Development Plan 2020-2022

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

Important notices
The Development Plan 2020-2022 was unanimously approved by the Governing Board of the Council of Europe Development Bank (CEB) at its meeting of 6 December 2019, upon recommendation of the Administrative Council.

Attention is drawn to the fact that this document contains forward-looking statements and financial projections. Such statements and projections may, by their nature, prove to be inaccurate.
Data that is for internal use or business-sensitive in nature has been removed from this publication.

Cover: ©Ani_Ka

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

Development Plan 2020-2022

List of figures

Figure 1 – Loan approvals during the Development Plan 2017-2019 3
Figure 2 – Loan disbursements during the Development Plan 2017-2019 3
Figure 3 – GDP year-on-year growth rate and ECB deposit facility rate 6
Figure 4 – People at risk of poverty and Inequality in CEB member countries 7
Figure 5 – Public Sector Investment in Social Sectors 8
Figure 6 – Net Migration in CEB countries (in thousands) 9
Figure 7 – Future Employment Skills Forecast 10
Figure 8 – Share of sub-national government investment by sector in CEB countries 12
Figure 9 – Euro 10-year swap rates since 2014 12
Figure 10 – Towards "cruising speed" – approvals and disbursements for three consecutive development plans 24

List of boxes

Box 1 - The Regional Housing Programme (RHP) and its achievements 4
Box 2 - Identifying and promoting Green Finance with social content opportunities 16

Contents

Introduction 1

Chapter 1 – Development Plan 2017-2019: key features and achievements 2

Chapter 2 – The operational context 6
Long-term European challenges 8
CEB Lending activity challenges 12

Chapter 3 – Lines of action 15
Inclusive growth 15
Support for vulnerable groups 15
Environmental sustainability 16

Chapter 4 – Means of action to enhance the CEB's social impact 18
Focusing on the Target Group Countries 18
Further adapting financial instruments 18
Responding to sub-national strategic partnerships – *diversification of borrowers* 19
Acknowledging higher credit risk 19
Using risk-sharing mechanisms 20
Increasing funding to national promotional banks 20
Responding to capacity-building needs 21
Placing emphasis on "green" content in the social investments 21
Mainstreaming the Sustainable Development Goals (SDGs) into the CEB's activities 22
Continuously adapting to change – issuing social bonds 23

Chapter 5 – Operating scenarios 24
Operational objectives 24
Prudential framework 25

Chapter 6 – Aligning the CEB with international partners and strategies 26
The Council of Europe's values and overall objectives 26
Further strengthening European and international cooperation 27
Promoting corporate social responsibility and sustainability 27

Works cited 29

APPENDICES to the Development Plan 30
Appendix 1 – Historical context and key features of the previous development plans 30
Appendix 2 – Migrant and Refugee Fund (MRF) Projects 31
Appendix 3 – CEB Target and Non-Target Group Countries 33
Appendix 4 – The Sustainable Development Goals (SDGs) 34
Appendix 5 – Environmental and Social Safeguards Policy (ESSP) 35
Appendix 6 – The Council of Europe and the CEB on judicial infrastructure 36
Appendix 7 – Rating Agency frameworks for ESG evaluation 37

Introduction

1. The CEB is the only development bank in Europe with a social mandate, a mandate that is growing in importance given the wide range of social issues that Europe will need to confront in the coming years and decades. This Development Plan sets out a roadmap of how the Bank can help member countries effectively to resolve the medium- and long-term challenges that they face. Many of these issues are far-reaching and wide in scope, requiring scaled-up responses from policymakers over the years and decades to come.
2. The CEB will keep renewing, strengthening and adapting its strategy to fully capitalise on its unique social mandate, prove its relevance and ensure its effectiveness in supporting high-impact social projects throughout its member base.
3. The Bank will strive to maintain current levels of activity by working with new borrowers, including smaller and more complex ones that would otherwise have had difficulty in accessing financing. This Development Plan reflects the Bank's strategy on how to tackle projects of varying complexity and to support a wide range of borrowers throughout the project preparation and implementation phases, in order to guarantee the highest social impact.
4. The CEB will have to ensure that borrowers with different capacities are able to fulfil their social objectives. To this end, the Bank will continue to deliver technical assistance as needed, leverage its own resources through strategic partnerships, and expand grant funding whenever possible.
5. The Bank is committed to support countries in their transition towards more environmentally sustainable and resilient development pathways compatible with the Paris Agreement on climate change. This is exemplified in its work to catalyse the development of projects that contribute to climate action, prevent and reduce environmental pollution and improve efficiency in the use of natural resources. The Bank also promotes the integration of climate change mitigation and adaptation measures in all socially-oriented projects, thus helping the member states achieve the objectives set out in both global and national environmental and climate change strategy frameworks.
6. The Bank's unique social mandate makes it a relevant institution for supporting its member countries in their efforts to realise their respective Sustainable Development Goals (SDGs) agendas. Indeed, its mission – to promote economic inclusiveness, social cohesion and environmental sustainability through social investments – fully resonates with the UN's 2030 Agenda.
7. This Development Plan aims to highlight both the Bank's existing efforts and additional ways to fulfil its social mandate, so as to help strengthen social cohesion and ensure a more inclusive and sustainable economy throughout Europe.

Chapter 1 – Development Plan 2017-2019: key features and achievements

8. The Development Plan 2017-2019 was approved by the Governing Board at its meeting on 2 December 2016, upon recommendation by the Administrative Council.

9. Building on previous achievements[1], the 2017-2019 Plan aimed to respond to an evolving European environment characterised by prolonged ramifications from the financial crisis such as a low interest-rate environment and a financial sector cautious to lend, compounded by the political, social and economic consequences of the surge in migrants and refugees arriving in Europe.

10. At a granular level, the Development Plan 2017-2019 underscored the Bank's continued efforts to support social investments by strengthening its strategic focus through the consolidation of its existing lines of action and the creation of new ones:

    - Sustainable and inclusive growth by supporting public infrastructure with a social vocation, job creation and preservation, access to labour markets, housing and the integration of vulnerable groups.
    - Integration of refugees, displaced persons and migrants.
    - Climate action: developing mitigation and adaptation measures.

11. In translating these new lines of action into operational activity and tangible investments, the CEB placed increased emphasis on cross-sector projects and developed methodologies to better identify which projects best benefit vulnerable populations. For instance, cross-sector projects in the housing sector allowed the Bank to fund projects that combined the construction of dwellings with community services, education, healthcare and social welfare facilities. At the same time, the CEB worked to mainstream climate action measures in all its projects (e.g. energy efficiency in housing projects) to ensure a cross-cutting approach to help contribute to the fight against climate change.

12. The Plan also introduced the Environmental and Social Safeguards Policy screening methods during the project appraisal phase, which allowed the Bank to strengthen its comparative advantage in being able to identify value-added social projects. Moreover, the Bank incorporated more technical assistance funds (primarily benefiting Target Group Countries[2]), which enhanced the capacities of the implementing parties to boost the social, environmental and sustainability impact of its projects.

13. Furthermore, the CEB intensified its focus on ensuring that projects enhance gender equality throughout its member countries. This effort was underscored by the Bank's "four-pronged approach" (4PAP) - which, among other things, screened each project for gender equality in the appraisal phase. For example, the Bank aimed to accomplish this by promoting increased women's participation in the labour market via targeted SME financing for female entrepreneurs and by working to include gender equality in relevant social-inclusion projects[3].

14. In the context of the continued economic, social and political anxieties felt throughout the continent, the Development Plan 2017-2019 worked to reinforce its objective to cooperate even more closely with EU institutions, with other international institutions, both financial and non-financial, and with national promotional banks.

15. The Bank set operational benchmarks in the Development Plan 2017-2019 to reflect the extraordinary situation following the onset of the refugee and migrant crisis and the related growth in operations that occurred in 2016. In effect, project approvals increased by 50% from

---

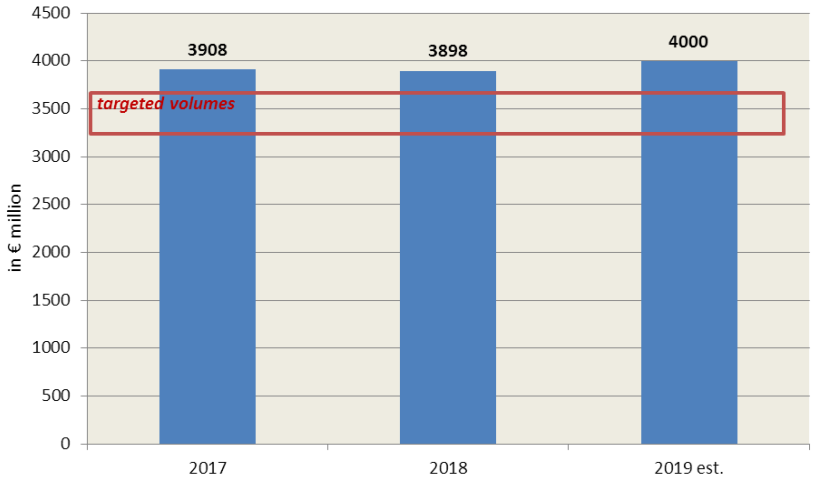
1 See Appendix 1, which highlights the historical context of recent development plans that helped contribute to formulation of the 2017-2019 Plan

2 See Appendix 3 for a full list of Target Group Countries

3 These efforts are aligned with the efforts of other international organisations, e.g. UNDP Gender Mainstreaming In Development Programming, Guidance Note and the OECD-DAC "Handbook on the OECD-DAC Gender Equality Policy Marker"

the 2014-2016 baseline values to reach €3.5 billion by the end of 2016. Thus, in the Development Plan 2017-2019, project approval targets were set at €3.5 billion per year on average, including an increasing trend in approvals on the Target Group Countries and a volume of over €1 billion in disbursements per year on this group. The volumes were planned with +/- 10% flexibility due to the persistently challenging economic and political environment.

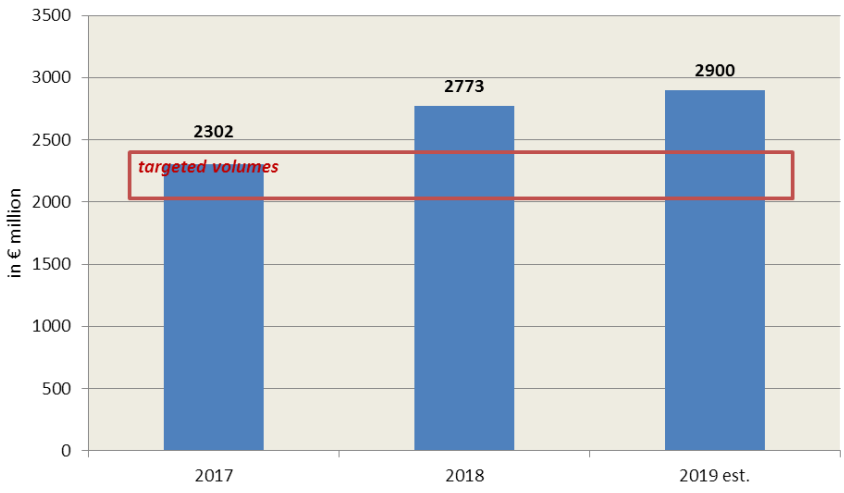
Figure 1 – Loan approvals during the Development Plan 2017-2019



Source – CEB

16. The Bank's newfound level of activity has remained in line with the objectives set out in the Development Plan 2017-2019, underscoring the CEB's increasing relevance in a more social Europe. The Bank has achieved its operational goals with a sustained effort to meet demand through increased lending. Total project approvals stood at €3.9 billion in both 2017 and 2018, with levels in 2019 on their way to remaining at this level. Total disbursements increased steadily from €2.3 billion in 2017 to €2.8 billion in 2018 and are expected to amount to €2.8-2.9 billion in 2019.

Figure 2 – Loan disbursements during the Development Plan 2017-2019



17. Activity in the Target Group Countries has remained a strategic focus for the CEB. Indeed, operations in Target Group Countries are often more complex to appraise and implement, and the Bank has deployed considerable efforts in building a robust loan portfolio in these countries. In particular, operations in Target Group Countries often require a more granular approach to project appraisal and monitoring in terms of resource allocation (human resources, technical assistance, consultancy costs, and project cycle timelines).

