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## The Council of Europe Development Bank and its Activities in the Context of Global Public Goods

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## The Council of Europe Development Bank and its Activities in the Context of Global Public Goods

**Abstract:** In its activity, the Council of Europe Development Bank (CEB) is particularly obliged to consider the social and environmental impacts of its actions aimed, in principle, at improving the living conditions of communities and supporting their sustainable development, as well as at reducing the social costs of market failure and combating social exclusion. The Bank provides support to projects prioritizing European cohesion in the fields of law, human rights protection, access to education, common cultural heritage and protecting the natural environment. Its activities are directed at the protection and management of global public goods to be widely used by nations, states, civilizations and generations. In view of that, this paper presents the CEB as a multilateral development bank with an exclusively social mandate, and as an organization which does not only uphold and manage global public goods but also constitutes a global public good itself. The objective of this paper is to examine the functioning of the CEB from the perspective of global public goods. The paper describes the Bank (its origins, objectives, structure, funding, core activity and instruments) with special focus on its current activities, then assesses these activities through the lens of the debate on global public goods. This paper argues, on the one hand, that the CEB as an effective guardian, provider and manager of global public goods generates added value on both the national and international levels by pursuing socially-oriented projects in individual states and supporting multi-country social agendas, especially in Central, Eastern and South-Eastern Europe. On the other hand, it presents the CEB as a global public good *sensu stricto*, depicting it as a market leader and professional expert in the social banking field, and as a body that is not only a flexible lender responding to the needs of borrowers but also a trend setter shaping social capital markets.

**Keywords:** Council of Europe Development Bank (CEB), global public goods, international organizations, multilateralism, socially-oriented projects

### Introduction

Fundamental changes in the world economy in the last decades of the 20<sup>th</sup> century gave rise to a new type of public goods, called global pub-

lic goods.<sup>1</sup> Global public goods can be seen from two points of view. The first assumes that these goods are under the common “ownership” or part of the “common heritage of mankind” and refers to the “conditions for human survival”. Global public goods include not only geographical and biological ones such as the natural environment, air, climate, water and biodiversity, but also socio-political ones such as human rights, health, knowledge, education, equality, justice, cultural heritage, right to live in peace, and, last but not least, economic ones: free trade, financial and economic stability,<sup>2</sup> the right to satisfy basic needs and also, inherently sustainable growth. From the second point of view, multilateral international institutions and organizations are considered global public goods, since they undertake activities supporting stability and equalizing the living standards of the international community.<sup>3</sup>

Global goods have emerged in connection with contradictions resulting from manifold interdependencies, products of the globalization process, not only in the economic layer but also in the political, social, technical, demographic and cultural ones. Hence, numerous disequilibria have become apparent, and, as a consequence, some tensions and contradictions, mainly economic, political and cultural, have appeared. Therefore, two streams of actions on mitigating and levelling off differences globally have emerged. The first stream covers actions aimed at decreasing big differences between civilizations. The second includes activities aimed at mitigating tensions and contradictions between individual countries. For that purpose, a system of global public goods has been developed, which is protected and managed by multilateral international institutions and organizations. In fact, these en-

- 1 I. Kaul, I. Grunberg, M.A. Stern (eds), *Global Public Goods. International Cooperation in the 21st Century*, Oxford & New York: Oxford University Press, 1999; J.-P. Touffut (ed.), *Advancing Public Goods*, Cheltenham: Edward Elgar Publishing, 2006; J. Kleer, *Globalizacja a państwo narodowe i usługi publiczne* [Globalisation versus a national state and public services], Warszawa: PAN, 2006.
- 2 I. Kaul, I. Grunberg, M.A. Stern (eds), *Global Public Goods. International Cooperation in the 21st Century*, Oxford & New York: Oxford University Press, 1999, pp. 9-10.
- 3 J. Kleer, ‘Globalne dobra publiczne – zarys teorii’ [Global public goods – an outline of theory], in: E. Latoszek, M. Proczek, M. Krukowska (eds), *Zrównoważony rozwój a globalne dobra publiczne w teorii i praktyce organizacji międzynarodowych* [Sustainable growth versus global public goods in theory and practice of international organisations], Warszawa: Dom Wydawniczy Elipsa, 2016, p. 20.

tities are intended to mitigate differences between the countries and reduce consequences of financial, economic and social imbalances.<sup>4</sup>

No entity running its operations in the domain of global public goods focuses on one particular aspect, but rather on multiple, interconnected issues. However, there is no doubt that each multilateral institution or organization has its specific mission and tasks that are performed in the global context. Nonetheless, in principle, they cover a set of issues which should be solved for the smooth functioning of the contemporary world. This is also the case of the Council of Europe Development Bank (CEB) which is a multilateral development bank with an exclusively social mandate. It provides socially-oriented investment projects with financing and technical expertise in the fields of sustainable and inclusive growth, integration of refugees, displaced persons and migrants, and climate change adaptation and mitigation measures.<sup>5</sup> Its mission ensures that it represents a major instrument of Europe solidarity responding to issues currently affecting the European Union (EU).

The objective of this paper is to examine the functioning of the CEB from the perspective of the protection and management of global public goods. The paper traces current activities of the CEB and evaluates them through the lens of the debate on global public goods. Part one describes the CEB's objectives and history, part two focuses on its structure, part three presents the Bank's funding, core activity and instruments, part four discusses donors and trust funds, and the last section illustrates the Bank's current global public goods management operations. While solving numerous problems significant for contemporary Europe and the modern world, the CEB, like many other multilateral international institutions and organizations, functions as a global public good itself. It is an entity whose activities already cover a broad range of global public goods and at the same time evolve to respond to emerging challenges globally.

