The Solidarity Fund: rapid implementation in an unstable context

The Solidarity Fund, together with compensation for partial activity and State-guaranteed loans, is one of the main business support schemes implemented by the Government since March 2020 in order to limit the economic consequences of the health crisis.

Over the whole of 2020, the success of the Solidarity Fund in the face of the health crisis is real. Created in two weeks, thanks to the strong mobilisation of all stakeholders and the widest possible use of existing, simple and effective tools, it has made it possible to limit the effects of the crisis through the rapid distribution, for the year 2020, of EUR11.8 billion of aid to 2 million individual and independent enterprises and entrepreneurs.

A simple and rapidly deployed device

During the first confinement, this fund was dedicated exclusively to very small enterprises (VSEs), micro-entrepreneurs, self-employed and the liberal professions who had been subject to administrative closure measures or experienced a significant decrease in their turnover. It takes the form of direct aid, in two ways:

- under strand 1, the main component intended to provide replacement income, the aid, equal to the company's monthly loss of turnover up to the limit of EUR 1500 per month, was renewable each month. For this aspect, few eligibility criteria, a simple and highly automated application filing and processing procedure, and very limited a *priori controls, were used to facilitate the speed of payments. This simplicity and speed of payments were assessed by the beneficiaries interviewed by the French Court in August 2020.*
- under strand 2, intended to strengthen the treasury of the firms most in difficulty, aid could only be applied for once. It was educated at the regional level with more detailed specific criteria.

The solidarity fund is characterised by a simple design and the use of existing tools allowing for very rapid payments, but also regular adaptations in view of the difficulties encountered during the first two phases of the health crisis. Thus, from the first disconfinement, between July and September 2020, the solidarity fund was refocused on certain sectors, for a smaller number of beneficiaries, but also an increased ceiling in some cases.

Table n°1: evolution of the solidarity fund (part 1 monthly aid) between March and September 2020

	First Lockdown			First end of lockdown			
	March	April	May	June	July	August	September
Activity sector	All				priority (S1) and related sectors (S1 Bis)		
Limits of employees	10		10 20 for S1 and S1 bis		20		
Limits of turnover	1 000 000 EUR		1 000 000 EUR 2 000 000 EUR for S1 and S1 bis		2 000 000 EUR		
Limits of the monthly aid	1 500 EUR		1 500 EUR 3 000 EUR for S1 and S1 bis		3 000 EUR		
Number of potentially eligible companies	3 000 000				250 000 – 300 000		

Source : French Cour of Accounts, according to the general directorate for enterprise.

From March to September 2020, strand 1 of the aid was subject to a massive appeal, with more than 1.7 million beneficiaries, for aid amounting to an average amount of EUR 1 383 and a total cost of EUR6.8 billion. Focusing on the sectors most affected by the crisis and the smallest enterprises, it has proved to be a very good tool for the emergency disbursement of small amounts of aid. On the other hand, strand 2 was only very successful, accounting for only EUR300 million, or 4 % of the total amount of aid. Over this period, fraud could, according to the French Court's estimate be between EUR20 million and EUR100 million, a relatively small amount.

Enlargement in favour of larger enterprises belonging to the sectors most affected by the crisis

Starting in October, the new activity restriction measures led to a substantial expansion of the fund, which was tasked with distributing much higher subsidies to larger firms. The fund, once again open to all small businesses undergoing a significant decrease in turnover, is also aimed at those in the sectors most affected by the crisis (restaurants, hotels, events, etc.) with a significantly increased ceiling on aid (EUR 10 000 per month, then EUR 200 000 per month from December) as well as the size of eligible companies (up to 50 employees, then without a ceiling from December).

