Corporate Social Responsibility Report



CEB

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

April 2009
Cover: http://www.photo-libre.fr

Message from the Governor



The Council of Europe Development Bank (CEB) has been working in the service of European solidarity for over half a century. The Institution has of course changed considerably since it was created in 1956 as the Council of Europe Resettlement Fund for Refugees. Today it is a development bank supported by its 40 Member States and with outstanding loans in excess of 12 billion euros.

Nonetheless, I believe it is important to emphasise the fact that the CEB's action is still guided by its two founding principles: its purely social mandate on the one hand, which is what lies at its core and gives it its specific character, and on the other the financial security of its transactions. This financial security acts as a guarantor of the long-term viability of the Bank's contribution and gives the bank its AAA rating which, despite the fact that the markets were at their most turbulent, was confirmed in October 2008 by the rating agencies Moody's, Standard & Poor's and Fitch Ratings.

In fact, the crisis that has emerged since the second half of 2008, a worldwide downturn on a scale not seen since the Great Depression, has led us to reassert our commitment to the notion of responsibility. This includes, of course, our responsibility towards our Member States (shareholders), in respect of which I would like to underline the constant attention paid to the continued strengthening of our financial stability. It also, however, refers to our responsibility, in the broader sense of the term, to all our stakeholders over the long term: **this is the focus we have taken in this initial report on corporate social responsibility, which offers an additional and transparent insight into how the CEB acts in order to promote socially and environmentally sustainable development**.

The issues around corporate social responsibility are without doubt essential questions. This report summarises, in a deliberately simple and accessible way, the answers to these questions that the Bank has provided to date.

But let us make no mistake, corporate responsibility represents a daily challenge and a long-term effort for the Bank's teams that goes well beyond the production and interest of this report.

I feel that we have undertaken a number of significant initiatives to this end throughout these past years. Some of these initiatives include measures designed to strengthen the integrity of our operations and the functioning of our Institution, such as the adoption of an Anti-Corruption Charter, the development of a compliance control system and the updating of our codes of conduct in line with good international governance practices; others include the emphasis placed on transparency, in particular through the adoption of a public information policy and the corresponding enhancement of the Bank's website. Other initiatives include our participation in the European Union's JESSICA initiative, which is designed to support sustainable urban development, and the signing of the Declaration of European Principles for the Environment.

I am aware that, together with others, the CEB can and must continue to make progress in this direction, taking account of the resources available to it and ensuring that it retains an appropriate balance between the enhancement of its social mission and the banking nature of its activities.

Overall, I hope that this new report will provide a wide audience with useful information about our Institution, its commitment and its contribution to sustainable development, which is our shared goal.

Paris, 30 April 2009



Raphaël ALOMAR

Report outline

This very first report on corporate social responsibility (CSR) aims, within a single document, to describe the actions taken by the CEB to support sustainable development for a Europe with an ever-greater sense of social solidarity.

Methodological principles

This commitment has become increasingly crucial as a result of the impact of the current crisis and is expressed in the following principles:

- the emphasis placed on the readability and accessibility of the report, which has been designed to allow everyone to make an informed assessment of the Bank's mission and the effectiveness of its contribution
- the determination to cover the full range of the CEB's activities, demonstrating the links between them and how they complement each other
- the identification of balanced, easily understood information, made available to the public in a deliberately concise form.

This new means of communication with our stakeholders is thus a concerted effort to combine the principles of responsibility and transparency. 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. It is also appropriate to note that the report:

- on the one hand, relies primarily on information already in the public domain, which it has set out to put (back) in perspective
- on the other, must be seen in the light of and as complementary to the information already included in the Bank's annual report and on its website.

In addition, in producing this report on corporate social responsibility we have tried to reconcile the three following requirements:

- attention paid to 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"
- taking account of the CEB's specific characteristics (mandate, resources, operating method, etc.)
- coherence between the internal (operational) and external (funding activities) aspects of CSR.

Content of the report

The report is organised into three main sections, each of which deals with a specific aspect of the CEB's contribution to socially and environmentally sustainable development, and which together offer a comprehensive view of the Bank's raison d'être and how it acts. The report covers:

- the Institution itself, emphasising the uniqueness of the Bank's social mandate and its positioning, as well as its values, governance and strategic framework
- its financing activities, which are based on a structured framework for action, focusing on its specific initiatives in support of viable urban development and the environment, as well as the care taken to ensure a high level of project quality
- the CEB's functioning, in terms of how it manages its human resources, which are its most precious asset, and its environmental footprint, as well as its information and communications policy.

The report also records the key figures and main events of the 2008 financial year, in particular as these relate to expectations around corporate social responsibility.

In terms of layout, the decision to include a large number of boxes in the body of the text was designed to make it easier to identify the Bank's priorities in relation to CSR.

Overall, this report represents not only the culmination of the efforts made by the CEB over recent years to foster sustainable development, but is also a further step in this direction in order to improve the Bank's overall performance in line with the resources it has available to it.

Key information

Key figures

In million euros

	2008	2007	2006
Loans disbursed during the year	**1 505**	**1 590**	**1 640**
Projects approved during the year	**1 861**	**2 414**	**2 460**
Commitments signed during the year	**1 958**	**2 621**	**1 564**
Loans outstanding	**12 423**	**12 007**	**11 965**
Own funds (after allocation of profit)	**4 718**	**4 754**	**4 692**
Shareholders' equity (after allocation of profit)	**1 785**	**1 821**	**1 767**
Total assets	**21 403**	**18 509**	**18 232**
Net profit	**95.8**	**93.3**	**88.1**
Selective Trust Account			
Social dividends cumulated since the STA's inception	**93.4**	**93.4**	**88.4**
Balanca available (after allocation of profit)	**26.4**	**26.1**	**23.2**

Major events in 2008

Strategy

Submission of the Report by the Committee of Eminent Persons as part of the Strategic Review of the CEB on 20 October

Start of the preparatory work for the action plan on governance inspired by the recommendations of this Report and the forthcoming Development Plan for 2010–2014

Inter-institutional cooperation

Signature by the Governor of the CEB and the Chairman of the EIB of a "Joint declaration on cooperation" between the two institutions on 2 June

Signature by the Governor of the CEB and the UN High Commissioner for Refugees (UNHCR) of a new framework agreement on cooperation between the two institutions on 31 October

Corporate social responsibility

Adoption of a public information policy on 20 May, plus modernisation of the CEB website and production of a film about the Institution

Declaration by the Governor of the CEB signed on 22 October on the Joint Statement of IFIs on preventing and combating fraud and corruption

Creation of a Compliance Department in February

Adoption of Rules relating to consultants and to the purchase of goods, works and services by the CEB applicable from 1 September onwards

Adoption of Regulations on a system for the protection of personal data at the CEB on 16 May

Revision of the Code of Conduct dated 2001 and work to extend obligations in relation to conduct to the members of the Collegial Organs in the form of two new additional codes of conduct.

Human resources

Implementation of the revised Staff Regulations as of 1 January



Table of contents

CEB: the naturally social European bank 3

A. A social mandate 4

I. A financial mechanism for European solidarity 4

II. ...under the supreme authority of the Council of Europe 4

B. A unique and original position 5

I. Specific sectoral and geographical characteristics 5

II. Inter-institutional cooperation 6

C. Institutional values 8

I. Integrity 8

II. Adaptability 9

III. Control 9

D. Governance 10

I. Statutory organs 10

II. Management 11

E. Strategic framework 12

I. Planning 12

II. Current Strategic Review 12

Socially responsible financing 14

A. A structured framework for action 15

I. A reference document: the Policy for Loan and Project Financing 15

II. A development approach based on three sectoral lines of action 16

III. Seeking the right balance 17

B. Promoting sustainable urban development 18

I. The Bank's actions to support housing, municipal infrastructure and urban renewal 18

II. Housing as a vector for sustainable development 19

C. Working for the environment 20
I. Natural disasters: one of the Bank's statutory priorities 20
II. Broadening the scope of the CEB's contribution: from reconstruction to prevention 21
III. Taking account of environmental impact 21

D. Guaranteeing the quality of the projects financed 23
I. The project cycle at the CEB 23
II. Assistance and monitoring throughout the cycle 24
III. The learning function of the ex post evaluation 24
IV. Promoting CEB sectoral expertise 25

Sustainable management of the Institution 26

A. Capitalising on human resources development 27
I. General system 27
II. Staff relations 28
III. Staff development at the CEB 28
IV. Remuneration and pensions policy 29
V. Working conditions 30

B. "Direct" ecological footprint 31
I. A question of measure 31
II. Initiatives taken by the CEB 31
III. A gradual learning process 32

C. Information and communication policy 33
I. Public accountability 33
II. Communicating within the Institution 34
III. Communicating with stakeholders 35



Part 1

CEB: the naturally social European bank

Executive Summary

The CEB has a specific **mandate** for its actions in favour of socially and environmentally sustainable development. Under the supreme authority of the Council of Europe, in line with its original social vocation and in accordance with the bank-related nature of its activities, the Institution has, since 1956, become a major financial tool in Europe's solidarity policy and today benefits from the confidence of its 40 Member States and a AAA rating.

The CEB has been unfailing in its efforts to maintain a fair balance between its social objectives and financial soundness in order to make a lasting contribution to strengthening social cohesion in Europe, with that cohesion now coming under substantial pressure from the current global crisis.

To this end, the Bank has a policy of close **cooperation** with other international financial and non-financial organisations, enabling it to widen its capacity for action and to strengthen its expertise while making use of its **unique and original positioning**. In addition to its natural links with the Council of Europe, the CEB has therefore become a valued partner of the European Union and cooperates with other IFIs as well as several specialist United Nations agencies in areas of mutual interest.

In fulfilling its mandate, the CEB can also call upon the **values** on which its actions and commitments are based, foremost among which are an insistence on integrity, a capacity to adapt to a constantly changing environment and a determination to control the risks inherent to credit-related activities.

The Institution can also count on a framework of **governance** based around its four governing organs: the Governing Board, the Administrative Council, the Governor and the Auditing Board, whose functions are set out in the Bank's Articles of Agreement. On a day-to-day basis, and in accordance with the Articles of Agreement which confer upon the Governor responsibility for the Bank's management and everyday functioning under the supervision of the Administrative Council and Governing Board, transparent and effective management is achieved through a system of delegation and collegiality within the Bank's internal committees.

Medium term **strategy** is set by the Development Plan, which describes the rationale for the Bank's actions and the means required for their implementation, as well as ensuring that it has adequate capital to achieve its activity objectives. This road map, which provides a pluri-annual perspective, is drawn up through a comprehensive and concerted process that takes place within the governing organs. As the current Development Plan only runs until the end of 2009, a strategic review was launched in June 2007 upon a proposal by the Governor, which benefits from the information provided in the Committee of Eminent Persons report of 20th October 2008. In spite of the current crisis, the CEB is therefore in a good position to draw up guidelines and make the changes that will in the coming years enable it to consolidate its role as the **naturally social development bank.**

A. A social mandate

I. A financial mechanism for European solidarity...

The Council of Europe Development Bank (CEB) was created in 1956 to offer solutions to the problems of refugees. It has since adapted in line with changes in social priorities, in order to contribute more effectively to strengthening social cohesion in Europe. **Today the CEB is a multilateral development bank with a social vocation, the oldest in Europe, which with its 40 Member States represents a key instrument of solidarity policy on the continent.** It participates in financing social projects and responds to emergency situations, and in so doing contributes to improving living conditions in the least advantaged regions.

A founding social vocation

However profoundly the CEB may have changed since its creation and to whatever extent it has broadened the scope of its activities, it has remained loyal to two founding principles for over 50 years.

- on the one hand, the Bank has seen the social mandate that governs its activities as inviolable, in accordance with the values of the Council of Europe
- on the other hand, the CEB has made a commitment to guaranteeing the financial security of its transactions, with a focus on strict budgetary independence.

This is the promise made by a unique institution, created in the form of a Resettlement Fund, which 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.

