



Österreichische Gesellschaft
für Europapolitik

The Council of Europe Development Bank – a completely unknown entity

Why does the Council of Europe have its own
development bank and what is Austria's position
in relation to it?

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Why does the Council of Europe have its own development bank and what is Austria's position in relation to it?

Had its Governor not given a talk about the Council of Europe Development Bank (CEB) before the EU Committee of the Federal Council on 24 April 2014¹, it is likely that virtually no one in Austria would have been aware that the Council of Europe uses a multilateral development bank to finance projects of major social benefit. This is not surprising when one considers that Austria – along with the United Kingdom – is one of the two remaining EU countries that are not yet members of this financial institution.²

The reasons for this failure on Austria's part, as far as they can be determined, are complex and cannot simply be seen in terms of the current budget problems. Moreover, nearly 60 years have elapsed during which Austria could have become a member of the development bank or its predecessor, but it is clear that throughout this long period membership has never been sought. It is therefore worth casting a glance at this missed opportunity and exploring the background and general situation in more detail.

Austria does not in principle decline to become involved in the activities of (European) development banks. One can therefore start by considering the European Bank for Reconstruction and Development (EBRD), which operates in a similar field; Austria has been a member of the EBRD since the end of May 1990. The CEB works closely with the EBRD. Next, the Council of Europe Development Bank will be described in more detail and the effects of possible Austrian involvement in it will be both qualified and quantified.

The European Bank for Reconstruction and Development

The founding treaty of the EBRD³ entered into force in March 1991, enabling the bank to commence its business activities in mid-April 1991. In accordance with the Seat Agreement⁴ between the Eastern European Bank – as the EBRD was also termed – and the government of the United Kingdom, it established its headquarters in London.

The EBRD is an international organisation (IO) with its own legal identity; its shareholders are 64 countries – including Austria – and two international organisations: the EU and the European Investment Bank (EIB). It has capital of 30 billion euros and since its establishment, has financed almost 4,000 projects in 34 countries with a total value of 252 billion euros. It is the largest single investor in the Central and Eastern European Countries (CEECs), serving more than 1,000 customers; in 2013 its investments totalled more than 8.5 billion euros. In its financing activities, the EBRD – unlike the World Bank (IBRD) and the International Monetary Fund (IMF) – must adhere to a policy mandate that permits it to support only CEECs that are committed to the democratisation process (multi-party system, free elections, etc.).

The EBRD utilises a wide range of financing instruments tailored to particular projects. The main instruments are loans, equity finance and guarantees. The bank's constitution⁵ specifies that at least 60 per cent of loans must contribute to the privatisation of state-controlled businesses. In co-financing projects in the private sector the EBRD covers



up to more than a third of the project costs – for a maximum term of ten years – on market terms. The bank finances itself by borrowing on the international capital markets.

The Council of Europe Development Bank

The CEB operates differently. It is the oldest international financing institution in Europe; its predecessor, the Council of Europe's Resettlement Fund for National Refugees and Over-Population in Europe, was founded on 16 April 1956 by means of resolution (56) 9 of the Committee of Ministers of the Council of Europe⁶. The legal status of the Resettlement Fund was confirmed in March 1959 with the signing of the Third Protocol to the General Agreement on the Privileges and Immunities of the Council of Europe⁷ – the first ever partial agreement⁸ of the Council of Europe – by eight member states of the Council of Europe⁹.

In 1988, in response to a call urging members of the Council of Europe that had not yet joined the Resettlement Fund to consider doing so¹⁰, the official reason for Austria not joining was expressed in these words: »Austria has been unable to join the Resettlement Fund because it already invests very large sums of money for the acceptance and care of refugees«¹¹. At the time this reasoning was entirely understandable in the light of the work that had gone into dealing with the flood of refugees that resulted from the Hungarian crisis of 1956. However, it is no longer adequate as an explanation of why Austria did not join the Resettlement Fund at a later date and has not joined its legal successor, the CEB.

