

1°) Which are, according to you, the reasons for the French local authorities to create a public funding agency?

Infrastructure investments performed by French local authorities count for over 70 % of the total public investments. This means that the activities of local authorities from this and other reasons are crucial for growth. One of the key questions is to have access to long term cost-efficient funding for these investments. An agency owned by the local authorities has the possibility to guarantee this.

Are there other alternatives?

If we first look at the banks and their lending to local authorities, it is easy to see that interest rate margins have been raised substantially and offered maturities have shortened. This has got two main reasons that are interlinked; the banking crises and new regulations in the so-called Bale III. The new regulations are not in force yet but banks need to adjust in good time. This has already started, with the effect that margins on loans to local authorities has more than tripled during the last few years.

What about the bond markets? In France, with more than 36 000 local authorities, it is only a fraction that has the sufficient size in yearly borrowing to be able to tap the bond markets. And even the very few that can use these markets have a problem of diversifying their borrowing sources. One example of this in Sweden is the second largest city, Göteborg, which have been issuing bond in their own name for a number of years. Now they have joined Kommuninvest because of the fact this agency has a far larger operation than any city in Sweden and can diversify its funding to all major markets in the world. This is a question of security, to be able in most circumstances to use the part of the market that are functioning the best.

Could the rearranged Dexia together with the Postal Bank solve the problems? Surely, to some extent, but considering the fact that the Postal Bank has had its rating downgraded in the Single A range, they need to charge interest rates that are not the lowest although they are indirectly owned by the French State. Should the State have created a pure national agency, it might be different. But the creation of a new covered bond issuer, even if it's publicly held, doesn't represent the cheapest way to fund local governments. An agency owned and backed by a considerable number of creditworthy local authorities are destined to reach the best possible rating. Just look at the local government funding agencies in other countries!

Another aspect of an agency is that it will give incentives for local authorities to improve their creditworthiness. This will be the result of the fact that only local authorities with a good financial standing will be granted membership and each of the members will be scrutinised yearly. This will create a situation where the non-members can see that members are getting a stable access to cost-efficient borrowing and hence the non-members will strive to improve their financial situation so that they can be members. Also this has happened in other countries.

## 2°) According to you, can this agency quickly gain the confidence of the investors without a state guarantee?

Firstly, one should note that the high quality issuers are in great demand by the investors. But how can we prove the high quality of the new French agency? I think the following are important:

- The agency needs a sizeable number of members from the beginning.
- The agency should have transparent guidelines of how to assess the creditworthiness of its members and see to that all members are of good financial standing.
- The agency should be active in marketing itself to investors. But the fact that such a big country as France makes this move will automatically draw the attention of the investors.
- The agency needs to achieve a good rating. It does not necessarily need to be the highest possible rating from the beginning, but next to it. In any case it will be above the Postal Bank's rating.

I think that all this will happen. Furthermore I think that the agency easily can prove that it works in the same fashion as the Scandinavian and the Dutch agencies, which are, to say the least, very popular with investors. The new agency gives also an opportunity for the investors to diversify their investments from the other agencies.

## 3°) What do you think are the conditions for the success of such a project?

Of course, building confidence among the investor society is crucial, but also to build confidence in the local government sector. Many local authorities in France are now in desperate need of borrowing sources, which will help to get the interest from these entities.

The best way of ensuring the trust from the local authorities is the following core values:

- **Equality**; all local authorities should be treated **equal**. All exceptions (for example: different margins) should be **logical** and **fair**.
- **Transparency**; the Agency should be as **open** as possible with **information** to the local authorities about the Agency's activities.
- **Involvement**; the local authorities should be made to feel that this is **their project**, for which every local authority has a **responsibility**.

It is also important to build a transparent organisation, with a strong set of governance rules.

It is now essential that the central government provide the best possible conditions for the agency to function in a desired way, for the best of the country.

#### 4°) Can the agency grant loans to all of the local authorities in France?

Firstly it should be said that the agency is a complement to other sources of funding. The number of local authorities in France is a challenge, but it is my assessment that the agency gradually will have the means to serve a majority of the local authorities with part of their borrowing.

#### 5°) Which are the main experiences you can draw from the Swedish agency that you initiated and led during 15 years?

I would like to refer to the core values that I wrote about above; Equality, Transparency and Involvement. The agency needs to be built around these values. There should be no doubt that the agency always works for the best of the local authorities. Within the staff of the agency there must be clear understanding of the local authorities and their conditions, as well as knowledge of the bond markets and the behaviour of investors. During my time in Kommuninvest I found that a great deal of my time had to be used for information and marketing directed to local authorities, investors, regulatory bodies, rating agencies, media, banks etc.

A very important task in the beginning of Kommuninvests history we also manage to create a high degree of awareness in the local authorities of the importance of a good creditworthiness.