



PROJECT FINANCING



In 2017, CEB lending reached new heights, with €3.9 billion in loans approved for 22 member countries. The Bank financed 41 projects in support of social investments across Europe, directly impacting the quality of life of many European citizens.

Guided by the Development Plan 2017-2019, which highlights the CEB's social mandate, the CEB works closely with member countries and regional and local authorities to help address their social infrastructure needs. The current strategy focuses the work of the CEB on three areas: supporting inclusive growth, long-term integration of migrants and refugees, and climate change.



€1.5

billion for MSMEs
in 2017 alone

€5

billion since 2013

Support to MSMEs
in 10 countries

Case study

PROMOTING POLISH ENTREPRENEURSHIP

In 2017, the CEB approved a €100 million loan to Poland's BZ WBK Leasing, a subsidiary of Bank Zachodni WBK, to finance MSMEs through leasing operations.

Thanks to the CEB, small local producers who would like to open a new production line or renew their delivery vehicle fleet will have more options and more flexibility and safety in managing their current level of capital and indebtedness. The funds will create permanent and seasonal jobs, particularly in the less developed regions of Poland.

While the CEB has been investing in MSMEs since the 1970s, its support intensified in the aftermath of the economic crisis in Europe.

SUPPORTING INCLUSIVE GROWTH

The CEB's investments in European countries – both within and outside the European Union – provide strong support for inclusive growth and equitable sharing of economic gains among all citizens. The projects funded by the CEB place particular emphasis on vulnerable groups and on the importance of reducing inequality and poverty.

EMPOWERING SMALL BUSINESSES THROUGHOUT EUROPE

Micro, small and medium-sized enterprises (MSMEs) represent around 99% of all enterprises across Europe and play an important role in contributing to social inclusion in their local communities. To remain competitive in today's business environment, MSMEs need to be continuously engaged in new technology investment, process optimisation and innovation. They require stable longer-term finance that is often not supported by local financial intermediaries.

Recognising the potential of MSMEs as drivers of economic growth, net employment generators and promoters

of social cohesion, the CEB responds to their limited access to finance by providing them with medium- and long-term financing. In 2017, the CEB approved €1.5 billion for MSME financing, compared to €1.18 billion in 2016.

The CEB's operations span the width and breadth of geographical Europe – in 2017, the CEB provided a financial boost to the MSME sector in 10 countries, namely Bulgaria, Croatia, Czech Republic, Montenegro, Netherlands, Poland, Romania, Slovak Republic, Spain and Turkey.

Vital support

The CEB aims not only to reach a broad range of MSMEs, whose access to financing is constrained, but also whenever possible to target the smaller segment of the sector.

While bank loans are the most widespread financing mechanism for MSMEs, alternative sources such as leasing are also important, in particular for smaller enterprises. In 2017, the CEB approved seven loans to leasing institutions in Europe.





The CEB recognises the vital role that microfinance plays in fostering labour market integration.

MICROFINANCE: CREATING OPPORTUNITY, SUPPORTING INCLUSION

In many of the CEB's member countries, microfinance offers a new chance for employment, opening the door to entrepreneurship for some of Europe's most disadvantaged groups, including young people, refugees and people of migrant origin.

The CEB recognises the vital role that microfinance plays in fostering labour market integration, and has for years been financing microcredit institutions or banks providing special lines to marginalised population groups. Since 2008, the CEB has approved loans amounting to more than €300 million to microfinance providers in six countries.

In 2017, the CEB approved a €100 million loan to MicroBank in Spain to fund an ambitious and highly socially inclusive initiative designed to promote entrepreneurship, foster economic growth,

create employment and help individuals and their families to overcome temporary financial difficulties and to access the formal banking system.

The CEB also extended a €16.6 million loan to Qredits, a major Dutch microfinance provider. The CEB funds will be used to provide microloans for entrepreneurs from disadvantaged groups, including persons of migrant background, thus contributing to job creation in the Netherlands.

€300
million

6
countries

Case study DIVING IN AT THE DEEP END

Having recently completed their studies in biology, Edgar Hazas and Ángeles García had no luck finding jobs. With nothing more than a business idea, they applied for a €25,000 microloan from MicroBank – a long-time client of the CEB – and created Laboratorios Edyma, a biotechnological centre focused on food safety and the production of in vitro cultures. Three years later they serve the food processing industry and small and medium enterprises in the sector and have become a benchmark at European level.

INVESTING FOR INCLUSIVE CITIES AND REGIONS

Cities are on the frontline of social cohesion, as they design and deliver services for all, including the most vulnerable citizens. In recent years, however, cities have faced numerous challenges, including rapid urbanisation, ageing population and the need to adapt to climate change, while, at the same time, bearing the burden of austerity policies.

