

RESEARCH ON THE MODEL, EVOLUTION AND DEVELOPMENT OF CHINESE GOVERNMENT GUIDANCE FUND

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ABSTRACT

As a "government + market" policy tool, government guidance funds mainly use financial leverage to lead market-based funds to achieve the policy goals of promoting local economic growth and cultivating key industries. The government guidance fund of in China started around 2002, entered a period of rapid growth in 2015, and entered the stage of stock optimization in 2017; the fund management model has shown a positive trend of large-scale and standardized development. The study aims to find out the model, evolution and development of Chinese government guidance fund. The study used qualitative methods with case study approach. The study reveal that in the future, the government guidance fund is gradually improving its system design, giving full play to its guiding attributes, supplementing the shortcomings of China's capital market fundraising, and promoting the development of the real economy in the real industry.

INTRODUCTION

In China, government guidance fund refers to a kind of policy-based private equity fund that is invested by the government and sends signals to the market through the government's equity investment and other behaviors to guide social capital. On the one hand, the government guidance fund guides the market capital to favor the key direction and region through investment behavior. On the other hand, it complies with the market rules and carries out market-oriented management and operation. It also aiming to avoid excessive intervention. Under the policy background of encouraging mass entrepreneurship and innovation and driving equity investment, government guidance funds across the country have grown rapidly. After more than a decade of development, China's government guidance fund has formed unique advantages in investment and financing mechanism innovation, public resource allocation and capital allocation, which has played a positive role in fostering key industries, boosting industrial. It upgrade and promote economic and stimulate local employment, thus realizing the original intention of the policy. The essence of government guidance fund is guidance, support and supervision. In addition to providing funds, the government also needs to show "leading" on the one hand, leading capital to invest in national and local strategic emerging industries; More than this, it embodies "amplification" to realize the leveraging effect of funds and guide the active participation of social capital. The landing and operation of government guidance funds

need supporting social capital, while the multiple policy objectives and market-oriented funds and managers have natural differences in investment demands, which causes many problems in the development process of guide funds. At present, the earlier set up of the guide fund into the exit period, part of the fund investment effect is not ideal and resulting in unable to cycle investment; The establishment of new funds has encountered difficulties such as fiscal expenditure reduction and market fundraising difficulty. The "leading" and "magnifying" effects of government guidance funds have been reconsidered, and the development model and governance structure of guide funds in some regions have begun to change.

Existing literature has given different definitions of government guidance funds, ranging from a narrower "funds managed by government agencies" to a broader definition including "tax policies that encourage private investors to intervene in venture capital investment." Some scholars regard the policy measures of making equity or equity-related investments in startups in a broad sense or attracting financial institutions to commit to such investment activities as the scope of government guidance funds, usually named as Government Venture Capital, Government Venture Capital (Funds), Public Venture Capital; some scholars believe that the guiding fund is a public and private hybrid fund, usually named as Government-Sponsored (Funded) Venture Capital, Publicly Sponsored (Supported) Venture Capital Funds, Hybrid Venture Capital Funds; some other scholars believe that projects that help the development of the technology industry through direct investment or tax policies can be regarded as government guidance funds. Commonly named as: State Venture Capital Programs, State-Assisted Venture Capital Programs, Public Venture Capital Programs. In China government guidance funds refer to policy funds established by the government and operated in a market-oriented manner. They mainly support the development of venture capital enterprises and guide social funds into the field of venture capital.

There is no clear official definition of government guidance funds. The current definition of guidance funds is mainly based on the "Guiding Opinions on the Standard Establishment and Operation of Venture Capital Guidance Funds" jointly issued by the National Development and Reform Commission, the Ministry of Finance and the Ministry of Commerce in 2008: Government guidance funds are Policy funds established by the government and operated in a market-oriented manner mainly support the development of venture capital enterprises and guide social funds into the field of venture capital; government-guided funds themselves do not directly engage in venture capital business. At a practical level, in addition to venture capital investment guidance funds, government guidance funds also include industrial investment guidance funds and angel investment guidance funds.

The government guidance fund has the following three characteristics: first, it is a non-profit policy fund, not a commercial fund; second, the functioning mechanism is to guide social funds into the investment field, rather than directly engage in Venture capital; third, operate in a market-oriented way of compensation, not through grants, discounts or risk subsidies for free.

The government guidance fund is a new type of fiscal tool that combines the government and the market. The essence is that the government intervenes on the capital supply side as a fund supplier (Bertoni et al., 2015). According to the "Interim Measures for the Administration of Government Investment Funds", the government guidance fund adopts a "market-oriented approach" to operate, which means that the government guidance fund has the ability to simultaneously play the role of a "effective government" and an "effective market", which is in line with the role of the market and The role of the government is organically unified, complemented and promoted. Government guidance funds use the capital owned by the government or local governments, financial institutions and other institutions to invest in equity and debt in startups to support the development of startups (Jianqiang et al., 2008). The main

sources of funds include scientific and technological funds paid by the government, funds obtained through the realization of state-owned assets, and capital of enterprises with strong social capital (Wanshou, 2005).

