



# THE SOCIAL DEVELOPMENT BANK IN EUROPE



USB stick inside





# REPORT OF THE GOVERNOR

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## Mission

The Council of Europe Development Bank (CEB) is a multilateral development bank with a social mandate.

Established in 1956 on the basis of a partial agreement of the Council of Europe in order to bring solutions to the problem of refugees, the Bank has progressively widened its scope of action to include other sectors directly contributing to strengthening social cohesion in Europe.

With its 41 Member States, the CEB represents a major instrument of solidarity in Europe: it participates in financing social investment projects, responds to emergency situations and, in so doing, aims at improving the living conditions of the most disadvantaged and vulnerable populations throughout its member countries.

## Operating principles

The CEB comes under the supreme authority of the Council of Europe. It nevertheless has its own separate legal personality and full financial autonomy.

The CEB bases its activity on its own funds and reserves and receives no aid or subsidy from its Member States.

Thanks to its excellent rating, the Bank raises funds in the international capital markets on very competitive terms, thus enabling its borrowers to significantly reduce the cost of financing their social projects.



# PROJECTS AND LOANS

## I. Operations

The CEB's action mainly consists in granting loans to finance projects that are economically and socially viable. The Bank can also act by issuing guarantees or through the use of trust accounts.

The Bank's projects/loans activity is currently structured around four sectoral lines of action, namely:

- /// strengthening social integration
- /// managing the environment
- /// supporting public infrastructure with a social vocation
- /// supporting micro, small and medium-sized enterprises (MSMEs)
  - /// An additional sectoral line of action set up within the framework of the Development Plan 2014-2016, which came into force on 1<sup>st</sup> January 2014.

The CEB pays particular attention to the quality and social impact of the projects it finances, thus maintaining close involvement throughout the entire project cycle. Moreover, the appraisal stage includes a thorough evaluation of the anticipated added value of the CEB's action.

The Loan and Project Financing Policy and the Handbook on the Preparation and Implementation of Projects provide the bases for the appraisal, financing, implementation and monitoring of projects.

### THE PROJECT CYCLE

**6. COMPLETION**  
A report is drawn up giving a full description of the works carried out and the objectives achieved within the framework of the project.

**6**  
COMPLETION

**5**  
DISBURSEMENTS

**5. DISBURSEMENTS AND MONITORING**  
The project's correct implementation is evaluated together with the appropriate use of the funds disbursed.

**7. EVALUATION**  
The project's impact and sustainability are evaluated in order to assess performance and quality as well as to draw lessons for future project preparation.

**7**  
EVALUATION



**4**  
NEGOTIATION

**4. NEGOTIATION OF THE FRAMEWORK LOAN AGREEMENT**  
The framework loan agreement is negotiated with the borrower on the basis of the terms approved by the Administrative Council.

## II. Borrowing from the CEB and loan financing

The CEB can grant loans to its 41 Member States, to local or regional authorities or to public or private financial institutions to finance projects corresponding to a certain number of social and financial criteria.

The Bank mainly provides flexible medium-term and long-term loans at favourable interest rates, in specific cases along with interest rate subsidies. CEB loans are granted for tenors that take into account the nature of the project; they are disbursed in several tranches.

The loan applications are prepared by the borrower, in close collaboration with the Bank's services. Once the financial and technical aspects of the projects have been analysed by the CEB's services, the loan applications are then submitted to the Administrative Council for approval.

Project financing can start once the Framework Loan Agreement (FLA) has been negotiated between the Bank and the borrower. The FLA reflects the specific modalities established by the CEB during project appraisal as well as the corresponding requirements determined by the CEB's Project Financing and Loan Policy, Environmental Policy, Procurement Guidelines and Anti-corruption Charter.

### 1. IDENTIFICATION

First approach to all the elements of the project in order to define the eligibility, feasibility as well as the objectives and the means required to achieve them. At this stage, a first estimate of the loan amount must be given.

1

IDENTIFICATION

2

APPRAISAL

### 2. APPRAISAL

The project, its social objectives and its financial and technical feasibility are evaluated with a view to its submission to the Administrative Council. The financial, technical and implementation-related aspects of the project are defined.