Promoting inclusive growth through the financing of social infrastructure projects is one of the CEB's priority areas of operation. In recent years, the Bank has stepped up its cooperation with cities and municipalities in its member countries in order to lend its full support to their social investments.

In 2017, the CEB partnered with the cities of Barcelona (Spain), Gothenburg (Sweden), Vilnius (Lithuania) and Limerick (Republic of Ireland) as well as with the Trnava region in the Slovak Republic and Castilla y Leon in Spain to facilitate implementation of their investments spanning social housing, education, urban renewal and sustainable development programmes.

A total of €460 million was approved in 2017 alone for cities and regions. In the last ten years the CEB has invested €1.5 billion for municipal social infrastructure through loans directly contracted and implemented by cities.

Many European cities have welcomed significant numbers of refugee and migrant arrivals, resulting in additional pressures on local services. A €200 million loan from the CEB to the City of Gothenburg will help the city enhance its capacity to integrate migrants by further developing its educational facilities.

In 2017, the CEB also extended a €12 million EU Co-Financing Facility (ECF) to the self-governing region of Trnava, which contributes approximately 11% of the Slovak Republic's GDP. The programme financed by the CEB will play an important role in the promotion of inclusive growth and will help to improve the living conditions of the region's half a million inhabitants.

€460
million in loans

6
projects funded

€1.5
billion in the past
10 years for loans
directly contracted
by cities

EU Co-Financing Facility (ECF) loans allow for the co-financing and/or ex-ante financing of EU-funded investment activities.

They are developed in conjunction with different EU financing instruments directly supporting current EU objectives and facilitate better absorption of EU funds in the CEB's priority sectors.

This type of loan is particularly suited to regions and cities seeking to take advantage of relevant EU funds.





Case study **INNOVATIVE INFRASTRUCTURE FOR VILNIUS**

In 2017 the CEB approved a €35 million loan to the City of Vilnius, Lithuania's fast-growing capital, considered one of the most innovative, dynamic and competitive cities in the Baltic region. The CEB loan responds to the city's urban development ambition by providing financing for municipal projects under the city's investment plan. The financing is expected to make an important contribution to improving the living conditions of Vilnius residents who will benefit from innovations in urban transport and mobility, energy efficiency measures and biodiversity conservation.

The CEB's unique mandate - promoting social cohesion in Europe - makes it a natural partner for inclusive cities seeking to diversify their financing.

LOCAL INFRASTRUCTURE

In response to severely curtailed public investment following the global financial crisis in 2008, the CEB has redoubled its efforts to promote social investment at local level across all its member countries. By working with regional authorities and municipalities in addition to central governments the CEB is able to meet the social needs of its members in the best possible way.

Whether through direct lending to governments, cities and municipal utility companies or via on-lending operations with commercial banks and specialised municipal lending institutions, the CEB is a provider of tailored support to local communities, filling the funding gaps for the successful implementation of socially oriented investments.

In 2017, the CEB invested €752 million to improve the living conditions of citizens across Europe, making communities stronger and more resilient.

With a €50 million loan to the Slovene Export and Development Bank the CEB is financing the modernisation of local infrastructure and investments in energy efficiency in Slovenia. A €100 million loan to Komerční Banka will help finance investment projects undertaken by Czech municipalities and also by public, mixed (public/private) and private companies providing public services.

The CEB's investments in local infrastructure cover a wide range of projects such as the construction or rehabilitation of schools, social housing, medical and social care facilities, social aid centres, and local roads and transport systems. All of these contribute to delivering affordable and sustainable essential services to local populations. The CEB's long-term investments at local level ultimately support sustainable growth and prosperity in Europe as a whole.

Case study SUPPORTING MUNICIPALITIES IN THE NETHERLANDS

The CEB joined forces with Bank Nederlandse Gemeenten (BNG), one of the leading lenders to public authorities in the Netherlands, in order to finance the construction and modernisation of local infrastructure as well as projects involving social housing and energy efficiency improvement. The €300 million loan from the CEB will support the Dutch government's policy to finance sustainable public housing projects. The partnership with BNG will allow the CEB to reach a maximum number of beneficiaries, such as municipalities, housing associations and healthcare, education, and environmental institutions.





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HOUSING

Despite robust economic recovery in most of Europe, housing remains a major factor of inequality among citizens, with growing housing prices disproportionately affecting the most vulnerable. In addition, many cities are experiencing housing shortages as a result of the unprecedented influx of migrants and refugees in recent years.

Access to decent housing is not only a human right, but it can also help to prevent social exclusion and its damaging effects on social cohesion. For this reason the CEB attaches particular importance to the financing of social housing projects in its member countries.

In 2017, the CEB invested €301 million to support social housing programmes in its member countries.