As the literature on this subject (especially Polish research), contains no intensive studies on the characteristics of the CEB in relation

4 J. K. Solarz, *Zarządzanie ryzykiem systemu finansowego* [Financial system risk management], Warszawa: PWN, 2008, pp. 58-71.

5 CEB, 'Mission and history', *About us*, Council of Europe Development Bank (CEB), <https://coebank.org/en/about/mission/> [2017-08-30].

to the management and protection of global public goods, this paper attempts to close this gap.<sup>6</sup>

Both the non-reactive research method (analysis alongside descriptive synthesis) and comparative method were applied in the research process. They were based on the CEB's official documents and professional literature on the subject. The terminology typical for economic and international finance research was used. The research ended on 30 August 2017.

## **1 Objectives and History of the CEB**

The Bank's main objective is to help solve social problems with which European countries are or may be faced as a result of the presence of refugees, displaced persons or migrants arising from the movement (forced or otherwise) of populations, including those affected by natural or ecological disasters.<sup>7</sup> The Bank is supposed to help such people in the country where they find themselves, or to enable them to return to their countries of origin when the conditions for their return are met or to settle in another host country. It may also contribute to investment projects creating jobs in disadvantaged regions, providing housing for people in low income groups or building social infrastructure.

Following its mandate, the institution provides loans to its member states. As a sign of solidarity among the CEB member states, the Bank aims to provide increased support to a group of 22 target countries of Central, Eastern and South-Eastern Europe: Albania, Bosnia and Herzegovina, Bulgaria, Croatia, Cyprus, the Czech Republic, Estonia, Georgia, Hungary, Kosovo, Latvia, Lithuania, Malta, the Republic of Moldova, Montenegro, Poland, Romania, Serbia, the Slovak Republic, Slovenia, the former Yugoslav Republic of Macedonia and

<sup>6</sup> The literature on the subject matter is rather scarce. There are only few studies on the CEB, of which those examining the issues of social cohesion, sustainability, development banks, social policy, international organisations and CEB's relations with the EU and the CoE deserve special attention. However, the topic of the CEB in the context of global public goods has not been elaborated yet. Polish researchers have not covered that issue, as well.

<sup>7</sup> CEB, *The Council of Europe Development Bank's new Articles of Agreement, Article II a*, Paris: the Council of Europe Development Bank (CEB), November 2016, [https://coebank.org/documents/51/Articles\\_of\\_Agreement.pdf](https://coebank.org/documents/51/Articles_of_Agreement.pdf) [2017-08-30].

Turkey.<sup>8</sup> These are relatively less developed countries, mostly former members of what was the communist bloc, and, in the CEB's opinion, requiring stronger support, and, hence, proportionally more funding.

The origins of the CEB go back to Europe in aftermath of the Second World War. The tragic situation in Europe at that time, combined with the installation of authoritarian regimes to the east of the Iron Curtain, triggered a flood of political refugees into Western Europe and, in particular, into Germany.<sup>9</sup> In response to the growing refugee problem, the members of the Council of Europe (CoE) set up the Council of Europe Resettlement Fund for National Refugees and Over-Population in Europe, which was intended to support the financing of refugee resettlement projects. The first of the CoE's Partial Agreements were signed by eight countries (the Republic of Ireland, Germany, Belgium, Luxembourg, France, Italy, Greece and Turkey) on 16 April 1956. The organization started with a very modest budget of less than \$7 million, which gradually developed over the years, mostly due to the extension of the Bank's scope of activities (which came to include social cohesion and the development of free and democratic European societies), which was naturally followed by an increase in member states. To reflect the changes and mark the organization's increasing role, its name was changed in 1994 to the Council of Europe Social Development Fund and then in 1999 to the Council of Europe Development Bank.<sup>10</sup> At that time, the institution recorded a spectacular growth in its operations in Central and Eastern European countries and became a true example of a multilateral financial institution supporting international development and system transformations.

8 CEB, 'Member Countries', *About us*, Council of Europe Development Bank (CEB), <https://coebank.org/en/about/member-countries/> [2017-08-30].

9 E. Bussière, E. Willaert, *The Social Development Bank in Europe 1956-2006*, Paris: Blanchard Printing, 2006, p. 3.

10 CEB, *Decision concerning the change of the name of the Institution (adopted by the Governing Board unanimously on 28 June 1999 at its 158th meeting (Extract from PV/CD 158 (1999))*, Paris: Council of Europe Development Bank (CEB), June 1999, <https://coebank.org/documents/52/changename.pdf> [2017-08-30].

## 2. Structure of the CEB

The CEB operates under the auspices of the CoE and, in accordance with its constitutional documents and social mandate, promotes the values and principles of the CoE. These values include the protection and promotion of human rights, the rule of law and democracy.<sup>11</sup> It is, however, a separate legal entity and a financially independent institution.

