



Council of Europe Social Development Fund

Report of the Governor 1998

Key figures

ECU million

	1998	*1997*	*1996*
Projects approved during the year	**2 257**	**2 153**	**1 453**
Commitments entered into during the year	**2 355**	**2 243**	**-**
Loans disbursed during the year	**1 056**	**862**	**619**
Loans disbursed since inception	**11 861**	**10 805**	**9 943**
Own assets *(after allocation of results)*	**2 283**	**2 144**	**2 059**
Tangible net worth *(after allocation of results)*	**1 055**	**969**	**891**
Balance sheet total	**11 096**	**9 539**	**9 183**
Profit	**81.4**	**81.6**	**85.9**

The Council of Europe Social Development Fund was set up on 16 April 1956 by the Committee of Ministers of the Council of Europe to provide solutions to the problems of refugees. Since then, the Fund has adapted to changes in social priorities in Europe. All of its activities are focused on reinforcing social cohesion within Europe.

Objectives

The Council of Europe Social Development Fund (CEF) is a multilateral development bank with a social vocation. It is a key instrument of solidarity policy in Europe.

Since its creation in 1956, the Fund has helped to finance social projects, has been a source of emergency aid and has thereby contributed to improving living conditions in the less fortunate regions of Europe.

Character

The Fund has its origins in a Partial Agreement among members of the Council of Europe. It is subject to the Council's supreme authority, but is legally and financially independent. Its administrative headquarters are in Paris.

The Fund's activities complement those of the other intergovernmental financial organisations.

Like other multilateral financial institutions, the Fund has adopted a policy of not rescheduling interest or principal payments on its loans or participating in debt-rescheduling agreements.

34 member states

Belgium, Bulgaria, Croatia, Cyprus, Czech Republic, Denmark, Estonia, Finland, France, Germany, Greece, Holy See, Hungary, Iceland, Italy, Latvia, Liechtenstein, Lithuania, Luxembourg, Malta, Moldova, Netherlands, Norway, Poland, Portugal, Romania, San Marino, Slovakia, Slovenia, Spain, Sweden, Switzerland, "The Former Yugoslav Republic of Macedonia", Turkey.*

** The Czech Republic joined the Fund in February 1999.*

Activities

The Fund grants loans according to precisely defined criteria. Priority is given to projects which *"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"* and the social problems posed by *"victims of natural or ecological disasters"*.

Over the forty years since its creation, the Fund has gradually broadened its fields of action. They now include funding of projects in the sectors of small and medium-sized enterprises (SMEs), social housing, health, education, protection of the environment, rural modernisation, rehabilitation of disadvantaged urban areas and rehabilitation of the historic heritage.

As part of its projects, the Fund strives to promote and develop job creation. This field of activity was ranked among the Fund's priority tasks by the Second Summit of the Council of Europe (Strasbourg, 10 and 11 October 1997).

Resources

The Fund's subscribed capital and accumulated reserves constitute the basis for its operations, since it does not receive any annual subscription from its members. Public issues and private placements enable it to raise funds on the capital markets, to which it enjoys access on the best possible terms.

Established in 1956 with a capital of ECU 5.7 million, the Fund had a subscribed capital of ECU 1.4 billion as at 31 December 1998. Leverage is particularly impressive: since its inception the Fund has been able to pay out almost ECU 12 billion in loans.

Unit of account

Until 31 December 1998 the Fund's unit of account was the ECU; from 1 January 1999 the ECU is replaced by the euro.

Rating

For its long-term operations the Fund is rated AAA by Standard & Poor's and Fitch IBCA, and Aa1 by Moody's.

Management

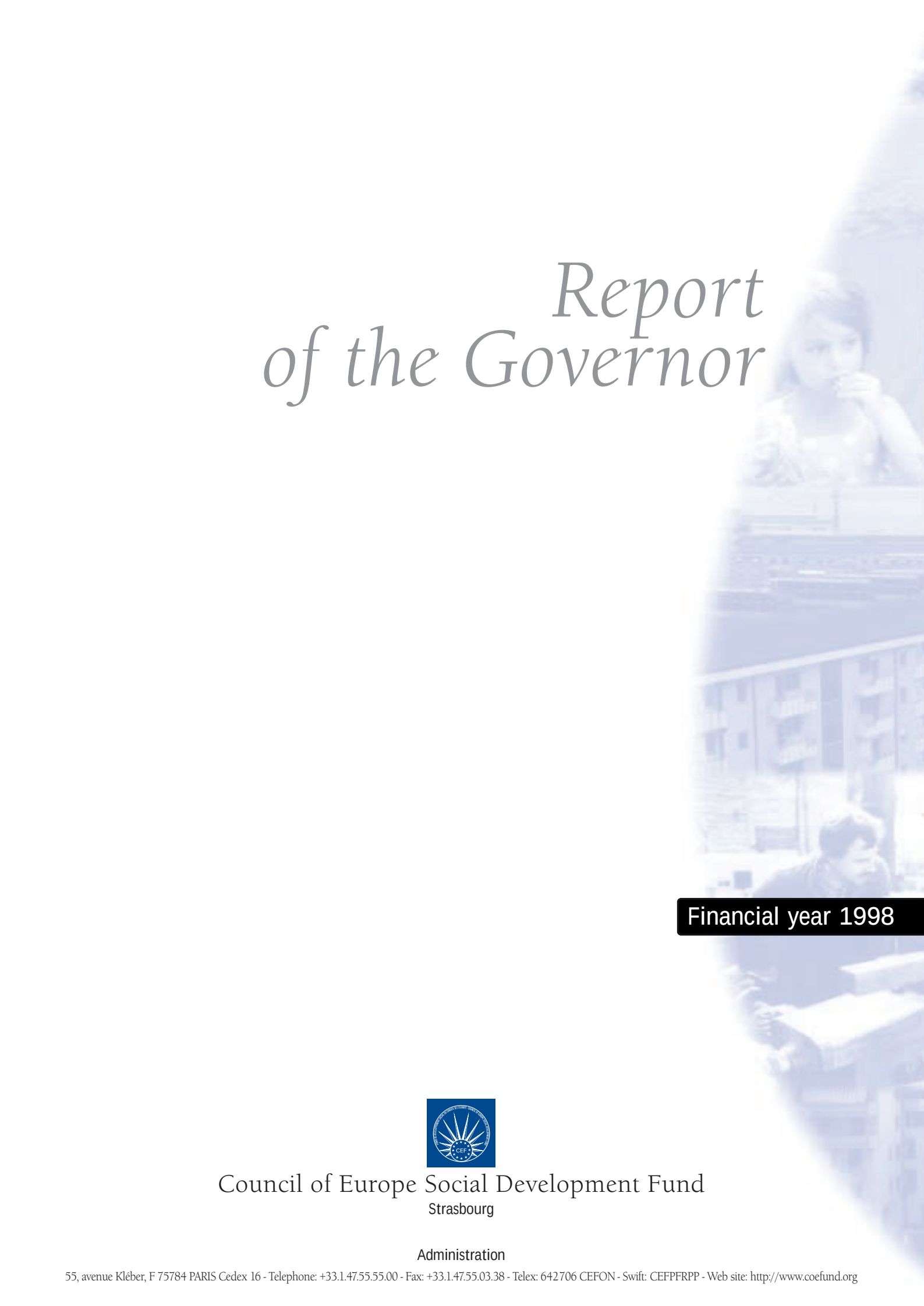
The Fund is organised, administered and supervised by the following organs:

- the Governing Board, comprising one representative per member State. Its Chairman is Mr Giorgio Ratti, who was elected on 18 March 1996.
- the Administrative Council, also comprising one representative per member State. It is chaired by Mr Kari Nars, who was re-elected on 18 June 1996.
- the Governor, Mr Raphaël Alomar, re-elected on 18 June 1996. He is assisted by the First Vice-Governor, Mr Martin Murtfeld, and the Second Vice-Governor, Mr Ignacio Garrido.
- the Auditing Board, which has three members chosen from among the member States in turn.

The Administrative Council is assisted by an Executive Committee made up of nine members of the Administrative Council and chaired by the Council's Chairman.

31 December 1998

Report of the Governor



Financial year 1998

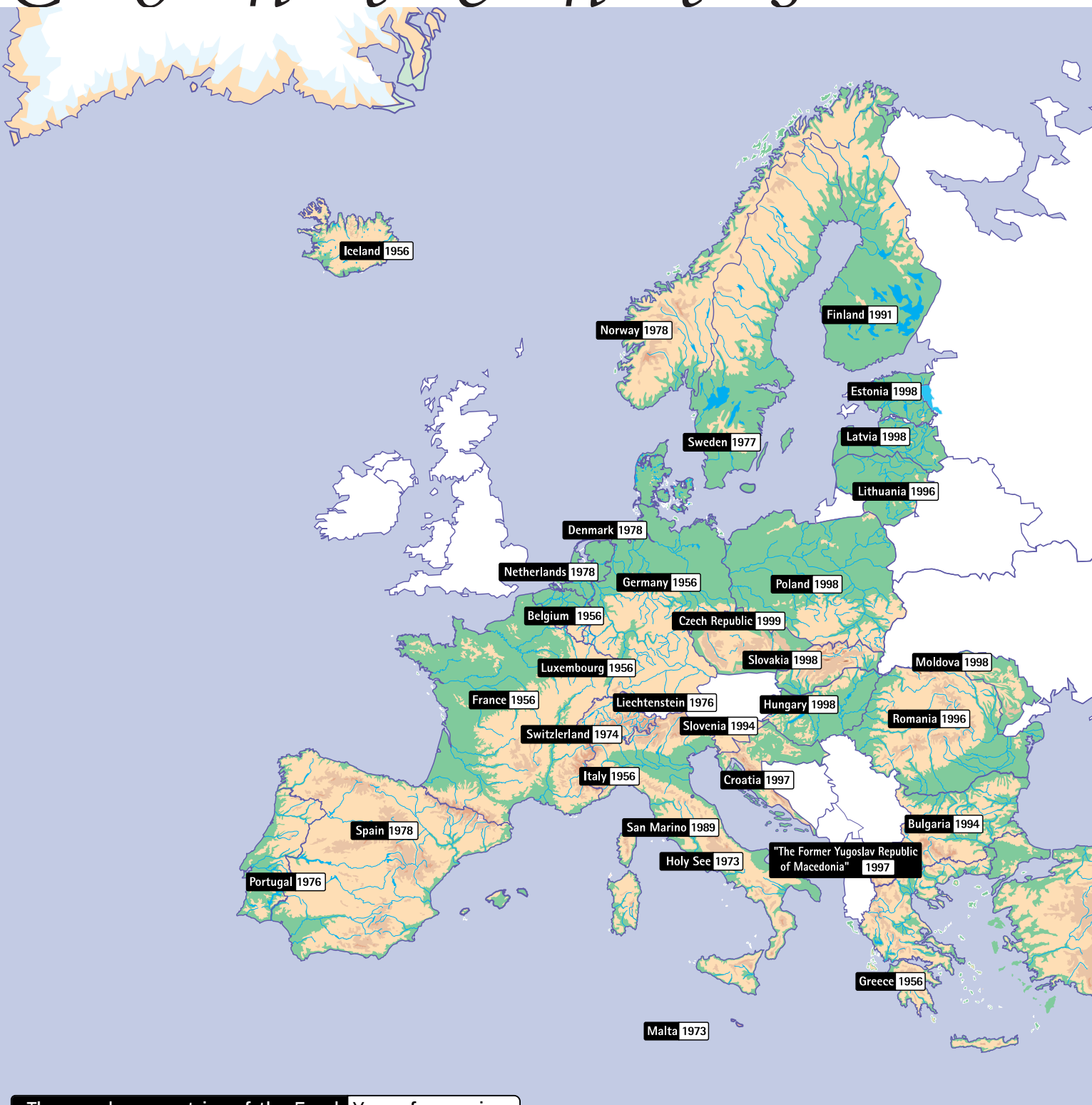
Council of Europe Social Development Fund

Strasbourg

Administration

55, avenue Kléber, F 75784 PARIS Cedex 16 - Telephone: +33.1.47.55.55.00 - Fax: +33.1.47.55.03.38 - Telex: 642706 CEFON - Swift: CEFPFRPP - Web site: http://www.coefund.org

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Notes for the reader

*Membership of the Fund's organs as at 31 Decembre 1998**

GOVERNING BOARD		ADMINISTRATIVE COUNCIL
Giorgio RATTI Former Under-Secretary of State, Ministry of Budget and Economic Planning, Rome	*Chairmen*	**Kari NARS **** Executive Director, European Bank for Reconstruction and Development, London
Magdalena TOVORNIK Ambassador Extraordinary and Plenipotentiary, Permanent Representative of Slovenia to the Council of Europe, Strasbourg	*Vice-Chairs*	**Dimitar B. RADEV** Deputy Minister for Finance, Ministry of Finance, Sofia
Jan SCHOKKAERT General Adviser, Ministry of Foreign Affairs, Brussels	*Belgium*	**Werner VERTONGEN** Inspector General, Research Department, National Bank of Belgium, Brussels
Ventzislav IVANOV Adviser, Human Rights and Social Affairs Directorate, Ministry of Foreign Affairs, Sofia	*Bulgaria*	**Dimitar B. RADEV** Deputy Minister for Finance, Ministry of Finance, Sofia
Vladimir MATEK Ambassador Extraordinary and Plenipotentiary, Permanent Representative of Croatia to the Council of Europe, Strasbourg	*Croatia*	**Josip KULISIC** Deputy Minister, Department of International Relations, Ministry of Finance, Zagreb
Thalia PETRIDES Ambassador Extraordinary and Plenipotentiary, Permanent Representative of Cyprus to the Council of Europe, Strasbourg	*Cyprus*	**Antonis MALAOS** Director General, Ministry of Finance, Nicosia
Arne BELLING Ambassador Extraordinary and Plenipotentiary, Permanent Representative of Denmark to the Council of Europe, Strasbourg	*Denmark*	**Mogens CAMRE** Counsellor, Permanent Delegation of Denmark to the European Union, Brussels
Karin JAANI Ambassador Extraordinary and Plenipotentiary, Permanent Representative of Estonia to the Council of Europe, Strasbourg	*Estonia*	**Martin PÖDER** Deputy Secretary General, Ministry of Finance, Tallinn
Erkki KOURULA Ambassador Extraordinary and Plenipotentiary, Permanent Representative of Finland to the Council of Europe, Strasbourg	*Finland*	**Seppo SUOKKO** Deputy Director General, Economics Department, Ministry of Finance, Helsinki
Jacques WARIN Ambassador, Permanent Representative of France to the Council of Europe, Strasbourg	*France*	**Pierre MERVIEL** Inspector of Finance, Treasury Directorate, Ministry of Economic Affairs, Finance and Industry, Paris
Herbert HONSOWITZ Vortragender Legationsrat Erster Klasse, Ministry of Foreign Affairs, Bonn	*Germany*	**Knut KAGE** Ministerialrat, Ministry of Finance, Bonn
Dimitri CONSTAS Ambassador, Permanent Representative of Greece to the Council of Europe, Strasbourg	*Greece*	**Constantinos VGENOPOULOS** National Bank of Greece, Athens

** Under Article VIII of the Articles of Agreement, the Fund is organised, administered and supervised by the Governing Board, the Administrative Council, the Governor and the Auditing Board. An Executive Committee, comprising nine members of the Administrative Council and chaired by its Chairman, assists the Administrative Council.*

Under Article XIII, the Fund's secretariat is provided by the "Secretariat of the Partial Agreement on the Social Development Fund" at the Council of Europe, Strasbourg (Director: **Mr Constantinos N. PILAVACHI**, *Secretary to the Fund's organs:* **Mrs Giusi PAJARDI**).

*** On 14 December 1998, Dr Nars was elected Chairman of the Governing Board. He will start his three-year mandate period on 28 June 1999.*

GOVERNING BOARD		ADMINISTRATIVE COUNCIL
Holy See **Mgr Michael COURTNEY** Special Envoy of the Holy See to the Council of Europe, Strasbourg		
Janos PERENYI Ambassador Extraordinary and Plenipotentiary, Permanent Representative of Hungary to the Council of Europe, Strasbourg	*Hungary*	**Gusztav BAGER** Director General, International Institutions Secretariat, Ministry of Finance, Budapest
Sveinn BJÖRNSSON Ambassador Extraordinary and Plenipotentiary, Permanent Representative of Iceland to the Council of Europe, Strasbourg	*Iceland*	**Thröstur OLAFSSON** Director, Central Bank of Iceland, Reykjavik
Antonio PURI PURINI Ambassador, Permanent Representative of Italy to the Council of Europe, Strasbourg	*Italy*	**Nunzio GUGLIELMINO** Director, Ministry of the Treasury, Rome
Georgs ANDREJEVS Ambassador Extraordinary and Plenipotentiary, Permanent Representative of Latvia to the Council of Europe, Strasbourg	*Latvia*	**Vilnis LINDEMANIS** Ministry of the Treasury, Riga
Liechtenstein **Josef WOLF** Ambassador Extraordinary and Plenipotentiary, Permanent Representative of Liechtenstein to the Council of Europe, Strasbourg		
Aurimas TAURANTAS Ambassador Extraordinary and Plenipotentiary, Permanent Representative of Lithuania to the Council of Europe, Strasbourg	*Lithuania*	**Jonas LIONGINAS** Ministerial Secretary, Ministry of Finance, Vilnius
Gérard PHILIPPS Ambassador Extraordinary and Plenipotentiary, Permanent Representative of Luxembourg to the Council of Europe, Strasbourg	*Luxembourg*	**Jérôme HAMILIUS** Government Adviser, Ministry of Finance, Luxembourg
Malta **Victor GRECH, a.i.** Deputy Permanent Representative of Malta to the Council of Europe, Strasbourg		
Iuliana GOREA-COSTIN Permanent Representative of Moldova to the Council of Europe, Strasbourg	*Moldova*	**Mihai MORARU** Vice-Minister, Ministry of Economic Affairs and Reform, Chisinau
Michel I. van der ZEE Director of Economic Co-operation, Ministry of Foreign Affairs, The Hague	*Netherlands*	**Jos H.P. de VRIES** Deputy Director of Foreign Financial Relations, Ministry of Finance, The Hague
Sten LUNDBO Ambassador Extraordinary and Plenipotentiary, Permanent Representative of Norway to the Council of Europe, Strasbourg	*Norway*	**Knut PAUS** Deputy Permanent Representative of Norway to the Council of Europe, Strasbourg
Marcin RYBICKI Ambassador Extraordinary and Plenipotentiary, Permanent Representative of Poland, to the Council of Europe, Strasbourg	*Poland*	**Jacek TOMOROWICZ** Director, International Co-operation Department, Ministry of Finance, Warsaw
Alvaro Manuel SOARES GUERRA Ambassador Extraordinary and Plenipotentiary, Permanent Representative of Portugal to the Council of Europe, Strasbourg	*Portugal*	**Lina NETO** Deputy General Director, General Directorate for European Affairs and International Relations, Ministry of Finance, Lisbon
Sabin POP Ambassador Extraordinary and Plenipotentiary, Permanent Representative of Romania to the Council of Europe, Strasbourg	*Romania*	**Valentina SICLOVAN** Deputy Director General, Directorate-General of International Financial Relations, Ministry of Finance, Bucharest

