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In Depth Analysis of Chinese Government Guided Funds: Based on the Comparison of Scottish Co-investment Fund

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Abstract: As the main policy tool of our government to promote entrepreneurship and innovation and support the development of scientific and technological small and medium-sized enterprises, it has been nearly 15 years since the large-scale implementation in 2008. The introduction and implementation of the guiding fund policy has significantly activated the investment and financing activities of the venture capital industry, expanded the capital supply and investment of the industry, and played a better guiding effect on social capital. However, in recent years, while the new government guidance fund in China has cooled down year by year, there is a problem of insufficient actual investment of a large number of government funds. Behind it reflects many difficulties and contradictions in the actual operation of the guidance fund, which directly leads to the dormancy of some guidance funds and fails to give effective play to the guidance efficiency and support industrial development. In contrast, the Scottish joint investment fund has better solved the above problems in terms of public finance objectives and financial performance objectives, and its operation mode is worthy of our government's guidance fund for reference. By comparing the operation mode of Scottish joint investment fund, this paper puts forward that China should improve the contribution proportion of guidance fund by combining regional industrial advantages; Appropriately relax regional restrictions, broaden fund exit channels and other optimization strategies, and promote the government to guide the healthy operation of funds and the high-quality development of regional economy.

Keywords: Small and Medium-sized Enterprises, Government Guided Funds, Follow-up Investment, Investment Exit, Operation Mode

1. Introduction

China's small and medium-sized enterprises are the largest and most dynamic enterprise group. They are not only the main channel to absorb social employment, but also an important undertaker of technological innovation and business model innovation. During the transition period, the world economic recovery is weak, it is difficult to grasp the fluctuation law of China's macroeconomic operation, and the business risks and uncertainties faced by China's small and medium-sized enterprises are increasing day by day. The development confidence index of small and medium-sized enterprises in China is insufficient, and the financing situation is still severe. In order to solve this dilemma, various support policies for small and medium-sized enterprises issued by the government have been gradually implemented, and the establishment of government guidance fund has been taken as an important fiscal and tax policy to optimize the market environment and service environment for the development of small and medium-sized enterprises. In the process of allocating resources by market mechanism, due to the inherent profit seeking nature of social capital, there is "market failure" of investment and financing in some fields. The so-called government guiding fund refers to the guiding investment fund invested by the government and jointly established by attracting relevant financial, investment institutions and social capital, which is managed by professional investment management institutions and has the goal of supporting specific stages, industries and regions; It is an industrial financing platform established by the national and local governments to guide the development of emerging industries and innovative industries and operated in accordance with the principle of "government guidance, market operation, risk prevention and rolling development".

Set up a government guidance fund, increase credit and appropriately transfer profits through government capital injection, leverage social funds and make up for the "market failure" of investment and financing. On the one hand, through policy orientation, support the development of emerging strategic industries and high-tech industries in the early stage of entrepreneurship, promote industrial development and maturity, enhance industrial competitiveness and promote the optimization and upgrading of industrial structure. On the other hand, we should give preference to areas with financing difficulties and backward economic development, guide social funds to invest in backward areas, reduce the economic development gap between regions and promote the coordinated development of regional economy. The government guidance fund attracts and leverages social capital through the guidance and demonstration effect of policies, and then allocates social capital to areas with high externalities such as innovation and entrepreneurship, development of small and medium-sized enterprises, industrial transformation and development through market-oriented means, so as to achieve the purpose of optimizing the allocation of social capital [1].

2. Review of Relevant Theories at Home and Abroad

According to the functional orientation of the State Council on the venture capital guidance fund, the policy objectives of the guidance fund are as follows: first, give play to the leverage effect, attract social capital into the venture capital industry and expand the investment and financing scale of the industry; The second is to guide social capital to invest in early entrepreneurial enterprises and science and technology-based enterprises. The literature review of this paper will focus on the above two aspects. Since the empirical research of foreign markets may not be applicable to China's national conditions, this paper mainly focuses on the research results of China's venture capital market.