Regarding the role of government guidance funds in promoting corporate innovation, some researchers believe when public and private funds are combined, the innovation guidance effect is the best (Bertoni & Tykvová, 2012). Some other scholars believe that if the government participates in venture capital projects for too long, it will not only be of no help to enterprise innovation, but may also be counterproductive and cause enterprise inertia (Sohn & Hur, 2012).

However, the research results of most scholars have affirmed the role of government guidance funds in corporate innovation. Audretsch et al. (2002) found that from the perspective of profit distribution, private investors cannot guarantee a reasonable distribution of returns from R&D investment, and government guidance funds will take into account the income of innovators to provide conditions for re-innovation. Fritsch and Schilder (2006) believes that the policy orientation determines the value of the government guidance fund is to provide capital and management support for venture capital companies to promote entrepreneurial innovation and development. Yanxia and Wudong (2012) proposed that government guidance funds can not only play the guiding role of national financial funds to help support the development of small and medium-sized high-tech innovation industries, but also drive social capital to support the development of innovative enterprises with national image and government responsibilities, and enable the government to guide The fund produces a multiplier effect to compensate for the high capital needs and financing difficulties of emerging high-tech SMEs. Conghui and Siliang (2018) found that companies supported by the Science and Technology Entrepreneurship Guidance Fund have more innovative output; and the more fund inputs they receive, the more entrepreneurial companies output. Jianwei et al. (2018) found that the local investment of government guidance funds is better than private venture capital funds in promoting corporate innovation. Xudong et al. (2020) believe that government guidance funds can directly inject capital into invested companies through equity participation in sub-funds, and ease the financing constraints faced by invested companies. More importantly, government guidance funds can achieve regional financial resources by leveraging social capital. The agglomeration of social capital will guide social capital into industries and fields with a high degree of innovation, thereby promoting regional enterprise innovation and industrial structure optimization.

In terms of the mechanism of action, government guidance funds usually seek the squeeze-in effect of social private capital, expand the risk investment market, attract private and independent investors, and drive social capital to participate in innovative activities focusing on entrepreneurial enterprises. The research of Hood (2000) shows that the Scottish Development Finance (SDF), a government guidance fund project in Scotland, has led to a series of private venture capital funds. The SBIC (the Small Business Investment Company, SBIC) program established by the U.S. Congress has been hailed as a benchmark for successful cases of global government guidance funds. Direct and indirect government intervention has driven a large amount of social funds, which has produced a leverage effect (Jääskeläinen et al., 2007). Brander et al. (2008) tested the squeeze-in effect of venture capital funds and found that companies that received both government guidance funds and private venture capital funds received more equity financing than other companies. Participation can drive the participation of more private venture capital funds. Dakai and Dandan (2012) found that the number of private equity social investment projects in provinces that have established government guidance funds is significantly greater than that of provinces that have not

established guidance funds. It can be seen that government guidance funds have a strong motivation and effect to leverage social capital. [Jingyang \(2015\)](#) analyzed government guidance funds at home and abroad and concluded that government guidance funds can play a leverage role and leverage social capital. At the same time, it can also amplify its own role and improve use efficiency. [Minli et al. \(2015\)](#) tested the squeeze-in effect of Chinese government guidance funds and found that cities that have established government guidance funds are significantly higher than those without government guidance in terms of the scale of venture capital financing, the number of venture capital institutions, and the number of limited partners. The city of the fund.

However, at the same time there are quite a few examples showing the failure of government guidance funds. [Armour and Cumming \(2006\)](#) conducted a survey of 15 Western European and North American countries, and could not find examples that support the squeeze-in effect of government guidance funds. Research by [Bertoni et al. \(2015\)](#) shows that although European governments try to invest in small seed-stage startup companies by setting up government guidance funds to fill the gaps in venture capital of private venture capital funds, these projects have failed to promote society. capital.

The urgent problems to be solved in the future development of Chinese government guidance fund mainly focus on solving the problem of better adaptation between the government and the market. Due to their market-oriented status, managers of government-guided funds' participation in sub-funds are more inclined to provide funds to companies that do not originally face severe financing constraints. For companies facing higher financing constraints, they are more inclined to provide funds due to risk and return considerations. The unwillingness to provide funds in turn makes the policy effect of easing financing constraints and stimulating corporate innovation insignificant ([Xudong et al., 2020](#)). The "long cycle" requirements for the development of innovative projects are not integrated with the "short cycle" characteristics of sub-fund investment. The investment period of government-guided funds is maintained at 3 to 5 years, and the duration of the fund is mostly stable at 7 to 10 years, but The growth cycle of enterprise innovation projects, especially early projects, often exceeds 10 years, which makes it difficult for such projects to be favored by investors in the market of fund management institutions, and causes deviations in the actual investment direction of funds. Second, the government guidance fund is established by the local government, and local government officials will set up investment restrictions that are conducive to regional economic development based on the competitive pressure of the "promotion tournament" ([Zhou Li'an, 2007](#)). In order to solve this problem, [Ruizhe \(2009\)](#) believes that the establishment of a special institution to manage the venture capital guidance fund can give full play to the benefits. [Wenli and Siya \(2014\)](#) found that the current relevant systems and policies are not perfect, and there are even contradictory guidance for some policies. They believe that relevant policies and systems still need to be further improved, clarify the government's position, and strengthen the guiding role. [Haitao and Yupeng \(2016\)](#) put forward the development countermeasures of the government guidance fund from the institutional level, and believed that the establishment of the advance planning system can play a good role in supporting its development.

