



Loan and Project Financing Policy

CORPORATE POLICIES

Loan and Project Financing Policy

Council of Europe Development Bank
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July 2020

1. PREAMBLE

1.1. The Loan and Project Financing Policy (hereinafter, the “Policy”) defines, in line with the Bank’s Articles of Agreement¹ and the guidelines agreed by the Summits of Heads of State or Government of the Council of Europe, the basic principles for the selection and implementation of the investment projects financed by the Bank (hereinafter, also the “CEB”). In particular, the Policy sets forth:

- the sectors of action
- the financial means of action
- the mechanisms for approving loan applications
- the management of the stock of projects
- the financing of projects
- the monitoring of projects

1.2. The “Handbook for the Preparation and Implementation of Projects” (hereinafter, the “Handbook”), adopted by the CEB within the framework of the Policy, will further specify the CEB’s eligibility criteria, the disbursement modalities, the monitoring requirements and other operational considerations regarding project implementation. The Handbook will be updated from time to time by CEB management.

2. SECTORS OF ACTION

2.1. All the CEB’s financial means of action, including where applicable the CEB’s Social Dividend Account or any other trust account, contribute to the implementation of investment projects of a social nature. The CEB’s actions are aimed at strengthening social cohesion in Europe through three lines of action, namely:

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

2.2. These lines of action reflect both the CEB’s specific social vocation and the development logic underpinning all its activity in the following sectors of action:

Sectors of action
<p>Aid to refugees, migrants, displaced persons and other vulnerable groups</p> <p>According to the Bank’s 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 (...)”. The CEB also takes action in this sector in favour of populations regarded as vulnerable, such as: (i) persons living below the poverty threshold (less than 60% of the national average income); (ii) abandoned children, children in vulnerable situations and persons with disabilities; (iii) ethnic minorities.</p>
<p>Housing for low-income persons</p> <p>The CEB finances projects for the renovation, construction or refurbishing of housing and for the conversion of buildings into housing so as to provide decent housing for low-income persons, corresponding to social housing criteria whenever these are defined by the national legislation. In the absence of satisfactory regulations, the CEB’s criteria as presented in the Handbook apply. Besides, projects in favour of priority (as defined by the relevant State or local authority) or vulnerable populations may be financed according to specific criteria established for each project. At the borrower’s request, the Administrative Council may, if it deems it to be justified, approve housing projects aimed at populations for whom special measures have been taken by the member state or a territorial authority.</p>

¹ See Articles II, VII and XIII of the Bank’s Articles of Agreement.

<p>Improving living conditions in urban and rural areas</p> <p>The CEB finances projects involving the construction or rehabilitation of infrastructure in matters of urban rehabilitation and rural modernisation in favour of public and private entities at national or local level.</p>
<p>Natural or ecological disasters</p> <p>According to CEB's 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 (...) victims of natural or ecological disasters". The purpose of the actions undertaken is to provide national and local authorities with assistance in the reconstruction of the affected areas or in the prevention of natural or ecological disasters.</p>
<p>Protection of the environment</p> <p>The CEB finances projects, undertaken by public or private entities, that contribute to protecting and improving the environment such as: reduction and treatment of solid and liquid waste, clean-up and protection of surface and underground water, decontamination of soils and aquifers, protection against noise, production of renewable energy, energy saving measures (excluding energy production/distribution), reduction of air pollution, protection and development of biodiversity, cleaner transport means and networks.</p>
<p>Protection and rehabilitation of the historic and cultural heritage</p> <p>The CEB finances the restructuring and rehabilitation of historic and cultural heritage classified as such by the member state concerned.</p>
<p>Health</p> <p>The CEB finances projects concerning health and related basic infrastructure. To be eligible to CEB financing, private establishments and infrastructure must be approved by the public health authorities and in compliance with the criteria established for this type of establishment.</p>
<p>Education and vocational training</p> <p>The CEB finances projects concerning education, including vocational training, and related basic infrastructure. To be eligible to CEB financing, private establishments and infrastructure must be approved by the public education authorities (in compliance with the criteria established for this type of establishment). The CEB may also finance public or private investments in research and development centres.</p>
<p>Administrative and judicial infrastructure</p> <p>The CEB finances projects for the construction or rehabilitation of infrastructure as well as the conversion of buildings into premises intended for public service use, in particular the organisation and functioning of administrative and judicial public services².</p> <p>With regard to prison infrastructure in particular, the projects financed by the CEB must be in conformity with the Recommendations made by the Committee of Ministers of the Council of Europe concerning European Prison Rules³.</p>
<p>Supporting MSMEs for the creation and preservation of viable jobs</p> <p>The CEB finances micro, small and medium-sized enterprises (MSMEs) for the prime purpose of promoting the creation and preservation of viable jobs by facilitating access to credit. Such loans are also aimed at entities exercising craft activities or family enterprises engaged in regular economic activity. The financing of working capital is limited to conditions set forth in the Handbook.</p> <p>The CEB will give priority to the initiatives driven by governments in this sector via apex structures developed with State owned banks and to those implemented by other financial institutions – commercial banks or leasing companies.</p>