The Institution's financial resources are drawn from the capital paid in, the reserves that have been built up over time and capital raised on the markets, to which it has access on excellent terms as a result of its AAA rating. These benefits are all used to support the Bank's borrowers, for socially oriented investment projects designed to help its Member States to achieve sustainable and equitable growth.

The Bank currently has subscribed capital of 3.3 billion euros and, whilst always keeping in mind the need to maintain an appropriate balance between its social mandate and financial stability, is able to exert a remarkable **leverage effect**, as demonstrated by the some 28 billion euros it has paid out in loans since its creation.

II. ...under the supreme authority of the Council of Europe

The Bank has its origins in a Partial Agreement among Council of Europe Member States and, according to its Articles of Agreement, is subject to the Council's supreme authority. In historical terms, the Bank was formed under the first of the Partial Agreements to have been signed by eight countries on 16 April 1956.

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. 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 over the last 15 years (see box below).

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 fully as a bank**.

Council of Europe Summits and the CEB

Heads of State and Government have met three times since the creation of the Council of Europe in 1949, namely in 1993, 1997 and most recently in 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.

It will be recalled that the first Conference for European ministers with responsibility for social affairs, organised by the Council of Europe on 26 and 27 February 2009 in Moscow, provided an opportunity to combine the imperatives set out at the Strasbourg and Warsaw conferences, stating in its final declaration that "social cohesion recognises the core objectives of the Council of Europe on human rights, democracy and the rule of law."

B. A unique and original position

I. Specific sectoral and geographical characteristics

Sectorally speaking, the CEB is the only European development bank with an exclusively social mandate.

Under the terms of its Articles of Agreement, the Bank's primary focus is to act in support of very vulnerable populations such as, on the one hand, refugees, displaced persons and migrants and on the other, the victims of natural disasters, by providing financial support to relevant emergency projects.

In terms of social cohesion, the Institution also targets its actions at vulnerable or high-risk groups, for example populations living below the poverty line, abandoned children, disabled people and minorities such as the Roma. 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, moreover, is the focus of the Bank's three main sectoral lines of action – namely strengthening social integration, managing the environment and the development of human capital –, which are a tangible expression of the social vocation specific to the CEB and the development-based approach that underpins all of its activities.

Geographically, the CEB now includes **40 Member States**, covering an area that extends from Turkey to Iceland and from Portugal to Georgia, as well as 33 countries of operation. 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 and South Eastern Europe known as its "target group"** (* opposite).

The Bank's field of operation therefore extends well beyond the European Union, 25 countries of which are today simultaneously members of both institutions. In the same way that the Council of Europe acts as a political bridge for numerous countries in Europe, the CEB, under the aegis of the Council of Europe, represents an economic and financial antechamber for several of its Member States (Turkey, the Balkan States etc.) on the path to European integration, whilst being aware that for a number of its Member States accession to the Union is not (yet) a reality.



The 40 Member States of the CEB:

* 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

II. Inter-institutional cooperation

The Bank's cooperation policy is a response to three separate requirements:

- broadening the Institution's capacity to act
- strengthening its expertise in social affairs
- highlighting its specific nature within the international community.

To achieve this:

- the nature of the cooperation sought by the CEB focuses primarily on additional financing and complementary areas of expertise
- in addition to its natural links with the Council of Europe, the Bank has developed a **network of close partnerships** with the European Union, including the EIB and other IFIs as well as several specialised agencies within the United Nations. The means used to achieve this broader level of cooperation are summarised below.

1. The CEB and the Council of Europe

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 operation. Examples include their cooperation in reflecting on budgetary issues and human resources policies, which is expressed tangibly by, among other things, the secondment of an officer of the Bank to the Office of the Commissioner for Human Rights, as well as the efforts made to develop communication initiatives. Further impetus is given by the regular liaison meetings with an operational focus between the Management of the CEB, represented by its Vice-Governor Delegate, and the Secretariat General of the Council of Europe, represented by the Director General for Social Cohesion, in addition to the departments involved in worthwhile events.

2. The CEB and the European Union

Since the enlargement of the EU from 15 to 27 Member States, the CEB's field of action has covered a broader cross-section of the European Union's activities. Most members of the CEB, in fact, are also members of the EU or covered by European pre-accession or neighbourhood policies. The CEB is also committed to strengthening its cooperation with the **European Commission** and the European Investment Bank (**EIB**).

The Bank has, as a result, signed up to three Memoranda of Understanding on cooperation in relation to European policies on urban renewal (the JESSICA initiative), support for the countries of Central and Eastern Europe and neighbourhood policies. In relation to these, the CEB is involved in implementing EU programmes such as the WBIF (Western Balkans Investment Framework) and the NIF (Neighbourhood Investment Facility). Since 2000, the CEB has also implemented a series of co-financing projects with the European Commission and Kreditanstalt für Wiederaufbau (KfW) to support countries in transition: the total amount of loans approved by the CEB as part of these projects was around 600 million euros at the end of 2008. In 2006, the Bank also signed a Declaration of European Principles for the Environment (EPE) alongside several other IFIs. This declaration involves the signatories in implementing European principles on sustainable management of the environment. From 2001, the Bank also became a partner in the Stability Pact for South Eastern Europe, which included the countries in the region and the European Union countries as well as certain other countries and several international organisations. On 27 February 2008, the Stability Pact was replaced by the Regional Cooperation Council (RCC). The CEB has declared its willingness to collaborate with the RCC, as have the other international financial institutions.

Finally, **the Governor of the CEB and the Chairman of the EIB signed a "Joint Declaration on Cooperation" between the two institutions in 2008.** This declaration recognises the long-standing collaborative relationship between the two institutions and sets out the mechanisms by which they will work together in the future.



3. The CEB and other international institutions

International financial institutions (IFIs)

Although the Bank is linked to other IFIs through a number of cooperation mechanisms operating under the auspices of the European Union, it has also signed three bilateral cooperation agreements with the European Bank for Reconstruction and Development (**EBRD**), the **World Bank** and the Nordic Investment Bank

(**NIB**). This framework for cooperation helps to promote the development of joint operations with other IFIs. By way of illustration, the CEB has organised international conferences in conjunction with the World Bank on social housing in the Balkans (2003) and natural disasters (2006).

United Nations Agencies
The Bank has concluded bilateral framework cooperation agreements with three UN agencies that are active in the CEB's Member States, namely the UN High Commission for Refugees (**UNHCR**), **UNICEF** and the United Nations Development Programme (**UNDP**). These agreements ratify the longstanding cooperation that has seen the Bank contribute, through grants, to financing projects initiated by these agencies. By year-end 2008, the CEB had approved grants totalling 8 million euros to support projects implemented by these agencies. The Bank also continues to cooperate actively with other UN agencies operating in its fields of action, including, in particular, the World Health Organization (WHO) and the International Organisation for Migration (IOM).



Antònio Guterres (UNHCR) and Raphaël Alomar (CEB)

4. Cooperation agreements

Cooperation instruments with the European Union

Memoranda of Understanding (MoU) concluded with the European Commission

- 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, BSTDB, EBRD, EIB, IBRD, IFC, NIB

- 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

- 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, IFC, NEFCO, NIB, BSTDB

Other cooperation instruments signed under the aegis of the European Union

- Declaration of European Principles for the Environment (EPE) – signed on 30/05/2006
  Cosignatories: EBRD, EIB, NEFCO, NIB

- RCC (Regional Cooperation Council) – on 15/11/2007 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

- 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 Institution

- EIB: Joint statement on cooperation – signed on 02/06/2008

- NIB: General cooperation – signed on 15/01/2002

- World Bank (IBRD, IDA): General cooperation – signed on 30/05/2000

- EBRD: General cooperation – signed on 05/05/1999

Memoranda of Understanding with UN specialised agencies

- UNDP: General cooperation – signed on 03/09/2007

- UNICEF: General cooperation – signed on 20/12/2006, amended on 17/10/2008

- UNHCR: General cooperation – signed on 24/02/2005, renewed and amended on 31/10/2008

C. Institutional values

I. 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
- 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.

In addition to this statement of general principle, the policy of transparency pursued by the Bank therefore strives to:

- put the emphasis on the clarity of its mission and the readability of the framework in which it acts in order to allow everyone to make an informed assessment of the effectiveness of the Institution's contribution, whilst offering an appropriate response to the growing need to provide information to the general public
- reconcile the requisite level of transparency with a right to confidentiality, in the interests of the CEB's counterparties
- establish a proper practice of transparency on the basis of the duty of responsibility.

In particular, it is this responsibility that underpins the Management's duty to account for its actions, firstly to shareholders – it is its duty to ensure that the Collegial Organs, in accordance with their respective areas of competence, should be able to exercise their powers to control and manage activities under the most appropriate conditions – and, more broadly, to all stakeholders.

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"
- the commitments made in respect of combating fraud and corruption, explained in the box below. It is also important to mention the adoption of "Rules relating to consultants and to the purchase of goods, works and services by the CEB", which have been in effect since 1 September 2008
- a coherent framework for compliance, which is based on a specific control mechanism, in addition to the general organisation of the control functions already in place.

Compliance control

The "General Framework" for the Bank's compliance policy, approved by the CEB's Collegial Organs in May 2007, gives this function the "mission of ensuring that the Bank acts in accordance with its own rules, the legislation in force, the codes of conduct and good practices in order to avoid any risk of irregularity in the operation of the Institution, its organs and its staff".

It was under the terms of this "General Framework" that the Compliance Department came into operation at the beginning of 2008.

Combating fraud and corruption

Being fully aware of the threats and risks posed by fraud, corruption, money laundering and the financing of terrorism on the capacity of the Institution to properly carry out its mandate, on its reputation and, on this basis, on the confidence and support of its shareholders, 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 the 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" dated 17 September 2006.

II. Adaptability

The CEB is particularly attentive to the need to ensure its operation 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 fully fledged development bank. It is still this that guarantees the relevance of the Institution's actions and thereby the effectiveness of its activities in support of social cohesion in an environment undergoing profound change.

In operational terms, this translates into:

- the continued enhancement of the CEB's mandate in the service of socially and ecologically sustainable development
- a gradual broadening of the scope of action of an Institution that now has 40 Member States, and the priority given to the countries of Central and South Eastern Europe, which are classed as its "target group"
- the implementation, as part of the current Development Plan for 2005-2009, of an innovative prudential framework, introducing a shift from a volume-control approach to a risk-control approach
- overall, the remarkable leverage effect exercised by an organisation with very modest human (around 150 members of staff) and financial resources (capital paid in by Member States of less than 400 million euros).

In practice, the current crisis, which is on a scale not seen since the Great Depression, will clearly be a testing time but is also a pivotal point when risks, challenges and opportunities will be crystallised. The CEB's ability to react rapidly and adapt will therefore be a valuable asset in light of these new circumstances.

III. Control

To fulfil its mandate, the CEB relies on a rigorous management system, based on:

- a coherent prudential framework, inspired by but going further than 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
- 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
- the emphasis placed on both risk quality and management and on auditing, assessment and control functions, with the latest to be introduced being the compliance function (see box below).

Thus, whilst continuing to further its contribution in favour of social development in Europe over recent years, the Bank has paid scrupulous attention to strengthening its financial soundness, as evidenced by its AAA rating, which was confirmed in October 2008 by each of the world's three main rating agencies. This will allow the Bank to weather the financial storm calmly and to contribute to the massive mobilisation of the international community against the crisis, in accordance with its specific nature and mandate.

General organisation of control functions at the CEB

The general organisation of the control of the Bank's activities is based on three main categories of task, which are specifically entrusted to: **1.** departments within the Bank, **2.** its Collegial Organs (the Auditing Board, Administrative Council and Governing Board), **3.** specialist, independent external parties (external audit and rating agencies).

More specifically, as far as the **internal control system** for the Bank's activities is concerned, this comprises:

- an initial level of control, carried out by the management of the operational Directorates themselves
- a risk assessment level, under the responsibility of the various specialist Departments
- a decision-making level, devolved to various internal Committees
- a verification level, both in terms of adherence to the internal control system and risk monitoring by the Internal Audit departments and general compliance by the Compliance Department.

