SEBASTIEN RASPILLER

Director, French Treasury, Ministry of the Economy, Finance and the Recovery Plan, France

Developing equity funding is much needed and should rely on a result-driven strategy

As the world slowly emerges from a challenging year, the outlines of the post-Covid era begin to take shape, calling for new ways to repair the damage done by the crisis to the corporate sector.

Most of the emergency support schemes have focused, and rightly so, on keeping the economy afloat by providing liquidity to companies, through direct subsidies, furlough schemes, tax and loans moratoria and state guaranteed loans. An unavoidable side effect has been an increase in corporate debt. In France, it has risen by €217bn in 2020. Cash holdings by companies have also increased dramatically (€200bn). This big picture hides very different situations across companies, some faring fairly well, and others emerging badly bruised from the crisis.

A severe economic downturn automatically decreases the levels of equity capital in the economy, via reduced profits, higher debt and the use of cash holdings to meet payment deadlines. These equity losses act as shock absorbers and help businesses go through crises. However, a sustained lack of equity is damaging to the economy, by increasing the risk of viable companies going bankrupt and of debt overhang situations, in which companies prioritize debt reduction strategies over investment and employment plans.

Boosting equity financing is therefore critical now, with government intervention if necessary, especially for SMEs that do not have access to capital markets or professional investors. This support should come with terms and conditions: assistance has to be targeted towards viable firms and to involve the private sector. The aim is to use the resources, information and incentives of the private actors to ensure a good use of taxpayers' money.

The situation calls for a comprehensive strategy. This is what France is trying to do, with a mix of horizontal policies (such as cuts in production and corporate income taxes), and specific measures addressing different situations. For instance, the recently announced "prêts participatifs et obligations Relance" scheme targets companies affected by the crisis but with manageable levels of debt and investment plans to finance. The scheme rests on up to €20bn of "equity loans" (subordinated long term debt) and subordinated bonds, with a public guarantee of up to 30% of first losses at the portfolio level. For viable firms struggling to meet their debt repayment deadlines, a clear debt restructuring plan is needed. France has reinforced public restructuring committees that help devise solutions with all stakeholders of struggling companies and is reforming bankruptcy procedures to make them more effective.

The European Commission's decision to prolong and expand the scope of the Temporary Framework has freed up some policy space to implement new instruments to help companies rebound from the crisis. The involvement of financial actors will be critical in ensuring that these schemes are a success. Beyond public support to the financing of our economy, we should lift the barriers to investments in equity by the private sector: the Solvency II review is a not-to-be missed opportunity in this regard.