Any member of the CoE may join the CEB by addressing a declaration to the Secretary General accepting the present Articles of Agreement and subscribing to a fixed number of participating certificates.<sup>12</sup> In case of states that are not members of the CoE, a special agreement with the Governing Board is needed. Also, international institutions with European focus may become members of the Bank. At present, the CEB has 41 shareholder member states.<sup>13</sup> The paid-in capital amounts to €612 million, while the subscribed capital equals €5.5 billion.<sup>14</sup> Each participating certificate has the same nominal value of €1,000. The Governing Board determines the number of participating certificates per member state, fixes the minimum percentage of the subscribed participating certificates to be paid up and the dates of respective payments, and adjusts the apportionment of the subscribed participating certificates along with the terms of payment in the event of capital increase.

The organization, administration and supervision of the Bank are divided between the Governing Board, the Administrative Council, the Governor and the Auditing Board. The CEB is a multilateral, intergovernmental international organization, so its bodies fall into categories

11 E. Latoszek, 'Rada Europy i jej znaczenie w dziedzinie ochrony praw człowieka oraz tworzenia prawa europejskiego o charakterze społecznym' [The Council of Europe and its meaning in the area of human rights defence and EU social law making], in: E. Latoszek, M. Proczek (eds), *Organizacje międzynarodowe we współczesnym świecie* [International organisations in the contemporary world], Warszawa: ELIPSA, 2006, p. 349.

12 *Articles of Agreement, Article III a*, op. cit.

13 Member countries of the CEB: Albania, Belgium, Bosnia and Herzegovina, Bulgaria, Croatia, Cyprus, Czech Republic, Denmark, Estonia, Finland, France, Georgia, Germany, Greece, Holy See, Hungary, Iceland, Ireland, Italy, Kosovo, Latvia, Lichtenstein, Lithuania, Luxembourg, Macedonia, Malta, Montenegro, Netherlands, Norway, Poland, Portugal, Republic of Moldova, Romania, San Marino, Serbia, Slovak Republic, Slovenia, Spain, Sweden, Switzerland, Turkey.

14 CEB, 'Regulated Information', *Investor relations*, Council of Europe Development Bank (CEB), <https://coebank.org/en/investor-relations/regulated-information/> [2017-08-30].

specified in the source literature,<sup>15</sup> namely the Governing Board and the Administrative Council are the intergovernmental bodies and the Governor and Auditing Board are the administrative ones.

The Governing Board fulfills a function of the General Assembly in the CEB. Currently, it consists of 42 members<sup>16</sup> who are the Chairman and representatives of all 41 member states (mostly ambassadors to individual CoE member states). The Chairman is elected by the Board members for a three-year term with the possibility of re-election.<sup>17</sup> The Chairman chairs the proceedings, without the right to vote. They also represent the Governing Board and report on the Bank's activities to the Parliamentary Assembly and the Committee of Ministers of the CoE, and inform Board members on the current Bank's state of affairs between the Board meetings. The Vice-Chairman of the Governing Board is elected from among the Board members for two years. They can be re-elected and have the right to vote.<sup>18</sup> The Governing Board is the supreme organ of the CEB. It sets out the general directions for the Bank's operations, approves annual financial statements, specifies the conditions for Bank membership, decides on capital increases, elects the Chairman of the Governing Board and the Chairman of the Administrative Council, and appoints the members of the Auditing Board and the Governor.<sup>19</sup> The Governing Board's decisions are reached by voting, with the number of votes per Board member corresponding to the number of participating certificates held. For a given matter to be accepted or rejected, it must receive a two-thirds majority of votes cast.<sup>20</sup>

The Administrative Council is the executive body in the CEB. It consists of a Chairman and one representative of each member state (mostly senior officials from ministries of finance).<sup>21</sup> Therefore, just

15 E. Latoszek, 'Organizacja międzynarodowa jako podmiot stosunków międzynarodowych' [International organisation as an entity in international relations], op. cit., pp. 64-67.

16 CEB, *Rules of Procedure of the Governing Board, Rule 2: Composition*, Paris: Council of Europe Development Bank (CEB), November 2016, [https://coebank.org/documents/53/RI\\_CD\\_En.pdf](https://coebank.org/documents/53/RI_CD_En.pdf) [2017-08-30].

17 *Articles of Agreement, Article IX, Section 5 a*, op. cit.

18 *Rules of Procedure of the Governing Board, Rule 3: Chairmanship*, op. cit.

19 *Articles of Agreement, Article IX, Section 3, paragraph 1 k, l, m*, op. cit.

20 *Articles of Agreement, Article IX, Section 4 a, c, e*, op. cit.

21 CEB, *Rules of Procedure of the Administrative Council, Rule 2: Composition*, Paris: Council of Europe Development Bank (CEB), November 2016, [https://coebank.org/documents/54/RI\\_CA\\_En.pdf](https://coebank.org/documents/54/RI_CA_En.pdf) [2017-08-30].

like the Governing Board, it currently has 42 members. The Chairman of the Administrative Council is appointed for a three-year term by the Governing Board and can be re-elected once. They chair Council meetings and have no right to vote. The Vice-Chairman of the Administrative Council is elected from among its members for a two-year term, renewable once, and has the right to vote.<sup>22</sup> The Administrative Council supervises the Banks' operational activity, approves the operating budget and investment projects, and decides about the allocation of profits.<sup>23</sup> It is convened by its Chairman at least four times a year<sup>24</sup> and takes decisions by voting, assuming that each member of the Council has a number of votes equal to the number of participating certificates held by the state they represent.<sup>25</sup> Only votes on proposals and opinions addressed to the Governing Board (regarding, among others, possible changes in the CEB's share capital, bankruptcy-related activities and the appointment of external auditors)<sup>26</sup> and regarding the adoption or amendment of the *Rules of Procedure of the Administrative Council* require a majority of the votes cast and the consent or refusal of the majority of the Council members.<sup>27</sup>

