



**TOGETHER**  
*for a sustainable future*

## OCCASION

This publication has been made available to the public on the occasion of the 50<sup>th</sup> anniversary of the United Nations Industrial Development Organisation.



**TOGETHER**  
*for a sustainable future*

## DISCLAIMER

This document has been produced without formal United Nations editing. The designations employed and the presentation of the material in this document do not imply the expression of any opinion whatsoever on the part of the Secretariat of the United Nations Industrial Development Organization (UNIDO) concerning the legal status of any country, territory, city or area or of its authorities, or concerning the delimitation of its frontiers or boundaries, or its economic system or degree of development. Designations such as “developed”, “industrialized” and “developing” are intended for statistical convenience and do not necessarily express a judgment about the stage reached by a particular country or area in the development process. Mention of firm names or commercial products does not constitute an endorsement by UNIDO.

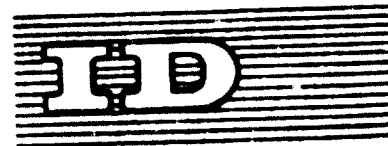
## FAIR USE POLICY

Any part of this publication may be quoted and referenced for educational and research purposes without additional permission from UNIDO. However, those who make use of quoting and referencing this publication are requested to follow the Fair Use Policy of giving due credit to UNIDO.

## CONTACT

Please contact [publications@unido.org](mailto:publications@unido.org) for further information concerning UNIDO publications.

For more information about UNIDO, please visit us at [www.unido.org](http://www.unido.org)



DO 2432.

Distr.  
LIMITED  
ID/WG.65/6  
1 July 1970

ENGLISH  
Original: FRENCH

United Nations Industrial Development Organization

Meeting on Financing of Small-scale Industry  
in Latin America

Buenos Aires, Argentina, 23 - 28 November 1970

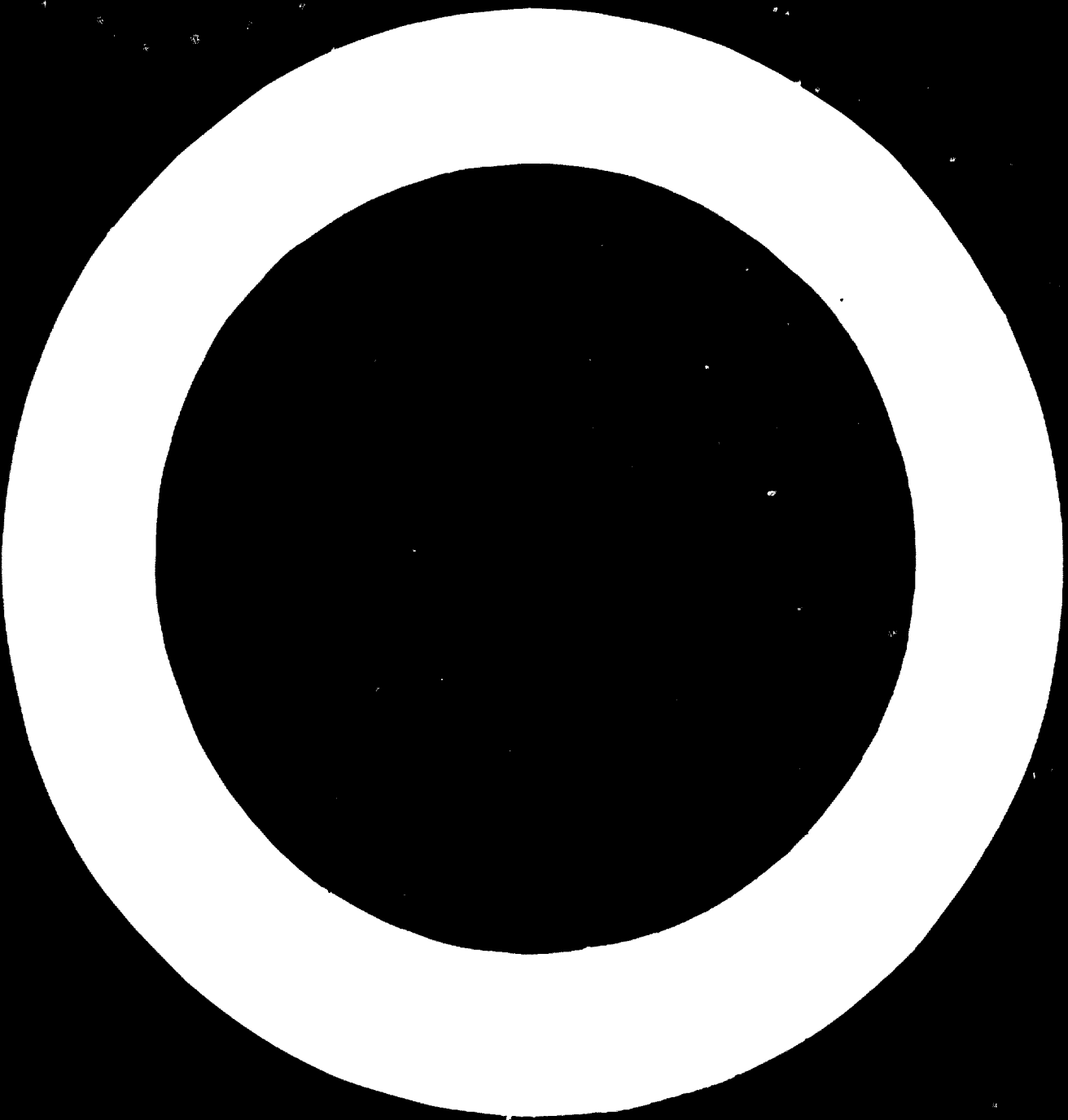
LEASING AND MUTUAL INDEMNITY  
FINANCING IN FRANCE <sup>1/</sup>

by

Robert Holtz  
Secretary General  
Union internationale de l'artisanat et des petites  
et moyennes entreprises industrielles

<sup>1/</sup> The views and opinions expressed in the paper are those of the author and do not necessarily reflect the views of the Secretariat of UNIDO.

We regret that some of the pages in the microfiche copy of this report may not be up to the proper legibility standards, even though the best possible copy was used for preparing the master fiche.



CONTENTS

	<u>Page</u>
INTRODUCTION . . . . .	3
<b>PART ONE: LEASING IN FRANCE: A MEANS OF CAPITAL DEVELOPMENT AND FINANCING WHICH IS WELL-ADAPTED TO THE NEEDS OF ENTERPRISES, ESPECIALLY THOSE OF SMALL OR MEDIUM -SCALE</b>	<b>5</b>
<b>I. GENERAL DESCRIPTION OF LEASING . . . . .</b>	<b>6</b>
1. ORIGIN . . . . .	6
2. DEFINITION . . . . .	7
3. LEGAL ASPECT OF LEASING . . . . .	9
- Nature of contract . . . . .	
4. FISCAL ASPECTS OF LEASING . . . . .	10
5. FINANCIAL ASPECTS OF LEASING . . . . .	11
6. PROBLEMS OF INSURANCE IN LEASING . . . . .	15
7. ECONOMIC ASPECTS OF LEASING . . . . .	15
<b>II. OBSERVATIONS ON THE STAGE OF DEVELOPMENT REACHED BY LEASING IN FRANCE</b>	<b>16</b>
<b>I. THE LEASING SITUATION IN FRANCE AS AT JULY 1968 . . . . .</b>	<b>16</b>
A. The situation up to the Law of 2 July 1966 . . . . .	16
(1) Overall evaluation . . . . .	16
(2) How the general aspects of leasing described in Chapter I apply specifically to the situation in France	17
(3) The Law of 2 July 1966 and the present situation	18
<b>II. STRUCTURE OF LEASING COMPANIES AND PRACTICAL ARRANGEMENTS FOR CONCLUDING A LEASING CONTRACT WITH THEM</b>	<b>21</b>
A. Structure of the leasing branch . . . . .	21
B. Practical arrangements for concluding a leasing contract	21
<b>III. LEASING REAL ESTATE . . . . .</b>	<b>22</b>
A. Purpose . . . . .	22
B. Ordinance No. 67.837 of 28 September 1967 on leasing operations and real estate companies for commerce and industry (SICOMI) . . . . .	22
(1) Observations regarding the legislation . . . . .	22
(2) Example of the real estate leasing company Prêtàbail Immobilier . . . . .	23
(a) Origin, structure and advantages . . . . .	23
(b) The Ordinance of 28 September 1967	24
(i) The organization of leasing activities	24
(ii) The establishment of real estate companies for commerce and industry (SICOMI)	25
(iii) "HORIZONS '85" . . . . .	26

	<u>Page</u>
C. Practical aspects of the conclusion of a real estate leasing contract	27
IV. EVALUATION OF FRENCH EXPERIENCE OF LEASING	29
A. Total amount involved in the transactions considered	29
B. Reasons for the rapid expansion of leasing	29
 PART TWO: MUTUAL INDEMNITY FINANCING IN FRANCE	 31
I. ORIGIN . . . . .	32
A. Utilization of the Caisse Nationale des Marchés de l'Etat	32
B. The Law of 19 August 1936 and its article 8	34
(1) The text . . . . .	34
(2) Manner of intervention by the C.N.M.E. . . . .	34
(3) The rediscounting rate . . . . .	34
(4) The mutual indemnity companies . . . . .	35
(5) Arranging financing by means of mutual trade credit	37
II. THE PARTIES CONCERNED . . . . .	37
A. Position of the mutual indemnity company . . . . .	37
B. Position of the borrower . . . . .	37
(1) Legal position . . . . .	37
(2) Position from the economic and trade point of view	38
C. Position of the bank . . . . .	40
D. Intervention by the Crédit National . . . . .	40
III. CREDIT MACHINERY . . . . .	41
A. The guarantee system . . . . .	41
(1) Form . . . . .	41
(2) The guarantee fund . . . . .	41
(3) Value of the trade organization's guarantee	43
B. Loans to different categories of trade activity	43
(1) Beneficiary trades . . . . .	43
(2) Types of expenditure which can be financed . . . . .	44
(3) Total finance available . . . . .	45
(4) Duration of credit . . . . .	45
(5) Formalities to be complied with . . . . .	45
IV. EVALUATION OF THE FRENCH SYSTEM . . . . .	47
A. Scope of operations . . . . .	47
B. Value of the guarantee system which has been established	47
C. Possible improvements . . . . .	48
(1) Providing credit for commercial enterprises . . . . .	48
(2) Length of credit procedure . . . . .	49
(3) Mutual indemnity financing and long-term credit . . . . .	49
(4) Mutual indemnity financing and companies' own funds . . . . .	50

## INTRODUCTION

While almost fifteen years of efforts to find solutions to the problem of underdevelopment have not yet enabled a fully satisfactory policy to be outlined, they have nonetheless helped to bring most of the essential aspects of the problem into focus and to shed abundant light on its probable future development.