In terms of domestic research, Yu Yan and others paid early attention to the realization of the policy objectives of state-owned venture capital. They found that there was no significant difference between the investment stages of state-owned and non-state-owned venture capital, indicating that state-owned venture capital did not reflect its original policy intention in pursuing private interests rather than social value [2]. However, there are some deficiencies in their research: first, the institutions with various state-owned shareholders in the equity composition are regarded as having policy objectives. In fact, there are still more state-owned industrial capital and financial capital with profit-making as the main purpose in China's venture capital market, and they themselves do not undertake clear policy functions. Second, the research sample is limited to listed companies, without considering a large number of unlisted enterprises, and the research conclusion is not universal. Based on the perspective of enterprise financing, Bian Sikai and Zhou Yahong found that the guidance fund can generally guide private institutions to participate in the investment in start-up enterprises, and the guidance fund is more inclined to invest in high-yield and low-risk enterprises [3]. Cong Feifei and others pointed out by using the double difference model that state-owned venture capital guided private capital to invest in later and more mature enterprises, indicating that private venture capital has a strong motivation to avoid risks [4]. However, their research takes the registered venture capital institutions as the experimental group and the non-registered institutions as the control group, ignoring the systematic differences in investment tendency between the two. Li Shanmin and Liang Xingyun also found that after obtaining the equity participation of the guidance fund, the venture capital fund mainly increased the investment in enterprises in the middle and later stages of entrepreneurship, and the investment increase of early enterprises was limited, and this phenomenon was more obvious in the funds managed by private institutions [5]. Zuo Zhigang and others found that the guidance effect of the guidance fund was not ideal [6], and even had a certain crowding out effect on the supply of venture capital [7]. Some scholars have further studied from the difference of ownership and found that the guiding effect of guiding fund on non-state-owned venture capital is relatively good [8]. In terms of foreign research, Brander et al. Used the sample data of 25 countries around the world, including China, and found that, on the one hand, compared with enterprises only supported by private capital, venture enterprises jointly invested by state-owned venture capital and private venture capital obtain more financing, and the participation of state-owned venture capital in the first round of financing can promote the follow-up financing of venture enterprises; On the other hand, in the venture capital market, the larger the number and scale of state-owned background venture capital, the more financing each venture enterprise obtains and the number of enterprises that obtain financing, indicating that state-owned venture capital plays a complementary and guiding role. Based on the analysis of the policy objectives of the guidance fund of the Chinese government, Li believes that early evidence shows that the guidance fund has achieved a more desirable policy effect, but the real effect evaluation can be implemented only after the guidance fund completes its investment and exits [9].

Generally speaking, the existing research lacks systematic evaluation of the effect of policy implementation, the research samples are often limited to some cases, there are great differences in research conclusions, and there is a lack of attention to the deep-seated reasons and mechanisms behind the late stage of guiding fund investment.

3. Development Status of Government Guidance Fund in China

In terms of the development of funds guided by the Chinese government, district and county-level funds are still hot and densely distributed in East China. Overall, the establishment of guidance funds has slowed down year by year since 2017. In the first quarter of 2021, there were only 26 new guidance funds. However, due to the blowout expansion from 2015 to 2016, the stock scale of guidance funds was huge. By the first quarter of 2021, the number of funds had reached 1877, the total target scale had reached 11.59 trillion, and the funds in place had reached 5.69 trillion. In terms of level, there are a large number of District, county and prefecture level municipal government guidance funds, 570 and 866 respectively. However, due to the small scale of a single fund, the target scale is only 1.48 trillion and 3.4 trillion. The average size and volume of national and provincial single funds can reach the level of 10 billion, with only 38 and 403, but the target size is 2.67 trillion and 4.05 trillion. In terms of classification, government guidance funds mainly include industrial funds, venture capital funds and PPP funds, mainly industrial funds, with a target scale of 7.87 trillion, accounting for 67.9% of the total. They are mainly invested in national advocacy fields such as intelligent manufacturing, medicine and health care, and cultural tourism; In recent years, the establishment of venture capital funds has been relatively low, with a target scale of only 0.92 trillion, focusing on investing in scientific and technological enterprises in the seed stage and start-up stage; The number of PPP funds is small, the scale of each fund is large, and the target scale is 2.79 trillion. In terms of regions, the number of government guidance funds in Jiangsu, Zhejiang and Guangdong ranks among the top in China, 212, 163 and 160 respectively; Since most of the funds established in Beijing belong to the national level, the number of funds is only 90, but the target fund scale reaches 1.72 trillion, far ahead of other provinces. Since 2017, the number and scale of newly established guidance funds have decreased year by year. According to the data, the number of newly established guidance funds in China in 2019 was 74, a decrease of 54 compared with 2018, a decrease of 43.08%, and a decrease of 332 compared with 2016. In the first half of 2020, the number of newly established guidance funds in China continued to decline. With the continuous decline in the number of newly established guidance funds in China, the scale of newly established guidance funds in China is also declining. By 2019, the scale of newly established guidance funds in China will drop to 190.6 billion yuan, a decrease of 45.23% compared with 2018. In the first half of 2020, the scale of China's newly established guidance fund was 39.8 billion yuan, which continued to maintain a downward trend. Guide the operation mode of the Fund: equity participation, financing guarantee, follow-up investment or other methods.