Since its establishment, the government guidance fund has undertaken the policy goals of boosting the development of the national economy, guiding enterprise innovation, and promoting industrial transformation and upgrading. But since its establishment, it has been in the focus of the debate about whether public intervention by social capital is economically efficient. In this regard, domestic and foreign scholars have drawn positive conclusions from early case studies to later empirical studies on the role of government guidance funds on the

development and growth of enterprises. [Lihong and Xinshuang \(2007\)](#) found that after 20 years of investment, the government guidance fund has been able to achieve the goal of promoting the development of small and medium-sized enterprises and the development of the national economy. [Collewaert et al. \(2007\)](#) found that government guidance funds can play a benign chain role. By providing financial support to SMEs, they can promote their development. At the same time, SMEs can also promote the development of the regional economy, and the regional economy can also promote the production of other The indirect effect. [Chaoyun and Yu \(2009\)](#) studied the development process of venture capital in other countries, compared and analyzed the regional economic structure of the two sides of the Taiwan Strait, and found that government guidance funds have also realized the role of supporting industrial development policies, boosting regional economic development, and helping early entrepreneurial enterprises. [Xinyan et al. \(2015\)](#) achieve a comparative analysis of the role of China and the United States' guidance funds, and concluded that Chinese entrepreneurship guidance funds have three major roles in improving imbalances, promoting the country's industrial structure upgrade, and improving the financing difficulties of small and medium-sized enterprises. The research of [Brander et al. \(2015\)](#) shows that, compared with private investment, government guidance fund investment with the dual attributes of public investment and private investment can significantly promote the growth of enterprises. To sum up, although the existing literature has conducted research on the promotion of employment and growth of government guidance fund companies, innovation guidance, and effects, there are still some open problems.

METHOD

The study employ qualitative study with case study approach. Case study case study as "an in-depth exploration of a bounded system (e.g., an activity, event, process, or individuals) based on extensive data collection ([Creswell & Poth, 2016](#)). The study took place in China. China Land Reclamation Industry Development Fund (Limited Partnership) was established in 2018 with a target scale of 50 billion RMB and the first phase of 10 billion RMB. It is managed by China Merchants Capital Holdings Co., Ltd., the Ministry of Finance of the People's Republic of China, and Zhaoken Capital Management (Beijing) Co., Ltd., Life Insurance Asset Management Co., Ltd., and Shenzhen Tongshang Huifu Investment Partnership (Limited Partnership) were initiated and established and managed by Zhaoken Capital Management (Beijing) Co., Ltd. The fund will leverage social funds to participate in the implementation of market-based debt-to-equity swaps at a ratio of no less than 1:1, and will closely focus on high-quality assets in the national agricultural reclamation system and related upstream and downstream industries to carry out equity investment, and serve the central rural revitalization proposed by the 19th National Congress of the Communist Party of China. The strategy focuses on supporting the reform and development of agricultural enterprises in large-scale reclamation areas across the country, helping leading enterprises in the agricultural reclamation industry to grow bigger and stronger, and creating a modern agricultural group with international competitiveness.

The Ministry of Finance of China will, in accordance with relevant regulations, strengthen the supervision and guidance of the operation of the agricultural reclamation fund, actively pry the leverage of financial funds, activate existing assets, attract social capital to enterprises in the reclamation area, integrate the production, processing and circulation of important agricultural products in the reclamation area, and promote resources Optimize the configuration, promote quality agriculture, green development of agriculture and rural areas, and industrial transformation and upgrading, promote the integrated development of primary,

secondary and tertiary industries, cultivate large enterprises and groups with international competitiveness, and give full play to the role of agricultural reclamation in promoting agricultural and rural modernization and implementing rural revitalization strategies The backbone of the role.

RESULTS AND DISCUSSION

A. The model of Chinese government guidance fund

1. The model of Chinese government guidance fund

At present, government guidance funds can be directly or indirectly guided to the enterprise level according to government funds, which are divided into direct guidance and indirect guidance. Under the direct guidance model, the first is that the government establishes self-managed fund projects or invests in the establishment of venture capital institutions, and invests funds in venture capital in the form of equity, debt or a mixed form, usually for the promotion of a certain industry or a certain type of enterprise venture capital development the goal. Under the indirect guidance model, the guidance fund uses equity or debt to invest in market-oriented investment funds to inject capital into start-up companies to form Hybrid Funds (OECD, 1997). According to their investment methods, they can be roughly divided into two categories: One is private-public funds (Private-Public Funds), which are jointly funded by public capital and private capital, match private investment with public funds, and are managed and managed by the private sector make investment decisions (Clarysse et al., 2009). The other type is Fund of Funds, that is, government-guided funds invest in other investment funds.