GOVERNING BOARD		ADMINISTRATIVE COUNCIL
Guido CECCOLI Chargé d'Affaires, Permanent Representation of San Marino to the Council of Europe, Strasbourg	*San Marino*	**Raffaele GIARDI** Administrative Secretary General, Republic of San Marino
	Slovakia	**Eva GARAJOVA, a.i.** Ambassador Extraordinary and Plenipotentiary, Permanent Representative of Slovakia to the Council of Europe, Strasbourg
Magdalena TOVORNIK Ambassador Extraordinary and Plenipotentiary, Permanent Representative of Slovenia to the Council of Europe, Strasbourg	*Slovenia*	**Meta BOLE** Deputy State Secretary, Ministry of Finance, Ljubljana
Guillermo KIRKPATRICK Ambassador Extraordinary and Plenipotentiary, Permanent Representative of Spain to the Council of Europe, Strasbourg	*Spain*	**Luis de FUENTES LOSADA** Deputy Director General, Directorate-General for the Treasury and Finance Policy, Ministry of Economic Affairs and Finance, Madrid
Hakan WILKENS Ambassador Extraordinary and Plenipotentiary, Permanent Representative of Sweden to the Council of Europe, Strasbourg	*Sweden*	**Hans Olof SÄLLVIN** Deputy Assistant Under-Secretary, Development and Regional Policy Division, Ministry of Trade and Industry, Stockholm
Carlos ORGA Head of Council of Europe Division, Federal Department of Foreign Affairs, Bern	*Switzerland*	**Yves EMERY** Head of Section, Federal Department of Finance, Bern
Jon IVANOSKI Chargé d'Affaires a.i., Permanent Delegation of "The Former Yugoslav Republic of Macedonia", Strasbourg	*"The Former Yugoslav Republic of Macedonia"*	**Vanja MIHAJLOVA** Ministerial Assistant, Ministry of Finance, Skopje
Alev KILIC Ambassador Extraordinary and Plenipotentiary, Permanent Representative of Turkey to the Council of Europe, Strasbourg	*Turkey*	**Aydin KARAÖZ** Director General, Directorate-General of International Economic Affairs, Permanent Secretary of Treasury, Ankara

GOVERNOR

Raphaël ALOMAR

VICE-GOVERNORS

First Vice-Governor: **Martin MURTFELD**

Second Vice-Governor: **Ignacio GARRIDO**

AUDITING BOARD

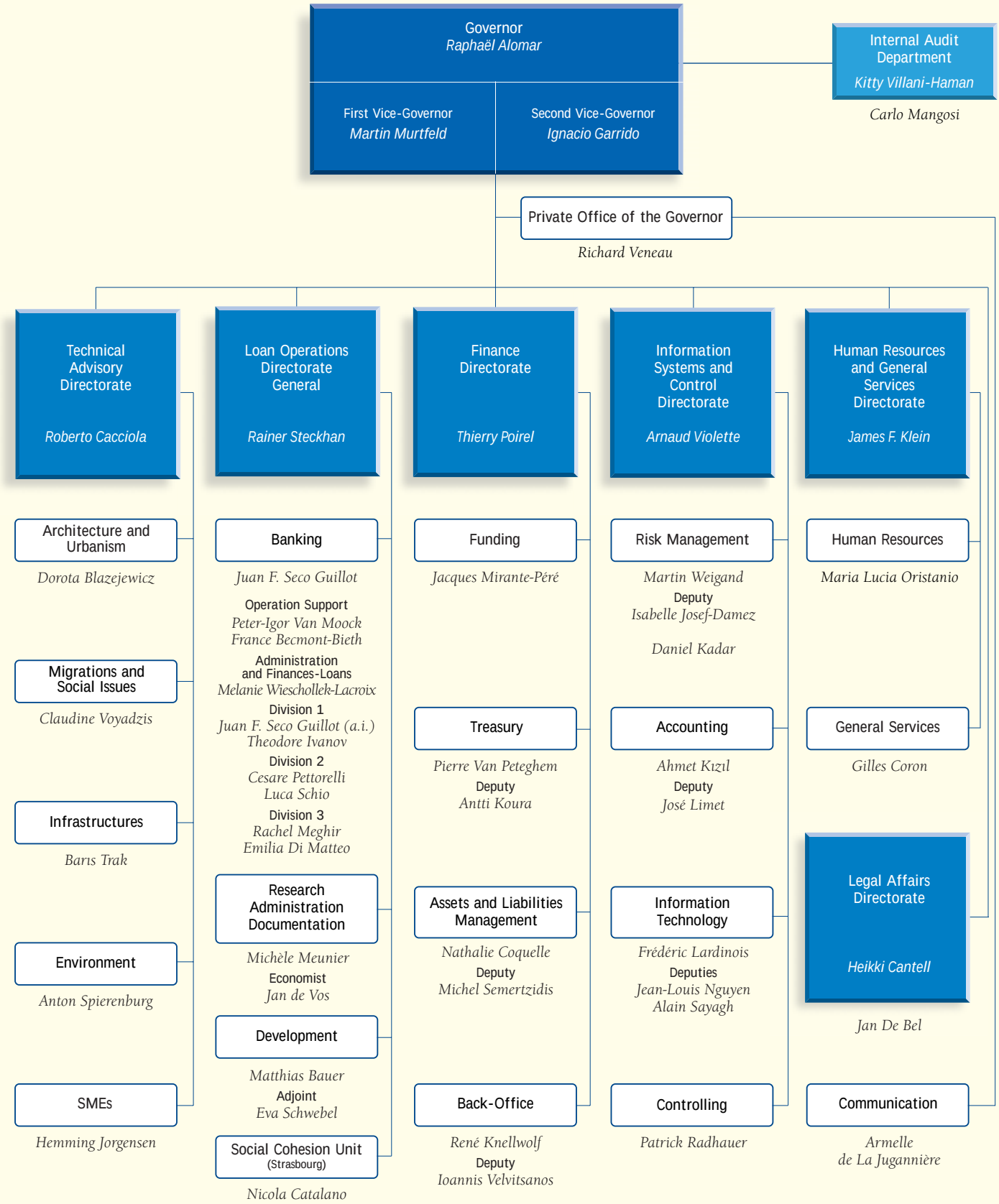
Luxembourg: **Marc JUNG,** Government Adviser, Ministry of Finance, Luxembourg
Malta: **Edward SCICLUNA,** Chairman, Malta Financial Services Centre, Attard
Norway: **Per A. ENGESETH,** Director General, General Auditor's Office, Oslo

HONORARY CHAIRPERSONS

Paule DUFOUR †

Siegfried FRÖHLICH

Organisation chart



Situation as at 31 December 1998

1949 50 1999

COUNCIL OF EUROPE CONSEIL DE L'EUROPE

The Council of Europe and the Fund

In 1999 the Council of Europe celebrates its fiftieth anniversary. This landmark event is a fitting occasion to take a closer look at the links between the Council of Europe and the Fund, and to show how the two organisations' activities to promote greater social cohesion in Europe converge.

*

The Treaty establishing the Council of Europe was signed in London on 5 May 1949. Ten countries took part in founding the new organisation, which consisted, firstly, of a Committee of Ministers with decision-making powers and, secondly, of an Assembly with a consultative role, made up of representatives of the national parliaments. Chapter I of the Treaty expounded the founders' objectives: *"The aim of the Council of Europe is to achieve a greater unity between its members for the purpose of safeguarding the ideals and principles which are their common heritage and facilitating their economic and social progress".*

Throughout its history the Council of Europe has constantly striven to realise this goal. For instance, on 4 November 1950 the European Convention on Human Rights was signed, setting up a Court with extensive jurisdiction. All in all, with its current membership of forty European countries, the Council has become a powerful forum for social debate, for safeguarding human rights and for spreading democracy.

*

At the same time, the Council of Europe has established a number of Partial Agreements, to which certain of its member States are signatories. The first such agreement, which was signed by eight countries on 16 April 1956, concerned the Fund [1].

The Fund's Articles of Agreement specify that it is administered under the supreme authority of the Council of Europe. Nonetheless, it is entirely separate from the Council: it is a development bank, enjoying complete financial autonomy, and it is a legal entity in its own right, having its administrative headquarters in Paris.

In their day-to-day relations the Fund and the Council show an ever-present will to co-operate. The ties between the two organisations are moreover strengthened by the secretariat of the Partial Agreement, which is based in Strasbourg and comes under the authority of the Secretary General of the Council of Europe. The secretariat also issues an opinion of admissibility from a political and social point of view for each project submitted to the Fund.

The two organisations are also closely linked in terms of their historical development. Following the enlargement of the Council of Europe, a growing number of states have opted to join the Fund (which has 34 members in March 1999). Similarly, as the idea of social progress has made headway in Europe - at the prompting of the Council - the Fund has supplemented its fields of action. Initially confined to dealing with emergency situations (aid for refugees and migrants, support for victims of natural disasters), they now allow the Fund far broader scope to respond to financing needs in the sectors of social housing, health, education, protection of the environment, rural modernisation, rehabilitation of disadvantaged urban areas, heritage conservation and job creation.

The Second Summit of the Council of Europe, which was held in Strasbourg on 10 and 11 October 1997, reflected and intensified the co-operation between the two institutions. At the summit many of the Heads of State and Government hailed the role played by the Social Development Fund and expressed the desire to see an expansion of its activities, in particular to promote social cohesion in Europe. This is naturally an area where the Fund's and the Council's objectives are in perfect harmony.

1 - Then named the "Council of Europe Resettlement Fund for National Refugees and Over-Population in Europe"



THE GENERAL MANAGEMENT COMMITTEE

Front row: *in the centre, Raphaël ALOMAR, Governor; on the left, Martin MURTFELD, First Vice-Governor, on the right, Ignacio GARRIDO, Second Vice-Governor.*

Second row, from left to right: *James F. KLEIN, Director of Human Resources and General Services, Roberto CACCIOLA, Director of Technical Advisors; Rainer STECKHAN, Director General of Loans; Thierry POIREL, Director of Finance; Arnaud VIOLETTE, Director of Information Systems and Control; Heikki CANTELL, Director of Legal Affairs.*

1998 was a year of continuity with the preceding financial years. Our bank is now in a cycle of sustainable development characterised by strong growth in activity, stable profitability, a strengthened commitment to serving social cohesion in Europe, a financing strategy that is well received by investors and a constant tightening of risk control. Moreover, the soundness of this policy is attested to by the absence of any detrimental effects on the results arising from the successive crises affecting the Asian and emerging markets, then markets worldwide, as well as by the successful changeover to the euro at the start of 1999.

Strong growth in activity...

The growth in our activity was particularly strong in 1998: for the third consecutive year the Fund achieved record amounts in terms of projects approved, with a volume totalling 2.3 billion ecus. New commitments, namely any project for which a master agreement was signed or a first disbursement made during the year, amounted to 2.4 billion ecus. Furthermore, for the very first time, disbursements exceeded the 1 billion-ecu threshold, representing a 23% increase in relation to last year.

stable profits...

The net profit (81.4 million ecus) reached the same level as last year, whereas the gross operating result increased slightly.

These developments come within a coherent strategic framework structured around the medium-term plan and the pursuit of more efficient action in the service of social cohesion in Europe.

Implementation of the major options set out in the medium-term plan, approved by the Governing Board and the Administrative Council, was continued, namely: better geographical distribution of loans outstanding, development of the priority sectors and the extension of activity to the central and eastern European countries.

*The **redistribution of the loans portfolio** was therefore pursued, in line with the policy followed over the past four years: 60% of the projects approved and loans disbursed during the year were for beneficiaries with headquarters located in Germany, Spain and France. Moreover, the outstanding for loans on Italy is once again increasing.*

redistribution of the loans portfolio...

*As far as the **priority sectors** are concerned, a number of pilot projects have been developed in favour of refugees and migrants. One of these was intended for Bosnian nationals, even though Bosnia and Herzegovina is not a member country. Also this year, the Fund approved eleven projects concerning aid to the victims of natural disasters, which almost systematically involved emergency procedures. In particular, these procedures led to the very rapid disbursement of a loan targeted to reconstruction in the Assisi region in the wake of the recent earthquakes in Italy.*

*Furthermore, the policy to extend the Fund's action to the **Central and Eastern European countries** gained momentum, with Estonia, Hungary, Latvia, Moldova, Poland and Slovakia successively taking up membership. The Czech Republic joined at the beginning of 1999. In all, the Fund has welcomed thirteen new member States since 1994, six having joined in 1998 alone. A number of important projects were approved in favour of these countries, Hungary and Poland in particular, in the months following their accession. Wider co-operation has been established with other development banks in order to co-finance operations in this area.*

increased investment in social cohesion in Europe...

*Finally, in order to follow up on the recommendations of the Second Summit of the Council of Europe, held in Strasbourg at the end of 1997, the Fund increased still further its commitment to promoting **social cohesion in Europe** in 1998. As a result, new means have been made available in order to identify and develop projects in this sector and an ambitious objective has been set: to devote one billion ecus over three years to actions in favour of employment. The effects of this policy are beginning to be felt since one fifth of the projects approved during the year concern sectors that directly generate jobs: investment in small and medium sized enterprises, long-term vocational training programmes enabling unskilled young people to come back into the job market.*

Coming in response to the growth in our activity, our active financing policy has been extremely well received on the financial markets. In all, the Fund's issues amounted to 2.8 billion ecus in 1998, representing a 40% increase over last year.

a consolidated reputation...

The Fund has also consolidated its reputation and its investor base on the international capital markets by launching large-scale issues in the major currencies. In particular, in 1998, it launched two important dollar issues that were particularly well received in that they constituted a high quality investment medium for investors anxious to limit their counterparty risk. Moreover, as early as 7 January 1999, the Fund became the first multilateral financial institution to launch a sizeable operation (500 million euros) in the new single European currency.

The Fund was also able to respond to demands from both European and Asian investors concerning more specific currencies or structures, launching borrowings in eight different currencies, including the Greek drachma, the Polish zloty and the Hong-Kong dollar.

*

This growth in our activity, in terms of both assets and liabilities, has of course been achieved within the framework of vigilant risk control measures. This global strategy, piloted by a specialised internal committee, is in line with the policy decided on by the Administrative Council.

As far as prudential management is concerned, the Fund's policy is based on the strictest international standards: a very conservative liquidity ratio, permanent monitoring of the rate and exchange risks, a strategy for systematic hedging of financial operations by means of derivatives, reduction of counterparty risk through the use of collateral.

and a vigilant approach to risk control...

It is important to note that the crisis on the Asian markets had no repercussions on the Fund thanks to a series of preventive measures taken as early as 1997. These measures enabled us to reduce the overall exposure on this area by half in one year, with the residual exposure concerning but a number of essentially well-rated counterparties.

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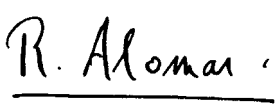
The bank's overall growth has gone hand in hand with a strengthening of the means available to it: increased human resources, refurbished premises, efficient information systems.

Concerning this last point, it is particularly interesting to note that the adoption of the euro went ahead without any problem and that the actual "switch-over" was effected in the most satisfactory conditions.

*

The results obtained in terms of both activity and profitability in 1998 were therefore accompanied by a reinforcement of the major strategic options; in particular as regards the Fund's enhanced role in the service of social cohesion in Europe. In the future, thanks to the support of its member States and strengthened by closer co-ordination with the Council of Europe, the Fund will continue to pursue its ongoing policy - a policy that is ambitious in terms of development, prudent in terms of risk control, and devoted to ever more efficiently fulfilling our institution's social vocation, which is the very reason for its existence.

...all contribute to promoting the Fund's social purpose.



Paris, 2 April 1999

Raphaël ALOMAR

Development of activities in Central and Eastern Europe

Six new Central and Eastern European members joined the Fund in 1998 - Hungary, Moldova, Estonia, Latvia, Poland and Slovakia - followed by the Czech Republic in 1999. The Fund now has thirteen member States in that part of Europe.

Under the terms of its 1997/2001 Development Plan, which sets the main guidelines for its activity, the Fund is financing social projects in these countries. Projects selected to receive funding cover not only the priority sectors of aid to refugees and to victims of natural disasters, but also health, education and job promotion in small and medium-sized enterprises. A total of ECU 212.3 million in loans has been approved in favour of these countries.

In 1998 seven new projects were approved, including the first global disbursement loan programme proposed by Hungary. This programme, which is guaranteed by the Hungarian Government, will be implemented by Hungary's development bank, Magyar Fejlesztési Bank. The Fund has given the go-ahead for a total of ECU 40 million in loans, which will be used to help finance:

- *investments in small and medium-sized firms in north-eastern Hungary, southern Transdanubia and the south of the Great Plains (the Alfold), with the aim of stimulating job preservation and creation in such firms, which show high growth potential;*
- *protection of heritage sites in the vicinity of Budapest and rehabilitation of the district surrounding Budapest Castle, which is on UNESCO's World Heritage List;*
- *infrastructure related to protection of the environment (sewage treatment plants and facilities for depollution of soil and ground water) in the counties of Békés, Györ and Szeged;*
- *and, lastly, rural modernisation projects in the lowlands of the Danube valley, the counties of Borsod, Békés and Heves, and the district of Zahoni.*



Lithuania:
Housing for former deportees

This programme will therefore make it possible to improve living conditions and will promote social cohesion.

*

To boost its capacity for action in this region, the Fund works in close co-operation with other international institutions such as the World Bank, the European Bank for Reconstruction and Development (EBRD), the European Investment Bank (EIB) or the European Union (through the PHARE programme) and with national public or private financial institutions.