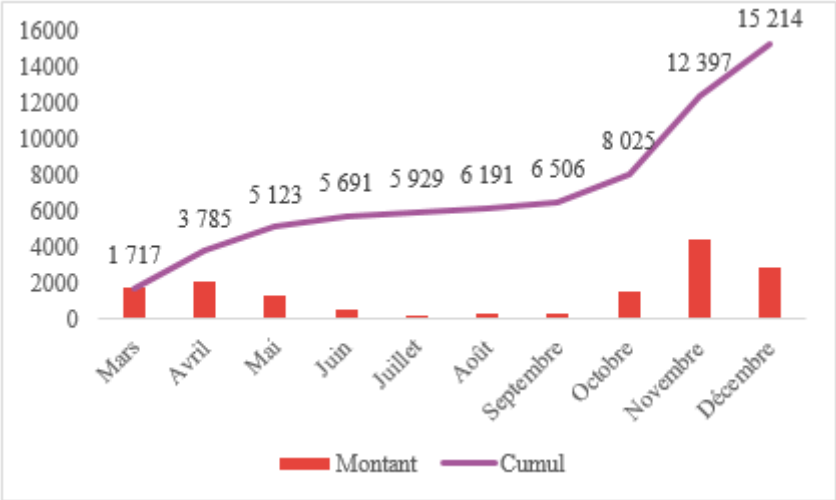
Table n°2: Evolution of the solidarity fund between October and December 2020

	October	**November**	**December**
Activity sector	All (curfew zone) administrative closure, S1 and S1 bis outside curfew zones	All	All
Limits of employees	50		None
Limits of turnover	None		
Methods of calculation	Up to 100% loss of turnover within the limit of the ceiling (variable according to sector and zone); for bans on receiving the public, distance selling is not included in the calculation of loss of turnover		100% loss of turnover up to 10,000 EUR or 20% monthly turnover up to 200,000 EUR ; for bans on receiving the public, distance selling is not included in the calculation of loss of turnover
Amount ceiling	1 500 EUR (All) administrative closure, fire zones, S1 and S1 bis)	1 500 EUR (All) administrative closure, S1 and S1 bis)	1 500 EUR (All) administrative closure, zones, S1 and S1 bis, discotheques and ski resort)
Number of potentially eligible companies	indeterminate	3 000 000	200 000 (increased aid) + 3 000 000

Source : French Cour of Accounts, according to the general directorate for enterprise.

As a result of changes in the eligibility criteria, expenditure increased sharply between October and December 2020, with EUR8.7 billion compared to EUR6.8 billion for the previous seven months (of which EUR0.3 billion for strand 2).The resources made available to the Fund were more than doubled in the Amending Finance Act of 30 November 2020, reaching EUR19.8 billion.

Graph n°1: Tier 1 aid paid in 2020 per compensated month (in M€)



NB: As at 31 January 2021, the aid paid was for the months of March to December 2020.

Source: French Court of Accounts based on provisional data from the Directorate General of Public Finances (DGFIP) as at 28 February 2021.

An evolution to be mastered, controls to be strengthened

Gradually, the fund has shifted from a general tool to support the income of self-employed or small business managers, to the support of more sustainable measures aimed at preventing the bankruptcy of larger businesses, particularly in the areas of catering, hospitality, tourism, events, sport and culture. The Fund's general operating principles have not evolved in parallel, as the vast majority of aid applications retain a quasi-automatic payment based on essentially declarative information. However, the use of the same tool, for very different audiences and objectives, carries risks that need to be controlled. Thus, since the solidarity fund can be combined with other State aid, regional support funds or even certain social security organisations, it is possible to pay a cumulative amount of aid in excess of the damage suffered. On the other hand, the risk of fraud is increased, since it is a question of paying higher amounts of aid in a sustainable way. The administration, aware of the consequences of this situation, has initiated a modification of its procedures and a strengthening of controls.

The solidarity fund is meant to be gradually phased out, with the end of the health crisis. Its extinction will have to be carried out with caution because it contributes, together with the other mechanisms put in place in the context of this crisis, to keeping companies which would have disappeared without this aid, independently of the health crisis, in operation. The abolition of the solidarity fund and other emergency measures, which is necessary once the calming of the health crisis has led to a return to normal activity, could lead to a significant resurgence of business failures.

The French Court makes the following recommendations to the Ministry of Economy, Finance and Recovery:

1. in accordance with the regulations, to charge the contribution of local authorities to the Solidarity Fund for operating expenditure;
2. to put in place tools to prevent the cumulation of aid paid to a company to exceed the damage suffered;
3. to support the increase in the amount of aid and the extension of the fund to larger enterprises through the introduction of a more demanding aid instruction and a strengthened fraud prevention and sanctions measure.