Analysis of the Reasons for Suspension of Yunnan government’s Leading Funds

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Abstract: In order to attract high-quality domestic and foreign equity investment, projects, technology, and talents, the Yunnan Government has established and improved the Yunnan equity investment system, standardized the equity investment market, and accelerated the development of equity investment. Opinions of the General Office on Vigorously Developing Equity Investment Funds, November 18, 2010, Yunnan Government of the forty-eighth executive meeting proposed the establishment of government-led equity funds. On April 16, 2017, the Yunnan Government held a special meeting to suspend investment in leading funds. This paper will analyze the problems faced by Yunnan government’s leading fund in operation, and make some recommendations for PPP projects in Yunnan Province.

1. Introduction

1.1 The Functions of Government Leading Funds.

(1) Support phase participation. In the process of enterprise development, the government seem to buy some of the shares of small and medium enterprises in a certain period of time. Thereby increasing the total investment of society in SMEs. (2) Support investment. In the process of development of market economy, the government make significantly performances to increased confidence in the market. For having powerful increasing project, the government would stimulate investment in social capital by funds. For another words, high quantity projects should obtain significant development opportunities. (3) Risk subsidy. Provide certain subsidies to venture capital that invest in startups, reduce the investment risk, and enable investment companies to effectively.

1.2 The Situations of Government Leading Funds in China

On November 12, 2015, the Ministry of Finance of the People's Republic of China promulgated the “Interim Administrative Measures for Government Investment Funds” (Cai Yu [2015] No. 210), which clearly stipulated the establishment, operation and risk control of government leading funds. There are far-reaching effect for government leading funds in China. It can be said is an important time of leading funds consisting of industrial structure has undergone a fundamental change. Then the Ministry of Finance, Development and Reform Commission and other departments have issued additional guidance and management practices, According to Qingke statistics, since early January 2010 to the end of December 2018, the Chinese government leading funds have been set up 1575, the total size of these funds is about 4.053878 trillion yuan, an average of each fund size of 2.478 billion yuan. In terms of quantity, the number of government leading funds established between 2010 and 2014 was 281, while the number of government leading funds established between 2015 and 2018 was 1,294. It seems to increasing 360%.

2. Yunnan Government Leading Funds

2.1 The Stage of Establishment

In order to attract high-quality domestic and foreign investment, projects, technology, and talents, the Yunnan Government has established and improved the investment system. And standardized the equity investment market to accelerated the development of equity investment. Opinions of the General Office on Vigorously Developing government leading Funds (Yunzhengbanfa [2011] No.
On November 18, 2010, the 48th Executive Meeting of the People's Government of Yunnan Province proposed the establishment of a government-leading fund. Thought innovative investment and financing systems and financial tools, to promote the rapid development of Yunnan's equity investment industry, and optimization of industrial structure in Yunnan Province.

At the same time, Yunnan Province financed 100 million yuan to establish a government leading fund, while a provincial state-owned enterprise, one institution recognized by the market jointly to build a fund management company. At the same time, the government leading fund to jointly establish a comprehensive equity investment fund with a size of about 5 billion yuan by equity participation.

The government leading fund was established in the form of an independent enterprise, and the provincial finance contributed 100 million yuan over five years. The plane of the fund’s, fund performance evaluation and assessment and other related management measures will be studied and formulated by the Provincial Finance Office and reported to the Provincial People's Government.

2.2 The Operating of Yunnan Government Leading Fund

In 2010, the provincial government agreed to establish a “Yunnan Provincial Government Leading Fund” with a five-year capital contribution of 100 million yuan, with a duration of 10-15 years. 40 million yuan, 20 million yuan, 20 million yuan, and 20 million yuan have been invested on August 11, 2011, July 13, 2012, May 7, 2013, and May 4, 2014, respectively.

As of October 31, 2017, the actual fund of the fund was RMB 100 million and the actual use was RMB 36.378 million, of which: the net capital used for external investment was RMB 30.878 million (accumulatively invested 4 sub-funds of RMB 60 million and returned to 2 the principal amount invested 29.1222 million yuan), the occurrence of fund management fees 5.46 million yuan. During the operation, RMB 177.78 million was recovered as investment income and RMB 2.3326 million was interest income. The balance of funds is 67.726 million. It seem to the leading funds did not get the expected return.

March 7, 2017, the Yunnan provincial finance office to disclose a “government of Yunnan equity fund of funds re-evaluation of the project interim performance report” on its official website. The report shows that the project performance of Yunnan government leading funds score is only 55.38 points, and the evaluation level is “poor”. April 16, 2017 Yunnan provincial government held a special meeting to suspend the work of the leading funds.

3. Reasons for Poor Performance of Yunnan Government Leading Funds

1) The lack of trust fund management experience in the trustees led to the loss of state-owned assets. After a study and decision at the 3rd meeting of the Guidance Fund Management Committee, on October 31, 2013, a 10 million yuan of Guidance Fund was invested in the Rongcheng Youchuuang Fund through a phased equity participation.