D. Governance

I. Statutory organs

Governance is a key element in the (proper) operation of any (international) financial institution. "Governance" or "corporate governance" refers to the system by which businesses are managed and controlled. For a multilateral development bank such as the CEB, this is assessed in the light of:

- on the one hand, 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)
- on the other, the mechanisms and practices in force within other IFIs.

Governance is naturally implemented within the CEB in light of the specific nature of the Institution. Thus:

- as a bank, the CEB ensures that its financial statements present a true picture of its financial situation and that its activities are carried out, through the means of action appropriate to it, in accordance with best banking practices
- as an international institution, it works transparently in accordance with the statutory provisions applicable to it, to fulfil its social mandate.

The governance system is determined by the Bank's Articles of Agreement, which are themselves specified by the Internal Regulations of each collegiate 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 organs of the Bank 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 Governing Board is the "supreme organ" of the Institution.
It consists of a Chairman and one representative for each Member State.
The Governing Board, whose powers of are described in Article IX of the Articles of Agreement, sets out 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 / Executive Committee

The Administrative Council exercises the powers delegated to it by the Governing Board.
It consists of a Chairman and one representative for each Member State.
The Administrative Council, whose powers are described in Article X of the Articles of Agreement, establishes and supervises operational policies and approves investment projects submitted by the Governments. It votes on the Bank's operating budget.
In 1994, an Executive Committee was created within the Administrative Council.
It consists of 14 members of the Administrative Council and is chaired by the Chairman of the Administrative Council. It is, in particular, responsible for carrying out an initial examination of requests for financing, for monitoring the execution of the projects financed and for tracking financial activity.

Governor

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

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 December 2008

Collegial Organs
Mr. Lars Kolte, Chairman of the Governing Board
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

II. Management

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:

- on the one hand, of **rules for delegating to the Vice-Governors**
- and on the other, **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:

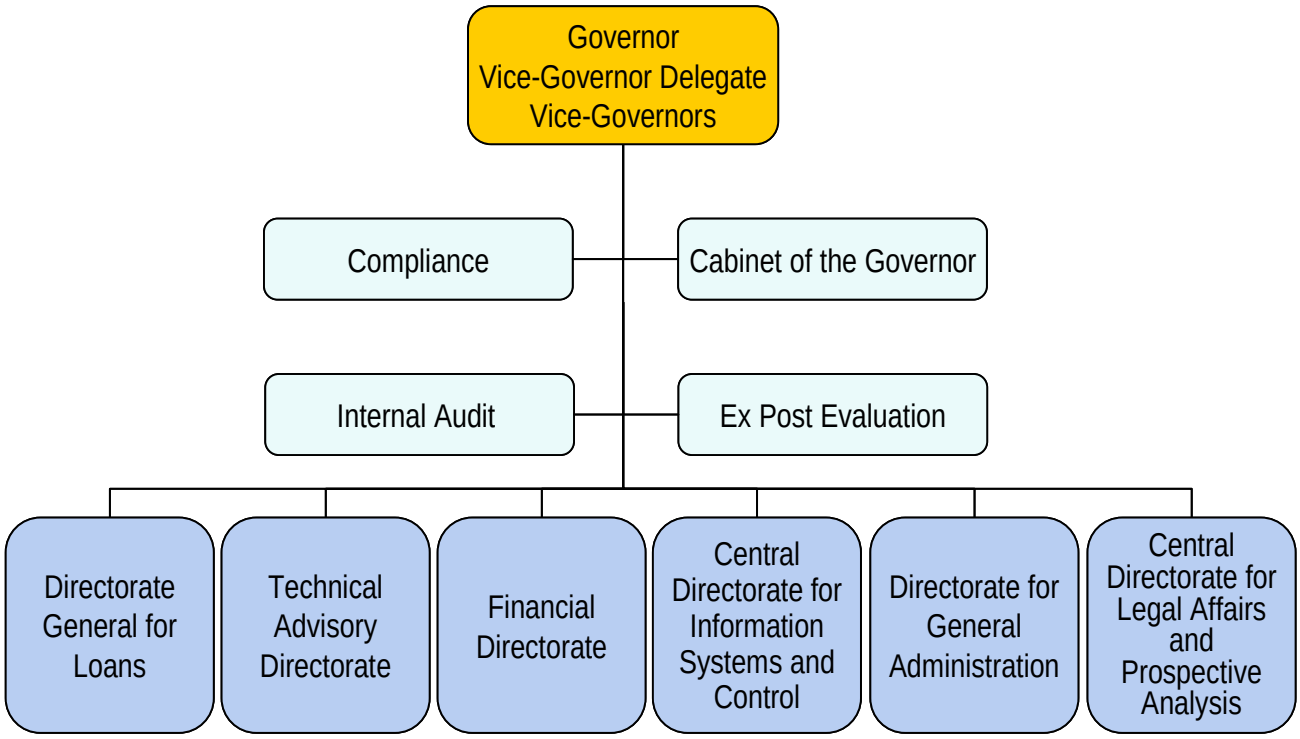
- ensure transparency and understanding of the decision-making process
- facilitate the proper application of decisions taken with full knowledge of the facts
- create a united management team to serve the general interests of the Institution.

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, a pivotal role is played by the General Management Committee.

CEB's Internal Committees

- Orientation and Coordination Committee (comprising the Governor and the Vice-Governors)
- General Management Committee (comprising the elected officials and Senior Directors)
- Risk Committee
- Projects and Development Committee
- Finance Committee
- ALM Committee
- Budget Monitoring Committee

Organisation chart



E. Strategic framework

I. 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 budget and organisational resources required to implement them, and the match between these objectives and the Institution's capital. 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 match between the objectives set and the results observed and to propose possible adjustments on the basis of activity projections for the remaining period.

The **2005-2009 Development Plan** in effect was approved unanimously by the Councils [1] in Budapest in June 2004, at the Bank's Joint Meeting.

In brief, its main orientations are as follows:

- broadening the actions of the CEB in Central and South Eastern Europe by allocating at least 50% of the annual amount of the Bank's disbursements over the period of the Plan to support this target group of countries – accompanied by a reasonable progression of the loans outstanding
- a consistent grouping of the Institution's areas of eligibility around three sectoral lines of action (namely strengthening social integration, managing the environment and the development of human capital) in order to ensure that the Bank's activities can be more readily interpreted and in order to assert its mission in support of sustainable social development more effectively – combined with a relatively balanced distribution of disbursements between the three lines of action concerned
- using internal expertise at the CEB in order to support project quality and an active policy of cooperation with other international institutions, in particular the European Union, to strengthen the Bank's capacity for action and the complementarity and added value of its actions.

These orientations:

- are themselves governed by an innovative and demanding prudential framework, inspired by Basel II and implemented following a rigorous dialogue with the Councils, ratings agencies and several banking supervisory authorities, thus making it possible to support the development of the Bank's activities without having to fall back on raising further capital
- presuppose, accordingly, a targeted strengthening of the Bank's human and physical resources – in the knowledge that, in any case, the Institution's budget is approved by the Administrative Council on an annual basis
- are also based on support measures, most of which were subsequently included in the Policy for Loan and Project Financing adopted in June 2006.

II. Current Strategic Review

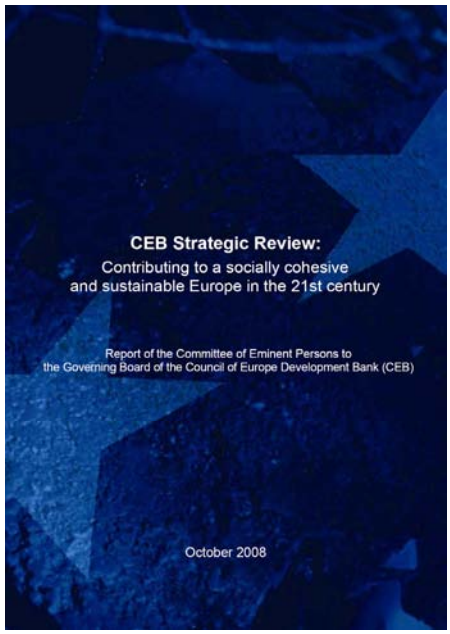
Launched in Prague in June 2007 by the Governing Board following a proposal by the Governor, the Strategic Review of the CEB led the Governing Board to appoint a "**Committee of Eminent Persons"** in 2008 in accordance with the good practices employed in similar exercises in other international organisations.

Composed of Mr Enrique Iglesias, former Chairman of the Inter-American Development Bank, and Mr Jón Sigurðsson, former Chairman of the Nordic Investment Bank, and with Mr Jacques de Larosière, former Managing Director of the International Monetary Fund and former Chairman of the European Bank for Reconstruction and Development acting as Special Advisor, the Committee of Eminent Persons was tasked by the Governing Board with clarifying, from an objective and independent standpoint, questions relating to the CEB's mandate, international positioning and governance.

The Committee submitted its report to the Chairman of the Governing Board, in the presence of the Governor, in Paris on 20 October 2008. The reports emphasises that the Bank is functioning well and puts forward a small number of recommendations pertaining, in particular, to the scope of its mandate, its actions in the countries in the target group, international cooperation, its close relationship with the Council of Europe and its governance.

[1] Governing Board and Administrative Council

Further to the Committee's recommendations, the Governing Board, at its meeting on 28 November 2008, tasked the Governor with "preparing an **action plan** setting out a range of different options and a timetable for implementing the proposals of the Committee of Eminent Persons, as well as an analysis of the costs of the proposed measures." The challenge, as emphasised in the Committee's report, is to modernise the structure of the Bank in order to enable it to fulfil its mandate more effectively. The recent events affecting the world economy and the financial markets have highlighted the need for social development financing to support Member States.



This exercise is currently underway. It is a natural complement to the **preparation of the next Development Plan for 2010-2014**, which is being worked on in parallel and which should continue throughout 2009.

Additional information on the breakdown of the CEB's subscribed capital as at 31 December 2008

(in thousand euros)	Amount	
Germany	549 692	16.640%
France	549 692	16.640%
Italy	549 692	16.640%
Spain	358 504	10.852%
Turkey	233 077	7.056%
Netherlands	119 338	3.613%
Belgium	98 634	2.986%
Greece	98 634	2.986%
Portugal	83 538	2.529%
Sweden	83 538	2.529%
Poland	76 988	2.331%
Switzerland	53 824	1.629%
Denmark	53 823	1.629%
Norway	41 889	1.268%
Finland	41 889	1.268%
Bulgaria	37 491	1.135%
Romania	35 963	1.089%
Ireland	28 998	0.878%
Hungary	26 884	0.814%
Czech Republic	25 833	0.782%
Luxembourg	20 849	0.631%
Serbia	15 511	0.470%
Croatia	12 831	0.388%
Cyprus	11 934	0.361%
Slovak Republic	11 380	0.344%
Albania	8 034	0.243%
Latvia	7 688	0.233%
Estonia	7 637	0.231%
"the former Yugoslav Republic of Macedonia"	7 637	0.231%
Lithuania	7 556	0.229%
Slovenia	7 380	0.223%
Iceland	6 089	0.184%
Malta	6 089	0.184%
Georgia	5 928	0.179%
Bosnia and Herzegovina	5 816	0.176%
Montenegro	3 952	0.120%
Moldova	3 294	0.100%
San Marino	2 921	0.088%
Liechtenstein	2 921	0.088%
Holy See	82	0.002%
Total	**3 303 450**	**100.000%**



Part 2

Socially responsible financing

Executive Summary

In conducting its loans and projects activity, the CEB attaches great importance to the readability of its framework for action as well as to the quality of the projects it finances. In its commitment to promoting socially and ecologically sustainable development the Institution places particular emphasis on viable urban and environmental development.