In this connection, the co-operation initiated with the German development bank, Kreditanstalt für Wiederaufbau (KfW), to finance projects in Bosnia and Herzegovina is a particularly interesting example. In the wake of the civil war in former Yugoslavia, repatriation of the refugees who fled to neighbouring countries is still a pressing problem. One of the reasons why these refugees cannot return home is naturally the lack of housing, since a large proportion of dwellings were either seriously damaged or completely destroyed during the conflict. In view of the situation, the Fund decided to support a loan programme instituted by KfW, whereby financing is made available to local banks in Bosnia and Herzegovina, selected by KfW, and those banks in turn extend mortgage loans to refugees. To qualify, the refugees must have volunteered to return home from the German Land of Baden-Württemberg. The loans enable them to repair or rebuild their dwellings. A special interest-rate subsidy made available through the Selective Trust Account, which is fed from the Fund's annual profits, considerably reduces the cost of borrowing for the refugees. This action will help some 300 to 350 Bosnian families to return to their country of origin and will have significant spin-off benefits on employment levels in local craft and service firms, thus helping to restore the country's economic and social fabric.

Projects and lending activity

Projects approved in 1998

Reinforcing social cohesion in Europe entails giving priority to action in the following fields: employment, vocational training, health, education and housing. The Fund's operations have therefore been geared to taking such action, and a proactive policy to seek out suitable projects has been developed.

In 1998 the Fund approved 42 new projects or global disbursement loan programmes and updated five existing projects, representing a total of ECU 2.257 billion in financing approved, higher than the 1997 figure of ECU 2.153 billion. It also broadened its geographical sphere of action. Projects approved during the year were spread over fifteen member States and one non-member State, Bosnia and Herzegovina.

1 - Projects, breakdown by country

Spain is the main recipient of the financing approved in 1998, in terms of both the amount (30% of the total sum approved) and the number of projects. The Fund approved sixteen projects or global disbursement loan programmes for a total of ECU 681 million.

Germany accounts for 17% of the total amount approved, with a sum of ECU 383.4 million shared among three global disbursement loan programmes located in Germany itself and two pilot projects in Bosnia and Herzegovina.

Italy comes in third place with ECU 333.3 million, or 15% of the total amount of projects approved.



Slovenia:
SMEs - an electrical components firm

France is fourth (13% of the total amount approved), with ECU 300.5 million earmarked for a huge multi-sector programme.

As in 1997, **Greece** continued to account for about 7% of the total amount of projects approved, with an amount of ECU 158 million. This figure takes account of the updating of two existing projects.

Belgium, which accounted for 3.2% of projects approved during the year, submitted two global disbursement loan programmes for a total of ECU 73.5 million.

Projects approved by country and sector from 1989 to 1998

ECU thousand

Country	1998	%	1989-1997	%
Germany	383 417	16.99	1 643 421	15.46
Belgium	73 521	3.26	25 700	0.24
Bosnia et Herzegovina*	-	-	5 099	0.05
Bulgaria	-	-	8 787	0.08
Cyprus	59 531	2.64	790 137	7.42
Croatia	34 463	1.53	-	-
Spain	681 029	30.17	1 114 424	10.47
Finland	-	-	133 717	1.26
France	300 498	13.31	425 659	4.00
Greece	158 000	7.00	1 946 082	18.28
Hungary	40 000	1.77	-	-
Iceland	45 146	2.00	-	-
Italy	333 314	14.77	1 742 863	16.38
Lithuania	-	-	9 794	0.09
Malta	54 217	2.40	29 221	0.27
Portugal	49 377	2.19	121 181	1.14
Romania	20 000	0.89	32 182	0.30
San Marino	19 152	0.85	3 257	0.03
Slovenia	5 210	0.23	53 717	0.50
Turkey	-	-	2 515 255	23.63
Former Yugoslavia**	-	-	42 827	0.40
TOTAL	2 256 875	100.00	10 643 323	100.00

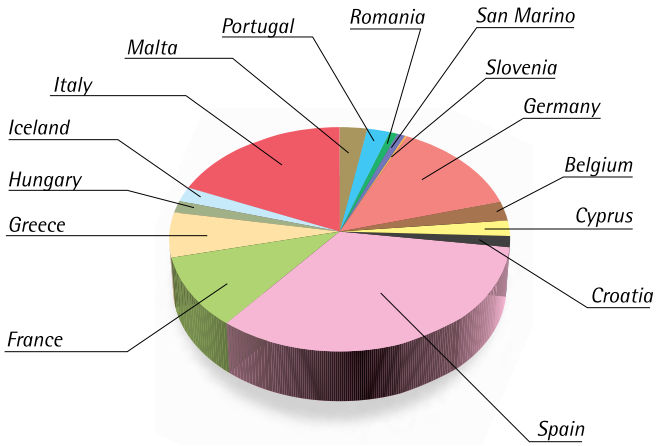
*Selective Trust Account ** Associate Member of the Fund from 1986 to 1991

ECU thousand

Sector	1998	%	1989-1997	%
A) Priority sectors:				
Aid to refugees and migrants	46 491	2.06	1 156 680	10.87
Aid to regions affected by natural or ecological disasters	196 326	8.70	1 001 426	9.41
B) Other sectors:				
SMEs	261 627	11.59	1 205 239	11.32
Social housing	354 921	15.73	1 688 174	15.86
Health	369 529	16.37	980 515	9.21
Social infrastructures	-	-	72 137	0.68
Education	293 425	13.00	933 688	8.77
Vocational training	202 396	8.97	10 030	0.09
Protection of the environment	314 163	13.92	849 522	7.98
Rural modernisation	136 081	6.03	1 535 815	14.43
Infrastructure facilities	-	-	1 153 760	10.85
Historic heritage	31 153	1.38	-	-
Improving living conditions in disadvantaged urban areas	50 763	2.25	30 315	0.28
Multi-sector	-	-	26 022	0.25
TOTAL	2 256 875	100.00	10 643 323	100.00

The fifteen other projects, representing 15% of the total amount approved, are located in four countries of southern Europe: Cyprus (2.6%), Malta (2.4%), Portugal (2.2%) and San Marino (0.8%); one northern country, Iceland (2%); and four Central and Eastern European countries: Hungary (1.8%), Croatia (1.5%), Romania (0.9%) and Slovenia (0.2%).

Projects approved in 1998, breakdown by country





Portugal:
The Amadora Sintra Hospital

2 - Projects approved in 1998 cover all of the Fund's fields of action

The Fund approved a total of ECU 243 million in financing for its two priority tasks, aid to refugees and migrants (four projects) and aid to victims of natural or ecological disasters (three projects).

Otherwise, operations focused on sectors with a high social impact, which accounted for over 80% of the Fund's activities in 1998: health (16.4%), housing (15.7%), protection of the environment (13.9%), education (13%), job creation in SMEs (11.6%) and vocational training (9%). The remainder of the loan applications granted were aimed at rural modernisation (6%), improving living conditions in disadvantaged urban areas (2.2%) and renovation of heritage sites (1.4%).

a - The priority fields of action: aid to refugees and migrants and aid to victims of natural or ecological disasters

As a result of a concerted effort to develop the Fund's action in favour of refugees, in **Germany** two pilot projects in aid of Bosnian refugees wishing to return to Bosnia and Herzegovina were approved for a total of ECU 4.3 million *(see the boxed text on page 12)*. One of the projects is intended to facilitate the return of members of the Roma minority.

In **Croatia** two projects, for an amount of ECU 35 million, will make it possible to fund the building and renovation of health-care and educational facilities in Eastern Slavonia, here too with the aim of encouraging the return of displaced persons and refugees. These will be the first projects to be financed by the Fund in this country, which became a member State in 1997.

Through other projects approved in the course of 1998, **Spain**, **Greece**, **Italy**, **Romania** and **Slovenia** will receive funding earmarked for aid to victims of natural disasters. *(see the boxed text on page 18)*



Romania:
Rebuilding after the floods

b - Employment and vocational training

In response to the recommendations made at the 2nd Summit of the Council of Europe in October 1997, the Fund has set itself the objective of channelling an additional ECU one billion into loans for job promotion projects over the next three years. Throughout 1998 its efforts were geared to meeting this objective.

Although all of the projects financed by the Fund involve investments making intensive use of direct or indirect labour (building of housing or of social infrastructures such as hospitals or schools), the Fund has decided to focus on supporting investment in SMEs - the primary source of new jobs - and on vocational training as its two preferred means of contributing, through the provision of appropriate financing solutions, to the preservation and creation of jobs in Europe.



Cyprus:
Job creation

ECU 202 million was approved for a vocational training scheme for unemployed young people in **Germany**. The aim is to promote apprenticeship in SMEs in Bavaria. Part of the financing was made available in 1998. *(See boxed text on page 25)*

In **France**, ECU 60 million of a multi-sector loan programme will be set aside for job preservation and creation in SMEs.

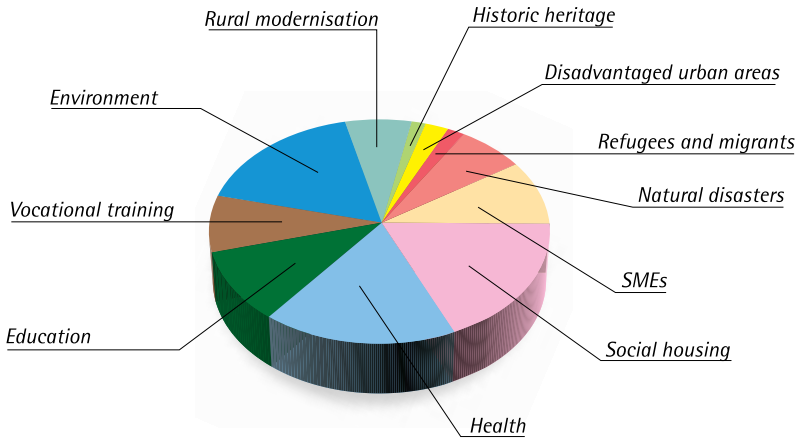
In the case of **Spain**, seven of the global disbursement loan programmes approved in 1998 include financing earmarked specifically for SMEs totalling ECU 130 million.

In **Italy**, 10.8% of the total amount approved in 1998 - ECU 36 million - will go to job creation projects in SMEs, to be distributed among most of the country's regions via the local bank network.

Hungary filed its first loan application, for an amount of ECU 40 million, in 1998. It concerns a programme largely aimed at financing job preservation and creation projects in SMEs. *(See the boxed text on page 12)*

In **Malta**, the Fund is for the first time financing a job creation and preservation scheme in SMEs through a global disbursement loan programme. This programme is for a total of ECU 23 million, which will be allocated to about a hundred small businesses.

Projects approved in 1998, breakdown by sector



c - Housing and urban renewal, heritage projects

In cities all over Europe, a worsening of living conditions in certain suburbs over recent decades has led to phenomena of social exclusion. Action to foster balanced urban development and to maintain a social mix in local communities is essential to inner-city regeneration and to an improved quality of life. In 1998, the Fund therefore continued its efforts to encourage urban renewal, a sphere where it has long been active in providing financing for social housing and where it now also makes loans available for infrastructure projects. Since 1997, it has been able to extend loans for social infrastructures designed to improve living conditions in disadvantaged areas and for investments aimed at rehabilitating the heritage.

In **Italy**, the Fund has long played a significant role as a source of financing for social housing schemes. In 1998 a total of ECU 56 million was set aside for housing projects through five global disbursement loan programmes. The Fund will also participate in financing social infrastructures intended to improve living conditions in disadvantaged urban areas (ECU 6.7 million) and in funding investments in heritage conservation projects (ECU 4.6 million). *(See the boxed text on page 18)*



Italy:
Social housing

Belgium, **Spain** and **France** also requested loans for social housing schemes in 1998.

d - Education

Education is a sector of fundamental importance for fostering social cohesion and inculcating democratic ideals in the young people of Europe. Increasingly rapid technical progress and globalisation of the world economy require ever-higher standards of education and training. Education is also essential to prevent social exclusion of the most vulnerable population groups. In 1998, the Fund continued to provide financing for school and university infrastructures, with the aim of facilitating access to education for all.

In **Greece**, the government's second Five-Year Plan, to which the Fund has been contributing for a number of years, includes a scheme to build primary or secondary schools.

Fund action in the wake of natural or ecological disasters: helping to foster social cohesion in disaster areas

In 1998 the Fund received a number of applications for aid with reconstruction projects in regions hit by natural or ecological disasters. Such action in response to emergencies constitutes a priority sector of activity for the Fund. The projects approved mainly concerned building or rebuilding of housing and community facilities, health and education infrastructures, investment in SMEs, rehabilitation work and measures to prevent new disasters.

The following are typical examples of activities pursued by the Fund in co-operation with national or local government authorities in order to bring disaster-stricken areas back to life.

Italy: restoration of the historic and cultural heritage in Umbria and the Marches

Following yet another extremely serious earthquake in Italy on 26 September 1997 - centred on the regions of Umbria and the Marches - the Fund immediately approved an application for financing to help rebuild the areas affected. The project lays particular emphasis on restoration of the local historic and cultural heritage, whose importance in Italian and European religious history and art is inestimable. Restoration of this heritage is all the more urgent in view of the forthcoming Jubilee celebrations in the year 2000, which will draw a large number of visitors to these regions.

This programme, which is being co-financed by the EIB (European Investment Bank), will be co-ordinated by the Ministry of Cultural Assets in co-operation with the local and regional authorities concerned.

This action is also consistent with the recommendations made at the 2nd Summit of the Council of Europe, which emphasised the importance of culture and heritage to the European identity. Work done by the Council of Europe, inspired by the "Convention for the Protection of the Architectural Heritage of Europe" (1985) and the "European Convention on the Protection of the Archaeological Heritage" (1992), has shown the contribution made by heritage-promotion activities to fostering a sense of community, social cohesion and job creation. The heritage sector is now one of the Fund's official fields of action.

Slovenia: reconstruction work following the earthquake in the Posocje region

This project is a top priority for Slovenia, in view of the danger of an exodus of the local population, deprived of a place to live and/or of work.

The project concerns a scheme to rebuild public buildings, monuments and community facilities, to invest in industry and commerce - so as to support local economic activity, thereby preserving 1 000 existing jobs and creating 500 new ones - and to provide social housing for a number of dependent elderly people, whose homes were destroyed by the earthquake.

The project's interest lies in the fact that it strikes a balance between repairing the direct material damage caused by the earthquake and seeking to improve living conditions for the local population, with a view to fostering regional development. The Fund is thereby coming to the aid of vulnerable members of the community at risk of being excluded from the mainstream of society, in particular the elderly and the unemployed or people whose jobs are threatened, while helping to preserve the region's main demographic, social and economic balances.



Spain:
Protection of the environment - preventing erosion in the Doñana Park

Spain: repairing damage caused by an ecological disaster in Andalusia

On 24 April 1998, the failure of a tailings dam at a mine located in Aznalcóllar, Andalusia, resulted in the flooding of about 5 000 hectares of nearby farmland with 5 million cubic metres of water polluted by heavy metals. Apart from the harm done to the agricultural environment and the local economy, this accident posed the threat of an ecological disaster in the Doñana National Park, at the mouth of the Guadalquivir, which is one of Europe's largest nature reserves and home to many protected animal species.

The Fund responded to this emergency by rapidly providing the Autonomous Community of Andalusia and the Guadalquivir River Hydrographic Confederation, an environment ministry agency, with two loans intended, firstly, for repairing the damage and, secondly, for taking preventive measures. The Fund's action helped to finance the work to clean up the site (prompt evacuation of the toxic sludge and contaminated soil layers) and to restore the ecological equilibrium.



Iceland: *A school*

In **Germany**, **Belgium**, **France**, **Spain**, **Italy** and **Iceland**, funding will be made available for educational facilities at primary, secondary and university levels through local-authority projects financed under global disbursement loan programmes.

e - Health and social infrastructures for disadvantaged population groups

Another important field of activity for the Fund is financing health-care facilities and support structures for the most vulnerable members of the population.

In **Spain**, an ECU 38 million project has been approved for rebuilding the O'Donnell maternity clinic and building a 400-bed paediatric hospital in Madrid. This project will help to improve the health-care situation of an estimated 630 000 people and will, in particular, facilitate women's and children's access to emergency treatment.

Three other global disbursement loan programmes approved in 1998 for a total of approximately ECU 16 million will include financing reserved for the building of hospital facilities.

In **Germany**, a programme worth ECU 76 million will make it possible to build and renovate retirement homes, rest homes, centres for the disabled or for young people, and kindergarten facilities, mainly in the new Länder.

Belgium, **Cyprus**, **Hungary**, **Italy**, **Malta** and **San Marino** also lodged loan applications in this field of activity in 1998.



Turkey: *Irrigation*

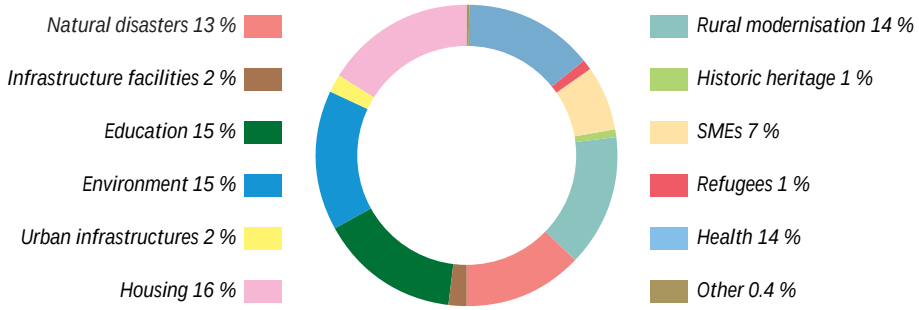
f - Protection of the environment

Protecting the environment is probably one of the greatest challenges facing our modern-day societies. The projects approved by the Fund in 1998 concerned sewage treatment plants, drinking-water supply systems and solid waste processing facilities. Moreover, close attention is paid to environmental factors in all of the projects financed by the Fund.

In **Spain**, a significant share of the global disbursement loan programmes will go to projects intended to improve water quality and distribution. Other schemes will concern solid waste treatment. The loans, representing a total of ECU 67 million, will be utilised by local authorities all over the country. One very important project, representing an investment of ECU 5 million, concerns the installation of a network of pipelines for pneumatic collection of solid urban waste in the historical centre of the city of Palma, Majorca.

Other projects approved in 1998 will enable **Germany**, **Belgium**, **Cyprus**, **Hungary**, **France**, **Portugal** and **San Marino** to finance schemes for the protection of the environment.

Projects awaiting financing



Loans disbursed in 1998

In 1998, loans disbursed exceeded ECU one billion for the first time in the Fund's history. At ECU 1.056 billion, disbursements were up 22.6% on the previous year's figure. They helped to finance 34 individual projects and 23 global disbursement loan programmes.

