Comparative analysis of guide mode of government-oriented industry guidance funds under China’s new normal of economic growth

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Abstract. The government-oriented industry guidance Funds solve the problem of financing difficulty and high innovation under the background of China’s new normal. Through the provinces and cities of the policies and regulations of the collation and comparative analysis, it will be divided into three modes. And then compare among three modes and analyze applicability to guide the construction of provinces and cities.

1. Introduction
Government-oriented industry guidance Funds (hereinafter referred to as "industrial guidance funds") generally refer to a sort of unprofitable policy fund that under the background of economic transformation, upgrading and economic growth slowdown, supporting innovation-type of developmental industries through raising funds to social individual and organization or developing an entrepreneurial enterprise in seed or preliminary stages, including venture capital guiding funds, equity investment guiding funds, industry investment guiding funds, angel investment guiding funds and so on.

In recent years, the CPC Central Committee and the State Council adopted a series of measures to promote economic restructuring and upgrading[1]. But how to effectively play the role of the government to guide the fund, the primary problem is how to choose guide mode of industrial guidance funds that suit its situation.

Up to now, Chinese scholars on the research of government-oriented industry guidance funds focused on its necessity[2], the existence of the problem, the development of the status quo[3], etc. And the mode of industrial guidance funds is also limited to the mode of operation[4] and management mode[5], lacking of systematic, in-depth and relevance. Therefore, in order to solve this problem, this dissertation analyzes the implementation of the industrial guidance funds in the relevant government documents of each provincial and municipal government, and starts overall mode division of industrial guidance funds from the formation to the operation of the entire process. And the mode is compared and analyzed.

2. Division of Guide Mode of Government-oriented industry guidance Funds
According to data of "2016 Chinese Government-oriented Guidance Funds Research Report" (Table 1) which published by Zero2IPO Research Center, we can see that the development of industrial guidance funds is rapid and the main body transformed from the provincial level to city level and country level. But there are three main problems: unequivocal, incomplete information and
information asymmetry. One of the most fundamental question is how to find the industrial guidance fund that is suitable for its owned.

**Table 1.** Development situation of Government-oriented industry guidance Funds.

| Year | National level | Provincial level | City level | Country level |
|------|----------------|------------------|-----------|--------------|
| 2011 | 68             | 70               | 89        | 105          |
| 2012 | 70             | 89               | 105       | 158.99       |
| 2013 | 89             | 105              | 297       | 9            |
| 2014 | 9              | 226              | 417       | 128          |
| 2015 | 105            | 158.99           | 72        | 86.26        |

Through the comparative analysis of provinces and cities related government documents, this dissertation find that there are some rules in the process of setting up and running the industrial guidance funds. The flow chart of division of guide mode of industrial guidance funds is as follows:

**Figure 1. Flow chart of division of guide mode of industry guidance funds.**

According to the formation of different provinces and cities of industrial guidance funds, the dissertation categorizes and integrates 13 provinces and municipal government industrial guidance funds. Through the identification of the 13 provincial and municipal government industrial guidance funds documents in the key words (as shown in Table 2). In general, the national industry guidance fund is divided into the following modes:

**Table 2.** Division basis of guide mode of Government-oriented industry guidance Funds.

| Major government documents | Mode division basis | Mode division results |
|---------------------------|---------------------|----------------------|
| Liao Zheng issued [2015] No. 50 | 1. Participate in investment | Parent fund+sub-fund formation mode |
|                           | 2. Set up equity investment fund enterprises | Indirect investment operation mode |
|                           | Not directly engaged in equity investment, not directly investing in specific enterprises and projects | |
| Su Zheng Ban issued [2010] No. 153 | 1. Cooperate with city guidance fund, stage equity participation, follow up investment, investment protection and risk subsidies | Parent fund+venture capital business formation mode |
|                           | 2. Attracting social capital co-sponsored the establishment of venture capital enterprises | Direct+indirect investment operation mode |
| Hei Zheng Ban issued [2010] No. 51 | Initiated the establishment of a new venture capital fund or venture capital institutions | Parent fund+sub-fund (venture capital firm) formation mode |
|                           | 1. Stage equity participation, follow up investment and financing guarantee | Direct+indirect investment operation mode |
|                           | 2. Support for the venture capital institutions | |
Chuan Fu issued [2015] No. 49
Take the equity approach to direct investment projects (enterprises), generally do not set up sub-fund
Only set parent fund formation mode
Direct investment operation mode