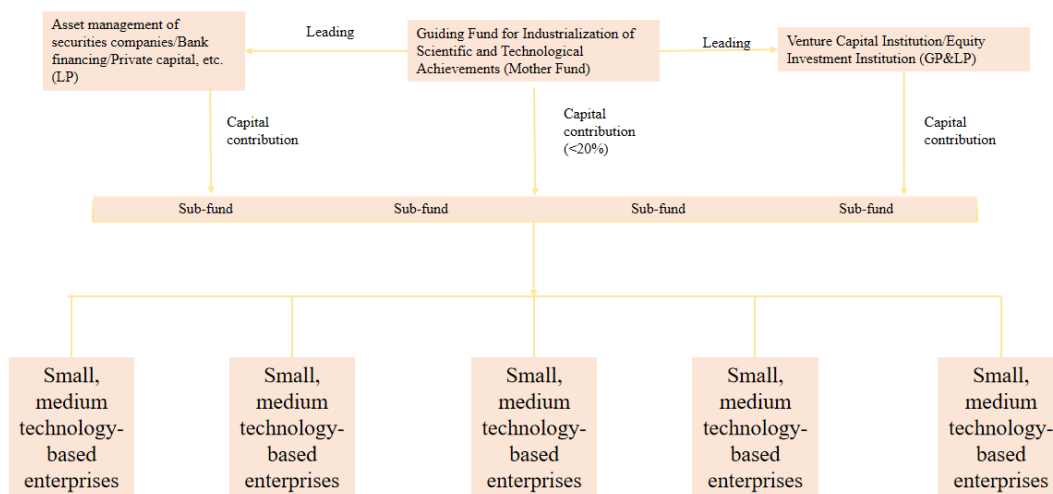


Figure 1. Construction of government guidance fund

2. Organization form

Government guidance fund can adopt company system, limited partnership system, contract system and other organizational forms. Domestic government guidance fund usually adopts limited partnership system.

Table 1
Organization form

Organizational form	Statement
Corporate fund	A corporate fund is a legal entity established in accordance with the company law. Funds are raised through shares, with investors acting as shareholders. In terms of management, there are two forms of self-management and entrusted management.
Contractual fund	Contractual funds mainly have trusts, asset management plans and other models. Investors have ownership and are separated from the management rights of the fund, which is conducive to the long-term operation of the fund.
Limited partnership fund	A limited partnership fund is composed of a general partner (GP) and a limited partner (LP). Investors usually participate in the investment as a limited partner, and only retain a certain degree of supervision, and are liable for debts within the limit of their subscribed capital contributions. The general partner is responsible for the operation and management of the fund and bears unlimited joint and several liability for debts. The remuneration structure of general partners takes profit distribution as the main form. The excess income is distributed between GP and LP at a 2:8 ratio. Government guidance fund in this form of organization are the most common.

3. Source of funds

a. State-owned funds

Government funders include government finances at the same or lower level as well as local investment and financing platforms. In addition, government funding must comply with the following three requirements: First, the financial department at the same level must incorporate the current year's government funding into the annual government budget; second, the form of capital contribution from the higher-level government can include transfer payments to lower levels or co-financing; third, appropriation. When funding, as the current budget expenditure, it is reflected by the corresponding expenditure classification account. Such as the National Science and Technology Achievement Transformation Guidance Fund, the Zhejiang Provincial Infrastructure Investment Fund, and the Jiangsu Provincial Government Investment Fund. The first-phase funding sources of these funds all come from government finances.

b. Social capital

The source of funds for government guidance funds is diversified. In addition to the form of full government funding, the government can also co-finance with social capital such as banks, insurance, and private capital. Funds with this kind of shareholder structure often account for a relatively small proportion of government capital, usually 10% to 30% of the total fund size. For example, Tianjin Guiding Fund requires the government to contribute no more than 10%; Shandong Guiding Fund requires the government to contribute 10% to 25%; Jiangxi Guiding Fund and Yantai Guiding Fund require the government to contribute no more than 30% and 25% respectively, and The government must not be the largest investor. Government funds

are generally in place at the end, or the contribution will be made in batches after a certain proportion of the social capital is raised. Generally, if the social capital contribution is more than 70%, the government fund should be at least 50%; if the social capital contribution does not meet the requirements, a commitment to raise the minimum scale.

c. Foreign capital

In recent years, Chinese government guidance funds have begun to explore the introduction of foreign investors. At present, a small number of domestic guiding funds have introduced domestic branches established by foreign institutions. Some funds have begun to try to jointly establish overseas funds with overseas institutions, and then return them to China as shareholders. In the context of financial openness, government guidance funds will introduce foreign capital in more ways. For example, in 2011, Shanghai took the lead in liberalizing QFLP(Qualified Foreign Limited Partner, Qualified Foreign Limited Partner). Currently, QFLP pilot areas nationwide include Shanghai, Beijing, Chongqing, Tianjin, Shenzhen, Qingdao, Guizhou, Pingtan, and Zhuhai. QFLP may become an important means for the government to guide funds into foreign capital.