Disbursements for individual projects alone represented an amount of ECU 308.2 million, 49% higher than in 1997.

As at 31 December 1998, loans outstanding totalled ECU 6 403 million, a 9.6% increase over the ECU 5 844 million outstanding at 31 December 1997. The major effort to rebalance the loans portfolio in terms of both quality and quantity has therefore continued.

1 - Loans: breakdown by sector

In 1998, for the second year running, job creation in SMEs remained the most significant sector for the Fund's lending activity (23.8%). Disbursements for projects in the fields of education (14.5%), vocational training (9.7%), health (8.8%) and social housing (11.3%) were also particularly high. Overall, 68.1% of the loans disbursed in 1998 (11.2% more than in 1997) went to projects in these five sectors.

The Fund also continued to support projects in the fields of protection of the environment (15.7%) and aid to regions severely affected by natural or ecological disasters (6.2%).

It also extended loans in order to come to the aid of refugees, improve living conditions in disadvantaged urban areas, modernise rural areas and safeguard the heritage.

2 - Loans: breakdown by country

German projects received the largest share of loans in 1998, with 36.4% of the total amount disbursed. Next in line were Spain (15.6%), Italy (13.2%), Greece (9.8%), France (7.7%), Belgium (4.8%), Turkey (3.9%), Cyprus (3%), Finland (2.9%), Iceland (1.2%) and Malta (1%).

Loans disbursed by country and sector from 1989 to 1998

ECU thousand

Country	1998	%	1989-1997	%
Germany	384 108	36.38	864 175	14.67
Belgium	50 223	4.76	6 049	0.10
Bulgaria	2 571	0.24	-	-
Bosnia and Herzegovina*	857	0.08	906	0.02
Cyprus	32 126	3.04	439 650	7.47
Spain	164 431	15.57	714 564	12.14
Finland	30 855	2.92	8 779	0.15
France	81 115	7.68	189 046	3.21
Greece	103 342	9.79	751 243	12.76
Iceland	13 000	1.23	-	-
Italy	138 957	13.16	927 083	15.75
Lithuania	2 143	0.20	906	0.02
Malta	11 008	1.04	39 818	0.68
Portugal	-	-	35 935	0.61
Romania	188	0.02	-	-
San Marino	-	-	2 615	0.04
Slovenia	-	-	1 317	0.02
Turkey	41 114	3.89	1 873 453	31.83
Former Yugoslavia**	-	-	30 995	0.53
TOTAL	1 056 038	100.00	5 886 534	100.00

* Selective Trust Account ** Associate Member of the Fund from 1986 to 1991.

ECU thousand

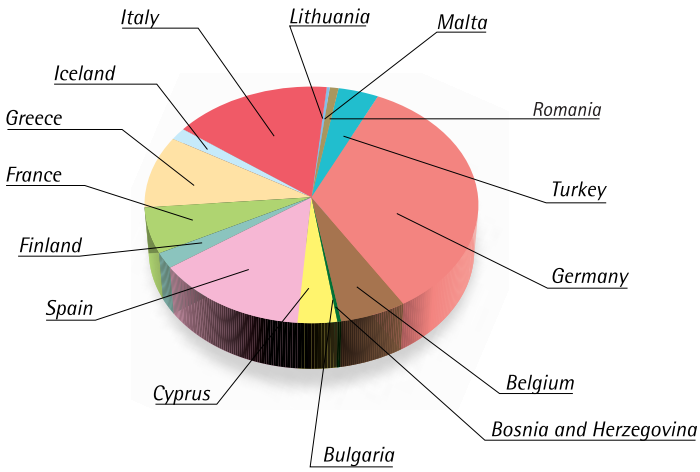
Sector	1998	%	1989-1997	%
A) Priority sectors:				
Aid to refugees and migrants	4 930	0.48	870 547	14.78
Aid to regions affected by natural or ecological disasters	65 937	6.24	421 898	7.17
B) Other sectors:				
SMEs	251 466	23.81	679 050	11.54
Social housing	119 278	11.29	826 956	14.05
Health	101 482	9.61	313 145	5.32
Social infrastructures	-	-	7 249	0.12
Education	144 598	13.69	582 570	9.90
Vocational training	102 258	9.68	99 606	1.69
Protection of the environment	165 938	15.71	177 986	3.02
Rural modernisation	24 557	2.33	1 027 231	17.45
Infrastructure facilities	49 488	4.69	858 735	14.59
Historic heritage	1 291	0.12	-	-
Improving living conditions in disadvantaged urban areas	24 815	2.35	15 124	0.26
Multi-sector	-	-	6 437	0.11
TOTAL	1 056 038	100.00	5 886 534	100.00

Sustained efforts with a view to the gradual development of Fund activities in Central and Eastern Europe resulted in the disbursement of four loans in 1998; the recipients were Bosnia and Herzegovina, Bulgaria, Lithuania and Romania.



Greece:
Alexandroupolis hospital (Thrace)

Loans disbursed in 1998, breakdown by country



In **Germany**, ECU 383.5 million was disbursed in 1998 under four global disbursement loan programmes. These programmes mainly relate to job creation projects in SMEs located in the new Länder and to vocational training schemes. Other sectors concerned were improvement of school and health infrastructures and protection of the environment. An ECU 0.6 million loan has also been paid out to a German bank for a project to help Bosnian refugees wishing to return to their country of origin. The aim is to fund mortgage loans for the purchase or renovation of housing in Bosnia and Herzegovina. *(See the boxed text on page 12)*

In **Spain**, eight projects received disbursements totalling ECU 164.4 million. Most of the funds were channelled through Spanish financial institutions and were intended for use by local authorities. The financing made available by the Fund has enabled work to be done in fields as varied as social housing, improving living conditions in urban areas, rural modernisation and protection of the environment.



Finland:
A school

Moreover, in 1998, a loan of ECU 12 million was disbursed for a major education project, involving the building and renovation of 130 primary and secondary schools in Andalusia.

Lastly, an amount of ECU 13.5 million was speedily made available to come to the assistance of the population in the vicinity of the Doñana National Park. *(See boxed text on page 18)*

In **Italy**, social housing projects continued to benefit from the majority of Fund loans in 1998. An amount of ECU 25.4 million was disbursed for ten individual housing schemes and two global disbursement loan programmes.

Moreover, a large number of Italian municipal authorities were granted Fund loans through three global disbursement loan programmes in the fields of health, education, protection of the environment and prevention of natural disasters (ECU 73.9 million). The loans were paid out through the intermediary of Italian financial institutions specialising in local authority financing.

An initial tranche of ECU 38.5 million was paid on the loan granted to aid the parts of Umbria and the Marches damaged by the 1997 earthquake. *(See boxed text on page 18)*

Greece received payment of ECU 103.3 million for three individual projects. The first, which had been approved in 1991 and was updated in 1997, concerned a scheme to build and equip premises for the Medical Research Foundation of the Athens Academy.

ECU 20.6 million went to another project in the health sector, for building twelve hospitals throughout Greece by the year 2001.



France:
Solid waste incinerator

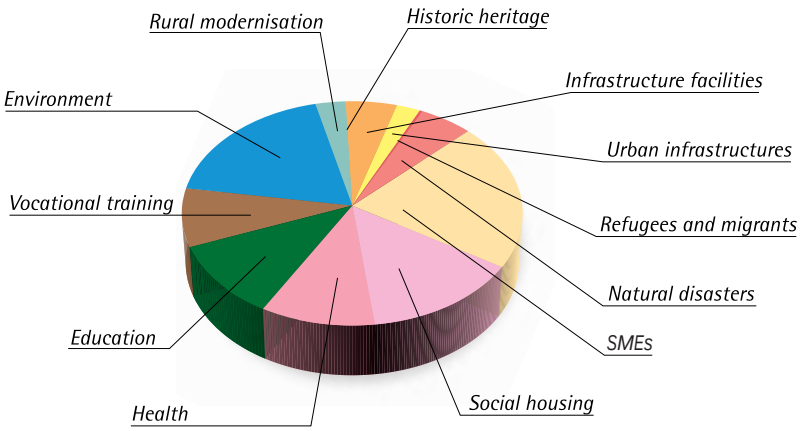
ECU 81.4 million was disbursed for a huge programme to build or renovate 40 000 schools all over Greece, where the Fund is thus continuing its action in support of the education sector.

In **France**, two projects, including one taking the form of a global disbursement loan programme, received a total of ECU 81 million.

The first disbursement was made to help finance the construction of a solid waste incineration plant and recyclable dry products sorting centre in south-west France. The site is scheduled to come on line in 1999.

The second - made under the global disbursement loan programme - will be used to finance job creation and preservation schemes in SMEs all over France.

Loans disbursed in 1998, breakdown by sector



The key role played by vocational training in combating unemployment

Promoting employment - ever a Fund priority - has taken on new importance. Unemployment, especially that of young people, currently poses one of the greatest threats to social cohesion. Countering this scourge naturally involves taking measures to preserve and create jobs, but also necessitates action to support vocational training.

Numerous studies have shown the effectiveness of apprenticeship programmes as a means of preventing youth unemployment. Sandwich courses, providing a combination of theoretical and on-the-job training, are a solution which both suits the needs of businesses, in particular SMEs, and satisfies the expectations of young people preparing to enter the labour market.

Germany has a long-standing, recognised tradition of apprenticeship. The country was therefore a natural testing ground for an innovative form of project, which has proved its effectiveness. The financing, made available through the Bavarian bank Landesanstalt für Aufbaufinanzierung (LfA), is earmarked for a scheme being run by the Land of Bavaria to strengthen the apprenticeship training approach.

The principle is to provide financial incentives to small and medium-sized firms willing to offer additional apprenticeships to young people without any vocational qualifications. LfA estimates that the entire scheme has made it possible to create more than 10 000 posts for apprentices in over 7 000 SMEs.

Studies have shown that the overall apprenticeship programme, costing a total of almost one billion Deutschmarks, has had a very significant impact on the regional unemployment rate for young people under the age of 20, which fell from 7.5% in 1997 to 5.3% in 1998.

This original approach can therefore be seen to be a good example of the kind of project which the Fund might finance in future, with a view to serving the cause of social cohesion in Europe in the most effective way possible.



Germany:
Apprenticeship in a SME

In **Belgium**, ECU 50.2 million was paid out in 1998 under three global multi-sector loan programmes. The loans come within the ambit of the Fund's strategy to promote social cohesion as they will be used for a large number of projects in the fields of education, health, social housing, the environment and job creation in SMEs.

In **Turkey**, eleven projects received financing in the course of 1998 (representing a total of ECU 41.1 million). Most of these are infrastructure projects with job creation, rural modernisation or urban renewal objectives. The loans will be used to help modernise equipment in a 900-bed hospital at Trakya in north-western Turkey and in another hospital at Erciyes near the town of Kayseri in Central Anatolia, to build a medical school at the University of Baskent (Ankara) and to erect a new town near Istanbul.

Loans disbursed to **Cyprus** in 1998 amounted to ECU 32.1 million, shared among a major multi-sector development programme being implemented by the government, a project to build a road between Paphos and Limassol, which should stimulate economic growth in the region, and a sewage treatment scheme in Paralimni.

In **Finland**, ECU 30.9 million was disbursed under a global disbursement loan programme to a financial institution specialising in local authority loans. The funds will be used by Finnish municipalities for projects in the fields of education, health, protection of the environment, rural modernisation and improving living conditions in disadvantaged urban areas.

In **Iceland**, the city of Reykjavik received a loan of ECU 13 million for a project to build or renovate thirty primary or secondary schools, scheduled for completion in the year 2002. This was the Fund's first action in that country in fourteen years.

In **Malta**, two loan tranches were paid in 1998 under a global disbursement loan programme to promote job creation and preservation in SMEs. They represented a total of ECU 11 million. Approximately one hundred firms should benefit from this financing.



Malta:
SMEs - a printing firm

In **Bulgaria**, ECU 2.6 million was disbursed for a health sector restructuring project. The project includes work to fit out and equip over 300 health centres, emergency units in 66 hospitals and six blood transfusion centres. The Fund is participating in this project alongside the World Bank and the European Union.

Lithuania received a loan of ECU 2.1 million with a contribution from the Selective Trust Account to finance the construction or purchase of 1 600 housing units for former political prisoners or deportees and their families. The building work, which began in 1992, is due for completion by the year 2000.

In **Romania**, the Fund paid out the full amount (ECU 0.2 million) of the loan intended to finance purchases of medical equipment for the Baltesti rural hospital, which suffered severe storm damage in June 1996. The project, which has also received World Bank financing, will be granted an interest-rate subsidy through the Selective Trust Account.

Although not a member of the Fund, **Bosnia and Herzegovina** received ECU 0.9 million for a health-sector project. The project, covered by the Selective Trust Account, is being co-financed by the World Bank and a number of donor countries. Its purpose is to reintegrate people disabled during the war into the mainstream of society by providing them with surgery, prostheses, physiotherapy and psychological and social counselling.

Loans disbursed since inception, as at 31 December 1998

ECU thousand

Country	Loans disbursed since inception	%
Germany	1 299 434	10.98
Belgium	57 071	0.48
Bosnia and Herzegovina*	1 763	0.01
Bulgaria	2 572	0.02
Cyprus	957 239	8.07
Spain	1 145 627	9.66
Finland	39 634	0.33
France	278 882	2.35
Greece	1 237 102	10.43
Iceland	59 661	0.50
Italy	2 847 011	24.00
Lithuania	3 049	0.03
Malta	65 151	0.55
Portugal	500 895	4.22
Romania	188	0.002
San Marino	2 615	0.02
Slovenia	1 317	0.008
Turkey	3 298 840	27.81
Former Yugoslavia**	62 754	0.53
TOTAL	11 860 805	100.00

* Selective Trust Account ** Associate Member of the Fund from 1986 to 1991.

ECU thousand

Sector	Loans disbursed since inception	%
A) Priority sectors:		
Aid to refugees and migrants	1 628 949	13.75
Aid to regions affected by natural or ecological disasters	1 131 622	9.54
B) Other sectors:		
SMEs	1 640 813	13.83
Social housing	2 616 522	22.06
Health	446 352	3.76
Social infrastructures	47 977	0.40
Education	827 008	6.97
Vocational training	209 930	1.77
Historic heritage	1 291	0.01
Protection of the environment	367 412	3.10
Rural modernisation	1 382 304	11.65
Infrastructures facilities	1 514 249	12.77
Improving living conditions in disadvantaged urban areas	39 939	0.34
Multi-sector	6 437	0.05
TOTAL	11 860 805	100.00



Financial activity

The economic situation in 1998

In 1998 the global economic system was exposed to events which dragged world economic growth down to just over 2%. In financial markets the year was marked by considerable turbulence. Emerging markets took the worst hits, along with Japan, whereas the United States and Western Europe were only moderately affected. Interest rates were cut worldwide in response to weakening economic conditions. The developed countries kept inflation under control.

Continued weakness in Japan and the emerging economies

In the aftermath of the Asian crisis of the latter half of 1997, financial markets started to stabilise slowly during the first half of 1998. However, emerging markets again found themselves in the spotlight as the Russian crisis sent shock-waves across the financial world in the second half of the year.

The Russian crisis escalated in August with the moratorium on government debt payments and an effective devaluation of the currency. This prompted a global liquidity shortage. Risk appetite diminished: lending conditions tightened dramatically in the second half of the year, and corporate bond spreads widened against government bonds.

Equity risk premiums rose. Latin America, especially Brazil with its current account and budget deficits coupled with a currency perceived as overvalued, was singled out as the next financial danger zone after Russia. A USD 41.5 billion multilateral rescue package proved successful, at least in the short term, and collapse in Brazil was avoided.

The Japanese economy experienced an unprecedented contraction of activity in 1998. The economy shrank in each quarter, and the year-on-year decline in GDP was almost 3%. In response to extremely weak economic conditions, the Bank of Japan lowered short-term rates; the most recent cut in September brought the overnight call rate down to 0.25%. In addition, sizeable economic packages were created to recapitalise banks and stimulate domestic demand. The currency was volatile throughout the year.

Economies buoyant in the United States and Western Europe

In the United States political scandals dominated much of the debate, whereas in Europe 1998 was the year of creation of the European Central Bank in Frankfurt and of final preparations for the single currency, the euro, which would replace the national currencies of eleven countries. The US dollar weakened against future Euroland currencies.

The US and European economies continued to show relatively strong performance in non-manufacturing sectors. GDP growth in the United States was 3.7%, only slightly down from 1997.

In what is now the euro area, GDP grew by 2.8 % during the year, in fact somewhat more strongly than in 1997. Commodity prices continued their decline, and inflationary pressures were virtually non-existent over the year in spite of a steady improvement in employment. The only perceived possible inflationary threat was high asset prices: despite a decline following the Russian crisis, equity markets staged a strong performance in most parts of the world by the year end, notwithstanding high volatility in the course of 1998.

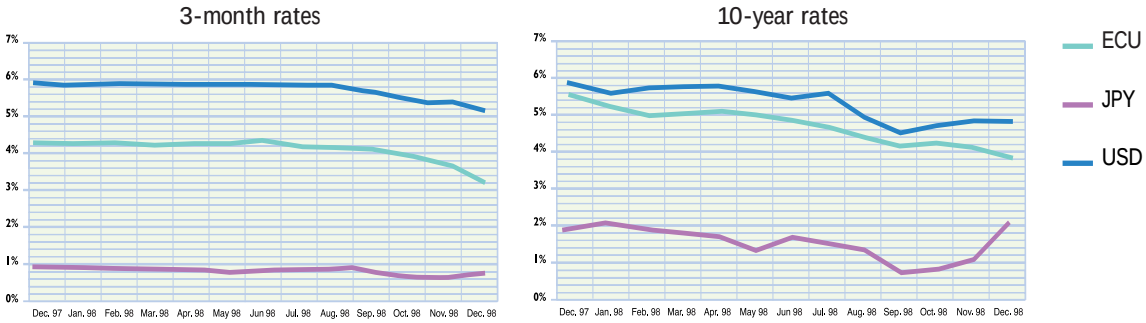
Although the effects of crisis in emerging markets were less pronounced in the United States and in Europe than elsewhere in the world, they were by no means non-existent. Corporate credit spreads increased dramatically, and equity markets plummeted temporarily in the autumn as a consequence of the emerging markets crisis ignited by events in Russia. Long Term Capital Management, a major hedge fund heavily invested in emerging markets, was saved in a rescue operation orchestrated by the Federal Reserve for fear of a systemic crisis. Over the last months of the year the Federal Reserve lowered the Fed Funds rate from 5.5% to 4.75%. The future Euroland central banks had lowered their rates to 3% by the year end. Provision of liquidity proved successful, and by the end of the year it looked as if the worst of the crisis could be over; risk premiums therefore started to fall again.

