

# COUNCIL OF EUROPE DEVELOPMENT BANK

## SOCIAL INCLUSION BOND FRAMEWORK

March 2022



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Presentation of  
Council of Europe  
Development  
Bank

# The Social Development Bank for Europe

## ***Introduction***

The Council of Europe Development Bank (“CEB”) is a multilateral development bank (“MDB”), the oldest MDB in Europe and the only European financial institution with an exclusively social mandate. The CEB was established in 1956 by eight member countries of the Council of Europe in order to bring solutions to the problems of refugees. Today it comprises 42<sup>1</sup> member states and is a key instrument of the Council of Europe’s solidarity policy in Europe. Through its lending activity the Bank promotes the values and principles of the Council of Europe, which stands for the defence and promotion of human rights, the rule of law and democracy<sup>2</sup>.

Through the provision of financing and technical expertise for projects with a high social impact in its member states, it actively promotes social cohesion and strengthens social integration in Europe while fostering environmental sustainability. The Bank has a deep understanding of the social infrastructure project needs in its member states throughout Europe and the ability to stay engaged with its borrowers.

The CEB participates in financing social projects, responds to emergency situations and contributes to improving the living conditions of the most disadvantaged population groups. In order to maximise the Bank’s contribution to strengthening social cohesion in its member states, the CEB finances bankable projects through a range of financing instruments that provide flexibility for its borrowers and can thus best address their specific needs. Aid to refugees, migrants and displaced persons is, together with aid to victims of natural or ecological disasters, one of the two statutory priorities of the CEB (Article II of the Articles of Agreement): “The primary purpose of the Bank is to help in solving the social problems with which European countries are or may be faced as a result of the presence of refugees, displaced persons or migrants consequent upon movements of refugees or other forced movements of populations (...”).

Building on the Bank’s mission-driven approach to be the social development bank for Europe in line with its founding Articles of Agreement, the Bank’s medium-term strategy until and including 2022 sets out three priority lines of action:

- **Inclusive growth:** working to promote access to economic opportunities to ensure a prosperous future for all. The CEB aims to support inclusive growth and especially investments in sectors such as housing, health and social care, education and micro, small and medium enterprises (MSMEs).
- **Support for vulnerable<sup>3</sup> groups:** helping to integrate the most vulnerable citizens by tackling complex subjects such as gender, age, homelessness, disability, migrant background or emergency response.

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<sup>1</sup> Albania, Andorra, Belgium, Bosnia and Herzegovina, Bulgaria, Croatia, Cyprus, Czech Republic, Denmark, Estonia, Finland, France, Georgia, Germany, Greece, Holy See, Hungary, Iceland, Ireland, Italy, Kosovo, Latvia, Liechtenstein, Lithuania, Luxembourg, Malta, Republic of Moldova, Montenegro, Netherlands, North Macedonia, Norway, Poland, Portugal, Romania, San Marino, Serbia, Slovak Republic, Slovenia, Spain, Sweden, Switzerland and Turkey

<sup>2</sup> The Bank is a separate legal entity and is financially independent from the Council of Europe. There are institutional links between the Council of Europe and the Bank, however; for example, the Secretary General of the Council of Europe issues an opinion on admissibility in terms of compliance with the Council of Europe’s political and social objectives for all the projects that the Bank submits to its Administrative Council for approval.

<sup>3</sup> The terms disadvantaged/vulnerable populations/groups are used interchangeably in this document. ‘Disadvantaged’ populations is used as a general adjective when defining the activities of the Bank. ‘Vulnerable populations/groups’ is a term used in CEB’s Development Plan 2020 – 2022 as well as in the CEB Handbook for the Preparation and Implementation of Projects and it includes, among others, persons living below the poverty threshold (less than 60% of the national average income), abandoned children, children in vulnerable situations, persons with disabilities, migrants/refugees, women, the elderly, the homeless, the landless, rural communities and ethnic minorities.

- **Environmental sustainability:** promoting the protection of the environment, climate mitigation and adaptation by emphasising these aspects in all its projects. Project screening will be reinforced so that misalignments with the Paris Climate Agreement can be identified early on.

These three priorities were developed in collaboration with the CEB's 42 member states, which are both its shareholders and its countries of operation.

## **CEB projects supporting the Sustainable Development Goals (“SDGs”)**

With a portfolio and a pipeline of social and sustainable projects, the CEB is set to support its member countries in achieving the SDGs.

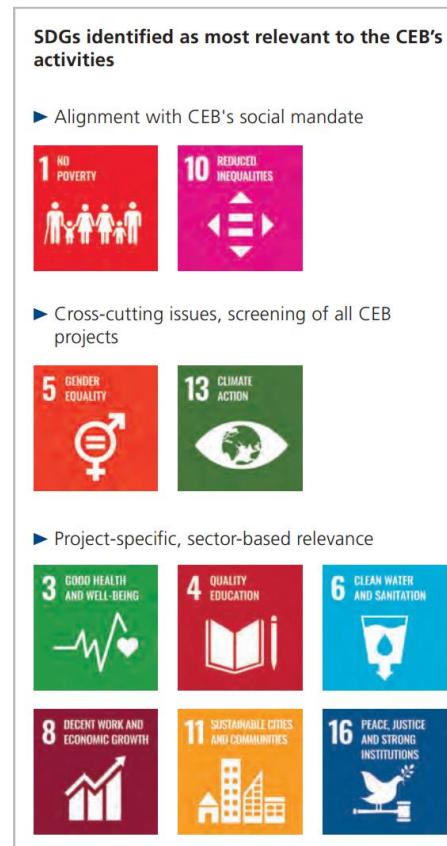
In 2020, the Bank put into practice its framework for mapping CEB-financed projects against the SDGs. In order to get ready to take this step, the CEB had previously selected a set of ten key SDGs closest to the Bank's mandate and three lines of action. Grouped into three distinct categories – Alignment with the CEB's core social mandate, Cross-cutting issues, and Project-specific relevance – the CEB's ten key SDGs are presented on the right:

For all its lending, early in the project cycle, each project is reviewed and mapped to a number of CEB's ten key SDGs – i.e. those that best align with the institution's mandate and priority lines of action<sup>4</sup>.