The knowledge thus accumulated makes it possible to formulate solutions, and of necessity there must be several such formulations. There are therefore no grounds for hesitation in proposing a new type of procedure, modest though it may be, if it can make a contribution to the accomplishment of the considerable amount of work which has to be done.

One of the reasons for the difficulties which are characteristic of underdevelopment is the shortage - sometimes the well-nigh total absence - of productive investments in the countries in question.

It is not the purpose of this study to go deeply into this subject, but it should be stressed - because this observation has a direct bearing on the subject of this paper - that the countries of the world are suffering from a distressing shortage of capital goods. This shortage is a factor of vital importance which is common to both the developed and the developing countries. Yet economic growth depends, as we all know, on the existence and development of the industrial sector.

There are other factors, however, which hinder the initiation or acceleration of the expansion process of developing countries, and one of these factors is the endemic lack of capital in such countries.

One of the constant concerns of the governments of developing countries is to find some way of leaving the economy sufficient of the Gross National Product to build up the capital required for the financing of productive investments by the State or community and by the private sector.

This problem raises also the question of autofinancing and measures designed to promote it. The vital importance of autofinancing is well known to governments, and

several seminars have been organized on this subject, particularly that held from 16-20 May 1967 in Barcelona.<sup>1/</sup> Reference will be made in this paper to some of the reports submitted at that Seminar.

Thus, if a solution is to be found at all, it would appear in the light of the shortage of available capital, that it should be sought by trying to find procedures (if such procedures exist) which would enable investments to be made without the need to have the entire capital available immediately.

Fortunately, there are now ways and means of solving this apparently paradoxical problem, and procedures - long proven in developed countries and recently introduced in some developing countries - have been developed which are designed, under certain conditions, to meet this need.

This indirect financing procedure, which is known as "leasing", appears to be excellently adapted to the needs of the less-developed economies. This is why a description of leasing has been selected as the first subject to be dealt with in this report.

This procedure alone cannot, however, solve all capital equipment medium-term financing problems. It is in the interests of certain enterprises which have sufficient funds of their own, and whose expansion is regular enough to justify a production equipment renewal plan that can be programmed for several years ahead, to adopt the second method of financing productive investments described in this paper, i.e., mutual indemnity loans.

In industrialized countries, mutual indemnity loans are actually the most widely used means of capital equipment financing, and leasing is only a complementary means.

The situation may be different, however, when the borrower country has not yet reached industrial maturity. Leasing, which does not call for the immediate possession of a minimum amount of capital, may be better adapted to the needs of such countries.

The main subjects which will be dealt with in this report, then, are the use of one or both of the above procedures as a means of financing, and the report has been laid out with this in mind.

The first part of the report will deal with leasing, while the second part will deal with mutual indemnity credit in France.

---

<sup>1/</sup> The Financing of Industrial Development - OECD, Barcelona, 16-20 May 1967.



**PART ONE**

**LEASING IN FRANCE: A MEANS OF CAPITAL DEVELOPMENT AND FINANCING WHICH IS WELL-ADAPTED TO THE NEEDS OF ENTERPRISES, ESPECIALLY THOSE OF SMALL OR MEDIUM-SCALE**

## I. GENERAL DESCRIPTION OF LEASING

### 1. ORIGIN

#### A. Leasing in the USA

The practice of leasing originated in the United States. It is difficult to find a French translation for the word "leasing", and suggested renderings of the term in French have ranged from "prêt-bail" (a loan under the terms of a lease) to "location-financement" (hire-financing) and "prêt-locatif" (loan-hire). As this report is also intended for distribution in English-speaking countries, however, the term "leasing" will be retained.

Eighteen years ago, leasing was devised in the United States to meet a need which was not filled by other forms of financing. The medium-term capital market was limited and poorly-organized, and fiscal legislation was very restrictive regarding investments. At the same time, however, the economy had entered a stage of expansion and provided opportunities for substantial profit margins, while technical progress made rapid renewal of equipment a necessity for industry.

This explains why the first leasing companies in the United States were subsidiaries of equipment manufacturers. Quite soon, however, it occurred to banks and financial institutions that leasing provided a means of meeting one of the needs of industrial enterprises, and independent companies were set up with the participation of the banks. The rate of growth has been quite impressive: beginning with 10 million dollars' worth of contracts in 1952, contract figures rose to 300 million dollars in 1959 and 700 million in 1961. In 1959, turnover reached about 1 billion dollars.

The expansion of leasing in the United States no doubt slowed down subsequently because the factors which originally gave rise to it disappeared, while new economic elements appeared on the market, enterprises built up their own funds, and depreciation legislation was made more flexible.

At the close of its period of initial evolution, the characteristics of leasing stood out quite clearly: leasing was a true branch of financing which could coexist in a perfectly normal manner with other forms of financing and which filled a definite gap.

Of the 800 leasing companies initially formed in the United States, there now remain only 300. This is a perfectly natural example of the phenomenon of concentration.

## B. Leasing in Europe

(1) From America, leasing spread to Europe, where it came into use successively in the United Kingdom, Germany, Italy and Belgium.

(2) In France, the first leasing company was established in April 1962. Since then, some thirty such companies have been formed, and the same phenomenon of concentration has been observed. About fifteen firms are still in operation now. The shareholders in them are banks: large credit establishments, private banks, and commercial banks; insurance companies; and finance holding companies, some of them with foreign (especially United States) participation.

The present turnover of these companies may be estimated at some 900 million francs, which is 50 per cent up on 1967. The main French leasing company, Loca-France, has a capital of 20 million francs and a turnover of 350 million francs.

## 2. DEFINITION

A. Leasing is a method of making capital goods available for medium or long terms without participation by the lessor in the running of the lessee enterprise.

Leasing involves three parties:

- An enterprise wishing to increase its means of production but wanting only to use machinery, and not to own it;
- Equipment suppliers;
- A leasing company which acquires the equipment and places it at the disposal of the lessee enterprise under a leasing contract.

The purpose of the leasing company is to purchase, for subsequent leasing, all types of French or foreign equipment, or even real estate. The contracts usually cover standard equipment which can easily be resold. Generally speaking, leasing companies prefer to sign contracts for equipment of relatively high value, but some companies, such as that set up by the Confédération Générale des Petites et Moyennes Entreprises<sup>1/</sup> (General Federation of Small and Medium-scale Enterprises) are willing to sign contracts for as little as 30,000 or even 20,000 francs in order to meet their clients' needs.

It would appear that the duration of a leasing contract should not be too limited, and in any event should not be less than three years. In most cases, a contract for less than three years could involve difficulties of execution for the lessee firm if the total sum involved was relatively high, for the enterprise would have to earn sufficiently high profits for the cost of the machine to be completely repaid out of them over one or two financial years. For this reason, it seems desirable to use a different term for the type of transaction involved when an enterprise wishes to use equipment for only a relatively short period such as one or two years. In such cases, the transaction is called "renting", which is no more than straightforward hiring, as described below.

Leasing can suit all types of enterprises, whether they be commercial, industrial, agricultural, or even those providing professional services.

B. Equipment can also be acquired through "renting", which is conventional short-term hiring of specific equipment such as railway wagons, motor vehicles, television sets or calculating machines, the maintenance and other costs of which are borne by the leasing company.

C. An interesting system which has not yet been applied in France is the "sell and leaseback" system which is widely used in the United States. Under this system, an enterprise wishing to build up its own funds sells its entire capital assets to a specialized leasing company which leases them back to it under a leasing contract.

The high transfer charges have severely hindered the development of this system in France.

---

<sup>1/</sup> 18, rue Fortunay, Paris-17<sup>ème</sup>. Telephone CAR 95-93.

### 3. LEGAL ASPECT OF LEASING

#### A. Nature of the contract

(1) The contract is equivalent to an authorization tacitly given by the lessee to the leasing company for the latter to purchase the equipment chosen by the lessee and to have it delivered to him.

The contract may or may not be accompanied by a promise to sell: at all events, the equipment is purchased by the leasing company, which places it at the disposal of its client. The leasing company retains ownership of the equipment leased and can, inter alia, amortize that equipment in its accounts. The client, for his part, is in the position of a lessee and can charge the total leasing costs to his general operating expenses.

If the contract is accompanied by a promise to sell coming into effect at the end of the leasing period, then the transaction becomes similar to a hire-purchase or deferred payment transaction. Leasing companies must, however, take the precaution of leaving their clients completely free to choose whether or not to purchase the equipment leased at the end of the leasing period.

(2) Secondly, the sale price of the equipment must be a normal price: that is to say, it must not be substantially different from the market value which could reasonably be assessed for the item in question.

In the case of the leasing company set up by the Confédération Générale des Petites et Moyennes Entreprises, this residual value does not exceed 3 per cent of the original value.

(3) Various incidents may take place in the course of the contract.

- At the very beginning of the transaction, there may be delays due to failure to meet delivery dates, failure of the equipment to conform to the specifications laid down in the contract, insolvency of the supplier, or change of mind on the part of the lessee, who may have been mistaken about the equipment he wished to lease. In the latter case, this will amount to breach of contract, and the leasing company can take action against its lessee.
- In the course of the contract, the main incidents which can happen involve relations with insurance companies, which may be insuring certain risks.

- Incidents which may lead to breaking of the contract include failure by the lessee to pay the lease charges, insolvency of the lessee or leasing company, etc.

#### 4. FISCAL ASPECTS OF LEASING

This is the field where the problems are most complex, as the government authorities have had to adapt existing legislation to the new needs of leasing.

##### A. Direct taxes

The lessee must pay tax in respect of the equipment leased, as this tax is levied in connexion with the use of equipment placed at the disposal of an enterprise. This tax has absolutely nothing to do with any notion of ownership. The rate at which it is levied varies according to the locality.

As for the leasing charges, these constitute operating expenses which can be deducted from the lessee's taxable income and charged to his operating account. As far as the leasing company is concerned, the main point of the contract is that it allows the company to charge amortization expenses in respect of the equipment leased, of which it is the actual owner.

This is where the most complex problems arise, for, depending on the legal system of amortization selected, there may be a discrepancy between the total leasing charges billed to the lessees and the total of the amortization charges.

If we take the case of the linear amortization of an item over five years, the leasing company has the right to deduct each year from its taxable income an amount equal to one-fifth of the value of the item, and if the contract is for three years, then it theoretically has the right to deduct one-third of the cost of the item each year.

It is this difference between the amortization periods which gives rise to the problem. It can readily be seen that this possibility of deducting the total cost of the item from the operating results over three years is apparently in contradiction to the minimum amortization periods laid down in the fiscal legislation, which, for this type of item, are not less than five years.

This statement, however, represents a somewhat superficial view of the question, for however matters may stand, the taxation authorities are dealing with an item of equipment which will, in fact, be amortized in accordance with the law, since the leasing company, for its part, is obliged to carry out the amortization over the legally prescribed period. It should be noted at this point that this difference in amortization periods has an influence on the cost of the transaction, for account must be taken of the immobilization of capital resulting from the difference between the legal amortization effected over five years in the accounts of the leasing company and the posting of the cost of the equipment to general operating expenses by the lessee, who will thus be able to amortize the equipment, in effect, over three years.