3

APPROVAL

### 3. APPROVAL BY THE ADMINISTRATIVE COUNCIL

Following on the opinion of admissibility by the Secretary General of the Council of Europe, the project is examined and, if satisfactory, approved by the Administrative Council.

## PROJECTS AND LOANS

### III. Volume of activity in 2013

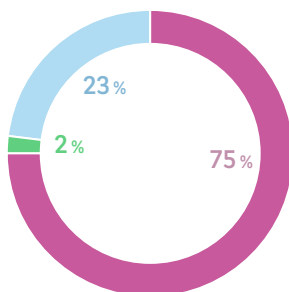
In 2013, the CEB's Administrative Council approved 38 loan applications for a total of € 2 274 million, including 27 operations in favour of the CEB's target countries\*. Total project approvals in 2013 were 26.5% higher than approvals during 2012, testifying to the importance of CEB financing in support of social investment programmes in its Member States, despite the challenges posed by the current economic and financial context.

At end 2013, disbursements totalled € 1 845 million, representing a 16.5% increase compared to total loan disbursements in 2012. Disbursements for the year were spread over 100 loan tranches and 67 projects/programmes.

\* Albania, Bosnia and Herzegovina, Bulgaria, Croatia, Cyprus, Czech Republic, Estonia, Georgia, Hungary, Kosovo, Latvia, Lithuania, Malta, Moldova (Republic of), Montenegro, Poland, Romania, Serbia, Slovak Republic, Slovenia, "the former Yugoslav Republic of Macedonia" and Turkey.

#### Projects approved in 2013

Breakdown by sectoral line of action



Strengthening social integration

Managing the environment

Within the "strengthening social integration" sectoral line of action, support for micro, small and medium-sized

## DEVELOPMENT PLAN 2014-2016

In November 2013, the CEB adopted its Development Plan 2014-2016, representing the roadmap for the Bank's activities over the three years beginning in January 2014.

Notwithstanding the persistently challenging economic environment and general increase in risks, the orientations of the Development Plan set ambitious goals for the CEB's activity levels, with global disbursements expected to reach € 1.8 billion per year on average (€ 1 billion per year on average in the target countries) over the next three years.

The provisions of the Development Plan are centred around the CEB's experience in developing high quality projects that, ultimately, maximise the Bank's contribution to strengthening social cohesion in Europe through an optimal and innovative use of resources and a judicious approach to risk-taking.

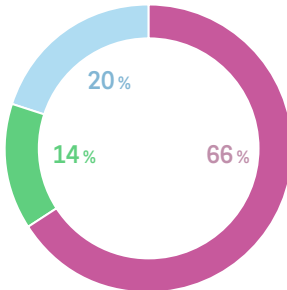
The Plan introduces new financing instruments and adapts existing ones in a bid to respond ever more efficiently to the needs of its Member States. It also reinforces the Bank's support for job creation and preservation in micro, small and medium-sized enterprises.

The Plan provides for even closer co-operation with the EU, other multilateral development institutions and donor countries as well as continued efforts in favour of operations in Central, Eastern and South-Eastern European countries.

The adoption of the Development Plan consequently resulted in the revision of the CEB's Loan and Project Financing Policy.

### Loans disbursed in 2013

Breakdown by sectoral line of action



Supporting public infrastructure with a social vocation

enterprises (MSMEs) represented 67% of total projects approved and 58% of all loans disbursed in 2013.

## PROJECTS AND LOANS

### IV. Strengthening social integration

The CEB contributes to social cohesion by acting in favour of refugees, migrants and displaced persons, financing the provision of housing for low-income persons, facilitating job creation and preservation (a sectoral line of action in its own right as of 2014), and improving living conditions in urban and rural areas.

In 2013, project approvals in the “strengthening social integration” sectoral line of action amounted to € 1 702 million, representing as much as three-quarters of all approvals in the year. Of this, 58%, or € 981 million, was in favour of target countries. In 2013, the Bank disbursed € 1 218 million in favour of social integration, representing two-thirds of all disbursements made in the year\*.

\* For 2013, the figures include the respective amounts of projects approved and of loans disbursed corresponding to support for micro, small and medium-sized enterprises (MSMEs). These amounts are set out separately, on page 8, in the presentation of the new sectoral line of action in question.



