

Rescuing businesses to save livelihoods

A G30 report prescribes key measures that governments across the world can adopt to keep corporates afloat

ANURADHA GURU

When the Covid-19 pandemic hit the world, the first reaction of governments across the world was to save lives. Prime Minister Narendra Modi gave the mantra “*jaan hai to jahan hai*”. What followed were unprecedented lockdowns to contain the spread of the virus and minimise casualties, with the word lockdown winning the Collins Dictionary’s Word of the Year 2020 title for its “unifying experience for billions” and for one that “sums up the year” for most people.

While lives were being saved, livelihoods were vanishing, causing the further fear of losing lives for reasons other than the virus. The mantra changed to “*jaan bhi aur jahan bhi*”. Businesses, which are the lifeblood of an economic system, needed to be saved from untimely death to save the lives dependent on them.

Key questions

Swift fiscal and monetary responses followed to ensure liquidity. The full impact of these stimulus packages is not yet fully visible. Pertinent policy questions which governments and think tanks may need to ponder over are — How much and for how long should these stimulus packages continue? Who should bear the cost of such packages? What should be the medium- to long-term plan to rescue, revive and revitalise businesses? How to handle the issue of moral hazard while taking such rescue measures? These are also the key policy considerations for the Centre as it prepares for the Budget 2021-22.

The G30, an independent global body of economic and financial leaders drawn from various spheres, provides a blueprint for the “why, when, and how” of the interventions that policy-makers can make for “reviving and restructuring the corporate sector post-Covid”.

With luminaries such as Raghuram Rajan, former RBI Governor, and Mario Draghi, former ECB President, as co-chairs for this report, it is useful to see what insights it has to offer.

Governments need to act urgently to tackle the growing corporate solvency crisis with the health crisis prolonging and threatening economic stagnation.



Bankruptcy pressures Governments need to rethink support for companies AP

Sooner than later the corporate solvency crisis will raise its head, having been artificially controlled by a slew of quick measures, such as temporary adjustments in insolvency laws, maintaining consumption levels of households etc taken across the world.

This first phase of liquidity-focussed policy measures has done its part in preventing a deluge of corporate insolvencies. It is time to reorient interventions with a more targeted approach; keeping in mind rising public debt levels which could easily become unsustainable.

Just as the coronavirus vaccine is being targeted to the most vulnerable population to start with, scarce economic resources also need to be targeted at businesses most in need based on an objective criteria. The report suggests spelling out policy goals to identify target group of firms which most deserve to be saved and prevent the problem of zombie financing. Priorities need to be identified and certain questions addressed — Is it the large corporates or the SMEs that command more attention? Do we prioritise job preservation or allow “creative destruction”? How much fiscal headroom does the government have? Can foreign sources of private funding be mobilised to support the corporates?

A good set of firms to target would be those where market failure due to the pandemic could have substantial social costs. These would include SMEs, large firms that are highly leveraged but economically sound, and non-SME firms that are otherwise at low-leverage, but with an uncertain sustainable business model.

Based on this underlying framework, the report proceeds to triage firms and suggest policy focus based on parameters such as economic viability; degree of leverage and nature of financial constraint. This exercise yields five category of firms — healthy firms, financially constrained, liquidity challenged, solvency challenged and structurally unsound.

Types of interventions

The report recommends four types of interventions suitable to these firm categories: (a) better target credit to support firms which need it the most, (b) encourage equity or equity-like investments in viable firms, (c) put in place restructuring and bankruptcy procedures which ensure speedy exchange of debt for equity, restructuring of loan terms etc., and (d) over the long term, prepare for future pandemic business interruptions through government backed in-

surance. All these tools may be used together or in combinations as appropriate to an economy’s situation. Design of the intervention will be contingent upon available resources at the disposal of the government; institutional capacities and social and political priorities.

Any intervention zeroed in should be cognisant of the danger of creating moral hazard problems, especially for companies which were already at high leverage levels before the pandemic struck. Further, intervention design may need be differentiated for MSMEs. The report makes detailed recommendations on each of these aspects.

The report recognises the likelihood of the real sector crisis spilling over to balance-sheets of banks and financial institutions. It suggests additional policy actions to encourage efficient and effective methods of dealing with large volumes of bad debt as a product of this crisis. These include governments buying or guaranteeing bad assets; establishing “bad bank” structures and encouraging the use of specially designed asset management companies to take on non-performing assets.

In sum, the report recommends the following core principles for policy-makers in developing their policy response to support the corporate sector in the aftermath of the pandemic: Act urgently, target carefully, adapt to new business realities, governments must intervene only to address market failure allocations, tap private sector expertise to optimise resource, balance national objectives with business support measures, minimise risks and share losses, take care of moral hazard issues, work out timing, staging and longevity of interventions and anticipate spill overs to financial sector and prepare accordingly.

Going forward, once the pandemic is controlled, nations should endeavour not to lose lives because of lack of livelihoods. Preparing the ground now for that post-pandemic world requires focus on saving businesses which provide bread and butter to survive. This is also essential for long-term economic resilience and growth.

The writer is an officer of the Indian Economic Service. Views expressed are personal