### **The CEB's Response to COVID-19**

The CEB responded to the COVID-19 crisis in a timely, flexible and targeted manner, making financing available to its member countries within weeks of the pandemic outbreak in Europe in early 2020. Initially, the Bank's support focussed on extraordinary expenses related to strengthening the health sector and to protect the population, including the most vulnerable. In 2020, the Bank updated its Social Inclusion Bond Framework to be able to finance health projects from the proceeds of its Social Inclusion Bonds.

In response to the changing situation and evolving borrower needs, the CEB made additional loans available for relevant social sectors. At a local level, CEB funding thus supported extraordinary municipal budget schemes such as cash transfers and insurance payment assistance that directly benefited the most vulnerable whose economic situation was severely impacted by the pandemic. Given the importance of continuing the provision of education and training, CEB loans allowed for the supply of digital platforms, hardware, and IT tools to increase the capacity for distance schooling, particularly for disadvantaged students who would otherwise have lacked the equipment to access such schooling programmes. The Bank also provided funding to mitigate the negative effects of the COVID crisis on the economy in general and MSMEs in particular, and to allow for the continuation of key social infrastructure investments.



<sup>4</sup> For more information on the approach see the CEB Handbook for Preparation and Implementation of Projects available here: [https://coebank.org/documents/874/Handbook\\_for\\_the\\_Preparation\\_and\\_Implementation\\_of\\_Projects\\_June\\_2020.pdf](https://coebank.org/documents/874/Handbook_for_the_Preparation_and_Implementation_of_Projects_June_2020.pdf)

The CEB's COVID response has continued to evolve. In 2021, the Bank was increasingly involved in financing COVID-19 vaccine procurement and activities associated with the successful vaccine rollout in a number of its member countries.

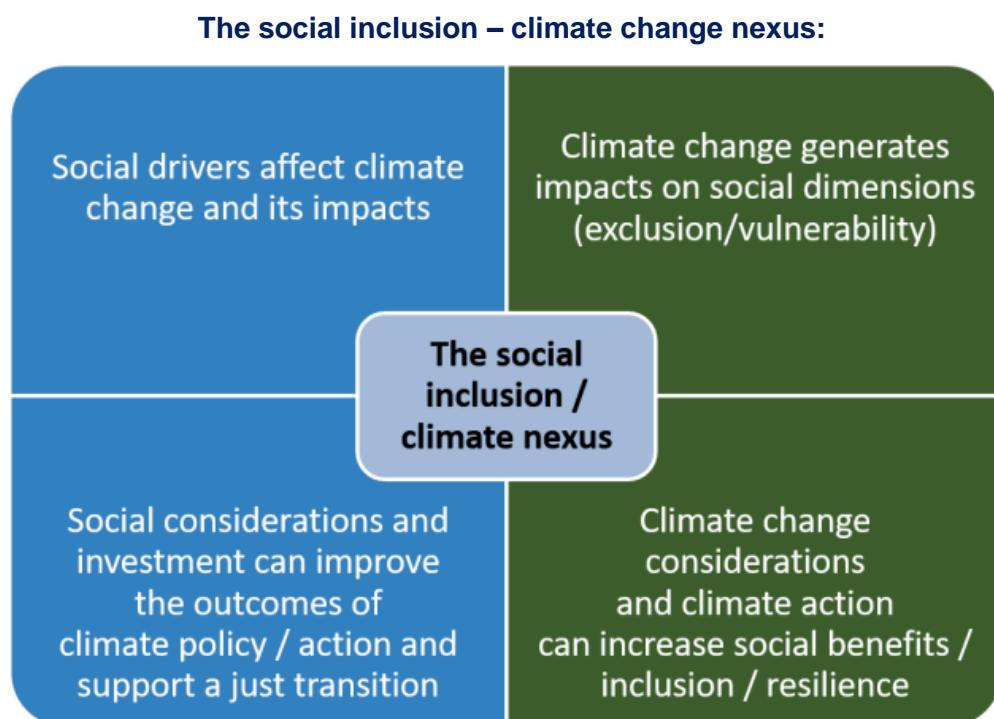
Going forward, it is expected that a considerable part of social infrastructure investments financed by the CEB will focus on support for programmes aimed at increasing resilience and strengthening capacity to withstand future shocks.

### ***The CEB's Social Lens on Climate Change: A Social Inclusion – Climate Change Nexus***

The climate crisis is also a social crisis that exposes and exacerbates inequalities and can undermine the advancements achieved through social development policies and investments. The most vulnerable groups are generally the most impacted by climate change, the least resilient to its economy-wide impacts and may bear a disproportionate burden in the transition to a low-carbon and resilient future. In addition, their voice may not be adequately represented in the climate-related decision-making processes.

In recent years, the CEB has increasingly integrated climate change consideration in its operations. The Bank already screens all projects for climate-related risks and identifies climate mitigation and adaptation components in its operations, tracking climate finance consistently with the Common Principles adopted by the MDBs and the International Development Finance Club ("IDFC").

As the social development bank of Europe and the only MDB with a uniquely social mandate, the CEB focuses on the people-planet-prosperity equation through a people-centred lens. This considers how people are impacted by climate change and by the transition to a climate neutral and resilient future. The CEB's conceptual framework recognizes impacts of social dimensions, policies and investments (the core of CEB's mandate) on climate outcomes alongside the impact of climate change, policy and action on social inclusion as depicted in the figure below:



For the CEB, applying a social lens to the climate action space means the following:

- Understanding mutual impacts: comprehending the social inclusion / climate change nexus starts from an analysis of the interactions between (i) social drivers of climate change and its impacts, and (ii) climate change impacts on social dimensions and on the capacity to achieve social development / SDGs;
- Considering social dimensions in climate action and vice versa: based on improved understanding of mutual impacts, (i) consider relevant social dimensions need in the design and implementation of climate policies and investments and conversely (ii) include climate change considerations in the definition of social development policies and investments;
- Identifying areas of its social mandate where co-benefits exist: it is possible to identify and support social policies and investments with a positive impact on climate outcomes as well as climate policies and action with a positive impact on social inclusion and societal resilience.