Long-term rates continue their downtrend

Long-term rates on government bonds continued to trend lower over the year in most OECD countries as global economic activity was subdued, inflation was under control, and commodity prices were heading down.

Core EMU government bonds started the year at levels of around 5%, and ended at below 4%. Euro-11 long rates converged almost completely with Deutschmark rates in anticipation of the birth of the single currency. In the United States the Treasury market was almost equally bullish, the yield on the 10-year note stood at 4.60 at the end of 1998 following a decrease of 100 b.p. Swap and credit markets were very volatile in the latter half of the year, as the Russian crisis prompted a massive flight to quality.

Only in Japan did long-term yields end the year at levels comparable with those of twelve months earlier. Having steadily declined for most of the year, they showed a considerable increase in November and December: during that period speculation about the extent of forthcoming tax incentives pushed up the yield of 10-year government bonds from below 1% to 2%.



1998 borrowings

Date of payment	Currency	Period	Amount	Lead manager / Arranger
13/01/98	HKD	2 years	500 000 000	Goldman Sachs (Asia), Hong Kong
14/01/98	USD	5 years	750 000 000	Merrill Lynch Int. / Nomura Int. Plc, Londres
05/02/98	CZK	1 year	500 000 000	Toronto Dominion, London
09/02/98	HKD	1 year	700 000 000	HSBC Markets Ltd, Hong-Kong
12/02/98	HKD	2 years	1 000 000 000	HSBC Markets Ltd, Hong-Kong
19/02/98	USD	10 years	250 000 000	Painewebber Int. (U.K.) Plc, London
25/02/98	USD	1 year	50 000 000	Merrill Lynch Int., London
02/03/98	PLN	2 years	75 000 000	Goldman Sachs International, Frankfurt
05/03/98	CZK	1 year	500 000 000	Toronto Dominion, London
12/03/98	JPY	2 years	3 000 000 000	Toronto Dominion Securities, London
25/03/98	CZK	5 years	500 000 000	Toronto Dominion Securities, London
16/04/98	HKD	1 year	500 000 000	HSBC Markets Ltd, Hong Kong
16/04/98	ZAR	12 years	1 000 000 000	RBC DS, London
20/04/98	HKD	2 years	1 000 000 000	HSBC Markets Ltd, Hong Kong
05/05/98	ZAR	10 years	100 000 000	RBC DS, London
20/05/98	CZK	1 year	500 000 000	RBC DS, London
28/05/98	USD	4 years	400 000 000	Tokyo-Mitsubishi Int. Plc / Merrill Lynch Int. London
10/06/98	GRD	4 years	15 000 000 000	RBC DS, London
15/06/98	HKD	2 years	500 000 000	UBS Hong-Kong Branch / SBC Warburg Dillon Read, Hong Kong
18/06/98	HKD	1 year	200 000 000	Merrill Lynch Int., Londron
23/06/98	HKD	5 years	300 000 000	JP Morgan Securities Ltd, London
06/07/98	HKD	1 year	250 000 000	Deutsche Bank AG, Singapore
20/07/98	HKD	1 year 3 mth	200 000 000	BNP, Hong Kong
21/07/98	ZAR	10 years	100 000 000	RBC DS, London
04/08/98	HKD	1 year	250 000 000	Deutsche Bank AG, Singapore
26/08/98	ITL	5/17 years*	100 000 000 000	Morgan Stanley and Co Intern. Ltd, London
27/08/98	JPY	1 year	1 000 000 000	Goldman Sachs, London
27/08/98	HKD	1 year	100 000 000	Paribas, London
02/09/98	HKD	1 year	100 000 000	S.G. Asia LTD, Hong Kong
02/09/98	HKD	1 year	150 000 000	Deutsche Bank AG, Singapore
09/09/98	HKD	1 year	100 000 000	S.G. Asia LTD, Hong-Kong
17/09/98	HKD	1 year	100 000 000	Deutsche Bank AG, Singapore
24/09/98	ITL	20 years	100 000 000 000	Morgan Stanley and Co Intern. Ltd, London
28/09/98	JPY	1 year	25 000 000 000	Daiwa Europe Ltd, London
26/10/98	ITL	20 years	100 000 000 000	Morgan Stanley and Co Intern. Ltd, London
27/10/98	USD	7 years	400 000 000	Paribas, London
30/10/98	USD	10 years	60 000 000	Paribas, London

* with early repayment option

Financing in 1998

Borrowing

In 1998 the Fund made 37 issues with a maturity of one year or more to a total value of ECU 2.8 billion, up 33% on the previous year. This increased need for financing was due to a combination of factors. Firstly, a rise in both loans disbursed and projects approved. Project approvals increased by a very significant amount in 1998, and this accounts to a large extent for the growth in financing raised. Although approving a project does not generate an immediate treasury requirement, it does have a direct impact on the financing programme insofar as, in accordance with the Fund's prudential liquidity policy, the pool of liquid assets must suffice to cover at least 50% of projected treasury requirements over three years, including for the financing of approved projects.

To ensure that it continues to have access to the funds needed to pursue its activities, the Fund has recourse both to large-scale borrowings in major currencies, aimed at a broad range of institutional investors, and to issues in given currencies or with specific structures corresponding to investors' own desiderata.

57% of the financing raised by the Fund in 1998 came from the Eurodollar market, which offers the possibility of using swaps to obtain funds in Euroland currencies on more advantageous terms than direct borrowing in those currencies. These issues were subscribed mainly by European investors, both institutional and private, but also by Asian investors.

The Fund also launched a significant number of issues denominated in the Hong Kong dollar, which accounted for 25% of the total amount borrowed in 1998. These borrowings, which mainly mature in 1 or 2 years, were coupled with currency swaps, thereby giving the Fund access to liquid assets in the euro and the US dollar.

Transactions on other markets included long-term borrowings in Italian lira, allowing the Fund to benefit from new Italian tax legislation on issues by supranational financial institutions.

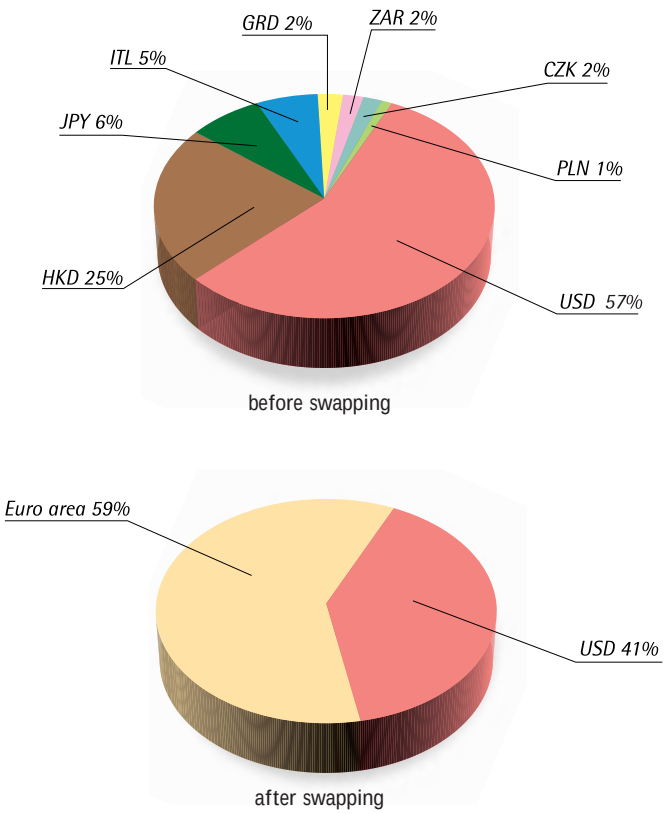
The average maturity of the funds raised in 1998 is five years. 34% of the issues have a maturity of between 1 and 2 years and are primarily intended to feed the pool of liquid assets.

The opposite table gives details of all of the issues raised in the original currencies.

The Fund has also continued to pursue its policy of diversification of the currencies in which it borrows, making its first public issues in the Greek drachma, the Polish zloty and the South African rand. Overall, the Fund launched issues in eight different currencies. It should be noted that the yen played a far less important role than in any previous year, although Japanese investors continued to participate in the Fund's financing in 1998, in particular by subscribing issues denominated in the US dollar.

46% of issues were coupled with a currency swap transaction. After swapping, European currencies represent more than half of the funds raised, and the US dollar still accounts for 41% of the total. The fact that euro area currencies dominate after swapping is an indication of the Fund's expectations concerning growth of disbursements in the euro. The charts below show the breakdown before and after swapping.

Breakdown of borrowings by currency



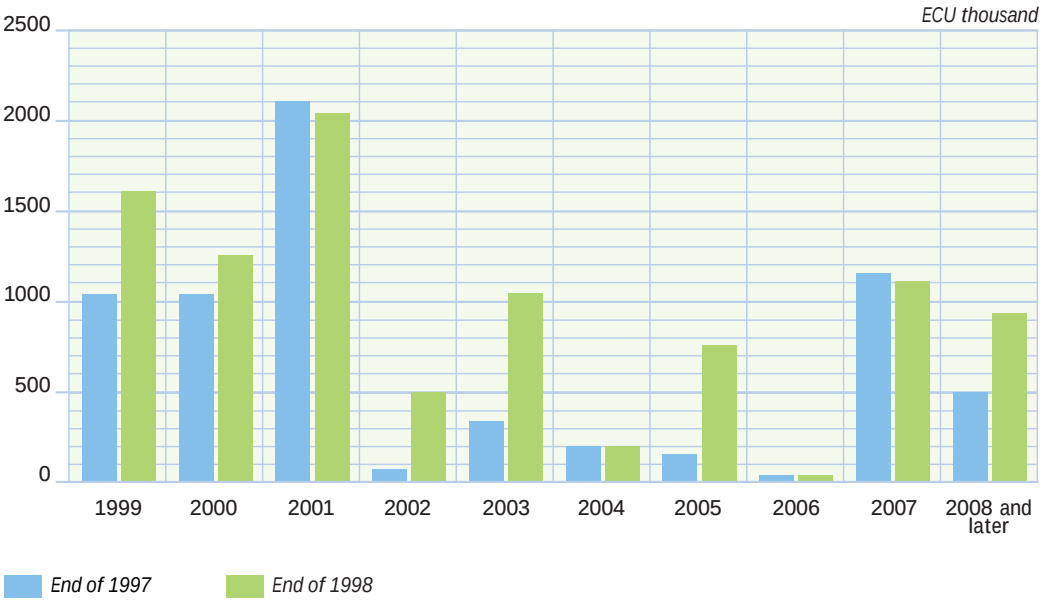
As in the past, the "debt issuance programme" served as a basis for raising borrowings wherever possible, thus helping to minimise financing costs. Intensive use of this multi-currency programme made it necessary to increase the related debt ceiling from ECU 3 billion to ECU 10 billion. As at 31 December 1998 the new programme was 43% used.

Trend of the Fund's debt

As at 31 December 1998, the Fund's total outstanding securitised debt amounted to ECU 9 724 million, 16% higher than the figure for the previous year. This increase in debt outstanding is the result of an increase in borrowings in order to sustain a satisfactory liquidity ratio. At the year end the Fund's liquidity ratio was 73%, to be compared with a minimum requirement of 50%.

The Fund also paid off ECU 165 million of its debt through buy-back transactions and repaid ECU 143 million in advance of the maturity date. As a result of these operations and of the issues launched in 1998 the maturity profile of the Fund's debt has changed slightly compared with 1997, in particular as regards medium-term maturities, as can be seen from the following chart.

Analysis of debt maturity in 1997 and 1998 (at year end)



Financial Risk Management

Routine monitoring of the Fund's market risks is the responsibility of the Financial Risk Management Unit. Prior to each meeting of the Asset & Liability Management Committee, it produces a report assessing liquidity, interest-rate and currency risks on the balance sheet and off-balance sheet. To control these risks, the Fund relies upon a dedicated ALM software, installed in 1997 and connected to its mainframe systems in 1998.

Stress tests using various assumptions and scenarios on a firm-wide basis are regularly conducted to monitor all potential liquidity, interest-rate and currency risks.

In order to hedge its interest-rate and currency risks, the Fund has recourse to derivatives as an end-user. As at 31 December 1998 the Fund's total outstanding derivatives amounted to ECU 12.2 billion in notional terms. This included ECU 6.8 billion in interest-rate derivatives and ECU 5.4 billion in currency derivatives. Concerning treatment of operations in euro-predecessor currencies, in September 1998 the Fund decided to adhere to the ISDA EMU Protocol.

Current growing lending, funding and treasury activities are resulting in increased utilisation of these products. The Fund has therefore adopted effective risk management safeguards, keeping abreast of changing market standards. The Risk Committee, created in 1997, oversees the credit risk implications of the Fund's operations on a firm-wide basis. Prior to concluding any OTC transaction with a new counter-party, a master agreement must be drawn up and a credit line must be approved by the Risk Committee on the basis of the counterparty's rating and of a regularly updated internal credit analysis. Transactions with a maturity of five years and over can only be concluded with institutions possessing at least an AA rating or presenting additional guarantees.

Additional risk-management tools, such as collateralization and break clauses, are also used. As collateralization of derivatives transactions has become one of the primary credit risk mitigation techniques on the market, the Fund has continued to strengthen its counterparty risk management by collateralizing OTC derivatives. Transaction-specific exposure reduction methods, such as elective termination rights (break clauses), are also introduced in longer tenored transactions.

In preparation for the introduction of the euro and the change of millennium, a wide-ranging review of information systems has been conducted. A review of transactions confirmation procedures has also been undertaken in order to reduce legal, market and credit risks.

Results

Gross operating profit for 1998 amounts to ECU 94.6 million, on a level with the 1997 figure.

Net profit, which was ECU 81.6 million in 1997, stands at ECU 81.4 million for 1998. The trend is mainly attributable to:

- the tendency of staff costs (+ ECU 0.7 million), a consequence of the increase in staff numbers made necessary by volume growth and improvement in the quality of the activity;
- a rise in general expenses (+ ECU 0.9 million), which are the subject of strict budget control. The increase is mainly attributable to the depreciation charge on the newly purchased information systems and offices.
- releases from provisions, which, at ECU 2.6 million, were higher in 1998 than in 1997 (ECU 1.4 million). These are non-recurring items, corresponding to repayments on the overdue debt of former Yugoslavia.

At year end the subscribed capital stood at ECU 1 386 million, of which 10.96% had been paid up by the member States. Taking into account accumulated reserves and 1998 earnings, the Fund's own assets in the broad sense amounted to ECU 2.3 billion.

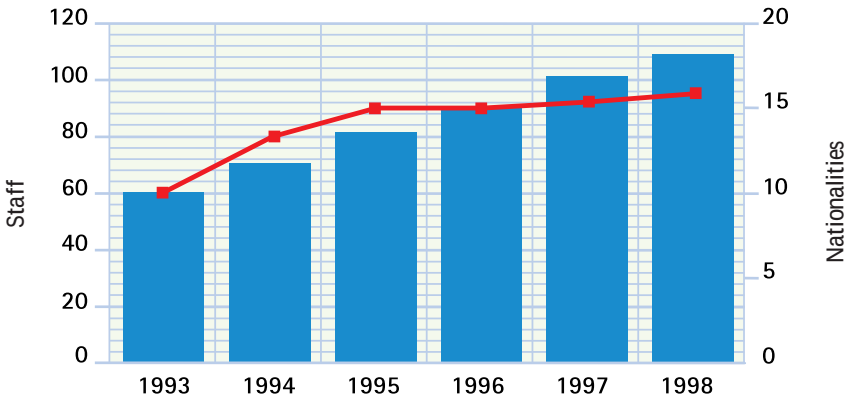
The Fund's ratios are stable compared with 1997. The loan ratio, which sets outstanding loans against own assets and is subject to an upper limit of 6, stands at 2.79 for 1998 (virtually equivalent to the 1997 figure of 2.73). On the other hand, the long-term debt ratio, which sets long-term debt against own assets in the broad sense, has risen from 2.8 to 3.22, but nevertheless remains below the permitted ceiling of 4. The rise in the ratio can be ascribed to the fact that long-term debt has increased while short-term debt has decreased because of the need to preserve a sufficient pool of liquid assets and to cover the increase in the stock of projects awaiting financing.

Human resources

The Fund's staff has doubled since the end of 1993 as a result of the arrival of new member States, growth in activity volumes and the need to bring staffing levels into line with comparable institutions. The Fund had 107 permanent members of staff as at 31 December 1998.

The increase has gone hand in hand with an effort to bring in specialised skills and to diversify the nationalities represented. In 1998 the Fund filled four managerial level posts with recruits of three different nationalities. Other staff will be recruited in 1999 according to the same principles.

Trend of staff numbers and nationalities represented



At the same time, the Fund has taken steps to ensure more active management of staff careers, in particular so that employees with particular skills can move between departments. The Fund's human resources management methods are geared to developing a firm-wide culture, allowing all staff members to take a direct role in achieving the institution's social purpose.

Lastly, the skills assessment and improvement policy has continued. The Fund's performance-related bonus system has proved to be an effective means of motivating staff, and appropriate training courses are proposed to enable staff to update their knowledge. In this last connection, it should be noted that, although language and computer courses continue to absorb a large proportion of the training budget, specialist and advanced training in finance-related matters is also on offer.

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Financial year 1998

Balance sheet at 31.12.1998

ASSETS				In thousand ECU
Item		Notes	31.12.98	31.12.97
1	Cash in hand, balances with central banks		43	31
2	Loans and advances to credit institutions	3 and 12		
	(a) advances repayable on demand		2 239	3 064
	(b) loans and advances			
	- advances	3/1	1 560 198	1 059 361
	- ordinary and social loans (a) (1)	3/1	3 152 712	2 508 806
3	Loans and advances to credit institutions	3 and 12		
	- ordinary and social loans (b) (1)	3/2	3 333 784	3 409 744
	Total ordinary and social loans (a + b)		6 486 496	5 918 550
4	Treasury bills and similar securities	4/1 and 12	445 806	353 790
5	Debt securities and other fixed-income securities	4/2 and 12	2 236 727	1 974 574
6	Shares and other variable-yield securities	4/3 and 12	687	615
	Total portfolio		2 683 220	2 328 979
7	Intangible fixed assets	5	1 423	1 133
8	Tangible fixed assets	5	9 213	9 080
9	Capital subscribed, called, unpaid and reserves to be paid	6	9 155	8 364
10	Other assets	8	4 306	4 457
11	Prepayments and accrued income	8	340 197	205 659
	TOTAL	11	11 096 490	9 538 678

(1) After reclassification (see Note 2.11).

