AFFIL, a financial tool at the service of local authorities

An interview with Yves Millardet, responsible for public sector within Natixis and advisor to the Associations of local authorities in the process of creating the AFFIL.

How do you analyse the plan proposed by the government to finance local authorities and in what way will it satisfy their need of financing?

Yves Millardet: Local authorities are fully involved in the national economy and in the budget recovery efforts. Faced with the need to be more efficient, cooperation provides possibilities of economies of scale. About forty local authorities now have acquired financial ratings and this, together with the increasing numbers of EMTN-programmes, (Euro Medium Terms Notes) generates significant costs related to the borrowing of local authorities.

For the first time these costs could be shared within the operations of an agency, which incorporates the values of a responsible handling of debt in the local public sector.

It is, of course, important to satisfy the financial needs of 2013. But for Natixis, the initiative of the association of local authorities is specifically important because it creates an infrastructure that guarantees cost-efficient lending to the local authorities in the long run.

The French Agency for financing local investments (AFFIL) will soon see the day. How do you see the future of this institution as a financing tool to complement other funding mechanisms?

Yves Millardet: The first step in the creation of AFFIL after the authorizing of its creation is to obtain an approval from the supervisory authority (L'Autorité de Contrôle Prudentiel – ACP). The process is significant because the Agency is created *ex nihilo*. The second step is to gradually begin AFFIL's activities. The level of its operations will increase, as more and more local authorities become members.

Nearly 70 local authorities are members of the AEAFCL, the association that have had the mission to prepare for the creation of the Agency. The third step is entering into a phase of steady development, with the gradual recognition from international institutional investors.

Within a few years, AFFIL should acquire approximately 25% market share of lending to local authorities.

How would you structure the AFFIL in order to attract both institutional investors and local authorities?

Yves Millardet: In its role as advisor to the associations of local authorities, Natixis has recommended a focus on the institutional investors in the early stage of the Agency, in order to create a structure that takes into consideration the needs of the investors and provides maximum security with sophisticated operating rules:

• Unlike the banking sector, the Agency will not have the right to mismatch assets and liabilities. It will also abide to rules more stringent than Basel III and will be totally immune to liquidity problems;

• The Agency will apply a very restrictive dividend policy: the Agency will be forced to set aside almost all of its financial results and the financial return to its members will almost exclusively be in the form low margins in the lending of the agency;

• The Agency will apply a very secure policy for the investment of the agency's liquidity, with a focused on big European public sector entities;

• The Agency will immediately comply with regulatory requirements of Basel III, as a result of the fact that the equity of the Agency will be paid by the members over a five year period.

For local authorities, the Agency will provide the benefit of diversification, whose absence has cost them so much in the past, but also a possibility to borrow more than 15 years when the agency is properly established. The Agency will promote competition in the market that will result in favourable financing costs. The entity will gradually become the reference for best practices, transparency and ethics on the market for financing local authorities.