18. While support to Target Group Countries is manifold, it is worth noting that the group accounted for 64% of capital consumption while contributing to only 17% of subscribed capital. Lending activities in the Target Group Countries remains a priority for the Bank, and the Bank's leverage on capital resources is intended to remain in favour of these countries, as underlined in Chapter 4 below.

19. Lending to Target Group Countries contributed to the Bank's increased pace of lending activity. In effect, in 2017 and 2018, lending activity to Target Group Countries stood at €1.45 billion and €1.64 billion, respectively. Furthermore, disbursements to Target Group Countries also increased steadily from €1.15 billion in 2017 to €1.25 billion in 2018 and are expected to reach €1.25-1.35 billion in 2019, well above the Plan's stated objective of €1 billion.

20. Additionally, initiatives such as the Regional Housing Programme (RHP) and the Migrant and Refugee Fund (MRF) have continued to show the Bank's wider role in helping member countries implement social projects through fiduciary and grant-funded activity. The Bank has continued to help with the implementation of the RHP, resulting in the creation of over 4,000 housing units for displaced people in the "Balkans route" countries. The CEB's successful creation and implementation of the MRF grant facility has ensured that the member states hardest hit by the migrant and refugee crisis have been able to access vitally needed funds to help with the emergency needs of the migrants and refugees (such as food, shelter, medical aid, and security) – see Appendix 2. Above and beyond the MRF emergency response, the Bank has since stepped up its lending to programmes for the long-term integration of migrants.

Box 1 - The Regional Housing Programme (RHP) and its achievements

The Regional Housing Programme (RHP) was established in 2012 to address the protracted displacement of vulnerable refugees and displaced persons who had continued to live without proper homes since the end of the 1991-1995 conflicts on the territory of former Yugoslavia (as well as displaced persons in Montenegro from 1999).

The RHP consists of four Country Housing Programmes in the four partner countries - Bosnia and Herzegovina, Croatia, Montenegro, and Serbia. The Programme aims to provide housing solutions to 11,000 of the most vulnerable families (some 34,000 persons) by the end of 2021. In addition to providing homes, the Programme aims to foster institutional capacity in the partner countries to deliver sustainable housing solutions not just to RHP beneficiaries but also to other population groups with unmet housing needs. The CEB works with its implementing partners, the UNHCR and the OSCE, to implement and fulfil the mandate of the Programme.

As of March 2019, the RHP had received €287 million in donor contributions – with the bulk, €234 million, coming from the European Union. The Programme has approved project grants worth €235 million and disbursed €120 million. To date, a total of 11,800 vulnerable persons have obtained new homes.

21. In line with the 2017-2019 Plan, the CEB undertook a capital adequacy review to monitor the Bank's financial resilience against the backdrop of the heightened pace of its lending activity. Furthermore, the Bank revised its Financial and Risk Policy in 2017 to further enhance its risk management framework and adapt its risk-control mechanisms.

22. The most recent discussion on these matters was held by the Administrative Council in March 2019. This review confirmed the financial health of the CEB as a result of a prudent risk policy in its lending activity and asset management. Moreover, the report highlighted that the capital adequacy ratio (CAR) was driven by the geographical diversification of countries and counterparties the Bank lends to and their respective credit quality.

23. The review confirmed the robustness of the Bank's prudential ratios, prudent lending requirements, and the thoroughness of its capital monitoring. The results demonstrated that the Bank currently has sufficient levels of capital to cope with the risks associated with its lending activity. The review's findings and conclusions serve as a background to the CEB's Development Plan 2020-2022.

24. As a result of the higher levels of project approvals and disbursements, the portfolio of outstanding loans increased by 13.8% between 2017 and 2019 to reach an estimated €15.5 billion by the end of the year. Nevertheless, the credit quality of the Bank's loan portfolio improved over the period while the Bank's profitability was resilient. Thus, the Bank not only maintained its excellent credit-rating but was even upgraded to AAA status by one of the major rating agencies[4] and received a positive outlook from another[5].

25. The CEB's cost-to-income ratio has come under pressure in recent years as a result of the twofold impact of declining interest income in a low interest-rate environment and the pressure on the changing operational structure of the Bank. The latter resulted from increasing volumes, project complexity and a rapidly evolving technological and regulatory context. Despite these circumstances, the ratio increased by only 3 percentage points from the end of 2016 to its current level of 33.3% in 2018. This trend is common to all European IFIs, which are experiencing comparable financial and operational environments.

[4] See the S&P Research Update titled "Council of Europe Development Bank Upgraded To 'AAA' On Criteria Revision; Outlook Stable" at: https://coebank.org/documents/737/SP_Press_release_CEB_upgrade_AAA_Feb_15_2019.pdf

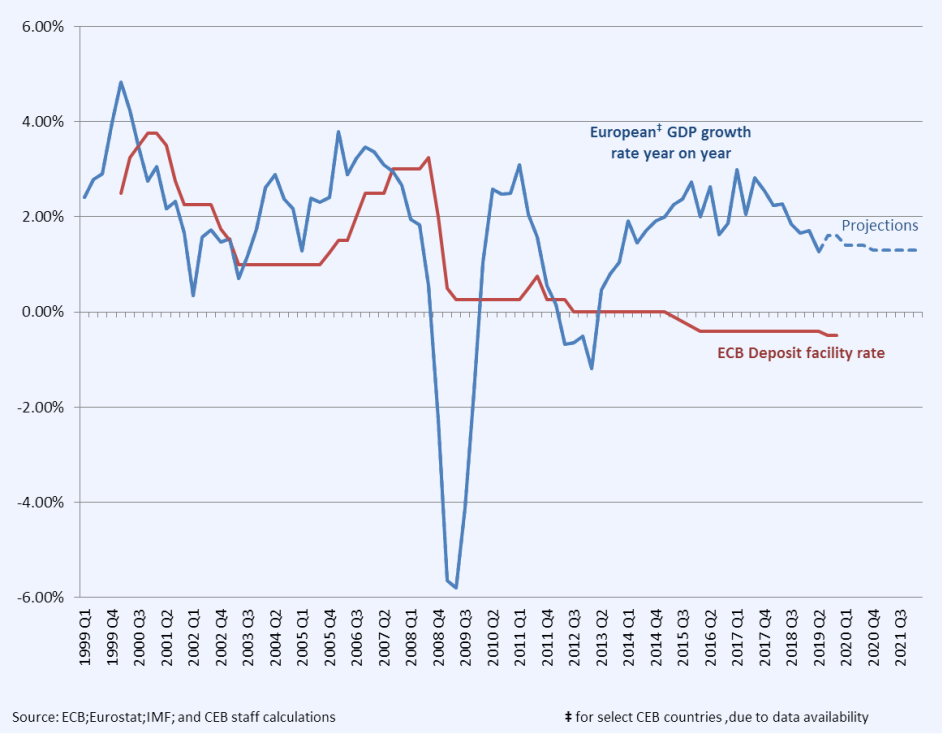
[5] Fitch Ratings revised the CEB's rating to positive outlook on 3 September 2019

Chapter 2 – The operational context

26. Despite the European economy having seen continuous positive growth since 2012, the future economic outlook for Europe remains uncertain due to various external and internal factors such as reduced export sector prospects due to global trade tensions, muted price growth, and softened manufacturing output. At the same time, the economy still remains buoyant on other factors such as increased private/household consumption, improving labour market conditions (higher wage growth), growing private investment levels, and healthier bank lending activity. The currently, still positive, macroeconomic environment is expected to prevail if global trade tensions do not further escalate, and the threat of a no-deal Brexit is pacified (European Commission 2019).

27. The GDP growth in the EU-28 has begun to drop to lower, albeit still positive, levels (see Figure 3). The European Commission forecast indicates that growth will settle at 1.4% in 2019 and pick up to reach 1.6% in 2020, and looks likely to remain restrained for the foreseeable future (IMF 2019). Furthermore, core inflation[6] rates are likely to remain subdued at around 1.4% (below the ECB's 2% target), as the moderated GDP growth and tightening labour markets have yet to translate into price inflation. In an effort to improve the slower GDP growth and low inflation rates, on 12 September 2019, the ECB further eased its monetary policy by cutting the deposit facility rate to -0.50% (down 10 basis points from -0.40% and has left the door open for further cuts in the future), restarted its asset purchase programme (APP, or more commonly known as "quantitative easing"), and introduced a two-tiered system for remuneration of banks' excess liquidity holdings (in an effort to promote bank lending).

Figure 3 – GDP year-on-year growth rate and ECB deposit facility rate



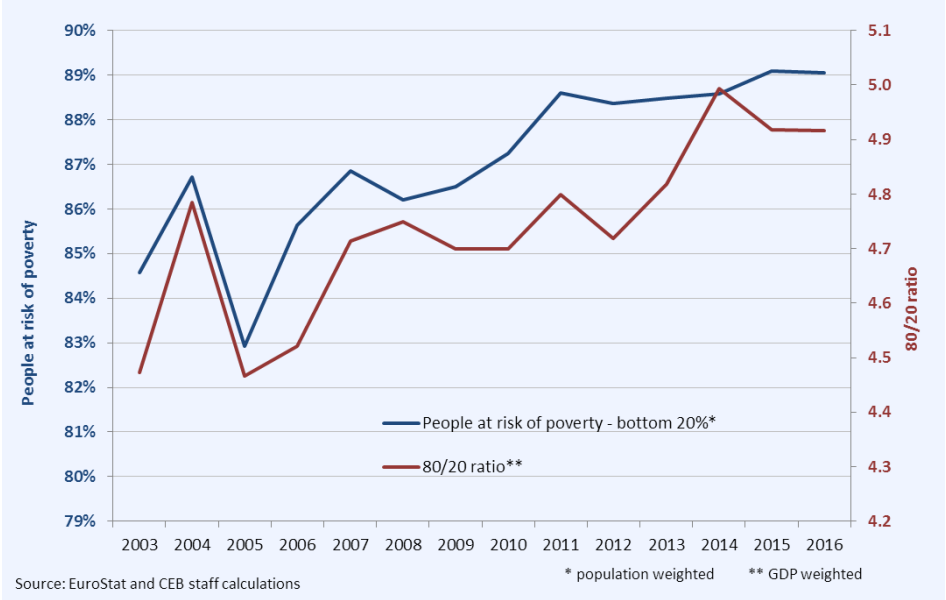
28. While the current economic recovery that began in 2013 has generated sustained real GDP growth (2.1% annually), employment growth (1.2% annually) has lagged behind. Real wage growth has virtually stagnated relative to labour productivity growth, further signalling unequal levels of economic recovery. In effect, the recovery, which is today slowing down, has not been fully felt by all; for instance, employment rates for migrants and those with low levels of education stand at 64.4% and 52.9%, below their pre-crisis levels. Youth unemployment rates

[6] Core inflation excludes from its calculation the price of goods such as energy and food-related commodities that tend to have higher price volatility

in the EU-28 have only recently begun to recover, standing at 15.6% at the end of 2018, well above the total unemployment rate of 7%.

29. Moreover, the rate of income inequality as measured by the 80/20 ratio[7], has been on an upward trend (see Figure 4), indicating that economic growth is increasingly favouring the better-off segments of the population. At the same time, the at-risk-of-poverty rate[8] has been steadily increasing for those in the bottom 20% of the income distribution, hitting nearly 89% as of 2016. These inequality measures show the continued challenges that countries face in ensuring a better distribution of economic growth and more equitable access to opportunities and public services (namely education, healthcare and housing). This aspect is particularly relevant to the CEB's social mandate and operational activity.

Figure 4 – People at risk of poverty and Inequality in CEB member countries



30. Furthermore, the migrant and refugee crisis of 2015 increased awareness of Europe's overextended resources and capacities to provide needed migrant integration services. Historically, well-thought-out integration measures and policies have proved mostly adequate in ensuring that migrants generate positive benefits to their host nation in terms of economic and social contribution[9]. Yet, considerable issues remain for migrants, such as higher levels of unemployment, over-qualification in jobs, the likelihood of living in low-quality and overcrowded homes, and lower levels of access to educational and training opportunities (OECD 2018).

