

Corporate Social Responsibility Report

CEB

COUNCIL OF EUROPE DEVELOPMENT BANK

Corporate Social Responsibility Report



April 2010

Message from the Governor





One year after the publication of the first Corporate Social Responsibility Report, the crisis and its consequences now impel us to root our action ever more firmly in sustainable development. It is the approach that has underpinned the development of the CEB throughout the past years, it is what enabled us to get through 2009 in good conditions and it is the perspective in which we wish resolutely to situate ourselves.

To date, I think I can safely say that the Institution has emerged strengthened from the crisis. Strengthened in its very rigorous financial and risk management policies, since prudence, in our opinion, is inseparable from the banking nature of our activity: in a difficult context, the net profit for 2009 reached € 107 million, up 12% in relation to the previous year, and own funds stood at € 4.9 billion, up by € 169 million. More important still, the Institution has been strengthened in its mission as a financial instrument in the service of social cohesion in Europe just at a time of increasingly pressing needs. The volume of its loans and projects activity markedly increased last year, with approvals up by 40% and disbursements by 20% to reach a total € 1.8 billion, 77% of which went to the target group countries in Central, Eastern and South Eastern Europe. For the whole duration of the period, the priorities of the Development Plan for 2005-2009 were scrupulously respected.

In short, at the beginning of 2010, the CEB finds itself strengthened not only in its methods of action but also in its *raison d'être*.

Whilst continuing to enhance its sound management, the Bank is also preparing the future. Following a process of in-depth discussions, the CEB thus approved its new Development Plan for the period 2010-2014, whose strategic orientations reaffirm and intensify those set forth in the previous Plan, notably in favour of the so-called target group countries; moreover, the Bank's action remains structured along three sectoral lines of action, namely strengthening social integration, managing the environment and supporting social public infrastructure. At operational level, the Policy for Loans and Project financing has been correspondingly adapted. Our partnership with the European Union has become increasingly active and 2009 saw the conclusion of several useful memorandums of agreement within this framework.

In matters of corporate responsibility, the CEB has pursued its ongoing efforts to ensure that its operations are more effective and responsible in the way they function. Among the measures that contributed to this in 2009 were the adoption of three new Codes of Conduct, the creation of an Inspectorate General, initiatives undertaken by the Compliance Department, notably in matters of international cooperation, implementation of a comprehensive system of performance assessment, reform of the grade bands, crowning the continuing development of the human resources policy and, more recently, the additional emphasis placed on promoting still more environmentally responsible behaviour.

All these demanding day-to-day efforts must be continued and constantly enhanced. Indeed, at the start of 2010, several major projects are already ongoing: the strategic review, which is a long-term structuring project, the drafting of a new environment policy, the updating of the public information policy and the adaptation of our communication tools so as to improve accountability to all the stakeholders.

In all, I hope that this new Report, in continuity withy the previous one, will enable each and every one of you to make an informed assessment of the CEB's contribution to socially and environmentally sustainable development. It is the ambition that inspires us, in a spirit of responsibility and well-understood transparency.

Paris, 30 April 2010

Raphaël ALOMAR

Report outline



Like the first report, the purpose of this second Corporate Social Responsibility Report (CSR) is to provide an account in a single document of the CEB's overall contribution to sustainable development in line with its unique social mandate.

To this end, it gives complementary insight into the visibility provided in the Annual Report entitled "Report of the Governor". The complementary nature of the reports is expressed in their design, yet the CSR Report has been given its own graphic identity. Whilst not claiming to be exhaustive, and taking into account the resources available within the Institution, this report is intended to provide an accurate account of the approach based on long-term action that is characteristic of the CEB.

In addition, this Corporate Social Responsibility Report aims to quantify the progress made from one year to the next in terms of the Institution's contribution to sustainable development. To this end, it highlights the most significant changes recorded since the publication of the preceding report. Although the document's overall content has not been altered, the order and priority given to the chapters and the selection of boxes has consequently been revised.

Content of the Report

Like the first CSR Report, the document contains three main sections that each targets a specific aspect of the CEB's contribution to socially and environmentally sustainable development.

It subsequently provides a succession of details on sustainable development by presenting the specific nature of a multilateral financial institution with a social vocation such as the CEB (Part 1: The Naturally Social European Bank), the Bank's financing methods (Part 2: Socially Responsible Financing) and its operational approach (Part 3: Sustainable Management of the Institution).

In addition, the key figures of fiscal year 2009 are provided and the milestones that have occurred since the previous report was published, specifically as they pertain to the expectations of CSR.

Methodological principles

The same underlying principles used to produce the previous CSR Report have also been applied in producing this document.

Thus, careful attention has been given to the Report's readability and accessibility and, to this aim, the structure was streamlined and the draft revised. Consideration was also given to finding impartial and easily understood information presented to readers in a deliberately concise format.

In addition, the document primarily relies on information already in the public domain, which it attempts to put (back) into perspective. This is especially apparent in terms of and as a complement to the information already provided on the Bank's website and in its Annual Report.

Lastly, close consideration was given to the following three requirements: (i) comparison with the practices and standards currently in force, by considering the equivalent reports published by other IFIs and the baseline GRI (Global Reporting Initiative) criteria set out in the "Guidelines for sustainable development reporting" (ii) taking account of the CEB's specific characteristics (mandate, resources, operating method, etc.), and (iii) coherence between the internal (operational) and external (funding activities) aspects of CSR.

Overall, this report represents a commitment and a further step towards sustainable development, in consideration of the resources the institution possesses, in line with finding the right balance between its social mandate and the banking nature of its activity.



Key information



in million euros

	2009	2008	2007
Loans disbursed during the year	1 806	1 505	1 590
Projects approved during the year	2 665	1 861	2 414
Commitments signed during the year	2 050	1 958	2 621
Loans outstanding	12 198	12 423	12 007
Own funds (after allocation of profit)	4 887	4 718	4 754
Shareholders'equity (after allocation of profit)	1 953	1 785	1 821
Total assets	22 731	21 403	18 509
Net profit	107.0	95.8	93.3
Selective Trust Account Social dividends cumulated since the STA 's inception	99.4	93.4	93.4
Balance available (after allocation of profit)	28.7	26.4	26.1

MAJOR EVENTS

(since the publication of the previous report)

Strategy

Unanimous approval by the Collegial Organs of the new CEB Development Plan for 2010-2014

Seminar of the Bank's Collegial Organs on issues of governance within the framework of the ongoing strategic review processes

Operational adaptations to the Policy for Loan and Project Financing and preparation of a new Environmental Policy

Institutional cooperation - partnership with the European Union

Official launch of the "Western Balkans Investment Framework (WBIF)"

"Neighbourhood Investment Facility (NIF) Framework Arrangement" enters into force

Corporate responsibility

Three new Codes of Conduct adopted, two of which apply to members of the Collegial Organs, effective as of 1 January 2010

First European Forum on compliance organised by the CEB and held at its headquarters

Creation of an Inspectorate General

A "Sustainable Development Charter" for the CEB staff to foster more environmentally responsible practices on a daily basis

An environmental diagnosis conducted to assess energy performance at the Bank's headquarters

The CEB's primary communication tools adapted (website, CEB Info and a film about the Bank) and the updating of the Public Information Policy

Human Resources

Grade banding implemented

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Part 1 - CEB: the naturally social European bank



About...

The social mandate of a financial institution ...

… under the supreme authority of the Council of Europe (Article I of the CEB Articles of Agreement

An increasingly active partnership with the European Union

A new Development Plan for 2010-2014

A current strategic review

Values to fulfil a social development mandate



A - A DEVELOPMENT BANK WITH A SOCIAL VOCATION

1. The CEB's social mandate…

The Council of Europe Development Bank (CEB) is a multilateral bank with a social vocation. Established on 16 April 1956 by eight Member States of the Council of Europe in order to bring solutions to the problems of refugees, its scope of action has progressively widened to other sectors of action directly contributing to **strengthening social cohesion in Europe**.

The CEB today enjoys a unique and original positioning in Europe, on account of the nature of the projects it finances, the sectors in which it engages and the scope of its shareholder base.

With its **40 Member States** (see Appendix 1), CEB represents a major instrument of solidarity policy in the continent: it participates in the financing of social projects, responds to emergency situations and thereby contributes to the improvement of the living conditions of the least favoured populations.

The CEB contributes to the implementation of socially oriented investment projects through **three sectoral lines of action**, namely:

- strengthening social integration,
- managing the environment,
- supporting public infrastructure with a social vocation.



From emergency to development

The CEB was initially founded as a Resettlement Fund and at the time had capital of less than 7 million US dollars to contribute to financing projects to resettle refugees from behind the Iron Curtain that was then falling on Europe.

It was immediately called upon to provide priority assistance to very vulnerable populations such as refugees, displaced persons and migrants, and this list later included victims of natural or environmental disasters. The institution thereby provides financial support to the relevant emergency projects. In terms of social cohesion, the Bank also targets its actions at vulnerable or high-risk groups, for example, populations living below the poverty line, abandoned children, disabled people and ethnic minorities. All of these beneficiaries comprise the scope of the Selective Trust Account, an instrument primarily funded by profits of the Bank, which is designed to grant interest-rate subsidies to loans endowed by the CEB and grants in eligible countries.

In parallel and in addition to its systematic response to emergency situations, which is made possible by a lightweight organisational structure and the ability to respond rapidly, the Bank is committed to long-term action. This has been the driving force behind the CEB's action since more than a decade – as well as the revised Articles of Agreement – to make it into a full-fledged development bank. Its initiatives pertaining to its operations as much as to its internal management include:

- an emphasis on the readability of the CEB's framework for action and intervention through the use of guidance documents: the Development Plan and the Policy for loan and project financing;
- the role of *ex post* evaluation and technical assistance in the quality of the projects financed;
- consideration given to "good practices" in developing company policies and applying them correctly, which the Compliance Department oversees;
- the policy of close partnerships formed with other international organisations, financial or non-financial, including the European Union;
- the effective redeployment of loans to the 21 Member States in Central, Eastern and South Eastern Europe in the target group (see Appendix 1), which is expected to be further expanded going forward.

The river is faithful to its source in flowing towards the sea: In its dedication to its founding social vocation, it is incumbent upon the CEB to pursue this movement to better overcome the challenges of the structural crisis and trends at play in Europe.

2. … financial mechanism for European solidarity, ...

The CEB bases its activity on its own funds and reserves and receives no aid or subsidy from its Member States. Thanks to its excellent rating (AAA/Aaa), the Bank raises its funds in the international capital markets on the best possible terms, thus enabling its borrowers to significantly reduce the cost of their resources for financing social projects.

The Bank currently has subscribed capital of € 3.3 billion and, while always mindful of the need to maintain an appropriate balance between social mandate and financial stability, exerts a remarkable leverage effect that is evident by the some € 30 billion in loans paid out since its creation. The current volumes of activity, demonstrated by over € 12 billion in outstanding loans and a total of over € 1.8 billion in loans disbursed in 2009, should also be compared to the limited size of its staff with some 150 agents for 33 countries of operation last year. Furthermore, the CEB's performance can be gauged in terms of the cost-to-income ratio (net banking income allocated to operating costs), which in 2009 was below 25%.

For a development bank with a social vocation such as the CEB, these achievements are within the scope of serving social cohesion in Europe. This pertains to the type of projects the Institution finances and their consistency with the Bank's social mandate, thereby to the broad objectives of the Council of Europe that the CEB pursues with its own resources.

This is also apparent in the support provided to its 21 Member States forming the **target group**. In this regard, the Development Plan for 2005-2009 set forth plans to intensify the CEB's action to assist these countries, which were expected to receive at least 50% of the disbursements for the duration of the Plan. These objectives were met and even surpassed; the target group countries' loans outstanding were € 5.9 billion, more than double in late 2009 compared to late 2004. This endeavour: (i) received particular support in 2009 in response to the primarily social consequences of the financial crisis, (ii) should be further intensified in the coming years in line with the priorities set forth in the new Development Plan for 2010-2014 and (iii) has been conducted in strict adherence to the Bank's prudential and risk management ratios.

The determining factors of the CEB's action

Chief among these determining factors is the Institution's **unique and original positioning**. From a sectoral standpoint, the CEB is thus the only European development bank with an exclusively social mandate in line with and as an expression of the values of the Council of Europe. From a geographical perspective, the Bank's 40 Member States cover an area spanning from Turkey to Iceland and from Portugal to Georgia. In this respect, the Institution may make a contribution to any of its Member States – given that social and territorial divisions are found in all countries, even the wealthiest – although it places particular emphasis on the 21 countries of Central, Eastern and South Eastern Europe known as its "target group". The CEB is also committed to developing this positioning through a highly active inter-institutional cooperation policy supported by its shareholders and valued by its partners.

Furthermore, the Bank bases its actions on its **financial and budgetary independence**, thus on its own funds and reserves funded by its profits, which is combined with an ability to raise significant resources at the best cost in the global capital markets thanks to the quality of its signature rated AAA by Moody's, Standard & Poor's and Fitch Ratings.

In terms of operating procedures, the CEB's distinctive characteristics are:

- **flexible functioning**, thanks to flexible procedures and a concentrated structure, adapted to borrowers' expectations and the (social) nature of the financed projects,
- a **constant effort to enhance project quality** both upstream, during project preparation, and downstream, during implementation and monitoring,
- the accent placed on the **prudence of its financial policies**, the rigour of its risk management and the wide scope of its internal/external control mechanisms.

Overall, these determining factors behind its action form the foundation of the Bank's medium-term strategic activity framework upon which the Development Plan is based and the core of the Institution's resilience in the face of the financial crisis.



3. … under the supreme authority of the Council of Europe

The CEB was formed under a Partial Agreement of Member States of the Council of Europe and, by virtue of its Articles of Agreement, is subject to its supreme authority. The Bank is thus the first of the Partial Agreements to have been signed by eight countries on 16 April 1956.

Institutional relationships

As a result, the Council of Europe is naturally one of its priority stakeholders. The CEB therefore acts within the framework set by the Council of Europe and supports its priorities. To this end, the **Secretary General of the Council of Europe** issues an opinion on admissibility from a political and social point of view for every project submitted to the Bank's Administrative Council.

These close ties are also brought out in the impact that the various **Council of Europe Summits**, which are held at the very highest political level, have had on the development of the CEB. Since the creation of the Council of Europe in 1949, the Heads of State and Government have met three times, namely in 1993, 1997 and 2005 in Vienna, Strasbourg and Warsaw, respectively. Each Summit has given fresh impetus to the Bank's activities and contributed to shaping its current form. For example, the Vienna Summit signalled the wave of new members from the countries of Central, Eastern and then South Eastern Europe joining the Bank, which at the time was still only a Fund; the Strasbourg Summit widened its mandate to include strengthening social cohesion, alongside the priorities set out in its Articles of Agreement; the Warsaw Summit, whilst continuing to support the Bank's traditional activities in support of distressed populations and social cohesion, also invited the CEB to contribute in its own way to the development of a free, democratic and socially cohesive European society.

In all, relations with the Council of Europe are at the very core of the CEB's identity; in some ways, they constitute the Bank's "brand" - a financial mechanism with a social vocation working to promote the Council of Europe's priorities and values - within the community of international financial institutions.

It is important to emphasise, however, that the **CEB is a distinct legal entity and is entirely financially independent**, both of which are essential conditions for operating as a fully fledged bank.

Day-to-day interactions

In addition to their institutional and statutory relationship, in respect of which the **Secretariat of the Partial Agreement** plays a pivotal role, the CEB and the Council of Europe frequently interact in the course of their day-to-day operations.

Examples include their cooperation in reflecting on budgetary issues and human resources policies. Further impetus is given by the regular liaison meetings with an operational focus between the Management of the CEB and the Secretariat General of the Council of Europe.

Lastly, in 2008 the creation of a Human Rights Trust Fund of € 3.2 million to date between the CEB, Norway and the Council of Europe is helping finance technical assistance for administrative and judicial public service infrastructure projects, making the decisions from the Third Warsaw Summit a reality. The Trust Fund's secretariat is handled by one of the Bank's staff members at the Council of Europe headquarters in Strasbourg (see photo below).