## ***Aligning with the Paris Agreement***

Acknowledging the social drivers of climate change impacts on social inclusion, the CEB has increasingly integrated climate change considerations in its activities in recent years. In its Development Plan 2020-2022, the CEB committed to align its lending activities with the Paris Agreement. In March 2021, the CEB joined the MDB Climate Change coordination group as an observer and started transposing the MDB Paris Alignment (“PA”) framework in the context of the CEB’s unique focus on financing social infrastructure for sustainable and inclusive development. At COP26, the CEB was also a signatory of a joint statement on ‘collective climate ambition’ along with nine other MDBs. In 2021, the CEB set up a dedicated inter-service structure to define the CEB’s own Paris Alignment approach and to create a phased roadmap setting out priority actions for progressive alignment with the goals of the Paris Agreement – starting with the alignment of direct lending activities by end 2022.

In line with its mandate, the CEB focuses on the people-planet-prosperity equation through a people-centred lens that considers how people are impacted by climate change and by the transition to a climate neutral and resilient future, recognising the disproportionate impact that climate change has on lower income and other vulnerable groups and the constraints they may face in benefiting from the transition.

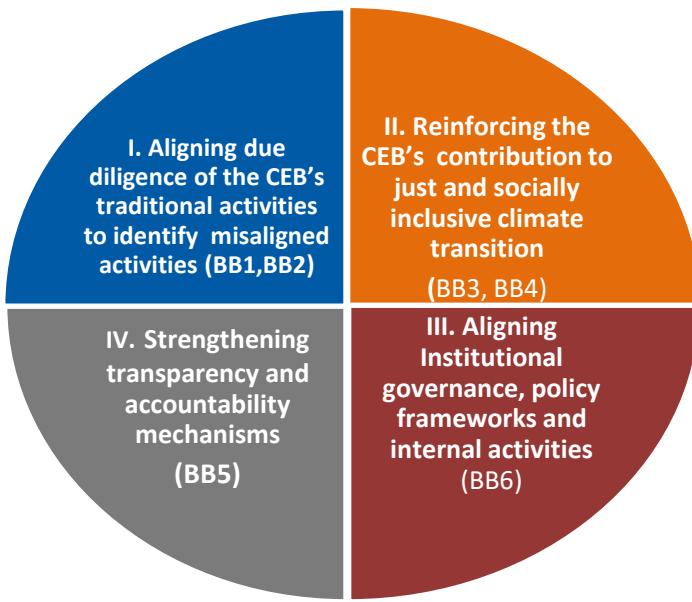
The CEB’s PA framework recognises that addressing the climate crisis can provide opportunities to leverage positive social transformations, as long as climate responses explicitly focus on the social inclusiveness of transition policies and investments. Creating climate-resilient jobs, ensuring economic diversification so as to reduce dependence on climate-affected sectors, and investing in resilient basic services are among the actions that can lead to mutually reinforcing outcomes.

### **Four pillars of CEB’s Paris Alignment Framework<sup>5</sup>:**

- Pillar I: Orient Bank’s financing to projects that do no significant harm to climate
- Pillar II: Identify opportunities to promote a just and socially inclusive climate transition
- Pillar III: Alignment of internal activities, governance mechanisms and policies
- Pillar IV: Enhance transparency and reporting on climate-related topics

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<sup>5</sup> BB1-6 referenced in the figure are building blocks of the joint MDB framework



## Loan Portfolio

### Loan Recipients

The CEB provides loans to governments, regional or local authorities, and financial and other institutions in its member states. CEB loans have to meet specific technical and social criteria and be financially sound as well as in strict conformity with the Bank's environmental, procurement and compliance guidelines and policies. In order to maximise the impact of its activity, the CEB finances bankable projects through a range of financing instruments, offering flexibility to its borrowers to best address their needs. For example, cross-sectoral loans facilitate access to financing for social projects straddling several sectors and linked through a set of related objectives.

The CEB may finance projects in its member states directly or via an intermediary financial institution. In particular, projects in favour of vulnerable populations<sup>6</sup> can be financed.

Loans granted by the CEB take one of the following forms:

- Loans to its member states;
- Loans guaranteed by a member state granted to any legal person approved by that member state;
- Loans granted to any legal person approved by a member state, when the CEB's Administrative Council is satisfied that the loan requested is covered by adequate guarantees.

The CEB's current portfolio of loan recipients is as follows<sup>7</sup>

- Sovereign, State Owned Financial Institutions and IFIs (52%)
- Sub-sovereign administrations and financial institutions (27%)
- Other financial institutions (19%)
- Non-financial institutions (2%)