The Auditing Board is composed of three members of the member states of the CEB appointed by the Governing Board for a three-year term on a rotation basis. The rotation system assumes that one member is replaced every year.<sup>28</sup> The Auditing Board is an independent supervising body intended to control the Bank's activities from the point of view of legality and effectiveness, based on operational rules and regulations. Its members should have significant professional experience in financial auditing.<sup>29</sup> The Board has full access to all of the Bank's documents, and may, if needed, consult external experts.<sup>30</sup> Every year, it prepares a report certifying that the CEB's financial state-

22 *Rules of Procedure of the Administrative Council, Rule 3: Chairmanship*, op. cit.

23 *Rules of Procedure of the Administrative Council, Rule 1: Powers*, op. cit.

24 *Rules of Procedure of the Administrative Council, Rule 5: Meetings*, op. cit.

25 *Rules of Procedure of the Administrative Council, Rule 13: Voting*, op. cit.

26 *Articles of Agreement, Article IX, Section 9 c, d, f, m, n*, op. cit.

27 *Rules of Procedure of the Administrative Council, Rule 14: Majorities required*, op. cit.

28 CEB, *Rules of Procedure of the Auditing Board, Rule 2 – Composition*, Paris: Council of Europe Development Bank, November 2016, [https://coebank.org/documents/55/RI\\_CS\\_En.pdf](https://coebank.org/documents/55/RI_CS_En.pdf) [2017-08-30].

29 Loc. cit.

30 *Rules of Procedure of the Auditing Board, Rule 1 – Powers*, op. cit.

ments give an accurate and true picture of the state of Bank's affairs and that the Bank is managed according to the principles adopted.<sup>31</sup>

The Governor is the legal representative of the Bank and the head of the Bank's operational services, responsible for day to day business in line with the instructions of the Administrative Council. The Governor is appointed by the Governing Board for a term of five years, renewable once.<sup>32</sup> On a proposal from the Governor, the Governing Board may also appoint Vice-Governors. Their terms of office also last five years and can be renewed once.<sup>33</sup> The Governor is obliged to keep the Administrative Council informed about the Bank's day to day business, and to present its members with opinions on technical and financial aspects of investments undertaken. The Governor is also accountable for drawing up a full annual report on all operations effected during the year, which is accompanied by the Bank's balance sheet and operational accounts, together with the Auditing Board's report on these documents, and presented to the Administrative Council.<sup>34</sup>

### **3. Funding, Core Activity and Instruments of the CEB**

As the CEB receives no aid, subsidies, membership fees or budgetary contributions from its member states, it finances its activities from money raised on the international capital markets in the form of borrowings, mainly bond issues. Additional sources constitute investments and trust accounts.<sup>35</sup>

Since the CEB enjoys very good ratings, it turns both to large-scale borrowings in major currencies and to tailor-made issues in others. It is currently offering four bond issue programs: the Euro Medium Term Note Program; the United States (US) SEC-registered Debt Program; the Australian and New Zealand Dollar Medium Term Note Program and the Euro-Commercial Paper Program.<sup>36</sup>

31 *Articles of Agreement, Article XII*, op. cit.

32 *Articles of Agreement, Article XI, Section 1 a, b*, op. cit.

33 *Articles of Agreement, Article XI, Section 2*, op. cit.

34 *Articles of Agreement, Article XI, Section 3*, op. cit.

35 *Articles of Agreement, Article VII, Section 3*, op. cit.

36 CEB, 'Funding', *Investor relations*, Council of Europe Development Bank (CEB), <https://coebank.org/en/investor-relations/funding/> [2017-08-30].

The CEB's Articles of Agreement specify the priorities for the Bank's operations, based upon which the Bank provides loans and issues guarantees, and administers trust accounts.<sup>37</sup>

The Bank can above all grant loans to its members for purposes in line with the Bank's mission. The Bank can also grant loans to other legal persons provided that they are guaranteed by a member of the Bank and approved by that member. The guarantee of a Bank member is not required when the Administrative Council acknowledges that the loan repayment is covered by adequate guarantees.<sup>38</sup> The terms and conditions of loans are fixed in each case by the Administrative Council.<sup>39</sup>

The possibility of providing loans on competitive terms is a key differentiator of the CEB's offer. The Bank's excellent investment rating, awarded by the main rating agencies (Moody's, Standard & Poor's and Fitch Ratings), ensures lower costs of fund raising on the capital markets. As a non-profit driven institution with a social mandate, the Bank reduces borrowing costs by applying modest margins or avoiding fees. Moreover, the Administrative Council may give a full or partial interest rebate for specific borrowers, using for that purpose a portion of profits realized by the Bank and voluntary contributions by members.<sup>40</sup> However, loans provided by the CEB never finance 100% of an investment.