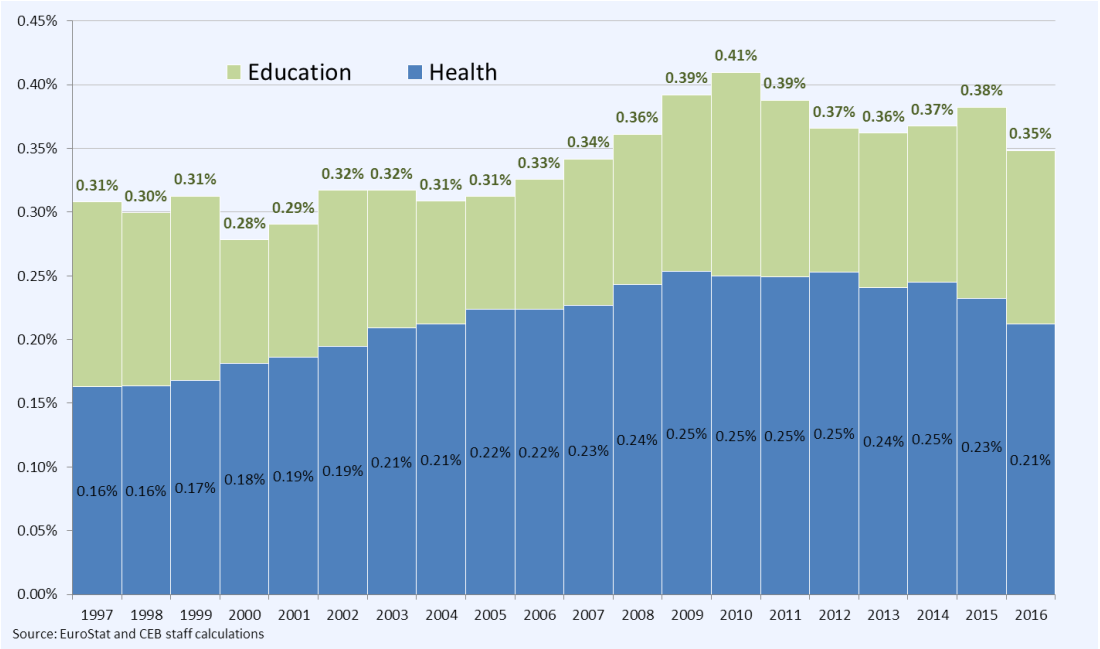
31. The level of public spending in key social sectors (i.e. education, health, and housing) that can help improve economic opportunities for both nationals and immigrants has stagnated and even begun to shrink since 2008, due to inherited recession-era fiscal policies; this trend is highlighted when examining gross fixed capital formation in the education and health sectors (see Figure 5). This has contributed to widening the social investment infrastructure gap, which is estimated to stand at between €100 and €150 billion annually in the EU countries (Fransen, del Bufalo and Reviglio 2018).

7 This is the ratio of the income of those in the top 20% of the income distribution relative to the 20% at the bottom of the distribution

8 The at-risk-of-poverty rate is the share of people with an equalised disposable income (after social transfer) below the at-risk-of-poverty threshold, which is set at 60 % of the national median equalised disposable income after social transfers (Eurostat).

9 Please refer to the following as a basis (a non-exhaustive list of literature): (OECD 2018, Crul, Schneider and Lelie 2012, Batsaikhan, Darvas and Gonçalves Raposo 2018).

Figure 5 – Public Sector Investment in Social Sectors
(Gross Fixed Capital Investment) as % of GDP - CEB member countries



32. Shifting policy priorities give some encouragement that investment levels will pick up in the coming years. At EU level, this is illustrated by the European Commission's 2021-2027 Multiannual Financial Framework (MFF) which will include mechanisms such as the InvestEU Programme which aims to promote social investments in Europe, and an expanded European Social Fund Plus (ESF+) to leverage financing for social inclusion and sustainable economic development. At national level, since 2015, the EU member states have adopted, if not advanced, social investment strategies that place increased emphasis and attention on social investments.

Long-term European challenges

33. Many of the challenges outlined above will continue to reverberate in the future as demographic, spatial and technological changes alter the social and economic foundations of Europe.

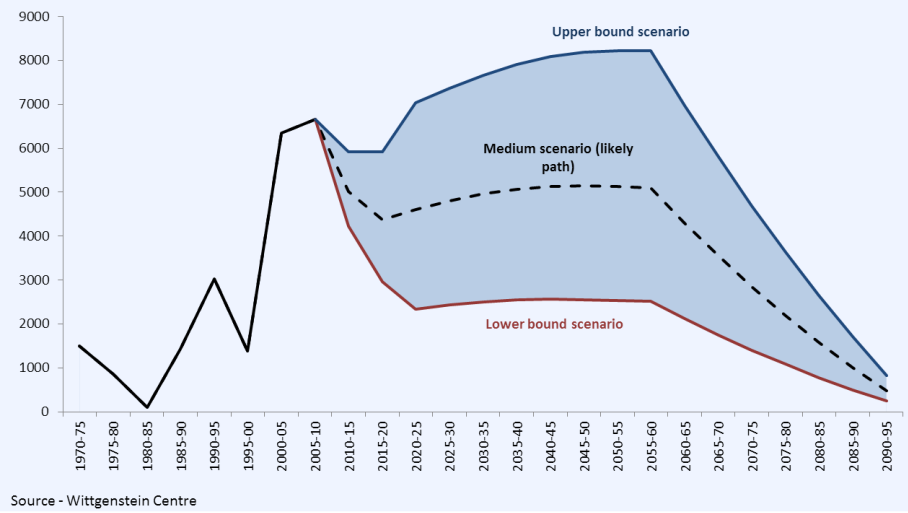
34. **Demographic changes** - The ageing and low-fertility demographic future of CEB member countries is one in which the population is expected to fall from approximately 520 million in 2015 to 485 million in 2100 by conservative estimates (a drop of 6.75%) and to as far down as 377 million (a drop of 27%) according to more extreme scenarios[10]. This demographic reality will translate into a dependency ratio[11] increasing from 0.49 in 2015 to 1.0 in 2100 by conservative estimates, thus indicating that every person in the labour market will be responsible for providing the productive resources to help support another individual (or child) who is not in the labour force (as opposed to the present two to one ratio).

35. **Migration trends** - The worsening demographic situation in CEB member states could in part be eased by the number of legal migrants that will enter into the labour force in the coming decades. As can be seen in Figure 6, net migration in CEB countries will continue to be on an upward trend of around 5 million annually until 2050-60, after which it is estimated to drop significantly; these estimates do not assume any significant spikes in the number of migrants and refugees such as the one seen in 2015[12]. The net flow of migrants into CEB member states

[10] Wittgenstein Centre for Demography and Global Human Capital.
[11] Ratio of the economically dependent part of the population (children and persons aged 65 or over) to the working-age population (aged 15-64).
[12] Such shocks might occur due to the economic, political, and climate disruptions that may arise in places outside the CEB member state base.

will therefore play an essential role in the coming decades and will require continued public spending to implement effective economic and societal integration policies.

Figure 6 – Net Migration in CEB countries (in thousands)

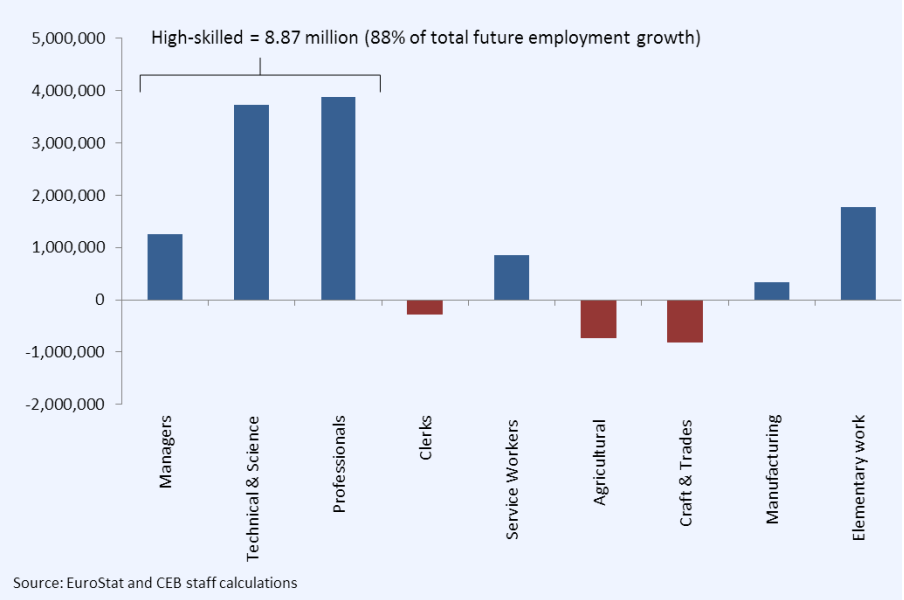


36. **Increased urbanisation** - Within CEB member states, populations will continue their historical trend of agglomerating into economically more dynamic urban areas. By 2050, urban areas will hold an estimated 87% of the population of CEB countries; urban areas will have to deal with all of the medium- and long-term challenges outlined throughout this section[13], and will have to be sufficiently prepared for various exogenous shocks[14]. This will place increased pressure on municipal governments of all sizes, whose finances are already stretched to provide inclusive economic growth and adequate social services/infrastructure.

37. **Evolving labour markets** - An additional issue in many CEB countries arises from concern as to how future job markets will take shape, especially for the most vulnerable. Rapid technological changes (digitalisation, automation and artificial intelligence) have created considerable anxiety as to whether people will have a source of work-based income in the decades to come. Compounded by shifts in industry and labour regulations and, to a lesser degree, globalisation, the perception is one of shrinking opportunities in the future. Certainly, the structure of the labour market in many CEB countries places increased demand for high-skilled labour over the lower-skilled; this can be seen in Figure 7 which shows that, in the next decade, nearly 88% of all new jobs created will be in the high-skilled sector. It is important to note that, despite the fact that technological and other factors are transforming existing industries, new industries are emerging that will create new economic opportunities, the most notable being the fast-expanding green economy (ILO 2018).

[13] Also in the Development Plan Thematic Paper titled "CEB engagement for inclusive and sustainable cities"
[14] e.g. another sudden influx of migrants, natural disasters, and economic downturns

Figure 7 – Future Employment Skills Forecast
Jobs predicted to be created between 2018 to 2030 in Europe



Source: EuroStat and CEB staff calculations

38. There is ample time to ensure that workers will be able to effectively transition to a new labour market that will place ever more importance on skills. Doing so will be imperative to ensure that no one is left behind and thus prevent a further widening of inequality. This will have profound implications on the ability of governments to transform existing and future compulsory and tertiary education, adult training and life-long learning programmes to meet higher educational standards and outcomes (World Bank 2019). In part, education systems will need to develop and provide both high-quality infrastructure and related "soft" educational components. Enhancing soft components requires placing more emphasis on ensuring that teachers at all levels and stages of education are given the appropriate resources and training to deliver better teaching outcomes. Such efforts will enable students, trainees and workers alike to take full advantage of a changing labour market.

The Sustainable Development Goals (SDGs)

39. The drive towards sustainable and inclusive development is a global one. The global community has stepped up its efforts to solve shared issues by adopting the Sustainable Development Goals (SDGs) as outlined in the UN 2030 Agenda for Sustainable Development and which applies to both developing and developed countries alike. The SDGs commit 193 countries to meet 17 varied but interconnected goals and their respective 169 targets by 2030. They are a blueprint for achieving a better and more sustainable future for all, with "no one left behind" as the overarching goal.

40. The goals and targets are wide-reaching (see Appendix 4) with numerous targets applying to CEB member states. The SDGs will provide guidance to member states on how to design and implement their current and future socially-oriented investment policies.

41. At present, a number of CEB countries have already begun the process of assessing how to incorporate relevant SDGs into their policy frameworks and how to effectively mobilise and scale-up funding to achieve them in the coming years. Importantly, the SDG framework recognises that meeting the targets will place significant pressure on public budgets. As a result, there is a call for increased and more effective use of international financing – including from the private sector - to help meet the financing needs.

Climate change

42. The unrelenting and growing pressures that arise from climate change have united the countries of the globe in adopting the 2015 Paris Agreement on Climate Change, which acts as the primary framework to keep global temperature increases below 2 degrees Celsius above pre-industrialised levels (and with further ambitions to keep it below 1.5 degrees).

43. If countries do not significantly step up their National Determined Contributions to align with the Paris temperature goal, the extent of climate change may reach overwhelming levels. Climate change is already impacting global and European societies. The negative effects on public health, economic prospects, and even political stability (Rüttinger, et al. 2015, COACCH 2018) will be amplified. Within Europe, the adverse impacts will mostly be felt by vulnerable populations in regions that will see more volatile and extreme weather conditions, especially in Southern and Eastern European countries.