The accompanying notes form an integral part of the Financial Statements

LIABILITIES

In thousand ECU

Item		Notes	31.12.98	31.12.97
1	Amounts owed to credit institutions	9 and 12		
	(a) repayable on demand		83	995
	(b) with agreed maturity dates or periods of notice		6 862	333
2	Debt materialized by securities	9 and 12	9 728 981	8 331 215
3	Other liabilities	10	6 267	743
4	Accruals and deferred income	10	262 485	205 442
5	Deposit from Selective Trust Account (S.T.A.)	2 and 16	31 557	26 032
6	Fund for General Banking Risks (FGBR)/ Del Credere Fund	2	150 000	150 000
7	Capital			
	a) Subscribed (including 151 960 paid)	6	1 386 086	1 326 474
	b) Uncalled capital		(1 228 024)	(1 175 423)
			158 062	151 051
8	Reserves	7		
	(a) general reserve		670 805	477 479
	(b) special reserve		0	113 790
			670 805	591 269
9	Profit for the financial year		81 388	81 598
	TOTAL	11	11 096 490	9 538 678
	OFF-BALANCE SHEET ITEMS			
	COMMITMENTS GIVEN			
1	Awaiting financing on approved projects	3	3 838 896	2 542 238
2	Guarantees			
	a) Guarantees for loans granted by third parties		10 540	12 808
	b) Guarantees on assigned interest swaps		611 364	678 204
	COMMITMENTS RECEIVED			
3	Guarantees received		10 636	12 903
	OFF-BALANCE SHEET FINANCIAL INSTRUMENTS	2 and 13		
4	Interest rate-based instruments		6 194 805	4 580 930
5	Currency-based instruments		5 362 169	2 973 578

The accompanying notes form an integral part of the Financial Statements

Profit and loss account

In thousand ECU

Item		Notes	31.12.98	31.12.97
1	Interest receivable and similar income	14/1	1 187 861	1 028 543
2	Interest payable and similar expenses	14/3	(1 092 631)	(938 142)
	NET INTEREST AND SIMILAR INCOME		95 230	90 401
3	Income from variable-yield securities		42	44
4	Commissions received		-	-
5	Commissions paid		(300)	(1 237)
6	Net gains (losses) on financial transactions	14/4	(221)	5 181
7	Other operating income		148	105
8	Other operating expenses		(261)	(183)
	GROSS OPERATING INCOME		94 638	94 311
9	Staff costs	15	(9 643)	(8 877)
10	Other administrative expenses	15	(4 710)	(4 199)
11	Depreciation of fixed assets		(1 484)	(1 020)
	NET OPERATING INCOME		78 801	80 215
12	Value adjustments in respect of loans		2 587	1 383
	CURRENT INCOME		81 388	81 598
13	Extraordinary income		-	-
	PROFIT FOR THE FINANCIAL YEAR		81 388	81 598

The accompanying notes form an integral part of the Financial Statements

Statement of cash flows at 31.12.1998

In thousand ECU

	31.12.98	31.12.97
Cash flow from operating activities		
Profit for the financial year	81 388	81 598
Adjustments:		
Value adjustments	170	225
Increase in accrued interest and commissions receivable	(154 990)	8 355
Increase in accrued interest and commissions payable	153 879	49 237
Premium on investment securities	1 875	1 763
Profit after adjustment	*82 322*	*141 179*
Loan disbursements	(1 056 039)	(864 776)
Loan repayments received	539 352	750 401
Net cash from loans	*(516 687)*	*(114 375)*
Net cash flows from operating activities	(434 365)	26 804
Cash flows from investing activities		
Net change in the securities portfolio	(403 150)	(320 230)
Purchase of tangible and intangible fixed assets	(1 900)	(3 746)
Other increases/(decreases) in assets	172	178 955
Net cash flows from investing activities	(404 878)	(145 021)
Cash flows from financing activities		
Issue of capital and reserves	9 158	2 638
Issue of borrowings	2 870 779	1 232 431
Redemption of borrowings	(1 427 054)	(858 218)
Decrease in short-term borrowings	(171 969)	(311 969)
Net change in foreign currency exchange expenses and income	41 492	(99 293)
Other increases/(decreases) in liabilities	5 535	(64)
Net cash flows from financing activities	1 327 941	(34 476)
Cash and cash equivalents at the beginning of the year	1 058 979	1 150 060
Net cash flows from:		
- operating activities	(434 365)	26 804
- investing activities	(404 878)	(145 021)
- financing activities	1 327 941	(34 476)
Effects of exchange rate changes on cash and cash equivalents	8 493	61 612
NET INCREASE/(DECREASE) IN CASH AND CASH EQUIVALENTS	497 191	(91 081)
Cash and cash equivalents at the end of the year (1)	1 556 170	1 058 979

(1) Demand deposits and term loans and advances to credit institutions net of amounts repayable

The accompanying notes form an integral part of the Financial Statements

Notes to the Financial statements as at 31.12.1998

Note 1: Purpose

The Council of Europe Social Development Fund (CEF) is a multilateral financial development institution, set up in 1956, whose primary purpose 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 and as a result of the presence of victims of natural or ecological disasters.

The investment projects to which the Fund contributes may be intended either to help such people in the country in which they find themselves or to enable them to return to their countries of origin when the conditions for return are met or, where applicable, to settle in another host country. These projects must be approved by a Member of the Fund.

The Fund may also contribute to the realisation of investment projects approved by a member of the Fund which enable jobs to be created in disadvantaged regions, people in low income groups to be housed or social infrastructure to be created.

The policy of the Council of Europe Social Development Fund, like that of other multilateral financial institutions, is to not reschedule interest or principal payments on its loans or participate in debt rescheduling agreements.

The Fund's principal office is in Strasbourg, France, and the headquarters of the operational services are located in Paris, France.

Note 2: Summary of accounting policies

2.1. Standards and general principles

The financial statements for the year ended 31 December 1998 have been prepared in accordance with International Accounting Standards, as formulated by the International Accounting Standards Committee (IASC), and the European Accounting Standards of the European Union Directive (86/635/EEC), "Council Directive on the Annual Accounts and Consolidated Accounts of Banks and Other Financial Institutions".

Unless otherwise specified, assets and liabilities are accounted for at historical cost.

2.2. Foreign currency translation

In accordance with Article IV (1) of the Fund's Articles of Agreement, capital subscribed by member countries and the financial statements are expressed in terms of a single currency, the European Currency Unit (ECU).

The composition of the ECU as at 31.12.98 is as follows:

Currency	Symbol	Equivalent of currency in ECU	Currency weighted %
Danish Krone	DKK	0.1976	2.72
Deutsche Mark	DEM	0.6242	33.25
Greek Drachma	GRD	1.44	0.46
Portuguese Escudo	PTE	1.393	0.71
Netherlands Guilder	NLG	0.2198	10.47
Belgian Franc	BEF	3.301	8.57
French Franc	FRF	1.332	20.76
Luxembourg Franc	LUF	0.13	-
Italian Lira	ITL	151.8	7.32
Irish Pound	IEP	0.008552	1.04
Pound Sterling	GBP	0.08784	10.37
Spanish Peseta	ESP	6.885	4.33
			100.00

Source: Council Regulation (EC) no: 3320/94 of 22.12.94

During the year, transactions are recorded in their original currencies.

Assets and Liabilities in foreign currencies are translated in ECU at the end-of-year exchange rate.

Exchange profits or losses resulting from assets and liabilities conversions are entered in the "profit and loss account" (Item n° 6: "Net gains/losses on financial transactions").

The accounts have been drawn up in ECU, on the basis of the following exchange rates at 31.12.98:

Currency	Currency versus ECU	Currency	Currency versus ECU
Australian Dollar (AUD)	1.89932	Lithuanian Litas (LTL)	4.667
Austrian Shilling (ATS)	13.7603	Luxembourg Franc (LUF)	40.3399
Belgian Franc (BEF)	40.3399	Maltese Lira (MTL)	0.4416
Canadian Dollar (CAD)	1.80613	Netherlands Guilder (NLG)	2.20371
Cypriot Pound (CYP)	0.581776	New Zealand Dollar (NZD)	2.20892
Czech Koruna (CZK)	35.1939	New Taiwan Dollar (TWD)	37.5343
Croatia Kuna (HRK)	7.2899	Norwegian Krone (NOK)	8.8714
Danish Krone (DKK)	7.44878	Polish Zloty (PLN)	4.08947
Deutsche Mark (DEM)	1.95583	Portuguese Escudo (PTE)	200.482
ECU	1	Pound Sterling (GBP)	0.705455
Finland Markka (FIM)	5.94573	Singapore Dollar (SGD)	1.9244
French Franc (FRF)	6.55957	Slovenia Tolar (SIT)	188.81
Greek Drachma (GRD)	329.689	South Africa Rand (ZAR)	6.84883
Hong Kong Dollar (HKD)	9.0329	Spanish Peseta (ESP)	166.386
Hungarian Forint (HUF)	252.392	Swedish Krona (SEK)	9.48803
Iceland Kona (ISK)	81.2993	Swiss Franc (CHF)	1.60778
Irish Pound (IEP)	0.787564	Turkish Lira (TRL)	365 748
Italian Lira (ITL)	1936.27	US Dollar (USD)	1.16675
Japanese Yen (JPY)	132.8		

2.3. Securities portfolio

2.3.1. Trading securities

Trading securities are purchased and held with the intention of selling them in the short-term. They are marked to market. Any unrealised gains or losses from revaluation are debited or credited to the profit and loss account.

2.3.2. Investment securities

Investment securities are purchased with the intention of holding them until maturity. They are accounted for at their historical cost. The premium or discount of the investment securities (the difference between purchase price and the nominal price) is amortized over the life of the security.

2.3.3. Held-for-sale securities

Securities other than trading and investment securities are considered as held-for-sale securities. They are accounted for at historical cost.

A provision is made for any reduction in market value.

2.4. Loans

Loans are stated at their nominal value. Issue premiums received or paid when the loans are granted are amortized using the straight-line method over the life of the loan.
Regarding unpaid principal and interest due for more than 90 days, a 100% interest provision has been set up.
Specific provisions are established when there is a risk of either partial or total non-recovery of principal or interest.

2.5. Tangible and intangible fixed assets

Fixed assets are stated at cost and depreciated using the straight-line method over their estimated useful life.

2.6. Debt evidence by certificates

These borrowings are recorded at their nominal value.
Issue premiums received or paid and issuance fees are amortized using the straight-line method over the useful life of the issue.

2.7. Fund for General Banking Risks (FGBR)/Del Credere Fund

According to the European Instruction 86/635, the Fund for General Banking Risks (FGBR)/Del Credere Fund is intended to cover potential risks not yet identified resulting from the Fund's lending activities, securities transactions and from other derivative transactions.
Notwithstanding the International Accounting Standards Committee the potential entries of the FGBR are registered under the Profit & Loss account (increase/reversal).

2.8. Tax status

The Third Protocol to the General Agreement on Privileges and Immunities of the Council of Europe states that the Fund's assets, income and other property are exempt from all direct taxes.

2.9. Financial instruments

The financial instruments utilized by the Fund include interest rate instruments (interest rate swaps, forward rate agreements, futures, caps, floors, interest rate options and swaptions) and currency instruments (currency swaps, forward exchange contracts and currency options).
These financial instruments are evaluated as follows:

a) Hedging activities

Profit and loss on hedging instruments is accounted for in the same way as the profit or loss of the underlying asset or liability. Premiums paid or received are amortized over the life of the underlying instrument.

b) Trading activities

Trading positions are marked to market and the resulting realized and unrealized gains or losses are entered in the profit and loss account.

2.10. Selective Trust Account (STA)

In accordance with Resolution 279 (1994) of the Governing Board and in compliance with Article VII, Section 3 of the Fund's new Articles of Agreement, the Administrative Council decided, by its Resolution 1380 (1995), to establish a permanent trust account called Selective Trust Account, described as follows:

1) The purpose of the account is to provide interest rate subsidies for loans granted by the Fund for projects complying with its priority objectives having high social value (in connection with natural disasters, acts of war and migration), and concerning regions in poor countries with low income levels, in particular in Central and Eastern European countries.

2) The account shall operate solely on the basis of interest rate subsidies, covering the interest rate differential between the rate usually applied by the Fund and the rate repaid by the borrower.

3) The account will be broken down as follows:
   - 3.1. Fund contributions allocated from annual profits. Such allocations shall not be automatic but shall be decided upon by the Administrative Council.
   - 3.2. Voluntary contributions from Fund member states.
   - 3.3. Voluntary contributions from Council of Europe members.
   - 3.4. Voluntary contributions from non-members of the Council of Europe or international institutions following the agreement of the Governing Board and the Administrative Council.

Accounting for the Selective Trust Account is carried out separately from that of the Fund. Note 16 presents its balance sheet and profit and loss account.

2.11. Reclassification in the balance sheet (Assets, items 2 and 3)

One borrower's outstanding, amounting to KECU 645 265, and classified in 1997 under "Loans to customers", has been reclassified under "Loans and Advances to Credit Institutions" after confirmation of its legal status.

Note 3: Loans and advances to credit institutions

Table 1 - Analysis by type *In thousand ECU*

(ASSETS, ITEM 2)	31.12.98	31.12.97
Repayable on demand	2 239	3 064
Related interest receivable	-	-
Sub-total	2 239	3 064
Advances (deposits)	1 553 971	1 056 879
Related interest receivable	6 227	2 482
Sub-total	1 560 198	1 059 361
Securities purchased under resale agreements	-	-
Total demand and term deposits (1)	1 562 437	1 062 425
Ordinary loans	3 103 125	(***) 2 466 454
Social loans (*)	825	1 065
S.T.A. loans	639	-
Related interest receivable	48 340	(***) 41 755
Unpaid principal and interest due (**)	-	1 245
Provisions	(217)	(1 713)
Total ordinary and social loans (2)	3 152 712	2 508 806
Total (1+2)	4 715 149	3 571 231

** Social loans are granted at 1% interest rate. ** Unpaid principal and interest due are fully provisioned. ***After reclassification (see note 2.11).*

Note 3: Loans to customers

Table 2 - Analysis by type *In thousand ECU*

(ASSETS, ITEM 3)	31.12.98				31.12.97			
	Ordinary loans	Social loans	S.T.A. loans (*)	Total	Ordinary loans	Social loans	S.T.A. loans (*)	Total
Outstanding amount	3 277 851	15 211	4 902	3 297 964	(***)3 346 156	27 203	1 811	3 375 170
Related interest receivable	40 446	41	49	40 536	(***) 43 702	78	21	43 801
Unpaid principal and interest due (**)	45 366	-	-	45 366	41 426	-	-	41 426
Provisions	(50 082)	-	-	(50 082)	(50 653)	-	-	(50 653)
Total				3 333 784				3 409 744

** Loans subsidised according to Selective Trust Account (STA) procedure, see Notes 2.10 and 16.*

*** Unpaid principal and interest due are fully provisioned. *** After reclassification (see nnote 2.11).*

Note 3: Ordinary and social loans *(ASSETS, ITEMS 2 AND 3)*

Table 3 - Analysis based on the main borrower categories (*) *In thousand ECU*

	31.12.98	31.12.97
1. Credit institutions	3 104 590	2 467 519
2. Customers		
Member states	3 042 462	3 145 931
Non member states	2 742	906
Member states' public institutions	250 068	221 765
Non member states' public institutions	2 547	4 834
Other Institutions	145	1 734
	3 297 964	3 375 170
Total (1 and 2) (**)	6 402 554	5 842 689

** Except related interest receivable and unpaid principal, interest due and provisions.*

*** As at 31 December 1998, total loans according to the type of interest rate applied were as follows:*

Fixed rate loans:	*KECU*	*4 696 133*	*(KECU*	*4 609 350*	*as at 31.12.1997).*
Floating rate loans:	*KECU*	*1 706 421*	*(KECU*	*1 233 339*	*as at 31.12.1997).*
TOTAL AS AT 31.12.98	*KECU*	*6 402 554*	*(KECU*	*5 842 689*	*TOTAL AS AT 31.12.97)*

Note 3: Ordinary and social loans *(ASSETS, ITEMS 2 AND 3)*

Table 4 - Analysis of outstanding ordinary and social loans by currency (*) *In thousand ECU*

	31.12.98	31.12.97
DEM	1 639 456	1 316 709
ECU	1 636 380	1 539 150
USD	767 988	636 992
JPY	711 129	755 499
ESP	610 824	508 997
ITL	371 828	256 492
CHF	371 473	630 475
FRF	277 774	195 095
BEF	12 395	-
PTE	3 307	3 280
Total	6 402 554	5 842 689

** Except related interest receivable and unpaid principal, interest due and provisions.*

Note 3: Ordinary and social loans *(ASSETS, ITEMS 2 AND 3)*

Table 5 - Analysis of ordinary and social loans by country as at 31.12.98 (*) *In thousand ECU*

Country	31.12.98			31.12.97		
	Funding commitments (Off-Balance sheet Item1)	Outstanding	%	Funding commitments (Off-Balance sheet Item1)	Outstanding	%
Turkey	303 970	1 861 430	29.07	379 710	2 015 594	34.49
Germany	(***) 615 468	1 202 175	18.78	303 594	809 584	13.85
Italy	618 408	844 555	13.19	256 945	829 625	14.20
Greece	800 751	802 310	12.53	652 732	809 701	13.86
Spain	606 712	759 165	11.86	77 664	607 856	10.40
Cyprus	413 571	468 022	7.31	448 291	479 014	8.20
France	156 705	271 677	4.24	189 046	189 046	3.24
Belgium	43 104	56 321	0.88	18 523	6 049	0.10
Malta	58 911	53 347	0.83	38 355	42 534	0.73
Finland	92 382	40 283	0.63	125 015	9 962	0.17
Portugal	10 475	14 931	0.23	15 667	26 124	0.45
Iceland	31 453	13 000	0.20	-	2 784	0.05
Former Yugoslavia (**)	-	5 284	0.08	-	10 429	0.18
Lithuania	(***) 7 714	2 999	0.05	10 415	906	0.02
Bosnia and Herzegovina	(***) 2 571	1 714	0.03	3 622	906	0.02
San Marino	-	2 582	0.04	-	2 575	0.04
Bulgaria	6 857	2 571	0.04	9 962	-	0.00
Romania	(***) 31 828	188	0.01	12 697	-	0.00
Croatia	32 938	-	-	-	-	-
Slovenia	5 079	-	-	-	-	-
Total	3 838 897	6 402 554	100.00	2 542 238	5 842 689	100.00