B. The evolution of Chinese government guidance funds

In 2002, China established the first government guidance fund-Zhongguancun Venture Capital Guidance Fund; Since 2006, a series of regulatory documents have been issued one after another, especially the 2008 "Regulations on Venture Capital Guiding Funds" After the "Guiding Opinions on the Establishment and Operation of Funds" was promulgated, Chinese government guidance fund gradually began to standardize its development; in 2016, the establishment of Chinese government guidance fund reached its peak, and the stock optimization stage began in 2017, with the establishment of guidance funds declining in scale and quantity year by year. In particular, it could be divided into several stages:

The first stage: 2002-2007, the initial stage of exploration. In 2002, the Zhongguancun Venture Capital Guidance Fund was established, marking the birth of Chinese first guiding fund in a true sense. Since then, our country has gradually established the "Law on the Promotion of Small and Medium-sized Enterprises" and other government guidance funds have clarified their supporting functions and responsibilities; however, the supporting laws and regulations at this stage are not yet complete and lack guiding significance for actual operations.

The second stage: 2008-2016, which is a period of rapid development of regulations. Since 2008, the "Guiding Opinions on the Standardized Establishment and Operation of Entrepreneurship Guidance Funds", the "Interim Measures for the Administration of Government Investment Funds" and the "Interim Measures for the Administration of Government Assets Industry Investment Funds" and other specialized regulatory documents have been issued successively, clarifying government guidance funds The nature and purpose of the fund, sources of funds, operating principles and methods, and investment fields, etc., and regulate the establishment, operation, risk control and exit mechanism of the fund. At this stage, the scale of government guidance funds began to grow rapidly.

The third stage: Since 2017, the growth momentum has been insufficient. The slowdown of economic growth has made it difficult to fund the supporting social capital required by the guidance fund. In addition, affected by the tightening regulatory factors such as the "New Asset Management Regulations", the difficulty of fundraising has further

hindered the development of the guidance fund. Market funds are in short supply, and some government-guided funds cannot really land, and the growth rate of scale has declined; since 2017, the target scale growth rate of newly established funds has been only 2.93%. In 2020, due to the impact of the new crown epidemic, economic development and fiscal expenditure reduction, the funding of the guidance fund will be even more optimistic.

C. Development status of Chinese government guidance fund

According to the data of China Investment Research Institute (Figure 2), as of the end of June 2020, the scale of government-guide fund has exceeded 2.1 trillion, and the total number has reached 1,349. The expected total scale of the parent-child fund group after enlargement is 9.4 trillion. From 2012 to 2019, the number of guiding funds increased by 1,158, with a compound annual growth rate (CAGR) of 33.65%. The total scale of the establishment of guiding funds increased by RMB 2,024.6 billion, with a compound annual growth rate of 59.32%.

Apart from this, the number and scale of Chinese government-guidance funds reached its peak in 2016. In 2016, 406 new guidance funds were established, with a scale of RMB 540.2 billion. After entering the stock optimization stage, the number of newly established funds in each year And the scale has slowed down significantly. In 2019, 74 new guidance funds were established, with a scale of 190.6 billion yuan; the number increased by 5.88% from the previous year, and the scale increased by 10% from the previous year; in the first half of 2020, 16 new guidance funds were established with a scale of 39.8 billion Affected by the epidemic, the scale and amount of the guidance fund have fallen sharply.

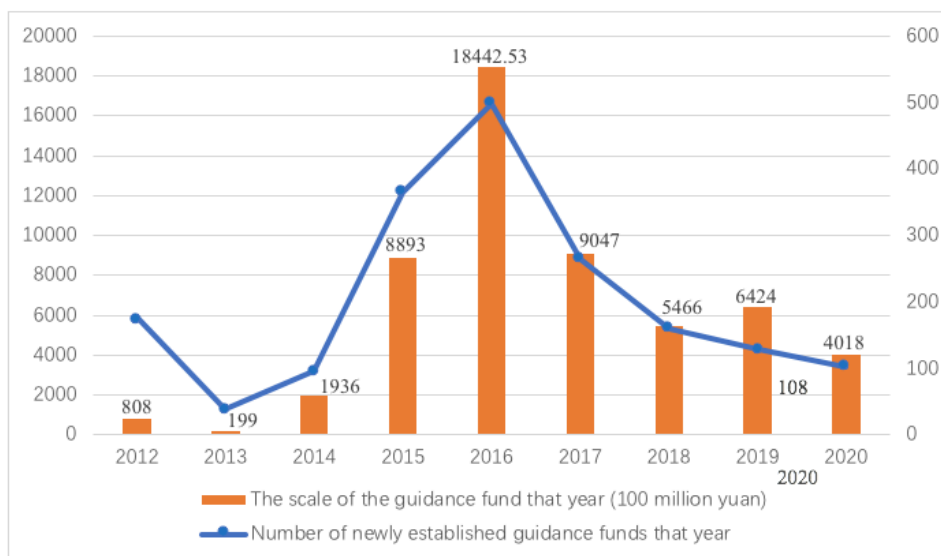


Figure 2. 2012-2020 The number and scale of guiding funds established
Data resource : Zero2IPO