The Bank **structures** its **projects and loans activities** around three major sectoral lines of action: strengthening social integration, environmental management and developing human capital. Eligibility criteria for CEB-financed projects and general procedures are set out in the Bank's **Policy for loan and project financing**, a reference document that conveys the social goals and development strategy that underpin all the CEB's activities. Within this framework, the Bank endeavours to achieve a balance between projects that provide high social value-added and compliance with rigorous risk management within a demanding prudential framework.

As part of its contribution to social cohesion in Europe, the CEB strives to **promote sustainable urban development.** This involves actions targeted to housing for people on low incomes, municipal infrastructure and urban renewal. It also means undertaking initiatives to limit the environmental footprint of housing, in particular by financing projects aimed at improving the energy efficiency of buildings. The Bank thus seeks to develop operations that produce **'green housing'**; i.e. low energy-consumption dwellings with a reduced carbon footprint, so as to more efficiently combat global warming.

For the CEB, **working for the environment** means not only responding rapidly to emergency situations such as natural or ecological disasters, but also constant **environmental action** in terms of both **prevention and protection.** More generally, the Bank makes every effort to integrate sustainable development requirements into each of the projects it finances, in whatever sector of action they may concern. The principles that guide the Institution's action in this area are based on the declaration of European Principles for the Environment *(*EPE*)* adopted in 2006.

In all its loans and projects activities, the CEB pays particular attention to the **quality of the projects** that it finances in order to maximise their social impact and added value. Here the assistance and monitoring provided throughout every stage of a project's life cycle play an essential role. In this context it is important to highlight the learning function provided by the ex-post evaluation, a management and accountability tool. The CEB also attaches great importance to promoting its sectoral expertise by organising workshops or publishing studies and brochures related to its priority sectors of action.

A. A structured framework for action

I. A reference document: the Policy for Loan and Project Financing

The CEB can grant loans to its 40 Member States in order to finance projects that meet a certain number of sectoral, geographical, social and financial criteria.

The basic principles for all activities related to examining, approving, financing and monitoring projects submitted to the Bank for possible financing are set out in the Policy for Loan and Project Financing, approved by the Administrative Council in 2006. This document defines in turn:

- sectors of action,
- financial resources for action,
- mechanisms for approving requests and managing the stock of projects,
- project financing and monitoring,
- operating methods of the CEB's Selective Trust Account [2]

These provisions are supplemented by four guidance documents, namely the "*Handbook for the Preparation and Monitoring of Projects*", the "*Provisions for the Administration of the Selective Trust Account*", the "*Scope of Application of the Selective Trust Account*" and the "*Loan Regulations*".

The Handbook is aimed at borrowers and sets out in detail the technical terms under which projects are implemented, and in particular the criteria used by the CEB in respect of project eligibility and the nature of the controls put in place determining project financing.

As far as the Selective Trust Account is concerned, this document makes provision for an annual review of eligible countries and of maximum limits for subsidies.

The CEB's Articles of Agreement [3] state that the general terms and conditions governing the loans and loan guarantees granted by the Bank are defined by the Administrative Council in the Loan Regulations. Furthermore, the Regulations state that projects must comply with the provisions set out in the "*European Convention for the Protection of Human Rights and Fundamental Liberties*" [4] and the "*European Social Charter*" [5].

Trust accounts: another way for the CEB to act

The trust accounts (or funds), instituted with certain CEB Member States, are of considerable interest to the Bank, in particular in the examination and preparation phases for projects that are becoming increasingly complex (for example, for financing feasibility studies) or for supporting existing projects.

The Norwegian Trust Account for the Western Balkans

Since 2003 the CEB has been running an original assistance mechanism, the **Norwegian Trust Account** (NTA), which was created at the instigation of the Norwegian authorities in order to implement various initiatives to support countries in the Western Balkans. The total contribution from the Norwegian authorities to the NTA since its creation is **€ 3 million** and by the end of 2008 it had been able to support some 29 different initiatives in the various eligible sectors.

The Human Rights Trust Fund

Following the 3rd Summit of the Council of Europe in Warsaw (2005), the CEB introduced a new area of intervention in 2006: financing construction, redevelopment and conversion projects for infrastructure and buildings designed to house public services, in order to contribute to the improvement of the organisation and operation of the administrative and judicial public services of its Member States. In line with this, on 13 March 2008, the CEB, Norway and the Council of Europe signed the agreement establishing the **Human Rights Trust Fund** in Oslo.

In addition, the principle of a new Trust Fund funded by Spain was ratified at the end of 2008.

[2] A special account created in 1995 to grant interest-rate subsidies to support projects relating to the CEB's leading priorities and in transition countries. It is funded from the profits of the Bank and through voluntary contributions made by Member States.
[3] Cf. article VII, section 5, of the Articles of Agreement

[4] Convention for the Protection of Human Rights and Fundamental Liberties, 04/11/1950, STCE no.: 005
[5] European Social Charter, 18/10/1961, STCE no.: 035

II. A development approach based on three sectoral lines of action

The CEB contributes to the implementation of socially-oriented investment projects to support social cohesion in Europe through three sectoral lines of action, namely:

- **strengthening social integration**

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.

- **managing the environment**

Participating in managing the environment is expressed not only in a rapid response to emergency situations in the event of natural or ecological disasters, but above all by long-term action to support prevention and environmental protection.

- **developing human capital**

Supporting the development of human capital, in the key sectors of health, education and vocational training over time supports social and economic growth that is both more dynamic and more equitable, and fosters the fulfilment of individual potential and collective well-being.

Each of these three lines of action is made up of the sectors of action described below:



Social housing in Poland



Flood prevention in Hungary



Blood transfusion services in Moldova

This approach meets a twofold requirement: on the one hand, ensuring that the Bank's activities can be more readily interpreted through a consistent grouping of eligible sectors, and on the other, confirming the Institution's mission to support sustainable social development.

Sectoral lines of action	Sectors 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 ■ Infrastructure of administrative and judicial public services
Managing the environment	■ Natural or ecological disasters ■ Protection of the environment ■ Protection and rehabilitation of historic and cultural heritage
Developing human capital	■ Health ■ Education and vocational training

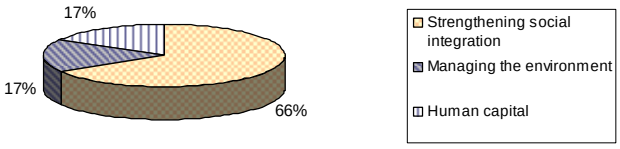
III. Seeking the right balance

1. Projects with high social value

The structure of the CEB's projects and loans activity reflects its commitment to supporting socially sustainable development.

Projects approved in 2008 were broken down across the Bank's three main sectoral lines of action in the amounts respectively of:

Breakdown by sectoral line of action
Projects approved in 2008



In operational terms, the 2008 financial year was marked by a preponderant share (66%) of projects to support the strengthening of social integration. In particular, new transactions in the sectors of *creating and maintaining viable jobs* and *improving the quality of life in urban and rural environments* represented a cumulative total of € 1.1 billion. In addition, projects aimed at *protecting and improving the environment* totalled € 323 million. Finally, the Bank approved projects to support the development of human capital, in the *health* and *education* sectors, totalling € 312 million.

Among the **initiatives with high social value** recently approved by the Bank are:

- support for the creation and maintenance of jobs in micro-enterprises in **Spain** by means of microcredits designed for a target population with no – or very limited – access to traditional lending systems. This operation will enable the CEB to contribute to strengthening social cohesion and the development of the productive fabric across the country, by providing easier access to the job market and a stable income source for people threatened by social exclusion and marginalisation

- financing renovation work at the Republican Clinical Hospital in Chişinău, the largest hospital in **Moldova**, which will lay the foundations for the reform of the country's hospital sector. The aim is to modernise and improve the quality of services and to optimise the resources available to the hospital for the benefit of the 25 000 in-patients and approximately 100 000 out-patients who use it every year

- the approval of a number of projects in **Romania**, to provide better support for the country in its efforts to come up to the standards of the *acquis communautaire* and in particular to enable it to deal with the challenges of sustainable development (for example, a response to the repeated flooding of the Danube basin combined with improving access to drinking water and waste-water treatment). In addition, these contributions are the result of a close "policy dialogue" with the Romanian authorities.

2. A rigorous prudential and risk management framework

Risk management and control play a decisive role in maintaining the financial stability of a credit institution. The CEB updates its risk management and monitoring system on a continual basis whilst adhering to the principle of methodological consistency, in order to comply with best practices in the profession.

Thus, in parallel with producing its Development Plan for 2005-2009 and in order to ensure rigorous management of the new strategic orientations that characterise it, the Bank has defined a **tighter prudential framework**, implemented following a rigorous dialogue with the Councils, the rating agencies and several banking supervisory authorities. This new prudential framework is based on three main areas:

- limiting the risk of default solely to the Bank's available own funds by linking the consumption of capital to the risk borne by the Bank; a capital adequacy ratio has been put in place
- limiting outstanding liabilities rated as *below investment grade* [6] and therefore the Bank's exposure to the highest risks
- strengthening the liquidity ratio [7].

[6] For information, the international rating agencies classify a score, i.e. a category of credit-worthiness, as *below investment grade* if it is lower than or equal to Ba1/BB+.
[7] The liquidity risk expresses a forecast of the Bank's cash flow position. The Bank's liquidity level must adhere to a higher statutory liquidity ratio. The Bank's cash flow must not be less than 50% of its net three-year liquidity requirement.

Added value of projects financed by the CEB

The question of added value is central for a development bank such as the CEB, from the point of view of strengthening the relevance and effectiveness of its contribution, and therefore its usefulness. The production of the activities strategy included in its current Development Plan was therefore preceded by several in-depth discussions on the subject.

Applied in concrete terms to the projects it finances, the added value brought by the CEB results simultaneously in:

- attractive conditions for the loans granted, in terms of interest rates and duration
- the assistance and monitoring role played throughout the project life cycle.

As far as **financial added value** is concerned, the very favourable **interest rates** granted by the CEB to its borrowers are made possible by the competitive refinancing costs available to an Institution with a AAA rating and the addition of a deliberately low margin, which is itself enabled by limited structural costs. In addition, the Bank has the option of subsidising part of its loans through the use of the Selective Trust Account (STA).

In addition, in accordance with the development approach that underpins its activities, the CEB can grant loans with a long maturity date, most often combined with a grace period. This **length of term** is all the more essential for social investments that generate positive externalities but with a deferred yield. With the economic crisis and the credit squeeze, access to this type of financing has become particularly important.

In addition to its loans mechanism, the CEB pays particular attention to the **quality of the projects** it finances, for the purpose of optimising their social impact. Within this framework, the Institution works continually to enhance its role in **assistance and monitoring**, with particular emphasis:

- early on in the project cycle, on the crucial stages of identification and appraisal
- at the end of the project, on *ex post* evaluation.

In fact, the added value of the assistance offered varies depending on the type of project involved, the complexity of the environment and the institutional capacities of the borrower.

It goes without saying, moreover, that the added value of the projects financed by the CEB goes beyond simply the contribution made by the Bank, and must be seen overall in terms of the **lasting impact** on the beneficiaries and other stakeholders.

B. Promoting sustainable urban development

I. The Bank's actions to support housing, municipal infrastructure and urban renewal

The housing sector is an effective means of supporting the Bank's mission of strengthening social cohesion in its Member States and contributing to improving living environments in both urban and rural areas.

The CEB is mainly involved in financing projects designed to provide decent housing for people on low incomes and the associated infrastructure, such as a water supply and the collection and treatment of waste water. The projects financed are targeted at property ownership as well as rented housing. In order to encourage an integrated, multisectoral approach for its actions, the Bank also includes housing within the framework of broader sectoral problems, such as, for example, in the case of rebuilding housing destroyed by natural disasters, building nursing homes for elderly people or renovating student accommodation.

