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BPIFRANCE

After a successful launch, Bpifrance needs to stabilise its development and its financial prospects have to be consolidated

Resulting from the reorganisation of Oséo, CDC Entreprises, Fonds Stratégique d'Investissement (FSI) and FSI Régions, Banque publique d'investissement (Bpifrance) was launched in 2012 to develop and broaden government support for corporate financing and to mitigate the risk of a credit crunch.

Its successful launch resulted in the creation of a group with prolific capacity for action, whose lending and equity investment operations in 2015 together amounted to EUR 18.8 billion which benefitted almost 71,200 companies.

It is now desirable for Bpifrance to stabilise its activity and to take strict control of its running costs. Lastly, shareholders' discussions on the development of the group's economic and financial model should involve a clarification of the government's strategy for financing Bpifrance's activities.

A successful launch

Bpifrance has established a foothold in the corporate financing ecosystem, and has won plaudits from companies for its numerous support initiatives. The existence of a one-stop-shop where companies can access virtually the entire range of financial instruments available, from loans through to equity capital, is now a reality. The senior management of Bpifrance has managed to rapidly coordinate the various entities that make up the new publicly-owned bank. Initial governance hurdles resulting from the equal shares held in the capital by the government and the Caisse des Dépôts et Consignations, or relating to the regions' partnership arrangements, have been overcome.

However, the launch of Bpifrance was marred by compensation issues that could have been better managed, in particular with regard to pay rises awarded to certain senior executives that were not always justified. Moreover, the existence of Bpifrance the public institution, with the government as its shareholder, has no real justification as this entity is primarily used to circumvent the rules governing the allocation of public funds and is detrimental to the notification of France's Parliament.

Genuinely dynamic, but its strategic positioning is in need of clarification

The creation of the Bpifrance group has served to boost the breadth and extent of Oséo's corporate lending activities. Now that the corporate lending situation has generally improved, the objective must be to stabilise the bank's activity in this area.

Its involvement in providing equity capital to SMEs is a continuation of CDC Enterprises' activity, with a renewed strategy and greater breadth. However, Bpifrance's increasing involvement in this area, especially in the innovation capital segment, raises the issue of the risk of an over-abundance of public funds, effectively squeezing out private funding. Moreover, Bpifrance's growing involvement in the form of



direct investments in recent years is not without risk. Indirect investment through funds of funds would be a better option.

Lastly, Bpifrance inherited its substantial portfolio of medium and large cap holdings mostly from the FSI, which focused on rescuing companies that were strategic in terms of jobs or manufacturing. The bank has diverted the focus of its strategy to mid-sized growth companies (*entreprises de taille intermédiaire* - ETI). Bpifrance is entitled to adapt its operations to reflect developments in the economy and in the financial world, but at times it has strayed from its original operating doctrine by investing in mid-sized growth companies that are of no particular strategic interest or whose requirements could have been financed by the private sector, and the proportion of holdings in mid and large caps remain high.

A fragile economic and financial model that requires closely-managed development

So far, Bpifrance's financial results have been positive and the group's solvency ratios currently exceed the regulatory requirements by a clear margin. But these positive results are associated with higher running costs. Moreover, they are largely attributable to the contribution of substantial public funding, especially by the government.

Bpifrance's economic and financial model has hitherto been based on the rapid growth of its financing and guarantee activity, which required an increase in available public resources, and on selling a portfolio of legacy holdings that were running significant unrealised profits. This raises concerns as to how long this stock of unrealised gains will last, and therefore the nature of new investments made, which must be sufficiently profitable and liquid.

The government's capacity to carry on contributing indefinitely to the funding of Bpifrance's activity and to determine the amount of public resources available between now and 2019 is also in question. On this matter the government will have to prioritise its various public funding tools, namely budget appropriations and the future investment programme.

Recommendations


The Cour des Comptes has issued ten recommendations, which aim in particular to put in place a risk management system that is fully compliant with regulatory requirements, to stabilise executive pay, to control the growth of the business in the medium term and to close down Bpifrance the public institution, the government's holding vehicle.

[Read the report](#)

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