B. As far as indirect taxes are concerned, before the added value tax (TVA) was extended to all transactions, including services, it was necessary when working out the tax on leasing transactions to differentiate between the service tax and the added value tax, which stood at 20 per cent. It may be noted, however, that leasing companies could class themselves as "producers" for taxation purposes, thus permitting the lessees to deduct the added value tax figuring on the bills sent out by the leasing company.

In practice, the leasing company, which is the owner of the equipment, can deduct added value tax which has been levied on its investments, in accordance with common tax law. Obviously, however, these deductions are not made every time a bill is sent out in respect of leasing charges. Consequently, as already explained, there is a considerable lag in the leasing company's financial operations.

## 5. FINANCIAL ASPECTS OF LEASING

A. In order to reduce the risk that the lessee may become insolvent, certain preliminary precautions are taken. The prospective lessee must give general information on his enterprise and submit his last three balance sheets and operating accounts, together with details of all his obligations not appearing on the balance sheet. If the general impression created by the prospective lessee is not satisfactory, the leasing company may require additional security, a personal bond, a deposit representing several months of leasing payments in advance, and an undertaking on the part of the equipment supplier to take back the equipment at a prearranged rate, according to the length of time it has been used.

It is interesting, in this connexion, to see how the leasing companies obtain the capital necessary for their operations. This capital is obtained in the following ways:

- By means of guaranteed credits granted on an "operation by operation" basis after consideration of the specific contract and the solvency of the lessee. This is the commonest method in the USA. In such transactions, the banker granting the credit is subrogated to the rights of the leasing company, which can repossess the equipment in the event of insolvency of the lessee. Financing is usually granted at the rate of 80-90 per cent of the purchase price of the equipment.
- By unsecured loans from banks.
- From the leasing company's own funds (these usually account for only the smallest part of the money involved, however).

As an example, in the United States the capital borrowed can total six times the amount of the leasing companies' own funds. In France, however, the situation is different. Leasing operations are financed from the leasing companies' own funds, from loans obtained from the traditional banks, and through the rediscounting facilities offered by the five-year medium-term credits obtainable from the Crédit National.

To start with, refinancing was not permitted to exceed the total capital of the leasing company, plus the current accounts of its members. This maximum amount was subsequently doubled, however, and recently the Banque de France has authorized its tripling.

Leasing companies could no doubt turn to the money market to increase their funds, but so far only one company, Locafrance, has been able to float a public loan. There can be no doubt that the shortage of refinancing possibilities hinders the full expansion of this type of activity.



B. An enterprise needing to acquire an item of capital equipment has several alternatives open to it, the respective cost of which is worth examining.

- It can use its own funds, but this may be prejudicial to the development of its activities if it is in a stage of very active expansion.
- It can obtain a loan by way of a credit which is rediscountable at the Crédit National. In this event, the interest rate is 6.50 per cent, plus a booking commission of 1.25 per cent.
- It can turn to a specialized finance establishment.
- It can make use of the services of the mutual indemnity companies under the refinancing procedure which the Caisse Nationale des Marchés de l'Etat assists by providing its guarantee.

Detailed studies have been made to compare the cost of the various methods of financing: using own funds, obtaining loans, or leasing. Leasing appears to be more costly than financing the acquisition of capital equipment through a medium-term loan, but in evaluation of the cost much depends on the specific economic situation of the enterprise.

Without wishing to go into a mathematical description of the various methods of financing in this report, which is of a general nature, it may nevertheless be stated that leasing, although usually more costly, appears capable of favourable comparison with other means of financing.

The cost disadvantage of leasing is generally made up for by certain far from negligible advantages which derive from its intrinsic economic nature, as described below:

- The leasing charges form an item of the operating expenses account. They can be deducted from the taxable profits and constitute an item under "general expenses". This advantage is more marked in the United States, where the scales of amortization are not, as they are in France, degressive.
- Leasing preserves the independence of the lessee. It would be undesirable for all the capital equipment of an enterprise to be acquired through this method of financing, however, as they would thus remain the property of the leasing company for some time, thereby impairing the financial and technical independence of the enterprise, which would have to seek the agreement of the lessor

before being able to make desirable changes affecting the equipment. There are, however, leasing arrangements used in the United States which permit specialized leasing companies, in certain conditions, to refinance the entire overall value of an enterprise through the "sell and leaseback" procedure (see page 8 above). This system enables enterprises to find the financial resources and working capital needed to allow them to develop further.

- Leasing makes it possible to finance the entire cost of a given operation. Unlike medium-term loans, leasing does not require an enterprise to find a proportion (generally 20-25 or 30 per cent) of the total investment cost from its own funds. It thus leaves the enterprise's credit possibilities intact, as the debt contracted under the leasing arrangement does not, unlike medium or long-term loans, appear on the balance sheet. Leasing does not, therefore, hamper the borrowing capacity of the lessee. In addition, leasing is an extremely flexible procedure which allows acquisitions of equipment and arrangements for payment to be adapted to the needs of the enterprise.
- Another advantage is the speed with which a leasing transaction can be arranged. Leasing companies can make the necessary arrangements much faster than loan companies, for, as they retain ownership of the equipment, they can always repossess it if an untoward financial incident occurs.

Leasing is therefore a suitable procedure in the most varied cases:

- It is of particular interest to enterprises which have reached their loan ceiling and cannot increase their own funds
- Generally speaking, leasing appeals to enterprises which temporarily lack sufficient financial resources. It is particularly suitable for enterprises which have annual investment programmes capable of meeting a sudden need for investments without disturbing the annual budget estimates.
- Leasing is well adapted to enterprises in sectors which are expanding rapidly and have high yield rates. It is suitable for branches where new developments are frequent and technological obsolescence is an important factor.

- Leasing can, to a limited extent and in an indirect manner, facilitate the financing of export operations. An enterprise whose products have to be adapted to the requirements of the buyer countries may find it necessary to supplement its production equipment with extra machines for making the appropriate changes in the goods in question. In such a case, the required machines can be acquired outside the normal equipment acquisition programme through leasing, thus making it unnecessary for the firm to call board meetings to approve a change in the machinery purchase programme, which, in large firms, is often drawn up only once or twice a year.

## 6. PROBLEMS OF INSURANCE IN LEASING

First of all, it is worth enumerating the various long-established conventional risks against which an enterprise must insure itself: fire, electrical accidents, lightning, damage by water, explosions, and breakage of delicate and valuable machinery, together with civil responsibility risks for which insurance must in any event be taken out.

It may be assumed that the legal charge of leased equipment is generally entrusted to a lessee who is himself insured, but the leasing company must also take out civil responsibility insurance proper. The risk of fraudulent conversion of the equipment by the lessee or loss due to insolvency of the lessee are not at present insured.

As far as insurance to cover possible loss due to total stoppage of an enterprise because of an accident to the equipment is concerned, such risks are insured against in the United Kingdom and the United States through "loss of profit/standing overheads" insurance policies, but such insurance is little used in France.

In conclusion, it is frequently the custom not to grant insurance coverage except where the depreciation of the equipment does not exceed 33 per cent with respect to the new value.

## 7. ECONOMIC ASPECTS OF LEASING

Leasing is a means of supplementary financing which is within the reach of big, medium and small enterprises alike.

Leasing promotes the expansion of the means of production and enables their renewal to be speeded up. It is thus a prime mover of technical progress, the cost being based on the more or less rapid economic obsolescence of the equipment.

For developing countries, leasing can facilitate the building up of a stock of used equipment at low residual cost.

Leasing permits the lessee to free his own capital for applications which are economically more profitable.

An indirect benefit of leasing derives from the important role it can play as a sales argument to clinch the technical arguments proper advanced in favour of the equipment being sold.

## II. OBSERVATIONS ON THE STAGE OF DEVELOPMENT REACHED BY LEASING IN FRANCE

### I. THE LEASING SITUATION IN FRANCE AS AT JULY 1968

#### A. The situation up to the Law of 2 July 1966

##### (1) Overall evaluation

Leasing operations have developed rapidly in France. The large banks have entered the leasing field because they saw in it a new means of supplementing their traditional activities.

It is estimated that by the end of 1964 the total value of the contracts signed since the beginning of leasing in France amounted to 400 million francs, 200 million francs of this being accounted for by operations in 1964 alone. At the end of 1966 the total value amounted to 700 million francs.

In addition to the capital invested and the resources generated by the collection of leasing charges, it is estimated that the financing capacity of the leasing companies amounted in 1966 to something of the order of 350 million francs, which corresponds to about 1 per cent of the total investments made by French enterprises.

These figures are far from being in the same class as those for conventional financing activities, however. Compared with current leasing commitments estimated at some 600 million francs, the total medium-term credit in 1964 was evaluated by the Centrale des Risques of the Banque de France to amount to 9,180 million francs, while for the same year the total deferred payment sales of trade and industrial equipment exceeded 3,000 million francs.

(2) How the general aspects of leasing described in Chapter I apply specifically to the situation in France

In just a few years, leasing in France has gained as much momentum as it did in America in more than ten years. This rapid growth is all the more remarkable because it took place in an economic climate very different from that of the United States, where the fiscal rules regarding amortization were far from liberal. In France, on the other hand, the system of degressive amortization in force since 1959 permitted the rapid amortization of capital equipment in the first few years of its life. It should also be noted, as we have already remarked, that in the United States medium-term credits were relatively little developed, whereas in France they were easily available at moderate rates of interest.

There are other reasons lying at the origin of the development of leasing in France.

Among the reasons of a general nature may be mentioned the anxiety of some heads of businesses to strengthen their independence by finding different sources of financing, as well as the desire not to swell unduly the assets on which death duties would eventually be levied.

The real reason for using the leasing system is of a financial nature, however. This reason derives from the difficulties experienced by French enterprises in bringing their own resources up to the level desirable in order to meet the needs of their investment programmes. For such enterprises, leasing gives the financial possibility of obtaining capital equipment which is 100 per cent financed by outside capital, that is to say, by the leasing company. Leasing thus makes it easier for such enterprises to carry out certain investments, since, unlike conventional credit transactions, it makes it unnecessary for them to draw from their working capital fund a proportion (20-30 per cent) of the cost of the equipment.

In short, leasing enables enterprises to obtain financing where, because of the lack of a financial structure giving access to medium-term credit, they would otherwise be unable to do so.

(3) The Law of 2 July 1966 and the present situation

1. Description

The Law of 2 July 1966 sets out the conditions under which leasing must operate in France. To begin with, the Law gallicizes the English word "leasing" into "crédit bail". The Law places leasing companies under the provisions of the Laws of August 1941 on the organization of the various professions concerned with the distribution of credit.