44. To mitigate such an undesirable outcome, EU countries have been the most responsive in meeting the Paris Agreement goals, by setting ambitious objectives for reducing greenhouse gas emissions, (e.g. through increasing the share of renewables in the energy supply and improving energy efficiency standards). At the same time, EU countries have been putting in place adaptation strategies to enhance resilience to the effects of climate change (e.g. through flood/drought management measures).

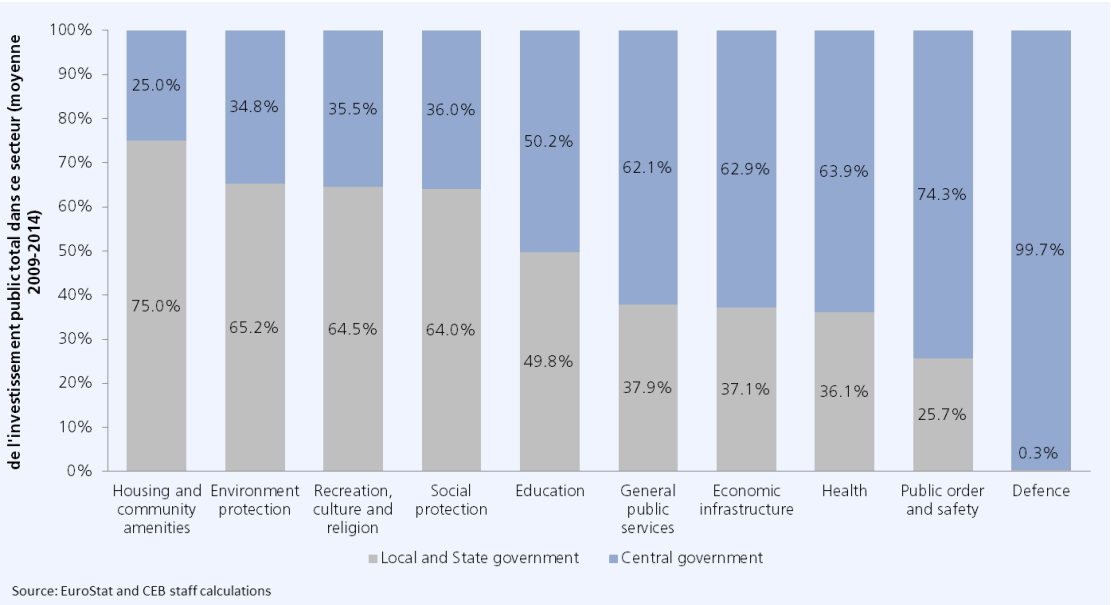
Increased emphasis at sub-national level

45. For some time now, many CEB member states have been undergoing a vast decentralisation process in which sub-national governments have taken on the bulk of responsibility for implementing critically-needed social policies. The decentralisation process has varied across European countries, and the process can often be highly dynamic, as shown by some CEB member states, with policy priorities shifting towards either de- or re-centralisation. On the whole, however, the trend has been towards decentralisation in recent years. In some cases, though not always, this has come with increased financing powers at the sub-national level – albeit at times limited.

46. Regardless of the degree and scope of decentralisation within a country, sub-national public authorities are responsible for the bulk of investments in and delivery of public services. This responsibility is likely only to strengthen, as the long-term trend in growth in metropolitan, local and regional areas continues, and public authorities will face evermore financial pressure to deal with the consequences of such growth. City mayors have to deal with an unrelenting demand for quality and affordable housing solutions, to provide adequate education and health services, modern transportation systems, and improved environmental conditions. Moreover, as populations continue to concentrate in agglomerations, they will put increasing strain on the day-to-day public services and infrastructure (congestion issues, waste and water management, air quality, etc.).

47. Between 2009 and 2015, sub-national governments in Europe represented on average 53.6% of total public capital investment (CEB 2017), with cities and sub-national authorities playing an increasingly important role in social policy implementation (See Figure 8). This will be increasingly the case as cities and regions progressively devise long-term strategies aimed at boosting their ability to create the conditions for sustainable development for the multiple generations that will be working to provide a high quality of life, job and business opportunities, and key social infrastructure services.

Figure 8 – Share of sub-national government investment by sector in CEB countries

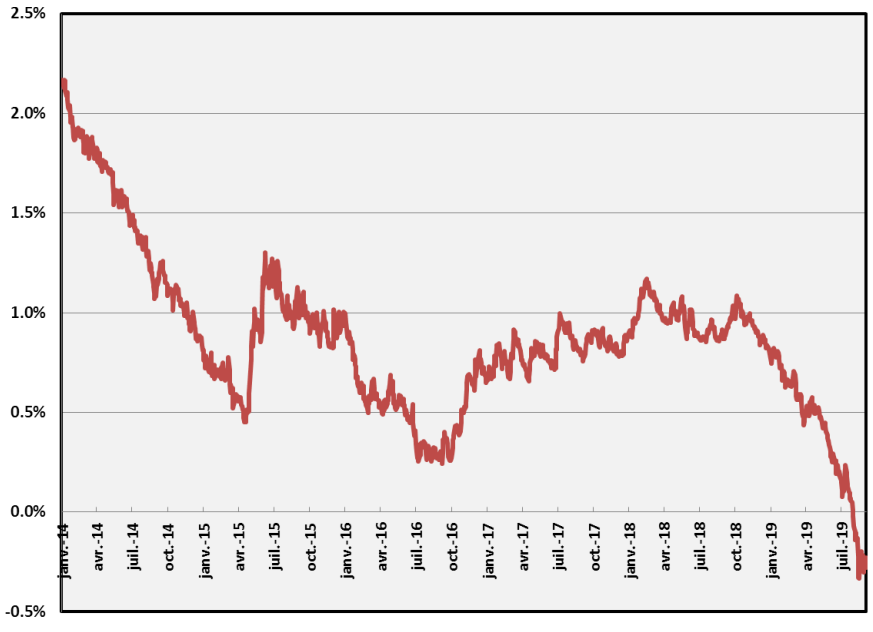


Source: EuroStat and CEB staff calculations

CEB Lending activity challenges

48. The current ambivalent European macroeconomic environment has translated into projected subdued economic growth and weak-inflation projections in many countries, which in turn led the European Central Bank (ECB) to respond by announcing, in September 2019, a decrease in the interest rate of its deposit facility (from -0.40% to -0.50%), restarting its asset purchase programme (i.e. Quantitative Easing), and introducing a new two-tiered remuneration system for bank excess liquidity holdings. The ECB has indicated that key interest rates may be eased in the foreseeable future, with the key deposit rate remaining in negative territory. For the time being, this will translate to a persistently low and negative-interest-rate environment, which requires the CEB to continue its current efforts to generate new business opportunities and lending operations in a highly competitive environment.

Figure 9 – Euro 10-year swap rates since 2014



Source – Bloomberg

49. Additionally, the level of public investment has been on a detracted path for some time but is likely to pick up in 2020 due to expansionary fiscal policies adopted as a result of the electoral cycle at the EU and national levels. However, the level of public spending and fiscal space for continued investments in the social sector (which has been on the whole stagnant in recent years, see Figure 5 above) will vary between CEB member states, potentially creating a challenge for lending opportunities.

50. **Increased numbers of projects**: the CEB's engagement with a larger pool of borrowers and its increased participation in complex financing structures and in risk-sharing schemes will necessitate additional efforts in terms of project preparation (sourcing of viable investment opportunities, shaping of projects), legal structuring and overall risk assessment of both the borrower and the transaction.

51. Given the evolving economic environment, adjustments in the way the CEB operates will become necessary during the implementation period of the Development Plan 2020-2022 in order to respond to the increased pressure on resources, both capital and human. The development of some actions will exercise pressure on the Bank's capital and operational resources, especially for more complex financing structures or projects carrying more risk. This being said, it should also be recalled that developing bank regulations, compliance, and data protection policies will require the CEB to review its resources and staffing.

52. **Financial resources/capital adequacy:** The CEB Development Plan 2017-2019 called for the Bank to undertake regular capital adequacy reviews, as is best practice among peer IFIs, in order to regularly assess the strength of its financial position. The review carried out throughout 2018 confirmed the robustness of the Bank's prudential ratios, its prudent lending requirements and the thoroughness of its financial monitoring process. Results have shown that the Bank currently has sufficient capital to cope with the risks associated with its lending activity.

53. Nevertheless, maintaining current levels of lending will require the Bank to keep a strong focus on a strong risk profile, thus safeguarding its healthy financial position. This will imply adopting a well-balanced approach between riskier and less risky operations, Target and non-Target Group Country borrowers, fast-disbursing MSME projects and long-term loans for social infrastructure.

54. **Workforce planning in support of the Bank's Development Plan:** The Bank's workforce has always been the key to its success. With the Development Plan 2020-2022, the Bank has an opportunity to initiate a more comprehensive forward-looking corporate workforce approach to complement the planning of the work within the scope of the budget. This internal exercise will ensure an appropriate level of core workforce in line with the CEB's future business goals while enabling the Bank to respond to specific needs or crisis situations with the necessary flexibility and access to temporary resources.

55. To align the workforce structure with the business needs, quantitative and qualitative analyses will be carried out in an effort to employ the existing workforce efficiently and obtain the maximum from the budgetary allocations. The benchmarks include, among others, maintaining a strong core base, streamlining processes and automating limited added-value tasks, organising training programmes, creating talent pools (keeping good people), etc.

56. The workforce planning framework is expected to provide for adequate flexibility in staffing size and composition in response to changes in demand for its services, better demographic balance, especially regarding diversity and a strong knowledge base to ensure the Bank's continuous relevance.

57. **Modelling and workflow:** CEB project financing activities are developed along the project cycle with a "process" approach, i.e. with a well-defined set of steps, activities and decisions for executing the tasks. In recent years, and especially since the introduction of new lending instruments such as PFF, ECF and CSL, the Bank has been in a continuous modelling effort to increase efficiency and provide borrowers with prompt and high-quality solutions to their needs.

58. During the next period, the Bank will implement a streamlined IT-integrated process for driving projects through the project cycle and improving coordination and monitoring, called "workflow". This instrument is also expected to serve as the basis for internal communication and exchange of data and documents. The instrument is based on procedures and processes currently in place and uses the models of documents currently in use.

59. The instrument is expected to bring increased efficiency in the utilisation of human resources in project financing activities and, thus, respond, at least partially, to the additional pressure created by the increasing number of projects and additional number of project-related operations.

Chapter 3 – Lines of action

60. **The Bank's lines of action** define its social mandate and give it tangible direction on the issues that the CEB intends to address in the years ahead. The Bank's core social mandate is defined by the lines of action that promote inclusive growth and the support for vulnerable groups within projects throughout its member states; the aim is also to integrate the cross-cutting line of action of environmental sustainability. Those three lines of action can be outlined as follows:

    Inclusive growth: *working to guarantee access to economic opportunities to ensure a prosperous future for all.*
    Support for vulnerable groups: *helping to integrate the most vulnerable citizens to nurture a more diverse society.*
    Environmental sustainability: *supporting a liveable society that promotes environmental sustainability, mitigates and adapts to climate change.*

Inclusive growth

61. Based on its social mandate, the Bank has consistently promoted an inclusive approach to its operations and is well placed to further strengthen its position as a partner of choice in an era when social projects increasingly require cooperation due to the scale of the issues at stake. The CEB aims to support inclusive growth across its membership base through investments centred on pivotal socially-oriented components, such as:

    - housing and social care,
    - the health sector,
    - soft-investments (in education and the general labour market),
    - micro, small and medium enterprises (MSMEs).

62. Moreover, the growing responsibility placed upon sub-national stakeholders to deliver a large array of social services is a direct reflection of the growing share of beneficiaries clustering in urban centres. As a result, the CEB is reinforcing its engagement with sub-national stakeholders to guarantee that its investments reach the largest number of people and result in the highest social impact.

Support for vulnerable groups

63. The integration of vulnerable groups is a complex subject as it often works to address people-related issues based on gender, youth, homelessness, disability, and/or migrant background. Moreover, the problems to be tackled are multi-dimensional, spanning the inter-related realms of social issues, labour markets, housing, education and health. For the most vulnerable people, there is a need for rapid emergency aid in times of need[15], and for long-term integration programmes to ensure economic resilience and social inclusion.

64. Migrants and refugees constitute a particularly important group of individuals who fall under the nebulous term "vulnerable". They face both short- and long-term issues in achieving effective integration. In the short-term, the CEB has proven its ability to meet the emergency needs of refugees by providing basic necessities (such as shelter, medical care, etc.) via the management of its Migrant and Refugee Fund. The Bank stands ready to deploy such emergency responses in future migrant and refugee crises.

