



Recommendation 1937 (2010)¹

Final version

The strategy, governance and functioning of the Council of Europe Development Bank

Parliamentary Assembly

1. Against the background of lingering financial and economic crisis, the Parliamentary Assembly underscores the increased role of international financial institutions and multilateral development banks, such as the Council of Europe Development Bank (CEB), which is a unique instrument for promoting socio-economic cohesion and solidarity in European society. In order to maintain public confidence in such institutions, it is more important than ever that they function efficiently and that their governance is beyond reproach and democratically accountable.
2. The roots of the Council of Europe and the CEB are closely intertwined and linked with the making of Europe. Both institutions have grown rapidly since 1990 to embrace emerging democracies and both have embarked upon sweeping reform of their functioning. In this context, the Assembly welcomes the opportunity to contribute to the ongoing reflection on the CEB's priorities, financial benchmarks, governance, relations with the Council of Europe and other international partners, and development impact evaluation. The Assembly is convinced that this is also the right moment to enhance dialogue and the information flow between the CEB and the Assembly, including via a co-operation agreement.
3. The Assembly believes that the relation between CEB activities and Council of Europe values should be further strengthened. It therefore strongly supports a proposal made in the framework of the CEB's Strategic Review that the commitment to activities underpinning democracy, human rights and the rule of law, such as through investment in judicial and civil service training institutions and infrastructure, should be explicitly stated as part of the CEB's mandate. It is essential that the CEB cultivate its specificity on the European scene in this field.
4. Over the last few years, the CEB has worked in a very unstable and worsening environment as the financial storm has swept through the world and Europe, adversely affecting the confidence of global investors and crippling national economies. The unfavourable economic outlook brought lending to record lows and public finances had to shift significant resources to finance rescue packages.
5. Many countries of central and eastern Europe have had to face the consequences of net capital outflows, sinking credit ratings, deteriorating economic performance and social conditions, as well as hurdles to mobilising financial resources. As a result, the needs of 21 countries belonging to the CEB's target group (Albania, Bosnia and Herzegovina, Bulgaria, Croatia, Cyprus, Czech Republic, Estonia, Georgia, Hungary, Latvia, Lithuania, Malta, Moldova, Montenegro, Poland, Slovak Republic, Romania, Serbia, Slovenia, "the former Yugoslav Republic of Macedonia" and Turkey) rose dramatically whilst borrowing opportunities diminished or became very costly.

1. *Assembly debate* on 6 October 2010 (33rd Sitting) (see [Doc. 12352](#), report of the Committee on Economic Affairs and Development, rapporteur: Mr Elzinga). *Text adopted by the Assembly* on 6 October 2010 (33rd Sitting).



6. The Assembly appreciates that the CEB's lending was only mildly affected and that only one CEB borrower missed some payments due. Whereas the volume of commitments (projects approved) shrank by over 20% between 2006 and 2008, the level of disbursements remained stable and even grew in respect of target countries. In 2009, the CEB's activities expanded rapidly, in particular in favour of target countries, even as prudential frameworks for risk management were tightened up.

7. At the same time, the CEB needs to ensure a more balanced loan portfolio that would shift more funds towards the neediest countries outside the European Union. In order to move faster, but not too fast – which would put at risk its top credit rating and the ability to offer good value for money loans to its member states – the CEB has to strike a balance between its engine (lending capacity) and its brakes (risk management imperatives). Considering this, and the fact that in May 2010 another major development bank in Europe – the European Bank for Reconstruction and Development – approved a large increase in its capital (by €10 billion or 50%) in order to better respond to the growing needs of its client countries, the CEB member states should very seriously consider boosting the CEB's capital.

8. The Assembly notes that the CEB's activities under the 2005-2009 Development Plan were largely in line with the objectives set and that a new Development Plan for 2010-2014 has been endorsed. The latter counts on a fragile economic recovery in Europe accompanied by higher unemployment and greater social needs, especially in central and south-eastern Europe. Three long-term trends – population ageing, higher cost of energy and increasing financial needs of local authorities – are expected to affect all CEB member states. The CEB therefore plans to increase its lending volume by 15%, to enhance support to target countries so that the loans outstanding for this group would represent 60% of the total by 2014 (compared with 40.5% in direct support at present, and 47.1% if indirect loans are included), to boost lending to social infrastructure projects and to strengthen co-operation with the European Union and donor countries on project implementation.