### EXAMPLES OF PROJECTS

- ▀ **Belgium:** Continuing cooperation with Vlaamse Maatschappij voor Sociaal wonen (VMSW) as a recognised public social operator in order to improve housing conditions in Flanders through the provision of social housing for low-income households, those living on social subsidies, single parents or those with disabilities.
- ▀ **Bosnia and Herzegovina:** Closing collective centres and alternative accommodation following the provision of appropriate public housing solutions for at least 7 200 internally-displaced persons throughout the country.
- ▀ **Romania:** Part-financing investments undertaken by Romanian municipalities to improve the quality and accessibility of public services.



## V. Managing the environment

For the CEB, sustainable management of the environment is not only a sectoral line of action, but also a constant requirement as the Bank seeks to fully integrate the environmental considerations into all its lending operations. Within this sustainability perspective, the CEB's actions have steadily evolved from emergency response to environmental disasters and immediate post-disaster reconstruction to prevention against the loss of life and livelihoods due to natural and ecological disasters as well as protection of the environment and preservation of historic and cultural heritage.

In 2013, new project approvals in this sectoral line of action amounted to € 53 million. The Bank disbursed € 266 million for environmental management in 2013, corresponding to 14% of all the year's disbursements.

### EXAMPLE OF A PROJECT

- ▀ **Hungary:** Reconstruction of panel buildings geared towards increased energy efficiency and lower energy costs.

## VI. Supporting public infrastructure with a social vocation

The CEB's integrated approach to supporting the development of public infrastructure with a social vocation in the key sectors of health, education, vocational training and administrative and judicial public services facilitates more dynamic and more equitable economic growth and social cohesion over the long term. The provision of modern public services is an essential tool in encouraging more balanced regional and national development in Europe, thereby reducing inequalities.

In 2013, projects approved amounted to € 519 million, representing 23% of all projects approved, while loans disbursed accounted for € 361 million or 20% of all disbursements for the year.

### EXAMPLES OF PROJECTS

- ▀ **Montenegro:** Construction and rehabilitation of pre-school units in order to improve the provision of accessible, comprehensive and inclusive pre-school education; some 8 000 children will benefit directly from the new and modernised education establishments.
- ▀ **Poland:** Support for the health sector throughout the country through equipment leasing for public and private health care providers.
- ▀ **Spain:** A follow-up programme to two successfully completed operations in support of ACCEDER Programme implemented by Fundación Secretariado Gitano aiming to enhance access of Roma youth to the labour market through the provision of job training, counselling and related services.



## PROJECTS AND LOANS

### VII. Supporting micro, small and medium-sized enterprises (MSMEs)

The CEB has long recognised the importance of supporting the creation of viable jobs. Recently support for job creation and preservation in micro, small and medium-sized enterprises (MSMEs) has taken centre stage in the Bank's efforts to strengthen social cohesion and improve living conditions across its membership base. The Development Plan 2014-2016 therefore includes job creation and preservation as a sectoral line of action in its own right.

The CEB's action in the MSME sector mostly takes place through apex structures with various financial institutions such as commercial banks, leasing companies, State development banks, etc. The CEB can also support microfinance models, as evidenced by recent programmes with Micro Bank in Spain or with PerMicro in Italy, approved in 2013.

Since its creation in 1956, the CEB has approved € 9.9 billion in favour of projects in its "job creation and preservation" sectoral line of action. Its activity strongly intensified as of 1995 and again with the onset of the global financial crisis that served to underscore the difficulties faced by MSMEs in obtaining access to funding.

In 2013, the Bank approved € 1 142 million in this sectoral line of action, while loan disbursements for 2013 accounted for € 701 million. Some examples of projects supporting micro, small and medium-sized enterprises are presented in the table below:

COUNTRY	BORROWER
Bulgaria	UniCredit Bulbank
Croatia	Hrvatska banka za obnovu i razvoj (HBOR)
	Raiffeisen Leasing d.d., Zagreb
Czech Republic	UniCredit Bank Czech Republic, a.s.
Georgia	JSC ProCredit Bank
	JSC TBC Bank
Italy	PerMicro SPA
Serbia	Société Générale Banka Srbija a.d. Beograd
Slovenia	SKB Bank d.d.
	UniCredit Banka Slovenija d.d.
"the former Yugoslav Republic of Macedonia"	Ohridska Banka AD Ohrid
Turkey	Halkbank (Türkiye Halk Bankası A.S.)
	Türkiye Cumhuriyeti Ziraat Bankası A.S.
	Türkiye Kalkınma Bankası A.S.

