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Measures to be recommended in order to permit of the floating of loans by local authorities on foreign and international capital markets

Report¹

Committee on Regional Planning and Local Authorities

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1. 1957 - 9th Session - First part



A. Draft Recommendation

The Assembly,

Considering that the social problem and the improvement of people's living conditions in towns and rural communities cannot be dissociated from the circumstance that it is important for the economic expansion of European municipalities and regions and for the general development of the continent of Europe that local communities and their national institutes should have power to borrow freely from private sources, whether national or foreign, the capital they need for the improvement and modernisation of public, social and cultural installations and the development and stimulation of local economic activities;

Considering that municipal loans can offer special guarantees and that the objectives attainable by such loans are particularly valuable,

Recommends that the Committee of Ministers should urge the Member Governments :

t o establish a common basis for financing and extending municipal credit;

o take the necessary steps to enable municipalities, and national municipal credit institutes, to issue loans on foreign and international capital markets ; and, more particularly :

a. the Governments of lending countries to grant the necessary facilities for the raising of such loans in their territory and for the export of capital for investment in those loans;

b. the Governments of borrowing countries :

t o authorise the issue of such loans;

t o provide, in connection with these loans, due guarantees in respect of the transfer of annual instalments of redemption and interest payments ;

c. all the Governments to promote, where such do not already exist in their territories, the establishment of national institutes for municipal credit, administered by the local authorities— such as the Crédit Communal de Belgique, the Bank voor Nederlandsche Geme-enten or the Danish Kommunal Laanefond— which offer the advantage of enabling loans issued by small municipalities to be grouped together, and which serve as the necessary intermediary between those municipalities and the foreign investors.

B. Explanatory Memorandum

1.

The normal sources of public finance, whether local or national, are, of course, rates and taxes, but it is a matter of common knowledge that local authorities often find these resources inadequate.

Moreover, there are certain forms of expenditure which it would be inappropriate to cover by taxes. It would be wrong to ask one generation to bear the whole financial burden of undertakings which will be of benefit to its successors.

Thus, owing to the permanent inadequacy of their budgetary resources and for other economic reasons, local authorities frequently have to resort to borrowing.

It is also widely known that in most European countries, local authorities have great difficulty in raising loans because of the scarcity of capital supplied to them, the competitive demand or the special position of the Government in such matters.

But if there is a scarcity of capital available in some countries, on the other hand there is a glut of them in other countries. M. Nobs, formerly Swiss Federal Councillor in charge of the Finance Department, addressing the Municipal Credit Committee of the States-General of European Municipalities at Venice, estimated the volume of annual savings in Switzerland at nearly three milliard Swiss Francs, invested for the most part at from 2.84 to 2.87 %.

It is also well known that capital from Western Europe to a total of several thousand million dollars per year is invested in the United States at very low rates of interest.

Thus there exists an enormous volume of capital on which the municipalities might draw, but there is some reluctance to make investments in Europe owing to monetary instability. " Offer enough security for the money you want to borrow ", said M. Nobs to the mayors of Venice, " and you will have less difficulty in financing municipal buildings. "

But there are laws and regulations, both financial and administrative, which deny the local authorities access to these abundant resources. Restrictions on movement of capital and rules imposed by the incidence of Government supervision form well-nigh insurmountable obstacles.

Moreover, for small or medium-sized towns another serious difficulty arises, which is the scattered nature and small scale of the demand. Obviously, a village cannot float a foreign loan. Before any attempt could be made to borrow from foreign capital markets, the requests for loans would have to be grouped together. For this purpose it would be a good plan to establish national institutes for municipal credit of a co-operative type, managed by the municipalities themselves.

Your Committee on local authorities believed that the economic situation of Europe would derive the maximum benefit if Governments were approached with a view to making foreign capital available to local authorities.

To this end, the Committee adopted a draft Recommendation concerning the floating of loans by local authorities on foreign capital markets.

Meanwhile, it decided that this text would be submitted to the Assembly only after it had sought the opinion of the Conference, which had brought together a number of specialists conversant with local finance. With five abstentions the Conference adopted the text of the present draft Recommendation which reads as follows² :

" Th e Assembly,

Considering that the social problem and the improvement of people's living conditions in towns and rural communities³ cannot be dissociated from the circumstance that it is important for the economic expansion of European municipalities and regions and for the general development of the continent of Europe that local communities and their national institutes should have power to borrow freely from private sources, whether national or foreign, the capital they need for the improvement and modernisation of public, social and cultural installations and the development and stimulation of local economic activities;

2. Amendments by the European Conference of Local Authorities to the Committee's text are printed in italics.

3. Amendment presented by the French delegation.

Considering that municipal loans can offer special guarantees and that the objectives attainable by such loans are particularly valuable,

Recommends that the Committee of Ministers should urge the Member Governments :

to establish a common basis for financing and extending municipal credit⁴;

to take the necessary steps to enable municipalities, and national municipal credit institutes, to issue loans on foreign and international capital markets; and, more particularly :

- a. the Governments of lending countries to grant the necessary facilities for the raising of such loans in their territory and for the export of capital for investment in those loans; (*
- b. the Governments of borrowing countries :*
 - 1. to authorise the issue of such loans;*
 - 2. to provide, in connection with these loans, due guarantees in respect of the transfer of annual instalments of redemption and interest payments;*
- c. all the Governments to promote where such do not already exist in their territories, the establishment of national institutes for municipal credit, administered by the local authorities, such as the Credit Communal de Belgique, the Bank voor Nederlandsche Gemeenten or the Danish Kommunal Laanefond, which offer the advantage of enabling loans issued by small municipalities to be grouped together, and which serve as the necessary intermediary between those municipalities and the foreign investors. "*

Therefore, your Committee, assured of the approval given by the virtually unanimous opinion of the municipal and regional authorities of the member countries of the Council of Europe, submits for approval to the Assembly the draft Recommendation above.

4. Amendment presented by the British delegation.