65. The CEB also works to invest in projects to help the Roma ethnic group access educational and entrepreneurial opportunities.

[15] As was the case with the provision of Migrant and Refugee Fund grants during the latest refugee crisis

66. The long-term integration of vulnerable people, in general, will continue to be a central and determined focus of the CEB's operational activity. The Bank will continue to work with borrowers to ensure that investments are channelled towards effective integration-oriented policies, such as providing vulnerable people with quality housing, access to education, and job-creation programmes.

67. Vulnerable groups will thus continue to be supported through loan product offerings, including through financing provided to microfinance institutions, and through grant funding and non-lending, fiduciary operations.

Environmental sustainability

68. In the framework of its social mandate, the Bank will enhance the integration of climate action components in all its project proposals, such as the potential for reducing greenhouse gas emissions or opportunities for improving climate change resilience. At the same time, the Bank will reinforce its project screening process to ensure that projects that are misaligned with the Paris Climate Agreement are identified early in the project cycle. As an indication of the Bank's concrete support for these objectives, and based on preliminary screening of the projects approved in 2017 and 2018, Green Finance represents between 15% and 20% of the total approved amounts. This amount is set to increase during the implementation of the Development Plan 2020-2022.

Box 2 - Identifying and promoting Green Finance with social content opportunities

The CEB has traditionally supported investments in the field of environmental protection without specifically referring to them as "Green Finance". However, to enhance visibility and further develop the CEB's funding for such investments, the Bank is to introduce a Green Finance tracking mechanism based on its existing project screening and assessment tools.

Green finance can be understood as the "financing of investments that generate environmental benefits in the broader context of environmentally sustainable development". Although there is currently no universal taxonomy for Green Finance*, it is generally considered to encompass investments that prevent and/or reduce environmental pollution, improve efficiency in the use of energy and natural resources, and contribute to climate change mitigation and adaptation. In addition, green investments should align with environmental and social governance good practice standards. To enable tracking of Green Finance in its portfolio, the CEB will complement the existing system that screens projects for environmental and social opportunities and risks, and climate change considerations, with specific criteria for classifying projects or components of projects as green investments.

_____

(*) *On 18 June 2019, the Technical Expert Group (TEG) on sustainable finance established by the European Commission in July 2018 published its Technical Report on EU taxonomy. The report sets out the basis for a future EU taxonomy in legislation.*

69. In order to achieve the EU's 2030 climate and energy targets, the sectors with the biggest annual investment needs for climate change adaptation and mitigation efforts are expected to be buildings (residential and private sector), transportation, and renewable power generation and supply.

70. In the framework of its social mandate, the CEB will work with partner commercial banks that also aim to fund the environamental sector. The CEB will also build upon its existing relationships with municipalities in order to develop small-sized projects in their respective renewable energy sectors and energy-efficient public transportation systems or to increase climate-change adaptive capacities. This lending activity will be crucial for municipalities that are constrained by limited financing options due to small project size and inadequate access to climate finance data. More upfront structuring of these projects to demonstrate financial and social viability will be needed, and grant funds should be considered in order to create incentives for the development of climate risk assessment studies and climate strategies.

71. The Bank will continue to implement its stringent Environmental and Social Safeguards Policy (ESSP) to guarantee that projects meet environmental sustainability criteria (see Appendix 5). Moreover, the Bank will undertake an annual review of its green financing activities (see the section below for more details) to ensure that it is meeting the environmental objectives set out in this Plan.

Chapter 4 – Means of action to enhance the CEB's social impact

Focusing on the Target Group Countries

72. As mentioned in the first chapter, the level of loan approvals in Target Group Countries has followed a continuous upward trend since the early 2000s, with the CEB never refusing a project with a justified social-impact outcome.

73. The Bank will continue its focus on Target Group Countries, which are often characterised by (i) a limited absorption capacity solved mainly by the utilisation of trust funds, the ECF instrument and cooperation with EU instruments, e.g. WBIF, and (ii) a higher project risk, addressed via risk transfer schemes, securitisation, diversification of borrowers, and high-intensity procurement support.

74. The trend in lending volumes to Target Group Countries will depend on the level of risk that the Bank takes on for projects financed within the countries. The Target Group Countries accounted for 66% of risk-weighted assets in the Bank's capital consumption (in 2018). In line with the Bank's capital, budgetary and fiduciary resources, the lending activity to the Target Group Countries will keep the current "balanced" approach in terms of risk and geographical distribution.

75. In addition to capital resources, the Bank will continue to prioritise Target Group Countries through additional instruments that will work to enhance capacity building, to bolster financial absorption and to improve risk sharing with fiduciary (trust funds), SDA and budgetary resources.

Further adapting financial instruments

76. The CEB's increased engagement with sub-national authorities and municipalities will work to facilitate access to financial resources, upgrade and reduce gaps in social infrastructure, and increase access to and/or the ability to absorb EU Funds. In fact, the Bank aims to provide governments with resources to reduce discrepancies in access to financing between cities of different sizes. Moreover, the Bank will explore how best to serve those sub-national governments that are too small to access financial markets on their own, potentially investigating the feasibility of working with multiple small sub-national authorities to provide shared social infrastructure needs (i.e. a clustering approach). Over the years, the CEB has often partnered with central governments to support the implementation of national strategies and policies for inclusive growth in municipalities and regions.

77. The Bank has also provided financing to smaller municipalities through on-lending programmes with regional or national development banks and financial institutions. In particular, the CEB will continue to partner and work with national/ sub-national development banks to strengthen their role and capacity to channel and absorb EU funds in social sectors for the benefit of regions and municipalities.

78. In some CEB member states, sub-national governments - due to limited resources or revenue-raising autonomy - have financed their investment programmes through debt, the levels of which have accumulated to levels that are starting to cap their further development. In such cases, the CEB offers optimisation of sub-national government treasury management through the provision of customised loan structures and, in particular, financing instruments best suited to their needs; examples include the CEB's Public Sector Finance Facility (PFF) and the EU Co-Financing Facility (ECF).

Responding to sub-national strategic partnerships – *diversification of borrowers*

79. Governments have begun to create and employ new financing solutions, such as creating public entities, providing support to existing ones (through new mechanisms and by leveraging EU Funds) and establishing various types of partnerships with the private sector. Thus, several debt and equity mechanisms are being set up in partnership with the private financial and non-financial sectors, IFIs or, in some cases, other public sector investors.

80. In this framework, entities with no explicit sovereign/sub-sovereign guarantee are increasingly used by borrowers and public authorities to crowd-in private capital to maximise resources when investing in the social sectors – in many cases via structured finance mechanisms and/or non-public entities.

81. The CEB's efforts to diversify the types of borrowers at the sub-national level have already resulted in loans granted on a stand-alone basis to municipal companies[16]. Moreover, to widen the Bank's borrower base and reach small municipalities, the Bank has financed some programmes with specialised municipal finance institutions or through regional promotional and development banks.

82. Moreover, the Bank's use of structured finance and non-public entities for the financing of projects in the social sectors is an opportunity for the CEB to propose responses to its member states in line with their social needs.

83. The CEB can respond to the existing demand for financing social investments at sub-national level by continuing to adapt its financing mechanisms and to assume additional and more diversified credit risk, mainly due to the individual-specific nature of the contracts and the complexity of the financial schemes. Moreover, the Bank may work to pursue more directed communication efforts to ensure sub-national authorities are fully informed on the ways the Bank can help them finance their individual projects.

Acknowledging higher credit risk

84. Sub-national authority creditworthiness is often slightly lower than at the sovereign level and often depends upon the legal and fiscal intergovernmental regime (including transfers, fiscal rules, etc.). In particular, the key elements to be assessed when deciding on the creditworthiness of a sub-national government are based on a wide range of revenue, fiscal, and regulatory factors[17]. The CEB will work to take these various measures into account wherever possible when assessing the risk of lending to sub-sovereign governments.

85. Despite these challenges, the Bank's exposure to sub-national investments has grown in recent years; as of 2018 sub-national projects accounted for roughly 41% of all loans approved for the year, up from 31% in 2015. Therefore, given the higher risk profile of sub-national governments compared to their respective sovereigns, the Bank will ensure that its internal risk assessment methodologies effectively incorporate qualitative indicators (e.g. fiscal autonomy, and regulatory environment) and quantitative measures (e.g. revenue structure, budgetary performance, and debt composition).

[16] Such as water utilities or local housing providers

[17] These include revenue mix, tax autonomy, intergovernmental relations, funding and any equalisation mechanisms, expenditure profile, level and mix of responsibilities, bankruptcy regime, sector-wide accounting and reporting policies for borrowing, and control and monitoring framework.

Using risk-sharing mechanisms

86. **The current Social Dividend Account (SDA) guarantee window** will be managed with an internal rating based primarily on the credit quality of its assets, i.e. the borrower's rating, the amount and structure of the loan, the country risk and other risk aspects such as the borrower's sensitivity to economic activity, and rating volatility. The SDA internal rating will be communicated to the Administrative Council on a regular basis, and for each new loan benefiting from the SDA. Thus, by defining a more accurate, risk-sensitive approach, the Bank's intention is to increase the leverage on the guarantee amount registered in the SDA. As under the current management system, part of the guarantee allocations will be released as each loan progresses towards maturity. Depending on the outcome, number, type of project financed and social added value, additional allocations and calls for donations could be envisaged.

87. To implement the above measures, the Bank will update the Policy on its Social Dividend Account. This update would facilitate the use of the Social Dividend Account in support of highly social projects and thus strengthen the Bank's position in the social sector.

88. **InvestEU[18] guarantees** The CEB will be an implementing partner in the InvestEU programme along with other bodies such as the EIB, EBRD, and national promotional banks, a number of which already have existing institutional relationships with the Bank. While this would lower the CEB's financing risk for a given project, it would still mean that the CEB is assuming a higher credit risk overall. It is clear that such an approach would necessitate putting in place considerable resources regarding project development (sourcing of viable investment opportunities, shaping of the project), legal structuring and overall credit risk assessment – of both the borrower and the transaction. In addition, the CEB would need to undergo the EU Pillar Assessment.

89. Moreover, the EU External Investment Plan was launched by the European Commission to support investment in the EU neighbourhood and in other world regions. The CEB will be in close contact with the relevant Commission services to sustain investment in line with the Bank's mandate and countries of operation.

Increasing funding to national promotional banks

90. The CEB has long-standing experience in support of national strategies/development plans, budgets and objectives for inclusive growth (much of which is often carried out at sub-national level), with frequent partnerships with national and regional development or promotional banks. In this respect, the CEB finances priority investments for sustainable and balanced economic development in line with national strategic goals and helps support the implementation of strategic investments aimed at improving living conditions and supporting social cohesion.

91. Such partnerships are expected to be broadened, especially with regard to operations with national promotional banks, given that the upcoming EU Multi-annual Financial Framework post-2020 foresees putting additional focus on their potential for managing EU funds, including for sub-national programmes and InvestEU programmes[19].

[18] The InvestEU programme will be included in the 2021-2027 MFF to consolidate various existing financial instruments that fund investment projects towards sustainable infrastructure, research/innovation/digitisation, SMEs, and social investments and skills.

[19] In this context it should be noted that CEB has been explicitly designated as one of the financial partners of the InvestEU mechanism with direct access to the EU guarantee for projects mobilising public and private investment in the EU. Thus, for eligible direct projects or programmes through national promotional banks, the CEB would benefit from the partial EU guarantee. On-lending through national financial institutions or supporting national and cross-border programmes for inclusive growth at sub-national level would also provide an opportunity for smaller municipalities that were unable to borrow directly from the CEB.

Responding to capacity-building needs

92. The CEB will continue to develop partnerships with public and private institutions in order to leverage resources, expertise and technical assistance, all of which will strengthen institutional capacity, help better measure the impact of social investments, encourage private sector participation and facilitate the planning, design and implementation of innovative solutions for vulnerable populations. The CEB's technical, operational and financial know-how provides valuable support to sub-national authorities, in particular, those who may have limited internal capacity for preparing and implementing projects, and enhances their monitoring capacity, which is a pre-condition for mobilising additional finance.