In addition, in order to derive further value from the scope of its actions in the housing sector, the CEB signed a tripartite agreement in 2006 with the European Commission and the European Investment Bank (EIB), which sets out a framework for cooperation for the implementation of the European Union's integrated urban development policy for 2007-2013 and the implementation of the JESSICA [8] initiative. This agreement places the issue of housing at the heart of European policies on urban renovation.

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).

[8] *JESSICA: Joint European Support for Sustainable Investment in City Areas.*

II. Housing as a vector for sustainable development

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. Reducing the environmental footprint by improving the energy efficiency of buildings, and especially homes designed for people on low incomes, is a means of:

- **combating climate change by limiting greenhouse gas emissions**. Buildings – residential and service sector – are the source of 40% of the European Union's CO_2 emissions, i.e. more than the industrial or transport sectors

- **strengthening social cohesion and increasing purchasing power by reducing housing costs**. Energy costs, in fact, represent an average in Europe of 21% of housing-related expenditure. Significant savings could be made in this area. The Green Paper on energy efficiency published by the European Commission in June 2005, for example, indicates that a European household could save between € 200 and € 1 000 per year by improving their home's energy efficiency. Improving energy efficiency in the home would therefore be particularly positive for the least affluent sections of the population.

The CEB has undertaken to include the concept of **"green housing"** in its operations in order to promote housing with a smaller environmental footprint. Although the term is not officially recognised, the CEB defines "green housing" 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 from sustainable materials. At its best, it is self-sufficient and only consumes energy derived from renewable sources.

Since 2000, the Bank has approved a total of almost **€ 550 million** to support projects relating either wholly or partially to "green housing" initiatives. It is forecast that over 60% of this total, some € 340 million, should be dedicated solely to "green housing". The number of homes financed through these projects is already around 86 000. As well as housing projects, the Bank has financed initiatives in the areas of renewable energy production and collective urban heating. It is therefore particularly well positioned to act through projects combining energy retrofits in homes and, further upstream, renovation of urban heating networks, based on an integrated approach.

Project with the city of Krakow for the construction, enlargement or renovation of public infrastructure

Over recent years, the CEB has approved a number of transactions in which the Bank has played a complementary role in financing projects implemented by central government or local and regional authorities.

One recent example was the CEB's approval of financing for a € 39 million programme in **Poland** with the city of Krakow for the construction, enlargement or renovation of public infrastructure. The capital of the Małopolska (*"little Poland"*) region, Krakow is the country's third-largest city and has around 750 000 inhabitants. It is one of Poland's main economic and cultural centres.

The aim of the programme is to create better conditions for sustainable economic development and to improve the quality of life of the inhabitants of Krakow by making it easier to gain access to credit for the modernisation of local infrastructure, in particular in relation to transport, education and health.

The improvement of urban transport infrastructure will contribute to easing travel between cities, help to reduce disparities with suburban areas and integrate the city at a regional as well as at a national and European level.

Investments in education, moreover, will contribute to improving teaching conditions and the level of study as well as to strengthening the importance of the City of Krakow amongst the main Polish university centres.

Finally, investments in health will aim to improve the level of healthcare and social services as well as access to these services.

This programme confirms the CEB's commitment to working alongside the Polish regions to help them to integrate more effectively and to increase their attractiveness in the European regional landscape.

Given the consistent typology of energy-inefficient homes, in particular in residential buildings from the 1960s and 1970s in the CEB's new Member States, **projects are focused primarily on energy retrofits for residential buildings**. The work carried out as a result of energy assessments is practically identical and involves:

- thermal insulation of external walls, attics, roofs and superstructures
- refitting with joinery with no thermal bridges and insulated glass
- modernising heating, hot water production and ventilation systems, as well as replacing old equipment with more economical alternatives and installing thermostatic control systems.

C. Working for the environment

I. Natural disasters: one of the Bank's statutory priorities

Assistance for regions struck by natural or ecological disasters is a priority area for the CEB. As part of this, the Bank strives to offer appropriate responses to urgent needs and to the necessity of putting in place sustainable actions as part of a long-term preventive approach.

It must be said that natural disasters are unfortunately increasingly frequent occurrences in Central and Eastern Europe. Over the last ten years this region has suffered over 100 major floods, which have caused the deaths of several hundred people, displaced approximately half a million inhabitants and led to significant economic losses.

Floods in Hungary and Romania

Over half of **Hungary** is made up of plains. The regions at risk of flooding cover almost 25% of the country's surface area. As well as high water levels, floods due to the saturation of the soil are frequent and have occurred on an almost annual basis since 1950. Changes in climate and human activities (deforestation, water regulation) etc. observed since the 19th century have upset the water balance in Hungary. Heavy rainfall and drought can coincide, as was the case in 2002 when there were high water levels in the Danube at the same time as a water shortage in the Great Plains. After ten years of drought, the Tisza valley experienced four exceptional floods in 28 months, between November 1998 and March 2001.

Following these disasters, the CEB approved three loans totalling almost € 380 million in favour of Hungary to finance the building and repair of flood protection systems on the Tisza and the Danube. CEB funds have made it possible to finance emergency actions comprising consolidation of banks, canals and rivers and, in the longer term, the reconstruction of the disaster areas and the prevention of damage in the Danube and Tisza basin.

Serious floods also submerged regions in **Romania** in spring and August 2006. The natural conditions specific to Romania, its climate (in particular its rainfall patterns), its mountainous relief with its steep slopes and the density of its hydrographic, geological and hydro-geological network, expose the country to natural disasters such as torrential rains, floods, erosion and landslides, which cause major damage to property and infrastructure and hit local populations hard.

Following this disaster, which caused significant material damage and the destruction of numerous homes and infrastructure facilities, the CEB approved a project worth € 300 million to finance priority investments for water management, including € 180 million to finance risk prevention and flood vulnerability measures in the regions of Romania most at risk. Overall, it is estimated that around 1.3 million people in five hundred localities in the country will benefit from the project.

Ground movements in Serbia

A series of ground movements occurred in central **Serbia** in spring 2006. These occurrences (landslides and rockfalls) can be largely explained by an unusual situation, characterised by an increase in the level of groundwater after the heavy precipitation of the previous year and unfavourable meteorological conditions (this heavy precipitation was associated with a rapid snow thaw).

In response to the disaster, the Bank approved a project of € 20 million for financing reconstruction work and repairing houses and the associated infrastructure that had been destroyed. It is estimated that the project will have major social and economic consequences in the affected area, allowing the population to return to normal living conditions and putting an end to the damage and disturbances that have affected economic activities in central Serbia, particularly by relocating homes and repairing infrastructure.

II. Broadening the scope of the CEB's contribution: from reconstruction to prevention

Participating in managing the environment is expressed both by a systematic response to emergency situations in the event of natural or ecological disasters and by long-term action to support prevention and environmental protection. Within this sustainability perspective, the CEB's actions have steadily evolved in favour of prevention (the breakdown of the CEB's actions between prevention and reconstruction over the past five years has been approximately 50/50). The actions financed by the CEB are designed to provide assistance to national and local authorities for the development of ways of preventing natural or ecological disasters, particularly in relation to floods, fires, avalanches, earthquakes and landslides.

A recent example of a project in this sector was the Bank's approval in 2008 of a new programme with the Government in **Hungary,** designed to prevent flooding and protect the country's water resources. As far as the "*Flood prevention*" aspect of the programme is concerned, the CEB funds will be used to finance works of up to € 34 million, comprising the building and rebuilding of flood overflow reservoirs, dykes and other flood prevention infrastructure; upgrading flood prevention computer and communication systems; bringing access roads and buildings used for dyke monitoring up to standard, and purchasing equipment.

In addition to the current investments, which are to be used to strengthen dykes all along the main Hungarian watercourses, in 2003 the government launched the Vásárhelyi plan in order to create six high-water overflow reservoirs along the course of the Tisza and to regulate the water flow in the river bed. This has been the subject of large-scale works to date, whilst the construction of the first high-water overflow reservoir (Cigánd) was completed in November 2008.

III. Taking account of environmental impact

In addition to financing projects that support environmental protection and strengthen social cohesion, the CEB strives to incorporate the notion of sustainable development in all the projects it finances. The principles that guide the CEB's conduct in respect of environmental requirements are based on the Declaration of European Principles for the Environment (EPE Declaration) [9].The first stage in managing the environmental aspects of the CEB's portfolio of projects is a preliminary assessment or screening of each project in accordance with the provisions of European Directives 85/337/EC [10] and 2003/35/EC on evaluating the environmental impact of projects and programmes. The aim of the screening and, if necessary, an in-depth assessment of the environmental impact is to ensure that the environmental aspects have been adequately taken into account and to avoid risks that could put the implementation and operation of the project in peril. In addition, the process serves to check that the costs of any environmental protection or site security measures are estimated and incorporated into the total cost of the project.

As an extension of the EPE initiative and in order to facilitate the implementation of the Principles, the signatory banks have produced a sourcebook describing European environmental legislation in broad terms, including principles and standards. This document [11] is intended to make it simpler for project sponsors to identify and manage European environmental standards applicable to the projects they finance. The publication also serves as a reference document for the operational teams of the EPE signatory banks (the EPE banks), as well as third parties interested in the project financing activities run by these same banks. The document covers the main investment sectors for the EPE banks, including energy, infrastructure, metal production and working, waste management, agriculture, the chemicals industry and extraction industries. It also sets out multisectoral orientations on aspects such as environmental impact evaluation (EIE), environmental management systems and environmental responsibility.

[9] See box page 22.
[10] Updated according to 97/11/EC.
[11] The document is available on the EPE website: http://www.eib.org/about/publications/sourcebook-on-eu-environmental-law.htm.

European Principles for the Environment (EPE) Declaration

In 2006, the CEB reaffirmed its commitment to the environmental requirements relative to sustainable development by signing the EPE (European Principles for the Environment) Declaration. This document promotes a common European approach in respect of environmental policy between international financial institutions operating in the same geographical area as the CEB: the European Investment Bank (EIB), European Bank for Reconstruction and Development (EBRD), Nordic Investment Bank (NIB) and Nordic Environment Finance Corporation (NEFCO).

By signing the Declaration, the CEB has committed itself to applying the principles and regulatory provisions of the European Union's environmental policy and its secondary legislation pertinent to the projects it finances in countries covered by the Declaration. Furthermore, it has committed itself to promoting the use of good practices in the areas of environmental management, transparency and reporting.

Although particular attention has always been paid to environmental management, putting into practice all of the recommendations of the EPE Declaration presents a significant challenge for an institution the size of the CEB. Several strategic orientations are currently being developed to respond to this:

- Harmonisation of internal procedures to fully integrate the recommendations of the EPE in the activities of the CEB and to ensure coherent action between the different departments
- Close cooperation with other international financial institutions, in order to develop common tools and indicators to facilitate the implementation of the EPE and to assess the effectiveness of the measures taken
- Active dialogue with borrowers to incorporate the notion of sustainable development in project design
- Raising awareness amongst all the Bank's staff about the issue of sustainable development
- Developing a specific reporting system in relation to managing aspects of sustainable development in the Bank's activities.

D. Guaranteeing the quality of the projects financed

CEB pays special attention to the quality of the projects it finances, in order to optimise their social impact. Assistance and monitoring throughout the project life cycle are a key factor in effective project implementation.