On 1 November 1999 the Resettlement Fund became the CEB; it was established as an independent legal entity and made financially independent but its social orientation did not change¹². Forty-one of the 47 member states of the Council of Europe are now members of the Development

Bank; among them are all the countries of the West Balkans, including Kosovo.

The headquarters of the CEB are in Paris. It has share capital of 4.95 billion euros. Rolf Wenzel, a German national, has been Governor of the bank since December 2011. The CEB is the only multilateral development bank with an exclusively social mandate; it maintains close links with the objectives of the Council of Europe. Its primary task is to help European states resolve social problems that they face as a result of the presence of refugees, displaced persons and immigrants. It also focuses on addressing economic and social problems encountered by victims of natural or environmental disasters. In recent years, in the wake of the financial crisis, increasing emphasis has been placed on preserving and creating jobs in small and medium-sized enterprises (SMEs) and on plans for modernising rural areas. Another vital issue that has emerged is the awarding of microloans, since many micro businesses – predominantly managed by women – operate in the CEECs.

The CEB works closely with the European Commission and with other international financial institutions such as the World Bank, the European Investment Bank (EIB) and the already mentioned EBRD. It provides flexible, long-term loans to finance projects of major social benefit, concentrating on the following four sectors:

1. Improving social integration: e.g. by funding social housing projects for poor families such as Roma refugees in Montenegro, immigrants in Spain, and older, low-income persons in France;
2. Helping to tackle natural and environmental disasters: e.g. by cleaning up after the flooding and "red sludge" disaster in Hungary¹³, rebuilding local infrastructure destroyed by earthquakes in Romania and Turkey and constructing a dyke along the Danube in Bulgaria;



3. Preserving and creating jobs for socially disadvantaged people in SMEs: e.g. by providing micro financing to preserve and create 23,000 jobs in Spain;
4. Promoting local/social infrastructure: e.g. by making an infrastructure loan to the city of Bratislava to improve the city's tram routes and setting up a blood transfusion system for 330,000 people per year in Moldova.

However, two programmes that are highly symbolic politically and of great social benefit deserve to be singled out. The first is the regional housing programme designed to house more than 70,000 refugees who are still living in temporary accommodation as a result of the war in the former Yugoslavia. The second involves the creation of humane conditions in penal institutions in which assaults are becoming increasingly frequent.

Rigorous monitoring combined with political supervision by the Parliamentary Assembly (PACE) of the Council of Europe (PACE) ensure that monies are used for the designated purpose¹⁴.

The CEB has high creditworthiness on international financial markets and has no loan defaults. It receives no financial assistance or other financial subsidies from its member states. The funds needed to grant loans are raised on the international capital markets on favourable terms that reflect its excellent rating (Aa1 with Moody's¹⁵, AA+ (outlook stable) with Fitch and Standard & Poor's). In addition, bank loans are granted only to member states that themselves have a strong interest in maintaining the creditworthiness of the CEB. Its repayment profile is very good. This is one of the reasons why even at the height of the financial crisis in Greece, Ireland, Portugal, Spain and Cyprus¹⁶ the CEB suffered no losses. The CEB pays no dividends but keeps profits in the bank.

The bank's net profit in 2013 was 111 million euros. All of this was transferred to the bank's reserves, thereby increasing its equity capital to 2.5

billion euros. Loan payments in 2013 amounted to 1.9 billion euros, with 51 per cent of loans being awarded to member states in central, eastern and southern Europe. At the end of 2013 outstanding loans totalled 12.6 billion euros¹⁷.

Broadly speaking the CEB is the only bank that is required to report regularly to a parliamentary committee, in this case PACE or its Social Committee.

Effects of Austria's participation in the Council of Europe Development Bank

In the absence of an official explanation of Austria's failure to join the CEB, one can only speculate. The Governor of the CEB, Rolf Wenzel, stated in his speech to the EU Committee of the Austrian Federal Council that Austria's accession would be advantageous to both sides. He referred to Austria's strong involvement in the Council of Europe since it joined in 1956, as evidenced by the fact that Austria is the only member state to have provided three secretaries general – namely Lujó Tonic-Sorinj (1969-1974), Franz Karasek (1979-1984) and Walter Schwimmer (1999-2004) – one deputy secretary general, Peter Leuprecht (1993-1997), two presidents of the Parliamentary Assembly, Karl Czernetz (1975-1978) and Peter Schieder (2002-2005), and on one occasion the president of the Congress of Local and Regional Authorities of the Council of Europe, Herwig van Staa (2002-2004). During the period 2002-2004, three of the highest positions in the Council of Europe were thus held by Austrians – a unique occurrence in the history of this organisation¹⁸.