In Spain, a €59 million CEB loan to Patronat Municipal de l'Habitatge de Barcelona will part-finance the construction of social housing for low-income persons in the Barcelona region.

With a €29 million loan to Malita Investments, a housing company whose main shareholder is the Maltese state, the CEB will finance affordable housing for the most vulnerable population groups in Malta and will also help to regulate the social housing market.

In Montenegro, a €10 million loan to the government will finance a subsidised mortgage loan scheme that was

established in order to provide access to affordable housing for 500 vulnerable, low-income households. This is the third CEB operation in Montenegro in the sector of social housing for low-income persons.

Furthermore, on 23 November 2017 the CEB co-organised, in partnership with Friends of Europe, Housing Europe and FEANTSA, a roundtable on "Financing innovative housing solutions."

SOCIAL CARE

All across Europe the provision and financing of social care are evolving in the light of changing welfare states, technological adaptations and changing societal norms. In the coming years, given the significant pressures arising from demographic changes and fiscal constraints, social care will become a major issue in social policies and investments across CEB member countries.

The CEB can help to address some of the funding needs in the sector. Since 1997 it has been investing in multiple projects and programmes that support social care across Europe, in the sectors of health, education or housing.

In 2017, CEB approved a €80 million loan in the social care sector in France, bringing the total investment in the country in this sector to €930 million for the financing of vital services to people with disabilities and those of all ages who are experiencing difficulties day-to-day.

Case study **BRINGING NEIGHBOURS TOGETHER**

Mujo Hamzić and Esmudin Rizvanović used to live next door to each other in Zvornik, Serbia, their two houses sharing the same wall. The war that broke out in 1992 turned their lives upside down, forcing them to flee their homes for good. In the tumult of the war years the two men lost touch. In 2017, Mujo and his wife, beneficiaries of the Regional Housing Programme, received the keys to their new apartment in Tuzla, Bosnia and Herzegovina, thus ending 25 years of displacement. When they stepped out onto their new balcony, there was a familiar face on the other side of the wall – their old neighbour Esmudin.



LONG-TERM INTEGRATION OF MIGRANTS AND REFUGEES

Over and above the recent migrant and refugee crisis, migratory pressures across CEB member countries are expected to increase over the coming decades, with countries facing the complex, multi-dimensional challenge of long-term integration.

The CEB provides financing for local infrastructure, decent housing, skills development and job creation to help those entitled to stay to integrate as quickly and effectively as possible. This integrated project approach – combining services across diverse sectors, such as education, health and social welfare – also takes into account the needs of local communities and provides more focused support for long-term social cohesion.

In 2017, the CEB approved €200 million for German development banks to fund urgently needed accommodation and other social infrastructure following the massive inflow of refugees since 2015. Importantly, the social housing units and public infrastructure improvements will benefit both the host communities and the new arrivals.

Similarly, a €100 million loan to Hémisphère will finance a programme for the French

government aimed at providing housing and social support to persons in precarious situations. The CEB funds will be used to create new emergency reception and accommodation facilities for refugees, asylum-seekers and other vulnerable persons.

REGIONAL HOUSING PROGRAMME (RHP)

The CEB's flagship grant-based project aims to help resolve the situation of the most vulnerable refugees in Bosnia and Herzegovina, Croatia, Montenegro and Serbia (the "Partner Countries") who were displaced following the conflicts in the former Yugoslavia.

The programme gathered considerable momentum in 2017. Overall, by end-2017, some 2,600 housing units had been delivered to RHP beneficiaries, providing permanent housing to almost 8,000 people. The peak of delivery is expected in 2018, when over 3,500 additional housing units are planned to be completed.

The RHP has a significant positive impact on fostering reconciliation and improving regional cooperation. The programme, which is part of the larger Sarajevo Process, is endorsed by the international community and receives substantial donor support.

CLIMATE CHANGE: DEVELOPING MITIGATION AND ADAPTATION MEASURES

The CEB plays an active part in the global efforts to fight against climate change. Building on its long history of addressing environmental challenges, the CEB accompanies the member countries in the transition to low-carbon economy

The CEB's loans in this area finance a broad range of projects comprising environmental protection, greening the built environment, strengthening resilience to climate events and disaster risk management. Moreover, the CEB strives to systematically integrate climate mitigation and adaptation measures in all projects it considers financing.

The CEB's €10 million loan to Municipality Credit Iceland will promote the country's ambitious policy to strive for carbon neutrality. It will finance municipal investments aimed at lowering greenhouse gas emissions and increasing energy

efficiency, thus contributing to Iceland's efforts to achieve its 2020 national renewable energy and climate change targets.

Aid to victims of natural disasters is part of the CEB's historical mandate. In 2017, the CEB was quick to react by extending assistance to the victims of central Italy's recent earthquakes with a €350 million loan to Cassa Depositi e Prestiti Società per Azioni to finance modernisation, rehabilitation and reconstruction projects in the affected areas.