² In line with point 1.5. of the Action Plan of the 3rd Summit of Heads of State and Government of the Council of Europe held on 25 and 26 May 2005.

³ Recommendation Rec (2006)2 of the Committee of Ministers of the Council of Europe to the Member States on the *European Prison Rules*.

2.3. The following activities defined by the NACE nomenclature of the European Union⁴ shall be excluded from the CEB's financing:

- Industries extractives (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 fuel⁵ (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 organization (NACE S94)
- Activities of extraterritorial organisations and bodies (NACE U99)

Investment projects linked to pornography and to products regarded by the CEB's member states regulations as harmful to the health and the environment⁶ shall also be excluded.

3. FINANCIAL MEANS OF ACTION

3.1. The CEB acts in the form of loans, guarantees and contributions from the trust accounts in order to finance bankable projects. To do this, it evaluates the debt sustainability of the borrower and, where applicable, of the guarantor.

3.2. Loans

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

- loans to members of the Bank;
- loans guaranteed by a member of the Bank granted to any legal person approved by that member;
- loans granted to any legal person approved by a member of the Bank, when the Bank's Administrative Council is satisfied that the loan requested is covered by adequate guarantees.

3.3. Guarantees

Upon conditions to be stipulated by the Bank's Administrative Council in each case, the Bank may grant guarantees to financial institutions approved by a member of the Bank for loans to further the realisation of the purposes set out in Article II of the Bank's Articles of Agreement.

⁴ 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 areas (for example: production, employment, national accounts) or others – See Regulation (CE) 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.

⁵ 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.

⁶ 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 fibers, pharmaceuticals, pesticides/herbicides, ozone-depleting substances, polychlorinated biphenyls (PCBs), wildlife or products regulated under the Convention on International Trade in Endangered Species (CITES).

3.4. Trust accounts

- 3.4.1. Upon conditions to be stipulated by the Bank's Administrative Council in each case, the Bank may open and operate Trust Accounts.
- 3.4.2. The financial contributions made by donors and held in Trust Accounts may be used to support eligible investment projects in the form of:
 - Investment grants
 - Technical assistance grants for investment project preparation and/or implementation
 - Interest subsidies for CEB loans
 - Risk sharing mechanisms for CEB loans
- 3.4.3. Investment grants and technical assistance grants may be made in combination with CEB loans or on a stand-alone basis.
- 3.4.4. The CEB may award grants directly or through a competitive procedure, depending on the nature of the project and/or donor requirements.
- 3.4.5. In the use of the financial contributions deposited in Trust Accounts, the CEB shall comply with the conditions set out by the Bank's Administrative Council and the policies and procedures of the Bank. Further details on the use of Trust Accounts will be set forth in the Handbook.