Under the terms of the 1966 Law, leasing operations are defined as "operations involving the hiring out for trade purposes of capital equipment, tools or real estate specially purchased with a view to such hiring by enterprises which retain ownership of them, when such operations, however they may be called, give the lessees the possibility of acquiring all or part of the goods leased in return for an agreed price which takes account at least to some extent of the payments made in the form of leasing charges". The special nature of leasing is thus expressly acknowledged.

2. The goods concerned

It is likewise clearly stated in the Law that leasing contracts cover only goods required for the exercise of an occupation. It would therefore appear that leasing contracts cannot concern private individuals unless the latter carry on some independent activity such as a craft or one of the professions.

In addition, the Law clearly differentiates between straightforward hiring and leasing. The distinction drawn depends on the intentions of the parties when concluding the initial contract and on whether or not the lessee has the possibility of purchasing the leased equipment on the expiry of the contract.

The Law also makes it clear that not only movable goods but also real estate (provided it is for trade purposes) can be the subject of a leasing contract. This provision is important, because the possibility of carrying out leasing transactions in respect of real estate were previously disputed. Indeed, this provision still does not clear away all the difficulties encountered in connexion with leasing in this

particular field. Real estate leasing is particularly suitable for facilitating the development of industrial estates, where standardized buildings can be offered on lease.

### 3. Status of leasing companies

As far as the status of leasing companies is concerned, the legislation lays down that they must come under the Laws of 13 and 14 June 1941: that is to say, they have the choice of adopting the form of banks or that of finance establishments, and must therefore in either event come under the supervision of the Conseil National du Crédit.

The leasing companies already in existence when the 1966 Law was passed had to make known their decision before 31 December 1966, and they all chose the status of finance establishments.

While this status imposes certain obligations on the companies adopting it, it also brings certain advantages. Thus, if they declare their current total risks to the Banque de France, they receive in return the right of access to information accumulated by the Centrale des Risques regarding their own clients. Moreover, their status as finance establishments makes it easier for them to obtain finance themselves, as it gives them access to the money market and makes it possible for them to receive funds from the public.

### 4. Refinancing

In accordance with the recommendations of the Fifth Plan, the Crédit National has recently widened the borrowing limits which it had set for leasing companies, so as to be able to continue to give them its assistance.

Leasing companies can now obtain credit of up to three times the total amount of their own funds, instead of twice this total. This considerable widening of their credit possibilities will enable leasing companies to develop their operations without the risk of finding themselves overcapitalized.

### 5. The fiscal aspect

There remains the fiscal problem, which is one of the most difficult problems the leasing companies have had to face. As they are the owners of the equipment which they purchase, they must pay added value tax (TVA) on it. As far as the leasing charges with which they bill their clients are concerned, the leasing

companies had the choice of applying the service tax (TPS) or the added value (TVA). Except for the leasing companies which only finance transport equipment, however, all the companies chose to apply the added value tax, thus enabling themselves to recover the added value tax levied on their purchases of equipment by charging it as part of the added value tax billed to their clients in respect of the leasing charges.

Because of the rules governing the deduction of added value tax, however, this procedure does not allow the leasing companies to recover the total deductible taxes paid in connexion with the purchase of equipment, as a firm classed as an industrial producing enterprise for tax purposes could. The leasing companies can only charge up the tax already paid in proportion as the added value tax billed on the total leasing charges is paid, so that in the case of an isolated five-year contract recovery of the tax is spread over about four years.

This state of affairs obliges the leasing companies to finance the tax during the time it has not been recovered, thus significantly increasing the cost of the operation to the detriment of the lessees and, at the same time, cutting down the investment capacity of the leasing companies to a considerable extent.

In order to overcome this unfavourable situation, it has been proposed that leasing companies could transfer to the lessees - who are themselves subject to the added value tax - the right of recovering the tax levied on the original purchase price of the leased equipment. The idea would be that the lessees would recover the tax in accordance with the tax deduction rules applicable to their individual cases and would then pay it back to the leasing company, which would thus become fiscally "transparent" and, while still having, so to speak, to advance the amount of the added value tax, would only have to do so for a relatively short period.

The whole matter is extremely complicated, however, and it is not easy to find a solution which is satisfactory to all parties as well as to the taxation authorities.

The leasing companies are also affected by the added value tax reform scheduled to come into force on 1 January 1968. This reform provides for the reduction of the added value tax on capital equipment from 20 to  $16\frac{2}{3}$  per cent. This tax reduction, as explained above, is very important for the leasing companies and their clients, as it will reduce their tax expenses. One problem remains unsolved, however. This is the problem of the transitional period. If, from 1 January 1968 onwards, the leasing



companies can only recover at the new rate of 16<sup>2</sup>/<sub>3</sub> per cent the added value tax already paid by them at the old rate up to 31 December 1967, they will have to bear a considerable and unjustified loss. It is likely, however, that a solution will be found for this difficulty, which is not confined to leasing companies and their clients.

## II. STRUCTURE OF LEASING COMPANIES AND PRACTICAL ARRANGEMENTS FOR CONCLUDING A LEASING CONTRACT WITH THEM

### A. Structure of the leasing branch

Over a period of four years, some thirty leasing companies were set up in France. As we have already seen, in 1964 these companies had a turnover of the order of 300 million francs, which represents only 1 per cent of the total French investments over the same period but which is nevertheless a by no means negligible figure, especially when it is borne in mind that the first French leasing companies only began operations in 1962. Generally speaking, foreign participation (mainly American) in French leasing companies is still quite limited and represents only about 20 per cent of the total capital of these companies.

Since 1962 numerous mergers have taken place, so that there are now only about fifteen French leasing companies.

### B. Practical arrangements for concluding a leasing contract

Companies interested in arranging a leasing contract can proceed in the following manner.

Firstly, the selection of the equipment is the responsibility of the prospective lessee. Leasing companies are not consulting engineers, and provide no technical advice.

Only after contact with the equipment manufacturer is well established will it be necessary to inform him that the contract is to be negotiated through a leasing company.

The leasing company will request a number of documents, balance sheets, operating figures and profit-and-loss accounts for the last three financial years, a pro-forma invoice for the equipment, and a technical memorandum giving the details of the equipment and specifying the conditions in which it is to be used.

The leasing contract, which is rarely for a period of more than five or six years, may provide for progressively decreasing charges or a continuous flat-rate leasing charge. The length of the lease generally coincides with the amortization period allowed by the taxation authorities.

At the end of the leasing period, three possible options may be open to the lessee:

- To gain full ownership of the equipment by paying a price laid down in the leasing contract, this price generally representing one additional yearly leasing charge in the case of a flat-rate lease;
- To return the equipment to the leasing company; or
- To retain the equipment by concluding a new lease for the residual period at a very low rate. At the end of the residual period, full ownership of the equipment may be transferred to the lessee for a nominal sum.

### III. LEASING REAL ESTATE

Leasing companies have made efforts to extend their activities to additional services.

#### A. Purpose

This method is particularly suitable for facilitating the development of industrial estates, where standardized buildings can be offered for rent.

Some companies may rent "turnkey" factories built and fitted out in accordance with the lessee's plans.

#### B. Ordinance No. 67.837 of 28 September 1967 on leasing operations and real estate companies for commerce and industry (SICOMI)

##### (1) Observations regarding the legislation

The fact that French enterprises have found it necessary to increase considerably their expenditure on scientific or technical research and market research, especially on foreign markets, has caused them to have recourse to the new financing procedures provided by leasing and industrial renting in order to obtain the necessary installations and capital equipment.

At first, leasing was confined to the provision of tools and movable equipment for enterprises, but it has now been extended to cover the provision of buildings for industrial or commercial use.

Such extension is very desirable, in view of the need for decentralization and physical planning, but real estate leasing cannot usefully develop in the absence of a suitable legal and fiscal background. The Ordinance in question is therefore intended, on the one hand, to lay down the conditions for real estate leasing transactions, especially with respect to the supervision to be exercised over companies taking part in such activity, and, on the other hand, to confer a special fiscal status on companies specializing in the leasing of real estate for industrial or commercial purposes.

(2) Example of the real estate leasing company Prêtàbail Immobilier

(a) Origin, structure and advantages

The 1967 Ordinance affects, inter alia, the activities of the real estate leasing company Prêtàbail Immobilier, the origins of which go back to 1965, when some fifty heads of enterprises, many of them members of the Centre des Jeunes Patrons (Young Industrialists' Centre), founded under the name Prêtàbail a co-operative company designed to facilitate the financing of their production facilities, equipment and premises through the leasing procedure.

Prêtàbail was envisaged as a service company designed to relieve its members of the trouble of buying, financing, insuring, maintaining and replacing their industrial equipment and premises, in return for payment of a rental, with possible subsequent accession to ownership. The co-operative form was adopted for the company in order to provide its members with a guarantee of service at cost price. In 1965, a survey of 12,000 enterprises with more than 50 employees revealed that over 600 of them, with a total annual turnover of 10 billion francs, intended to invest a total of almost 1.7 billion francs in real estate before the end of 1968.

In the light of this need, the member enterprises of Prêtàbail founded a company called Prêtàbail Immobilier for national-scale dealings in land and buildings. Prêtàbail Immobilier proposes to raise its capital by direct invitation to savers or through investment systems such as, in particular, those of the Banques Populaires.

Investors thus become co-owners of the entire holdings of industrial premises belonging to Prêtàbail Immobilier and share the total income derived from the leasing of factories, shops and offices to the member enterprises of Prêtàbail.

Apart from its membership contribution to Prêtàbail ( $\frac{1}{1,000}$  of its capital) and the purchase of the ground, a member enterprise needs no further finance in order to put up buildings. The rent it pays is set at a reasonable level. Of the 10 per cent of the total invested capital which Prêtàbail charges as rent, 7 per cent is paid to the shareholders and the other 3 per cent are used to cover overheads and to amortize the buildings constructed, which cease to form part of its holdings after 30 years. In actual fact, with an interest rate of 8 per cent it is necessary to set aside 1.1 per cent per year in order to arrive at a total of over 100 per cent in 30 years.

The advantages for investors in Prêtàbail Immobilier are considerable. The return on investments is high, as the rate of interest is 7 per cent net. Safety of investments is ensured by the fact that the money is placed in conventional industrial buildings, while the fixing of rents in accordance with the law governing commercial leases is also a safety factor for the investor. Another advantage is the liquidity of the investments: an investor can easily dispose of his shares in Prêtàbail Immobilier if he wishes to resell his building.

Lastly, the tax situation is very favourable, since Prêtàbail Immobilier, as a non-commercial company, is exempt from company tax.

(b) The Ordinance of 28 September 1967

This redefines the status of leasing companies, with special references to the following points:

(i) The organization of leasing activities

The Ordinance distinguishes between the leasing of equipment and that of real estate, and covers, as far as the latter is concerned, all the procedures at present used.