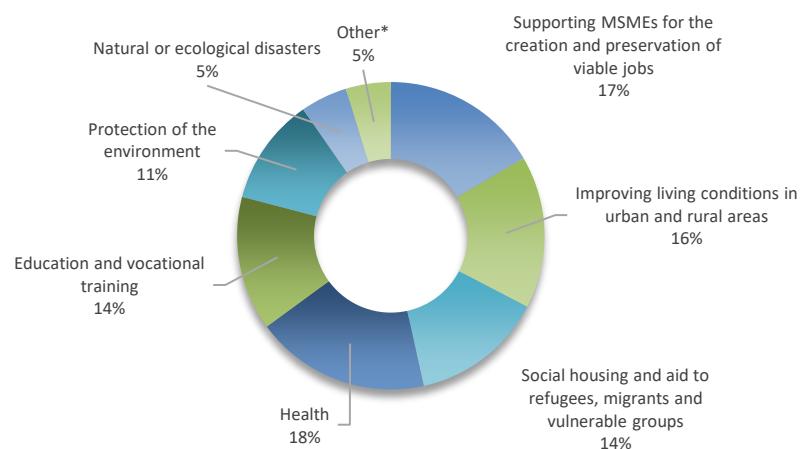
<sup>6</sup> The terms disadvantaged/vulnerable populations/groups are used interchangeably in this document. 'Disadvantaged' populations is used as a general adjective when defining the activities of the Bank. 'Vulnerable populations/groups' is a term used in CEB's Development Plan 2020 – 2022 as well as in the CEB Handbook for the Preparation and Implementation of Projects and it includes, among others, persons living below the poverty threshold (less than 60% of the national average income), abandoned children, children in vulnerable situations, persons with disabilities, migrants/refugees, women, the elderly, the homeless, the landless, rural communities and ethnic minorities.

<sup>7</sup> Source : CEB Activity Report 2020

## Sectors of Action

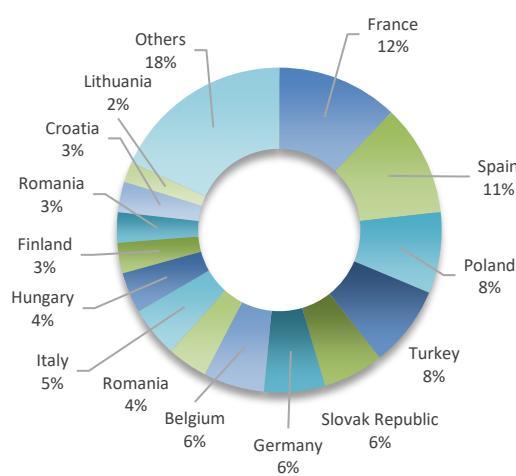
The three sectorial lines of action (inclusive growth, support to vulnerable groups, and environmental sustainability) reflect both CEB's specific social vocation and the development logic underpinning all its activity in ten sectors of action, as set out in the graph below. Social infrastructure, job creation and environmental protection are the key themes that the Bank aims to develop in cooperation with its borrowers.

**Breakdown by sector: Total loans outstanding as of 31 December 2020**



\*Other represents projects for the 'Protection of cultural heritage', development of 'Administrative and judicial infrastructure' and 'Cross sector loans'

**Breakdown by geography: Total loans outstanding as of 31 December 2020**



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# Social Inclusion Bond Framework

## Basis of this Framework

The CEB has been successfully issuing Social Inclusion Bonds (“SIBs”) since 2017, which make up an important share of the Bank’s funding. Social Inclusion Bonds are a valuable tool to channel investments to projects with high social benefits and contribute to the unique social mandate of the CEB. The CEB is committed to support the growth and integrity of the market for social financing.

The CEB’s Social Inclusion Bond Framework (“Framework”) was developed with the aim of providing transparency, disclosure and clarity to investors.

The Framework is aligned with the ICMA Social Bond Principles (“SBP”) 2021<sup>8</sup> and has four core components:

1. Use of Proceeds
2. Process for Project Evaluation and Selection
3. Management of Proceeds
4. Reporting

The CEB also follows the key recommendation of the principles with regard to external review.

The Framework may be further updated, including the expansion of its Eligible Categories, as the SBPs and market practice evolves and to reflect regulatory developments.

## Use of Proceeds

An amount equivalent to the net proceeds of the Social Inclusion Bond issuances will be used to finance and/or refinance, in whole or in part, loans for projects in the CEB’s member states with social (and possibly environmental) benefits.

The loans will be selected from the four below-mentioned sectors of action. All these loans will be defined as the eligible social loans (“Eligible Social Loans”). The proceeds of the relevant Social Inclusion Bond will be allocated towards Eligible Social Loans granted by CEB that meet the criteria specified below.

### Social Eligibility Criteria

ICMA SBP Categories	Nature of Projects and Social Eligibility Criteria	Description of Target Population	UN SDGs
Affordable housing	<p><b>Social Housing:</b></p> <p>Projects related to the renovation, construction or refurbishing of housing and for the conversion of buildings into housing to provide decent housing for low-income persons, corresponding to social housing criteria whenever these are defined by the national legislation of member states.</p> <p>Eligible projects can be targeted to provide access to property ownership, rental housing, or related infrastructure (such as water mains, electricity and gas supplies, collection and treatment of wastewater and solid waste, commercial premises, and playgrounds).</p> <p>In the absence of satisfactory regulations, the eligibility criteria can be based on the following principles, or on other specific criteria to be established by CEB during appraisal:</p>	Low-income persons, corresponding to social housing criteria whenever these are defined by the national legislation of member states or in the absence of satisfactory regulations as defined by CEB in this table	 

<sup>8</sup> <https://www.icmagroup.org/assets/documents/Sustainable-finance/2021-updates/Social-Bond-Principles-June-2021-140621.pdf>