In addition to this involvement, mention should also be made of Austria's strong commitment to social and environmental issues and its systematic support for CEECs. Membership of the CEB would enable Austria to play an even more active role in strengthening social cohesion in Europe and reinforcing its position within the CEECs as a guarantor of social and economic stability in the region.



Importantly, too, as the country that chaired the Committee of Ministers from mid-November 2013 until mid-May 2014, Austria played a key mediating role in the Ukrainian conflict.

Because projects are only funded in member states, accession to the CEB would enable Austria to benefit from the financing of projects on its own territory on favourable terms. In this connection the country could draw on the extensive experience of major Austrian banks that have for many years profited by channelling favourable CEB loans to selected recipients in various European countries. Governor Wenzel has described the volume of these loans as being in the region of 1 billion euros in recent years.

The process of joining the CEB is in itself straightforward. The Austrian government would simply need to send the Secretary General of the Council of Europe a declaration of its wish to join. Austria would then need to pay its allocated quota. On the basis of Austria's share in the budget of the Council of Europe, its stake in the equity of the CEB would be around 2.26 per cent (i.e. 123.7 million euros), of which the portion to be deposited would be 11.1 per cent or 13.7 million euros. It would also need to deposit its share of the reserves that the development bank has accumulated since 1956, amounting to 42.8 million euros. As things stand at present, Austria would therefore need to contribute 56.5 million euros, which would be payable in several annual instalments.

On top of this there would be callable capital of 110 million euros; the contribution is calculated using the Council of Europe formula. Eighteen per cent of the deposited capital of 100 million euros is classed as official development assistance (ODA). Because the CEB allocates its profits to its reserves, the cost of membership naturally increases each year. In the same way, the cost position changes whenever a new member joins – as last occurred with the accession of Kosovo¹⁹.

Conclusion

In May 2014 PACE passed an official resolution inviting the parliaments of Andorra, Armenia, Austria, Azerbaijan, Monaco, the Russian Federation, Ukraine and the United Kingdom “to press their respective national governments to consider joining the CEB at the earliest opportunity”²⁰.

It would be good if Austria could finally resolve to join the CEB as the penultimate EU member state, especially considering that the financial commitment involved is not excessive; the equity stake is (absolutely) secure and the social benefits of joining are incalculable. Given that Austrian government spending in 2015 will amount to around 170.4 billion euros, the above-mentioned sum of 56.5 million for an equity stake in the CEB is undoubtedly manageable. And cost/benefit considerations should not be a major issue in this decision.