It thus fills the gap left open by the Law of June 1941 by laying down that a financial establishment must take the form of a commercial company, but at the same time it provides, as we shall see below, for exemption from company tax.

It introduces a special exception to the Law of 1965 on commercial leases in respect of the provision for termination after three years to the benefit of the lessee, although it retains the provision that a leasing contract must, on pain of nullity, contain a clause providing for possible termination.

Finally, the Ordinance removes the major obstacle of transfer duties by introducing the following amendments:

- At the beginning of a transaction, total exemption from transfer duties (16 per cent) is granted in respect of the purchase of ground from the lessee by the leasing company. In the case of assignment of ground, the only duties involved are a single payment of a fixed tax of 50 francs. Only the purchase of land from a third party remains subject to normal transfer duties.
- At the end of the transaction, the sale of the industrial premises by the leasing company to the lessee is taxed at the rate of 4.20 per cent, but this is only charged on the residual value, taking into account the rent already paid, and as this rent has been so calculated as to cover amortization of the premises, the residual value generally only amounts in practice to one franc.
- At a later date, a decree will lay down arrangements for the transfer, as of the first rental payment, of the entire added value tax accumulated by the leasing companies, thus bringing about a significant reduction in rents, while another decree will lay down regulations for the effective legal publication of leasing transactions.

(ii) The establishment of real estate companies for commerce and industry (SICOMI)

There remained a need to organize and place on an official basis the collection of public savings by leasing companies.

This was the reason for the establishment of the real estate companies for commerce and industry (SICOMI), which are similar to the real estate investment companies set up to finance housing construction.

The tax incentives decided upon are the levying of a fixed tax instead of a proportional tax on transfers of money or concrete assets, and exemption from company tax in respect of that part of the companies' profits deriving from the renting of commercial or industrial premises or profits from sales of property (where the premises are sold as part of a leasing contract).

Although such incentives do not extend down (as in real estate investment companies) to the level of the savers themselves, they are nevertheless sufficient to increase public interest in this new and original form of investment.

(iii) "HORIZONS '85"

In its "thoughts for 1985", the study group led by Mr. Pierre Guillaumat stressed that as many new factories, offices and shopping centres must be built in France by 1985 as are already in existence now. There can be no doubt that, without real estate leasing, such doubling of premises over a period of 17 years would be very difficult to achieve, yet economic expansion, physical planning and decentralization are all dependent on it.

It is not only industry and commerce which are affected by this, for agriculture (agricultural buildings), tourism (construction of yacht harbours, etc.) and social projects (holiday villages, for example) could also benefit from real estate leasing.

In the near future, SICOMI shares may be distributed through the banking network, purchased by insurance companies or pension funds, or even issued to staff under "workers' participation" schemes, and it may become the practice, as in America, to use the leaseback system, whereby an industrialist sells his factory to a leasing company, which then leases it back to him.

The Prêtàbail Immobilier group, for its part, has not waited for all obstacles to be cleared away before embarking on concrete projects. The Cullant factory at Theil-sur-Huisne (Orne), the Albert clothing factory at Herbiers (Vendée), the giant "Record" supermarket belonging to Grands Magasins Decré which has been built near Nantes, the large "Quimo" store belonging to Ets. Berton & Sicard at Cavaillon, and the Flambo factory at Vierzon are all examples of its dynamic activity, and further large programmes are being launched.

The way ahead is now clearly defined: real estate leasing can give our economy a beneficial fillip which will increase its competitiveness for the inception, from 1 July 1968, of the great European trading adventure initiated by the definitive application of the customs and quota abolition clauses of the Treaty of Rome. As of 1 July 1968, all goods circulating between the members of the European Communities will be exempt from national customs duties, although they will continue to be subject to indirect taxes which will gradually be unified on the basis of a uniform European add value tax system.

C. Practical aspects of the conclusion of a real estate leasing contract

When a real estate leasing contract is envisaged, the real estate leasing company and the prospective lessee set up a joint non-commercial company with a capital of, say, 5,000 francs, of which the leasing company subscribes 10 per cent, or 500 francs.

The real estate leasing company then gives the prospective lessee or persons designated by him the option of buying at par, after reimbursement of loans, its shares in the non-commercial company. The leasing company buys the land and constructs the buildings through the non-commercial company in accordance with the wishes of the prospective lessee, who is responsible for the work carried out and undertakes to rent the buildings constructed. In order to pay for this work, the non-commercial company receives the following finance:

- A long-term loan from the loan funds of a finance company which amounts to 75 per cent net (i.e., about 80 per cent gross) of the project costs, consisting of the cost of the ground, including charges, the estimated cost of the buildings, free of taxes, and the charges and expenses arising during construction, estimated as a lump sum of this total. The prospective lessee must give a guarantee to reimburse this loan;
- A medium-term loan for the recoverable added value tax (this may amount to 14 per cent of the net cost of the premises);
- If applicable, the installation allowance (in development areas). The loan from the Regional Development Company<sup>1/</sup> and the loan from the lessee himself (see below) will automatically be reduced by the amount of this allowance;
- To cover the remainder of the cost, a loan from the lessee himself, the amount of which will depend on the two loans mentioned above and will be adjusted to match the actual cost of the work done. This loan carries interest at the maximum legal rate for a second-line loan.

---

<sup>1/</sup> Regional Development Companies were set up in France in order to provide means of finance for expanding regional enterprises.

On completion of the buildings, the non-commercial company leases them to the prospective lessee for a period of 18 years.

The rent, which is payable yearly one month before the Regional Development Company loan payment falls due (unless instalments of the interest on the medium-term loan have to be paid), is made up of the following elements:

- The 15 annual instalments payable in respect of the long-term loan (each representing about 12.5 per cent of the nett Regional Development Company loan for the first 8 years, and then 11 per cent thereafter);
- Interest on the medium-term loan (the principal of which will be repaid through recovery of the added value tax paid on the rent);
- A management commission of 0.2 per cent per year of the total project cost, payable to the leasing company;
- If applicable, interest on the second-line loan made by the lessee (this interest is returned to the lessee), so as to speed up reimbursement of the added value tax;
- Where an installation allowance has been obtained, tax payable by the non-commercial company on the industrial and commercial profits made;
- Management expenses incurred by the non-commercial company.

The total rent charged is so calculated that the non-commercial company makes practically no accounting profit or loss.

The total leasing charges comprise the taxes payable in respect of the premises rented, the rent itself, and the various ordinary expenses incurred in respect of leased property (insurance, municipal taxes, etc.).

During the sixteenth year of leasing (if the rent has been normally paid) the lessee can purchase the leasing company's shares at their nominal value or have them purchased on his behalf.

It may be of interest to give an example of the approximate cost of a typical leasing operation. Thus, for premises costing 1 million francs, taxes not included, the rent will be as follows (total amount paid by the non-commercial real estate company):



	When no installation allowance is granted:	When an installation allowance of 200,000 francs (20 per cent) is granted:
	Regional Development Company loan of 750,000 francs net; Lessee's contribution 250,000 francs	Regional Development Company loan of 650,000 francs net; Lessee's contribution 150,000 francs
1st to 8th year	100,000	85,000
9th to 15th year	80,000	70,000
Thereafter	0	

#### 4. EVALUATION OF FRENCH EXPERIENCE OF LEASING

##### A. Total amount involved in the transactions considered

The progress made by leasing in France has been such that in 1967 the total value of leasing contracts signed since the inception of the practice came to 1.4 billion francs. The figure was 900 million francs in 1967, 1.3 billion francs in 1968, and there is every reason to expect that in 1969 total leasing commitments will be close to 2 billion francs. The rate of growth is thus of the order of 50 per cent per year.

This turnover is achieved by a total of 31 leasing companies, 75-80 per cent of the turnover being accounted for by only four companies. These figures concern only equipment leasing, and do not cover real estate leasing.

Leasing at present accounts for 10 per cent of total credit sales of capital equipment.

##### B. Reasons for the rapid expansion of leasing

(1) One of the reasons for the rapid development of leasing is the fact that leasing companies are closer to the lessees and are more closely associated with the lessee enterprises' growth than the companies which provide credit proper. This stems directly from the nature of leasing, which enables the lessee enterprise to incorporate the leasing charges directly in its production costs.

There are therefore still considerable possibilities of expansion for this type of financing.

(2) Another reason for the rapid growth of leasing is the greater freedom which it enjoys, its procedures being simpler and more flexible than those of medium-term credit.

(3) Miscellaneous observations

Experience shows that the actual amortization periods applied by enterprises holding leasing contracts are very close to the amortization periods laid down by tax legislation. This fact has also been noted in the United States.

This tendency for the contract amortization period to coincide with the fiscal amortization period shows that the undeniable fiscal advantage resulting from the enterprise's ability to amortize a machine over a shorter period than that laid down by the tax legislation, because the leasing contract may be shorter than that period, is actually of only secondary value in the eyes of many lessees.

It is to be deduced from this that, quite apart from any fiscal considerations, the whole concept of leasing as against other forms of financing such as conventional credit is in close conformity with the real needs of enterprises.

It should be noted that there is a trend in tax legislation towards ceasing to permit the premature amortization theoretically made a legal possibility by short leasing contracts. In the end, as is already the case in the United States and as will henceforth also be the case in France, taxation authorities prohibit the introduction, through the signing of short contracts, of any disparity between the legal amortization period and the actual amortization period.

(4) Attention ought perhaps to be drawn to a difficulty which may be even more important in developing countries than in industrialized lands. This difficulty arises from the fact that it is often hard to collect sufficient capital in countries where leasing companies are set up.

If the country in question does not have a financial market which is sufficiently well provided with capital, serious problems of financing the extension of the leasing] company's activities may soon arise.

For this reason, measures to allow leasing companies set up in developing countries to benefit from special financing procedures analogous to the buyer credit system which exists in France would do much to facilitate the development of leasing companies in developing countries.

**PART TWO**

**MUTUAL INDEMNITY FINANCING IN FRANCE**

In its present form, mutual trade credit is a recent form of financing. It owes its establishment to the considerable requirements for capital equipment which arose in French industry immediately after the war and which could not be satisfied through traditional financing procedures.

## I. ORIGIN

### A. Utilization of the Caisse Nationale des Marchés de l'Etat

Before 1959, heads of enterprises hardly followed any systematic investment policy: no doubt they saw no reason to do so, as they were generally little troubled by foreign competition. In some sectors, such as machine tools, the production equipment was at least 25 years old. After the 1939-1945 war, the traditional financing procedures such as loans, increases in capital or bond issues were not always suitable for dealing with investments which were to be amortized over short periods of time, although a decisive step forward in the organization of arrangements for easily mobilized credit had been taken as long ago as 1937, when it was laid down that bills held by the Caisse des Dépôts in respect of medium-term credits advanced by the Caisse to banks could henceforth be assigned to the Banque de France if they bore four signatures: those of the drawer, the discounting bank, the Caisse Nationale des Marchés de l'Etat and a second bank subsequently replaced by the Crédit National. These arrangements made it possible, through the transposition of short-term credit techniques, to use the resources of the money market for relatively long-duration operations.

