

*Bank of Canada Act*

company which would operate within well established business and financial methods.

• (4:30 p.m.)

Out of this background there emerged the idea of creating a company whose shareholders would be the borrowing local authorities, with the annual profits being distributed among them without any intervention from the government. It was on this basis that the *Crédit Communal* was founded. It began without any capital, the first subscriptions to its capital shares being part of the first loans made on behalf of municipal governments.

From the beginning the *Crédit Communal* has had all the characteristics of a cooperative society. However, inasmuch as Belgian law in 1860 ignored such a form of association, the *Crédit Communal* was founded as a limited liability company for a duration of 99 years. This is still the case, although the statute rules of the company are somewhat different from private limited liability companies.

The *Crédit Communal* was the first cooperative association of local governments in the world. Economists such as Bernard Lavergne, a Frenchman, have assigned to this historic event the same importance as is ascribed to the creation of the first consumer co-operative society, The Equitable Pioneers of Rochdale.

The most important problem which the *Crédit Communal* had to surmount at its inception was the matter of the guarantee of municipal loans. This was solved as follows: In 1860 some of the local taxes prevailing in the cities and towns of Belgium were abolished. These were replaced by a central fund, *fonde communal*, which was derived from state imposed taxes and distributed each year among the municipalities. It was agreed that the *communes* would be allowed to turn over to the *Crédit Communal* their part of the state collected taxes as a guarantee for the loans concluded by the *Crédit Communal*. Even today the contributions provided by the state authorities to local authorities are the principal warrant for the capital funds which local authorities borrow from the *Crédit Communal*.

As indicated, the *Crédit Communal* is owned by the local authorities, their share capital consisting of part of the consolidated long-term loans which the *Crédit Communal* has made to local authorities. These loans are repayable by equal annuities. Originally, 5 per cent of the amount of any consolidated loan represented a subscription to the share

[Mr. Mongrain.]

capital of the *Crédit Communal* by the borrowing municipality. In 1911 the share subscription of the municipalities was reduced to one-tenth. Since 1949, when the practice of making consolidated loans was abolished, no further capital subscription has been required of local governments.

The management of the company consists of a general assembly which is composed of all the municipal shareholders represented either by their mayor, alderman, or a local councillor. A board of directors appointed by the general assembly administers the company and in turn appoints a supervisory committee for the general oversight of all the operations of the company, including the loans made to local authorities. The board of directors consists of nine members elected for six years. The *Crédit Communal* now makes loans to provinces, municipalities, joint boards of local authorities and to some other local organizations such as public assistance boards.

The *Crédit Communal* issues the following types of credits: First, long-term credits. Under this heading come consolidated loans. This type of loan credit has now been abandoned. Under it the loan requirements of several municipalities were grouped and consolidated in one loan issue. The amounts obtained therefrom by each of the several municipalities were repayable in annuities, including interest and capital. Originally consolidated loans were granted for up to 60 years. Subsequently their duration was reduced to 30 years. The interest conditions did not change during the duration of the loan.

As indicated, the capital required was obtained by long-term issues and distributed between the cities which had requested a loan. The rate fixed for the duration of the loan included all the issue and administration costs. As this kind of capital borrowing was only possible when the *Crédit Communal* could issue bonds of at least 30 years, the consolidated loans were abandoned after the second world war when it became impossible to issue bonds in Belgium for more than five years, and in exceptional cases ten years.

Second, they also grant non-consolidated loans. Since 1948 the loans granted by the *Crédit Communal* to local authorities are repayable by annual amounts with a variable rate of interest. The rate is fixed twice a year, in June and in December. It is impossible to fix the rate for the whole duration of the loan as the capital funds are now provided by issues of short and medium term bonds—one,