After reviewing the 2014 first quarter management report of Yunnan Provincial Equity Investment Development Center, it was found that the Rongcheng Utron Fund has changed its original investment (planning to acquire Luxi Zhongtai Gas Station at the time of application, and a shareholding in Yunnan Xianghui Construction Aluminum Film Manufacturing Company) It is planned to increase the capital of Kunming Xinhaowen Enterprise Management Co., Ltd. by 10 million yuan in equity, and lend 100 million yuan to Xinhaowen Company in the form of shareholder loans. As of April 30, 2015, the equity investment center received a refund of 9.122 million yuan. According to the “Investment Partnership Agreement”, the principal amount of RMB 878,800 and investment income of RMB 468,500 were not recovered.

2) The development of the invested company is hindered and the expected return cannot be obtained. After a study and decision at the 2nd meeting of the Guidance Fund Management Committee, on June 14, 2013, 10 million yuan was invested in the establishment of the fund through a phased equity participation. The fund size of 170 million yuan, accounting for 5.88% of equity fund of funds, operating for a period of 5 + 2 years. As of the evaluation, the fund invested in four projects is stable, but the conditions are not yet reached the income distribution, unallocated investment
income, quit not yet been achieved.

3) Efforts to attract high-quality capital shortage, it is difficult to achieve the original intention of the fund set up to guide the government stake. On December 30, 2013, the Yunnan Provincial Government's Leading Fund invested RMB 20 million into Zhaoshang Fund in a phased manner. The fund managers to cloud Nanzhao Business Equity Investment Fund Management Co., Ltd., its controlling shareholder cloud South Xin Investment Holding Group Co., Ltd. The fund plans to raise 200 million yuan, accounting for 10% of the equity fund of funds, operating for a period of 5 + 2 years, but for various reasons part of the partners fails partnership agreement funded paid in full, resulting in actual funds raised 150 million yuan. In order to achieve the matching of the investment progress of leading fund and meet the requirement that the leading fund's shareholding ratio for a single equity investment company should not exceed 10% of the paid-in capital of the participating company. Then, Yunnan Weixin Group raised 50 million yuan to invest in the Zhaoshang Fund. For investment in Yunnan Sanyuan Biotechnology Co., Ltd. Six months later Yunnan Sanyuan Biotech Co., Ltd. direct the investment money back cloud South Xin Group.

And after a subsidiary of South Xin Agricultural Science and Technology Co., Ltd. cloud cloud South Xin Investment Holding Group Co., Ltd., the enterprises to invest 80 million yuan, the enterprise does not carry out the change of business, shareholders invested enterprise directory without “Zhao business fund “Chuxiong Weixin Agricultural Technology Co., Ltd. is a wholly-owned subsidiary of Yunnan Weixin Agricultural Technology Co., Ltd. After investing 70 million yuan in this enterprise, the enterprise has not made any industrial and commercial changes. The 50-million-yuan investment in Yunnan Sanyuan Biotechnology Co., Ltd. has been recovered, and the company is in a state of suspension or semi-stoppage.

4. Reflection on the Suspension of the Operation of the Yunnan Government Equity Guidance Fund

1) Establish a training mechanism to guide agents of the fund and formulate an agent performance review system China's government guidance fund is in the development stage. It is necessary to pay more attention to fund management talent, promote training and development of personnel to enhance the operational efficiency of the management of the Fund. This requires not only the establishment of relevant personnel incentive plan, as well as the personnel required investment performance of market surveillance and recording, the government's investment agency to retain real management talent.

2) In the specific process of leading funds, the government must reasonably monitor the behavior of enterprises to ensure the rational use of investment funds. Conversely, government investment cannot over-intervene in corporate behavior, leading to problems in the operation of the enterprise. Therefore, the government should establish a sub-fund management and survey organizations, to achieve a reasonable regulation of corporate behavior.

3) Improve the delisting mechanism of government funds. After the enterprise achieves stable revenue, the government should promptly withdraw investment funds to ensure the efficient use of investment funds. However, the actual situation is that the government will take economic benefits into account and produce a “crowding effect” in the investment process, which may cause certain negative effects on the development of enterprises. In this regard, enterprises need to actively promote their own equity reforms and dilute the government's equity interests. The government should focus on a wide range of investment funds, actively OTC, so that government investment can quickly withdraw.

5. Conclusion

The Yunnan Provincial Government Leading Funds was prepared in 2010. Its original intention was to attract high-quality domestic and foreign capital, projects, technology, and talents establish and improve the Yunnan equity investment system, regulate the equity investment market. At same time, adjustment and optimization of the industrial structure of Yunnan Province. However, in March
2017, operations were suspended due to poor project performance. The reasons are the deviation of the fund's implementation policy, the incompetence of the fund management team, insufficient investment risk control, and weak post-investment management.

References


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