The introduction of these procedures did not provide a satisfactory solution for financing problems in every case, however. Thus, small and medium-sized enterprises in particular still experienced difficulties in obtaining medium-term loans from their bankers, despite the mobilization possibilities offered.

Moreover, lenders had only limited confidence in businesses whose situation, even though it might be sound, did not appear to them to warrant the granting of long-term assistance and whose extent was too limited to give any grounds for envisaging the granting of fairly large loans.

In order to remedy this state of affairs, which was in danger of hindering the economic development of the country, the authorities asked the "Caisse Nationale des Marchés de l'Etat, des Collectivités et Etablissements"<sup>1/</sup> to facilitate the granting of medium-term equipment purchase loans to small- and medium scale industrial enterprises by giving its endorsement.

The C.N.M.E. thus provided the banks with guarantees and mobilization opportunities without this new activity making necessary any modification in its own articles of establishment. Indeed, the hitherto little-used article 8 of the Law of 19 August 1936 establishing the C.N.M.E. provided for the C.N.M.E.'s intervention in cases where it was itself covered by security provided by a body instituting adequate mutual guarantees between the members of a single trade or business sector. For its mutual trade equipment loans, then, the C.N.M.E. adopted the principle of mutuality which had first been applied in credit matters almost a century before, when the German financiers Schulze and Raiffeisen set up, towards 1850, their first mutual co-operative credit fund.

Subsequently, the same principle inspired the establishment in France of the various Caisses de Crédit Agricole, the Banques Populaires, and the Sociétés de Caution Mutuelle, the legal status of which was defined by the Law of 13 March 1917. These mutual indemnity companies and other mutual indemnity establishments governed by common law multiplied after the introduction in 1945 of mutual trade equipment loans. These companies give the C.N.M.E. the mutual trade indemnity required under article 8 by arranging among the members of a given trade, business or profession a joint responsibility which is limited, for beneficiaries, to a certain percentage of the credit obtained.

They also play an important part in the distribution and application of these loans.

---

<sup>1/</sup> Henceforth referred to by the initials C.N.M.E.

B. The Law of 19 August 1936 and its article 8

(1) The text

The basic trade credit legislation consists of article 8 of the Law of 19 August 1936 laying down the articles of establishment of the C.N.M.E. This article permits operations to be accompanied by a limited joint responsibility guarantee established by the users. Regulations laying down the procedures to be followed in operations involving the various trades were established in pursuance of this article. As originally worded, article 8 read as follows: "The Caisse Nationale des Marchés de l'Etat can also take action to grant loans when a guarantee from a body which has instituted an adequate mutual guarantee among the members of a given branch of industry is provided". These provisions were supplemented or modified by article 45 of the Law of 7 February 1953 and article 1 of the decree of 20 May 1955, which empowers the C.N.M.E., when it is provided with a guarantee from inter-trade indemnity bodies or trade security associations, to provide assistance to the members of one or more branches of trade or industry operating under the jurisdiction of a given Chamber of Commerce subject to an adequate mutual guarantee being arranged.

(2) Manner of intervention by the C.N.M.E.

The C.N.M.E. operates by endorsing bills issued by loan recipients in favour of their bankers.

These bills, which are issued for periods of three months, are renewable until final expiry (maximum term - 5 years). During the period of grace, the bills are renewed for their full amount. Thereafter, they are reduced at each renewal by the total amount of amortization. These bills are rediscountable at the establishment where they were originally issued. As already stated, the four signatures required by the Banque de France to make the bills eligible for rediscounting are those of: the loan beneficiary, the C.N.M.E., the discounting banker and the Crédit National. In most cases, the C.N.M.E. gives an unconditional endorsement, but sometimes it asks the bankers to take some of the risk of the operation. When it does so, it gives its own conditional endorsement for this portion of the loan, thus making possible rediscounting.

(3) The rediscounting rate

The C.N.M.E.'s fee has always represented only a tiny part of the cost of the credit operations. It depends on the discount rate fixed by the Banque de France.

Taking as a basis the discount rate in effect in France before the events of May 1968, the following table of costs may be given:

	Unconditional endorsement	Conditional endorsement
	per cent	per cent
Discount rate	3.50	3.50
Bank commission <sup>1/</sup>	0.90	1.65
	<hr/> 4.40	<hr/> 5.15
<u>Crédit National</u>	0.25	0.25
C.N.M.E. - Booking	0.20	0.10
- Utilization	0.80	0.15
	<hr/> 5.65	<hr/> 5.65
Total		

<sup>1/</sup> The rates given above for bank commission are only for rough guidance.

The commissions charged by the C.N.M.E. and the Crédit National are calculated for the entire duration of the loan, bearing in mind the scheduled amortization. They are collected as a lump sum from the proceeds of the discounting of the first bill, together with the subscription to the capital of the mutual indemnity company and the payment into the guarantee fund. The management fees charged by the mutual indemnity companies generally amount to 0.60 per cent per year of the total loans. Interest and bank charges are payable, in principle, on issue of each bill.

(4) The mutual indemnity companies

It was the idea of homogeneous branches of industries which was at the origin of the system of mutual indemnity. On the basis of this, the C.N.M.E. advocated the establishment of mutual indemnity companies uniting all their shareholders under a special clause of the loan contracts.

Each member enterprise of a mutual indemnity company had to subscribe a number of shares in proportion to the total amount of its contract and to pay up one-third of

them in full. Each enterprise also undertook to agree to a deduction of 4 per cent of the total order from the first payments, the proceeds being paid into a current account opened in its name in the books of the mutual indemnity company. If one of its clients became insolvent, the C.N.M.E. would be reimbursed out of the capital and reserves of the mutual indemnity company for the advances it had made. If its own resources proved to be insufficient, the mutual indemnity company would then automatically turn part of the deposits in the current accounts of its members into available capital. The aim of these arrangements was to avoid over-capitalizing the companies at the outset. In order for the system to function, it was also necessary that the branch of industry involved should wish to modernize itself and should occupy an important position in the economic activity of the country. Its members would also have to be sufficiently numerous and share the market in a sufficiently balanced manner to give adequate value to their guarantee.

After obtaining the agreement of the Government authorities to this principle of financing, the competent representatives of the industrial branches worked out with the management of the C.N.M.E. the conditions for the latter's collaboration and assistance.

These conditions are laid down in a set of regulations defining the general rules concerning the granting of individual loans to representatives of a given branch of industry or several connected branches.

The relationship between the C.N.M.E. and the mutual indemnity companies is defined in a protocol established for each individual company. These protocols usually have a dozen articles dealing, inter alia, with the object of the whole operation; the role, competence and obligations of the mutual indemnity company; the conditions on which loans are to be granted and the obligations of borrowers; the extent of the mutual guarantee, and the role of the C.N.M.E. The parties concerned by these regulations, apart from the C.N.M.E., are the mutual indemnity company, the borrower, and his banker.

Some 103 protocols were established between 1944 and 1963, and the majority of them are still in force.



(5) Arranging financing by means of mutual trade credit

Each request for financing is set out in a dossier prepared by the prospective borrower and sent by him through his usual banker to the appropriate mutual indemnity company.

The Technical Committee of the latter considers the dossier and, if its decision is positive, transmits the dossier to the C.N.M.E., which has the last word on the acceptance of the request and the granting of credit.

This procedure has three advantages: it preserves the individual character of the loan request, although the transaction is carried out on a collective basis; the evaluation of loan requests made by a prospective borrower's colleagues in his branch of industry increases the reliability of the selection made on behalf of the lenders of the money by the C.N.M.E.; and even when the credit has finally been granted its utilization is strictly controlled. As this supervision of the utilization of the money is carried out by a public body which is above all banking competition, it ensures that the bills issued to cover the advance granted by the banker will not be used to pay for expenses other than those specified in the notification of granting of credit.

## II. THE PARTIES CONCERNED

### A. Position of the mutual indemnity company

This position is similar in some respects to that of trade unions discussing a collective agreement, in the sense that in both cases the rules adopted by the parties serve as a basis for the establishment of contracts (for the granting of loans or concerning labour contracts) which are later concluded on an individual basis with persons in the trades or branches of industry in question.

### B. Position of the borrower

#### (1) Legal position

Unless the borrower is representing the whole of his branch of industry, he is not a party to the drafting of the regulations. He must accept or reject all the clauses of all the regulations en bloc. The protocol is thus in the nature of a membership contract whose conditions must be known in advance to the borrower when he makes his application.

When the C.N.M.E. refuses to grant a loan, the contract is null and void, as it also is when the borrower abandons his loan application himself and draws no money which may have been granted to him. Loan authorizations which are not taken up within six months of lapse unless the borrower makes an express request for them to be extended.

(2) Position from the economic and trade point of view

The borrowers are industrial, commercial or artisanal enterprises whose applications for loans are made to mutual indemnity companies which may cover one or several industries, trades or professions.

(a) The C.N.M.E. normally intervenes within the framework of prospective borrowers' trade organizations. This system of organizations is very complicated, however, by reason of the wide diversity of branches of activity and the multiplicity of professional groupings with which enterprises are connected.

It is not always easy to define as precisely as might be desired the field of operation of all the mutual indemnity companies working with the C.N.M.E. At present, there are 23 mutual indemnity companies for industry, 23 for commerce, 5 for the transport industry, 5 for building and civil engineering, 7 for the professions, and 3 for companies whose activities cover more than one sector.

Generally speaking, the C.N.M.E. has followed the principle that each company should have competence for the whole of the country. It has therefore never applied the provisions in article 8 permitting it to carry out inter-trade operations within the framework of a particular Chamber of Commerce. It was considered that a Chamber of Commerce would not have sufficiently wide territorial coverage, and the evaluations of loan application files made by the Credit Committees of such Chambers might not always be equally impartial.

Operations are therefore conducted, in principle, on the basis of an entire branch of industry or an entire profession. It is logical to assume that trade colleagues are more familiar with the difficulties of enterprises in their sector than outsiders and are better qualified to judge the chances of success of a financing programme. The C.N.M.E. considers that despite the diversity of individual cases, problems connected with equipment programmes can be settled more easily and

investigated more fully through an organization with nation-wide ramifications and reliable correspondents in the provinces.

(b) This does not rule out, however, the possibility of mutual indemnity companies covering several trades or branches. There are several examples of such companies. Such operations were only undertaken with considerable caution, after the C.N.M.E. had gained ample experience of intervention procedures and relations with the mutual indemnity companies. Such inter-branch companies can be placed in two categories:

- Those whose objective is to facilitate certain investments of a given nature, whatever the branch of industry concerned, as in the case of the SOMEX company, which is a mutual indemnity company concerned with heating equipment, dealing both with enterprises interested in the re-equipment or conversion of their heating plant and with equipment for use in housing or office buildings;
- Companies of a multi-branch nature whose members are enterprises in various branches all attached to a trade organization which is itself of a multi-branch nature.