From the level of guidance funds, Chinese government guidance funds are divided into national, provincial, municipal, district and county levels. As of the data for the first half of 2020 (Figure 3), the guidance funds are mainly at the municipal level, accounting for 51% of the total amount of the country, and 43.5% of the total scale; the number of national government guidance funds is relatively small, accounting for only 1.41% of the total amount of the country, but the size of the fund accounts for 8.07% of the country's total

scale, which shows that the single fund of the national government guidance fund is relatively large.

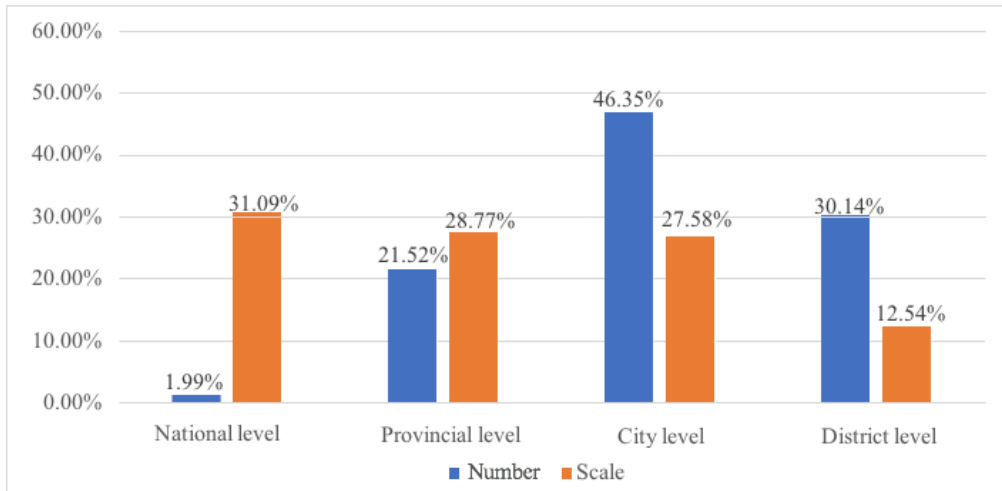


Figure 3. Amount and size of government guide funds at all levels nationwide 2020
Data resource : Zero2IPO

In terms of geographical distribution, as of the first half of 2020 (Figure 4), a total of 587 guidance fund bases have been established in East China, which accounting for 43.5% of the country; the total fund size reached 735.8billion yuan, accounting for 34.3%; both ranked first in the country. The total scale of government guidance funds in North China reached RMB 506.6 billion with a total of 215 government guidance funds were established and ranks second in the country; The total scale of government guidance funds in South China reached 375.2 billion yuan, and a total of 189 government guidance funds have been established, ranking third in the country in terms of number and total scale. In 2019, the scale of newly established guidance funds in the northwest region of the country increased significantly, and the growth rate of the remaining regions showed a significant slowdown.

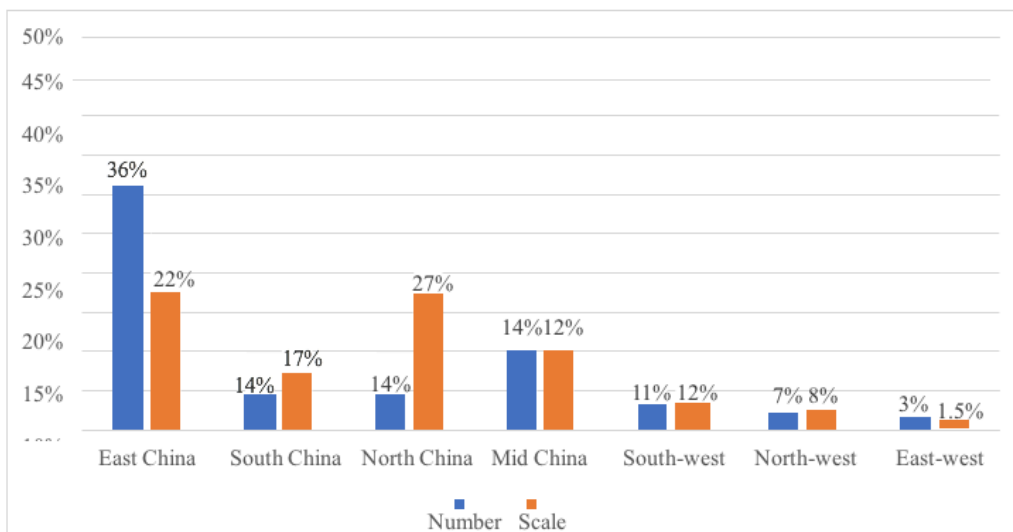


Figure 4. Geographical distribution of government guidance funds as of 2020
Data resource : Zero2IPO