I. The project cycle at the CEB

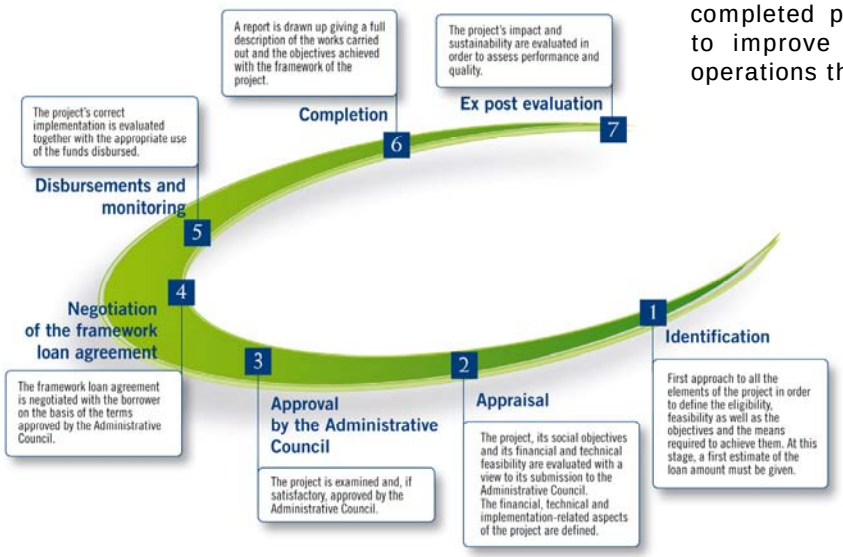
A project is a request for a loan which, once it has been submitted by the borrower, has to be approved in terms of its nature, duration and amount by the Administrative Council. Prior to this, the project is examined in accordance with Bank procedures.

Identification

At this stage, an initial analysis of the elements making up the project is carried out in order to define its eligibility for the CEB, feasibility and objectives, as well as the means required to achieve them. An initial estimate of the loan amount is also given.

Appraisal

Once it appears that a project responds to the Bank's criteria, the CEB carries out an assessment of the project, its social objectives and its financial feasibility in order to submit the loan request to the Administrative Council. At this stage, the financial, technical and implementation-related aspects of the project are also defined.



Requests for financing are adapted to the specific characteristics of each project for which a loan is sought. Potential borrowers prepare their loan requests in close cooperation with the Bank's departments.

Approval by the Administrative Council

Once an analysis has been carried out by the Bank's teams of the borrower's solvency and the project's technical and debt sustainability, loan requests are submitted to the Administrative Council for approval.

Negotiation of the framework loan agreement

Once the project has been approved by the Administrative Council, a framework loan agreement is negotiated and signed with the borrower on the basis of the terms approved by the Administrative Council.

Monitoring and disbursements

After the first disbursement, the Bank's departments carry out regular on-site monitoring and tasks to check the physical progress of the work, adherence to costs, procurement procedures and that the social objectives predicted are being achieved.

Completion

A completion report setting out a detailed description of the work carried out and the objectives achieved is drafted at the conclusion of the project.

Ex post evaluation

In order to further enhance its contribution, the Bank carries out an *ex post* evaluation, which measures the medium-term social impact of completed projects and programmes and helps to improve the quality of current and future operations through learning (see section 3)

II. Assistance and monitoring throughout the cycle

Although the sponsor is responsible for preparing the project and the required documents and information (feasibility report, environmental studies, etc.), the CEB is well positioned to contribute to the process. Depending on the circumstances, this assistance may be provided in the form of direct support, through the CEB's technical teams, or by granting financial aid designed to make it possible to recruit experts and/or carry out additional studies.

In the case of projects involving the implementation of particular precautionary measures in respect of environmental protection, the borrower is obliged to prepare an Environmental Management Plan (EMP). Once the project has been approved by the Administrative Council, the terms of the EMP are incorporated in the loan contract signed with the borrower.

In addition, in order to ensure that these measures are followed in practice, the technical teams at the CEB carry out periodic on-site visits whilst the project is being implemented. If any anomalies become apparent, the CEB asks the sponsor to remedy the situation and reserves the right to suspend disbursements (and can, if necessary, demand early repayment of the loan) if the anomalies persist.

Once the work is complete, a statement of project completion is drawn up on site. The statement includes an assessment of the project's environmental performance on the basis of indicators agreed at the start of the project and an inspection of any measures required to return the construction sites to their original condition.

III. The learning function of the *ex post* evaluation

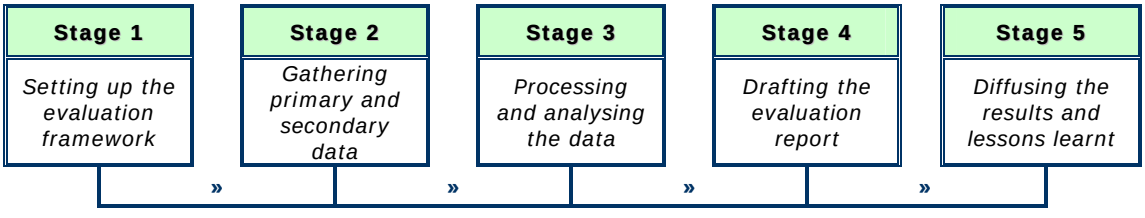
The CEB relies ever more on its expertise in order to develop a quality-based approach in the projects it finances. For the CEB, the *ex post* evaluation of projects is both **a management tool and a mechanism for encouraging greater responsibility**.

The aim of the *ex post* evaluation is primarily to improve understanding of the social impact of the Bank's actions and to contribute, through communicating results, to increasing the quality of projects and programmes financed by the CEB, whilst also helping to 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 its loans for the Bank's shareholders.

Project and programme performance and quality are measured according to five classic evaluation criteria: relevance, effectiveness (the degree to which objectives have been achieved), efficiency (the use of the resources deployed to achieve these objectives), impact and sustainability.

For each evaluation programme, an analytical framework is defined on the basis of an assessment of the portfolio of loans made by the Bank in the sector concerned and an examination of good practices and methodologies published by international financial institutions and academic research centres. The terms and conditions for the evaluations are then drafted on the basis of this baseline analytical framework. Each evaluation programme concludes with a summary of the individual evaluations, including lessons learned and recommendations. These lessons are the purpose for which the Ex Post Evaluation Department (DEP) was created in 2002.

***Ex post* evaluation of projects financed by the CEB: methodological approach**



The first evaluation programme, carried out in the natural or ecological disasters and preventive actions sector, was completed in 2006. This sector was chosen on the basis of it being a priority area for the Bank and in terms of the volume of loans. The DEP then defined its strategy in line with the CEB's Development Plan for the period 2005-2009. Against this background, programmes for evaluating projects in the areas of job creation and social housing began in 2006 and are currently continuing. A programme in the education sector was implemented in 2007. In 2008, the DEP carried out evaluations of grants for projects to provide assistance to refugees, migrants and vulnerable populations and implemented an evaluation programme for projects relating to environmental protection.

IV. Promoting the CEB's sectoral expertise

To complement the specific role played by *ex-post* evaluation in improving the quality of the projects it funds, the CEB also attaches great importance to promoting its sectoral actions through:

- Organising workshops and high-level thematic conferences with other international organisations, whether financial or non-financial
- Publishing reports and brochures in the Institution's priority areas of action (see example in box opposite).



Migration in Europe: the CEB's experience

The CEB's Articles of Agreement specifically mention assisting refugees, displaced persons and migrants as a priority. Since it was established in 1956 as "The Council of Europe Resettlement Fund for National Refugees and Over-Population in Europe", the Bank has played an important role in funding projects for the sustainable resettlement and integration of these vulnerable population groups. At a time when Europe is facing increasing migrant flows, the Bank's original mandate is once again becoming highly relevant.

CEB activities contribute to overcoming the issues that emerge with the presence of refugees, migrants or displaced persons in their host countries. The CEB is also active in providing information on potential migrant flows and limiting any potentially negative consequences on both countries of origin and host countries. In these activities, the Bank aims to work together with other International Financial Institutions and specialised United Nations agencies (such as UNHCR, UNICEF and the IOM).

During its fifty years of work, the CEB has dedicated around € 5 billion (around 20% of the loans it has disbursed) to projects that:

- are specifically aimed at refugees and displaced persons following situations of crisis
- help build or rebuild housing and urban and social infrastructure for migrants
- provide education and professional training to young migrants
- aim to stabilise migration flows in rural areas
- provide social integration programmes in host countries.

The Bank's activities to support refugees, displaced persons and migrants have been enumerated and assessed in a **study entitled *"Migration in Europe: the CEB's Experience"***, available on the CEB's website.



Part 3

Sustainable management of the Institution

Executive Summary

To be coherent, working for sustainable social and environmental development requires **the Institution to function in a responsible manner**.

To this end, the CEB must make the best possible use of its own human capital, its richest resource, in its own specific institutional context. **Human resources** policy is governed by the principles and ideals promoted by the Council of Europe, whose Staff Regulations remain the Bank's reference document. The policy is constantly adapting, in order to meet the requirements of a workforce that doubled in size between 1994 and 2008. In addition, the recent updating of the CEB's Staff Regulations, approved by the Administrative Council, has enabled human resources to be managed in a more flexible manner. As well as the general regime, emphasis is placed on the quality of employee relations and dialogue with staff representatives on the one hand, and the professional development and motivation of staff members on the other. Here the main levers are training, remuneration and pensions policy and a system of performance appraisal, itself reformed in 2008. This is accompanied by particular attention to ensuring that the working environment is conducive to individual and collective fulfilment.

In its everyday functioning, the Bank must also **take care to minimise its direct environmental footprint**, thereby controlling its own environmental impact. To this end, several major initiatives have been implemented, both with regard to everyday management procedures such as waste recycling, and in infrastructure works. The CLIMESPACE project that connects the CEB building to the Parisian urban refrigeration network is a symbolic example. Of course, sustainable development remains a question of benchmarking and behaviour: an environmental audit is therefore envisaged during 2009 to establish appropriate key indicators and draw up a sustainable development charter for all CEB staff.

The third pillar of the Institution's ongoing management process is the **information and communication policy**. Its main purpose is to **report on the Institution's activities to the public** in an appropriate manner. This is the objective pursued by the public information policy, approved in 2008 by the CEB's Collegial Organs, and, of course, its implementation. Internal communication also plays an essential role in the Bank's functioning, in order to mobilise a well-informed staff group around common objectives and strengthen the CEB's nature as a 'learning institution'. One of the main tools to achieve this is the Human Resources Intranet for staff members. More generally, the Bank has developed a communication policy that is of necessity tailored to its stakeholders' specific requirements in terms of visibility and scale. Within this framework priority is given to highlighting the Institution's positioning as well as consolidating its reputation. The target audience is those actors that are at the heart of the Bank's areas of activity, i.e.: borrowers and beneficiaries of financing on the one hand, and investors and the financial community on the other.

A. Capitalising on human resources development

I. 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 specific to the Bank and applicable to its staff. 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.

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

In recruitment, for example, the Bank first simplified its procedures and then created the Selection Committees, which are tasked with ensuring balance, fairness and transparency in internal and external recruitment processes. The Staff Committee participates fully at all stages of this process.

The CEB has more than doubled its workforce since 1994. With an average increase of 6% per year between 1994 and 2008, at year-end 2008 the Bank had 146 elected representatives and staff, still a very modest figure in 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 56% and 44% respectively. Particular efforts have been made to improve parity between men and women, with around 53% of women and 47% of men as at December 2008. At the same time, there have been significant efforts to diversify the nationalities represented: at the end of December 2008, 25 different nationalities were represented at the CEB.

Modernising the Staff Regulations

Stages

The modernisation of the Staff Regulations, the revised version of which came into effect in January 2008, is the conclusion of a wide-ranging and particularly detailed and productive process of discussion, negotiation and cooperation within the Bank. This began as soon as the Administrative Council had issued a very clear statement, in June 2006, calling on the Management to adapt the Staff Regulations, analyse the points where they needed to be supplemented and naturally adjust them to reflect changing standards for staff management in effect at the Council of Europe.

As was appropriate, the views of the Management were considered alongside those of the Staff Committee and the Bank's Legal Adviser. Working closely with the Management, the Staff Committee communicated the text of the initial proposals to all staff, who were given the opportunity to express their views at a general meeting led by the Governor, on 28 June 2007. It goes without saying that all the remarks forwarded to the Administration via the Staff Committee were examined and that the opinions of the Staff Committee were forwarded as they stood to the Administrative Council.