	<ul style="list-style-type: none"> <li>the income of the target population is limited to a percentage of a relevant income indicator selected according to statistical data available for each member state or region concerned;<sup>9</sup></li> <li>the floor area is limited in principle to a maximum of 35 m<sup>2</sup> per person in the case of households comprising between 1 and 2 people and 23 m<sup>2</sup> per person for larger households; the minima shall not be inferior to commonly accepted habitability criteria and the maxima can be determined during project appraisal;</li> <li>in the case of projects involving access to property ownership, this must be for the principal residence, with a firm undertaking to occupy the premises for a minimum period of 5 years.</li> </ul> <p>Projects involving the renovation and/or the rehabilitation and conversion of buildings into social housing must meet the following criteria, or other specific criteria as established by CEB during appraisal:</p> <ul style="list-style-type: none"> <li>housing units must belong to public or private entities lessors of social housing, or to owner-occupants of assisted affordable housing;</li> <li>rented housing units must be controlled-rent properties;</li> <li>housing units must have a maximum total floor space of 92 m<sup>2</sup>, except those occupied by large families (more than 4 persons);</li> <li>the floor space of commercial or office premises may not exceed 20% of the total floor space of the building;</li> <li>the renovation of housing for energy saving purposes may be financed according to eligibility criteria determined during project appraisal.</li> </ul>		
<b>Access to essential services (e.g. health, education and vocational training, healthcare, financing)</b>	<p><b>Education and vocational training:</b></p> <ul style="list-style-type: none"> <li>Construction and/or rehabilitation of early childhood education facilities, primary and secondary schools, technical colleges, vocational training centres, establishments of higher education or specialised learning and/or research and development centres. Eligible investments may include sports and socio-cultural centres/equipment as well as residence facilities pertaining to such establishments, learning materials, furniture and equipment;</li> <li>Education-related investments may also include basic infrastructure such as water supply and wastewater systems and facilities, solid waste collection and treatment facilities, electricity and gas supply systems, IT infrastructure and communications facilities (telephone, internet, cable, etc.). Programmes involving training for the unemployed and in favour of disadvantaged populations, for professional reconversion,</li> <li>Training in natural or ecological disaster prevention and preparedness for members of the civil protection forces or for training of magistrates, administrators, civil servants and government officials;</li> <li>Adaptation of training centres in order to facilitate their access to persons with reduced mobility;</li> <li>Education-related research and development programmes;</li> <li>Training programmes in favour of vulnerable groups;</li> <li>Training for specialised staff in the education and vocational training sectors;</li> <li>Programmes for student loans.</li> </ul>	Primary, Secondary school and college students  Unemployed persons  General population  Persons with reduced mobility	 

<sup>9</sup> Other than GDP per inhabitant.

	<ul style="list-style-type: none"> <li>Private establishments must be state approved with recognition of diplomas at national level.</li> </ul> <p><b>Health and social care:</b> Construction, renovation and modernisation of infrastructure such as:</p> <ul style="list-style-type: none"> <li>Hospitals</li> <li>neighbourhood healthcare centres (including those specialised in providing assistance to vulnerable populations)</li> <li>university hospitals or centres specialising in healthcare for the elderly and the disabled</li> <li>the purchase of modern medical equipment and ambulances</li> </ul> <p>Health-related investments may also include the purchase of emergency medical equipment, consumable material, the mobilisation of additional expertise and the rehabilitation and transformation of spaces and medical units to support an increasing demand for equipment or services related to a pandemic situation or other emergency.</p>		
<b>Employment generation, and programs designed to prevent and/or alleviate unemployment stemming from socioeconomic crises, including through the potential effect of SME financing and microfinance</b>	<p><b>Supporting MSMEs:</b></p> <p>Programme Loans with the primary purpose of promoting the creation and preservation of viable permanent and/or seasonal jobs by facilitating access to credit. Such loans can finance fixed productive investments, including through leasing, or working capital requirements as deemed eligible by CEB. They are aimed at micro, small and medium-sized enterprises (MSMEs), including those exercising craftsmanship/artisan activities or small family-owned enterprises engaged in regular economic activity.</p> <p>The CEB gives priority to those initiatives in this sector that are supported by member state governments. The intermediaries involved by CEB will need to demonstrate upfront a clear commitment and ability to on-lend to the target MSMEs on a commercially sound and economically sustainable basis.</p> <p>To reach MSMEs as final beneficiaries effectively for the purpose of supporting job creation, CEB can involve selected licensed financial intermediaries (FIs) such as commercial banks, specialised financial intermediaries (e.g. public development banks) or non-bank financial intermediaries such as leasing companies. This support may either be in the form of direct lending through an FI or through on-lending via an apex structure.</p>	<p><b>MSMEs:</b> Reflecting its social mandate, CEB prioritises for its support the smaller MSMEs and those with limited, less favourable, or even no access to credit. This includes in particular start-ups and enterprises owned by vulnerable groups.</p> <p>CEB uses the same definition of MSMEs as the European Union (EU) Commission Recommendation 2003/361/EC, which may be updated from time to time. Article 2(1) of the Annex to Recommendation 2003/361/EC says the following: "The category of micro, small and medium-sized enterprises (SMEs) is made up of enterprises which employ fewer than 250 persons and which have an annual turnover not exceeding 50 million euro, and/or an annual balance sheet total not exceeding 43 million euro."<sup>11</sup></p>	    