9. The CEB has concluded a series of co-operation agreements with the European Union, international financial institutions and the United Nations specialised agencies. The practical use and implementation of these instruments should be expanded with a view to sharing costs, practices, competences, experience and risks. In particular, efforts should focus on co-financing activities in the neediest target countries and specifically on micro-finance, women's entrepreneurship, energy efficiency, migrants and socio-economic cohesion. This would increase the CEB's visibility, development impact and risk-taking capacity.

10. The Assembly welcomes the approval and entry into force, as from January 2010, of the codes of conduct in respect of CEB management, chairpersons and members of the collegial bodies (Governing Board and Administrative Council), contractual collaborators or service providers and the Auditing Board. It furthermore commends the CEB's efforts at self-assessment, as witnessed in the publication of corporate social responsibility reports.

11. The Assembly therefore recommends that the Committee of Ministers:

11.1. in the light of the ongoing CEB Strategic Review, urge CEB member states to:

11.1.1. agree on a substantial increase in the CEB's capital;

11.1.2. reach a compromise on streamlining the CEB's governance model, while preserving the checks-and-balances system within the power structure of the bank;

11.1.3. align the number of terms of office for the posts of Governor and Vice-Governors more closely with that of the Chairs of the bank's organs;

11.1.4. clarify the duties and responsibilities of Vice-Governors;

11.1.5. simplify the voting system of the CEB's Administrative Council and Governing Board;

11.1.6. enhance the independence of the CEB's evaluation function by ensuring that the Ex Post Evaluation Department reports directly to the bank's organs;

11.2. in order to consolidate the link between the CEB and its parent organisation, the Council of Europe, and in the framework of Council of Europe reform and reprioritisation, to:

11.2.1. ensure that a sufficient size and functional capacity of the secretariat of the Partial Agreement on CEB in Strasbourg be preserved;

11.2.2. strengthen the Organisation's transversal co-ordination capacity to identify more bankable projects for possible CEB financing;

11.2.3. seek the CEB's assistance and know-how in fund investment with a view to generating higher returns from the resources accumulated in the Council of Europe pension reserve fund;

11.2.4. encourage those Council of Europe member states not yet parties to the partial agreement on the CEB to join it;

11.2.5. assess the action taken by the CEB and its member states in order to launch projects under the Council of Europe Action Plan 2006-2015 for people with disabilities and ensure adequate implementation of Recommendation CM/Rec(2010)2 on deinstitutionalisation and community living of children with disabilities, including the generation of projects in this field for CEB financing;

11.3. encourage the CEB to:

11.3.1. accelerate efforts to phase out indirect loans through intermediary banks and tighten its control over the financing conditions applied by the intermediaries to the final borrowers;

11.3.2. consider replicating high value-added projects in several target countries;

11.3.3. seek enhanced continuity and impact of its financing through involvement in a series of related projects;

11.3.4. increase activities underpinning democracy, human rights and the rule of law, such as through investment in judicial and civil service training institutions and infrastructure;

11.3.5. offer additional technical assistance, where possible together with the Council of Europe, for studies on project feasibility, needs assessment and absorption capacity-building in its newest and neediest member states;

11.3.6. publish background information on its mission and operating principles for the attention of the general public in the languages of target countries;

11.3.7. continue efforts towards increased geographical diversification and gender balance of its staff, in particular in senior management positions;

11.3.8. in the framework of its structural reform, foster the culture of sharing and co-ordination among its various structural units, especially at horizontal level.

12. Recalling its [Recommendation 1567 \(2002\)](#) on parliamentary scrutiny of international institutions, the proposals for enhanced dialogue and co-operation between the Parliamentary Assembly and the Committee of Ministers of September 2009 and the recommendations contained in the CEB Strategic Review report of October 2008 as regards transparency and accountability, the Assembly asks the Committee of Ministers to regularly inform it about the CEB's activities and work, including through transmission of relevant documents of the CEB Governing Board.