APPENDIX 1

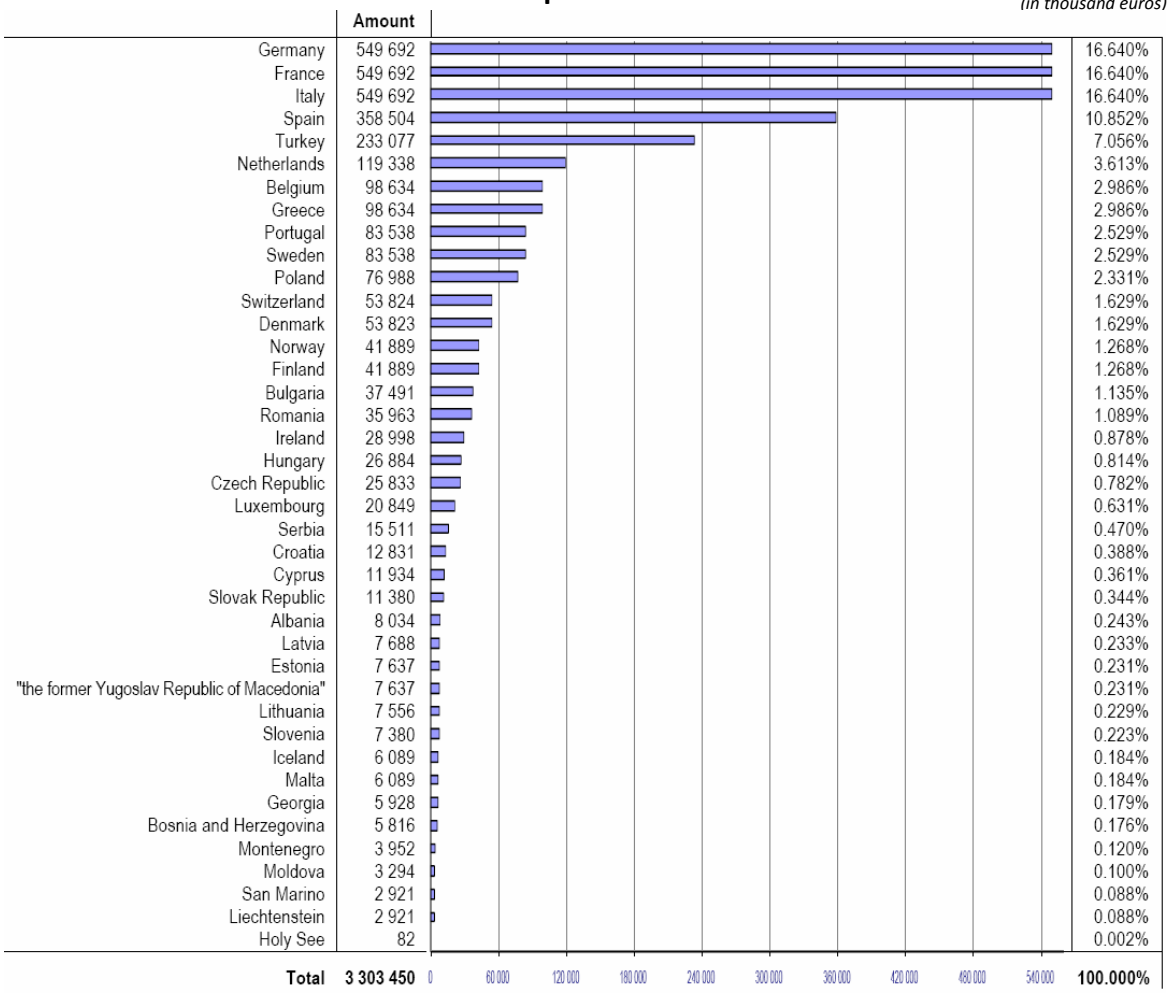
The 40 Member States of the CEB:

	Year of accession
Albania *	1999
Belgium	1956
Bosnia and Herzegovina *	2003
Bulgaria *	1994
Croatia*	1997
Cyprus *	1962
Czech Republic *	1999
Denmark	1978
Estonia *	1998
Finland	1991
France	1956
Georgia *	2007
Germany	1956
Greece	1956
Holy See	1973
Hungary *	1998
Iceland	1956
Ireland	2004
Italy	1956
Latvia *	1998
Liechtenstein	1976
Lithuania *	1996
Luxembourg	1956
Malta *	1973
Moldova *	1998
Montenegro *	2007
Netherlands	1978
Norway	1978
Poland *	1998
Portugal	1976
Romania *	1996
San Marino	1989
Serbia *	2004
Slovak Republic *	1998
Slovenia *	1994
Spain	1978
Sweden	1977
Switzerland	1974
"the former Yugoslav Republic of Macedonia" *	1997
Turkey *	1956

** target group countries of Central and South Eastern Europe*

Breakdown of the CEB's subscribed capital as at 31 December 2009

(in thousand euros)





B - STRATEGY AND POSITIONING

1. Medium-term planning

The CEB's business strategy is formalised in a medium-term Development Plan, which describes the Bank's approach to its activities in both sectoral and geographical terms, the budgetary and organisational resources required to implement them, and the adequacy of the Institution's capital in relation to these objectives.

The production of the Plan is the result of a sequential process, in-depth discussions between the Management and the Collegial Organs and a series of iterations during the approval year and the preceding 12 months. The Plan also provides for a mid-term review in order to assess the level of adequacy between the objectives set and the results observed and to propose possible adjustments on the basis of activity projections for the remaining period.

A new medium-term Development Plan

In fiscal year 2009, following a series of discussions, the Bank's Collegial Organs unanimously approved a new **Development Plan for 2010-2014**. It sets forth the strategic orientations for the activity in the medium term, adopted in accordance with the operational context in which the Bank is developing.

These orientations reaffirm and strengthen those set forth in the Development Plan for 2005-2009, which notably aimed to significantly increase the activity in favour of a target group of countries in Central, Eastern and South Eastern Europe. Thus, **the new Plan primarily provides for a 15% increase in the overall volume of loans in relation to the period 2005-2009, a continued effort in favour of the Bank's target group countries in order to reach up to 60% of the total loans outstanding by 2014, and strengthened collaboration with the European Union and with donor countries** in order to increase the CEB's capacity for action and the added value of its operations.

The Councils have also reaffirmed the **priority the Bank gives to financing social public infrastructure**, whose economic and social impact has proven decisive in the current period of crisis, thus giving priority to infrastructure projects rather than to overall budgetary support. Within the framework of its mandate, this means strengthening the Bank's participation in investment programmes in the housing, education, health and municipal infrastructure sectors.

As of January 2010 and for the next five years, the CEB proposes to ensure **enhanced mobilisation of all its resources**. This will notably compensate for the drop in financing available from the private sector and from specialised financial institutions in favour of such projects, while enabling its borrowers, in particular local authorities, to benefit from its expertise and specially tailored financing terms.

The Bank will continue its contribution to the implementation of investment projects corresponding to the priorities and values of the Council of Europe through three sectoral lines of action, namely: strengthening social integration, managing the environment and supporting public infrastructure with a social vocation. As regards support for social public infrastructure, at the outcome of the Third Council of Europe Summit of Heads of State and Government in Warsaw (2005), the CEB introduced a new sector of action relating to the financing of buildings or infrastructure intended for use by administrative and judicial public services. The actions conducted by the Bank in the key sectors of health, education, vocational training and administrative and judicial public services provide important synergies and play a vital role not only in efforts to achieve balanced regional development, but also in supporting the rule of law and the European system of human rights protection.

Overall, defining this business strategy framework for 2010-2014 is part of an ambition to work towards integrating the determining factors of the CEB's action based on its specific characteristics, the knowledge acquired from the Development Plan for 2005-2009, whose main objectives were achieved and even surpassed, as well as the **new situation stemming from a global crisis** (financial, economic and social). In light of the uncertainties as to how this crisis will unfold, a flexible approach was chosen. Apart from the exacerbated social climate directly resulting from the crisis, the needs analysis also accounted for **three long-term trends in Europe**, notably: the ageing of populations, rising energy costs in the midst of global warming and the mounting demand for financing among local authorities, which are being asked to play a larger role.

In light of these challenges and a predictable rise in demand, in terms of its resources the CEB is voluntarily opting to determine directions for the next five years that are based on the assumption the risk profile will stabilise – thus the Bank's ability to control it – and does not include the accession of new member countries. **In addition, the choices made are likely to be revised following the outcome of discussions in early 2010 on the adequacy of the capital committed**.

Emphasis on measuring performance

The quest for performance is nothing new at the CEB; it has been the driving force behind all the efforts deployed during the past few years and has always underpinned the Institution's action in the service of social development in Europe. A more systematic assessment of the CEB's performance contributes to the Bank's results culture, facilitates steering and conduct of the activity, and enables better accountability. If you cannot measure it, you cannot manage it. If you cannot measure it, you cannot improve it (Lord Kelvin).

That is why a cross-departmental project involving many players within the CEB was launched in 2008 with a view to gaining perspective on the Bank's overall performance according to its main constitutive aspects. This project resulted in **implementing a measuring tool as of 1 January 2009** that was approved by the Governing Board and contains four pillars: 1. loans activity and project quality/added value, 2. profitability and risk management, 3. institutional framework, and 4. operations. The first detailed report published in late April 2009 covered 2005-2008 by retroactively applying indicators to the first year of the current Development Plan. In parallel, the Management received quarterly reports throughout the year that focused on forecasting and steering.

Measuring performance in 2010

In late 2009/early 2010, a plan to further develop the performance assessment tool was launched in order to collect initial feedback from the implementation of existing indicators and make the **adjustments required by the major changes to the strategic performance framework** in the new Development Plan 2010-2014 approved by the Collegial Organs.

The adjusted tool for 2010 is included in the 2009 Performance Assessment Report covering the period of the previous Plan.

2. A unique positioning for working together

Over the last years, the CEB has operated to intensify relations of cooperation that it has fostered with the European Union in order to **strengthen its means of action and expertise**. In doing so, it is highlighting its specific nature as a social development bank working for disadvantaged populations and regions within the international community.

To this end, the nature of the intended relationship has, in priority, been aimed towards implementing projects in partnership and, in particular, in the form of co-financing and/or by financing in parallel, sharing complementary expertise by way of the exchange of best-practices and giving ample consideration to the social dimension of the projects.

In this environment, **besides its natural links to the Council of Europe, the CEB has become a highly valued partner of the European Union and is working in cooperation with other IFIs as well as many United Nations specialised agencies in fields of common interest**. UNICEF was thus given an exceptional grant for children in Haiti to help rebuild schools destroyed in the earthquake.

The list of cooperation instruments is summarised on page 18.

The **partnership with the European Union, detailed below**, in particular now makes it possible for the Bank's financing to be associated with Community subsidies:

- to increase the added value of the CEB's operations when European Union grants are used to improve the planning and monitoring of projects financed through technical assistance
- and propose more substantial financing for social projects.

More generally, an increased coordination with the European Union and other international organisations operating under its aegis, ensures a better separation of duties between institutions thereby enabling them to better capitalise on their respective competences and avoid duplicating actions.



An increasingly active partnership with the European Union (EU)

1- A strategic alliance for the CEB

In its policy on the close cooperation it has been building for several years with other international institutions, the Bank has been forming an increasingly active partnership with the European Union (EU) for two major reasons.

First, the European Commission's geographic scope of action increasingly coincides with that of the CEB following the enlargement of the European Union (EU) from 15 members to 27 between 2004 and 2007, thereby increasing potential synergies. Second, this cooperation enables the Bank to use EU grants to offer more advantageous loan terms or finance technical assistance.

In 2009, the Bank thereby has continued intensifying its cooperation with the EU in the following ways:

2- Strengthening its role in JESSICA

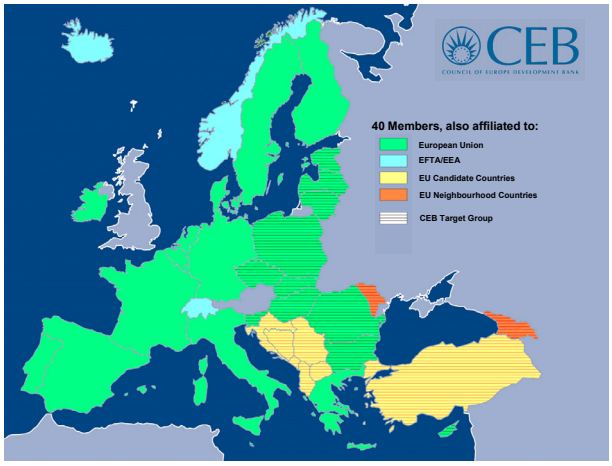
In autumn 2009, the CEB became a full-fledged member of the JESSICA (Joint European Support for Sustainable Investment in City Areas) Steering Committee. This membership reflects the CEB's long-standing commitment to this initiative. Launched in 2006, the purpose of JESSICA is to promote the renewable use of resources made available to Member States in the form of structural funds in the urban development sector.

The CEB participates in the JESSICA initiative by virtue of a Memorandum of Understanding (MoU) entitled Urban Renewal, which it signed on 30 May 2006. The aim of this MoU is to facilitate a coordinated approach in matters of urban development.

3- Launching the "Western Balkans Investment Framework" (WBIF)

Alongside the European Commission, the European Investment Bank (EIB) and the European Bank for Reconstruction and Development (EBRD), the CEB participated in the official launching of the Western Balkans Investment Framework (WBIF), on 9 December 2009 in Brussels. The WBIF is a coordination system aimed at facilitating access to European financings for the countries in the Western Balkans. It combines loans from the EIB, the EBRD and the CEB with grants from the EU, Member States (grouped into the European Western Balkans Joint Fund) as well as grants made by the EIB, the EBRD and the CEB within the framework of their respective procedures.

The CEB's participation in the WBIF comes within the framework of the MoU called the Enlargement Policy. Signed by the CEB on 11 April 2006, the purpose of this MoU is to facilitate coordinated support to countries that are candidates or potential candidates to EU accession.



4- Entry into force of the "Neighbourhood Investment Facility" (NIF) Framework Arrangement

The Neighbourhood Investment Facility (NIF) Framework Arrangement, to which the CEB is a co-signatory, came into effect on 21 December 2009. This text sets forth the provisions for cooperation between NIF member institutions and the Commission for projects financed through this agreement. The purpose of the NIF is to combine grants from the EU and donor countries (via the NIF Trust Fund) with loans from financial institutions, including the EIB, the EBRD and the CEB, in favour of countries eligible for support under the European Neighbourhood Policy[1]. The NIF Framework Arrangement is therefore expected to foster a close working relationship between these institutions in favour of the beneficiary countries.

This collaboration comes within the framework of the MoU entitled Neighbourhood Policy signed by the CEB on 13 July 2007. This MoU promotes coordination of actions in favour of countries eligible to the European Neighbourhood Policy.

5- Completing the "Four-Pillar Compliance Assessment"

The conclusions of the Four-Pillar Compliance Assessment were generally very positive for the CEB and are currently being approved by the European Commission. Therefore, the CEB will soon be authorised to disburse **funds** on behalf of the EU for jointly financed projects.

The Four-Pillar Compliance Assessment is an assessment to which the EU submits any organisation likely to manage funds on its behalf. The purpose of this assessment is to ensure that the operating procedures used by these organisations meet the highest standards.

6- Results of the cooperation between the CEB and the EU

At the end of 2009, the results of the cooperation between the CEB and the EU were very positive. At that time, **EU grants** in favour of projects financed by the Bank stood at **€ 238 million**. Furthermore, these grants had a significant leveraging effect on the Bank's activity. In effect, **CEB loans** associated with these grants are worth **€ 785 million.**

[1] The CEB's participation is limited to social projects in its member countries eligible for the European Neighbourhood Policy: Georgia and Moldova.

