



Financing local authorities

Dexia : From a Public Financial Institution to a Private Specialized Bank

Istanbul, May 3rd, 2005

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Post World War II Reconstruction

- Local governments have limited powers and even more limited capacity.
- Access to basic services is financed on a subsidized basis through :
 - State grants
 - Soft loans originated directly by the Ministry of Finance
 - Additionally, low rate/long term loans from a public financial institution, the Caisse des Dépôts et Consignations (CDC), funded by the tax exempt savings of households
- This leads to discretionary and (somewhat) politicized resource allocation

The Pre-decentralization Period-Mid 60's to late 70's

- Increasing civil society demand/pressure for more housing and better services.
- Scarce budgetary resources to face increasing demand for L/T financing from the State.
 - CDC is asked by the Central Government to assign tax exempt savings to public housing in priority.
 - Rising gap between supply and demand of L/T funds.
- Pressing needs for new financing instruments, but response limited by the (relative) inexistence of financial markets.
- In 1966, CDC establishes Caisse d'Aide à l' Equipement des Collectivités Locales (CAECL), a public financial institution which raises funds in the financial market (with an implicit State guarantee) to on-lend to local governments. (Rate) subsidies remain.

The Decentralization, Process of the 80's

- Local governments gain in institutional autonomy and taxation power with the 1982 decentralization reform.
- Central Government grant system is made more explicit, more targeted.
- Local governments become more efficient in service delivery and more mature in their investment choices.
- In 1987, CAECL gives way to Credit Local de France (CLF), a private bank 51 % owned by the State.
 - Increased leverage.
 - Subsidies disappear completely from loans.
 - More efficient management of funds.

A Gradual Privatization and Consolidation Process

- **Early 90's : The dynamism of the local sector's market attracts commercial banks, from France and other countries.**
- **A turmoil period reminds commercial banks of the specificity of SNG financing – this leads to a (relative) contraction of supply.**
- **The prospect, then the opening, of the Euro market boost cross border transactions within the Euro zone's local sector.**
- **To keep pace with a changing world, CLF is privatized :**
 - **1991 : CLF listed on the Paris Stock Exchange**
 - **1993 : The State sells its majority interest.**
 - **1996 : CLF enters into a strategic alliance with its Belgian counterpart, Crédit Communal, and becomes Dexia.**
 - **1996-2000 : Implementation of an ambitious yet cautious/targeted external strategy.**

A Quiet Revolution : Catching up with Financial Modernity

- **Diversification/globalization of instruments**
 - **Direct loans, credit commitments and acquisition of muni securities**
 - **Credit enhancing of municipal bonds (full wrap, L/C's, liquidity guarantee)**
 - **Structuring and Financing PPP's and Project Finance**
 - **Structuring and Purchasing/Enhancing ABS**
 - **Offering value added through financial advisory, asset management, debt management, insurance services**
- **The key to viability : maintaining very low funding costs – and a top rating.**