From the perspective of province distribution, the overall scale of Beijing, Jiangsu and Guangdong (excluding Shenzhen) ranks 1st to 3rd respectively; the six hotspot jurisdictions of Beijing, Jiangsu, Guangdong, Zhejiang, Shenzhen, and Shanghai have a total of 952.736 billion guiding funds. Yuan, accounting for 44.41% of the country's total scale. Although Shenzhen's overall scale does not rank among the top three, due to the small number of guiding funds, the scale of each guiding fund reaches about 3.9 billion, ranking first in the country, slightly higher than Beijing's about 3.5 billion.

D. The Development Dilemma and Trend of Chinese Government Guidance Fund

The essence of government guidance funds is guidance, support and supervision. In addition to providing funds, the government also needs to embody "leading" on the one hand and lead funds to invest in strategic emerging industries at the national and local levels; on the other hand, embody "amplification" to achieve the leveraging effect of funds and guide social capital to actively participate. The landing and operation of government-guided funds require supporting social capital, and multiple policy objectives and market-oriented funds and managers have investment demands. There are natural differences, which have caused many problems in the development of guiding funds. At present, the guidance funds established earlier are entering the exit period, and some funds have unsatisfactory investment effects, which makes it impossible to recycle capital; the establishment of new funds has encountered difficulties such as compression of fiscal expenditures and difficulty in fundraising in the market. Government guidance funds are "led" and "amplified." The effect has been reflected, and the development model and governance structure of the guidance fund in some areas have begun to change.

1. Insurance capital may be a new source instead of financial contribution

Chinese recognized guiding fund year is 2016, and then it ushered in several years of continuous decline in scale growth. From a macro-financial perspective, as the economy enters a new normal, fiscal contributions have gradually slowed down; the sudden outbreak of new coronary pneumonia in 2020 has consumed a huge amount of local finances, and the establishment and capital contributions of the guidance fund are declining at a double rate, and this phenomenon is expected to continue to grow. Long time. From the perspective of the development of the guidance fund itself, a batch of funds established earlier have reached the exit period, but after liquidation, it was found that some of these funds could not be recovered, some did not meet the original expectations, and some DPI was even lower than 1, which eventually led to the fund Unable to recycle investment.

In 2020, only 4 national guidance funds will be established nationwide, the National SME Development Fund, the National, the Green Development Fund and China Cultural Industry Investment Fund of Funds, and State-owned Enterprise Mixed Reform Fund, with scales of 35.75 billion, 88.5 billion, 50 billion, and 70.7 billion, respectively. In 2021, under the superposition of various macro factors, it is difficult to improve the problem of financial capital contribution in the short term; bank capital contribution has been subject to strong restrictions since the "New Asset Management Regulations"; although there is no institutional obstacle to the capital contribution of bank wealth management personnel, they are waiting and watching the market The mood is still strong. On July 15, 2020, the State Council executive meeting clearly lifted the restriction on insurance funds for financial equity investment industry, and nearly 20 trillion yuan of insurance capital became the largest potential investor in the equity investment industry. On December 3, 2020, Taikang Investment, a subsidiary of Taikang Insurance Group,

successfully registered a 2.5 billion Taikang Qianzhen Equity Fund in Zhangjiagang Industrial Capital Center. The Taikang Qianheng Equity Fund of Funds with a total scale of 1.2 billion yuan became the first equity fund of funds established by insurance capital. The gradual liberalization of insurance capital policies and the gradual attempts of the market may become a new source of live water for guiding funds (funds of funds).

2. The return investment ratio constrains development and policy is getting relax in some regions

Local governments set up guide funds to promote local economic development as the policy goal. Therefore, the investment of guide funds has always been subject to stricter restrictions on the proportion of return investment. The guiding fund itself needs to support market-oriented funds, but due to the high reinvestment requirements, there is a certain divergence with the investment needs of market-oriented GPs: for areas with a better investment environment, the reinvestment requirements of LP and the income demand of GP are not the same. Contradiction; but for relatively backward areas, the investment direction of the fund will soon be restricted by the local industry ceiling.

At present, many local governments have realized the constraints of the reinvestment ratio on the development of guidance funds, and have made relatively large adjustments to the restrictions on the reinvestment ratio. The first category is to directly reduce the agreed return ratio. For example, Dalian city has drastically reduced the proportion of equity participation funds in local companies from 60% to 30%. Xiamen and other places have also dropped similar measures since 1998.