Cooperation instruments

Cooperation instruments with the European Union

Cooperation instruments signed with the European Union

1. Cooperation for Eastern Europe, Southern Caucasus, Russia and Central Asia, within the framework of the **European Neighbourhood Policy** – signed on 13/07/2007. Cosignatories: European Commission, EBRD, EIB, IBRD, BSTDB, NIB, IFC

   Framework Agreement on **Neighbourhood Investment Facility** (NIF) – signed on 14/12/2009. Cosignatories: European Commission, AFD, EBRD, EIB, KfW, NIB, OeEB, SIMEST, SOFID, IFC

2. Coordinated approach to financing **urban regeneration and development** (including within the framework of JESSICA) for the Community Structural Funds programming period 2007-2013 – signed on 30/05/2006. Cosignatories: European Commission, EIB

3. Economic development in the new European Union Member States in Central and Eastern Europe, in Cyprus and in Malta, and preparation for EU accession by **candidate or potential candidate countries** – signed on 11/04/2006. Cosignatories: European Commission, EIB, EBRD, IBRD, BSTDB, NEFCO, NIB, IFC

   Declaration on the **Western Balkans Investment Framework** (WBIF) – signed on 09/12/2009. Cosignatories: European Commission, Swedish Government, EIB, EBRD

Other cooperation instruments signed under the aegis of the European Union

4. Declaration of European Principles for the **Environment** – signed on 30/05/2006. Cosignatories: EBRD, EIB, NEFCO, NIB

5. RCC (*Regional Co-operation Council*) – on 15/11/2007 the CEB declared its readiness to cooperate with the RCC, successor since 27/02/2008 to the Stability Pact for **South Eastern Europe** of which the CEB had been a partner since 28/06/2001

6. Cooperation in the Central & Eastern European countries, including Turkey: signing of 18 **tripartite** contribution agreements with KfW and the European Commission on the basis of a MoU signed on 11/12/2000 with KfW

Cooperation instruments with International Financial Institutions

7. EIB: Joint statement on cooperation – signed on 02/06/2008
8. NIB: General cooperation – signed on 15/01/2002
9. IBRD, IDA (World Bank Group): General cooperation – signed on 30/05/2000
10. EBRD: General cooperation – signed on 05/05/1999

Memoranda of Understanding with UN specialised agencies

11. UNDP: General cooperation – signed on 03/09/2007
12. UNICEF: General cooperation – signed on 20/12/2006, amended on 17/10/2008
13. UNHCR: General cooperation – signed on 24/02/2005, renewed and amended on 31/10/2008



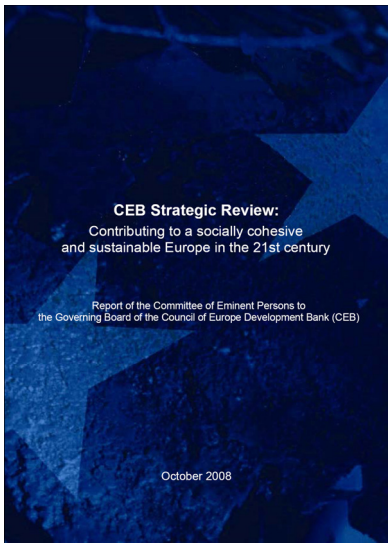
3. The current Strategic Review

In 2009, the CEB continued to make progress in the process of in-depth reflection on the Bank's priority missions and effectiveness, carried out within the framework of the Strategic Review. This review enjoyed the benefit of contributions from very high-level personalities, the Committee of Eminent Persons, which presented its report and recommendations on the Bank's functioning at the end of 2008. In 2009, it also gave rise to numerous exchanges of opinions within the Governing Board and the Administrative Council. In particular, the Governing Board and the Administrative Council held a joint seminar on 13 November 2009 (see box) that facilitated a rich and open discussion designed to accelerate the reforms on aspects of governance.

During 2009, the work done by the Management and the Bank's teams, with support from its shareholders, produced significant results:

- All of the 11 measures [(*)] adopted by the Governing Board at its meeting on 28 March 2008 that were based on recommendations made by the Administrative Council, so-called "easy-to-do" measures since they do not require modifying the Articles of Agreement, were put into place.

- Most of the recommendations issued in the report from the Committee of Eminent Persons presented to the Governing Board and the Administrative Council at their meetings in November 2008 were taken into consideration. The proposals concerning the mandate, areas of actions and operational instruments were incorporated into the Development Plan 2010-2014 approved by the Collegial Organs and included in the loan policy. In terms of European and international cooperation and relations with the Council of Europe, significant progress continued to be made in 2009. Lastly, this crucial exercise for the Bank is expected to conclude in 2010 with the governance recommendations being put into place over the next few months.



Seminar on governance issues

In an effort to accelerate the progression of its Strategic Review, in September 2009 the Administrative Council suggested the Bank's collegial organs hold an informal gathering to discuss the issue. In response to this suggestion, the Governing Board and the Administrative Council held a meeting, in attendance of the Bank's Management, at a seminar in Paris on 13 November 2009.

In planning the topics of the discussions at the seminar, the Councils requested the Bank's Management prepare an unofficial document commonly known as a "non-paper". This "non-paper" written by the Appointed Officials dated 26 October 2009 contained a set of proposals on reforming the CEB's governance.

Three-fourths of the Bank's member countries attended this seminar, which was an opportunity for a rich and open dialogue between the Councils members on reforms of the CEB's governance. Although it did not result in any final decision due to its informal nature, this seminar helped identify the measures that Council members favoured at that stage.

Therefore, it was a contributing factor in creating a better framework for Council discussions at subsequent meetings and fulfilled the original objective of accelerating the Institution's Strategic Review.

The Strategic Review that began two years ago and has been conducted since then in close collaboration with the shareholders has already aided in significantly enhancing the Bank's overall functioning and performance. This work will help the CEB more effectively fulfil its mandate on social cohesion in its Member States in a difficult economic and financial climate.

(*) Information on staff diversity, new performance indicators, reviewing the rules on consultants, updating the codes of conduct, audit and assessment directors attending meetings of the Administrative Council and Governing Board, an overview of the areas of competence granted to each Vice-Governor, implementation of the communications strategy, the annual statement of official visits, outline of a policy on information for the general public, planning of themed seminars, drawing up a report on corporate social responsibility.

C - GOVERNANCE AND RESPONSIBILITY

1. The institutional system

"Governance" or "corporate governance" refers to the system by which businesses are managed and controlled. This is a key element for the smooth running of a multilateral development bank such as the CEB. This is assessed in the light of the most recent guiding principles for the governance of financial institutions published by the international authorities with influence in this area (the OECD and the Basel Committee) as much as the mechanisms and practices in force within other IFIs.

The governance system is determined by the Bank's Articles of Agreement, which are themselves specified by the Internal Rules of procedure of each Collegial Organ. Under Article VIII of the Articles of Agreement, the Bank is organised, administered and controlled by the following organs: the Governing Board, the Administrative Council, the Governor, the Auditing Board.

The secretariat of the Bank's organs is provided by the "Secretariat of the Partial Agreement on the Council of Europe Development Bank" at the Council of Europe in Strasbourg.

Governing Board
The powers of the Governing Board are described in Article IX of the Articles of Agreement. It is comprised of a Chairman and one representative for each Member State. The Governing Board is the "supreme organ" of the Institution and determines the general orientations for the Bank's activity, lays down the conditions for Bank membership by other states, decides on capital increases and approves the annual report, the accounts and the Bank's general balance sheet. It elects its own Chairman and the Chairman of the Administrative Council and appoints the Governor, the Vice-Governors and the members of the Auditing Board.

Administrative Council
The powers of the Administrative Council are described in Article X of the Articles of Agreement. It is comprised of a Chairman and one representative for each Member State. The Administrative Council exercises all of the powers it is granted by the Governing Board, establishes and supervises operational policies and approves investment projects submitted by the Governments. It votes on the Bank's operating budget.

Governor
The Governor's powers are described in Article XI of the Articles of Agreement. The Governor is the Bank's legal representative. He or she is the Bank's head of operational services and oversees the ongoing management under the direction of the Administrative Council (see Appendix 2). He or she thus conducts the Bank's financial policy, in accordance with Administrative Council guidelines, and represents the Bank in all its transactions. The Governor examines the technical and financial aspects of the requests for financing submitted to the Bank and refers them to the Administrative Council. He or she is assisted by one or more Vice-Governors.

The Auditing Board
The Auditing Board is composed of three members appointed by the Governing Board. In particular, it is responsible for checking the accuracy of the annual accounts after they have been examined by an external auditor. The powers of the Auditing Board are described in Article XII of the Articles of Agreement.

Senior Management at 31 March 2010

Collegial organs
- Mrs Ambassador Margaret Hennessy, Vice-Chair of the Governing Board and chairing *ad interim*
- Mr. Rainer Steckhan, Chairman of the Administrative Council

Elected Management
- Mr. Raphaël Alomar, Governor
- Mr. Nunzio Guglielmino, Vice-Governor Delegate
- Mr. Apolonio Ruiz-Ligero, Vice-Governor
- Mr. Imre Tarafás, Vice-Governor



2. The CEB's values

In fulfilling its mandate, the CEB can also rely on the values that truly inspire its actions and commitments. Chief among them is the requirement for integrity, followed by an ability to adapt to a constantly changing environment and controlling of risks that are inherent to the loan activity.

a. Integrity

In its capacity as a development bank, and, furthermore, one with a social vocation operating "under the supreme authority of the Council of Europe", the CEB undertakes to respect the requirement for integrity in its operation and the way in which it manages its activities.

The Bank's priority in this respect is, on the one hand, to promote principles of transparency and responsibility and the relationship between them in appropriate conditions and, on the other, to ensure a quality of functioning and a level of ethics in line with the nature of an Institution such as the CEB.

For the Bank, transparency and responsibility primarily involve being accountable for its actions, providing the appropriate response for a larger public's growing need for information and, in doing so, illustrating the clarity of its mandate and the readability of its scope of operations.

The conditions for ensuring that the Institution functions on the basis of integrity are primarily appropriate conduct by the Staff, Appointed Officials and [members] of the Bank's Collegial Organs. A **Code of Conduct** has been in place since October 2001 and is applicable to the Governor, Vice-Governors, members of staff and partners or service providers working under contract. This document has been revised in the light of developments in this area seen in other IFIs since 2001 and has been supplemented by two new Codes of Conduct applicable respectively to "the Chairpersons and members of the Collegial Organs" and to "members of the Auditing Board". These texts were approved by the Governing Board on 27 November 2009 and entered into force on 1 January 2010.

Consequently, the commitments made to fight **against fraud, corruption, money laundering and the financing of terrorism** are testament to the demand for integrity that the Institution prioritises. To this end, in February 2007 the CEB adopted an "Anti-corruption Charter", which applies both within the Bank itself and within the framework of the projects it finances – with particular attention paid to the procedures for awarding contracts. As an extension to this Charter, the Governor, by a Declaration signed on 22 October 2008, affirmed the CEB's commitment to the joint actions and principles set out in the Charter concerning the "Joint Declaration of IFIs on preventing and combating fraud and corruption". To ensure these principles are respected, the "**Integrity Due Diligence Guidelines and Procedures**" concerning the fight against money laundering and the financing of terrorism were drawn up in 2009. The CEB thus applies the criteria for client identity and risk assessment contained in the recommendations put forward by the Financial Action Task Force (FATF), then taken up in European Union legislation and used as best standards by a good number of IFIs. This control, which applies to the CEB's lending operations and financial activities, is carried out thanks to the use of international databases.

The CEB's new actions in cooperation

In the fight against fraud, corruption, money laundering and the financing of terrorism, global coordinated efforts are essential. In this regard, since 2009 the Bank has committed to several bridge-building initiatives with the European Union, the Council of Europe and the OECD, which should come to fruition over the course of 2010.

The first initiative involves putting a system into place to facilitate cooperation with **OLAF** (the European Anti-Fraud Office), specifically in terms of financing agreements for planned joint projects between the CEB and the European Union, either with the Commission or the EIB. This system is nearly completed and will serve to simplify audit procedures and prevent overlapping resources. In addition, there are plans for the CEB, placed under the supreme authority of the Council of Europe, to participate in **GRECO** (the Council of Europe Group of States against Corruption) and **MONEYVAL** (the Council of Europe Select Committee of Experts on the Evaluation of Anti-Money Laundering and Anti-Terrorist Financing Measures) and anticipatory contracts have been signed for this purpose. The same is true for the cooperation between the CEB and the **OECD**'s "Anti-Bribery Working Group" and the "OECD Anti-corruption Network for Eastern Europe and Central Asia (ACN)".

b. Adaptability and control

In addition to a requirement for integrity, the CEB's activities are guided by the ability to adapt to a constantly changing environment and to controlling the risks inherent to the loan activity.

The CEB is particularly attentive to the need to ensure its operations and scope of action are consistent with the nature of the projects it finances, with changes in social priorities over time and with the enhancement of good banking and management practices, in particular within other international financial institutions.

It is this **ability to adapt** whilst remaining faithful to its founding principles that has ensured the transformation of what was originally only a modest Fund into a full-fledged development bank. Over time, this guarantees the relevance of the Institution's actions and thereby the effectiveness of its activities in support of social cohesion. Among other factors, this is still what has enabled the Institution to successfully weather the financial crisis and even play a more active role at the request of the States.

In operational terms, this translates into the continued enhancement of the CEB's mandate in the service of socially and environmentally sustainable development and a gradual broadening of the scope of action of an Institution that now has 40 Member States, with priority given to the countries of Central, Eastern and South Eastern Europe, which are classed as its "target group". In all, it has a remarkable leverage effect exercised by an organisation with both human (staff limited to some 150 members) and financial resources (capital paid in of less than € 400 million), which are very modest given its volumes of activity.

To fulfil its mandate, the CEB relies on a **rigorous management system** based on a coherent prudential framework inspired by and exceeding the recommendations of Basel II. This system is based on a pivotal capital adequacy ratio, which limits the risk of default to usable capital, a risk asset coverage ratio which limits outstanding liabilities on the portion of the loan portfolio rated as *below investment grade* to so-called solid capital (and therefore the Bank's exposure to the highest risks) and a stronger liquidity ratio.

Alongside this prudential framework are deliberately conservative financial policies, combined into a "Framework of financial operations". By way of example, the CEB uses neither a trading portfolio nor any ABS-type structured product. It also has a structurally high level of liquidity.

Lastly, the Institution has a very comprehensive and structured general organisation of the control of its activities. Depending on the nature of the mission, this is specifically entrusted to: **1.** departments within the Bank, **2.** its Collegial Organs (the Auditing Board, Administrative Council and Governing Board), **3.** specialist and independent external parties (i.e. external audit). More specifically, as far as the **internal control system for activities** is concerned, this comprises: a. an initial level of control, carried out by the management of the operational Directorates themselves, b. a risk assessment level, under the responsibility of the various specialist Departments, c. a decision-making level, devolved to various internal Committees, and d. a verification level, both in terms of adherence to the internal control system and risk monitoring by the Internal Audit departments – now within the Inspectorate General – and general compliance by the Compliance Department.

Creation of an Inspectorate General

Primarily as a result of the Governing Board's recommendations and to further strengthen its internal audit and control system, particularly in the field of IT security, a decision was made to create an Inspectorate General as of 1 September 2009 that will merge the two pillars of independent control: the Internal Audit Department and the Director of IT Security Services.

The Inspectorate General has been fully operational since the beginning of 2010.

3. Adhering to good practices

In its functioning and conducting of operations, the Bank generally adheres to the good practices in force in other international financial institutions and/or recommended by benchmark "standards" organisations within the CEB's scope of activity (Council of Europe, European Union, Basel Committee, OECD, etc.). In doing so, it accounts for its specific characteristics and size. In this context, the key role of the **Compliance Department** should be emphasised insomuch as it ensures a coherent compliance framework and its correct implementation.



The mission of the Compliance Department is to "ensure that the Bank conducts its activities in compliance with its own rules, current legislation, the codes of conduct as well as with good practices in order to avoid any risk of irregularity in the functioning of the Institution, of its organs or of its Staff". The Compliance function was introduced in February 2008 when the Chief Compliance Officer took up his functions at the CEB.

In addition to performing its day-to-day duties, the Compliance Department's most significant achievements are discussed below.

The Compliance Department has drawn up the **Integrity Due Diligence Guidelines and Procedures** concerning the fight against money laundering and the financing of terrorism. It is also the driving force behind initiatives aimed to bolster **the CEB's cooperation with the international bodies** (Council of Europe, OECD, European Union) that are the first line of defence in the fight against fraud, corruption, money laundering and the financing of terrorism.

The Compliance Department undertook to review and update the **Code of Conduct** so as to enable it also to apply to the CEB's Collegial Organs, including the Auditing Board. Three new Codes of Conduct (one for the Management, Staff members and service providers, one for the Collegial Organs and one for the Auditing Board) were thus approved by the Councils in 2009. Among the most important subjects, the following are of particular note: the new rules concerning conflicts of interests and external activities; gifts and other favours or invitations received from outside; the policy on insider information; and the policy on reporting for cases of fraud, corruption and money laundering.

The Compliance Department has also set up a network of stable relations with those responsible for questions of integrity in the other IFIs. The CEB has become officially associated with the Integrity Forum Group, which brings together all those responsible for Integrity (Compliance and Investigation) in European MDBs. In 2009, the Chief Compliance Officer was invited to participate in these meetings, notably the MDBs Integrity Forum and the Conference of International Investigators.

