Financial crisis & & Government support for PPPs: the French feed-back

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French PPP market at crisis onset

- PPP Act recent (2004), Progressive ramp-up,
- Able & willing professional actors pulling the market
- Very aggressive financing terms
- Legal framework in place and working; few litigations;
- => Overall compelling case for PPP on economic, political & legal grounds as a key tool in implementing infra projects

...But still an “emerging market” for big projects ...
Initial Prospects for 2009-10

• Wave of big projects hitting the market: => quantitative leap forward

• massive Investments always going to be a financing challenge

Can these deals be financed?
Financial crisis impact in 2009

- Reduced banking capacities
- Club deals to replace the syndication market
- Increased cost of funding
- Reduced tenor
- Fewer active players on financial side, with a re-centering on domestic market and an increased aversion to risk

=>- Several big-ticket PPP projects in danger of being deferred or abandoned
The French Economic stimulus package for 2009-2010

Public Investment = focus of Stimulus plan

Public support to PPP financing announced by the French President on 4th Dec 2008. Main measures adopted in Feb 2009:

1. 10bn€ State Guarantee scheme
2. 8 bn€ Co-funding from Caisse des dépôts- managed Fonds d’Epargne
3. Adjustable financing terms + Partial public funding of PPP projects 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 (cf. EU state aid regulation)
• 1st ex: La Réunion LRT, High Speed Lines
The role of the MAPPP

- 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
- In charge of drafting General guarantee scheme and terms & conditions
- Role of global coordination and monitoring of the Economic stimulus package for PPPs
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
Pros & Cons of Public support to PPPs?

PROS:
- Necessary to avoid projects falling in the liquidity trap
- Demultiply economic activity & jobs
- Idea = keep balance between public & private sectors’ responsibilities
- Limited immediate impact on budget outlays & deficit

CONS:
- May seem contrary to the spirit of PPP (transfer of risks to the private sector)
- Windfall opportunity for hard to finance deals
- Issues like: LT budgetary sustainability, balance-sheet impact, compliance with State aid/competition EU rules
Immediate results:

- To date 4 projects granted eligibility to State guarantee, for an aggregate amount of approx. €3 billion, the third of the maximum amount available.
- No financial closing yet, but already positive effect: enabled major projects to be pursued.
- Impact on pricing (not primary objective anyway) difficult to assess given that no project has been closed to date.
- => Clear signal about Gov’t commitment to pursuing the development of PPPs.
Beyond the financial crisis:

- Around 60Bn€ of investment to be launched as PPPs over the decade (annual flow=6Bn€/yr)

- Financing issues: half of total for big projects to be financed by private sector (rest by public subsidies upfront+CDC)

- Market development conditioned by capacity to find new sources of LT financing on capital markets (through securitization…) to be substituted to bank credits

- Need to better structure & schedule in time major PPP projects