## VIII. Partnerships and trust accounts

The partnerships the CEB enters into with other international organisations and with donors through trust accounts fulfil a major objective of allowing the CEB to increase the resources available for its actions and thus increase the added value of its contribution.

The CEB has signed several bilateral and multilateral framework agreements with other international financial institutions – the latest being a Memorandum of Understanding with the EBRD in October 2013 – and has partnerships with organisations active in the social arena, including in particular several specialised United Nations agencies. Strengthening cooperation with the European Union (EU) is also a strategic lever for the CEB. As 26 of the Bank's 41 Member States are members of the EU and 8 are official or potential accession candidates, this common area of action makes the EU a natural partner for the CEB in fulfilling its social mandate.

At the end of 2013, the amount of donor funds administered by the Bank stood at € 203 million. These funds were split across 38 trust accounts, which can be grouped into four categories: (i) trust accounts funded by donor countries, either bilaterally (such as the Spanish Social Cohesion Account or the Norway Trust Account for the Western Balkans) or multilaterally (such as the Human Rights Trust Fund); (ii) trust accounts funded by the European Union (tripartite facilities with KfW and the Commission or other EU financial instruments and programmes such as the WBIF); (iii) trust accounts linked to the Regional Housing Programme (RHP); (iv) the trust account funded from the Bank's annual results, namely the Social Dividend Account (see box below).

### THE SOCIAL DIVIDEND ACCOUNT

The CEB's Selective Trust Account (STA) was first set up in 1995 in order to enable the Bank to provide interest rate subsidies for projects in its most disadvantaged member countries and to award a number of grants in favour of vulnerable population groups.

The reform of the STA, undertaken in 2012, was approved in March 2013. The STA was renamed Social Dividend Account (SDA) in order to highlight the attachment of the Bank's members to the Institution's social mandate and the fact that the account is almost exclusively funded by allocations from the CEB's annual profits.

The reform expanded the purpose of the SDA to increase its grant support in project preparation and implementation. Following the reform, the SDA consists of four distinct grant "windows", each dedicated to a particular grant-financed activity, namely: (i) technical assistance; (ii) guarantees; (iii) interest rate subsidies; (iv) grant contributions.



# FINANCIAL ACTIVITIES, CONTROL AND RISK MANAGEMENT

## I. Funding activities and results

In an improved economic and financial environment in Europe, the 2013 net profit reached € 111.3 million compared to € 120.2 million in 2012 (-7.4%). However, excluding the negative impact of the fair value of hedging derivative financial instruments and special items primarily related to the early departure scheme, the adjusted net profit amounted to € 123.3 million in 2013 against € 120.6 million in 2012, representing an increase of 2.2%. Equity amounted to € 2.5 billion, increasing by 8.8% compared to 2012.

## II. Rating

For its long-term operations, the rating agencies reaffirmed their Aaa/AA+ ratings: Moody's (Aaa, outlook negative, 1 August 2013); Standard & Poor's (AA+, outlook stable, 24 July 2013); Fitch Ratings (AA+, outlook stable, 11 September 2013). The CEB's short-term rating remained at its highest level P-1/A-1+/F1+.



### III. Control and risk management

Within the context of its lending and treasury activities, the CEB is exposed to different types of risks: credit, market, liquidity and operational risks. As a multilateral development bank, the CEB is not subject to the regulatory ratios of its Member States, or to Basel Recommendations, or to European Union directives. Nonetheless, the CEB has decided to follow the relevant provisions as a reference framework for its control and risk management policy.