Shanghai government issued [2010] No. 37
1. Follow up investment, financing guarantee
2. Investment in venture capital enterprises
3. Follow venture capital enterprises to invest in start-ups
Parent fund+venture capital enterprise formation mode
Direct+indirect investment operation mode

Shanghai Development and Reform [2014] No. 49
Stage equity participation of angel investment enterprises and the establishment of angel investment fund
Parent fund+angel investment business formation mode
Indirect investment operation mode

Xiang Zheng Ban issued [2015] No. 93
1. To guide social capital to invest in the advantages of emerging industries
2. Follow the investment or the provincial people's government to determine other ways to support business development
3. Through the establishment of sub-funds with social capital
4. Sub - fund investment projects independent decision - making
Parent fund+sub fund formation mode
Direct+indirect investment operation mode

Yu Fu Ban issued [2014] No. 39
1. Cooperate with private equity fund managers to set up private equity funds (hereinafter referred to as sub-fund)
2. The municipal government approved the establishment of a guide fund company
Parent fund+sub fund formation mode
Indirect investment operation mode

Ning Zheng issued [2015] No. 30
1. Mainly in the form of shares to support the establishment of sub-fund
2. Equity investment, follow up investment, financing guarantee, entrusted loan, investment and loan integration, lending fund
Parent fund+sub fund formation mode
Direct+indirect investment operation mode

Lu Zheng issued [2014] No. 17
1. Mainly in the form of shares to support the establishment of sub-fund
2. Follow up investment
Parent fund+sub fund formation mode
Direct investment+indirect investment operation mode

Lu Zheng Ban issued [2014] No. 44
1. Cooperate with social capital and local government funds to set up equity investment fund (hereinafter referred to as sub-fund), according to "1 + N" mode of operation
2. Follow up investment
Parent fund+sub fund formation mode
Direct+indirect investment operation mode

E Zheng Ban issued [2015] No. 47
1. Cooperate with social capital and local government funds to set up equity investment fund (hereinafter referred to as sub-fund), according to "1 + N" mode of operation
2. Follow up investment
Parent fund+venture capital fund (enterprise) formation mode
Direct+indirect investment operation mode

Yu Zheng Ban [2015] No. 160
1. Set up Venture Capital Guiding Fund
2. Way to attract social capital co-sponsored the establishment of venture capital enterprises.
3. Follow up investment
Parent fund+venture capital fund (enterprise) formation mode
Direct+indirect investment operation mode

Yu Zheng Ban [2014] No. 56
1. Cooperate with private equity fund managers to set up private equity funds (hereinafter referred to as sub-fund)
2. The municipal government approved the establishment of a guide fund company
Parent fund+sub fund formation mode
Indirect investment operation mode

The first guide mode is only to set up the parent fund mode and direct investment mode, which provides that the guidance fund generally does not set up sub-funds, but the government departments (Provincial Development and Reform Commission) led the establishment of the expert review committee and the management committee to review the project. And then they directly invest the industry or seed period, start-up enterprises. This mode is typical for the Sichuan Province Industrial Development Investment Guidance Fund.

The second guide mode is the parent fund+sub-fund (venture capital enterprises, angel investment enterprises) indirect investment mode, which does not direct invest in the project, but invests in sub-fund or venture capital enterprise (angel investment enterprise) by participating in investment or equity investment, and then to invest in the corresponding start-ups or projects by the venture capital enterprises (angel investment enterprises) or sub-fund decision-making or recommend of the government. This mode is typical for the Chongqing Industry Leading Equity Investment Fund.
The third guide mode is the parent fund+sub-fund (venture capital enterprises, angel investment enterprises) direct or indirect investment mode, which does not directly invest in the project, but invests in sub-fund or venture capital enterprise (angel investment enterprise) by participating in investment or equity investment, and then to invest in the corresponding start-ups or projects by the venture capital enterprises (angel investment enterprises) or sub-fund decision-making or recommend of the government. In addition, the parent fund can also use the follow-up investment directly to invest in venture capital enterprises or sub-fund selected projects or start-ups. This mode is typical for the Jiangsu Emerging Industry Venture Capital Guidance Fund.