Notes

1. Governor Wenzel is quite blunt in his explanation of the fact that this is the first time that a representative of the CEB has had the opportunity to talk about his institution in Austria: „Der Grund dafür ist so einfach wie befremdlich: Trotz seines unbestreitbar hohen europapolitischen Engagements ist Österreich gerade bei der ältesten europäischen Entwicklungsbank nicht Mitglied“ [“The reason for this is as simple as it is disconcerting: Despite its indisputably high level of commitment to European policy, Austria is not a member of the oldest European development bank”]; Wenzel, R. Finanzierung von sozialen Maßnahmen in Europa durch die Entwicklungsbank des Europarats, Referat [Financing of social measures in Europe through the Council of Europe Development Bank, talk], p. 2.
2. In its summary of the above-mentioned talk by Governor Wenzel, the Parliamentary Correspondence incorrectly states that Austria is the only (sic) EU member state that has not yet adopted the Statute of the CEB: “Entwicklungsbank des Europarats – ein wichtiger sozialer Anker” [“The Council of Europe Development Bank – An Important Social Anchor”], Parliamentary Correspondence No. 345 of 24 April 2014, p. 1.
3. Text in EBRD (ed.), Basic documents of the European Bank for Reconstruction and Development (2013), p. 3 ff.
4. EBRD (ed.), Basic documents (Footnote 3), p. 71 ff.
5. EBRD (ed.), Basic documents (Footnote 3), p. 58 ff.
6. Text in: Hummer, W. – Wagner, G. (eds.), Dokumente und Materialien zum Europarat, [Documents and Materials relating to the Council of Europe] vol. II (1990), p. 165 (Doc. 35). The constitution of the Resettlement Fund can be found in op. cit., p. 28 ff. (Doc. 8a).
7. Text in: Hummer, W. – Wagner, G. (eds.), Dokumente [Documents] (Footnote 6), p. 23 ff. (Doc. 8).
8. On the concept of “partial agreements” see Hummer, W. – Schmid, A. Gesamtdarstellung der (Rechtsharmonisierungs-)Konventionen im Schoß des Europarates – unter besonderer Berücksichtigung der Teilnahme Österreichs [An Overall View of the (Legal Harmonization)Conventions within the Council of Europe – with Special Consideration of the Involvement of Austria] in: Hummer, W. (ed.), Österreich im Europarat 1956-2006: Bilanz einer 50-jährigen Mitgliedschaft [Austria in the Council of Europe 1956-2006: Summing up of 50 Years' Membership] (2008), vol. 1, p. 292 f.
9. Belgium, Germany, France, Greece, Iceland, Italy, Luxembourg, Turkey.
10. Recommendation 1076 (1988) of the Parliamentary Assembly of 5 May 1988 on the role and activities of the Council of Europe Resettlement Fund for national refugees and over-population, with annex; Text in: Hummer, W. – Wagner, G. (eds.), Documents (Footnote 6), p. 166 f. (Doc. 36); <http://assembly.coe.int/hw/xml/XRef/Xref-XML2HTML-en.asp?fileid=15110&lang=en>
11. Annex 1 to the Explanatory Memorandum of MP Doeke Eisma (NL Democrats '66) to Document 5867 of the Parliamentary Assembly of 28 March 1988, Text in: Hummer, W. – Wagner, G. (eds.), Dokumente [Documents] (Footnote 6), p. 168 (Doc. 36a).



12. Decision concerning the change of the name of the Institution, adopted by the Governing Board unanimously on 28 June 1999 at its 158th meeting [PV/CD 158 (1999)].
13. See Kertész, J. Die Rotschlammkatastrophe in Ungarn [Red Mud Catastrophe in Hungary], *Journal on European History of Law*, Vol. 5/2014, No. 2, p. 90 ff.
14. See Hummer, W. Schöne Worte ohne Taten [Fine Words without Deeds], *Salzburger Nachrichten* of 9 December 2014, p. 27.
15. <http://www.coebank.org/Content.asp?arbo=125&theme=1&ChangeLangue=EN>
16. See Hummer, W. Von der amerikanischen "Subprime-Crisis" (2007) zum permanenten "Europäischen Stabilitätsmechanismus" [From the American "Subprime Crisis" (2007) to the Permanent "European Stability Mechanism"] (2013 ff.), in: Hummer, W. (ed.), *Die Finanzkrise aus internationaler und österreichischer Sicht [The Financial Crisis from an International and Austrian Perspective]* (2011), p. 231 ff. (247 ff.).
17. Talk by Governor Wenzel (Footnote 1), p. 6.
18. Hummer, W. Einführung [Introduction], in: Hummer, W. (ed.), *Österreich im Europarat [Austria in the Council of Europe]* (Footnote 8), p. VII.
19. Data from official information of the CEB, 10 November 2014.
20. Challenges for the Council of Europe Development Bank, draft resolution of the Committee on Social Affairs, Health and Sustainable Development of the Parliamentary Assembly of the Council of Europe [Rapporteur: Mr Tuur ELZINGA, NL (UEL)] Clause 6, adopted unanimously on 12 May 2014 (PACE doc. 13513 of 26 May 2014).



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