93. To enhance the knowledge base and hence the social impact of the projects it supports, the Bank could also provide more grants alongside its loans. As is already the case, these grants would finance technical assistance to support project implementation, but also complementary activities, including "soft measures", such as entrepreneurship training under a microcredit loan or teacher training for education-oriented projects, and "hard measures", such as the construction of a kindergarten to complement a housing project. Finally, the CEB could use grants to promote knowledge-sharing on specific aspects close to its mandate and operational experience[20].

94. Further increases in technical assistance can potentially be accomplished by increasing the role of the Social Dividend Account[21] and/or by attracting additional donor funds[22] and by strengthening cooperation with the European Union. Fundraising efforts could benefit from the fact that the CEB is recognised by the Organisation of Economic Co-operation and Development (OECD) as eligible for official development assistance (ODA); contributions made by donors for ODA purposes in ODA-eligible countries could thus be reported as bilateral ODA to the OECD.

95. To support the development of its grant-based operations, the Bank will update its policy handbook and procedural framework for grants. This update will also ensure that the Bank meets the requirements of the European Union for managing funds on its behalf and facilitates the contribution of CEB member states to the SDA technical assistance window.

Placing emphasis on "green" content in the social investments

96. The Bank will continue to invest in social projects within green sector projects and strengthen its capacity to seek out environmental sustainability components within an invested project. On the latter point, this will come primarily in the form of helping reduce the carbon footprint of a project or limit its CO2 emission levels, by, among other things, promoting energy efficiency in building construction, transportation, and social infrastructure. At the same time, the Bank will work to ensure that lending is not directed towards projects that violate the 2016 Paris Agreement on climate change, thus further signalling to governments that the CEB is in line with other IFIs and the financial markets.

97. An important component of the Bank's activity will be to help finance green investments by sub-national authorities, which often have difficulty obtaining financing in the first place.

98. A review of the Bank's "green" investment and operational activity will be undertaken on an annual basis. This review will offer the Bank and its shareholders an analysis of CEB investments in "green" oriented projects and the impact – where measurements are possible – of the environmental sustainability of the investments and how to formulate future green-oriented investments.

---

[20] Such as innovative financial instruments for inclusive growth in cities, climate change finance in small projects, or digital developments for health and social care in order to promote more effective investments.

[21] See Social Dividend Account Policy https://coebank.org/documents/851/Social_Dividend_Account_Policy_2019.pdf

[22] As has been the case with the Spanish Social Cohesion Account (SCA), the Slovak Inclusive Growth Account (SIGA) and the Italian Fund for Innovative Projects (IFIP)

Mainstreaming the Sustainable Development Goals (SDGs) into the CEB's activities

99. The Sustainable Development Goals (SDGs) lay the foundation for the aims of the global community to establish inclusive economic and environmentally sustainable societies. Given the wide scope of the SDGs, a large number of the targets in the goals apply more to developing nations that are outside the CEB member states. Nonetheless, the Bank's ambition to integrate the Sustainable Development Goals (SDGs) into its future activities (2020-2022) offers a unique opportunity to help contribute to the ambitious UN 2030 Agenda and to capitalise on the Bank's distinctive mandate and institutional capacity. Most of the goals have targets that are universal in nature to all countries, and some that heavily pertain to European states. As a result, SDGs have seen a growth in relevance in European countries as they strive to develop new socially-oriented policies.

100. Following Administrative Council discussions, two guiding principles for the CEB's approach to the SDG Agenda have emerged as follows:

- At strategic level: to prioritise a smaller set of key SDGs and to focus on the most relevant goals closest to the Bank's mandate and lines of action and which are categorised into two groups: i) cross-sector relevance and ii) sector-based relevance.
- At operational level: to maintain the existing screening, monitoring and evaluation methodologies and adopt a portfolio approach for assessing the CEB's contribution to key SDGs.

101. Operationally, the CEB will maintain its existing screening, monitoring and evaluation methodologies, and perform annual analyses of CEB synergies with the key SDGs using a portfolio approach as of 2020. These analyses will be facilitated by the pre-identification/earmarking of the relevant SDGs at project appraisal. Although at present projects in borrower countries rarely have an explicit aim to meet an SDG, the CEB will be working with borrowers to promote SDGs whenever relevant.

102. The Bank will endeavour to integrate the SDGs into its future strategic and operational activities in order to support its member countries in meeting their stated commitments. For instance, all the SDGs have targets that are directly or indirectly related to the daily work of sub-national governments. The OECD has estimated that 65% of the 169 targets underlying the 17 SDGs will not be reached without the proper engagement of, and coordination with, sub-national governments[23].

103. The cross-sectoral relevant SDGs can be either those that are already aligned with the CEB's core social mandate (**SDG 1 – *No Poverty; SDG 10 – Reduced Inequalities)*** or those that are screened for in all CEB projects (***SDG 5 – Gender equality; SDG 13 – Climate Action).***

104. Sector-based SDGs relevant to the CEB's operations include ***SDG 3 – Good health and well-being, SDG4 – Quality education, SD6 – Clean water and sanitation, SDG 8 – Decent work and economic growth, SDG 11 – Sustainable cities and communities, and SDG 16 – Peace, justice and strong institutions.***

105. For the CEB, implementation of SDGs provides a great opportunity to reinforce the Bank's unique social mandate as its member countries work to generate policies that help contribute to meeting relevant SDGs. Furthermore, an SDG orientation will align the Bank with the collective efforts of the international community and with the best practices of its peer institutions. The incorporation of SDGs into the Bank's activities will also help the Bank communicate on its distinctive social mandate. Furthermore, the SDGs will be instrumental in advancing the Bank's current practices in terms of corporate social responsibility (CSR), with a view to moving forward from a primarily reporting-based approach towards a more sustainability performance-driven approach.

[23] Source: OECD (2018), Policy Coherence for Sustainable Development 2018: Towards Sustainable and Resilient Societies, OECD Publishing, Paris.

Continuously adapting to change – issuing social bonds

106. The CEB follows a flexible funding strategy to ensure its ability to finance its activities. The Bank's access to funding is supported by its large and diversified investor base, while its pro-active funding strategy is reflected in the favourable performance of the CEB's debt in the secondary markets.

107. The Bank's funding strategy has traditionally included combining regular benchmark operations targeting a broad range of institutional investors with debt issues in a given currency or with a more specific structure designed to meet specific investor demands. To complement its traditional funding methods, since 2017, the CEB has been developing a market leader position on the social bond market[24]. The issuance of social inclusion bonds[25] has allowed a broadening of the CEB's investment base and of the market for raising funds that are so central to its social mandate. The Bank will continue with its social bond issuance programme and will expand the programme with "thematic" based bonds, if and when they are cost-effective, on specific topics pertaining to its social mandate, as a means to raise the visibility of the Bank's social mandate and operations.

[24] As part of its inaugural SIB issuance, the CEB set out guiding principles for its social bonds, summarised in the Social Inclusion Bond Framework. This framework defines the key investments supported by a bond's proceeds (social housing, education and vocational training, as well MSME support for the creation and preservation of viable jobs), and details the process for project evaluation and selection, management of the proceeds, and reporting on the bond's financing and outputs.

[25] The CEB launched its third Social Inclusion Bond issuance of € 500 million on 3 April 2019.

Chapter 5 – Operating scenarios

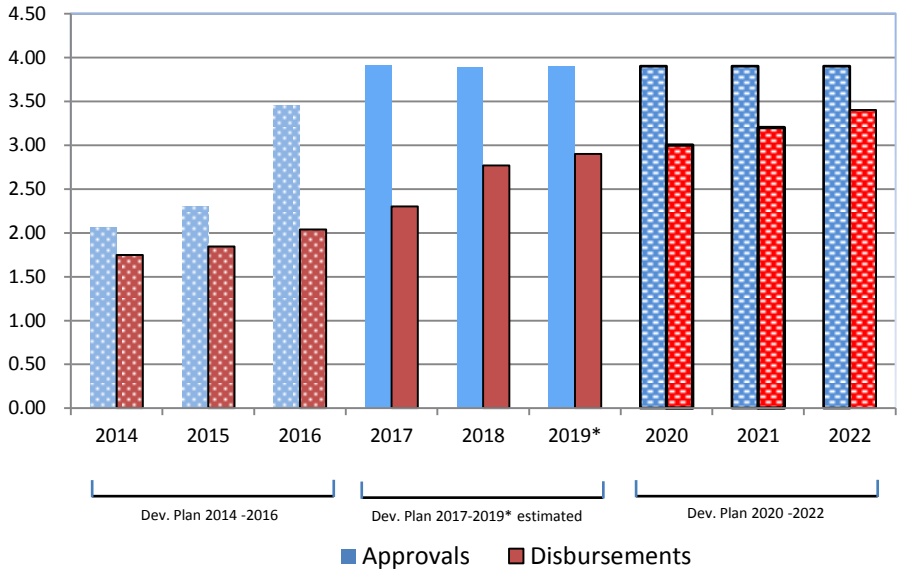
108. In the Development Plan 2017-2019, with volumes of new business just below EUR 4bn per year, the Bank has proven that its relevance lies in the quality of its lending instruments and in its social focus. The Memorandum entitled "Lending Flows and Capital Adequacy", discussed with the Administrative Council in March 2019, confirmed that the current "cruising speed" could be maintained.

109. Nevertheless, a balanced risk portfolio approach to the lending activity and continued strict lending requirements will remain paramount both to the strength of the Bank's financial standing and to the effective pursuit of its mandate. The volumes of activity have therefore been set in an effort to maintain the CAR in the comfort zone, above 25%, and in any case above the floor of 20% as an implicit lower limit.

Operational objectives

110. Thus, the Bank could reasonably seek to achieve a volume of approvals just below €4 billion per year, with a level of disbursements increasing steadily in both Target and non-Target countries, along the base and moderate scenarios discussed with the Administrative Council in March 2019.

Figure 10 – Towards "cruising speed" – approvals and disbursements for three consecutive development plans



Source – CEB

111. Obtaining the results set in the graph above implies a judicious decisional approach between riskier and less risky operations, Target and non-Target Group Country borrowers, fast-disbursing MSME projects and long-term loans for social infrastructure. This approach is all the more necessary in light of the potential exogenous shocks that may arise in the form of deterioration in the credit risk profile of the Bank's counterparties set against the Bank's narrow capital base, as previously discussed in this document.

112. All the numbers are set with +/- 10% flexibility due to the considerable level of uncertainty, as detailed in Chapter 2 above. The variations could be more significant if some of the risks listed in the current document materialise (e.g. the persistently low and negative-interest-rate environment) or, on the contrary, the interest for investments in social sectors is higher, and the prudential ratios are preserved.

113. The Bank's implementation of the Development Plan 2020-2022 will be monitored closely through the annual Report of the Governor on the Preparation and Follow-up of Projects. Regarding the preparation of projects, to ensure the effectiveness of investment projects, the Bank's screening methodology (4PAP) will continue to be a cornerstone of its operational activity. The results of the screening will be detailed in the loan documents and will be included in the annual report, together with follow-up data.

Prudential framework

114. Based on the current context assumptions, the CEB will strive to maintain the capital adequacy ratio (CAR) above the implicit floor and will carefully monitor the other metrics of its prudential framework, e.g. leverage. Annual reviews of the capital adequacy will be carried out in order to ensure the Bank's healthy and sustainable financial position is maintained.

115. Meanwhile, as in previous development plans, it should be noted that the operational objectives of the new Development Plan assume a stabilisation of the CEB's risk profile, and do not include either the accession of new member states, which would have a considerable impact on the CEB's capital, or the Bank receiving any additional paid-in capital.

Chapter 6 – Aligning the CEB with international partners and strategies

The Council of Europe's values and overall objectives

116. Relations with the Council of Europe (CoE) have been at the core of the CEB's identity and have contributed to the Bank's distinctive social mission within the community of international financial institutions. Acting within the framework of the Council of Europe, the CEB supports its principles, values and overall objectives.

117. This relationship is reinforced by the Report[26] of the PACE Committee on Social Affairs, Health and Sustainable Development and related Resolution 2302 (2019) of the CoE's Parliamentary Assembly, which highlight the CEB's distinctive role in supporting and contributing to meet the CoE's objectives on issues such as sustainable and inclusive growth, refugee, migrant and displaced persons integration, as well as bolstering social rights throughout Europe; the Bank will continue to endorse and align with CoE's mandate and mission. Moreover, successive Council of Europe Summits have given new impetus to the CEB's mandate and contributed to shaping its identity as the social development bank in Europe[27].