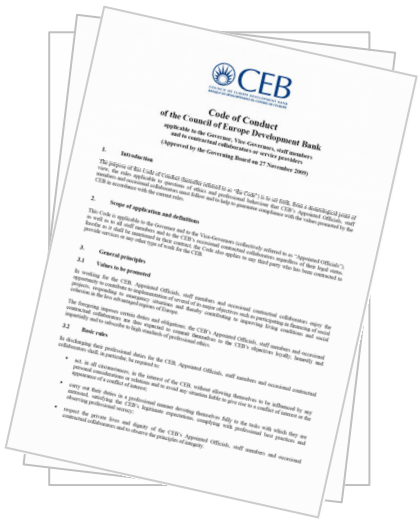
First European Compliance Forum

In an ongoing effort to strengthen international ties, the Compliance Department took the initiative of bringing together the Chief Compliance Officers of European Multilateral Development Banks (MDB). The objective was to establish a joint round table for discussion and together to evaluate the respective approaches with a view to standardising and simplifying their working methods.

The First European MDBs Compliance Forum, which was a first in this sector of activity, was held at the CEB's headquarters in Paris in July 2009. This forum evidenced the effort of coordination and cooperation between the different IFIs at the European level concerning the methods and procedures to be used in application of anti-money laundering and anti-terrorist financing standards.

Lastly, the Compliance Department has drawn up "**Guidelines on handling requests from the public relating to the Bank's operations in the field of procurement**". They provide the CEB with quite a complete framework for dealing with requests made to it by participants in the bids for tender launched by the promoters of projects financed by the Bank and for ensuring that complaints from outside are dealt with correctly.

The activities of the Compliance Department in 2008 and the prospects for 2009 are the subject of the **Annual Compliance Report**, drawn up for the intention of the CEB's organs.


CEB

Code of Conduct

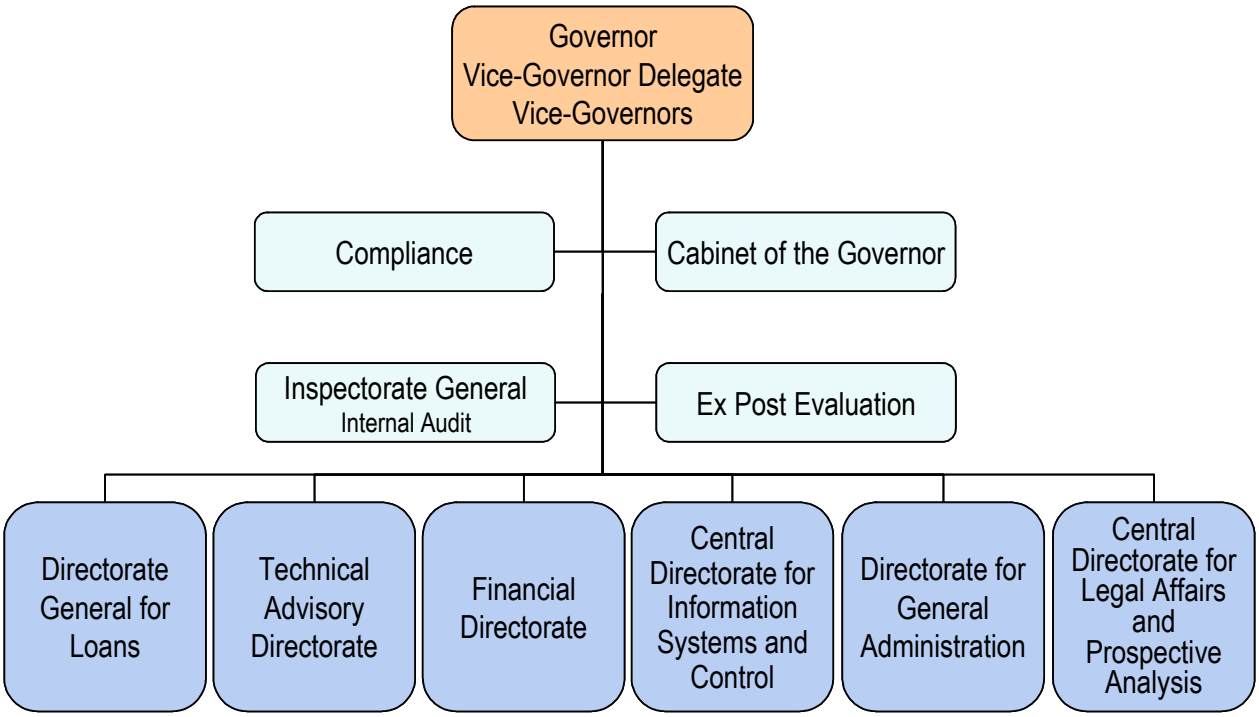
of the Council of Europe Development Bank

applicable to the Governors, Vice-Governors, staff members and to contractual collaborators or service providers

(Approved by the Governing Board on 27 November 2009)

APPENDIX 2

Organisation chart



Management principles

Within the CEB, the Articles of Agreement confer decision-making powers for day-to-day conduct and operation solely on the **Governor**, who is accountable to the Collegial Organs. He does this in his threefold capacity as a separate "organ" himself, as the "legal representative of the Bank", the "head of operational services" and "responsible for the organisation of the operational services" under the "general supervision of the Administrative Council".

In accordance with the principles of good governance, the Governor strives to create the conditions for effective decision-making based on the establishment of rules for delegating to the Vice-Governors and collegiality through the **internal Committees** (listed opposite).

Collegiality is primarily provided by the internal committees, which cover all aspects of the Bank's activities. The aim of collegiality is to ensure transparency and understanding of the decision-making process, facilitate the proper application of decisions taken with full knowledge of the facts and create a united management team to serve the general interests of the Institution.

Each internal committee is chaired by the Governor or, in his absence, the Vice-Governor Delegate, and, in their joint absence, a Vice-Governor. Within these inter-departmental committees, which cover the full range of the Bank's essential activities, the General Management Committee plays a pivotal role.

INTERNAL COMMITTEES

Orientation and Coordination Committee

General Management Committee

Finance Committee

Funding Committee

Projects and Development Committee

Risk Committee

Budget Monitoring Committee

ALM Committee

Committee for Operational Risks and Organisation

Part 2 - Socially responsible financing



About...

Structured framework of intervention

- Operational adaptations to the Policy for Loan and Project Financing in 2009
- Integrating the environmental dimension in all lending operations
- Aiding the populations confronted with natural risks
- Promoting sustainable housing and urban development
- Contributing to reinforced social cohesion in the face of the crisis

A - GENERAL FRAMEWORK FOR ACTION

1. A structured approach

The CEB can grant loans in its 40 Member States in order to finance projects that promote social cohesion and sustainable economic, social and environmental development and meet a certain number of sectoral, geographical, social and financial criteria. The structure of the CEB's projects and loans activity reflects its commitment to supporting socially sustainable development. In compliance with its social vocation, the Bank structures its projects and loans activities within the following **sectoral lines of action**:

- Strengthening social integration (aid to refugees, migrants and displaced persons; housing for low-income persons; creation and preservation of viable jobs; improvement of living conditions in urban and rural areas).
- Managing the environment (natural or ecological disasters; protection of the environment; protection and rehabilitation of historic and cultural heritage).
- Supporting public infrastructure with a social vocation (health; education and vocational training; infrastructure of administrative and judicial public services).

The sectoral distribution of the CEB's loans in terms of project approvals and disbursements over the last two years is presented in the graphs below.

The main strategic orientations of the CEB's policy, both on a geographical and sectoral basis, are set forth in the Bank's medium-term development plans. The core elements of the **Development Plan for the period 2010-2014**, to become fully-operational this year, are set to confirm the CEB's genuine desire to promote social cohesion throughout Europe. It is worth noting that the implementation of the new Development Plan will need to retain sufficient flexibility to successfully meet the challenge of continuing to fulfil the CEB's social mission while preserving the adequate risk profile of its loan portfolio. In this respect, the Bank's activity strategy is fully underpinned by a conservative prudential framework with strict risk management and control playing a decisive role in maintaining the Bank's financial stability.

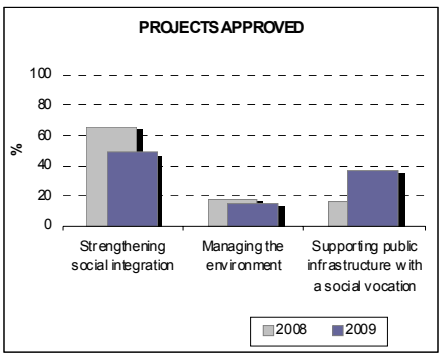
Operational adaptations to the Policy for Loan and Project Financing

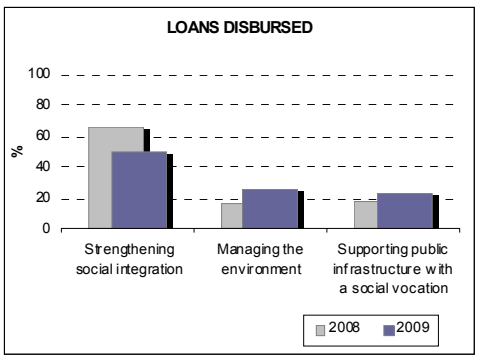
The Policy for Loan and Project Financing, approved by the Administrative Council in 2006, is **a reference document setting out provisions for the appraisal, approval, financing and monitoring of the Bank's projects**.

The Policy was reviewed during 2009 from a number of viewpoints. Its operational adaptations have enabled a better definition of the scope of the CEB's sectors of action, thus further clarifying the Bank's social mandate. From the point of view of project management, certain classifications and definitions, such as those for small and medium-sized companies, have been updated. The CEB's guidelines concerning environmental principles have also been redefined.

Importantly, the financing instruments have been better adapted to borrower needs; the newly-introduced "Conditional Financing Instrument" allows for less frequent on-site monitoring of projects with borrowers that have, through previous co-operation with the CEB, demonstrated clear mandate, well-established and effective operational and financial policies and procedures and the capacity to provide timely and comprehensive reports to CEB on the relevant financial, physical and social aspects of project implementation.

In line with its social vocation, the Bank updated the list of its Member States eligible for the Selective Trust Account which enables the CEB to provide interest rate subsidies for projects with high social value or for allocating grants to projects benefiting the most vulnerable population groups.







2. Project cycle and quality of projects

The Bank offers flexible long-term loans at favourable interest rates, in specific cases along with interest rate subsidies, to its Member States, their regional or local authorities, and public or private financial institutions (€ 2.6 billion in approved projects in 2009). Moreover, substantial resources can be granted through the CEB's **trust accounts** (see Appendix 3) in order to finance technical assistance. On a much smaller scale, the Bank also provides grants, especially in the case of emergency aid.

On the basis of the loan request formulated by the borrower, the Bank evaluates the project's objectives and financing plan by carefully analysing its socio-economic impact, technical aspects and costs, the institutional capacity to manage the project as well as the project's impact on the environment. The growing complexity of projects financed by the Bank increasingly necessitates **assistance from the CEB's staff in project preparation**. Upon project approval by the Administrative Council, the framework loan agreement is negotiated between the Bank and the borrower.

Within the framework of regular monitoring and on-site missions, the Bank's services check on the physical progress of the works, compliance with costs and procurement procedures, and the achievement of the project's anticipated social objectives. On project completion, a final report drawn up by the borrower details the use of funds and compliance with the objectives and projections approved by the Administrative Council. At the same time, it provides information on the material and social results obtained.

The CEB also plays a role in respect of any eventual difficulties that could jeopardise the success of the project as well as an advisory role in solving any such difficulties.

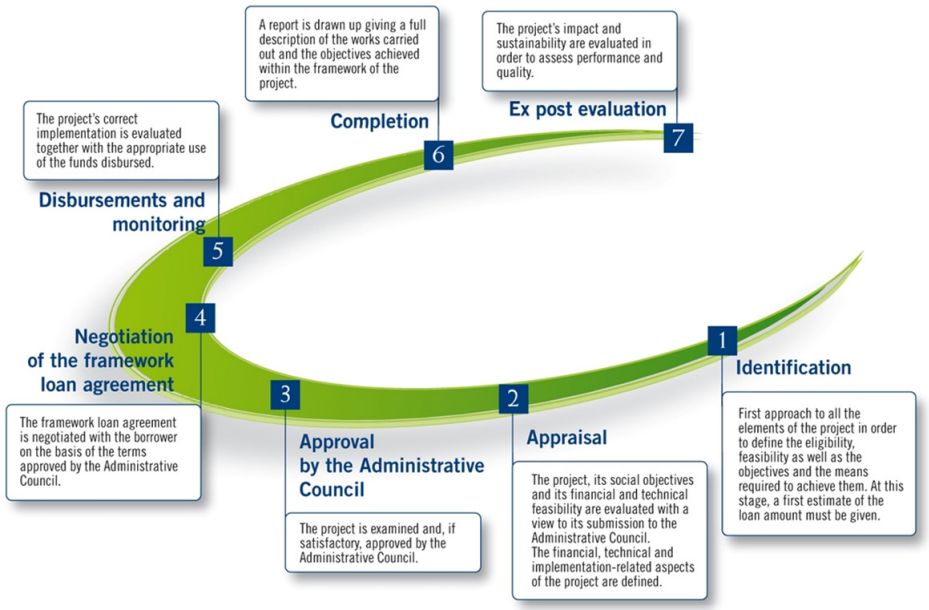
The learning function of the ex post evaluation

The CEB continually strives to enhance the quality of the projects it finances. Within this policy, the aim of ex post evaluation is primarily to improve understanding of the social impact of the Bank's actions, contribute to increasing the quality of projects and programmes financed by the Bank and help strengthen the transparency of CEB operations. The lessons learned from the evaluations are designed to be a mechanism to support Management decision-making and to provide an account of the impact of the Bank's loans for its shareholders.

The Bank's Ex Post Evaluation Department (DEP), created in 2002, works on the basis of evaluation programmes, consisting of a series of evaluations of projects/programmes in one of the Bank's sectors of activity (natural disasters, social housing, job creation, etc.). Each evaluation programme starts with an analysis of the Bank's portfolio and a review of good practices in the sector. This leads to a general analytical framework for the evaluation of the activity sector.

Individual evaluations investigate the performance and quality of projects and programmes financed by the Bank and assess their impact and sustainability. Furthermore, CEB added value is analysed along three main criteria i.e. financial added value, impact additionality and technical support provided.

Dissemination of lessons learned and good practices stemming from the results of the ex-post evaluations contribute to organisational learning within the CEB with a view to improving the planning, selection and design of future projects and programmes, thus augmenting the impact of Bank's assistance and services to clients.



Different stages in the project cycle

3. Seeking the right balance

Given the often complex institutional, economic and social factors surrounding project preparation, merely "transferring financial resources" would clearly not suffice to **ensure the long-term viability of projects.** The Bank therefore places strong emphasis on technical support during project preparation and on institutional capacity building. In practice, **Bank teams are becoming increasingly closely involved in the process of designing, preparing and monitoring projects** with a view to maximising both the resources employed and the quality of projects.

Focus on increased quality and sustainability of the projects financed goes hand in hand with **maintenance of strict internal control and risk management systems**. The CEB's projects and loans activities are framed by: **(i)** prudent financial policies; **(ii)** a conservative risk management and; **(iii)** general organisation of internal controls in conformity with the rules of good governance.

Promoting the CEB's social added value through expanded activity in the target group countries

The increase in the CEB's activity in favour of target group countries over the last fifteen years is a good example of how the Bank strives, in practical terms, to reach the right balance between the quality of its project portfolio and its contribution to social cohesion and the prudential framework underpinning its financing.

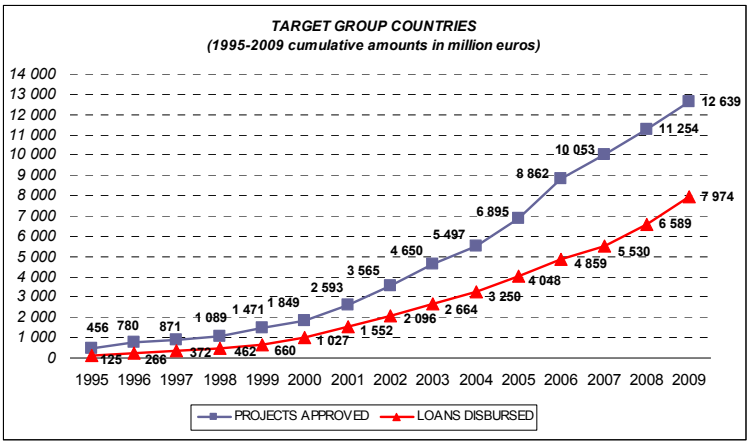
Showing an impressive trend, total cumulative approvals since 1995 stood at over € 12.6 billion at year-end 2009, spread over 225 projects. Of this amount, 63% has already been financed, as evidenced by nearly € 8 billion in total cumulative disbursements over the 1995-2009 period (*see graph below*).