Examples of this are the Confédération Générale de l'Alimentation (General Federation for the Food Industry) and the Confédération Générale des Petites et Moyennes Entreprises (General Federation of Small and Medium-scale Enterprises).

The two mutual indemnity companies set up under the latter's auspices, namely, the SOCOMID (Société de Caution Mutuelle des Industries Diverses - Mutual Indemnity Company for Miscellaneous Industries) and the SOCOD (Société de Caution Mutuelle des Commerces Divers - Mutual Indemnity Company for Miscellaneous Businesses), are open to any industrial or commercial enterprise which does not have access to an existing mutual indemnity company.

This fills a gap which prevented certain important sectors of industry and commerce from gaining access to trade credit arrangements because they did not have independent financing bodies.

Another example of a broad-spectrum indemnity company is the SIAG (Société Inter-professionnelle Artisanale de Garantie - Inter-trade Artisans' Guarantee Company), which covers the need of all artisans, whatever their specific trade.

C. Position of the bank

The execution of a mutual credit operation is only possible if the bank agrees to discount the bills until their final expiry and also, where applicable, agrees to bear some risk itself in the operation. It must therefore give its agreement before the C.N.M.E. can give its own decision, even if the bank's role is only to discount the bills until their expiry.

From the point of view of the spreading of risk, the protocols provide for three possibilities:

- Operations where the C.N.M.E. takes the whole risk and the bank confines its role to discounting: this is the normal rule for the financing of industrial business;
- Operations where the risk is shared, the bank taking half the risk: this is the procedure adopted for the financing of most commercial and artisanal enterprises;
- Operations where the bank takes the whole risk: in the case of this type of procedure, which is applied to the liberal professions, the guarantees do not benefit the C.N.M.E. unless, in the event of double insolvency of the banker and the borrower, it has to make up the funds in place of them after exhaustion of the guarantee fund.

D. Intervention by the Crédit National

Initially, it was arranged that a pool of banks should be established, with a designated representative bank, specified in the protocols, which would undertake to discount bills on their behalf. This practice was very quickly abandoned, however, because it contravened the principle of free choice of banker. The Crédit National then decided to take over this function itself, together with that of re-discounting agent to the Banque de France: the mutual indemnity companies represent the borrowers in dealings with the C.N.M.E. and provide the necessary liaison with the banking establishments. The mutual indemnity companies are actually commercial companies with dual responsibilities: those of evaluating the loan request dossiers from the technical point of view and guaranteeing each individual loan. Altogether, there are at present 350 short- or medium-credit organizations operating on a more or less substantial scale.

Out of this total, 103 were founded or promoted by the C.N.M.E. After a number of regroupings, 64 such organizations are still carrying on medium-term credit operations under the terms of the protocols referred to earlier. Generally speaking, it is the most dynamic personalities in each profession who take the initiative over approaches to the Government, the monetary authorities and the C.N.M.E. with a view to obtaining the agreement of the various bodies regarding the establishment of a mutual indemnity organization.

The C.N.M.E. leaves promoters free to give the organizations they are setting up any form they consider suitable. The organizations may thus take the form of a mutual indemnity company under the terms of the Law of 13 March 1917, a limited company (with or without variable capital) under the Law of 24 July 1867, or a trade association under the provisions of the Law of 17 November 1943.

### III. CREDIT MACHINERY

#### A. The guarantee system

##### (1) Form

As already stated, the novel feature of intervention under article 8 of the Law of 19 August 1936 lies in the fact that such intervention takes place under the protection of the security provided by the trade organization, which is responsible for evaluating the loan request dossiers transmitted to the C.N.M.E., and the coverage of a guarantee fund maintained by the borrowers. For the lenders, this double guarantee forms an appreciable security element.

This guarantee takes the form of the personal and joint security provided by the trade organization in respect of its members' obligations to the C.N.M.E. and, where applicable, their obligations - guaranteed by the C.N.M.E. - to banks freely chosen by them.

##### (2) The guarantee fund

This fund reinforces the security value of the guarantee provided by the trade organization, which only comes into the reckoning after the guarantee fund itself has been exhausted.

(a) Legal nature of the guarantee fund

From the point of view of French law, the guarantee fund constitutes an "irregular deposit" in the sense that the payment made by the borrower leaves his ownership and enters that of the depositary, in this case the C.N.M.E.

(b) Establishment of the guarantee fund

The guarantee fund is maintained by payments from borrowers at the rate of a certain percentage of the loans used. This percentage, which varies for the different professions or industries, is always specified in the protocols, and is determined by the C.N.M.E. on the basis of the assumed risk of financing operations.

For most mutual indemnity companies, the rate of payment into the guarantee fund averages 5 or 6 per cent of the total credits used.

In quite a large number of cases, especially in the early years of the mutual indemnity companies' operations, this contribution had to be paid immediately in full. Later, however, mainly from 1960 onwards, the C.N.M.E. agreed, in the light of the favourable development of trade credit and at the request of several trade branches, to reduce the amount which had to be paid immediately, on the understanding that supplementary payments could be claimed from those concerned if, as a result of insolvencies, the guarantee fund fell below a certain level of current credit. It should be noted that so far it has not been necessary to demand any supplementary payments, as the guarantee funds have proved adequate. Some mutual indemnity companies have banded together in order to guarantee such supplementary payments. Thus, five such companies have made arrangements to secure assistance from a "Caisse de Garantie du Crédit Mutuel" (Mutual Credit Guarantee Fund).

(c) Joint responsibility and reimbursement of the guarantee fund

The guarantee fund has collective responsibility towards all the borrowers whose contributions have not yet been repaid. This gives concrete form to the concept of collective sharing of risks which is at the basis of trade credit systems.

In the case of multi-trade or multi-branch mutual indemnity companies such as SOCOMID or SOCOD, the borrowers are likewise divided, according to the nature of their activities, into four groups contributing to separate funds. Some of the more

recent protocols provide that the guarantee fund shall be divided into two different sections, depending on whether the loans in question are scheduled for amortization in more or less than three years.

This subdivision of the guarantee funds is designed to speed up the reimbursement of the funds.

(3) Value of the trade organization's guarantee

From the financial point of view, the value of the guarantee depends on the magnitude of the capital and reserves of the mutual indemnity companies. In most cases, borrowers must subscribe to these companies' capital in order to obtain a loan. Borrowers' responsibility only extends to the value of the shares purchased by them.

Such subscription is compulsory in 59 of the 66 companies at present in operation. The subscriptions are generally very modest, as the C.N.M.E. wished to avoid tying up any substantial amount of funds. The law of 13 March 1917 laying down that such subscribed shares can only be repaid after final discharge of all the transactions concerning the enterprise which are still in effect at the time of the request for repayment has the effect of blocking the subscribed funds for as long as ten years when the loan organization carries out operations involving investments spread over five years.

Of the 59 organizations referred to above, 39 require subscriptions of not less than  $\frac{1}{1,000}$  and not more than  $\frac{5}{1,000}$  of the total credit used. Eleven companies require a minimum subscription of one share at 10 francs. Nine companies are more severe and demand subscriptions amounting to 1 per cent or even 2 per cent of the credit used. This capital is placed under the direct supervision of the Board of Management of these companies.

B. Loans to different categories of trade activity

(1) Beneficiary trades

Transactions can be arranged for the purpose of aiding any commercial, industrial or artisanal enterprise. Loans are also available to two categories of liberal professions: doctors, dentists and veterinarians; and architects, chartered accountants and chartered surveyors.

Loans can also be granted to private denominational or non-denominational educational establishments, whatever their legal nature, and to hospitals or clinics set up in the form of associations under the terms of the Law of 1901, provided they have no profit-making objective.

Four sectors are not covered by the mutual trade credit financed by the C.N.M.E., namely, the agricultural sector, which receives assistance from the Caisses de Crédit Agricole (agricultural credit funds), the hotel industry, which normally comes under the Caisse Centrale de Crédit Hôtelier, Commercial et Industriel (the central fund for hotel, commercial and industrial credit), and the real estate sector, which is covered by the Decree of 10 January 1962 empowering mutual indemnity companies to take action to finance real estate ownership and the fitting out and renovation of premises for renting.

The fourth sector not covered is that comprising all the liberal professions not coming within the categories listed above, such as notaries, solicitors, barristers, consultants or professional men who provide services but are not listed in the Registre du Commerce.

## (2) Types of expenditure which can be financed

Initially, the C.N.M.E. provided finance only for operating requirements such as equipment, but from 1954 onwards, after the extension of operations to the distributive sector, the artisanal sector, and the liberal professions, expenditure on the modernization of premises could also be financed. Three types of expenditure can thus be financed:

- Expenditure by industrialists on the acquisition of equipment;
- Expenditure by the management of commercial enterprises on operational equipment, fitting-out expenses, equipment enabling display, handling, storage, etc. to be improved, and so forth;
- Expenditure by doctors, dentists or veterinarians on equipment needed for their professional activities.

Furthermore, credit can be provided for all types of transport equipment required for a company's activities and for the execution of improvements or modernization work on shop premises or the fitting out of workshops for artisans, provided the work does not cost more than 350 francs per m<sup>2</sup>.



(3) Total finance available

Whatever the trade or profession concerned, loans may not exceed 75 per cent of the cost of the equipment (50 per cent if the equipment is secondhand).  
Loans for commercial vehicles may not exceed 70 per cent of their cost.

Loan applications in respect of the fitting out of shop premises, artisans' workshops and professional men's offices can only be considered if they represent part of a comprehensive programme. Estimates totalling less than 10,000 francs cannot be considered for the granting of credit. Generally speaking, loans may not exceed 60 per cent of the total cost of the programme or 20 per cent of the annual turnover of the enterprise for which the loan is being sought.

(4) Duration of credit

This may not normally exceed five years, although since 1 January 1966 it has been permissible for the duration to extend to seven years in exceptional cases. It is rare for loans to be granted for this long, however. For transport equipment, the maximum duration of credit is three years, although in certain cases, where the vehicle concerned is of high power and relatively expensive, the repayment period may be extended to four years.

The duration of credits is counted from the date of their utilization, which must take place within six months of the notification of the granting of the credit to the borrower.

Loans are usually repayable in equal three-monthly instalments spread over the whole duration of the operation. The first instalment may be deferred for a varying length of time which amounts, in most transactions, to at least one year. Borrowers may repay all or part of the outstanding balance ahead of schedule when making any of the three-monthly payments.

(5) Formalities to be complied with

Enterprises wishing to obtain a medium-term loan from the C.N.M.E. must comply with the following formalities:

- They must consult their bank regarding the loan application which they envisage submitting;

- They must prepare one or more copies of a dossier and submit it to their bank for consideration and transmission to the mutual indemnity company.