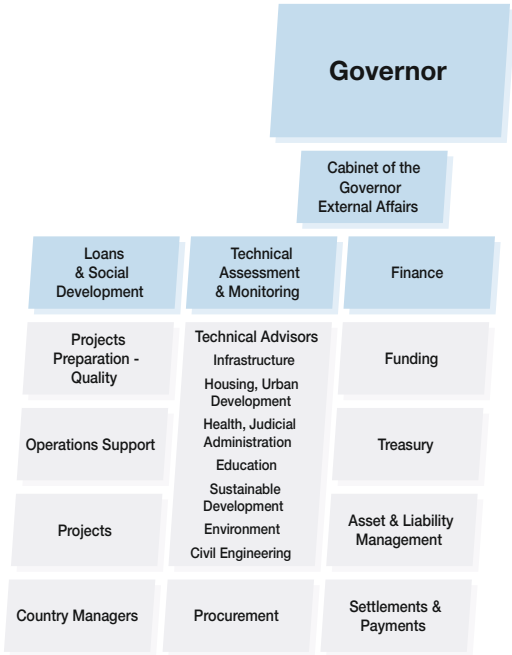
Using the best banking practices, the Bank has a risk management organization that is independent from its operational activities. Its prudent policy in terms of risk management has proved to be effective, and has allowed the CEB to cope with the financial crisis satisfactorily.

A new prudential framework came into force on 1<sup>st</sup> January 2014, along with the Development Plan 2014-2016. This CEB's revised prudential framework is built around three main pillars (capital adequacy, liquidity, leverage). Two capital ratios will now be used: a "capital adequacy ratio" based on the Basel III definition and a "gearing ratio" comparing loans to own funds, re-introduced to ensure better comparability with other multilateral development banks. Regarding liquidity, in addition to the already existing long term liquidity ratio a short term liquidity ratio will be implemented, enabling the Bank to have a broader scope and timeframe for assessing its liquidity position. Concerning leverage, two ratios will respectively assess the level of debt and of treasury assets compared to the prudential equity.

### IV. Compliance

Within the CEB, the Compliance Office primarily aims to protect the Bank from any financial or reputational risk that may arise from illegal, fraudulent, corrupt or unethical behaviour. Preserving high standards of integrity and governance the Compliance Office (Office of Chief Compliance Officer - OCCO), focuses not only on the Bank's borrowers and projects, but also on the conduct of the staff and Organs who work in and for the Bank; in other words OCCO's objective is to protect the Bank against external and internal compliance risks using a whole range of measures.

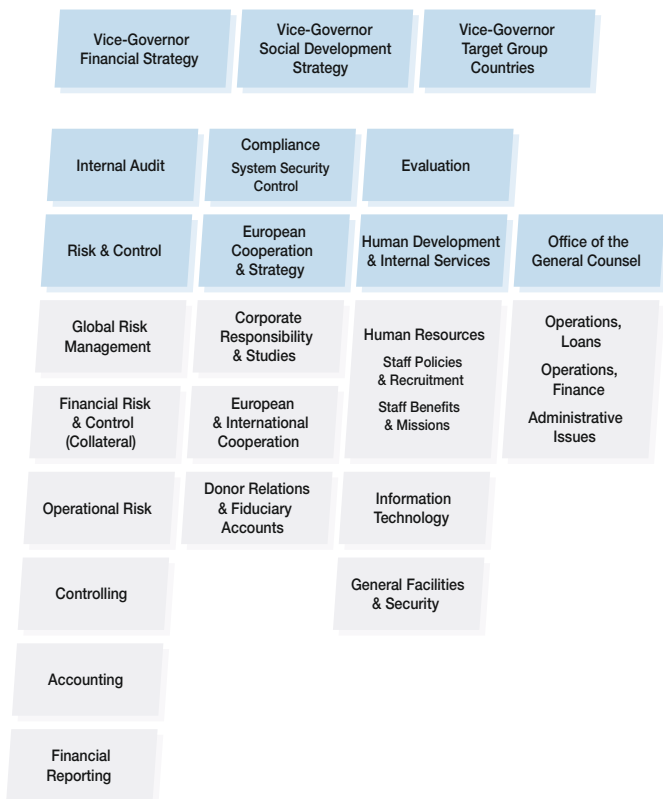
# GOVERNANCE AND CORPORATE RESPONSIBILITY



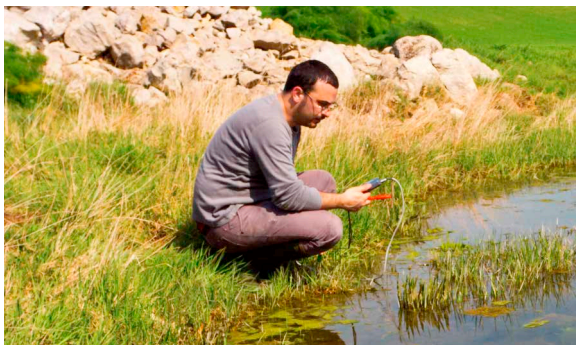
The Bank's organs are:

- /// The Governing Board
- /// The Administrative Council
- /// The Governor, assisted by three Vice-Governors
- /// The Auditing Board

The Bank is a Partial Agreement of the Council of Europe with its Secretariat in Strasbourg



## GOVERNANCE AND CORPORATE RESPONSIBILITY



### I. Corporate social responsibility

As a multilateral financial institution with a social vocation, statutorily placed under the “supreme authority” of the Council of Europe, the CEB continuously strives to enhance its contribution to socially and environmentally sustainable development. Corporate social responsibility (CSR) therefore lies at the heart of the Bank’s objectives and *modus operandi*.

The CEB’s commitment to transparency and disclosure of information concerning its activities is a strong and continuing engagement. This is reflected first in its Internet site, [www.coebank.org](http://www.coebank.org), which constitutes the Bank’s main institutional communication tool alongside its reference publications.

It is also more specifically borne out by the web content devoted to corporate social responsibility and the publication of a CSR report every year without exception since 2009.

An internal network of dedicated correspondents, representing all the Bank’s directorates, enables the commitments made in respect of CSR to permeate more deeply into the activities and functioning of the institution.



## II. Human development

At year-end 2013, the CEB employed 183 permanent staff representing 28 nationalities from among its 41 Member States. With respect to gender distribution, the Bank's staff comprised 98 women and 85 men, representing a ratio of 54% women to 46% men.

In 2013, the CEB continued its efforts to become an employer of choice through the implementation of a new online recruitment tool and increased outreach initiatives. Several HR projects were also launched, such as an internal values project and numerous training programmes, to foster exchanges between staff and enhance the Bank's overall in-house expertise.



## III. Evaluation

Evaluation serves a dual purpose: accountability and learning. Accountability entails assessing the performance of CEB-financed projects and their contribution to the CEB's mission; the key to the learning function is to draw upon such experience in order to improve present and future operations.

Independence with regard to operations, implementation of rigorous methodology, and networking with its peers are all key principles underpinning the functioning and organisation of the Evaluation Department.

# KEY FIGURES

*In million euros*

Loans disbursed during the year
Projects approved during the year
Financing commitments signed during the year
Loans outstanding
Own funds (after allocation of profit)
Equity (after allocation of profit)
Total assets
Net profit
Social Dividend Account (SDA)
Social dividends accumulated since the SDA's inception
Balance available (after allocation of profit)

\* Restated figures further to the implementation of IAS 19 and IAS 8.

2013	2012	2011*
1 845	1 584	1 855
2 274	1 798	2 110
2 262	1 019	1 798

12 582	12 131	12 075
7 320	7 116	6 491
2 460	2 262	2 093
24 485	26 858	26 083

111.3	120.2	106.9
105.4	105.4	105.4
30.8	36.3	31.7

# THE BANK'S MEMBER STATES (year)

Albania.....	1999	Estonia.....	1998	Ireland.....	
Belgium .....	1956	Finland.....	1991	Italy .....	
Bosnia and Herzegovina.....	2003	France .....	1956	Kosovo .....	
Bulgaria .....	1994	Georgia .....	2007	Latvia .....	
Croatia .....	1997	Germany.....	1956	Liechtenstein .....	
Cyprus .....	1962	Greece .....	1956	Lithuania.....	
Czech Republic .....	1999	Holy See .....	1973	Luxembourg .....	
Denmark.....	1978	Hungary .....	1998	Malta.....	
		Iceland.....	1956	Moldova (Repu	



of accession)

.....2004	Montenegro .....	2007	Slovenia.....	1994
.....1956	Netherlands .....	1978	Spain .....	1978
.....2013	Norway .....	1978	Sweden.....	1977
.....1998	Poland .....	1998	Switzerland.....	1974
.....1976	Portugal .....	1976	“the former Yugoslav	
.....1996	Romania .....	1996	Republic of Macedonia” ..	1997
.....1956	San Marino .....	1989	Turkey .....	1956
.....1973	Serbia .....	2004		
blc of) .1998	Slovak Republic.....	1998		





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