The second category is to enrich the connotation of local investment and indirectly relax the restrictions on the proportion of return investment. For example, since 2018, Jiangsu Province has expanded the definition of "provincial enterprise" to include "subsidiaries, branches or offices that are closely related to the production and operation of the invested enterprise within the scope of Jiangsu province, and after obtaining the investment, the invested company will establish or move the registration place, important production and operation place, main product research and development place, or subsidiary or office closely related to production and operation within the scope of the province during the duration of the industry fund"; Inner Mongolia The investment projects in which the main suppliers are located in the autonomous region are also recognized as re-bids.

The relaxation, whether directly or indirectly, provides convenience for fund management companies to search for high-quality projects on a larger scale. It not only significantly increases the attractiveness of social capital and high-quality management teams, but also increases the expected rate of return of the fund. The next step is to introduce high-quality projects and supply chains from other places to build a linkage.

3. Significant regional differences and cross-regional cooperation funds are gradually increasing

From the geographical distribution of Chinese government guidance funds, they are mainly concentrated in developed areas such as Beijing, Shanghai, Jiangsu, Zhejiang, and Guangdong, accounting for nearly half of the country. However, the number and scale of government guidance funds in the Northeast region accounted for only 4% and 2%. The number and scale of the Northwest region accounted for only 5% and 4%; the regional distribution of government guidance funds is significantly different. As the guidance fund needs supporting social capital, coupled with the restriction of the return investment ratio, the follow-up capital contribution, social allocation and actual investment of the government guidance fund in underdeveloped regions may be out of

touch. China has a vast territory and under the fiscal decentralization system, all localities hope to promote local industrial upgrading and economic growth through guidance funds. However, lack of projects and lack of social capital have made it impossible for guidance funds in underdeveloped regions to be implemented, resulting in a shortage and vicious circle of regional capital and economic backwardness.

Cross-regional cooperation can alleviate regional differences to a certain extent. For example, the Beijing Zhongguancun Collaborative Innovation Investment Guidance Fund established in the Beijing-Tianjin-Hebei region, the SDIC Beijing-Tianjin-Hebei Technology Achievement Transformation Venture Capital Fund, and the Beijing-Tianjin-Hebei Industry Coordinated Development Investment Fund, all focus on the integration of Beijing-Tianjin-Hebei; In addition, the Yangtze River Delta and the Pearl River Delta have established cross-regional government guidance funds with the goal of regional integration development.

4. The governance system needs to be further clarified

The government guidance fund has the attribute of fiscal funds. During its operation, it is additionally subject to the administrative supervision of the Ministry of Finance and the Development and Reform Commission in terms of asset preservation and appreciation, auditing, and industrial investment. The fund has more changes in investment direction, investment form, and post-investment management. Many restrictions; When it comes to the aspect of directions, forms, Post-investment management, it is also getting more restrictions than the others. At the same time, government guidance funds need supporting social capital, which leads to the paradox of dual goals between the preservation of state-owned assets and high-risk scientific and technological investment, the policy goals of state-owned assets and the profitability goals of market funds. Under the different nature of funds and different objective constraints, the government guidance fund lacks a reasonable and effective long-term comprehensive assessment and evaluation mechanism due to its tolerance to risks is lower than that of social funds, resulting in the problem of inefficiency. At present, the government guides the fund to enter the stage of stock optimization, which has higher requirements for the meticulous management of the fund and the improvement of operational efficiency. In October 2020, the Shenzhen Angel Fund of Funds increased its scale from 5 billion to 10 billion. The Secretary of the Shenzhen Municipal Party Committee stated that government officials will no longer participate in the operation of the fund, and the fund will be handed over to the market to exempt the loss of funds without moral hazard. On January 6, 2021, the Jiangsu Provincial Department of Finance issued the "Notice on Strengthening and Regulating the Management of Government Investment Funds", stating that "fund managers are supported to perform their duties in accordance with the law, and government departments generally do not participate in the day-to-day management of funds to ensure fund operations. The decision-making power is not interfered, and the marketization and professional operation capabilities of funds are improved." It can be seen that as various types of guiding funds continue to advance management mechanism reforms such as optimizing performance evaluation mechanisms, introducing market-based management teams, and simplifying decision-making processes, the Chinese government guides funds The degree of marketization has gradually increased.

CONCLUSION

The government guidance fund guides the market capital to favor the key direction and region through investment behavior. Government guidance fund can adopt company system, limited partnership system, contract system and other organizational forms. Government guidance funds can be directly or indirectly guided to the enterprise level according to government funds, which are divided into direct guidance and indirect guidance. Under the direct guidance model, the first is that the government establishes self-managed fund projects or invests in the establishment of venture capital institutions, and invests funds in venture capital in the form of equity, debt or a mixed form, usually for the promotion of a certain industry or a certain type of enterprise venture capital development the goal. The essence of government guidance funds is guidance, support and supervision. In addition to providing funds, the government also needs to embody "leading" on the one hand and lead funds to invest in strategic emerging industries at the national and local levels; on the other hand, embody "amplification" to achieve the leveraging effect of funds and guide social capital to actively participate.

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