The remaining difference is explained by a growing stock of projects to be financed of around € 3 billion at year-end 2009 as well as those projects that are subject to annulations by the borrower or suppression from the stock of projects, often reflecting the still constrained absorption capacity of borrowers in the region.

Enhancing the Bank's participation in investment programmes in the social housing, education, health and municipal infrastructure sectors in the target group countries not only serves to reaffirm the CEB's commitment to those countries but, moreover, actively supports their sustainable economic and social development, including the transfer of investment and management responsibilities from central to local level. Often, these types of CEB loans come within a large-scale long-term investment programme aimed at making optimal use of European Union (EU) structural funds.

In order to stimulate borrowers' absorption capacity and support the operational translation of CEB strategic priorities in favour of the target group countries, the Bank has introduced a number of complementary measures, including the possibility of granting concessionary interest-rate subsidies for projects in favour of countries covered by Poverty Reduction Strategy papers or exceeding (on a case-by-case basis) the limit of 50% of total eligible cost of project financing in favour of the high social added value projects in target group countries.

The often more pronounced complexity of projects in target group countries and the CEB's impetus given to the implementation of high-quality projects demands more assistance both during project preparation and during project implementation in order to limit risks and ensure sustainability over the long-term. In this context, it is all the more essential to underline the importance of the Bank's strengthened prudential framework serving to ensure stringent risk management.



Faced with the impact of the crisis in the Central, Eastern and South Eastern European countries, which has brought about a reduction in tax revenue and more restricted access to the capital markets, in 2009 the CEB continued its policy of support for national, local and regional authorities in those countries in their implementation of social public infrastructure projects.



APPENDIX 3

Donors and Trust Accounts (or Funds)

The CEB's Articles of Agreement state that, among its means of action, "the Bank may open and manage trust accounts for receiving voluntary contributions from its Members, from the Bank and from the Council of Europe" (Art. VII, Section 3). Furthermore, the Bank's new Development Plan 2010-2014 has enshrined as one of its strategic orientations the strengthening of partnerships with donor countries, in light of the mutual benefits of this type of collaboration.

a. The CEB and the donor countries: a fruitful cooperation

This co-operation enables the Bank both to enhance its means of action and to better serve its social mandate, especially in favour of the target group countries in Central, Eastern and South Eastern Europe.

On the one hand, combining CEB project loans with grants from donor countries allows the Bank to:

- increase the added value of its actions by using these grants to improve the preparation and monitoring of financed projects through technical assistance;
- ensure the economic viability of social projects by more generous financing conditions;
- demonstrate its specificity (compared to other international financial institutions) as a social development bank acting in favour of disadvantaged populations and regions.

On the other hand, this collaboration offers several advantages to the donor countries, for example:

- a bilateral trust fund allows the donor, in conjunction with the Bank, to focus on the specific type of social projects the donor country is most interested in supporting. In the case of the Bank, this advantage is compounded by CEB's specific social mandate, unique amongst IFIs. Indeed, a donor trust account has a substantial leverage effect on social infrastructure as its grants will be combined with much higher CEB loans;
- the Bank's streamlined procedures for project implementation ensure an efficient link between the donor and the final beneficiary as well as relatively short lead times between a decision on, and the actual provision of, technical assistance;
- the Bank's procurement procedures ensure that donor's funds are correctly allocated.

The trust accounts currently in force at the CEB are presented opposite.

b. Trust accounts funded by individual donor countries

Norway Trust Account for the Western Balkans (NTA)
Since end 2003, the CEB has administered an innovative assistance mechanism, the Norway Trust Account (NTA), set up on the initiative of the Norwegian Authorities, in order to provide for the implementation of various initiatives in favour of Western Balkan countries. By end 2009, the NTA had enabled support for 34 initiatives totalling € 2.8 million in a number of different eligible sectors. 59% of these allocated NTA resources were used for direct support to CEB projects, either for preparatory or feasibility works or to strengthen the implementation capacity of the institution or ministry in charge of the project in the beneficiary country.

Human Rights Trust Fund
To better enforce the decisions adopted at the 3rd Council of Europe Summit in Warsaw (2005), the CEB, Norway and the Council of Europe - with additional contributions from Germany, the Netherlands and soon Finland - in 2008 established a Human Rights Trust Fund, endowed with a total amount of € 3.2 million to date. This new instrument, aimed at supporting the consolidation of the State of Law and the European system of human rights protection in Europe, is devoted to financing technical assistance in favour of projects in this field.

Spanish social cohesion account
Set up in 2009 on the initiative of the Spanish Authorities, this account will be endowed with a total of € 2 million and will be used, notably, to finance technical assistance in favour of CEB projects, mainly in the 21 Central, Eastern and South Eastern European countries that comprise the Bank's target group.

c. Selective Trust Account (STA)

The main purpose of this trust account is to grant interest-rate subsidies for the CEB's loans for projects consistent with the Bank's high priority objectives in low-income eligible countries from the so-called target group. The STA can also be used for making donations to help the victims of natural disasters or acts of war, refugees and displaced persons, migrants and vulnerable population groups.

Since the inception of the Selective Trust Account in 1995, CEB Member States have contributed **almost all of its funding directly via transfers from the Bank's annual profits,** for a total of almost € 100 million. This amount has enabled the financing of loans bearing subsidised interest rates totalling € 1.5 billion and donations totalling € 13.5 million.

B - TARGETING SUSTAINABLE DEVELOPMENT

1. Mainstreaming environmental considerations

The contribution of the CEB towards building sustainable communities can only be meaningful through full integration of environmental considerations in its lending operations. Therefore, by means of its appraisal and monitoring mechanisms, the CEB seeks to ascertain that the projects it finances are designed and implemented in such a way as to:
1) optimise social and environmental benefits;
2) minimise negative environmental impacts; and
3) comply with appropriate social and environmental standards. For this purpose, the Bank requires that project promoters respect the environmental management principles and standards described in its General Policy for Loan and Project Financing. Among others things, these guidelines stipulate the requirement for environmental assessment and pollution prevention and abatement. Besides ensuring the application of appropriate environmental protection standards, the CEB's operational teams work with the borrower to optimise the environmental sustainability of projects beyond legal requirements. This particularly includes recommendations to enhance energy efficiency, building materials and waste management.

Preparation of a new Environmental Policy

The CEB launched the preparation of an Environmental Policy (EP) as a policy document in its own right to underpin its commitment to promoting good environmental practice and to clarify its approach to sustainability which underlies all of its operations.

The new EP is intended to be approved in the course of 2010. It further develops the **environmental management principles** described under the Policy for Loan and Project Financing (see page 33) and widens their perspective to the CEB's activities as a whole.

The environmental policy draws upon the relevant conventions of the Council of Europe and the EPE (European Principles for the Environment) Charter which is based on EU environmental policy and regulations. Furthermore, the policy enhances compatibility of sustainability guidelines with other multilateral financial institutions.

2. Helping populations faced with natural risks

To help foster more responsible management of the environment, the CEB finances projects that:

- Undertake sustainable, long-term preventive action to protect populations from the consequences of natural and ecological disasters including floods, fires, avalanches, earthquakes and landslides
- Provide emergency situation response in the aftermath of natural or ecological disasters
- Contribute to protecting and improving the environment
- Aim at preserving historic and cultural heritage.

Enhancing the effectiveness and sustainability of the CEB's contribution to helping populations manage natural risks has meant **shifting the operational focus from immediate emergency response to long term preventive action.** This shift is reflected by the Bank's pro-active approach to tackling climate change related events first and foremost through **adaptation** and **mitigation** rather than emergency reconstruction. Within this sustainability perspective, the CEB's actions have steadily evolved in favour of prevention so that the breakdown of the CEB's actions between prevention and reconstruction over the past five years has been approximately 50/50.

The CEB projects that help protect populations and livelihoods from damage arising from natural disasters aim at **providing lasting solutions for reducing vulnerability to natural disasters, reversing environmental degradation and promoting the Member States' sustainable development and adherence to national and international environmental standards**.



Turkey - Integrating seismic standards in the new housing stock



Broadening the scope of the CEB's contribution: a shift toward increased resilience in the face of natural disasters

A € 250 million loan application by the Government of Turkey for the partial financing of the Istanbul Seismic Risk Mitigation and Emergency Preparedness Project (ISMEP) has been submitted to the CEB's Administrative Council. In view of Turkey's high vulnerability to natural disasters, especially earthquakes, the ISMEP project initiated a process that aims at gradually transforming Istanbul over the next 20 years into a city as resilient as possible to a major earthquake.

The overall goal of the Project is to save lives and reduce the social, economic and financial effects of future earthquakes. The specific objective of the Project is **to improve the city of Istanbul's preparedness for a potential earthquake through enhancing the institutional and technical capacity for disaster management and emergency response**, strengthening critical public facilities for earthquake resistance, and supporting measures for better enforcement of building codes and land use plans.

The probability of a major earthquake affecting Istanbul over the next 20 years has been estimated by experts to be in the range of 60%. If Istanbul was to be hit by an earthquake of the same magnitude as that of Marmara region in 1999, the human suffering as well as the social, economic and environmental effects would be dramatically higher, considering that the city has some 15 million inhabitants and is the financial, industrial and cultural centre of the country.

Against this critical background, the Turkish authorities are mobilising resources from various international financial institutions and bilateral donors in order to leverage the ongoing earthquake mitigation efforts. Leveraging its social vocation and its longstanding role in supporting projects aimed at protecting populations and livelihoods from natural disaster damages, the CEB loan proceeds would be mainly allocated to specific sub-projects concerning the reconstruction of public schools and student dormitory campuses.

3. Promoting sustainable housing

The provision of decent and affordable housing is an effective means of supporting the Bank's mission to strengthen social cohesion in its Member States and contribute to improving the living environment in both urban and rural areas.

The projects financed by the CEB in this sector relate to renovating, building or refurbishing housing and converting existing buildings to residential use in order to provide decent housing for people on low incomes. Eligible projects may target access to property ownership, rented accommodation or the associated infrastructure (such as a water supply, gas and electricity supplies, collection and treatment of waste water and household rubbish, commercial premises and play areas), including housing in rural areas (limited to the main residence on family-run farms).

From a broader perspective, the Bank also plays a role in urban renewal and in the "sustainable communities" agenda through the financing of housing-related municipal infrastructure, including investments linked to environmental sustainability and energy efficiency. In this respect, the CEB provides financing for urban renewal programmes that include projects in housing and infrastructure rehabilitation that are also designed to successfully address a number of economic, social and environmental challenges in urban areas.



Portugal - Social housing

In addition, controlling the environmental footprint of housing in general, and social housing in particular, is an important factor in any strategy for sustainable development in urban and rural areas geared towards the objective of social cohesion.

In a bid to help reduce the environmental footprint by improving the energy efficiency of buildings, and especially homes designed for people on low incomes, the CEB has undertaken to include the concept of "green housing" in its operations in order to promote housing with a smaller environmental footprint.

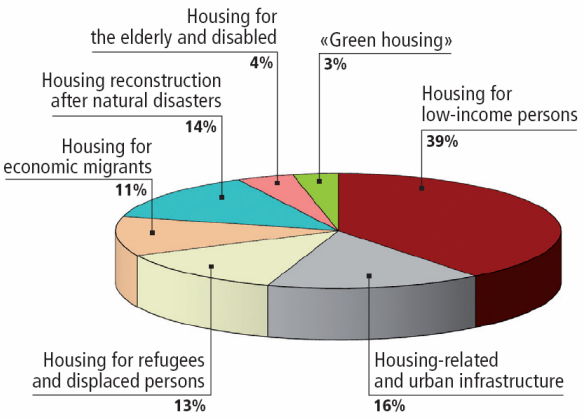
In the sector of **"green housing"**(*), the CEB has already provided over € 550 million for energy efficiency investments in Central and South Eastern Europe and in the Baltic States. The projects there have chiefly concerned thermal rehabilitation as well as modernisation of heating, sanitary hot water and ventilation in pre-fabricated, panel buildings. On average, the estimated reduction in energy consumption in these buildings due to energy efficiency improvement following such actions is between 30% and 50%.

*(*) Although the term is not officially recognised, "**green housing**" can be defined as homes that meet the requirements of sustainable development and, more particularly, the challenges of climate change and the exhaustion of natural resources. More specifically, "green housing" is housing that consumes limited amounts of energy, has a small carbon footprint and is built of sustainable materials. At its best, it is self-sufficient and only consumes energy derived from renewable sources.*

Sustainable housing and urban development: the CEB's experience

The CEB considers housing of fundamental importance for strengthening social cohesion and ensuring the well-being of population in its Member States. Since its establishment over fifty years ago, **the CEB has extensively supported the housing sector, dedicating €16 billion – or more than half of its total lending – to housing and associated infrastructure projects aimed at developing sustainable communities across Europe** and contributing to improving living environments in both urban and rural areas (see graph below for sectoral distribution of the CEB's lending in this field).

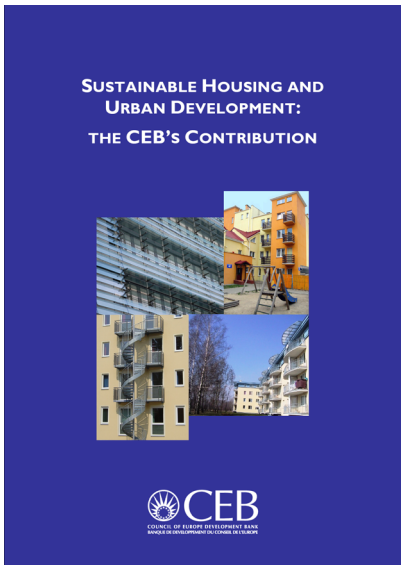
Sectoral distribution of CEB financing
to support housing and urban development
Total € 16 billion (1957-2009)



The CEB's multi-sector, integrated approach takes into consideration housing in its closely-interrelated social, economic and environmental dimensions. Importantly, sustainable housing makes a significant contribution to addressing energy efficiency and other environmental challenges on local, national and global levels. **Bringing its competence on housing to bear in a larger cross-sector perspective, the CEB's financing of housing projects is also an important part of comprehensive urban renewal programmes.**

In the years to come, demographic, socio-economic and environmental developments will have a lasting impact on housing markets throughout Europe. Overall demand will diversify, raising significant investment needs. With environmental concerns undoubtedly constituting a driving challenge in the vast majority of integrated urban renewal programmes, **the CEB's financing will consistently promote activities that incorporate the newest environmental and energy efficiency standards**.

Co-operation with other European institutions, in particular with the European Union, is already part of the CEB's strategy to promote efficiency, complementarities and sharing of experience. The CEB will also **increasingly seek to strengthen co-operation with individual donor countries** in order to boost external sources of financing for technical assistance.



*A study, entitled "**Sustainable Housing and Urban Development: the CEB's Contribution**" and accessible on the Bank's website, provides an account of the Bank's historical experience to date in the field of housing, examines future trends in the housing markets and provides some reflections on the CEB's activities in the coming years.*



Environmental Management Principles

(extract from the provisions[1] appended in the Policy for Loan and Project Financing)

A. Context

1. Pursuant to its social role, improvement of the living conditions of project beneficiaries has been at the core of the CEB's operations. Whether projects are implemented in urban or rural settings, fostering a durable relationship between people and the environment forms the basis of the CEB's approach to sustainable development.

2. Protecting vulnerable populations from environmental hazards and addressing the consequences of natural disasters has been among the CEB's social priorities. Therefore, the CEB's contribution towards building sustainable communities can only be meaningful through full integration of environmental considerations in its lending operations.

3. In 2006 the CEB signed the European Principles for the Environment (EPE) charter. The EPE charter, whose principles are derived from EU environmental policy and legislation, was developed in a partnership with other European-based multilateral financial institutions. The EPE are the basis for the CEB's environmental management principles.

4. The following principles detail the CEB's commitment to promoting sustainable development and describe the environmental framework guiding the CEB's conduct of operations.

B. The CEB's commitment

5. Through its due diligence and monitoring processes, the CEB will seek to finance projects which yield significant social and environmental benefits, minimise negative environmental impacts and comply with applicable environmental legislation.