Taking into account the CEB's unique social mandate, and thus its deep understanding of social infrastructure needs in Europe, the Bank can provide well-targeted loans to co-finance socially-oriented projects in all its member states. The CEB has developed a range of project financing instruments that ensure flexibility to its borrowers and address their needs. These instruments include:<sup>41</sup>

Project Loans usually financing predefined individual infrastructure investments

37 *Articles of Agreement, Article VII, op. cit.*

38 *Articles of Agreement, Article VII, Section 1, op. cit.*

39 *Articles of Agreement, Article VI, Section 5, op. cit.*

40 *Articles of Agreement, Article VII, Section 4, op. cit.*

41 CEB, 'Reliable financing partner', *Project financing*, Council of Europe Development Bank (CEB), <https://coebank.org/en/project-financing/reliable-financing-partner/> [2017-08-30].

Program Loans used for funding multi-project programs, mostly in support of Micro, Small and Medium-Sized Enterprises (MSMEs) and municipal investment programs, often disbursed via the CEB's commercial bank partners

EU Co-financing Facility (ECF) allowing co-financing and/or ex-ante financing of EU-funded investment activities at the country level

Public Sector Financing Facility (PFF) covering temporary financing gaps in the public sector and facilitating the continuation of investments and reform programs

Cross-Sectoral Loan Program (CSL) responding to the public authorities' social infrastructure needs in several overlapping sectors.

Potential borrowers include governments, regional and local authorities, public and private financial institutions, and any other public or private legal entities approved by a member state.<sup>42</sup> To assess the borrower's eligibility for financing, the Bank conducts a systemic evaluation of its solvency, institutional set-up and management capacity. The loan application assessment procedure is rather lengthy. All proposals for potential investments are assessed in terms of the Bank's mission and their impact on communities. The Administrative Council takes the final decision about all loan commitments. Once the project is approved by the Administrative Council, the Bank concludes a Framework Loan Agreement with a borrower. The CEB grants mid and long-term loans, and the funds are disbursed in tranches. After completion of an investment, the borrower is obliged to submit a detailed report showing how funds lent were utilized.<sup>43</sup> As already indicated, the CEB assists the borrower throughout the entire project cycle phase, starting from the early stages of loan application preparation, going through such stages as appraisal, approval by the Administrative Council, negotiation of the framework agreement, loan disbursement and monitoring, and ending with completion and evaluation.<sup>44</sup>

Keeping in mind the social dimension of the Bank's actions and mission, the institution places special emphasis on target sectors including refugees and migrants, social housing, living conditions, natu-

42 CEB, 'How to access CEB financing', *Project financing*, Council of Europe Development Bank (CEB), <https://coebank.org/en/project-financing/how-access-ceb-financing/> [2017-08-30].

43 Ibid.

44 Ibid.

ral disasters, environment, cultural heritage, health, education, public administration and MSMEs.<sup>45</sup>

The Bank provides not only flexible instruments but also technical and financial expertise. Staff with highly specialized, diverse professional and cultural backgrounds are among its strongest assets. The expertise offered is not limited to conventional finance, economics and risk management, but also includes project management, civil engineering, education, health and housing. Additionally, the CEB's technical, operational and financial knowhow ensures that both the project structure and the financing offer closely match the borrowers' requirements. The Bank is a real partner to clients trying to address their needs and solve potential issues in a timely manner. Its loans are often tailor-made structures with flexible terms of disbursement and repayment, which guarantee long-standing mutual partnerships. As far as guarantees are concerned, the CEB can grant them to financial institutions approved by its members for loans pursuing the Bank's objectives. As in the case of loans, the terms and conditions of guarantees are fixed in each case by the Administrative Council.<sup>46</sup> Trust accounts may be opened and managed for voluntary contributions made by the Bank's members, the Bank as an institution and the CoE.<sup>47</sup>

## 4. CEB Donors and Trust Funds

Donor contributions are key to CEB operations, as they enable the Bank to support more specifically social projects.<sup>48</sup> The Bank uses donor funds to finance technical assistance for project implementers, helping them to prepare and implement their projects in accordance with best practices, and to finance partial costs of projects.<sup>49</sup>

By the end of 2016, 25 CEB member states, two non-member states, the US, the United Kingdom (UK), the EU, the European Commission (EC) and the European Investment Bank (EIB) had contributed

45 CEB, 'Sectors', *Project financing*, Council of Europe Development Bank (CEB), <https://coebank.org/en/project-financing/sectors/> [2017-08-30].

46 *Articles of Agreement, Article VII, Section 2, 4*, op. cit.

47 *Articles of Agreement, Article VII, Section 3*, op. cit.

48 CEB, 'Donors and Trust Funds', *Project financing*, Council of Europe Development Bank (CEB), <https://coebank.org/en/project-financing/donors-and-trust-funds/> [2017-08-30].

49 *Ibid.*

to CEB trust funds.<sup>50</sup> The table below presents the donors matched with the range of their contributions, including the purpose of donations with regard to top four donors.

By the end of 2016, the Bank administered 35 trust funds, the total balance of which stood at €148 million. The CEB manages several trust funds financed mainly or entirely by its member states, namely:

The Migrant and Refugee Fund (MRF), aimed at helping its member states in addressing migrant and refugee related issues (accommodation centers along the “Balkan route,” integration of migrants and refugees). By the end of 2016, total contributions stood at €21 million, and grants approved at €18 million.

The Slovak Inclusive Growth Account, supporting the CEB’s goal of inclusive growth and environmental sustainability in the CEB’s target countries, particularly Official Development Assistance (ODA) eligible countries, by means of financing technical assistance; it is endowed with €2 million. By the end of 2016, the first grant had been approved.

The Spanish Social Cohesion Account, financing technical assistance for CEB projects located in the target countries. It is endowed with €2 million, almost all of which has been used.

