assistance for projects of the said IFIs, in co-ordination with Instrument for Pre-Accession Assistance (IPA) annual national programmes.

The IPF is starting with a €16 million budget (2007 budget) and will receive additional amounts according to need.

Social sector projects are expressly earmarked for IPF financing.”

Paragraph 9.4.7

“The role of indirect loans through intermediary banks is followed closely by the organs of the CEB on an ongoing basis (see, for example, the Memorandum of the Governor CA/246/1661/2007 dated 16 February 2007).”

Paragraph 9.4.8

“To accompany the sectoral and geographical redeployment of its activity, to adapt its instruments for action to the expectations of its member states and to comply with increasingly rigorous operational standards, the CEB has steadily increased its staff numbers in the course of the past years.

This recruitment effort has been accompanied by a very active endeavour to diversify the nationalities represented among the CEB's staff: in effect, recruitments carried out over the past three years have involved a total of 15 different nationalities.

The CEB has therefore seen a more than twofold increase in the number of nationalities represented among its staff since 1994, reaching a total of 25 nationalities by the end of 2007. This upward trend has been even more marked among management staff, where the number of nationalities represented has increased from 5 to 24 over the past thirteen years.

A very particular effort has been made to further increase the number of staff representing the more recent member states. More than one third of the staff members recruited over the past three years have been from countries that have joined the CEB since 1994.”