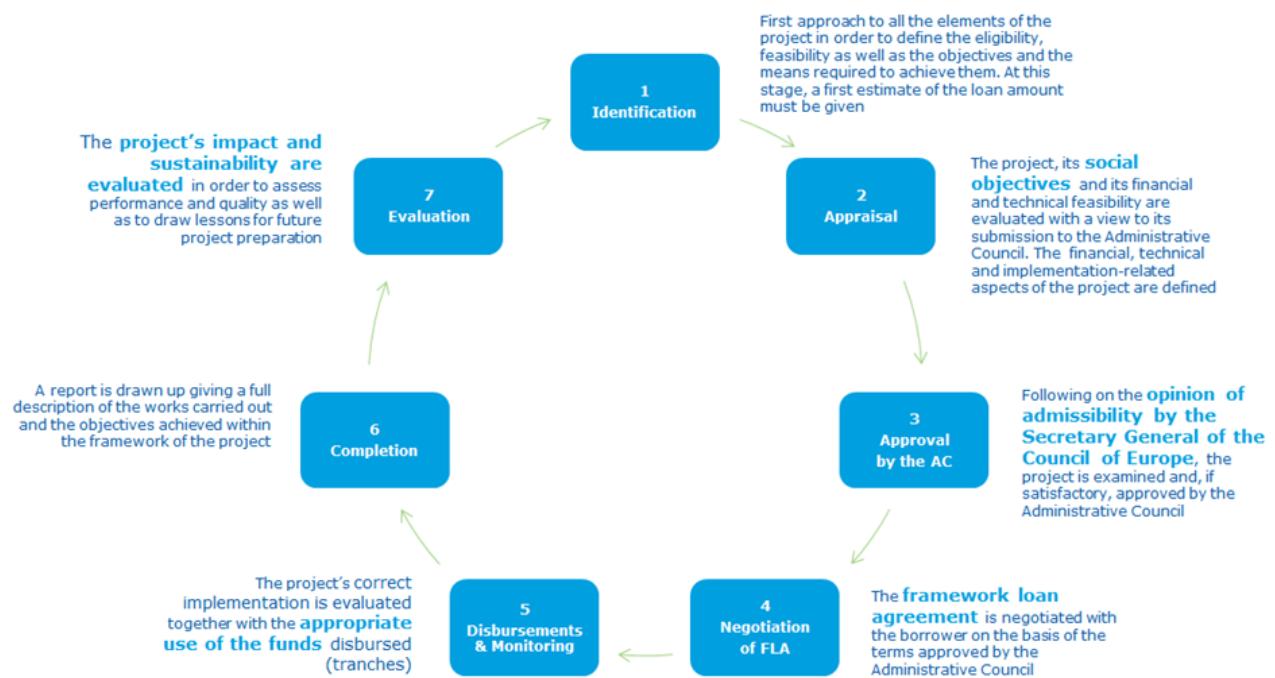
<sup>10</sup> Private establishments and infrastructures must be state-approved (in compliance with the criteria fixed by the state for this type of establishment).

<sup>11</sup> Investments related to renewable energy, education (schools/universities) and health (hospitals/clinics) sectors should not be financed under CEB's "Supporting MSMEs" sector of action, but under the related sectors (i.e. "Managing the environment," "Health" or "Education and professional training"). Smaller scale sub-projects related to health and education (e.g. privately-owned dental/medical practices, childcare/kindergarten or elderly care facilities) may be financed under the "MSMEs" sector of action provided that the sub-borrowers comply with the above-referred MSME definition.

## Process for Project Evaluation and Selection

The CEB follows its own policies with respect to the identification, approval and monitoring of projects. The Bank pays particular attention to the quality and social impact of the projects by maintaining close involvement throughout the entire project cycle.

### CEB's selection and loan approval process



### The CEB follows its established processes to identify and consistently monitor the projects it finances

- The CEB finances projects that are in line with its social development mandate and that fall within its eligible sectors of action. The CEB Loan and Project Financing Policy provides the overall framework for project financing and defines the basic principles for the selection, appraisal, implementation and monitoring of CEB projects.
- The projects, identified by the CEB and/or the borrower, respond closely to the borrower's needs; as such, the borrower (and when it is the case, the local stakeholders) must demonstrate its/their commitment to and support of the project. As the CEB pays particular attention to the quality and social impact of the projects it finances, assistance and monitoring throughout the whole project cycle constitute key factors in their effective implementation. At the borrower's request, the CEB may provide borrowers with technical assistance to help them with the preparation of their projects.
- All CEB loans are granted in accordance with specific technical and social development criteria and in strict conformity with environmental, procurement and compliance guidelines and policies. During identification, an initial analysis of the elements making up the project is carried out in order to define the project's eligibility for CEB financing, its feasibility and objectives as well as the means required to achieve them. An initial estimate of the loan amount is also given at this time. The necessary information is provided to the CEB by the borrower.

- CEB's monitoring and control mechanisms are established to ensure, throughout the project cycle, proper development and implementation of high quality, high social value projects which meet the CEB's criteria and objectives.

## **Selection of Eligible Social Loans**

All of CEB's loans and projects have a high social profile in alignment with CEB's social mandate and according to the selection process described above. The Eligible Social Loans will be selected from the four eligible categories defined by the Social Eligibility Criteria in the Use of Proceeds section above.

## ***The CEB performs an in-depth appraisal of the social objectives of all potential projects***

During appraisal, both the project and the associated credit risks are assessed. The project and credit aspects are included (i) in the loan application submitted by the borrower to the Secretariat of the Partial Agreement for an opinion by the Secretary General of the Council of Europe on admissibility in terms of compliance with the Council of Europe's political and social objectives and (ii) in the CEB's "Loan Document" prepared by the CEB and submitted to the Administrative Council for approval.

- At the project appraisal stage, the CEB, in cooperation with the borrower, defines all relevant aspects of the proposed project. On the basis of the loan request formulated by the borrower, the CEB carries out an assessment of the project by closely reviewing its social objectives and justification, its financial and technical feasibility and the envisaged implementation modalities including the institutional capacity of the borrower and/or the designated implementing agency to manage project implementation. Requests for financing are adapted to the specific characteristics of each project for which a loan is sought.
- Environmental aspects of the project are reviewed for conformity with the **CEB's Environmental and Social Safeguards Policy**<sup>12</sup> while the CEB's Procurement Guidelines, detailing the principles and methods to be applied when awarding contracts to be financed by CEB loans, serve as a basis for evaluating the procurement-related facets of the project.
- The CEB applies its **Anti-Corruption Charter**<sup>13</sup> during appraisal of the projects it finances. As a general rule during appraisal, the CEB attaches great importance to the aspects related to the fight against fraud, corruption and money laundering. Any outstanding legal questions are also addressed at this point.
- Social impact is a key issue considered by the CEB services during appraisal to ensure that implementation arrangements, monitoring and reporting modalities, etc. are appropriate so as to ensure that the project will generate the expected social outcomes.
- Moreover, the appraisal stage includes a thorough assessment of the likely added-value of CEB support. Such analysis is conducted along the lines of the Added-Value Assessment sheet which assesses both the project's social impact and its contribution to improving the relevant sector policies, institutions and infrastructure, as well as the added-value of CEB's involvement.
- Each proposed project is assigned a Project Overall Rating ("POR") based on a "four-pronged approach"** which recognizes that the social added value of a project depends both on its characteristics – such as its sectorial context, sustainability, expected financial impact, institutional and organisational aspects and impact of CEB capacity to provide assistance throughout the entire project cycle – and on the context in which it is carried out ("country" parameters, such as GNI per capita, location in a region recognized as an "underdeveloped area, location hosting vulnerable people). **Taken together, these four dimensions of "project", "country", "social" and "environmental" ratings including climate change**