The Social Dividend Account, used to support, in the form of technical assistance, loan guarantees, interest rate subsidies and investment grants for high impact social projects, located mainly in the target countries. By the end of 2016, the resources of the fund amounted €142 million, while grants approved stood at €117 million.

The Human Rights Trust Fund (HRTF), promoting human rights, democracy and the rule of law in Europe by financing technical assistance for projects in these fields. By the end of 2016, contributions stood at €14 million, while 27 grants had been approved for initiatives linked to the CoE.

The Bank also administers several trust funds, funded mainly or entirely by the EU under the Regional Housing Program (RHP), the Western Balkans Investment Framework (WBIF), the European Local Energy Assistance facility (CEB-ELENA) and the Eastern Europe

50 CEB, ‘Donors’, *Project financing*, Council of Europe Development Bank (CEB), <https://coebank.org/en/project-financing/donors-and-trust-funds/donors/> [2017-08-30].

## Energy Efficiency and Environment Partnership (E5P) and Tripartite EU-KfW-CEB facilities.<sup>51</sup>

**Table 1: Current CEB Donors Matched with the Range of their Contributions, Including the Purpose of Donations with Regard to the Top Four Donors**

Amount of Contributions	Donors to CEB Trust Funds	
More than €10 million	€381 million	EU (RHP, WBIF, E5P, construction of a state hospital in Turkey for Syrian refugees and their host community)
	€24 million	the US (RHP) <sup>1</sup>
	€16 million	Germany (MRF, RHP, HRTF)
	€14 million	Norway (Norway Trust Account, HRTF, RHP, MRF)
From €5 million to €10 million	Italy, Switzerland and the EIB	
Up to €5 million	France, Sweden, the Slovak Republic, the Netherlands, Spain, Denmark, Finland, Turkey, Luxembourg, the UK, Ireland, Lithuania, Cyprus, the Czech Republic, Hungary, Poland, Albania, Romania, Malta, the Holy See, San Marino, Iceland and Liechtenstein	

<sup>1</sup> CEB, 'The U.S.A. announces an additional USD 10 million contribution to the RHP', *News*, Council of Europe Development Bank (CEB), 21 July, 2017, <https://coebank.org/en/news-and-publications/news/usa-announces-additional-usd10-million-contribution-to-rhp/> [2017-08-30].

Source: The Author's own compilation based on CEB, "Donors", *Project financing*, Council of Europe Development Bank (CEB), <https://coebank.org/en/project-financing/donors-and-trust-funds/donors/> [2017-08-30].

## 5. Current CEB Activities Relating to the Management and Protection of Global Public Goods

Since 1996, the CEB has been carrying out its mission through a medium-term strategy called the Development Plan. The Plan is an official document that describes assumptions, sets objectives, and provides guidelines for actions within the CEB's operational framework for the forthcoming years.

The Development Plan for the years 2014-2016 focused on strengthening social integration, managing the environment, public infrastructure support as well as support for MSMEs.<sup>52</sup> For 2014-2015, the

<sup>51</sup> CEB, 'Trust Funds', *Project financing*, Council of Europe Development Bank (CEB), <https://coebank.org/en/project-financing/donors-and-trust-funds/trust-funds/> [2017-08-30].

<sup>52</sup> CEB, *Development Plan 2014-2016*, Paris: Council of Europe Development Bank, 2013, p. 1, [https://coebank.org/media/documents/2014\\_2016\\_development\\_plan\\_English\\_Lhtb2si.pdf](https://coebank.org/media/documents/2014_2016_development_plan_English_Lhtb2si.pdf) [2017-08-30].

Plan was implemented in line with assumptions, stressing high social value projects and meeting established targets. The baseline scenario was realized, with project approvals averaging €2.2 billion and loans outstanding amounting to €13.1 billion by the end of 2015, 58% of which consisted of operations supporting the target countries.<sup>53</sup> In the face of cuts in public and private sectors in the real economy, the Bank continued to support investments in the public sector, focusing on local infrastructure, education, health and enhanced energy efficiency. It also strongly supported job creation and preservation in MSMEs, with 16 out of 37 program loans addressing this sector, representing cumulative CEB financing of €1.1 billion, with 74% in the target countries.<sup>54</sup> Support for social investments was further reinforced through technical assistance for project preparation and implementation. As a result, technical assistance and investment grant disbursements almost doubled between 2014 and 2015, rising from €30 million to €59 million. In relation to the CEB's social mandate to provide aid for refugees, migrants and displaced persons, the Bank continued to play a major role in the RHP by managing the fund and facilitating coordination between its stakeholders during the preparation and implementation phases. Since the RHP was set up in 2012, donors have provided €187 million in grants, out of which the CEB had managed disbursement of €124 million by the end of June 2016.<sup>55</sup>

The last year of the Development Plan for 2014-2016 was exceptional, with approval of a record number of projects amounting to nearly €3.5 billion.<sup>56</sup> This represented an increase of almost 50% compared with 2015 and 2014. This surge stemmed in part from the additional demand from the countries of Western and Northern Europe struggling with migration pressures. The Bank provided more than €18 million<sup>57</sup> for emergency projects in host countries through the MRE, which increased shelter capacity and improved conditions in reception cent-

53 CEB, *Development Plan 2017-2019*, Paris: Council of Europe Development Bank, 2017, p. 4, [https://coebank.org/media/documents/Development\\_Plan\\_2017\\_2019.pdf](https://coebank.org/media/documents/Development_Plan_2017_2019.pdf) [2017-08-30].