The four pillars of reform

- The first objective of the reform was to adopt elements of the new contractual policy of the Council of Europe, which had been in place since 2006, within the CEB. On this point, it will be recalled that the objectives of the reform of the contractual system were to improve and promote transparency, flexibility and clarity and to reduce the precariousness associated with fixed-term employment.
- The second objective of the reform of the Regulations was to "dust down" the texts governing the activities of Bank staff and to bring them closer, in so far as was necessary, to a practice that has proven its worth in particular in respect of publishing job vacancies, selection procedures and grade groupings.
- The third objective was to remove the inconsistencies and administrative redundancies found in the previous version of the Staff Regulations, which contained many examples of superfluous grammatical structures.
- Finally, the reform of the Staff Regulations opened the way to more flexible management of the CEB's human resources, in particular by facilitating the redeployment of functions.

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 ...) as well as rules governing the protection of personal data. In May 2008, the Administrative Council approved Regulations introducing a system for 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 reasons.

II. Staff relations

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

In the first place, there is the General Meeting of Staff, which is the organ through which all staff are able to express their views on the conditions of work and employment. The General Meeting meets once a year in ordinary session and a maximum of twice a year in extraordinary session. Staff in receipt of their pensions are also members of the General Meeting of Staff.

The Staff Committee (SC) is the statutory organ 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 staff policy.

Individual complaints can be resolved through mediation, which up to now has been carried out internally, in particular through the SC. At the end of the reform process that is currently underway, mediation should in the future be carried out by someone outside the Bank appointed by the Governor by mutual agreement with the SC.

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.

Staff Committee

The Staff Committee (SC) represents the general interests of the staff and contributes to the proper functioning of the departments by enabling staff opinions to be aired and expressed. It also represents the interests of staff who are in receipt of their pension.

The Staff Committee must be consulted whenever amendments to the regulatory texts are proposed as well as on any proposals concerning the general direction of staff policy. The CEB Staff Committee is made up of seven members elected by the staff every two years.

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 decision 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.

Several advances have recently been made possible in relation to staff management as a result of constructive dialogue with staff representatives, including the modernisation of the Staff Regulations and new rules on performance appraisal on which the Staff Committee not only shed light from a labour relations point of view but also provided technical know-how.

III. Staff development at the CEB

The Bank has put in place a range of human resources management tools in order to support the professional development of its staff and increase their motivation. Training and performance appraisals are the main tools used by the CEB to develop its staff and plan their careers.

Training at the CEB should enable staff to:

- update and improve their professional skills within a framework of objectives set by their line manager or in the case of a change of function

Performance appraisal

Since 2008, CEB staff have had access to new performance appraisal tools, in particular a skills glossary and a single, simplified form for all staff. These tools were created to simplify the annual performance appraisal process, the main objectives of which are to:

- increase the Bank's effectiveness through a 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 and career management needs (horizontal and vertical mobility).

At the end of the annual round of performance appraisals, staff are eligible for an additional variable amount of remuneration (on average 5% of basic monthly salary) plus promotion based on merit. The system of variable performance-related remuneration was also revised in 2008. Going forward, the individual level will depend on the staff member's appraisal, the number of members of staff who have been given the same level in their appraisal and the budget available.

- optimise their resources to control relationships in the working environment more effectively
- assume their supervisory and management responsibilities more effectively
- contribute to the development of the career they are planning or aiming for
- prepare for future change.

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

All staff have access to training, whatever their grade and type of contract. Training is included in working hours, so staff are fully paid when they are on a training course and all costs are covered by the CEB. Special arrangements are made for longer-term training, such as courses leading to a qualification or particular specialisation.

IV. Remuneration policy and pensions

The Bank's remuneration and compensation policy is essentially based on that of the Council of Europe. The Council of Europe is one of the Coordinated Organisations[12], which share a coordinated system of remuneration. As a result, the salary scale, indemnities 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 within a regulated legal and administrative framework.

Since its creation, the decision-making bodies of the CEB 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. Decisions are taken following the annual performance appraisal process, which has recently been reviewed.

As far as the pensions scheme is concerned, the Administrative Council wanted to maintain a single pension scheme for all Bank staff, inspired by the scheme put in place by the Coordinated Organisations in 1974. This is a defined benefit scheme. Staff who have completed more than ten years of service are entitled to a pension from the age of 60. Those who have not completed ten years of service are included in the scheme but are paid a retirement allowance when they leave the CEB. The system also provides for pensions for members of the staff member's family, spouses, children and others recognised as dependents as well as an invalidity pension. CEB staff in receipt of a pension are also entitled to medical cover once they have left employment and the CEB covers a proportion of the tax liability on their pensions.

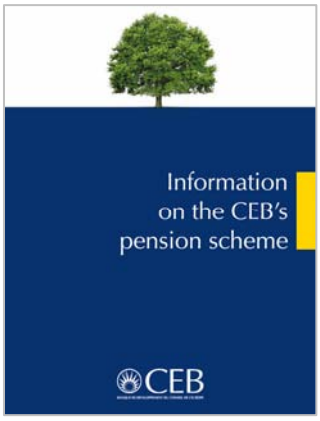
Since the beginning of 2009, the Bank has delegated the calculation of pension entitlements for staff in receipt of a pension and their heirs, pension payments and the associated

[12] There are six Coordinated Organisations: the Council of Europe, the Organisation for Economic Coordination and Development, the North Atlantic Treaty Organisation, the Western European Union, the European Space Agency and the European Centre for Medium-Range Weather Forecasts.

indemnities, allowances and tax adjustments to a specialist service provider, in order to ensure the financial and operational continuity of its pension scheme, even if the Institution were to cease its activity.

The Bank's Human Resources Department has also published a brochure on the CEB pension scheme, targeted at staff currently in employment and those in receipt of a pension and their families, in order to answer the questions about the pension scheme most frequently asked by staff.

Finally, it should be noted that the CEB has published full and detailed information on the remuneration of its Appointed Officials through the financial statements included in each Annual Report since 2007.



V. Working conditions

1. Health and hygiene

The Health and Safety Committee (HSC) is responsible for advising the Governor on ways of protecting the health and safety of those working at the CEB's offices, analysing and improving working conditions and ensuring that the rules applicable in this area are observed. The Committee is made up 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 of the Institution's premises and produces an annual review, with recommendations, of its health and safety activities. Staff are also entitled to regular medical check-ups as provided for in the regulations.

2. Sports facility

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

The idea originally came from the Staff Committee, and consisted of making an area of the building where the CEB's offices are housed available to staff purely for sports activities. Thus, as a part of its property infrastructure work, the Bank has been able to create a sports facility, which opened in January 2009.

The Sports Association is legally independent from the Bank and 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 a healthy environment for CEB staff as part of the Institution's overall framework of sustainable management.

3. Working environment

Like other international financial institutions, the CEB promotes a high-quality working environment for its staff. In particular, this involves continuous modernisation of its facilities and access to specific tools.

Among the measures taken in this area in 2008 were the renovation of part of the Bank's offices, which has made it possible to optimise and rationalise the space it occupies, and the creation of a videoconferencing room to enhance the Institution's range of communication systems.



CEB sports facilities at the CEB

B. "Direct" ecological footprint

I. A question of measure

In its generally accepted sense, the term **ecological footprint** is a measure of the pressure 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 to take into account the impact of its own operation, although this is limited (with a workforce of fewer than 150 people on a single site). The **socio-environmental profile of the Institution's head office** paints a contrasting picture:

- on the one hand, the Haussmannian nature of the building, which has been perfectly maintained, contributes to conserving historical heritage and its central location in terms of access to transport (particularly public transport) helps to reduce greenhouse gases
- on the other hand, its architectural design does not of itself contribute to a high level of energy efficiency.

There are plans to carry out an environmental audit in 2009 in order to have access to a proper assessment in due form, detailed measurements and key indicators covering both the Bank's consumption and waste production. Ahead of these results, however, the CEB has already made efforts to improve its energy efficiency and overall environmental performance.



The CEB head office in Paris

Waste recycling

The CEB put in place three major waste recycling processes several years ago, as follows:

- light batteries are collected in special containers and handed over to a specialist firm
- orders for heavy batteries include removal and reprocessing of the old ones
- ink cartridges for reprographic equipment, fluorescent tubes, electric light bulbs, IT hardware and mobile phones are collected by recycling companies specialising in each type of product.

At the same time, the Bank plays a key role as a joint owner of the building, stating its requirements on day-to-day actions such as waste recycling and recycling paper and packaging (wood and cardboard) and ensuring these are adhered to in practice.

II. Initiatives taken by the CEB

The primary aim of the Institution's actions to ensure better control of its environmental impact is to:

- limit the carbon content of its activities
- optimise the use of raw materials and waste management
- opt where possible for suppliers who support "sustainable development" through its invitations to tender.

The Bank's actions in this respect apply both to its own premises and, in its capacity as a co-owner, through the impetus it gives to the co-owners' committee of the building where its head office is located.

1. Day-to-day management

In addition to its substantial contribution to waste recycling, the Bank strives to control its overall consumption of water, electricity – through increasingly frequent use of LED (*Light-Emitting Diode*) bulbs – and paper.

These efforts are supplemented by a number of quality-oriented measures. For example, the Bank uses FSC (*Forest Stewardship Council*) certified paper for its copiers and printers, which is produced in accordance with the principle of sustainable forest management at an international level, and tests are being carried out on moving to the use of recycled paper for

CLIMESPACE

Until 2007 the building that houses the CEB used separate air conditioning systems, each of which required its own cold water production unit.

The co-owners' association, which is chaired by the CEB, was highly aware of the energy and environmental consequences of this uncoordinated policy and decided to research and then implement connecting the building to the urban cooling network of the City of Paris run by the company CLIMESPACE. As with an urban heating network, energy is produced centrally under the authority of local government bodies, who act as guarantors of the environmental compliance of the whole of the production and distribution chain.

At the same time, the co-owners' association had a sub-station installed in the basement of the building, designed to receive cooling energy distributed in the form of chilled water – and produced by the shared cooling units – and then created its own cool air distribution network within the building.

Since this equipment was installed, a programme to connect the offices on the different floors has been put in place and will run over several years. This will make it possible to remove the individual chilled water production units one by one, starting with the oldest, which consume large amounts of energy and floor space and which are likely to generate noise and vibration within the building. At the same time, areas that previously had no air-conditioning have been connected to the network.

day-to-day printing needs. Particular attention is also paid to the selection of environmentally responsible service providers and suppliers: for example, the CEB uses a courier company that highlights its commitments in this area. More broadly, as part of its procurement procedures the Bank asks the companies concerned to specify what they do in order to support sustainable development in terms of product design, recycling and so on.

2. Infrastructure works

Despite the constraints inherent in a Haussmannian building whose design dates back to the end of the 19th century, the Bank strives to introduce a sustainable development aspect into the works it undertakes.

It does so within the context of a jointly owned property by promoting resolutely environmental measures. Examples include ensuring that the removal of lead water pipes and the assessment of the presence of materials containing asbestos were carried out in accordance with the regulations in effect. The Bank has also played a leading role in the development of the urban air-conditioning project described below.

At the same time, **the CEB is committed to incorporating environmental requirements in the refurbishment and development works it undertakes in its own premises**. Some of the environmentally responsible measures taken as part of the work begun in early 2008 in the office space on the 4th and 5th floors included:

- the use of water-based paints, which are now being used instead of paints containing glycerophtalic solvents
- fluorescent-type recessed spot lights. These use compact fluorescent bulbs that give twice as much light for half the electricity consumption. They can last for up to 15,000 hours
- fitted carpets sourced from a manufacturer with a long-established commitment to sustainable development, both in its manufacturing practices and the materials it uses, which are in part derived from recycling processes.

Clearly, bringing all of the Bank's premises up to the most demanding environmental standards is a long-term undertaking, which will progress as the property is refurbished on an overall or ad hoc basis.

III. A gradual learning process

In addition to appropriate facilities, sustainable development is also about behaviour and raising awareness amongst all staff. Indeed, it is changing individual and collective habits that will result in operating in a way that is less extravagant in its use of energy and other natural resources. It has been agreed that a "**Sustainable Development Charter for CEB staff**" will be produced by the end of the 2009 financial year to encourage staff to adopt appropriate behaviours in this area.