<sup>12</sup> See [here](#) for Environmental and Social Safeguards Policy

<sup>13</sup> See [here](#) for Anti-Corruption Charter

**considerations also provide a yardstick for measuring the additionality of CEB financing.**

- The Sustainable Development Goals (“SDGs”) developed by the United Nations are integrated into CEB’s operational activity by prioritizing a set of key SDGs that are most relevant to the Bank’s mandate and lines of action, identifying the CEB’s potential contribution to the SDGs in the project appraisal phase and then regularly assessing it at portfolio level, in alignment with the “CEB Handbook for the Preparation and Implementation of Projects”<sup>14</sup>.

In parallel to this project appraisal, the CEB, following best banking practice, also carries out a credit assessment of the borrower under the proposed loan.

## ***Environmental & Social Safeguards***

The European Commission is currently considering the development of a social taxonomy which covers social objectives related to (i) decent work, (ii) adequate living standards and wellbeing for end-users and (iii) inclusive and sustainable communities and societies. The Platform on Sustainable Finance has published its final report<sup>15</sup> (Final Report on Social Taxonomy) on the extension of the existing EU taxonomy to include a social taxonomy and suggestions on a general approach to the creation of a social taxonomy. CEB will monitor these developments and may update this framework to align with the requirements of the social taxonomy when it is developed.

In line with the environmental Do No Significant Harm (DNSH) as per the final report from the Platform on Sustainable Finance, the CEB actively supports the development and financing of projects that yield tangible social and environmental benefits and which are designed to respect appropriate environmental and social standards. For this purpose, the CEB has put in place its Environmental and Social Safeguards Policy (ESSP) and a set of Environmental and Social Safeguard Standards (ESSS)<sup>16</sup> which define the principles and requirements that projects and borrowers are expected to meet.

The ESSP also outlines the environmental and social due diligence process that is applied to projects considered for CEB funding.

To ensure harmonised implementation of the ESSP, the Bank screens and monitors social and environmental risks and impacts throughout the project cycle. The CEB undertakes preliminary screening at the pre-appraisal stage of all project proposals presented to it and may propose mitigation measures for potential risks and specific ESS clauses for the borrowers.

## ***Screening of alignment with Paris Agreement on climate change***

The Bank will screen Project proposals for their consistency with applicable climate goals in line with the objectives of the Paris Agreement on Climate Change. Projects will be attributed a categorisation that reflects the estimated degree of alignment with the Paris Agreement, based on the information provided by the borrower and the Bank’s internal assessment. This categorisation will follow established principles for the alignment of financial flows with the Paris Agreement (in particular those of the Multilateral Development Bank framework) adapted to the specificities of the CEB’s operations.

The Paris Alignment categorisation will be based on the Project’s greenhouse gas emission potential and its sensitivity to climate change in accordance with the information provided by the borrower.

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<sup>14</sup> <https://coebank.org/en/about/policies-and-guidelines/projects-and-loans-policies-and-guidelines/>

<sup>15</sup> [https://ec.europa.eu/info/sites/default/files/business\\_economy\\_euro/banking\\_and\\_finance/documents/280222-sustainable-finance-platform-finance-report-social-taxonomy.pdf](https://ec.europa.eu/info/sites/default/files/business_economy_euro/banking_and_finance/documents/280222-sustainable-finance-platform-finance-report-social-taxonomy.pdf)

<sup>16</sup> The standards are part of the Handbook for the Preparation and Implementation of Projects and include requirements on e.g. safeguard assessments, land acquisition, displacement and resettlement, and an exclusion list for certain activities.

Project proposals for which climate change information is incomplete at the time of appraisal or whose climate performance could be improved with additional measures may receive a preliminary Paris Alignment categorisation. The preliminary categorisation shall be revised upon reception of complementary information or confirmation of additional climate proofing measures. Without complementary information or commitments from the borrower, the Project proposal may be categorised as misaligned with the Paris Agreement.

Project Proposals categorised as misaligned with the Paris Agreement would be considered ineligible for CEB financing.

### ***Monitoring of all projects throughout project cycle***

The Bank closely monitors and controls projects at every stage of their implementation. An evaluation of a sample of completed projects is also carried out by the CEB's independent Evaluation Department. The borrower is required to provide monitoring reports at least once a year. The Bank prepares an Annual Report on Project Preparation and Monitoring which includes, information on (i) project preparation in terms of appraisal, technical review and lessons learned; (ii) project monitoring, including modified or cancelled projects; (iii) project performance review; (iv) social effects of projects completed; and (v) performance of the reviewed projects and issues identified with respect to social and environmental safeguards.

In addition, upon completion of a project, each borrower is required to submit a final report to the Bank presenting a review of the project's results.

### ***Excluded Activities***

The CEB excludes certain activities and sectors from its financing activity. As defined by the NACE nomenclature of the European Union<sup>17</sup>, the following activities shall be excluded from the CEB's financing:

- Mining and quarrying (NACE B) except division 8 Other mining and quarrying (8.1 Quarrying of stone, sand and clay; 08.91 Mining of chemical and fertiliser minerals and 08.92 Extraction of peat; 08.93 Extraction of salt),
- Distilling, rectifying and blending of spirits (NACE C11.01),
- Manufacture of tobacco products (NACE C12),
- Manufacture of coke and refined petroleum products (NACE C19),
- Processing of nuclear fuel<sup>18</sup> (NACE C24.46),
- Manufacture of weapons and ammunition (NACE C25.4),
- Manufacture of military fighting vehicles (NACE C30.4),
- Financial and insurance activities (NACE K64-66),
- Real estate activities (NACE L68),
- Gambling and betting activities (NACE R92),
- Activities of membership organisations (NACE S94),
- Activities of extraterritorial organisations and bodies (NACE U99).