No dossier will be accepted by the C.N.M.E. unless it is accompanied by a written agreement from the bank stating that it is willing to discount the bills issued to cover the loan up to their final expiry and, where applicable, to take part of the risk of the operation. In the latter event, the bank must also specify the percentage of risk it is willing to take. Most mutual indemnity companies have drawn up model loan application dossiers in collaboration with the C.N.M.E. and will make these available to prospective loan applicants.

After the C.N.M.E. has decided to grant credit, the mutual indemnity company, the discounting bank and the borrower himself receive notification of the C.N.M.E.'s decision along with details of the arrangements to be followed in the operation, the total amount involved, the duration of the loan, and any special conditions which may be applicable.

The loan can only be used after the guarantees specified in the notification have been provided. The C.N.M.E. invariably makes every effort to simplify the formalities as much as possible. Although trade credit does not have the character of a secured loan, it is usually subject - in order to avoid endangering the guarantee funds - to special conditions designed to inconvenience the borrowers as little as possible, such as: pledging the equipment as security (mainly in the case of industrial enterprises), pledging commercial businesses as security (mainly in the case of loans to distributive businesses), or blocking current accounts when a company's own funds appear to be inadequate in comparison with the capital tied up. In some cases, where the whole success of an enterprise depends on the personal qualities of the man at its head, the latter may be required to take out life insurance.

The establishment of mortgage guarantees is only resorted to in exceptional cases, because of the high cost of such security.

#### IV. EVALUATION OF THE FRENCH SYSTEM

##### A. Scope of operations

The operations carried out under the terms of article 8 of the Law of 19 August 1936 have for over thirty years provided French enterprises - especially small- and medium-scale enterprises - with a substantial source of finance which has enabled business men in industry, commerce and the professions to make considerable investments which they would have found it difficult to achieve on such favourable terms if they had been restricted to traditional banking circles. Loan transactions have increased consistently since 1943, and the C.N.M.E. has always striven to promote intervention by the banks. Over 120,000 loan application dossiers have been accepted and a total of  $7\frac{1}{2}$  billion francs of credit have been authorized. Not less than 6.8 billion francs of this total have actually been used. These figures give some idea of the work accomplished by the mutual indemnity companies with the assistance of the C.N.M.E.

##### B. Value of the guarantee system which has been established

The financial coverage of the loan operations, which is effected primarily by the guarantee funds, amounts to 8-9 per cent of the current loans. There can be no question but that loans through the mutual indemnity companies have proved to be remarkably good risks for the banks which have given them conditional endorsement. It has therefore become the C.N.M.E.'s policy, in order to avoid prolonged immobilization of the reserve capital, to reduce the immediate payments into the guarantee funds as much as possible, even if this might give rise to the need to make supplementary demands.

The system established has also proved to be a stabilizing element as far as the cost of investment credits is concerned. In the form of the mutual indemnity companies, the system has given the banks an additional technical and professional aid in their financial evaluation work, and this has proved very useful in deciding on the economic justification of credit applications.

Criteria of general interest have thus been introduced into the granting of loans in connexion with investment operations which, while effected on individual initiatives, concern the development of whole sectors of the economy.

It may be added that the experience of dealing with the needs of small- and medium-scale enterprises acquired by SOCOMID facilitated, and was indeed at the root of, the establishment of the P.M.E. (Small- and Medium-scale Enterprises) leasing company.

Thus, while trade credit may not represent the largest part of the rediscountable credit granted each year by the banking sector as a whole for the financing of private investments, it nevertheless represents a by no means negligible proportion of the capital placed at the disposal of enterprises for modernization.

The C.N.M.E. has been the main author of this development. By sharing out the risks among a large number of enterprises of different sizes located all over the country, it has provided businesses, and particularly the small- and medium-scale enterprises, with the capacity to adapt themselves to new technical requirements and increased competition.

This explains the consistent development and success of this form of credit. This system, which has gradually become an accepted part of economic life, has achieved a successful synthesis of professional interests, essential requirements at the national level, and individual needs.

#### C. Possible improvements

However valuable the services it renders, this system is still undoubtedly capable of improvement.

##### (1) Providing credit for commercial enterprises

The low percentage of actual financing of such projects has been a matter for regret for a number of years: if the various expenses are taken into account, a substantial commercial project such as the internal modernization of a store with reconstruction of the shopfront is only, in the final reckoning, financed at the rate of a maximum of 50 per cent of the total cost.

Another so far unsolved problem is that of financing the establishment of independent shopkeepers in shopping centres or the resettlement of shopkeepers or manufacturers evicted because of renovation projects.

(2) Length of credit procedure

The procedure for granting credit is relatively lengthy, although some progress has been made over the last few years.

(3) Mutual indemnity financing and long-term credit

The contribution made by mutual credit in the field of long-term credit has been less marked than in the medium-term sector, possibly because beyond a certain loan duration the inconveniences and high cost of a mortgage guarantee are less evident and consequently certain credit organizations prefer to continue to use this conventional guarantee procedure rather than the mutual indemnity system.

The Crédit National has, however, set up a number of mutual indemnity companies specializing, for various trades, in the type of transactions dealt with by the Crédit National. Likewise, the Banques Populaires have set up real estate mutual indemnity companies in most parts of France. All these developments are of relatively recent date. It is still too soon to pass judgement on the role and usefulness of these new bodies, but their establishment shows, at any rate, that mutual credit has an important role to play in the long-term field, especially when it is borne in mind that the advantage of mutual credit is that it provides more than just a guarantee for the lenders.

The role it has to play is all the more important because the problem of long-term credit, unlike that of medium-term credit, is far from the stage where it can be considered as solved for the small- and medium-scale enterprises. Certain industrial groupings have, it is true, floated debenture loans<sup>1/</sup> on the public market in respect of a number of enterprises together. This technique, however, which at first sight would appear to be particularly well adapted, if not to small-scale enterprises, then at least to the medium-scale ones, has remained largely unavailable to our types of businesses. One possible way of improving this situation might be to set aside part of each loan and reserve it for small- and medium-scale enterprises. Responsibility for the money would be assumed by a mutual indemnity company which would distribute the credit among its members and take all the risks of the operation vis-à-vis the issuing body.

---

<sup>1/</sup> Steel loans, chemical loans.

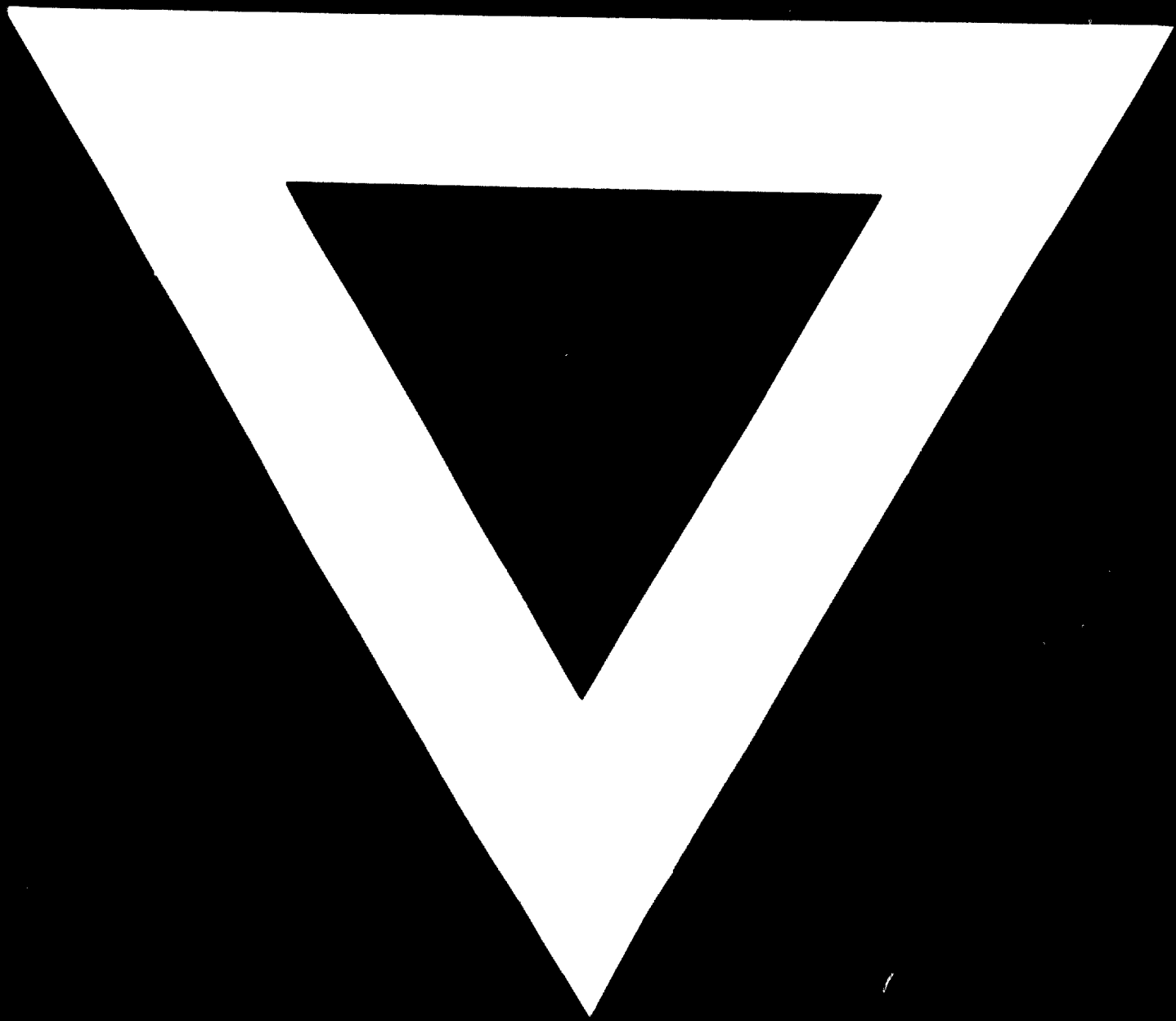
(4) Mutual indemnity financing and companies' own funds

Another problem for small- and medium-scale enterprises which has not yet been solved satisfactorily is that concerning companies' own funds.

While it is true that in the last few years a number of minority-participation companies have been set up with the specific object of facilitating increased capitalization of small- and medium-scale companies through the contribution of outside funds (the Regional Development Companies correspond to this type of minority-participation assistance organization), it is to be deplored that so far the concrete results have not been very numerous. It may be considered that the mutual credit system could bring some relief in this case also. The need to find a solution to this problem of companies' own funds becomes all the more pressing when the establishment of new enterprises is involved. Thus, many young men in various industries or businesses hesitate to enter small- and medium-scale enterprises because they are afraid they will not be able to find the capital needed to assume full responsibility for a business. It would appear that here too the system of expanded mutual credit, accompanied by a mutual guarantee, could make possible the provision of funds for increasing the capital of such enterprises.

- - - - -





**26. 6. 72**