6. The CEB will not finance projects which are:
   - Likely to cause significant and irreversible negative environmental impacts;
   - Unable to meet the CEB's environmental and social requirements ;
   - Listed in the Exclusion list presented in the Overall policy framework for loan and project financing.

C. Environmental principles

7. As signatory of the European Principles for the Environment (EPE), the CEB applies, in accordance with the geographic scope of its operations, the guiding environmental principles enshrined in the EC Treaty and the practices and standards incorporated in EU secondary legislation on environment. These principles include in particular, the precautionary principle, the prevention principle, the principle that environmental damage should as a priority be rectified at source, and the polluter pays principle. As regards the EU secondary legislation particular emphasis is given to:
   - The EU Directive on Environmental Impact Assessment (EIA);
   - EU Directives related to industrial activity, water and waste management, air and soil pollution, occupational health and safety, and the protection of nature.

8. The CEB also requires that projects comply with any obligations and standards enshrined in relevant Multilateral Environmental Agreements (MEAs) and Council of Europe conventions incorporated into applicable laws (e.g. biodiversity, climate change, the ozone layer, wetlands, persistent organic pollution, trans-boundary air pollution, endangered species and environmental information) and others that may be ratified from time to time.

9. CEB-funded projects should comply with the above principles and the relevant applicable secondary EU legislation* if located in an EU member state, an accession country**, a candidate, or potential candidate Country*** or in a country which is a member of the European Economic Area. In other countries, the CEB will strongly promote the application of the EPE but may consider accepting the recipient country's environmental management systems for:

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* In some countries, a phased approach with certain requirements of the *Acquis Communautaire* may be adopted in accordance with negotiated accession agreements.

** Currently there are no accession countries.

*** Current candidate countries are: Croatia, Turkey and "the former Yugoslav Republic of Macedonia". Current potential candidate countries are: Albania, Bosnia and Herzegovina, Montenegro and Serbia.

- Projects which yield significant human health and/or environmental benefits compared to the project's "ex-ante" baseline but which can not affordably meet the most stringent EU standards given the country's socio-economic context;
- Projects implemented in consecutive stages which allow progressive compliance with EU standards within a reasonable timeframe.

However, these projects should not involve the transfer of polluting activities from countries with higher environmental standards.

10. The CEB requires that the promoter/borrower of CEB-funded projects facilitates the availability of environmental information to concerned stakeholders, in line with the provisions of the Aarhus Convention on access to information and public consultation.

11. As regards combating Climate Change, the CEB's approach is twofold: (1) through **mitigation** which includes mainstreaming of energy efficiency measures in the projects it finances, developing specific energy savings programmes in the housing and public sectors as well as supporting sustainable energy production notably decentralised renewable energy facilities; (2) through **adaptation** which means the protection of vulnerable population groups and their livelihoods against loss and damages associated with extreme meteorological events.

12. As regards biodiversity, the CEB recognises the social value of ecosystems and the services they provide to humanity. The CEB is also aware that human activity can cause the destruction of natural habitats and extinction of associated species and that the loss of biodiversity is likely to accelerate over the next decades as a consequence of climate change. Therefore, the CEB will not finance projects which cause the loss of critical natural habitats.

(1) These provisions will be updated and some of them modified by the new Environmental Policy due to be approved in the course of 2010.





C - THE CEB'S CONTRIBUTION TO SOCIAL COHESION IN RESPONSE TO THE CRISIS

1. Financing of social public infrastructure

The CEB endeavours to play an increasing role in the service of social cohesion and sustainable development in Europe. Whereas the financial and economic crisis is starting to have a major economic and social impact in the Bank's Member States, causing serious deterioration of living conditions, CEB is committed to deploying every possible effort to best fulfil its social mandate and to adapt its means of action in the service of its Member States.

In this respect, **the Bank has intensified its support for physical investments in social public infrastructure projects with high social added value and a real impact on the economy**: **(i)** at geographical level, in the target group countries, and; **(ii)** at sectoral level, part-financing large-scale investment programmes notably in the sectors of education, protection of the environment and housing for low-income persons. The CEB's active support for infrastructure projects with a social vocation aims to: (i) compensate for the reduced offer of financing from the private sector in favour of such projects; (ii) allow its borrowers, particularly at the local government level, to benefit from the Bank's expertise and appropriate financing conditions, and; (iii) consolidate the CEB's status as a natural partner of the European Union and other international financial institutions in this domain.

Overall, participation in the financing of social public infrastructure programmes enables the Bank to foster – in accordance with its mandate and objectives to support social cohesion in Europe – policies and investments that assist central or regional government authorities in implementing their sectoral policies and thus help fulfil the real needs of its Member States. **Combining actions at economic, social and environmental level with those in favour of employment, the Bank encourages a mutually-reinforcing, integrated and multi-sectoral approach to project preparation and financing.**

Priority for infrastructure financing in favour of social cohesion

The increasing priority given to physical investments in which the Bank completes the financing of projects implemented by the Government or by local and regional authorities in support of social cohesion notably resulted, in 2009, in the approval of several large-scale investment programmes.

In the **education sector**, of special note are two programmes approved in Germany (with WI - Bank für Infrastruktur) for a total of € 270 million, targeted to financing social needs and to supporting the government policies in the Federal State of Hesse concerning the construction, renovation and modernisation of education infrastructure, from kindergartens and day-care centres to schools.

A € 250 million programme with Parque Escolar EPE, Portugal, within the framework of the National Programme for the modernisation of equipment in state secondary schools, will part-finance modernisation and efficiency improvements in 166 educational establishments, directly benefiting 190 000 pupils and 24 500 teachers.

To provide support for government programmes in **social housing**, the CEB approved several operations in 2009, both concerning (i) physical investments for the renovation and refurbishing of existing social housing stock as well as (ii) part-financing other accompanying measures, such as low-interest mortgage loans or favourable-term loans granted for refurbishing, including "green loan" programmes for energy-improvements.

True to its strategic orientation of increasing its financing in favour of target group countries, the Bank has also supported several **government programmes in education, health and improvement of living conditions in several Baltic and Central European Member States**.

As an example, the Bank approved a new programme with the Government of Lithuania, targeted to financing investments in public infrastructure. This operation comes within the framework of the Lithuanian National Investment programme for the period 2009-2011 whose purpose is to finance the renovation or construction of public infrastructure throughout the country. Similarly, a programme approved with the Government of Latvia will enable the Bank to devote its financing to investments aimed at improving rural and urban infrastructure.

2. Improving quality of life and helping the most vulnerable populations

Economic and social transformation often develops at an uneven pace, entailing the necessity to implement measures to decrease regional disparities and address the inequality of access to basic social needs. In line with its mandate as a social development bank, the CEB looks forward to increasing its support for social cohesion and the improvement of living conditions, in particular through the financing of projects aimed at promoting the social inclusion of vulnerable groups.

For the CEB, strengthening social integration and thus attacking the roots of exclusion means, in operational terms, acting to support refugees, migrants and displaced persons, social housing, creating and maintaining jobs, improving the quality of life in urban and rural environments and infrastructure modernisation for administrative and judicial public services.

A particular area linked to furthering social cohesion concerns the constraints placed on the judicial system. Investment needs remain substantial across the CEB's member states in order to address the need for construction and refurbishment of courthouses and upgrading physical and technical infrastructure of judicial service units. In addition, important deficiencies exist in the capacity of prisons and detention houses, which creates problems in terms of prison overcrowding, inadequate health/psychiatric capacities and lack of sufficient communal facilities and activities.



Bulgaria - Young Roma children

Working for the implementation of the rule of law throughout Europe: financing a prison infrastructure project in Bosnia and Herzegovina

Any society's social cohesion finds its expression in the way in which its weakest members are treated. The prison populations of European countries are in need of adequate prison infrastructure and suitable conditions of detention which should be in conformity with the European Prison Standards, concerning prison construction and detention conditions. The CEB has shown its commitment to supporting projects in this domain by incorporating this field of action under its sectoral field of activity "Supporting public infrastructure with a social vocation".

The CEB's Administrative Council approved a € 19.3 million loan to Bosnia and Herzegovina (BiH) to construct, equip and make operational a 350-inmate high security prison to be located in Istocna Ilidza, near Sarajevo. The project is aimed at helping the country strengthen its capacity in the area of the rule of law that is so crucial for its internal reconciliation and integration into Europe, and also, to serve as a model for these types of facilities that are now being considered in the region of Southeast Europe for the first time. In addition to the CEB's loan, the project will be funded by the mobilisation of substantial grants from the European Commission's Instrument for Pre-Accession (IPA) fund as well as from bilateral donors. The project preparation has also benefited from technical assistance financed by the European Commission Infrastructure Projects Facility for the Western Balkans (IPF).

In all, this is the first prison construction project approved by the CEB, following the Third Council of Europe Summit (Warsaw, 2005), where the Bank was asked by the Heads of State and Government to assist its Member States in improving their judicial public service infrastructure. The CEB intends to do more in this sector in the years to come, and is currently reviewing prison projects in several other countries for possible co-financing.



3. Supporting job creation and preservation

The productive potential of any country can only be realised if the economy can generate sufficient employment opportunities. In this respect, measures to spur economic growth and create a business environment conducive to job creation are of particular importance. Micro and small and medium-sized enterprises (SMEs) will continue to play a major role in sustainable social and economic development since they have a high potential for job generation, lowering regional disparities and strengthening competitiveness. At the same time, SMEs today still suffer from constrained access to finance and may also suffer from a scarcity of well-trained skilled and adaptable workers, thus underlining the importance of improving the quality and relevance of education and vocational training programmes.

Recognising the SME sector as an important driver for ensuring sustainable economic and social development, the CEB lends its support to productive investment projects providing for the creation and preservation of viable jobs by facilitating access to credit and/or ensuring appropriate vocational training. These projects are intended for micro enterprises and SMEs as well as for entities exercising a craft activity or family businesses carrying out regular economic activity.



Lithuania - SME

CEB and micro/SME financing: targeted action in favour of vulnerable population groups

In 2009, the Bank approved a new € 23 million programme with MicroBank – Banco Social de la Caixa to promote job creation and to assist vulnerable population groups in Spain. This loan continues the partnership started in 2008 when the CEB granted an initial loan of € 30 million to MicroBank to encourage independent economic activity in micro enterprises located throughout Spain.

This new undertaking with MicroBank will provide funding to support employment and to strengthen the local productive fabric in Spain in a particularly difficult economic context marked by rapidly rising unemployment. Recession and the credit crunch are still constraining recovery and sharply affecting small businesses and entrepreneurs despite a significant fiscal stimulus package by the Government of Spain. Restricted access to financing for the SME sector is also present among persons threatened with social exclusion and marginalisation. In this context, the development of microfinance services can help foster entrepreneurship by facilitating business start-ups.

The overall objective of the programme will see CEB funds distributed by MicroBank as micro-credits for a target population with very little or no access to traditional lending channels. These micro-credits will make it possible to reach vulnerable populations through 'social micro-credits' to persons with self-employment projects, 'financial micro-credits' to small entrepreneurs creating or expanding a micro enterprise and 'family assistance micro-credits' aimed at covering household needs and allowing families to overcome temporary difficulties.

A number of additional projects for partial financing of different national development banks' programmes in the target group countries, all approved in 2009, also provide support for employment and enhancing SME competitiveness through productive investments undertaken by beneficiary enterprises throughout the countries in question (in 2009, notably Bulgaria, Croatia, Hungary and Turkey).

Part 3 - Sustainable management of the Institution



About...

Controlling the CEB's environmental impact

A sustainable development charter: a few simple things you can do for the environment

Working in a responsible manner

A continually evolving human resources policy

A fair balance between professional and private life

Informing and communicating: accountability



A - CONTROLLING THE ENVIRONMENTAL IMPACT

1. The CEB's general framework of action

In its generally accepted sense, the term ecological footprint is a measure of the pressure that man places on nature. It is a tool that assesses the productive area needed for a population to cover its consumption of resources and its waste absorption requirements. The CEB therefore needs too take into account the impact of its own functioning, which nevertheless still remains limited (with a workforce of some 150 on a single site).

To start with, sharp contrasts appear in the socio-environmental status of the Institution's headquarters: on the one hand, the perfectly maintained Haussmanian building contributes to preserving the historic heritage and its hub location in terms of transport (notably public transport) contributes to reducing greenhouse gases; on the other hand, the architectural design of a 19th century building does not *sui generis* facilitate a high level of energy efficiency.

Within this framework, **the Bank strives to control its environmental impact not only in its everyday functioning, but also in any infrastructure work it undertakes** by taking action that is aimed in priority at: limiting the carbon content of its activity, optimising the use of raw materials, managing waste and, if possible, giving preference to suppliers that are respectful of sustainable development in their bids for tender. This is also the Bank's approach in respect of its own premises and, as a co-owner, in also promoting such action at co-ownership level in the building where its headquarters are located.

a. Day-to-day management

The Bank's action is directed to **limiting its consumption of natural resources** such as water and paper by taking qualitative measures such as using FSC (Forest Stewardship Council) certified paper in its photocopiers and printers, and electricity by the increasing its use of low energy light bulbs.

Another such measure, implemented since 2007, consists in gradually doing away with individual air-conditioning systems and **connecting the building to the urban cooling network of the City of Paris** run by the company CLIMESPACE. As with an urban heating system, energy is produced centrally under the authority of local government bodies who, in centralising act energy production, act as guarantors of the environmental compliance of the whole production and distribution chain. In all, this centralisation not only attenuates noise and vibration nuisances, but also produces a marked reduction in CFC emissions into the atmosphere as well as a 30 to 40% reduction in electricity consumption, and up to 65% reduction in water consumption - which as a corollary leads to a 40% reduction in CO_2 emissions.

In addition to this, the CEB has for many year now been implementing three major systems for the **recycling of waste**: light batteries of all kinds are collected in special containers and disposed of via specialised channels; orders for the replacement of heavy batteries include the removal and reprocessing of the old ones; ink cartridges for reprographic equipment, fluorescent tubes, electric light bulbs, IT hardware and mobile phones are all collected by companies specialising in the recycling of each type of product.

b. Infrastructure works

In spite of the servitude inherent to a building dating from the 19th century, the Bank endeavours to incorporate environmental requirements in all the rehabilitation and refurbishment works carried out on its premises: these include, among others, the systematic use of water-based paint, lighting by fluorescent-type recessed spots and the laying of fitted carpets produced in compliance with sustainable development standards.

Implementation of an environmental diagnosis

In compliance with the commitment made by the Bank, a study aimed at providing adequate instruments for measuring the environmental impact of the CEB's functioning – in the form of indicators listed on the page below – and recommending improvements regarding the specific characteristics of the Institution' headquarters, was entrusted to a technical consultancy firm based in Paris (Best Energies - études&conseil).

The conclusions were published at end March and in summary, describe an average overall energy performance for the building, while highlighting the fall in consumption between 2008 and 2009 and proposing possible channels for further improving energy performances.

2. The CEB's main energy performance indicators

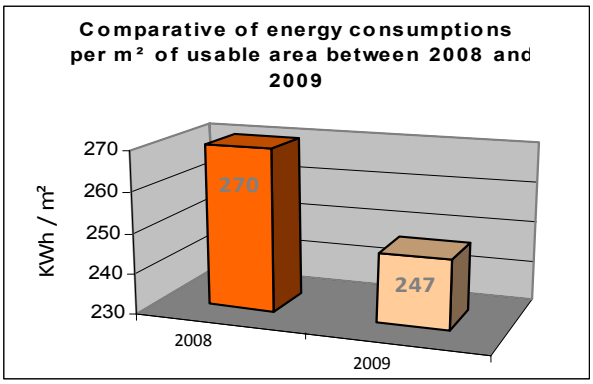
Levels of energy consumption during 2008 and 2009 result from an environmental diagnosis carried out in early 2010 by the firm Best Energies.

a. Consumption levels in 2008 and 2009

	2008	2009
Electric energy consumption in MWh	888	936
Energy consumption hot and cold in MWh	1 542	1 288
Total energy consumption (electricity, hot and cold) in MWh	**2 430**	**2 224**
Energy consumption per m² of useable area in KWh	270	247
Equivalence CO_2 Tonne	397.2	351.2

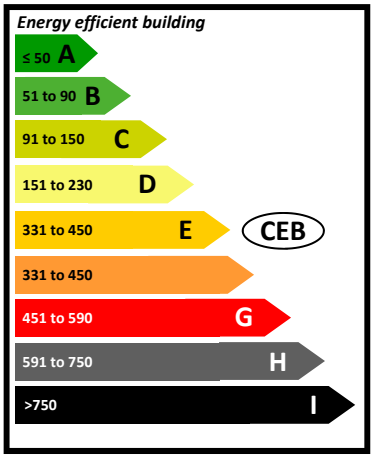
In all, there was a **significant drop of 8.5% in absolute value of the total consumption of energy between 2008 and 2009**. This was due to the 16% reduction in hot/cold energy consumption, in part because of milder weather and in part because of the installation of double-glazing/double windows in certain parts of the building.