118. Council of Europe members commit to numerous conventions and frameworks that aim to resolve a wide range of socially-oriented problems that are relevant to the Bank's mandate. Furthermore, specific Council of Europe bodies, such as the Congress of Local and Regional authorities, are able to provide integral insights into the challenges and needs that sub-national governments face. In operational terms, the CEB cooperates with the Council of Europe on particular aspects of project preparation, and the Secretary-General of the Council of Europe issues an 'Opinion on Admissibility' on each CEB loan application submitted to the Bank's Administrative Council for approval.

119. The Bank also stands ready to help countries finance projects that aim to generate tangible solutions to conventions that Council of Europe member states have signed and committed to[28]. As an example, the recently enacted Istanbul Convention on preventing and combating violence against women and domestic violence, and the Convention on action against trafficking in human beings, may result in member states calling upon the CEB for help with the financing of projects that enact measures to carry out the conventions' aims (such as building shelters for victims of domestic violence and for victims of trafficking). Moreover, the Bank is committed to supporting member states to meet the Committee of Ministers recommendation[29] that member states provide increased access to improved living conditions for young people in disadvantaged neighbourhoods[30]. The Bank is ready to support such initiatives as they are aligned to its social mandate objectives.

---

[26] Referring to the Report titled "The Council of Europe Development Bank: contributing to building a more inclusive society" Parliamentary Assembly Doc. 14961, published 09 September 2019.

[27] For instance, in 1997, following the second Council of Europe Summit held in Strasbourg, redeployment of the activity towards Central and Eastern Europe and action in favour of job creation and social cohesion in Europe were established as priorities for the CEB. In the same vein, the third Summit of Heads of State and Government of the Council of Europe, held in Warsaw, Poland in 2005, integrated the financing of administrative and judicial services infrastructure as an additional mission for the Bank.

[28] See Appendix 6 for an example of financed projects.

[29] Committee of Ministers Recommendation to member States on the access of young people from disadvantaged neighbourhoods to social rights

[30] This may include providing youth-friendly public services such as education and training, employment opportunities, health, housing, information/counselling, sports, leisure and access to cultural activities.

Further strengthening European and international cooperation

120. The CEB will seek to leverage its financing and expertise by further strengthening European and international cooperation. This should enable the Bank to address global challenges and tackle increasingly complex and riskier projects, including at the sub-national level, with a view to promoting the European social development agenda. Given its mandate, and as an ODA-eligible international organisation, the CEB intends to play its full part in the collective mobilisation for the achievement of the 2030 Agenda for Sustainable Development.

121. The CEB will strive to develop its relations, in terms of both financing and expertise, with international financial institutions (IFIs) and national promotional banks (NPBs), including within the European Association of Long-Term Investors (ELTI), in areas of common interest.

122. Moreover, the CEB will continue to partner on a case-by-case basis with UN agencies, and with other actors such as non-profit organisations. The Bank will also pursue knowledge-sharing opportunities with the OECD (such as the 2019 joint conference "World Observatory on Sub-national Government Finance and Investment"), universities and think tanks.

123. The CEB will continue to capitalise on its existing experience of co-financing national or sub-national contributions to investment programmes benefiting from EU grant funding. If the 2021-2027 Multi-annual Financial Framework (MMF) calls for higher national contributions to increase funding for EU programmes – in a bid to realise savings and strengthen accountability – the CEB's financing will play an even more prominent catalytic role in facilitating the absorption and use of the available funds. Furthermore, the CEB is expected to participate in the InvestEU programme, as outlined in Chapter 4 above.

124. In addition, the CEB's bridge financing can serve to speed up the implementation of EU-funded projects and ease the financial burden on public sector project implementers, since the CEB loan can be disbursed partially in advance, while EU grants are generally paid ex-post. The CEB can also provide loans to commercial banks or national promotional banks that bid to participate in EU-funded programmes. Through the EU Co-Financing Facility (ECF)[31], the CEB has already provided both bridge financing - for dealing with timing delays in EU grant payments - and long-term loans (national contribution financing) for EU Programmes to its borrowers located in the EU – including those CEB member countries that fall under the EU Eastern Partnership countries (namely the Republic of Moldova and Georgia). In the initial stages of project implementation, the CEB can also cover up to 100% of project costs, VAT included.

125. It is of note that, under the CEB's EU Co-Financing Facility (ECF)[32], all investments and projects eligible under the associated programmes are considered as eligible. By covering costs that are complementary to EU funds, the CEB's ECF is thus increasing the sustainability of projects and easing the financial burden for sub-national authorities[33].

Promoting corporate social responsibility and sustainability

126. There is a rapidly evolving awareness in the financial sector of why and how social and environmental sustainability matters; this is fostered notably by vocal stakeholders such as the environmental, social and governance (ESG) rating agencies and socially-responsible and impact investors. Part of the broader trend also stems from the SDGs, which are used by more and more companies and financial institutions to develop their sustainability strategies and targets.

---

[31] EU Co-financing Facility (ECF) allows for co-financing and/or ex-ante financing of EU-funded investment activities at country or regional level.

[32] These may, for instance, comprise some investments such as renewable energy projects, which would otherwise be the object of eligibility screening in terms of their industrial or non-industrial nature according to standard CEB criteria in the "Protection of the environment" sector.

[33] For example, under the Cohesion Fund, capital expenditures, unlike the financing of "soft" measures, are not always eligible to receive EU grant support. On the other hand, the CEB can finance these small municipal capital expenditures.

Conversely, socially-responsible behaviour is expected to lead to increased financial performance over time (doing well by doing good)[34].

127. As a purpose-driven, long-term financing institution, the CEB embeds CSR and sustainability in all its operations. The Bank is therefore committed to actively contributing to the global 'sustainability shift'. At the same time, the CEB has to ensure that its financing activities are aligned with international standards and best practices; especially those followed by its peer IFIs, and that they meet the ever-increasing requirements of ESG rating agencies and socially-responsible investors.

128. With a specific focus on social impact, sustainability and SDGs, the CEB has an opportunity to further strengthen its visibility and distinctive position in the market place. Over the coming years, the CEB will further develop its sustainability framework (e.g. reporting, definition of sustainability KPIs, staff engagement) and focus its sustainability approach on topics directly related to the Bank's business (e.g. Social inclusion bonds, ESG screening of the lending activity, risk assessment of borrowers and investees from a ESG/sustainability perspective), as these are subject to potentially increased scrutiny from the general public, member states, investors and rating agencies.

129. The CEB is faced with continuously increasing requirements from ESG rating agencies (and socially-responsible investors) as well as from financial rating agencies. Recently, the three biggest rating agencies individually announced their ESG focus in their rating evaluation processes, which will directly influence the CEB's own ESG standards (for details of the rating agency frameworks please see Appendix 7). For the CEB, this means that its approach to sustainability is moving further into the Bank's core business, i.e. credit ratings impacting its financing. ESG screening is becoming a natural part of the financial sector's thinking around risks and opportunities. The CEB needs to stand ready to produce and disclose detailed ESG/sustainability information as required by the rating agencies, the financial industry's best practices on reporting practices, investors and the wider public. Currently, the CEB enjoys the ESG rating assessments of "prime" from ISS-Oekom (ISS ESG since September 2019) and "Outperformer" from Sustainalytics.

[34] By way of illustration, the ESG Global Survey 2019 conducted by BNP Paribas, which surveyed 347 institutional investors from across the globe, found that the overall commitment to sustainable finance was growing, with alignment to SDGs and higher long-term returns among the key drivers.

Works cited

Batsaikhan, Uuriintuya, Zsolt Darvas, and Inês Gonçalves Raposo. *People on the move: migration and mobility in the European Union.* Brussels: Bruegel, 2018.

CEB. *Investing in Public Infrastructure in Europe: A local economy perspective.* Paris: Council of Europe Development Bank, 2017.

COACCH. " The Economic Cost of Climate Change in Europe: Synthesis Report on State of Knowledge and Key Research Gaps.", 2018.

Crul, Maurice, Jens Schneider, and Frans Lelie. *The European Second Generation Compared: Does the Integration Context Matter?* Amsterdam: Amsterdam University Press, 2012.

EEA. *National climate change vulnerability and risk assessments in Europe, 2018.* European Environment Agency, 2018.

EEA. *Unequal exposure and unequal impacts: social vulnerability to air pollution, noise and extreme temperatures in Europe.* European Environment Agency, 2019.

EIB, and COR. *Investing in Europe's regions and cities: Maximising the impact of local and regional public expenditure.* Brussels: European Investment Bank; EU Committee of the Regions, 2013.

European Commission. *European Economic Forecast: Spring 2019.* Brussels: European Commission, 2019.

Fransen, Lieve, Gino del Bufalo, and Edoardo Reviglio. *Boosting Investment in Social Infrastructure in Europe: Report of the High-Level Task Force on Investing in Social Infrastructure in Europe chaired by Romano Prodi and Christian Sautter.* ELTI; EC, 2018.

ILO. *World Employment and Social Outlook 2018: Greening with jobs.* Geneva: International Labour Office – Geneva, 2018.

IMF. *World Economic Outlook, April 2019: Growth Slowdown, Precarious Recovery.* Washington D.C.: IMF, 2019.

OECD. *Settling In 2018: Indicators of Immigrant Integration.* Paris/European Union, Brussels: OECD Publishing, 2018.

OECD. *Working Together for Local Integration of Migrants and Refugees.* Paris: OECD Publishing, 2018.

Rüttinger, Lukas, Dan Smith, Gerald Stang, Dennis Tänzler, and Janani Vivekananda. *A new climate for Peace: Taking Action on Climate and Fragility Risks.* An independent report commissioned by the G7 members: the German G7 Presidency, International Alert, Woodrow Wilson International Center for Scholars, 2015.

Tapia, Carlos, et al. "Profiling urban vulnerabilities to climate change: An indicator-based vulnerability assessment for European cities." *Ecological Indicators, vol. 78*, 2017: 142-155.

World Bank. *The Changing Nature of Work.* Washington DC: World Bank Group, 2019.

APPENDICES to the Development Plan

Appendix 1 – Historical context and key features of the previous development plans

In the wake of the 2008 financial crisis, numerous economic and social issues emerged throughout Europe. Governments undertook sharp fiscal consolidation programmes, the banking sector went through a deleveraging process that reduced investment levels, monetary policies drove interest rates down, and people throughout the continent experienced severe economic hardship.

Policymakers have been trying to respond to these various challenges, and the CEB has striven to help them finance social investment projects to guarantee a more sustainable and inclusive future. The CEB's development plans[35] since the crisis have aimed to support its member countries' efforts to tackle both the adverse effects of the financial crisis that persisted for nearly a decade and the shared structural issues that weaken social cohesion.

The previous plans balanced the need to address the short-term issues faced by CEB member countries, while at the same time allowing for the continuation of long-term sustainable investment policies in line with the Bank's social mandate.

The 2010-2014 Development Plan placed considerable emphasis on (i) supporting member states in mitigating the economic ill-effects that the crisis placed on the most vulnerable and (ii) developing the means to increase lending operations to the Target Group Countries and to intensify cooperation with sub-national borrowers which tend to have fewer financial options available to them.

The 2014-2016 Plan aimed to strengthen the Bank's social mission at a time when economic recovery was weak, CEB borrower ratings were dropping, and the focus of governments was moving from new projects towards restructuring and completing existing ones. The Bank also adapted its tool kit by offering customisable loans to help member states better absorb EU structural funds (via the EU Co-financing Facility, ECF) or to bridge funding gaps for public authorities in social sector investments (via the Public Sector Finance Facility, PFF). The CEB also intensified its technical assistance, expanded co-operation with the EU, and increased funding for job creation through a sectorial line of action focused on micro, small and medium-sized enterprises (MSMEs).

In 2015, the CEB set up the Migrant and Refugee Fund (MRF) as an emergency response to the migrant and refugee crisis – to provide basic amenities for migrants and refugees. While the 2017-2019 Plan continued to recognise and address some of the same post-2008 financial crisis issues that were confronted in the previous plans; it also refocused on the CEB's long-term vision to contribute towards sustainable economic, social and environmental development in the Bank's member states.