€1 billion for climate-change related projects in 2017

The CEB accompanies its member countries in the transition to low-carbon economy.



Case study FIGHTING DESERTIFICATION IN PORTUGAL

In 2017, the CEB approved a €80 million loan to the government of Portugal to finance the rehabilitation and extension of Portugal's irrigation system, with a view to supporting the development of sustainable agriculture in the country and improving living conditions in rural areas. The funds will also be used to create green zones, thus contributing to the fight against natural and ecological disasters such as desertification and wildfires, which have recently ravaged the country.



Addressing risks and opportunities in a systematic, transparent manner underpins the CEB's commitment to support projects with social impact and facilitates timely and cost-effective project implementation.

MEASURING IMPACT

The CEB finances bankable projects which are thoroughly assessed at inception against social, environmental, technical, and governance criteria. This assessment typically covers design and engineering aspects, conformity with the relevant technical standards, sector-specific costs and financing aspects.

With on-site visits, projects are followed throughout their implementation, to review and help steer their development and measure results. The CEB uses an implementation assessment framework that tracks the projects' technical progress and expected results. The socio-economic, environmental effects of the project and, if needed, the mitigation measures introduced to reduce and manage risks are compared to the expected benefits and risks identified during the initial appraisal.

In 2017, the Bank scaled up the way it measures and reports on environmental, social and climate change issues throughout the project cycle, starting with project identification.

An in-house methodology was developed to screen for climate change risks and identify climate-related opportunities in the projects considered for financing, in line with multilateral development bank best practices and consistent with the "Five Voluntary Principles for Mainstreaming Climate Action within Financial Institutions", which the CEB adopted in 2017. All projects are systematically screened on the basis of four indicators; these comprise climate change mitigation and adaptation potential as well carbon footprint and climate change sensitivity.

Introduction of the new Environmental and Social Safeguards Policy (ESSP) in 2016 has facilitated the shift towards a more structured approach for considering social safeguard issues and establishing a better connection with the principles enshrined in the Council of Europe Convention for the Protection of Human Rights and Fundamental Freedoms and the European Social Charter endorsed by the Bank.

The CEB has therefore developed an environmental and social screening matrix which is applied to each CEB project at entry and which encompasses the following principles: protection of vulnerable groups, labour conditions, gender equality, protection of livelihoods and housing, community health and safety, and stakeholder information. The screening matrix is designed as a practical tool for ensuring that the due-diligence scope and project preparation efforts are proportionate to the magnitude and specific risks of the project.

FINANCING FOR SOCIAL IMPACT

In order to maximise the Bank's contribution to strengthening social cohesion in its member countries, the CEB finances bankable projects through a range of financing instruments that allow flexibility to its borrowers and best address their needs. In 2017, the CEB piloted the Cross-Sectoral Loan (CSL) and launched its first social inclusion bond.

SOCIAL INCLUSION BOND

CEB's first social inclusion bond creates an innovative new way for the Bank to finance its projects. The launch has enabled the CEB to demonstrate its leading role in the social bond market, with plans to issue a social inclusion bond on an annual basis.

In line with the Social Inclusion Bond Framework, the proceeds are reserved for financing eligible loans to support social housing, education and vocational training, as well as job creation and preservation in micro, small and medium-sized enterprises.

The CEB is a member of the International Capital Market Association (ICMA), an

umbrella organisation that includes issuers, intermediaries, investors and capital market infrastructure providers from 60 countries worldwide. The Bank has been part of ICMA's social bond working group since its inception in early 2016.

CROSS-SECTORAL LOAN

The CEB's current three-year strategy introduced a Cross-sectoral Loan (CSL) to give public authorities greater flexibility to finance social infrastructure in overlapping sectors.

The CSL provides flexibility in the use of funds for all purposes, which can represent a significant advantage, especially for smaller municipalities. This type of loan is a particularly good match for urban renewal projects with many interdependent components that are not easily boxed into neatly defined sectors.

In 2017, the CEB approved €154 million in cross-sectoral loans to cities and regions.

€500

million bond

7

year maturity

€1

billion+ investor interest

0.125%

annual coupon

€154

million in cross-sectoral loans to cities and regions



Case study

BREATHING LIFE INTO THE CENTRE OF LIMERICK

Limerick, the third largest city in the Republic of Ireland, is implementing an ambitious urban development scheme to bring back business and people to its city centre. The CEB's €85 million loan to Limerick City and County Council will finance urban development, including the construction of an employment campus and the renovation of heritage buildings. The project, which is co-financed by the CEB and the EIB, is expected to contribute to the sustainable development of the city and also strengthen social cohesion and boost job creation.