On the other hand, the electricity consumption increased by just over 5% from one year to another, thus following the average increase in staff numbers from one year to another. It is hoped that in future, by changing to more eco-responsible individual and collective behaviour, the rate of increase in electricity consumption can, as far as possible, fall below the rate of increase in staff numbers.



b. The CEB's position

From one year to the other, the total energy consumption per m² of (useful) office space fell by a 9.3%, which evidences the efforts made. Nevertheless, the energy performance of a building designed in the 19th century remains a constraint: using the conventional EPD method (energy performance diagnosis) the building in which the CEB is housed is rated **class E** (see scale below).



It is, however, important to remember the very central location of the Bank's headquarters and the historic heritage it represents.

c. Possible channels for improvement

Firstly, with respect to the co-ownership association, the CEB will be continuing to weigh in all the decisions concerning the modernisation of the collective installations (regulating the heating, insulating the attic).

At the same time, the Bank will pursue the conversion of its own private air-conditioning installations to the Climespace technology, generalise its use of presence detection systems and light timers, and finalise the replacement of incandescent lighting.

In addition to this, additional emphasis will be placed on making individual behaviour more environmentally responsible (energy, consumables).



3. An individual and collective commitment

Corporate social responsibility, defined as the Bank's contribution to socially AND environmentally sustainable development, applies not only to the financing activity but also to the Institution's functioning itself. It is a long-term effort as well as a day-to-day challenge.

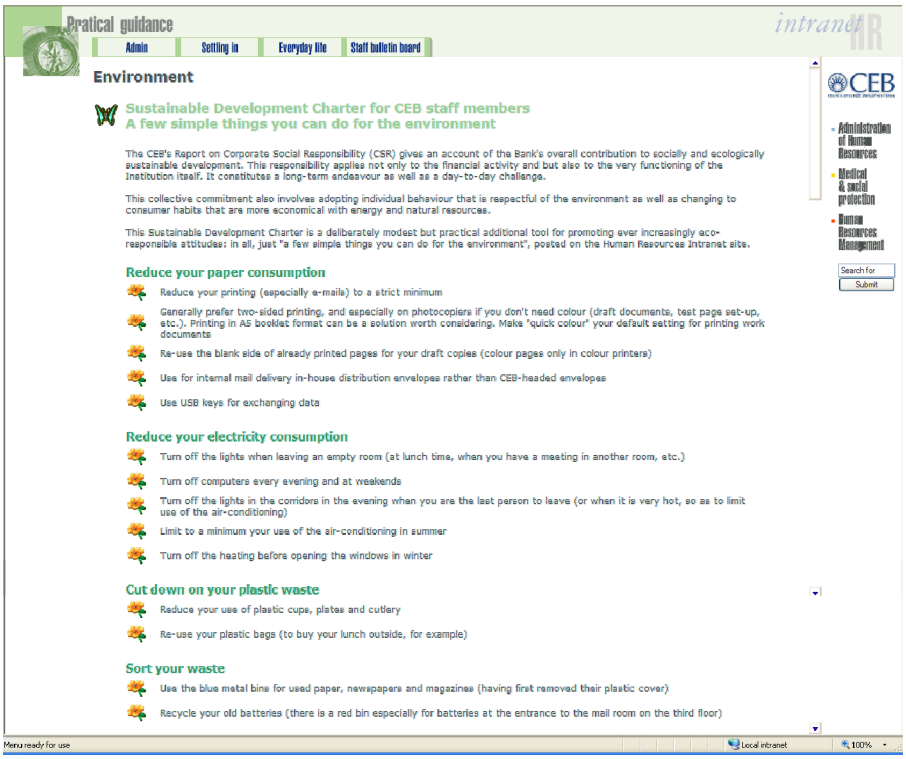
This collective commitment also involves adopting individual behaviour that is respectful of the environment as well as changing to consumer habits that are more economical with energy and natural resources. This is why, in accordance with the commitments made last year, a **"Sustainable Development Charter"** has been drawn up for CEB staff. This document, entitled "A few simple things you can do for the environment", is designed as a deliberately modest but practical additional tool for **promoting increasingly environmentally responsible behaviour.**

In concrete terms, the Charter makes a series of recommendations to help us all to become steadily a little "greener". Through a few "simple actions", each staff member is encouraged to reduce their consumption of paper and electricity and to better manage their waste, by sorting and by limiting their plastic waste.

For example, to reduce electricity consumption, it is recommended to:

- switch of the lights in unoccupied rooms (during lunchtime, when attending a meeting in another room. etc.)
- switch of computers when leaving the office in the evenings and at weekends
- switch off the light in the corridor in the evening when you are the last person to leave (or in very hot weather, thus limiting use of the air-conditioning system)
- keep use of the air-conditioning system to a minimum in summer
- turn off the heating before opening any windows in winter.

Accessible on line on the Human Resources Intranet site for Staff, this "Charter for Sustainable Development" is part of a new "Environment" page that also features extracts from the Corporate Social Responsibility Report and other useful suggestions as to what action you can take in the office, such as recycling your coffee capsules, as well as the "Article of the month".



B - WORKING IN A RESPONSIBLE MANNER

1. Continuing changes in the human resources policy

a. General system

The general policy for human resources at the Bank is naturally guided by the principles and ideals promoted by the Council of Europe. The relationship between the Bank and its staff is governed by the **Staff Regulations** for staff at the Council of Europe which, according to the Bank's Articles of Agreement, "*is applicable to staff of the Bank in matters not covered by a specific decision of the Administrative Council* ".

Within this general framework, the Administrative Council has adopted several provisions of the Staff Regulations that are specific to the Bank and applicable to its staff. Thus, in matters of recruitment, the Bank first simplified its procedures and then created the Selection Committees that are tasked with ensuring balance, fairness and transparency in internal and external recruitment processes. The Staff Committees participate fully at all stages of these processes. This being so, the Staff Regulations of the Council of Europe remain the reference document. As a consequence, any statutory amendments approved by the Committee of Ministers and which are not subject to any specific provisions of the Administrative Council of the CEB apply as of right to Bank staff.

Moreover, 2009 was characterised by the second year of human resources management under the regime of the new Staff Regulations, approved by the Administrative Council in November 2007 and effective as of 1st January 2008.

The **introduction of functions** at the Bank was one of the essential provisions of this modernisation of the Staff Regulations. For information, the introduction of the notion of "function" has made it possible to offer fixed-term contracts governed by clear rules, to replace the current temporary staff contracts. The changeover from temporary employment to functions will be definitive as at 1st January 2011, following a 3-year transition period enabling the necessary budgetary measures to be adopted. These measures already made it possible to proceed with the first recruitment on function-based posts as early as 2009.

Other measures adopted over the years by the Administrative Council are in line with best governance practices followed by international financial institutions. Since 2001, for example, staff have benefited from a Code of Conduct (see also Page 45), updated in 2009, as well as rules governing the protection of personal data which led to the creation of a Data Protection Commission tasked with ensuring that personal data is processed for legitimate purposes.

Introduction of grade banding

Following a decision by the Administrative Council, the Bank partially amended its Staff Regulations in November 2007 in order to take into account statutory changes introduced at the Council of Europe and to modernise its Human Resources management methods. In line with this reform, in 2009, the Bank undertook a process of regrouping posts and functions into grade bands in order to better reflect the responsibilities of the staff concerned and to render its human resources management more modern and more flexible.

For information, since it is statutorily bound to apply the salary scale in force at the Council of Europe, itself a Coordination Organisation, the CEB follows the system of remuneration, benefits and allowances of the Coordinated Organisations, which is based on a scale comprising 24 grades across 4 different categories. For example, Category A (corresponding to "administrative, planning and research " duties) comprises 7 grade levels, with each level sub-divided into steps (ranging from 1 to 11, depending on the grade level.

At individual level, the situation of each staff member naturally remains unchanged and this reform of the way grades are presented has no incidence on the salary scale common to all the Coordinated Organisations.

The purpose of the reform initiated by the Bank is to regroup these grades into five major groups. This new system should make it possible to achieve a twofold objective: at budget level, to provide the necessary tools with which to better control the payroll and, in matters of Human Resources Policy, to present more transparency regarding the possibilities for career development and homogeneity in the classification of activities as well as internal mobility.

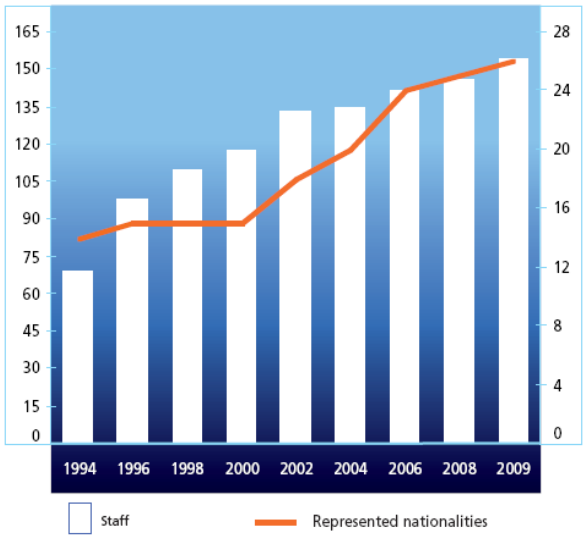


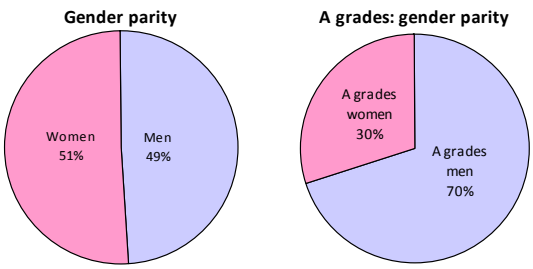
b. Career management

Since 1994, the Bank has developed a policy of Human Resources management, gradually increasing its workforce to support the geographical and sectoral development of it activities and adapting its mechanisms for action to ever-increasingly rigorous operational standards in terms of quality and risk.

Staff numbers

The Bank has more than doubled its workforce since 1994. With an average 5% increase between 1994 and 2009, by end 2009 the Bank had 154 elected representatives and staff, still a very modest figure in the light of its volume of activity. In addition, the latest round of recruitment has made it possible to balance the number of management and support staff, at 55% and 45% respectively. A particular effort has been made to improve **parity between men and women**, with around 51% of women and 49% of men. At the same time there have been significant efforts to **diversify the nationalities** represented: at end December 2009, 26 different nationalities were represented at the CEB.

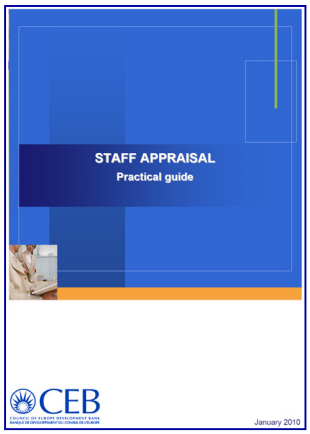




Training and performance assessment

The Bank has introduced human resources management tools in order to facilitate the professional development of the staff and to increase their motivation. Training and performance assessment constitute the main instruments for staff development and career planning.

A **training** plan is drawn up each year by line managers, in consultation with their staff, and with the support of the Human Resources Department Training Unit on the basis of the information drawn, amongst other things, from the meetings held during the annual round of performance appraisals. The Staff Committee is informed of the training plan followed by CEB staff on an annual basis.



Thanks to the new tools in matters of **performance assessment**, in particular a skills glossary and a single simplified form for all staff, the annual performance appraisal process has been facilitated and can therefore more easily achieve the following main objectives:

- increase the Bank's effectiveness through better use of human resources
- simplify team management and improve staff motivation through dialogue and clarification of the responsibilities of each individual
- assess staff skills and performance
- identify training needs and career management needs (horizontal and vertical mobility).

Remuneration

Since its creation, the CEB's decision-making bodies have decided to apply the same salary levels to staff of the Bank as the Council of Europe. Nonetheless, decisions specific to Bank staff have been taken to reflect the specific nature of the CEB and its activities. As a result, a performance-related system of remuneration has been in place since 1996. This means that a staff member's career advancement, promotions and a variable portion of their remuneration are essentially based on merit.

Thus, in concrete terms, at the end of the annual round of performance assessment, staff members are eligible for an additional variable remuneration (which is on average 5% of the basic annual salary) as well as for advancements on merit. The system of variable **remuneration** based on merit was also reviewed in 2008. Henceforth, an individual's level will depend on the staff member's assessment, on the number of staff members having received the same level of assessment and on the allocated budget.

The CEB's Appointed Officials (the Governor and the Vice-Governors) are entitled to a fixed remuneration, voted by the Administrative Council and made public via the Annual Report and the Bank's website. They receive no stock options nor any form of bonus. They are, moreover, affiliated to the CEB's health and pensions schemes.

The Bank's remuneration policy, however, remains essentially based on that of the Council of Europe. The Council of Europe is one of the Coordinated Organisations, which share a coordinated system of remuneration. As a result, the salary scale, benefits and allowances systems and pension scheme rules are proposed by the Coordinating Committee on Remuneration (CCR) and subject to adoption by the decision-making bodies of each organisation. The CCR carries out its tasks in conjunction with the Committee of Representatives of the Secretaries/Directors General (CRSG) and the Committee of Staff Representatives (CST) within a regulated legal and administrative framework.

Pension scheme

As regards the pension scheme, it was the Administrative Council's wish to maintain a single **pension scheme** for all the Bank's staff, based on the scheme introduced by the Coordinated Organisations in 1974. It is a defined-benefit scheme. Staff members who have completed more than ten years' service are entitled to a pension at the age of 60. Staff members who leave the Bank before having completed ten years of service are entitled to a severance grant. The system also provides pensions for members of the staff member's family, spouses, children or any other persons declared as dependent, as well as an invalidity pension. CEB staff who are in receipt of their pension also enjoy other post-employment benefits, in particular, health coverage.

c. Social relations

Staff members have the right to express their views on any proposals to apply or to amend the Staff Regulations and on any other measures related to their terms of employment. The Articles of Agreement also provide for several staff participation bodies.

Firstly, there is the **General Meeting of staff**, which is the organ through which all staff members are able to express their views on their terms of employment and working conditions.

The **Staff Committee (SC)** represents the general interests of the staff and cooperates in the smooth running of the different services by enabling the staff to make their views known. It also represents the interests of staff who are in receipt of their pension. Moreover, it is tasked with representing the general interests of staff in their relationship with the Management of the Bank, in particular with the Governor. The Staff committee must be consulted every time amendments are proposed to the Regulations as well as any proposals concerning the general direction of the staff policy. In 2009, the SC contributed to the reflections on the introduction of grade banding, which represents progress in the flexible management of jobs at the CEB, as well as to the revision of the system of flexible working hours, which contributes to improving working conditions.

The Staff Committee participates directly or is represented by other staff, whom it appoints, on several commissions and committees created within the CEB and which require staff participation. Staff are thus represented on the **Health and Safety Committee**, the **Joint Committee**, which meets when there is a decisions to terminate a staff member's contract, the **Advisory Management Committee of the Autonomous Pension Fund**, the **Data Protection Commission**, the **Advisory Committee on Disputes** and the **Disciplinary Board**.

Individual complaints can be resolved through **mediation**, which is carried out internally, in particular through the SC. However, should no agreement be reached, the Articles of Agreement provide for the possibility of appeal, initially through an Administrative complaint, which can, if necessary, be referred to the **Advisory Committee on Disputes.** As a last resort, staff may appeal to the **Council of Europe Administrative Tribunal (CEAT)** under the conditions set out in the Articles of Agreement.



2. Ethics and privacy

The Bank strives to ensure a fair balance between professional life and private life.

Codes of Conduct

Uppermost of all professional obligations are the rules on ethics drawn up by the Bank, accessible to all and applicable both to CEB staff members and to Appointed Officials. A first version of the Code of Conduct was approved on 4 October 2001. That document was substantially enhanced by the texts approved on 27 November 2009, effective as of 1st January 2010. They are applicable respectively to the Governor and to the Vice-Governors (Appointed Officials), to staff members, to collaborators and contractual service providers as well as to members of the Collegial Organs (Governing Board, Administrative Council and Auditing Board).