** Except unpaid principal, related interest receivable and provisions.*

*** As at 31.12.1998, the outstanding debt of former Yugoslavia is shared between the 5 Republics (in thousand ECU):*

- Bosnia and Herzegovina	*1 028*
- Croatia	*975*
- "The Former Yugoslav Republic of Macedonia"	*501*
- Federal Republic of Yugoslavia	*2 547*
- Slovenia	*232*
TOTAL	*5 283*

**** See Note 16: Selective Trust Account.*

Note 3: Ordinary and social loans *(ASSETS, ITEMS 2 AND 3)*

Table 6 - Analysis of ordinary and social loans by economic sector as at 31.12.98 (*)

In thousand ECU

	31.12.98			31.12.97		
Sector ** According to Resolution 1424 (97)	Funding commitments (Off-Balance Sheet)	Outstanding	%	Funding commitments (Off-Balance Sheet)	Outstanding	%
A) Priority fields of action:						
Aid for refugees and migrants	46 431	749 250	11,70	14 037	826 684	14,15
Aid to regions hit by natural or ecological disasters	504 603	474 261	7,41	238 408	531 387	9,09
B) Others fields of action:						
Small and medium sized entreprises	253 569	1 038 863	16,23	311 586	784 542	13,43
Social housing	649 479	1 085 457	16,95	350 003	947 261	16,21
Health	481 811	367 643	5,74	225 883	299 279	5,12
Social infrastructure	-	-	0,00	-	361	0,01
Education	615 741	687 853	10,74	507 172	529 943	9,07
Vocational training	-	65 160	1,02	-	15 831	0,27
Protection of the environment	568 399	365 444	5,71	159 670	201 005	3,44
Rural modernisation	562 735	975 866	15,24	546 401	785 813	13,45
Infrastructure facilities	91 803	551 406	8,61	154 644	899 022	15,39
Improvement of the quality of life in disadvantaged urban areas	30 444	40 060	0,63	15 124	15 124	0,26
Non allocated multi-sector	33 881	1 291	0,02	19 310	6 437	0,11
Total	3 838 896	6 402 554	100,00	2 542 238	5 842 689	100,00

** Except unpaid principal, related interest receivable and provisions.*

*** The breakdown by sector of the loans related to the global disbursement loan programmes is made by application of the statistical percentages used when approving each project..*

Note 3: Loans/Funding commitments *(OFF-BALANCE SHEET, ITEM 1)*

Table 7 - Analysis of funding commitments on projects approved by year of approval

in thousand ECU

	1996 and before (a)	1997 (b)	1998 (c)	Total (a) + (b) + (c)
Projects with framework agreements signed (1)	154 046	883 493	888 803	1 926 342
Projects without framework agreements (2)	1 008 546	280 529	623 479	1 912 554
Sub-Total	1 162 592	1 164 022	1 512 282	3 838 896

(1) The Fund is legally committed as soon as a framework agreement is signed.

(2) Projects which have been granted at least one financing.

Note 4: Securities portfolio

Table 1 - Treasury bills and similar securities

In thousand ECU

ASSETS, ITEM 4	31.12.98				31.12.97			
	Trading	Held-for-sale	Investment	Total	Trading	Held-for-sale	Investment	Total
Securities	-	-	428 182	428 182	-	45 240	295 350	340 590
Related interest receivable	-	-	17 624	17 624	-	261	12 939	13 200
Gross total	-	-	445 806	445 806	-	45 501	308 289	353 790
Provisions	-	-	-	-	-	-	-	-
Net total (1)	-	-	445 806	445 806	-	45 501	308 289	353 790
Potential gain/loss on sale (2)	-	-	41 075	41 075	-	-	16 176	16 176
Redemption price less net book value	-	-	(12 604)	(12 604)	-	-	(12 198)	(12 198)

1) The total net book value of listed securities represents bonds and other securities issued by countries or equivalent institutions (rated AAA or AA) as at 31.12.98 and 31.12.97.

2) Difference between purchase price and market price as at 31.12.98 or as at 31.12.97.

Note 4: Securities portfolio

Table 2 - Debt securities and other fixed-income securities

In thousand ECU

ASSETS, ITEM 5	31.12.98				31.12.97			
	Trading	Held-for-sale	Investment	Total	Trading	Held-for-sale	Investment	Total
Government securities	-	51 680	223 082	274 762	-	6 960	190 338	197 298
Other securities	-	1 449 374	469 530	1 918 904	-	1 192 547	550 675	1 743 222
Related interest receivable	-	18 706	24 603	43 309	-	10 374	23 862	34 236
Gross Total	-	1 519 760	717 215	2 236 975	-	1 209 881	764 875	1 974 756
Provisions	-	(248)	-	(248)	-	(182)	-	(182)
Net Total (1)	-	1 519 512	717 215	2 236 727	-	1 209 699	764 875	1 974 574
Potential gain/loss on sale (2)	-	8 510	56 967	65 477	-	9 099	31 988	41 097
Redemption price less net book value	-	21 575	(5 457)	16 118	-	8 211	(5 714)	2 497

1) The total net book value of listed and non listed securities is, respectively, KECU 764 040 and KECU 1 429 626 (as compared to KECU 653 591 and KECU 1 286 929 as at 31.12.97).

2) Difference between purchase price and market price as at 31.12.98 or as at 31.12.97.

Note 4: Securities portfolio

Table 3 - Shares and other variable-yield securities

In thousand ECU

ASSETS, ITEM 6	31.12.98	31.12.97
	Held-for-sale	Held-for-sale
Securities held	1 463	1 451
Related interest receivable	10	11
Gross total	1 473	1 462
Provisions	(786)	(847)
Net Total (1)	687	615
Potential gain on sale (2)	53	81

1) The total net book value of listed and non listed securities is, respectively, KECU 97 and KECU 580 (as compared to KECU 96 and KECU 508 as at 31.12.97).

2) Difference between purchase price and market price as at 31.12.98 or as at 31.12.97.

Note 5: Fixed assets

In thousand ECU

A ASSETS, ITEMS 7 AND 8		31.12.97	Variations for the year	31.12.98
Gross value				
1. Intangible fixed assets				
Software		1 304	474	1 778
Fixed assets in progress		390	99	489
	Total A1	1 694	573	2 267
2. Tangible fixed assets				
Headquarters real estate		8 597	0	8 597
Fixtures and equipment		3 305	562	3 867
Other tangible fixed assets		1 640	791	2 431
Fixed assets in progress		530	(26)	504
	Total A2	14 072	1 327	15 399

B AMORTISATION/DEPRECIATION		31.12.97	Allowances for the year	31.12.98
1. Intangible fixed assets				
Software		561	283	844
Fixed assets in progress		-	-	-
	Total B1	561	283	844
2. Tangible fixed assets				
Headquarters real estate		2 660	343	3 003
Fixtures and equipment		1 349	502	1 851
Other tangible fixed assets		983	349	1 332
Fixed assets in progress		-	-	-
	Total B2	4 992	1 194	6 186
Net book value of intangible fixed assets	(A1–B1)	1 133	290	1 423
Net book value of tangible fixed assets	(A2–B2)	9 080	133	9 213

Note 6: Subscribed capital as at 31.12.1998

(ASSETS, ITEM 9 AND LIABILITIES, ITEM 7)

In accordance with the Articles of Agreement, may become members of the Fund :

- All member Governments of the Council of Europe.
- Other Governments upon authorization of the Governing Board of the Fund.

Membership is acquired by accepting the Articles of Agreement and by subscribing participating certificates. Such certificates are issued in denominations of ECU 1 000 each.

Each member is granted one vote for each participating certificate held.

In thousand ECU

Country	Subscribed capital (a)	Uncalled capital (b)	Called capital (c)		Reserves to be received (d)	Called and unpaid capital and reserves to be paid e = c2 + d
			Paid (1) at 31.12.1998 (c1)	To be paid (c2)		
France	237 083	210 904	26 180			
Germany	237 083	210 904	26 180			
Italy	237 083	210 904	26 180			
Spain	154 624	137 550	17 074			
Turkey	100 527	89 427	11 099			
Netherlands	51 471	45 787	5 684			
Belgium	42 541	37 845	4 696			
Greece	42 541	37 845	4 696			
Portugal	36 030	32 052	3 978			
Sweden	36 030	32 052	3 978			
Poland (2)	33 205	29 539	917	2 750	1 490	4 240
Denmark	23 214	20 649	2 565			
Switzerland	23 214	15 998	7 216			
Finland	18 067	16 072	1 995			
Norway	18 067	16 072	1 995			
Bulgaria	16 170	14 385	1 785			
Romania	15 511	13 799	1 284	428	177	605
Hungary (2)	11 595	10 315	320	960	392	1 352
Luxembourg	8 992	8 000	816	177	74	251
Croatia	5 534	4 923	458	153	63	216
Cyprus	5 147	4 579	568			
Slovakia (2)	4 908	4 366		542	292	834
Latvia (2) (3)	3 316	2 950		366	219	585
Estonia (2)	3 294	2 930	364			
"The Former Yugoslav Republic of Macedonia"	3 294	2 930	91	273	112	385
Moldova (2) (3)	3 294	2 930		364	197	561
Lithuania	3 259	2 899	270	90	37	127
Slovenia	3 183	2 832	351			
Iceland	2 626	2 337	289			
Malta	2 626	2 336	290			
San Marino	1 260	1 000	260			
Liechtenstein	1 260	897	363			
Holy See	35	17	18			
Total as at 31.12.1998	1 386 086	1 228 024	151 960	6 102	3 053	9 155
Total as at 31.12.1997	1 326 474	1 175 423	148 840	2 211	6 153	8 364
Variation	59 612	52 601	3 120	3 891	(3 100)	791

(1) By cash and incorporation of reserves

(2) New member countries of the Fund in 1998

(3) First instalments from Moldova (ECU 140 250) and Latvia (ECU 146 250) still pending, since 4 June and 14 October 1998 respectively.

Note 7: Reserves as at 31.12.98

In thousand ECU

LIABILITIES, ITEM 8	General Reserve	Special Reserve	Total
Balance as at 31 December 1997	477 479	113 790	591 269
Appropriation of net profit 1997 (*)	76 598	-	76 598
Reclassification of the Special Reserve (**)	113 790	(113 790)	0
Hungary	523	-	523
Estonia	149	-	149
Moldova	197	-	197
Latvia	219	-	219
Slovakia	292	-	292
Poland	1 987	-	1 987
Sweden (***)	(45)	-	(45)
Spain (****)	(384)	-	(384)
Balance as at 31.12.98	670 805	0	670 805

(*) The Administrative Council has decided to apply ECU 76 598 366 of the profits from the 1997 financial year to the General Reserve (Resolution 1425 (1998) of 27.03.98)

(**) The Governing Board, (Resolution 315 (1998)) on the Administrative Council' s recommendation, (Resolution 1437 (1998) has decided to merge the Special Reserve, no longer of any purpose, with the General Reserve

(***) Sweden. Resolution CD 233 (1991) Transfer of ECU 45 000 from the General Reserve to the Paid Capital

(****) Spain. Resolution CD 233 (1991) Transfer of ECU 384 000 from the General Reserve to the Paid Capital

Note 8: Other assets, prepayments and accrued income

In thousand ECU

ASSETS, ITEMS 10 and 11	31.12.98	31.12.97
Sundry debtors	3 107	3 067
Conditional instruments purchased	1 199	1 390
Total other assets	4 306	4 457
Prepaid expenses	1 121	163
Accrued interest receivable	273 697	161 629
Foreign currencies adjustment account	0	0
Mark to market of off-balance sheet financial instruments	0	0
Other expenses to be amortised	65 137	43 120
Other accrued income and sundry debtors/creditors	242	747
Total prepayments and accrued income	340 197	205 659

Note 9: Amounts owed to credit institutions

Table 1 - Analysis by type *In thousand ECU*

LIABILITIES, ITEM 1	31.12.98	31.12.97
Repayable on demand	83	995
Related interest payable	-	-
Total	83	995
With agreed maturity dates or periods of notice	6 848	332
Related interest payable	14	1
Total	6 862	333

Note 9: Debt evidenced by certificates

Table 2 - Analysis by type *In thousand ECU*

LIABILITIES, ITEM 2	31.12.98	31.12.97
Euro Commercial Paper	263 039	442 598
Bonds	9 046 167	7 543 486
Perpetual debt (*)	126 600	133 700
Total	9 435 806	8 119 784
Related interest payable	293 175	211 430
Total	9 728 981	8 331 214

(*) The outstanding at 31.12.98 comprises a debt of CHF 203 545 000 (ECU 126 600 032) at a fixed rate of 5.5% p.a.
In 1998, three partial repurchases were carried out for CHF 4 025 000, CHF 6 750 000 and CHF 340 000 respectively.

Note 9: Debt evidenced by certificates

Table 3 - Analysis by currency (*) *In thousand ECU*

LIABILITIES, ITEM 2	31.12.98	31.12.97
USD	2 763 394	1 674 881
JPY	1 386 931	1 549 794
ECU	1 180 944	1 204 244
FRF	1 051 898	1 043 535
DEM	812 954	804 526
HKD	769 410	117 296
ESP	480 641	477 764
ITL	330 354	281 575
CHF	313 193	572 775
PTE	82 302	81 628
ZAR	58 769	-
CZK	56 828	26 297
CAD	55 367	63 188
GRD	45 497	-
SEK	28 984	31 492
PLN	18 340	-
GBP	-	149 980
LUF	-	5 863
NZD	-	34 946
Total	9 435 806	8 119 784

(*) Except related interest payable

Note 10: Other liabilities, accruals and deferred income

In thousand ECU

LIABILITIES, ITEMS 3 and 4	31.12.98	31.12.97
Sundry creditors	627	743
Deposit of guarantee received	5 640	0
Total other liabilities	6 267	743
Deferred income	54 659	35 272
Accrued expenses	140 223	88 499
Foreign currencies adjustment account	64 304	79 373
Mark to market of off-balance sheet financial instruments	0	8
Other accruals and sundry debtors/creditors	3 299	2 289
Total accruals and deferred income liabilities	262 485	205 442

Note 11: Total balance sheet denominated in foreign currency

In thousand ECU

	BALANCE SHEET			
	ASSETS		LIABILITIES	
	31.12.98	31.12.97	31.12.98	31.12.97
Currencies	7 656 658	7 390 637	8 724 493	7 223 490
ECU	3 439 832	2 148 041	2 371 997	2 315 189
Total	11 096 490	9 538 678	11 096 490	9 538 678

Note 12: Analysis of assets and liabilities based on residual period to maturity*

In thousand ECU

Item		< 3 months 1	> 3 months < 1 year 2	> 1 year < 5 years 3	> 5 years 4	Total 5	Maturing in 1999
	ASSETS						
1	Treasury bills and similar securities	5 170	0	101 352	324 457	430 979	5 170
2	Loans and advances to credit institutions and customers	1 697 639	466 040	3 802 629	1 990 216	7 956 524	2 163 679
3	Debt securities and other fixed-income securities	1 046 679	109 731	653 194	384 120	2 193 724	1 156 410
	Total as at 31.12.98	2 749 488	575 771	4 557 175	2 698 793	10 581 227	3 325 259
	Total as at 31.12.97	2 044 285	800 691	4 153 789	2 182 804	9 181 570	2 844 976
	LIABILITIES						
1	Amount owed to credit institutions	6 848	-	-	-	6 848	6 848
2	Debt evidenced by certificates:						
	Negotiable debt securities (ECP)	263 039	-	-	-	263 039	263 039
	Subordinated debt and bonds	264 727	1 359 955	4 856 665	2 564 820	9 046 167	1 624 682
	Perpetual debt	-	-	-	126 600	126 600	-
	Total as at 31.12.98	534 614	1 359 955	4 856 665	2 691 420	9 442 654	1 894 569
	Total as at 31.12.97	722 122	778 398	4 304 717	2 314 880	8 120 117	1 500 520

** Not including the current account, related interest receivable, unpaid principal and interest, premium/discount amortizations and provisions.*

Note 13: Off-balance sheet financial instruments

In thousand ECU

OFF-BALANCE SHEET, ITEMS 4 and 5	31.12.98	31.12.97
	Nominal amounts	Nominal amounts
Transactions in interest rate instruments on exchange traded markets and equivalents		
Futures	-	-
Over-the-Counter transactions in interest rate instruments		
Hedging instruments including interest rate swaps	5 901 047	3 935 931
Interest rate options used as hedges	242 629	240 206
Other instruments including interest rate swaps	-	-
Other options	51 129	404 793
Transactions in currency instruments on exchange traded markets and equivalents	-	-
Over-the-Counter transactions in currency instruments		
Hedging instruments	5 362 169	2 973 578
Currency options used as hedges	-	-

Note 14: Interest receivable and similar income

Table 1 - Analysis by type

In thousand ECU

PROFIT AND LOSS ACCOUNT, ITEM 1	31.12.98	31.12.97
Interest income from current accounts	68	153
Interest income from short-term time deposits	51 421	57 961
Interest income from items purchased under resale agreements	0	0
Interest income from loans	404 999	415 944
Interest on financial transaction hedging assets	52 753	31 511
Total interest and similar income on operations with credit institutions and customers	509 241	505 569
Income from held-for-sale securities	82 552	44 580
Income from investment securities	75 226	73 158
Interest on financial transaction hedging assets	25 704	11 681
Total interest and similar income on debt securities and other fixed-income securities	183 482	129 419
Redemption of issue premiums	6 892	3 518
Other interest income (*)	488 246	390 037
Total other interest income	495 138	393 556
Total	1 187 861	1 028 543

(*) This item notably includes interest income from financial instruments used as macro-hedging and hedging for debt evidenced by certificates

Note 14: Interest receivable and similar income

Table 2 - Analysis of interest on loans (*) *In thousand ECU*

PROFIT AND LOSS ACCOUNT, ITEM 1	31.12.98	31.12.97
Turkey	142 333	155 179
Italy	71 895	81 486
Germany	57 783	40 200
Greece	52 694	55 448
Spain	38 348	40 128
Cyprus	25 077	27 024
France	7 807	580
Malta	2 856	2 330
Finland	1 809	573
Portugal	880	1 454
Former Yugoslavia	726	1 073
Belgium	587	135
Iceland	353	277
San Marino	210	211
Lithuania	143	30
Bulgaria	40	
Romania	6	
Total	403 497	406 128

** Except interest on hedging instruments and penalties on early redemption.*

Note 14: Interest payable and similar charges

Table 3 - Analysis by type *In thousand ECU*

PROFIT AND LOSS ACCOUNT, ITEM 2	31.12.98	31.12.97
Interest charge on current accounts	1 309	1 052
Interest charge on short-term borrowings	389	837
Interest charge on securities delivered under purchase agreements	0	26
Interest on financial transaction hedging assets	70 285	47 622
Total interest and similar charges on operations with credit institutions and customers	71 983	49 537
Interest charge on transferable debt securities	8 061	19 696
Interest charge on debt and bonds	633 723	576 572
Interest on financial transaction hedging assets	294 505	250 880
Total interest and similar charges on debt evidenced by certificates	936 289	847 149
Other interest and charges (*)	84 359	41 457
Total	1 092 631	938 142

(*) This item notably includes interest charges on the financial instruments used as macro-hedging and hedging for our securities portfolio.