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<sup>17</sup> The French acronym NACE refers to the "Statistical Classification of Economic Activities in the European Community". Developed since 1970, NACE provides a framework for the collection and presentation, according to economic activity, of a wide range of statistics in the economic area (for example: production, employment, national accounts) and other areas – see Regulation (EC) No. 1893/2006 of the European Parliament and of the Council of 20/12/2006 establishing the statistical classification of economic activities NACE Revision 2 and amending Council Regulation (EEC) No 3037/90 as well as certain EC Regulations on specific statistical domains.

<sup>18</sup> This does not apply to the purchase of medical equipment, quality control (measurement) equipment and any equipment where the CEB considers the radioactive source to be insignificant and/or adequately shielded.

Investment projects linked to pornography and to products regarded by the CEB's member states regulations as harmful to the health and the environment<sup>19</sup> shall also be excluded.

## Management of Proceeds

CEB intends to allocate an amount equal to the net proceeds from the issue of Social Inclusion Bonds to a portfolio of Eligible Social Loans, selected in accordance with the Social Eligibility Criteria set out in Use of Proceeds and Process for Project Evaluation and Selection above. The CEB will strive, over time, to achieve a level of allocation for the portfolio of Eligible Social Loans which matches or exceeds the balance of the net proceeds from the outstanding portfolio of Social Inclusion Bonds. Additional Eligible Social Loans will be added to the Eligible Social Loans portfolio to the extent required to ensure that an amount equal to the net proceeds from outstanding Social Inclusion Bonds will be allocated to Eligible Social Loans.

The proceeds from the Social Inclusion Bonds will be placed in CEB's treasury and managed by the Finance department and will be allocated to a portfolio of existing or new Eligible Social Loans within 24 months. As long as any funds remain unallocated, they will be managed in line with the standard processes of CEB's treasury until their full allocation.

## Reporting

The CEB intends to provide aggregated reporting for all of its Social Inclusion Bonds outstanding and will publish a Social Inclusion Bond Report, consisting of an Allocation Report and an Impact Report, annually, at least until the proceeds have been fully allocated.

The CEB intends to align, on a best effort basis, the impact reporting with the portfolio approach described in "Handbook - Harmonized Framework for Impact Reporting (June 2021)"<sup>20</sup>.

### *Allocation reporting*

The allocation report will provide, on an aggregated basis, indicators such as:

- the size of the Eligible Social Loans portfolio, per ICMA SBP category;
- the total amount of proceeds allocated to the Eligible Social Loans portfolio;
- the balance (if any) of unallocated proceeds;
- the amount or the percentage of new financing and refinancing;
- the geographical distribution of the projects (at country level).

### *Impact reporting*

The CEB will also report on the social impact of the projects that were financed with the Social Inclusion Bond proceeds, and the corresponding SDGs the projects address and may include the following indicators:

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<sup>19</sup> Production or trade in any product or activity deemed illegal under the member states laws or regulations or international conventions and agreements, such as unbonded asbestos fibres, pharmaceuticals, pesticides/herbicides, ozone-depleting substances, polychlorinated biphenyls (PCBs), wildlife or products regulated under the Convention on International Trade in Endangered Species (CITES).

<sup>20</sup> <https://www.icmagroup.org/assets/documents/Sustainable-finance/2021-updates/Handbook-Harmonised-Framework-for-Impact-Reporting-June-2021-100621.pdf>

ICMA SBP Categories	CEB Sector of Action	Description of Social Eligibility Criteria
Affordable housing	Social housing for low-income persons	<ul style="list-style-type: none"> <li>• Number of dwellings (construction/renovation)</li> <li>• Number of beneficiaries</li> </ul>
Access to essential services	Education and vocational training	<ul style="list-style-type: none"> <li>• Number of schools (construction/renovation)</li> <li>• Number of students</li> </ul>
	Health and social care	<ul style="list-style-type: none"> <li>• Number of healthcare facilities (construction/renovation)</li> <li>• Loan breakdown per buildings and equipment delivered</li> <li>• Number of beds financed</li> <li>• Number of patients served</li> <li>• Number of vaccines financed</li> <li>• Number of Personal Protective Equipment (PPE) such as masks, shields, gloves, surgical gowns, etc. for medical emergencies or associated with vaccination</li> <li>• </li> </ul>
<b>Employment generation, and programs designed to prevent and/or alleviate unemployment stemming from socioeconomic crises, including through the potential effect of SME financing and microfinance</b>	Supporting MSMEs for the creation and preservation of viable jobs	<ul style="list-style-type: none"> <li>• Number of MSMEs</li> <li>• Number of jobs preserved</li> <li>• Number of jobs created</li> </ul>

The reporting will be publicly available on CEB's website.

## External review

### ***Pre-issuance verification: Second Party Opinion***

The CEB has engaged Sustainalytics to provide an independent assessment (the “**Second Opinion**”) of the social quality of the portfolio of financed Eligible Social Loans and to assess the alignment of the CEB Social Inclusion Bond Framework with CEB’s sustainability objectives and with ICMA’s Social Bond Principles 2021<sup>21</sup>.

### ***Post-issuance verification: Verification on the allocation of proceeds***

CEB will request an external auditor, on an annual basis, to review the disbursements made from the Eligible Social Loans portfolio.

<sup>21</sup> “Social Bond Principles” dated June 2021 published by the International Capital Market Association (ICMA)

## **Disclaimer:**

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