

PPP & global credit crisis: the French experience

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Agenda

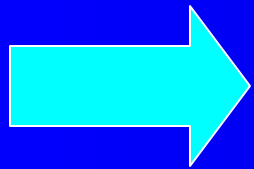
- 1. A dramatic rebirth of PPPs over the last 10 years...**
- 2. An emerging market, affected by the credit crisis**
- 3. Emergency steps and longer-term after-crisis prospects for PPPs**

PPP in France: a long track record ...

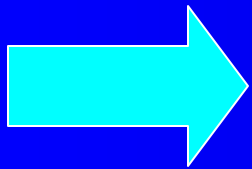
- France is among the most advanced countries in terms of traditional (user-financed) PPPs, with world-class contractors & operators managing more than 30.000 concession contracts currently in force.
 - **Water & Waste:** 12.000 contracts (2/3 of population served by private operators; French Private operators in the top 3 worldwide)
 - **Motorways:** 75% of the 10.000+ km network built as concessions

...in need of rejuvenation

From 1980 on, Public sector no longer able to handle ever-increasing demands of infrastructure-linked services by citizens and users, both quantitatively and qualitatively



Delayed investments in health, education or transportation networks resulting in deterioration of infrastructures,



Need to extend PPPs to services non financeable by end-users (“social infrastructures”) on availability-payment basis

The build-up to Partnership contracts

- No availability-based schemes (paid for by Administration) until 2002
- In 2002-3, sector-specific bills for **justice, police, hospitals, defence** projects (mostly centred on real estate)
- In 2004, general legislation on “**contrats de partenariat**” (CP), extended in 2008
- In 2005, creation of the MoF PPP taskforce (**MAPPP**)
- From 2006 on : first PPP projects delivered

New PPP law passed (July 08)

- Allows access on purely VfM grounds, without having to meet legal criteria based on urgency or complexity
- Sustainable development an extra motivation
- Greater room for third-party revenues

=> Aim is to release brakes on PPP development and make it a more “standard” procurement procedure

Initial feed-back on PPP reform as of 2008 :

- Progressive ramp-up...professional actors fully operational by 2008, and large projects due to be signed from 2009/10 on
- Legal framework in place and working
- => Overall compelling case for PPP :
 - economic, political & legal factors converge on PPPs as a key tool in implementing much needed infra projects

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French PPP market in 2009

- A difficult year across Europe as evidenced by UK and other more mature markets' indicators.
- From nov 2008 to nov 2009 : no big closing (in excess of 200m€) achieved. Several Big PPP projects (GSM-R, CDG-X, ... deferred
- Total value of deals signed in 2009 < 700m€ (aggregate investment)

The immediate impact of the crisis

French market impacted by the financial crisis and the corresponding Credit crunch :

1/ a deeply modified banking landscape

- fewer players + re-centering on domestic market: number of banks active in the market has decreased around 10 today (5 to 6 major French banks and 4-5 foreign banks)

- Acute Liquidity crisis end of 2008/H1 2009. Increased cost of funding : from 70 to 200 bp+ for project debt

- Reduced banking capacities : 50 to 80 M€ ticket by bank

- Club deals to replace the syndication market

The immediate impact of the crisis

2/ a durably increased cost of risk

- unprecedented increase in bank spreads
- higher risk-adversion by banks and investors alike
- all the more painful than previously spreads for public sector financing were very low (as low as 10bp for cession Dailly (receivables assigned by SPVs to banks)
- stricter requirements on equity gearing and IRR

The immediate impact of the crisis

3/ a negative impact on tenors:

- Reduced tenor : from 35 year to 10-12 y maturity
- Due to lack of refinancing options for banks (securitization no longer available)
- mini-perms: only solution left?

Impact on projects in progress

- Difficulties to get financed (particularly for projects over 100M€ CAPEX)
- Schedules Delayed
- less financing appetite due to weaker banking competition

Prospects for 2010 & beyond

- Aggravating factor: wave of big projects hitting the market
- Massive investment backlog : 24 Bn EUR of investment planned for 2009-2010 for PPPs (incl. Concessions) in Transport infras & Universities in particular
(compared to 2 Bn EUR of PPP contracts signed in 2008)
- Central issue: can those deals be closed?

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The French Economic stimulus package for 2009-2010

Public support to PPP financing announced by the French President on 4th Dec 2008

3 main measures adopted :

1. **State Guarantee scheme (Budget law for 2009)**
2. **Co-funding from Caisse des dépôts- managed Fonds d'Epargne**
3. **Adjustable financing terms (Loi de Relance 17 feb 2009)**

+Partial public funding of project now possible

State guarantee scheme

- EUR 10 Bn State guarantee program for priority projects realised under PPP scheme
- Contracts to be closed in 2009-2010
- Guarantee up to 80% of the private sector debt (bank loans & bonds) financing required
- Guarantee priced according to normal market conditions (compliant w/ EU state aid rules)
- *1st ex: La Réunion Light Railway Transport*

Co-funding from CDC managed saving funds

- EUR 8 Bn co-funding program over 5 years
 - Transportation infras and Renewable Energy : 7 Bn
 - Universities : 1 Bn
- Co-funding (limited to 25% of debt required) alongside public and private sector financing sources
- Long tenors (up to 40y) and favourable terms
- *First examples : Paris Universities*

Adjustable Financing terms

- Fully committed financing scheme (bank letters of support) at BAFO stage no longer requested
- Period of adjustment of financing terms to allow the preferred bidder to get to a 100% committed financing
- Adjustment of financing terms to be limited (no adverse impact on rates & spreads)
- Applicable to projects to close in 2009-2010

The long term impact of the crisis and the PPP paradox :

- financing crisis not fed by defaults on previous PPP projects
- Public infras are underpinning economic stimulus package in France
- most contractors & operators have weathered well the crisis
- New emphasis on sustainable development
- Need for increased budget visibility in time of growing constraint on public finances

=> driving recourse to public-private partnerships

Could PPP benefit from the crisis?

- Despite current budgetary difficulties, PPPs remain an interesting solution for public authorities , tax-payers and companies
- huge new needs for investment by public sector , linked to new technologies (Internet, IT,..) and new environmentally-friendly & energy-efficiency norms
- Market for PPPs estimated at 6bn€ (Capex) p.a. in France over next 10 y, i.e; 8% of total public investment
- Future deal-flow at 3 times pre-crisis level...

MAPPP: An expert structure dedicated to « contrats de partenariat »

- Administrative service (Public ownership)
- Central unit (national coverage)
- Rattached to the MoF (budget financed)
- Light structure, set-up in May 2005
- Cross-sectoral for the whole public sphere)
- With project advisory functions and mandatory authority

A three-fold mission on Contrats de partenariat:

- Information & Promotion on PPPs
- Methodological Support to implementation (assistance in preparation & negociation of CPs (on the public partner side))
- Validation of Preliminary assessment (required for State-sponsored projects only)

The specific role of the MAPPP in implementing State guarantee

- In charge of the implementation of the State Guarantee scheme on behalf of a newly created Guarantee Committee within MoF
- With the support of legal and financial advisors
- General guarantee scheme and terms & conditions defined in April 2009
- new Role of global coordination and monitoring of the Economic stimulus package for priority projects (PPPs & concessions alike)

What MAPPP doesn't do:

- Assess socio-economic case for the project
- Prioritize the projects
- Work out the preliminary assessment and
- comparative «Value for money » analysis
- Manage the bidding process
- Select the preferred bidder
- Sign the contracts

Thank you for your attention!

Mission d'Appui aux PPP

Ministry of economy

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