54 Loc. cit.

55 CEB, *Development Plan 2017-2019*, op. cit., p. 6.

56 CEB, 'CEB Publications', *Report of the Governor 2016*, Council of Europe Development Bank (CEB), p. 28, [https://coebank.org/media/documents/Report\\_of\\_the\\_Governor\\_2016.pdf](https://coebank.org/media/documents/Report_of_the_Governor_2016.pdf) [2017-08-30].

57 *Ibid.*, p. 9.

ers, while also providing migrants and refugees with food, medical aid and legal advice. The Bank was also a great advocate of long-term migrant integration to ensure access to housing, jobs, healthcare and education, which was reflected in an additional investment of €1 billion for that purpose in 2016.<sup>58</sup> In the same year, the Bank further supported European efforts to boost investments and economic growth in Europe (the “Juncker Plan”) by approving €1.18 billion for financing MSMEs.<sup>59</sup> As an institution with a strong social focus, the Bank continued investments in affordable housing for vulnerable groups (almost €1 billion)<sup>60</sup> and education (€719 million)<sup>61</sup>. On the environmental front, the Bank built resilience to climate change into project design to ensure the reduced carbon footprint of the projects funded.

As the Bank successfully reached the objectives set out in the Development Plan for 2014-2016, it adopted in December 2016 a new Development Plan for the period 2017-2019.<sup>62</sup> Since the 2014-2016 Plan was a response to the repercussions of the financial crisis, when confronted with new challenges such as sustainable growth, climate change developments and the European migration crisis, it needed some refocusing. The new Plan emphasizes the CEB’s core activity area of supporting refugees and displaced persons, which was an integral part of the Bank’s original mandate in 1959. Here, the Bank focuses on the provision of accommodation and versatile long-term integration (financing for local infrastructure, affordable housing, language acquisition, skills development and job creation).<sup>63</sup> It also strongly supports global efforts to protect the environment and act on climate change by means of providing impact analysis, monitoring and technical assistance for the projects financed. The Plan continues to support public infrastructure with social vocation, job creation and preservation, especially through support to MSMEs, wider access to labor markets, provision of housing and assistance to vulnerable groups under the umbrella of sustainable and inclusive growth.

58 *Ibid.*, p. 10

59 *Ibid.*, p. 11.

60 *Ibid.*, p. 13.

61 *Ibid.*, p. 14.

62 CEB, *Development Plan 2017-2019*, op. cit., p. 8.

63 CEB, ‘CEB Publications’, *Strategy 2017-2019*, Council of Europe Development Bank (CEB), p. 12, [https://coebank.org/media/documents/CEB\\_Strategy\\_2017-2019.pdf](https://coebank.org/media/documents/CEB_Strategy_2017-2019.pdf) [2017-08-30].

Moreover, the Development Plan foresees the CEB's crucial role in promoting a social agenda in Europe among all key European stakeholders, since Europe needs concerted actions to tackle the current challenges. Therefore, the Plan stresses the importance of an even closer partnership with the EU and its institutions, which are obvious partners as 26 of the Bank's member states are already EU members, and the majority of the remaining 15 aspire to join it. Cooperation with the EU consists mainly of blending the Bank's loans with EU grants, either for technical assistance or investment, or managing program funds and coordinating fund stakeholders. The CEB will continue to cooperate with the EU, and especially its CEE Member States, on the following joint initiatives:<sup>64</sup>

The Regional Housing Program (RHP), tackling the displacement of refugees and others in the Western Balkans stemming from the regional conflicts in the 90s by means of providing housing in Bosnia and Herzegovina, Croatia, Montenegro and Serbia.

The Western Balkans Investment Framework (WBIF), facilitating access to European finance for the countries in the Western Balkans.

Neighborhood Investment Facility (NIF), aimed at providing loans to countries eligible under the European Neighborhood Policy Instrument.

the Eastern Europe Energy Efficiency and Environmental Partnership (E5P), aimed at supporting energy efficiency and decreasing CO<sub>2</sub> emissions in the EU Eastern Partnership countries (Georgia and the Republic of Moldova), and other ad hoc initiatives.

The CEB also intends to intensify and deepen its relations, in terms of financing and expertise, with other international financial institutions such as the European Bank for Reconstruction and Development (EBRD), the World Bank Group and the Nordic Investment Bank. The Bank wants to cooperate with other international organizations, such as the agencies of the United Nations (the United Nations High Commission for Refugees, the United Nations Development Program and the United Nations Children's Fund) and the International Organiza-

64 CEB, 'Partnership', *The CEB and the European Union (EU)*, Council of Europe Development Bank (CEB), <https://coebank.org/en/about/partnerships/> [2017-08-30].

tion for Migration.<sup>65</sup> As an ODA-listed international organization, the Bank intends to enhance its dealings with the Organization for Economic Cooperation and Development (OECD).<sup>66</sup>

In April 2017, the Bank issued its first social inclusion bond of €500 million with a seven-year maturity, gathering investor interest of more than €1 billion.<sup>67</sup> It thus created an innovative new way to finance its projects. It is also considering the possibility of issuing its first sustainability bond.<sup>68</sup>

As mentioned above, mass migration to Europe from war-torn countries caused total aid in 2016 to rise to €3.5 billion. In that respect, planning future financing demand from countries hosting refugees and migrants based on the exceptional 2016 budget means that the Bank needs to consider a possible new trend of extra volumes which, if confirmed, would translate into an annual increase in the number of approvals of up to 50% of baseline for the next three years.<sup>69</sup> Taking this into account, the CEB foresees disbursements of above €1 billion in the target countries each year.<sup>70</sup>

Under the Development Plan for 2017-2019, the CEB strives to remain an active public good institution by keeping pace with market developments and joining international efforts, especially of such organizations as the UN, the EU and the CoE, in tackling global challenges.