C. Information and communication policy

I. Public accountability

In its capacity as a development bank, and furthermore 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 undertakes to respect, amongst other things, the principles of transparency and good governance in its operation and the way it manages its activities.

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.

In addition to its corporate communication strategy, the Bank expresses this commitment in a **public information policy** in accordance with the practices in effect within other financial institutions. In fact, this policy itself forms part of a corpus of public rules that govern the processes of authorising requests for information on subjects it does not cover directly.

The provisions of this document, approved in 2008 by the CEB's Councils and which is, naturally, available online on its website:

- on the one hand, rely on the development of a general framework that is itself organised around three guiding principles (transparency, responsibility and balance), as described opposite
- on the other, cover three major areas of information related respectively to the Institution in general, its operation and its transactions.

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 on its website complies with provisions relating to "areas of public information". This policy is reviewed periodically by the Councils in the light of experience, following a proposal by the Governor.

Public information policy

Principles

The CEB's public information policy is based on three guiding principles (transparency / responsibility / balance) that correspond to a priority objective: to facilitate the widest possible access to information about the Bank, in conditions that are appropriate to the specific nature of the Institution. These guiding principles are defined as follows:

Transparency
The Bank gives substance to this general principle by making available to the general public extensive objective and relevant information on the Bank's mission, activities and functioning. And it does so in order to enable each and everyone, whether citizen or political leader, shareholder or borrower, to fully appreciate the CEB's action.

Responsibility
The CEB has a responsibility not only towards its shareholders and main stakeholders, namely borrowers and investors but also towards the public in general, who need to be kept informed of the appropriate use of resources and, more widely, of the overall running of the Institution.

Balance
Underpinning the implementation of the CEB's public information policy is the requirement to preserve a fair balance and this applies more particularly:

- on the one hand, to articulation of the principles of transparency and responsibility
- on the other hand, to the key principle of proportionality.

The first requirement is central to any public information policy and, admittedly, requires making arbitrages. To achieve this, the CEB aims to provide a level of information in line with its *raison d'être*, and puts the emphasis on the ease with which its actions can be interpreted by providing information that is clear, useable and accessible, whilst listing, within limits, information considered to be "confidential" and the reasons why it should be so considered.

Furthermore, the CEB has to adapt its policy to the increasing need for information by the wider general public, while taking into account its own specific resources and positioning.

II. Communicating within the Institution

The CEB considers its staff as its most valuable asset and the cohesiveness of the workforce is a key element in the Bank's overall performance. Internal communication therefore plays an essential role in the Institution's progress, and it pays particular attention to this area. Internal communication has **three objectives**:

- **keeping staff informed**, under appropriate conditions, both about the operation of the Bank and its activities in general and about measures that have a direct impact on their statutory conditions and working environment
- **motivating staff to pursue common goals**, to support the Institution's social development mission and consistent with its external communication
- **strengthening the CEB's nature as a learning organisation**, which, like other IFIs, sees itself as a knowledge-based institution.

Many different actors are naturally involved in communication and many different methods are used. Some major contributors include:

- the Management, headed by the Governor in his statutory capacity as the Bank's legal representative and head of services
- the Administration, for questions relating to human resources and, more broadly, to working conditions for the men and women who make up the CEB
- staff representatives, who express and feed back the staff's aspirations and expectations.

Some of the Bank's preferred communication channels, in addition to the ongoing dialogue between teams, are as follows, although this list does not claim in any way to be exhaustive:

- periodic information meetings throughout the year, organised at the instigation of the Management and/or Administration
- the communication efforts made by the Ex Post Evaluation Department (DEP), which presents the results of its evaluations to all interested staff within the Bank
- the quarterly newsletter "CEB Info", which is designed and targeted primarily at the Institution's staff but is also made available to the public online; this aims to develop a shared understanding of the CEB's functioning, activities, conduct and achievements
- the Human Resources intranet site for staff, described opposite.

Human Resources Intranet site

Designed and managed by the General Administration department, the Intranet site is fully bilingual and accessible to all CEB staff. Its primary aim is to provide information on the provisions applicable to them in terms of rights and responsibilities, whilst at the same time helping to make day-to-day life easier.

The site is split into four main sections, as well as a photos page called "CEBoscope", and is organised as follows:

- the "**Human Resources Administration**" section sets out rights and obligations and provides information about the organisation of working hours, including holidays. It also tells staff about the Staff Regulations, statements and decisions made by the Governor, resolutions of the Committee of Ministers of the Council of Europe and the activities of the Administrative Tribunal in relation to the Bank
- the "**Human Resources Management**" section provides information about careers, training, new joiners and staff leaving
- the "**Medical and Welfare Protection**" section provides details of the medical cover and pension benefits applicable to various CEB staff
- the "**Practical Information**" page is an operational guide designed particularly to help staff from other Member States than France to settle in to the Bank and acclimatise.

Particular attention is paid to ensuring that the information available is up to date and easy to read, with explanatory summaries provided systematically for all reference documents.



III. Communicating with stakeholders

The CEB pursues a communication strategy appropriate to its specific needs in terms of visibility that is easy to grasp and on a reasonable scale, and which focuses on:

- highlighting the Bank's unique positioning amongst other IFIs
- the stakeholders at the heart of its field of activity (see page 37)
- strengthening the Institution's reputation.

Within this framework, the Bank focuses on the development of an institutional communication policy, which is itself supported by targeted operational communication processes. In relation to this:

- the CEB's communication in respect of its **shareholders** falls primarily 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 manage activities in the most appropriate conditions.
- communication to **borrowers** supports the implementation of the development priorities defined in the medium-term Plan, in particular to support the countries in the target group, highlights the CEB's know-how and added value in its capacity as a development bank with a social vocation, and strives to make the **beneficiaries** of its funding more aware of the Bank's contribution. Operational visibility of its projects is also a vital obligation for the CEB.
- communication targeted at **investors** and the financial community is designed to consolidate the Bank's name on the capital markets

In addition:

- communication aimed at **supranational institutions** forms part of a policy of close partnerships, which is designed to increase the CEB's expertise and capacity for action on the basis of specific characteristics recognised by the international community. It goes without saying that the Council of Europe has a central place amongst these organisations. The European Union, IFIs and United Nations specialist agencies are the (other) key actors in this cooperation
- internal communication for use by CEB **staff** is designed to promote cohesiveness within the workforce
- communication to the **general public** strives to provide a balanced response to the increasing need for information from civil society and its representatives (NGOs, etc.).

Within the limited resources available to it, the CEB is committed both to **diversifying** its range of communication tools **and** continually **adapting** them.

- this commitment to diversification was reflected in 2007 in the creation of a quarterly information bulletin, **CEB Info**, which is available to the general public online, and more recently in the production of an eight-minute film designed to strengthen the image of the Institution
- the focus on adapting the Bank's communication media is illustrated by the substantial overhaul of its **website**, described below.

Modernising the website

The CEB's new website went live in September 2008. The site architecture is still organised around three main areas: a profile of the Institution (with particular emphasis on the issues of governance and integrity), full and detailed information about its activities (including the concrete steps that need to be taken to obtain financing from the CEB) and finally an "Infocentre" providing access to all the Bank's publications and communications media.

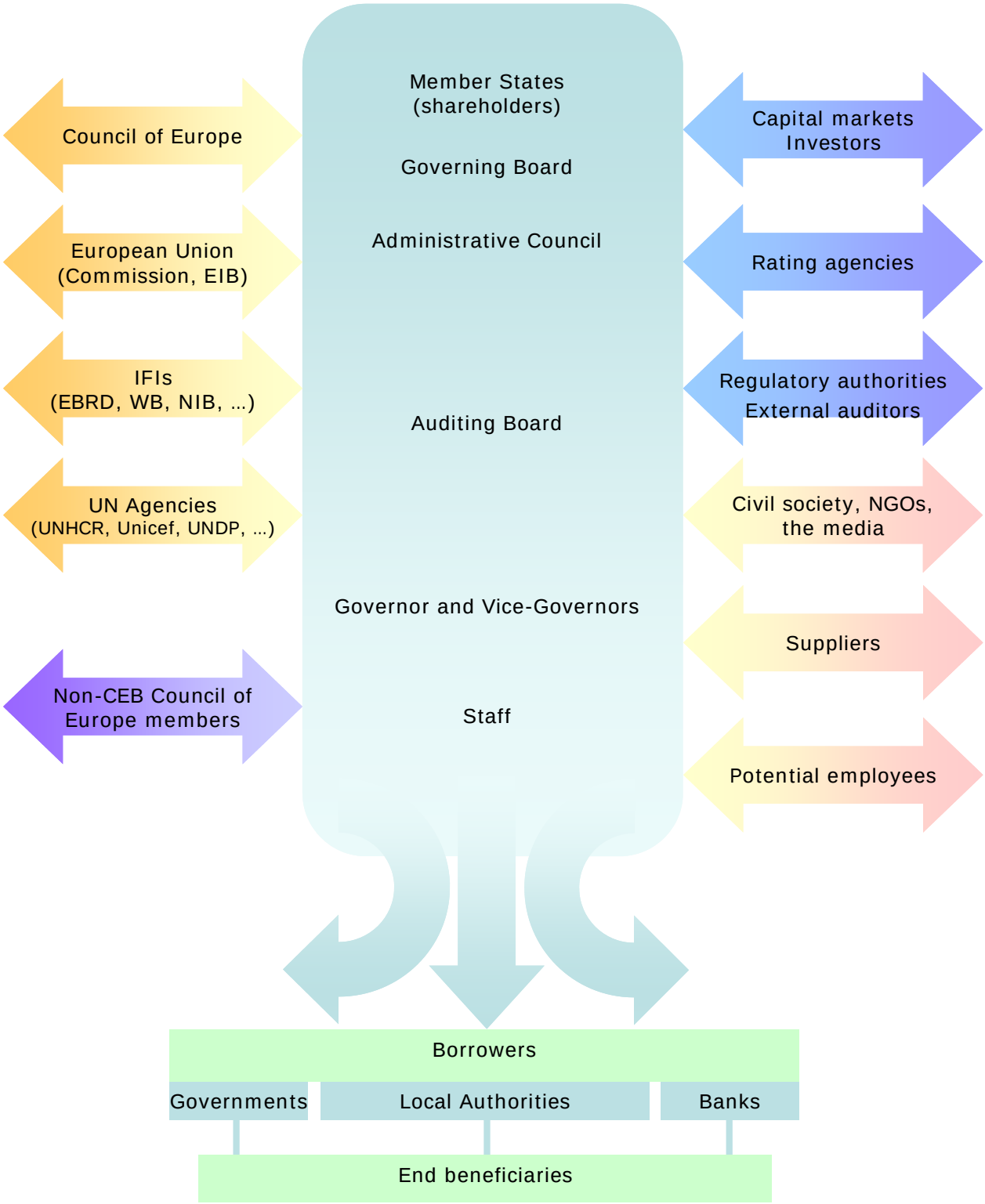
In addition, the general look and feel of the site has been improved and the navigation made easier based on a single principle: any visitor should be able to access the information they are looking for within three clicks. Visitors also have the option of viewing every page on the site in either of the CEB's two official languages.

The new site also features clearer editorial options. The home page, for example, has a rolling banner highlighting the main activities of the CEB. These areas are updated whenever there is major news to report from the Bank. Project approvals are reported in press releases immediately after meetings of the Executive Committee and Administrative Council.

Finally, within the more general framework of its corporate social responsibility policy, the CEB has worked to ensure that the site is accessible to people with a visual impairment. As a result the CEB website has AccessiWeb accreditation.



CEB stakeholder map





55, avenue Kléber
F-75116 PARIS, France

www.coebank.org

Telephone: +33 (0)1 47 55 55 00
Fax: +33 (0)1 47 55 03 38
Swift: CEFPFRPP

Printed on recycled paper