3. An Analysis of the Characteristics of Each Government-oriented Industry Guidance Fund

The difficulty and focus of the problem of industrial guidance fund lies in the selection and application of each guide mode. Therefore, this dissertation argues that the three main factors influencing the choice of the government-oriented industry mode can be started from the three aspects of the demand of professionals, the demand of capital and the characteristics of regional industry.

3.1 Analysis of the characteristics of the first guide mode

3.1.1. The demand of professionals. This guide mode requires a large demand for professionals due to the need to establish an expert review system, and generally the number of social experts can not be less than half. In addition, the Guiding Fund Committee is mainly responsible for guiding the decision-making and coordination of major issues, so it’s easy to lead to investment direction and decision-making mistakes. However, due to the simple operation of this mode, the guide mode can effectively avoid the shortcomings of previous work.

3.1.2. The demand of capital. This guide mode is directly funded by the government departments to review and determine projects, lacking of social capital participation, so the financing capacity is relatively limited, and the government's financial capacity also put forward a test. But this mode does not need to set up the company, but to take the provincial guidance fund and the city-level guidance fund to run the way, the formation cost requirements are generally low, the regional economic level requirements are not very high.

3.1.3. The characteristics of regional industry. Generally speaking, the government investment fund is mainly invested in the industries with strong externalities, basic, driving and strategic characteristics, and the growth of small and medium-sized enterprises. This mode mainly applies to technology-intensive industries, strategic emerging industries and transformation and upgrading of traditional industries. The support surface is broad, and the government investment is relatively low.

3.2 Analysis of the characteristics of the second guide mode

3.2.1. The demand of professional. This guide mode management is mainly entrusted fund management agency. Fund management agencies are responsible for the operation and the choice of custodian banks in addition to the investment fund, and the government is only responsible for both ends. So requirements for professionals will be more large. What’s more, hiring market-oriented professional management team, not only reduces the government's project selection pressure, but also puts the limited funds into the potential of enterprises or projects.

3.2.2. The demand of capital. This guide mode to set up private equity funds (sub-fund) or the establishment of venture capital enterprises and angel investment enterprises. Because it joined the participation of social capital, the community can be idle funds together and it has strong ability to finance. The government only need to be responsible for the early hiring of experts. The proportion of government investment is very small and the government's commitment risk is smaller, but the social capital investment area is broad, and the investment amount is large. For the region, the number of sub-fund is more, so the level of development of regional enterprises demanding is higher.

3.2.3. The characteristics of regional industry. This guide mode is widely used. Industry, agriculture, science and technology, modern service industry, culture, tourism can use this mode to run. So this
mode can fully promote the development of regional economy and it is more suitable for the region which the development of traditional industries and tertiary industries is main objectives.

3.3 Analysis of the characteristics of the third guide mode

3.3.1. The demand of professional. This guide mode is similar to the second mode.

3.3.2. The demand of capital. This guide mode sets up sub-funds, venture capital enterprises or angel investment enterprises. The formation of cost is high, but the financing capacity is very strong. Because the government only selected social capital projects or enterprises to follow up investment, the requirements of government investment ratio are not very high. Government and social capital share the risk, requiring the government has a certain financial capacity.

3.3.3. The characteristics of regional industry. This guide mode is mainly applied to the strategic emerging industries and high-end growth industries, stimulating regional economic transformation. It more suitable for comprehensive development of the region.

4. Conclusion and prospect

Based on the analysis and practice of the policy and regulations, this dissertation argues that the first guide mode is applicable to provinces and cities with strong local government funds and traditional industries; The second guide mode is applicable to areas where the government funds are low and the main development objectives are traditional industries and tertiary industries; The third guide mode is applicable to areas where government funds are not high and the development of region is mainly based on comprehensive industries.

Due to the time of study and the limitations of capital and region, this dissertation only exists in the stage of qualitative analysis and literature collation, it did not carry out field investigation and implementation of the results of the data survey, and life cycle of government-oriented industry guidance funds will be five to seven year. Through the capital recovery and profit results and other quantitative data to analyze the implementation of industry guidance fund effect, it may need to invest a lot of manpower, material and financial resources and increase the additional financial burden to the government departments. With the advantages of government-oriented industry guidance funds and the improvement of the guide mode, I believe that the new economic background in the context of the development of the bottleneck will gradually disappear, this financing way will have been widely used from the provincial popularity to the country and city in the near future.

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