[35] Development Plan 2010-2014, 2014-2016 and 2017-2019

Appendix 2 – Migrant and Refugee Fund (MRF) Projects

The Migrant and Refugee Fund (MRF) was established in October 2015 to ensure that CEB member states had the necessary resources to accommodate the migrants and refugees entering their countries. The fund also provides funding to migrant/refugee integration programmes. As at June 2019, the MRF had raised €28.4 million in funds and had approved €27.8 million in grants for various projects. In total, the MRF has supported 30 projects; the table below provides a brief summary of the projects:

Approved MRF projects end of June-2019

Country	Scope	Approval Date	Net Amount Approved (EUR)
Albania	Kakavija Refugees Preparedness - Ensure shelter, medical support and personal security	28/06/2016	400,000
Albania	Reception facilities at Kapshtica BCP - Support for the establishment of a new centre in Kapshtica, Korça Border Crossing Point	23/04/2019	300,000
Bosnia and Herzegovina	Expanding the accommodation capacities through the extension of the current reception centre near Sarajevo and construction of a new reception facility in Una-Sana canton	10/07/2018	1,400,000
Bosnia and Herzegovina	Funding to the International Organisation for Migration	23/04/2019	400,000
Croatia	Structure in three components: (i) Non-food and Emergency Shelter items distribution,(ii) Implementation of the Mobility Tracking Matrix, and (iii) Setting up of information desks at migrant population gathering points	05/11/2015	765,000
Finland	Effective integration and supporting migrants and refugees in Finland (Helsinki, Espoo, Vantaa, Tampere and Turku)	16/10/2018	260,000
Germany	Learn-café for language learning and empowerment of refugees and migrants in Nuremberg to improve participation and access to education, work and society of the Migrants and Refugees.	25/09/2018	600,000
Greece	Ensure the provision of equipment and personnel to the First Reception Service facilities in Lesbos, Evros, and Leros	05/11/2015	911,078.28
Greece	Elaionas/Athens ORF - Create reception capacities for 500 places	05/11/2015	660,756.87
Greece	REFRAME - Prevent and identify durable solutions regarding the issue of sexual and gender-based violence (SGBV) incidents and substance abuse and addiction, while also moving towards integration through occupation/workshop activities	27/06/2017	980,000
Greece	U-Care - Establishment and operation of Temporary Accommodation Facilities for UMCs on the islands, support to two shelters for UMCs run by the Hellenic Red Cross (HRC) in Athens and Kalavrita and support of UMCs in custody	28/11/2017	2,994,243.13
Lithuania	Enhance integration environment for asylum granted persons in Lithuania and to provide access to shelter after a three-month stay in Refugee Reception Centre	28/03/2017	600,000
North Macedonia	Build the capacities and provide requisite technical equipment to relevant governmental agencies, while also facilitating direct assistance and support to ensure the safety and wellbeing of asylum seekers, refugees, and migrants	05/11/2015	2,447,300
North Macedonia	Build the capacities and provide requisite technical equipment to relevant governmental agencies, while also facilitating direct assistance and support to ensure the safety and wellbeing of asylum seekers, refugees, and migrants	20/10/2015	1,000,000
North Macedonia	Reconstruction of three buildings within the Demir Kapija complex to expand reception capacity to care for migrants/refugees in transit and those stranded after the EU/Turkey agreement of 3/2016.	26/07/2016	1,930,000
North Macedonia	Establishment of a permanent transit reception facility (Safe House) to accommodate the most vulnerable categories of migrants.	27/06/2017	600,500
North Macedonia	Renovation of the Vizbegovo Reception Centre for Asylum Seekers to enhance accommodation and care services for vulnerable categories of migrants, such as unaccompanied and separated migrant children, victims of sexual and gender-based violence, single parents, pregnant women, women and girls, elderly people, persons with physical, intellectual and mental disabilities, LGBTI, etc.	28/11/2017	700,000

Country	Scope	Approval Date	Net Amount Approved (EUR)
North Macedonia	Funding to the International Organisation for Migration	26/03/2019	130,000
North Macedonia	Funding to the International Organisation for Migration	26/03/2019	200,000
Portugal	Construction of a new reception facility for refugees and expansion of the existing facility for reception of minors	12/04/2016	2,520,000
Portugal	Funding to the Portuguese Refugee Council	04/06/2019	20,000
Romania	Increase the reception capacity for asylum seekers in Romania	16/10/2018	800,000
Serbia	Full-time aid delivery system to migrant population in Serbia	20/10/2015	2,300,00
Serbia	Refurbish two temporary accommodation centres, one in the south close to the border with North Macedonia and one in the north close to the border with Croatia, to increase the longer-term housing capacity for migrants by 500 beds	08/12/2015	493,229.03
Serbia	Address the most urgent needs of the migrant population in the reception centres for migrants and refugees throughout Serbia	06/09/2016	755,000
Serbia	Obrenovac training facility - Further improve the lives of the migrant population by enabling them access to systematic informal education and vocational programs. Organise work-occupational therapy for migrants who are staying for the medium/turn in the reception centre	21/05/2019	289,000
Slovenia	Establish an information-sharing platform to be used by all governmental and non-governmental stakeholders in Slovenia, support the identification process of the most vulnerable migrants and refugees, and provide emergency medical care through mobile medical teams. And provision and delivery of emergency non-food items to refugees and migrants	05/11/2015	530,000
Slovenia	Ensure safe and secure shelter for migrants by increasing the existing reception and accommodation capacities in Slovenia	05/11/2015	1,500,000
Spain	Contribute to the on-going efforts of the Spanish health authorities to fill the gap in providing adequate healthcare to migrants and refugees transiting through the two autonomous cities of Ceuta and Melilla.	25/09/2018	1,150,000
Sweden	Develop a smooth transition between compulsory school and high school as well as producing a working model of activities aimed at promoting second language learning and designed to aid the students in attaining their educational goals, thus accelerating inclusion and counteracting exclusion	16/10/2018	500,000

Appendix 3 – CEB Target and Non-Target Group Countries

Target	Non-Target
Albania	Belgium
Bosnia and Herzegovina	Denmark
Bulgaria	France
Croatia	Germany
Cyprus	Greece
Czech Republic	Holy See
Estonia	Finland
Georgia	Iceland
Hungary	Ireland
Kosovo	Italy
Latvia	Liechtenstein
Lithuania	Luxembourg
Malta	Netherlands
Republic of Moldova	Norway
Montenegro	Portugal
North Macedonia	San Marino
Poland	Spain
Romania	Sweden
Serbia	Switzerland
Slovak Republic	
Slovenia	
Turkey	

Appendix 4 – The Sustainable Development Goals (SDGs)

The SDGs, as outlined in the UN 2030 Agenda for Sustainable Development adopted by all 193 UN member states, are the successors of the Millennium Development Goals (MDGs) which came to an end in 2015. While the eight MDGs were geared towards ODA countries and related development issues, the 17 SDGs (and their associated 169 targets) are broader and more advanced in scope to achieve the global ambition of sustainable economic, social, environmental and political development. Although certain SDG targets are more relevant for developing countries (e.g. raising literacy rates and reducing high infant and maternal mortality rates), a wide range of other SDG targets are more universal in nature and can apply to CEB members.



The SDGs encompass a global agenda around five critical dimensions, namely the '5 Ps' (people, prosperity, planet, partnership and peace), and the responsibility and accountability for achieving the said goals are left to the countries themselves.



Appendix 5 – Environmental and Social Safeguards Policy (ESSP)

The text here is a summary of what can be found in the "Environmental and Social Safeguards Policy".

The objectives of the Environmental and Social Safeguards Policy (ESSP) are to:

- Support decision-making by the Bank.
- Provide for environmental and social screening and categorisation of projects.
- Evaluate potential environmental and social risks and adverse impacts on projects.
- Identify actions to avoid, minimise, mitigate, offset or compensate for adverse environmental and social impacts.
- Provide a mechanism for managing environmental and social risks and adverse impacts throughout the Project Cycle.
- Support clients in identifying and managing environmental and social risks and adverse impacts.
- Provide a robust framework for managing the Bank's operational and reputational risks related to environmental and social safeguard matters.
- Facilitate cooperation on environmental and social safeguard matters with joint-financing partners.

The Bank's approach in terms of social safeguard review and management draws upon the principles enshrined in the Council of Europe Convention for the Protection of Human Rights and Fundamental Freedoms and the European Social Charter. The principles specifically emphasised in project operations are those related to:

- Conditions and rights of workers
- Protection of vulnerable groups
- Forced labour and child labour
- Gender equality and non-discrimination
- Protection of livelihoods and housing
- Community health and safety
- Stakeholder information and consultation

Appendix 6 – The Council of Europe and the CEB on judicial infrastructure

The Third Summit of Heads of State and Government of the Council of Europe, held in Warsaw, Poland, in 2005, called upon the CEB to finance administrative and judicial services infrastructure as an additional mission for the Bank. Since 2009, the CEB has approved 11 projects with a total value of €462 million in prison infrastructure, thus generating almost €1 billion in financing for the improvement or construction of penitentiary infrastructure.

Improving judicial infrastructure in the CEB's member countries is one of the most effective ways to contribute to strengthening the rule of law, upholding a transparent and independent judiciary system and supporting the strength of democracy. Moreover, appropriate penitentiary infrastructure plays an important role in preparing prisoners for their reintegration into society. In this respect, projects financed by the CEB comprise a range of facilities for prisoners, such as healthcare and psychological support services as well as access to education, vocational training and recreational activities, among other things.

With its focus on the protection of human rights, pluralist democracy and the rule of law, the Council of Europe is an important interlocutor for the Bank on particular aspects of project preparation when it comes to the financing of penitentiary facilities. In this regard, for example, discussions are consistently held with the Council of Europe's commission for the prevention of torture.

Moreover, the CEB's projects in the penitentiary construction field are appraised with a specific view as to the compatibility of the design with the European Prison Rules standards set by the Council of Europe, such as minimum space for prisoners and appropriate healthcare facilities. The Bank also recommends and supports the inclusion within the project scope of additional components such as staff training, prisoner programmes and wastewater treatment, among other things.

Appendix 7 – Rating Agency frameworks for ESG evaluation

The following text details the three biggest credit rating agencies ESG (environmental, social and governance) evaluation processes:

- **S&P** set up a new 'ESG Evaluation' benchmark for a stand-alone, on-request service for ESG assessments (September 2018). S&P will utilise data that entities supply directly through a new ESG diagnostic questionnaire and already existing sources. The proposed ESG evaluation is not a credit rating or a component of the credit rating methodology. However, the information S&P gathers for an ESG evaluation can inform its credit analysis. This means S&P's new product will directly compete with ESG assessments from traditional ESG rating agencies such as ISS ESG (formerly known as ISS-oekom), Sustainalytics and others[36]. In addition, S&P is also experimenting with an ESG risk atlas that broadly maps country and sector risks[37].
- **Moody's** took over Vigeo Eiris, the France-based ESG rating firm, in April 2019 - driven by the ambition to develop a global standard for ESG assessments. Although few details are available as yet, this positions Moody's to offer a comprehensive portfolio of services for clients to assess financial and non-financial risks and facilitate sustainable performance[38].
- **Fitch Ratings** announced it was the first credit rating agency to apply a systematic approach to publishing opinions about how ESG issues are relevant and material to individual entity credit ratings. As of January 2019, this comprehensive approach has been rolled out for corporates, financial institutions and sovereigns with other asset classes to follow[39].

In addition to the above, other bodies such as the influential International Organisation of Securities Commissions (IOSCO) recently stated the importance for issuers to consider ESG matters when disclosing information material to investors, i.e. impact on financial performance and value creation[40]. Similarly, the EU is examining several avenues for mainstreaming ESG screening and risk / opportunity disclosures in the financial sector[41].

[36] https://www.spglobal.com/en/research-insights/articles/sp-global-ratings-proposal-for-environmental-social-and-governance-esg-evaluations

[37] https://www.spglobal.com/en/research-insights/articles/navigating-the-esg-risk-atlas

[38] http://www.vigeo-eiris.com/vigeo-eiris-and-moodys-investors-service-join-forces-to-celebrate-the-recognition-and-the-value-of-non-credit-evaluations/

[39] https://www.fitchratings.com/site/pr/10058528 and https://www.fitchratings.com/site/esg

[40] www.iosco.org/library/pubdocs/pdf/IOSCOPD619.pdf

[41] http://europa.eu/rapid/press-release_IP-19-1571_en.htm
http://www.europarl.europa.eu/RegData/etudes/BRIE/2019/635572/EPRS_BRI(2019)635572_EN.pdf and
http://www.europarl.europa.eu/doceo/document/A-8-2018-0363_EN.pdf



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

55, avenue Kléber
FR-75116 PARIS - France
Tel: +33 (0)1 47 55 55 00
www.coebank.org