4. MECHANISMS FOR APPROVING LOAN APPLICATIONS

- 4.1. Loan applications are prepared by the borrower in coordination with the CEB and are formally submitted by the borrower following the appraisal of the envisaged project by the CEB. Depending on the borrower's capacity and the project complexity, the CEB may provide technical assistance for the preparation of the loan application.
- 4.2. In accordance with Article XIII of the Articles of Agreement, loan applications are transmitted to the Secretary General of the Council of Europe and dealt with by the Secretariat of the Partial Agreement. They must be introduced by Letter of Transmittal from the relevant member state if the borrower is not the member state itself. Where applicable, the Letter of Transmittal will indicate the ability and willingness of the requesting member state to guarantee the loan.
- 4.3. If the requesting member state applies for a loan concerning a project to be implemented in another member state, the latter will be asked to send a Letter of Consent to the Secretariat of the Partial Agreement allowing the CEB to monitor the project according to its procedures.
- 4.4. The Governor receives a duplicate of the loan application file.
- 4.5. Details regarding the information required for drawing up such loan applications and the CEB's screening criteria will be given in the Handbook. In the preparation of their projects, borrowers may receive technical assistance from the CEB.
- 4.6. The Secretariat of the Partial Agreement examines each loan application with a view to preparing the Secretary General's Opinion as to admissibility based on the project's conformity with the political and social aims of the Council of Europe, taking into account the Council of Europe's conventions and standards as well as its resolutions and recommendations.
- 4.7. In parallel, the Governor draws up a Loan Document concerning the financial and technical aspects of the project, which will include the following content:
 - Data and information prepared with the borrower during the CEB's appraisal, namely the Project Description with background, objectives, beneficiaries and their eligibility criteria, project components and management, environmental and procurement aspects, implementation schedule and project's social value.
 - The financial elements required to assess the Credit Risk linked to the borrower and, where applicable, to the guarantor.

- If applicable, information and analysis concerning the Intermediary Financial Institution to detail its institutional and creditworthiness aspects, operational strategy, market position and on-lending instrument(s) as well as the experience achieved with CEB and other International Financial Institutions.
- The Project Financing Plan with direct costs and technical assistance costs, if any, the envisaged financing sources and uses as well as the estimated CEB loan disbursement schedule.
- The Key Indicators and the monitoring as well as evaluation modalities established during appraisal.
- The Lessons Learned by the CEB from previous projects in the same sector and/or with the same or similar borrower.
- The Project Risks and the Mitigation Measures, i.e. a short assessment of the risks surrounding the achievement of outcomes.
- The Value Added of the project and of CEB's participation in its financing together with the conclusions of the CEB on the different criteria of its screening methodology.

4.8. The Loan Document, together with the Secretary General's Opinion as to admissibility, is sent via the Secretariat of the Partial Agreement to the Bank's Administrative Council for examination and decision at least two weeks before the meeting of the Administrative Council.

5. MANAGEMENT OF THE STOCK OF PROJECTS

5.1. Once approved by the Bank's Administrative Council, loan applications are placed in the stock of projects awaiting financing. They must give rise to a Framework Loan Agreement within twelve (12) months following the approval. As disbursements are made, the amount of the stock of projects diminishes correspondingly.

5.2. In the absence of any contrary provisions approved by the Bank's Administrative Council, a project may be removed from the stock:

- at the Borrower's request.
- whether a Framework Loan Agreement has been signed or not, in the circumstances that may give rise to cancellation of the loan under the Loan Regulations, particularly when an exceptional situation arises which makes the fulfilment of the borrower's or the guarantor's obligations uncertain. The Bank's Administrative Council will be informed of such removal from the stock of projects.
- if no Framework Loan Agreement has been signed within twelve (12) months following approval of the project by the Administrative Council, unless an extension has been granted by the CEB.
- if no disbursement has been made within the timeframe stipulated in the Framework Loan Agreement, unless an extension has been granted by the CEB.
- at the closing date approved by the Bank's Administrative Council which enables the CEB, upon notification to the borrower, to terminate a borrower's entitlement to make any disbursement request to the CEB. A 12-month extension may be granted by the CEB. Any additional extension must necessarily be submitted to the Bank's Administrative Council for approval.

5.3. Any substantial modification of the project objectives or the guarantees taken into account upon approval of the project will be the object of a modification request addressed directly to the Governor, who will give his/her opinion and, where applicable, will submit it to the Bank's Administrative Council for approval, via the Secretariat of the Partial Agreement.

