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The comeback kid

31 January 2013

After France's leader Francois Hollande re-affirmed his commitment to the PPP strategy, the market has seen a resurgence. But the regional town halls will decide the future of PPP in the country, not the Élysée Palace, reports Aaron Weinman

In a bid to sustain dealfow and kickstart an economic revival, the Hollande government has reassured the market that its commitment towards PPP-funded projects wouldn't wane despite opposition from within the party itself. In January president Hollande declared that the PPP framework wouldn't be abandoned.

"The PPP model should not be abandoned and will allow for more growth, particularly by shortening construction time," President Hollande said in January. "When a PPP allows the construction of the Millau Viaduct in three years rather than 15, without public euro money, why deny it?"

While his comments make it sound simple, the truth is that the billion-euro deals of 2011, such as the €5.4bn Tours-Bordeaux high-speed rail line and the €1.5bn defence headquarters, are few and far between.

"We will see less 'mega' projects and more upgrade work at a national level," says Francois Bergere, director at MAPP, the PPP taskforce within the French ministry of finance. "The rhythm for PPPs has been tailing off over the last year, but the government understands the need for growth and may seize on a number of inevitable projects."

Hollande has highlighted five key areas of investment in the country's PPP pipeline – housing, thermal renovation, national broadband and digital networks and transport. Transport aside, many of these projects will be smaller in scale and as a result are likely to be delivered at a regional level rather than through the central government, according to Currie & Brown's Julien Saint.

Bergere says around 80% of France's revised pipeline will be procured at local government level, particularly across social infrastructure. And fellow left wing leaders may be willing to follow Hollande's lead. "Many socialist mayors have embarked on PPP formats in the past and have found them satisfactory, so the hope is that this prevails," he says.

"It's possible that this type of contract will turn into a more suited form given the current environment," adds Saint.

He says socialist representatives remain enthusiastic about bundled projects such as the Seine-Saint-Denis schools project to build and maintain 12 high schools and an energy performance project, which covers 100 schools in Paris.

Saint understands the French government seeking security – and perhaps some distance – in focusing more on small-scale projects, given its experience on larger schemes has not always been smooth. Ambitious projects such as the Grand Paris Metro and its Ministry of Justice prisons programme have stalled as a result of political indecision.

Spie Batignolles, the preferred bidder on the prisons programme, had intended to reach financial close last November. However Christiane Taubira, the French Minister of Justice and staunch opponent to the PPP model, blocked its progress.

"From May to December of 2012, the dealfow virtually took a break," Saint says. "For example, in the last quarter, only a few projects were signed, such as the Dunkirk Arena PPP and a streetlighting project."

However, he is confident the people at the top of the French government

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understand the importance of PPPs. "The French prime minister [Jean-Marc Ayrault] has recognised that these projects should be realised, even during this period of uncertainty."

Meanwhile, the government postponed its decision on how the Grand Paris Metro project should be procured in October, following a study of the scheme. Valued at approximately €20bn, it is considered the jewel in France's large-scale infrastructure projects crown. After submitting its comparative analysis to the Société du Grand Paris, the Artelia team found that the French PPP model was best suited to the project's Green Line section.

If the larger-scale projects can be PPP successes, they may provide the spark for a renewed programme of centrally driven, large-scale projects. Bergere says the flow-on effect to future infrastructure could bring forth further investment anticipation and opportunities.

Hollande's reassurance in the model, alongside the possibility of large-scale project work has impacted investors positively and closing Lot A of Valence Prison's PPP is the first sign of dealflow (large or small) recovering. With the likes of Credit Agricole, SMBC and Société Générale financing the projects, it indicates a renewed vigour in France's pipeline.

Next month Hollande will announce a funding programme in which the PPP model is expected to play an integral role. Transport, in particular could be the big beneficiary.

"It's important to remember that Paris lost the right to hold last year's Olympic Games partly because of the poor state of its transportation facilities," Saint says. "So above all I really think the country needs this type of contract to invest in its under-maintained assets."

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