Note 14: Result on financial operations

Table 4 - Analysis by type *In thousand ECU*

PROFIT AND LOSS ACCOUNT, ITEM 6	31.12.98	31.12.97
Trading securities	0	9 308
Off-balance sheet financial instruments	0	(5 515)
Sub-total	0	3 794
Foreign currency transactions	(215)	(193)
Held-for-sale securities	(6)	1 580
Total	(221)	5 181

Note 15: General and administrative expenses

In thousand ECU

PROFIT AND LOSS ACCOUNT, ITEM 8	31.12.98	31.12.97
Wages and salaries	7 563	7 009
Social security taxes	1 103	906
Pension costs	977	962
Other administrative expenses	4 710	4 199
Total	14 353	13 076

Staff

At 31.12.98, the Fund had a permanent staff of 107 (101 at 31.12.97) comprised as follows:

	31.12.98	31.12.97
Unclassified staff (*)	3	3
Management staff (category A)	43	40
Non-Management staff (categories B et C)	61	58
Total	107	101

(*) Governor and Vice-Governors, elected.

Note 16: Selective Trust Account (S.T.A.)

BALANCE SHEET as at 31.12.98 — *In thousand ECU*

ASSETS		LIABILITIES	
Deposit to the Fund	31 557	Contribution paid by the Fund (*)	30 020
Securities portfolio	1 005	Other contributions paid (**)	58
Accruals and deferred income	122	Accruals and deferred income	46
		Results brought forward	1 403
		1998 Results	1 157
Total	32 684	Total	32 684

In thousand ECU

PROFIT AND LOSS ACCOUNT AS AT 31.12.98	
Payment from the Fund (***)	1 266
Income from securities portfolio	42
Subsidies paid to the Fund	(151)
1998 results	1 157

** According to Resolution 1385 (1996) of the Administrative Council*

*** Voluntary contribution from Liechtenstein (Resolution 1383 (1996)).*

**** Payment according to Resolution 1380 (1995).*

In compliance with Selective Trust Account operating principles (See Note 2.10), S.T.A. expenses are limited to the cost of interest rate subsidies only.

Funding commitments on projects approved by the Administrative Council within the framework of the S.T.A. (*) — *In thousand ECU*

COUNTRY	Funding commitments	Outstanding
Croatia F/P 1278 (1998)	23 696	-
Romania F/P 1265 (1997)	10 000	-
Croatia F/P 1279 (1998)	9 241	-
Lithuania F/P 1225 (1996)	7 714	3 000
Bosnia and Herzegovina F/P 1211 (1996)	2 571	1 714
Germany F/P 1314 (1998)	1 917	639
Romania F/P 1223 (1996)	-	188
Total	55 139	5 541

(*) See Note 3 Table 5.

Note 17: The Pension Fund of the Social Development Fund (A.F.P.) and Pension Fund Commitments

1. The Pension Fund

The organisation of the Pension Fund is defined in the Council of Europe Staff Regulations, which apply to the staff of the Council of Europe Social Development Fund according to the following principles :

1. Benefits are calculated in particular on the basis of the number of years of service.
2. Contributions to the Pension Fund (in the form of a standard percentage deduction from the salary) are paid partly by the employees and partly by the Fund.

Management of the Pension Fund (A.P.F.) assets is entrusted to an independent entity.

2. Pension Fund commitments

An actuarial evaluation of the Pension Fund's commitments is carried out on an annual basis by an independent actuary in compliance with I.A.S.19. At 31.12.1998, the actuarial value of the plan's liabilities was FRF 125 010 thousand (FRF 81 879 thousand as at 31.12.97) for a market value of the pension plan assets held by the Fund of FRF 142 697 thousand (FRF 122 951 thousand as at 31.12.97).

3. Beneficiaries of the Pension Fund

	1998	1997
Male	48	44
Female	59	57
Retired	12	11
Total	119	112

Change in net assets as at 31.12.98 and 97 *in thousands*

	31.12.98		31.12.97	
	FRF	ECU	FRF	ECU
Employer contribution	6 444	982	5 851	885
Employee contribution	3 171	483	2 595	392
Appropriation from the Social Development Fund	-	-	-	-
Securities income	6 784	1 034	6 025	911
Bank interest	54	8	201	30
Realized gains on securities	330	50	100	15
Unrealized gains on securities	7 180	1 095	1 148	174
Net exchange profits and losses (*)	20	3	156	24
	23 983	3 655	16 076	2 431
Distribution	(715)	(109)	(549)	(83)
Pension payments	(3 158)	(481)	(2 879)	(435)
Administrative charges	(364)	(55)	(321)	(49)
Increase in net assets	19 746	3 010	12 326	1 864
Net assets at the beginning of the year	122 951	18 744	110 625	16 731
Net assets at the end of the year	142 697	21 754	122 951	18 595
BALANCE SHEET AS AT 31.12.1998 and 1997				
ASSETS				
Bank deposits	1 463	223	278	42
Securities portfolio	137 986	21 036	119 938	18 139
Accrued interest on securities portfolio	3 294	502	2 702	409
Accrued interests on time deposits	-	-	-	-
Other assets	241	37	69	10
Total Assets	142 984	21 798	122 986	18 600
Less other liabilities	(287)	(44)	(35)	(5)
Net Assets	142 697	21 754	122 951	18 595

**The item "Net exchange profits and losses" includes exchange rate variations between opening and closing dates for each accounting year.*

The change in net assets has been prepared on the basis of historical cost, in compliance with the International Accounting Standards (IASC) concerning pension funds.

The securities portfolio is evaluated at the end-of-year market value.

The reference currency used by the A.F.P. is the French franc. However, as the reporting currency of the Fund is the ECU, the assets and liabilities as well as the profit and loss account are converted at the end-of-year exchange rate to ECU.

External auditor's report

BARBIER FRINAULT
& AUTRES

ARTHUR ANDERSEN

41, rue Ybry
92576 Neuilly-sur-Seine Cedex
33 (0) 1 55 61 00 00 Téléphone
33 (0) 1 55 61 05 05 Télécopieur

To the members of the Administrative Council and the members of the Governing Board,

In accordance with the terms of our appointment as Independant Auditor by the Governing Board, we have audited the accompanying balance sheet of the Council of Europe Social Development Fund – CEF as of December 31, 1998 and the related statements of income and cash flows for the years then ended. These financial statements are the responsibility of the Governor. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with International Standards on Auditing. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by the Governor, as well as evaluating the overall financial statements presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements present fairly, in all material respects, the financial position of the Council of Europe Social Development Fund as at December 31, 1998, and the results of its operations and its cash flows for the year then ended, in accordance with generally accepted International Accounting Standards after taking into account the European Directives authorizing the creation of a Fund for General Banking Risks.

Neuilly-sur-Seine, March 11, 1999

BARBIER FRINAULT & AUTRES
ARTHUR ANDERSEN
Philippe Peuch-Lestrade

Société civile membre de la Compagnie des
Commissaires aux Comptes de Versailles

Balance sheet at 31.12.1998 after allocation of results

in thousand ECU

ASSETS

Item		Notes	31.12.98	31.12.97
1	Cash in hand, balances with central banks		43	31
2	Loans and advances to credit institutions	3 and 12		
	(a) repayable on demand		2 239	3 0647
	(b) loans and advances			
	- advances	3/1	1 560 198	1 059 361
	- ordinary and social loans (a) (1)	3/1	3 152 712	2 508 806
3	Loans to customers	3 and 12		
	- ordinary and social loans (b) (1)	3/2	3 333 784	3 409 744
	Total ordinary and social loans (a+b)		6 486 496	5 918 550
4	Treasury bills and similar securities	4/1 and 12	445 806	353 790
5	Debt securities and other fixed-income securities	4/2 and 12	2 236 727	1 974 574
6	Shared and other variable-yield securities	4/3 and 12	687	615
	Total portfolio		2 683 220	2 328 979
7	Intangible fixed assets	5	1 423	1 133
8	Tangible fixed assets	5	9 213	9 080
9	Subscribed capital, called and reserves to be paid	6	9 155	8 364
10	Other assets	8	4 306	4 457
11	Prepayments and accrued income	8	340 197	205 659
	Total	11	11 096 490	9 538 678

LIABILITIES

Item		Notes	31.12.98	31.12.97
1	Amount owed to credit institutions	9 and 12		
	(a) repayable on demand		83	995
	(b) time loans		6 862	333
2	Debt materialized by securities	9 and 12	9 728 981	8 331 215
3	Other liabilities	10	6 267	743
4	Accruals and deferred income	10	262 485	205 442
5	Deposit from Selective Trust Account (S.T.A.)	2 and 16	36 557	31 032
6	Fund for General Banking Risks (F.R.B.G.)/ Del Credere Fund	2	150 000	150 000
7	Capital	6		
	a) Subscribed (including 151 960)		1 386 086	1 326 474
	b) Uncalled capital		(1 228 024)	(1 175 423)
			158 062	151 051
8	Reserves	7		
	(a) general reserve		747 193	554 077
	(b) special reserve		0	113 790
	Total	11	11 096 490	9 538 678
	OFF-BALANCE SHEET ITEMS			
	COMMITMENTS GIVEN			
1	Funding commitments on approved projects	3	3 838 896	2 542 238
2	Guarantees			
	a) Guarantees for loans granted by third parties		10 540	12 808
	b) Guarantees on assigned interest swaps		611 364	678 204
	COMMITMENTS RECEIVED			
3	Guarantees received		10 636	12 903
	OFF-BALANCE SHEET FINANCIAL INSTRUMENTS	2 & 13		
4	Interest rate-based instruments		6 194 805	4 580 930
5	Currency-based instruments		5 362 169	2 973 578

(1) After reclassification. See Note 2.11.
The accompanying notes form an integral part of the Financial statements.

Extract of the report by the Auditing Board on the balance sheet and the profit and loss account and the Notes to the Financial statements for 1998

In pursuance of its terms of reference under Article XII of the Articles of Agreement of the Council of Europe Social Development Fund, the Auditing Board was convened on the basis of the decision that the Governing Board, having heard the Administrative Council, adopted at its 156th meeting (14 December 1998). The Auditing Board met in Paris from 9 to 11 March 1999 in order to audit the Fund's balance sheet and profit and loss account and the Notes to the Financial statements for the year ended 31 December 1998;

Based on Resolution 311 (1997) of the Governing Board and on the Auditing Board's previous years' findings, the external auditor, ARTHUR ANDERSEN (Paris) presented its statement and gave, when needed, evidence in detail of the performance of the audit.

The Auditing Board carried out the audit of the Fund for the year 1998 as follows:
- consulting the Governor, the Vice-Governors and some main officials of the Fund;
- examining the profit and loss account of the Fund for the year 1998 and the balance sheet at 31 December 1998 (including the notes to the financial statements), which had been presented by the accounting department of the Fund and the external auditor;
- consulting the head of the Audit Department;
- consulting the external auditors of the Fund and examining their preliminary report (including the review of the formation System), the Financial Statements as at 31 December 1998 and their long form report for the year ended 1998;
- obtaining all relevant documents and information which the Auditing Board deemed necessary;
- obtaining all necessary information and explanations which had readily been given by the Governor, pertinent staff and the external auditor who had conclued his audit in accordance with International Standards on Auditing.

The Auditing Board

Certifies, on the basis of the information which was made available to it and to the best of its understanding, that the Fund's balance sheet and profit and loss account (including the Notes to the Financial statements) are in agreement with the books and other records and give a true and fair picture of the state of the Fund's affairs as at 31 December 1998 and the results of its operations and its cash flows for the year then ended, in accordance with the generally accepted International Accounting Standards after Directives authorising the creation of a Fund for General Banking Risks.

Paris, 11 March 1999

P.A. ENGESETH
M. JUNG
E. SCICLUNA

Extract from the minutes of the 199th meeting of the Administrative Council of the Social Development Fund

Resolution 1433 (1999) Fonds CA/PV 199 (1999)
Paris, 25 March 1999

The Administrative Council,

Having regard to Article XI, section 2 of the Articles of Agreement of the Fund,

Having regard to the balance sheet, the profit and loss account and the notes appended to the Financial Statements as at 31 December 1998,

Having taken note of the report of the external auditor dated 11 March 1999,

Having taken note of the Auditing Board's report dated 11 March 1999,

Having taken note of the Governor's Memorandum dated 2 March 1999

Resolves

1. to recommend to the Governing Board the approval of the balance sheet and the profit and loss account and notes to the Financial Statements as at 31 December 1998

2. to discharge the Governor from his responsability for the financial year 1998

3. to allocate from the net profits for 1998, amounting to EUR 81 388 422 (1):

    - EUR 5 000 000 to the Selective Trust Account
    - EUR 76 388 422 to the General Reserve

4. to recommend to the Governing Board to approve point 3 above.

(1) - Since 1 January 1999, ECU 1 = EURO 1

Extract from the minutes of the 157th meeting of the Governing Board of the Social Development Fund

Resolution 316 (1999) Fonds CD/PV 157 (1999)
Paris, 12 April 1999

The Governing Board,

Having regard to Article IX, Section 3, paragraph 1, litt. e of the Article of Agreement

Having regard to the balance sheet, the profit and loss account and the notes appended to the Financial Statements as at 31 December 1998

Having taken note of the certification by the external auditor, Arthur Andersen, dated 11 March 1999

Having regard to the reports of the Fund's statutory organs, viz:
- the report of the Governor for financial year 1998
- the report by the Auditing Board dated 11 March 1999

Having regard to Resolution 1433 (1999) of the Administrative Council

Having heard the Auditing Board

Decides:
- to approve the Fund's annual report, accounts and other Financial Statements for 1998
- to discharge the Administrative Council from its responsability for the 1998 financial year
- to endorse point 3 of Resolution 1433 (1998) of the Administrative Council of 25 March 1999, by which the Administrative Council agreed to allocate from the net profits for 1998, amounting to EUR 81 388 422 [1],
  - EUR 5 000 000 to the Selective Trust Account
  - EUR 76 388 422 to the General Reserve.

(1) - Since 1 January 1999, ECU 1 = EURO 1

Notes for the reader

1. **Title:** The Fund was set up in 1956 under the title "Council of Europe Resettlement Fund for National Refugees and Over-Population in Europe". The simplified title "Council of Europe Social Development Fund", in use since 1989, became official with the entry into force of the new Articles of Agreement on 18 March 1997.

2. **Member States:** The Fund had 33 Member States on 31 December 1998: Belgium, Bulgaria, Croatia, Cyprus, Denmark, Estonia, Finland, France, Germany, Greece, Holy See, Hungary, Iceland, Italy, Latvia, Liechtenstein, Lithuania, Luxembourg, Malta, Moldova, Netherlands, Norway, Poland, Portugal, Romania, San Marino, Slovakia, Slovenia, Spain, Sweden, Switzerland, "The Former Yugoslav Republic of Macedonia", Turkey. The Czek Republic joined the Fund in 1999. Former Yugoslavia was an associate Member from 1986 to 1991.

3. **Articles of Agreement:** The Fund's first Articles of Agreement were adopted by the Committee of Ministers of the Council of Europe on 16 April 1956 (Resolution (56)9). The new Articles of Agreement, adopted by the Committee of Ministers on 16 June 1993 (Resolution (93)22), came into force on 18 March 1997, following their ratification by all member countries.

4. **Project approved:** A project which has been submitted to the Administrative Council and approved for funding.

5. **Loan disbursed:** A loan which has actually been paid to the beneficiary.

6. **Loan tranche:** Loans are paid in several tranches, depending on the progress of the work, up to the maximum amount approved by the Administrative Council.

7. **Global disbursement loan programmes (master agreements):** Loan agreements with major financial institutions, making it possible to use a central borrower as a relay in order to reach a large number of individual beneficiaries.

8. **Awaiting financing:** Total amount of the signed master agreements to be disbursed and of the projects (outside master agreements) for which at least one disbursement has already been made.

9. **New commitments entered into during the year:** Total amount of signed master agreements signed in the year and of individual projects for which a first tranche was disbursed or a contact signed during the year.

10. **Selective Trust Account:** A special account set up in 1995 to provide interest-rate subsidices for projects complying with the Fund's priority objectives and having a high social value. The account is fed by allocations from the Fund's annual results, decided on by the Administrative Council, by volontary contributions from Fund or Council of Europe Member States, or by payments from other organisations.

11. **Loans outstanding:** Total amount of loans disbursed and not yet repaid.

12. **Subscribed capital:** Participating certificates issued by the Fund, to which the Members have subscribed.

13. **Called capital:** The total capital paid in and to be paid in.

14. **Uncalled capital:** The difference between the subscribed capital and the called capital.

15. **Unit of account:** On 1 January 1989 the European currency unit (ECU) replaced the US dollar as the Fund's unit of account. In the Financial Statements, figures in USD for the period prior to 1989 were converted into ECU at the exchange rate prevailing on 31 December 1988.

16. **Translations:** The Report of the Governor is also available in French (ISSN 1025-3904) and German (ISSN 1025-3920).

Photos:
Cover : bottom, KfW Pictures Archives - page 25, LfA - other, CEF Archives



Council of Europe Social Development Fund

55, avenue Kléber, F 75784 PARIS Cedex 16
Telephone: +33.1.47.55.55.00
Fax: +33.1.47.55.03.38
Telex: 642 706 CEFON
Swift: CEFPFRPP

Web site: http://www.coefund.org

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