6. PROJECT FINANCING

- 6.1.** The CEB may finance individual projects with “Project Loans” or multi-project programmes with “Programme Loans” in one or several sectors of action. The CEB may have recourse, if appropriate in light of the specificities of the project/programme, to ad hoc cross-sectoral and disbursement/monitoring arrangements as in the case of:
- EU Co-financing Facilities – to address member states’ co-financing and/or ex-ante financing needs of EU Funds in the CEB’s sectors of action. In these cases, an appropriate mix of short and long term financing will be available for borrowers and the CEB’s monitoring will be harmonised with those of EU Funds.
 - Public Sector Financing Facilities – to address temporary financing gaps in the public sector and facilitate further investments and reform programmes in the CEB’s sectors of action. In these cases, to maintain viability and sustainability of public services, the CEB financing could include on-going investment projects and the CEB’s monitoring will be similar with those of a standard Programme Loan. In the absence of disbursement during the following two (2) fiscal years after approval, the Facility would automatically be removed from the stock of projects.
 - Cross-Sector Loans – to cover eligible costs related to the development of social infrastructure in several, overlapping sectors of action linked through a set of related aims and objectives as a cross-sectorial element defined, during appraisal. CSLs will respond to the cross-sectoral needs of public authorities with the ultimate scope of facilitating access to the financing of the socially oriented projects and thus boosting public investments in these areas. Priority is given to disadvantaged areas, national or local priority programmes in social sectors as well as to communities hosting refugees and migrants.
- 6.2.** The CEB may finance projects directly or via an intermediary financial institution.
- 6.3.** The loans will be granted under the general conditions of the Loan Regulations and under the special conditions established in a Framework Loan Agreement.
- 6.4.** In case of breach of these conditions, the Bank may demand early reimbursement of disbursed loans in particular, in the case of corruption, fraud, money laundering, misprocurement or when the implementation of the project leads to a violation of the CEB’s Environmental and Social Safeguards Policy, the “Convention for the Protection of Human Rights and Fundamental Freedoms”⁷ or the “European Social Charter”⁸.
- 6.5.** Upon fulfilment of the relevant eligibility criteria, the CEB’s borrowers may receive technical assistance funded by the CEB’s Social Dividend Account and/or other trust accounts, during the implementation phase.
- 6.6.** The CEB’s share of financing may not exceed 50% of the project/programme eligible costs. Nevertheless, on a case by case basis, which is subject to the approval by the Bank’s Administrative Council, the CEB’s share of financing may go up to 90%, especially in the Target Group Countries⁹.
- 6.7.** The CEB’s reference currency is the EURO, which does not exclude recourse to other currencies according to borrower specifications and the CEB’s refinancing possibilities on the capital markets.
- 6.8.** The CEB raises funds on the best terms available on the capital markets. It passes these terms on to its borrowers, applying the lowest possible margin which takes into account the need to cover its operating costs.

⁷ Convention for the Protection of Human Rights and Fundamental Freedoms, 4 November 1950, CETS n°5.

⁸ European Social Charter, 3 May 1996, CETS n°163.

⁹ Albania, Bosnia and Herzegovina, Bulgaria, Croatia, Cyprus, Czech Republic, Estonia, Georgia, Hungary, Kosovo, Latvia, Lithuania, Malta, Moldova (Republic of), Montenegro, North Macedonia, Poland, Slovak Republic, Romania, Serbia, Slovenia and Turkey.

- 6.9.** The CEB's loans will be disbursed in tranches, with fixed or floating rates and flexible structures. Tenors and grace periods will be matching to the extent possible the project's financing needs. The mechanisms for disbursement applicable to each loan will be specified by the CEB in the Loan Document at the time of the project's approval by the Administrative Council.

7. PROJECT MONITORING

- 7.1.** The purpose of the monitoring process is to ensure that the project is implemented in compliance with the Framework Loan Agreement, executed in accordance with the conditions included in the Loan Document approved by the Bank's Administrative Council.
- 7.2.** Monitoring is carried out from the time of the project's approval up to its completion. In some cases, the project may be evaluated beyond completion by the CEB's Office of Evaluation.
- 7.3.** Once the project is completed, a Completion Report is elaborated summarising the project's results.
- 7.4.** An Annual Report on Project Preparation and Monitoring is drawn up in coordination with the Secretariat of the Partial Agreement, and presented to the Bank's Administrative Council and Governing Board. It gives an overall evaluation of the most significant projects while highlighting the problems encountered in the course of their appraisal and implementation.
- 7.5.** It will include, on a non-exclusive basis, the following chapters:
- Preparation: appraisal, technical review and lesson learned.
 - Project Monitoring (including projects cancelled or modified).
 - Performance Review: lessons learned.
 - Social effects of projects completed.
 - Social and environmental safeguard performance of the reviewed Projects and highlighting identified issues.



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