As regards the CEB's staff and management, in particular, the Code of Conduct is underpinned by a number of representative values. Thus, the Bank's Appointed Officials, staff and occasional contractual collaborators are expected to work towards the CEB's objectives, with loyalty, integrity and impartiality, and must subscribe to high standards of professional ethics.

In performing their duties in respect of the CEB, Appointed Officials, all CEB's staff members and contractual collaborators must, in particular:

- in all circumstances act in the interests of the Bank, without allowing themselves to be influenced by personal considerations or relations and avoid any situation that might give rise to a conflict of interest or to the appearance of a conflict of interest
- carry out their duties in a professional manner devoting themselves fully to the tasks with which they are entrusted, satisfying the CEB's legitimate expectations, complying with professional best practices and observing professional secrecy
- respect the private lives and dignity of the CEB's Appointed Officials, staff members and occasional contractual collaborators and observe the principles of integrity.

Moreover, it shall be prohibited to show any illicit discrimination based on sex, race, colour, ethnic or social origin, political, philosophical or religious convictions, membership of any national minority, property, birth, disability, age or sexual orientation, nationality or, in general terms, the way in which the CEB's Appointed Officials, staff members and occasional contractual collaborators choose to conduct their private lives, insofar as this remains compatible with the principles set forth in Staff Regulations.

It will also be noted that a Chief Compliance Officer (CCO) function was created several years ago, thereby ensuring the effectiveness of these ethical principles.

Personal data protection

To mirror these obligations, in May 2008 the Bank drew up **Regulations on a system for the protection of personal data** at the CEB. Two general principles underpin these regulations.

1. In general terms, any processing of personal data revealing racial or ethnic origin, political opinions, religious or philosophical beliefs, trade-union membership, or aspects concerning sex life or health, shall be prohibited.

2. When the performance of the aims of the Bank makes it absolutely necessary to collect, store or use personal data of a sensitive nature, such data may only be collected, stored and used with the express and written consent of the person concerned or, after approval of the Chief Compliance Officer (CCO), in cases where processing is necessary in order to respect the specific rights and obligations of the person responsible for processing the data in relation to labour legislation in the performance of a legitimate activity provided for in the official texts of the CEB.

Lastly, here again to guarantee the effectiveness of this principle, a **Data Protection Commission** has been set up comprising, among others, the CCO, a representative of the Administration and a member of staff designated by the Staff Committee. The role of this Commission is to formulate opinions on all questions relative to the implementation of these regulations and, where appropriate, to propose improvements to the system of personal data protection.

3. Health and working conditions

The **Health and Safety Committee (HSC)** is responsible for advising the Governor on ways of protecting the health and safety of persons working on the CEB's premises, analysing and improving working conditions and for ensuring that the rules applicable in this area are observed. The Committee is composed of staff responsible for personnel management, premises management and security, representatives from the Staff Committee and the Bank's medical consultant. As a result of the actions of the HSC in relation to tobacco use, a suitable area has been created for smokers in order to protect the rights and health of everyone. The HSC has a consultative role. It carries out regular and ad hoc general inspections in the Institution's premises and produces an annual report on its activities on health and security and puts forth recommendations. All staff members are also entitled to regular medical check-ups as provided for in the regulations.

The Staff Committee also has the ability to set up and run social associations. As a result, at end 2008 the CEB Staff Sports Association was created.

The idea originally came from the Staff Committee and consisted in making an area of the building where the CEB's offices are housed available to staff purely for sports activities. Thus, as part of its property infrastructure work, the Bank created a sports facility that opened in January 2009. The Sports Association, which is legally independent from the Bank, is run and managed by the Staff Committee In addition to the health measures already taken to combat smoking, facilities of this kind contribute to creating a healthy environment for the CEB's staff and thus to their well-being, as part of the Institution's overall framework of sustainable management.



Mobilising against pandemic threat

Since the outbreak of bird flu in 2006 and, in particular, the spread of the A H1N1 flu virus in March 2009, the CEB has mobilised all its resources to cope with this threat, on account of the high risk of contagion. In effect, the health authorities foresaw a potentially widespread international pandemic.

The CEB first of all included "management of the pandemic" in its Business Continuity Plan (BCP), which is traditionally built on scenarios based on the unavailability of the Bank's premises. The pandemic situation, on the other hand, is characterised by the total or partial unavailability of the CEB's staff and external service providers.

In order to best prepare for a possible pandemic situation, the following measures were taken:

- for staff members: measures of hygiene, purchase of masks, on-line posting of a page of information devoted to the A H1N1 flu virus on the intranet site containing: weekly bulletins on the evolution of the pandemic, a practical Guide for the attention of staff as well as some useful links to Internet sites such as the INVS, the WHO, etc…
- to ensure business continuity: a system of teleworking was set up. Within this framework, the CEB bought the appropriate hardware, drew up a list of participants for teleworking, tested the system, and drew up a pandemic plan per key business area in order to maintain the Bank's critical activities and to ensure continuity of the activities in the event of a crisis.

By providing itself with all these necessary tools, the CEB was able to further develop its business continuity plan and better prepare itself to respond to problems linked to crisis management in the event of a pandemic so as to ensure the protection of its activities and of its staff.



C - INFORMING AND COMMUNICATING

1. Accountability

As a development bank, and in particular one with a social vocation that operates under the *"supreme authority of the Council of Europe"* (Article I of the Bank's Articles of Agreement), the CEB strives among other things to respect the principles of transparency and good governance in its functioning and in the way it conducts its activity.

To achieve this, the Bank makes a range of relevant information available to the public on its website in order to allow everyone to make an informed assessment of the Institution's mission and the effectiveness of its contribution.

The CEB's Public Information Policy

In addition to its corporate communication strategy, the Bank expresses this commitment in a public information policy. The policy itself forms part of a corpus of rules governing the process of authorising requests for information on matters it does not cover directly.

The provisions of this document, approved in 2008 by both the CEB's Councils and available online on its website, firstly rely on the development of an overall framework that is itself structured around three guiding principles: transparency, responsibility and balance.

Transparency
The Bank gives substance to the statement of this general principle by making available to the general public extensive objective and relevant information on the Bank's mission, activities and functioning. It is the condition whereby each and everyone can make an informed assessment of the CEB's action.

Responsibility
The Institution has a responsibility not only towards its shareholders and its main stakeholders, namely borrowers and investors, but also more widely towards the public in general.

Balance
Underpinning the implementation of the CEB's public information policy is the requirement to achieve a fair balance and this applies more particularly to articulation of the principles of transparency and responsibility: it is therefore important to provide a level of information that is in accordance with the Institution's reason for existing, which places emphasis on the ease with which its actions can be interpreted, and which lists, within limits, any information considered to be "confidential" and the reasons why it should be so considered. By virtue of the key principle of proportionality, the CEB strives to adapt its policy to the general public's increasing need for information, taking into account its inherent resources and position.

The scope of application of these principles covers three major fields of public information linked respectively to the Institution in general, to its functioning and to its operations. The policy also states that the Bank should ensure appropriate implementation of the guiding principles thus defined and, in particular, that it should ensure that the content of its website complies with the provisions relating to "areas of public information". Following a proposal by the Governor, this policy is periodically reviewed by the Councils in the light of experience.

Updating the Public Information Policy

The environment in which the Bank operates is characterised by a movement "towards greater transparency" and a consistent threefold requirement: to comply with the good practices in force in the other IFIs and/or promoted by the European Union, to pursue the efforts undertaken in the past few years to be more accountable for its actions, and to respect the commitments already made, notably those made as a signatory to the "European Principles for the Environment (EPE)".

These requirement must be reconciled with the CEB's own particular situation, marked by the quite recently adopted public information policy (June 2008, amended in November 2008), which already constituted a significant advance, as well as by its still rather modest size and special position.

Thus, over and above the ongoing reflections that should enable the CEB to take a new step forward in terms of openness and transparency, **the updating of the public information policy aims to integrate an environmental dimension as such and to incorporate corporate social responsibility, in addition to "dusting up" the text.**

2. Communicating to each stakeholder

The CEB pursues a communication strategy appropriate to its specific characteristics, in terms of visibility that is easy to grasp and on a reasonable scale. This strategy gives priority to highlighting the Bank's original position, to the stakeholders most central to its field of activity and, globally, to consolidating the Institution's reputation.

Within this framework, the Bank focuses on developing an institutional communication policy, which is itself supported by operational communication processes targeted to each of its stakeholders.

Towards its shareholders
The Bank's communication comes in priority under the aegis of good governance. It aims to give as accurate an account as possible of the managerial tasks entrusted to the Management and thus allow the Collegial Organs, in accordance with their respective areas of competence, to exercise their powers to control and steer the activities in the most appropriate conditions.

For the attention of the actors closely linked to its activity
The CEB has acquired a sound capital of confidence with its creditors – on the strength of its AAA signature it can raise funds on the capital markets in excellent conditions -, with its borrowers and with the other international organisations with which it has been weaving a policy of close cooperation for many years now. The Bank's communication strives to capitalise on this capital of confidence by focusing its (limited) means on highlighting its social development mission rather than on actions of notoriety.

Within this framework, alongside the requirement for institutional transparency, emphasis is placed on operational visibility, particularly with regard to **borrowers** and **beneficiaries of projects** financed by the CEB. To achieve this, the Bank's communication first aims to accompany the implementation of the development priorities set forth in the medium-term Plan, to highlight the Institution's know-how and added value in its capacity as a social development bank, and endeavours to make the Bank's contribution better known to the beneficiaries of its financings.

Communicating on projects

Communication on the projects financed by the Bank is a foremost part of the operational visibility that the CEB wishes to emphasise. To do so, efforts must be made to enhance communication while at the same time making it "more communicative".

The practical translation of the above is reflected in the website, in the quarterly newsletter *CEB Info* and in the attention paid to concretising the contractual clauses drawn up with the borrower concerning visibility, in particular "on project site".

Within the Institution
Internal communication is targeted to promoting the cohesiveness of the CEB's workforce and, as such, plays an essential role in the Institution's smooth running. The three objectives pursued are:

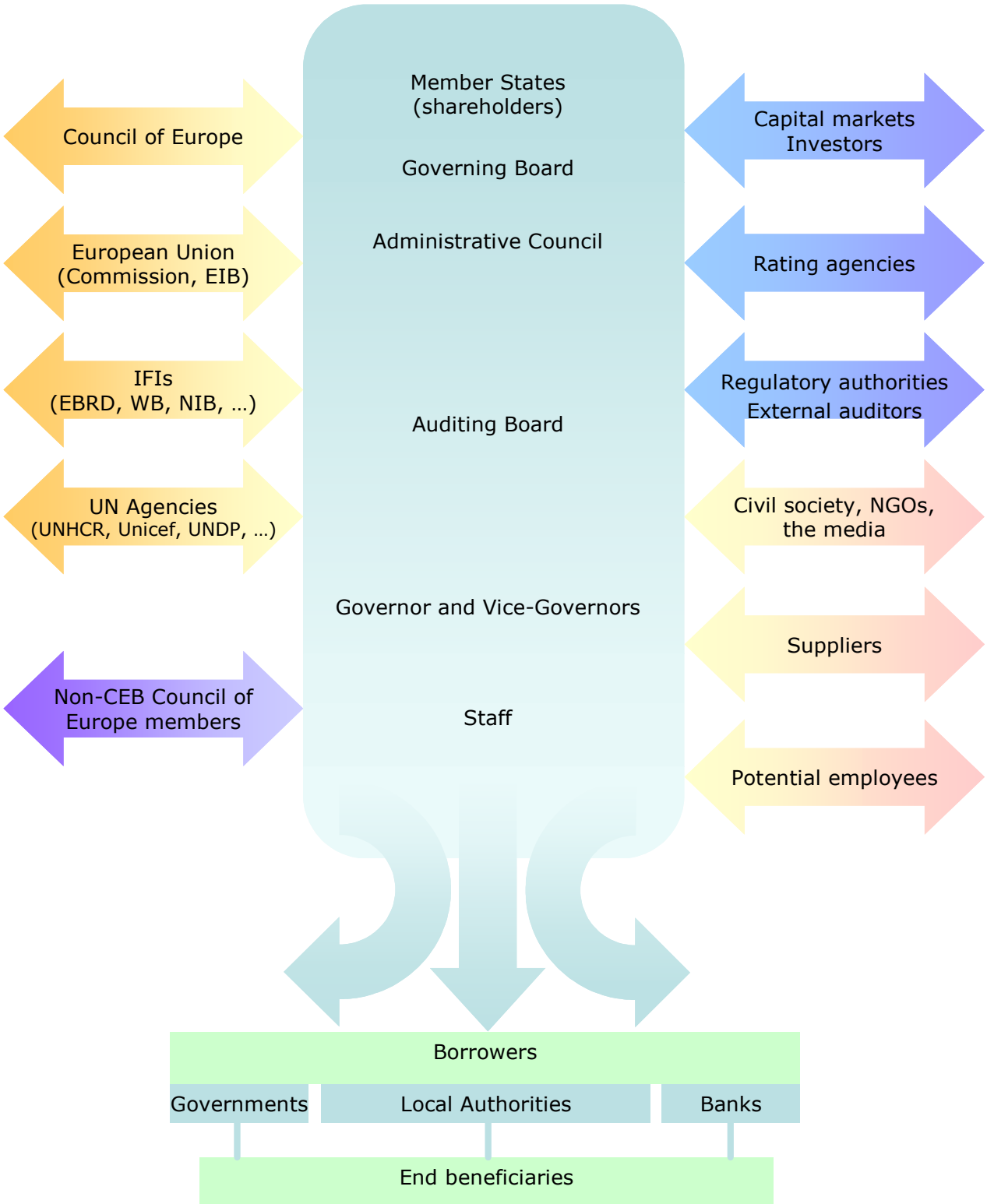
- to keep staff informed, under appropriate conditions, about both the Bank's functioning and its activities in general and about measures that have a direct impact on their statutory conditions and working environment
- to motivate staff to pursue common objectives, to support the Institution's social development
- to strengthen the CEB's learning organisation status.

Many different actors are involved in this communication and many different methods are used. Among the contributors are the Management (headed by the Governor), the Administration, for questions relating to human resources and working conditions, and the staff representatives who express and feed back the staff's aspirations and expectations. In addition to the ongoing dialogue between teams, some of the Bank's preferred communication channels are periodic information meetings throughout the year, organised at the instigation of the Management and/or the Administration, the quarterly newsletter *CEB Info*, and the **Human Resources Intranet site for staff.**

Towards the general public
The Bank's communication strives to provide a balanced response to the increasing need for information on the part of civil society and its representatives (NGOs, etc.).



CEB stakeholder map



3. Adapting the information and communication tools

In the context of its limited resources, the CEB strives to diversify and continually adapt the range of its communication tools. This was evidenced in 2007 with the introduction of a quarterly newsletter, **CEB *Info***, accessible on line to the general public, and, in 2008, with the production of an 8-minute film giving body to the Institution's image. These are just some of the new communication tools that have come to enrich the existing range of publications and brochures produced by the Institution. At the same time, at end 2008, the **website** was modernised in order to make the ergonomics more attractive and to increase the editorial options, while ensuring better accessibility for the visually impaired – the site thus now enjoys Accessiweb status.

Adaptation of the communication tools has gone hand in hand with the continued enhancement of the information made available to the public and accompanies this movement: communication must thus make it possible (i) to promote key information on the Institution, (ii) to ensure better alignment with the editorial and formal logic that prevails in the other international financial institutions in compliance with good practices, (iii) while endeavouring to highlight the CEB's identity and specific characteristics.

To illustrate this, in late 2009/early 2010, several initiatives were jointly taken in this direction involving the three communication tools mentioned above, namely the website, *CEB Info* and the film about the Bank.

Site web

The home page of the Bank's website, www.coebank.org, which constitutes a window onto the Institution, has been re-designed using a "portal" type approach. In addition to this, several new pages have been created devoted to corporate social responsibility and to donors and trust accounts, and some 'one-off' adjustments have been made.

CEB Info

Three years after it was first published, the quarterly newsletter has undergone a makeover; the editorial content concerning the loans and projects activity has been increased and the layout has been changed to make the text more "airy".

Film about the Bank

In addition to the Institution's two official languages, the film presenting the Bank has been translated into the languages of several more Member States.







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CEB

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