## Conclusions

Global public goods are all about bringing benefits to the international community, not only crossing geographical boundaries and borders but also ensuring that future generations will benefit from them.<sup>71</sup> Global public goods establish patterns to be followed by all nations, countries

65 CEB, *Development Plan 2017-2019*, op. cit., p. 13.

66 Loc. cit.

67 CEB, 'Bringing a social mandate to capital markets', *News and Publications*, Council of Europe Development Bank (CEB), <https://coebank.org/en/news-and-publications/projects-focus/bringing-social-mandate-capital-markets/> [2017-08-30].

68 CEB, *Development Plan 2017-2019*, op. cit., p. 12.

69 Loc. cit.

70 This, however, will depend on the loan demand in those countries and the absorption capacity.

71 EC, 'EU focus on global public goods', European Commission (EC), p. 1, <http://ec.europa.eu/environment/archives/wssd/pdf/publicgoods.pdf> [2117-08-30].

and generations. They lay the foundations for a socially responsible world and are subject to constant development at the pace of progressive globalization. The existence of global public goods is, therefore, directly related to globalization and the integration of national states.

Multilateral international institutions and organizations, including the CEB, play a significant role in protecting and managing global public goods, as they themselves often become in *sensu stricto* global public goods. As these entities usually include representatives of a significant number of countries, they constitute one of the basic components of contemporary international relations. Their activity is aimed at the stabilization and resolution of international problems. Acting as secondary international law entities, they are not able to build a homogeneous system for the management of public goods. However, when confronted with many global challenges they seek necessary compromise in that respect. The fact that most countries are unable to deal with contentious issues on their own increases the role of international organizations and institutions as coordinators of joint actions in gradually expanding areas of multilateral cooperation. Thus, in the new global circumstances, they mitigate the consequences of global threats. Due to the limited effectiveness of individual countries, such complex issues as environmental protection and the stability, economic, political and financial security or management of scarce natural resources can only be addressed peacefully via multilateral partnerships. Therefore, multilateral international institutions and organizations have become global public goods themselves.

The CEB is an international financial institution operating within the framework of the CoE and thus following the Council's social and environmental priorities and principles. Despite a profound transformation, it has never ceased operations and remains committed to its mission of staying open to the emerging social problems in Europe. The Bank has been developing its operations ever since. It has extended its historical mandate in order to keep up with constantly changing challenges, growing problems and newly emerging issues. Thanks to its assistance, public interest undertakings of high social impact, which would never get the necessary funding under the commercial banking system, are pursued. Moreover, the Bank's beneficiaries may enjoy significantly lower borrowing costs.

The cooperation of the Bank's member states in protecting and managing global public goods is aimed not only at ensuring benefits for the countries involved, but also at creating added value for the other countries and regions in the world. This is, for example, the case of the 22 target countries of Central, Eastern and South-Eastern Europe, which have special status with the Bank and receive proportionately more funding. However, such a distinction does not exclude the Bank's other members from receiving aid when needed. The CEB's social mandate determines its intense involvement in financing socially-oriented projects that either improve the standard of living of the population by supporting, among other things, social integration, environment, public infrastructure, MSMEs and jobs, or respond to emergency situations such as the migration crisis in Europe, the sovereign debt crisis or repercussions of the financial crisis. The Bank's operations have been constantly contributing to better conditions of living for many communities in European countries, especially those in the CEE region.

As for the development of financing instruments, the CEB is swift to address the needs of borrowers. With the Development Plan for 2014-2016, it successfully introduced PFF and ECF, and in 2017-2019 it developed the CSL. The Bank strives to remain innovative in terms of lending and capital market instruments and of keeping pace with market developments, especially in the area of project management, climate action and a proactive business approach. To this end, it combines all the available institutional mechanisms for the selection, monitoring and enforcement of social added value with the provision of loans and bond programs, offers unique expertise on social project management, including climate impact assessment and monitoring, and effectively exploits potential interdependencies between public and private sector financing operations.

In the latest Development Plan, for the period 2017-2019, special emphasis is placed on the CEB's historical social mandate, with strong focus on socially-oriented investments in all the countries in need and particular emphasis on refugee and migrant communities. It is expected that the high demand from countries hosting refugees and migrants observed in 2016 will remain throughout the three years of the new Development Plan, increasing the project approval baseline by €1.1 billion and thus creating the extra volume "emergency"

trend. It is extremely important to note that project volumes will not grow at the expense of funding allocated to target countries. In general, the Plan shows a high level of alignment with the international and EU agenda by stressing the Bank's actions in pursuit of a cohesive, united and sustainable Europe that follows contemporary global priorities such as sustainable and inclusive growth, the integration of refugees, migrants and displaced persons, human rights protection, protection of the natural environment, and adapting to and mitigating climate change.

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