(1) Share participation

The guidance fund mainly attracts social capital to jointly initiate and establish venture capital enterprises through equity participation. This mode is the main operation mode of the government guided fund, that is, the government guided Fund (usually referred to as the "master fund"), which selects qualified venture capital enterprises or private equity and venture capital fund managers with excellent past performance, large management scale and rich risk control and team experience through screening according to certain standards The venture capital fund manager invests or invests in private equity and fund products established by the venture capital private equity fund manager (usually referred to as "sub funds"). Invest in venture capital enterprises through venture capital enterprises, private equity, venture capital fund managers and their fund products (sub funds).

(2) Financing guarantee

According to the credit report provided by credit investigation institutions, venture capital enterprises with good historical credit records can provide financing guarantee to support them to enhance their investment ability through debt financing. The operation mode is to make loans to banks, trusts and other financial institutions for venture capital enterprises, and raise corresponding funds through loan financing to invest in venture enterprises. The government guides the fund to provide financing guarantee for venture capital enterprises in the financing process of venture capital enterprises, so as to ensure that venture capital enterprises can successfully apply for loans from banks, trusts and other financial institutions. Financing guarantee is more applicable in economically developed areas, such as Shenzhen. Shenzhen Innovation Investment Group Co., Ltd., controlled by Shenzhen SASAC, mainly uses state-owned funds to attract foreign capital, private capital and other regional government guidance funds in the form of joint venture and cooperation. At the same time, Shenzhen high tech investment guarantee company funded by Shenzhen municipal government provides guarantee, It has the typical characteristics of financing guarantee and follow-up investment.

(3) Follow up investment

Industry oriented or regional oriented guidance funds can explore ways to support the development of venture capital enterprises and guide their investment direction through follow-up investment or other ways. Among them, follow-up investment is limited to when venture capital enterprises invest in early-stage enterprises or start-ups in high-tech and other industrial fields that need key support and encouragement from the government, the guidance fund can invest in the start-up enterprises according to the appropriate equity ratio, but shall not directly engage in venture capital operation under the name of "follow-up investment", Instead, commercial venture capital enterprises should play a role in discovering investment projects, evaluating investment projects and implementing investment management. This operation mode is a relatively good venture enterprise found by the government guided fund for the venture capital enterprise, and on the premise of large capital demand, it can follow up the investment on the basis of the venture capital enterprise's leading investment in the venture capital enterprise. On the one hand, fully trust the ability of venture capital enterprises to discover enterprise value, evaluate investment projects and implement investment management; On the one hand, it also gives play to the scale effect of the government guidance fund, so as to fully realize the function of the government guidance fund to guide the flow of social capital to the industrial enterprises.

(4) Other ways

Other methods, such as loan risk compensation and the national science and technology achievement transformation guidance foundation, support the transformation of scientific and technological achievements of start-ups through loan risk compensation. Loan risk compensation refers to the risk compensation given by the Transformation Fund to the transformation loans of scientific and technological achievements issued by cooperative banks that meet the specified conditions and procedures. For example, in Dalian, equity investment enterprises (registered capital or capital contribution not less than RMB 100 million, initial capital not less than RMB 50 million, total investment in Dalian not less than 60% of the total scale) and equity investment management enterprises that meet the new registration in Dalian and whose main investment direction is Dalian industrial policy can enjoy settlement subsidies, office space subsidies A series of supporting policies such as tax subsidies, investment guidance and income subsidies for senior executives [10].

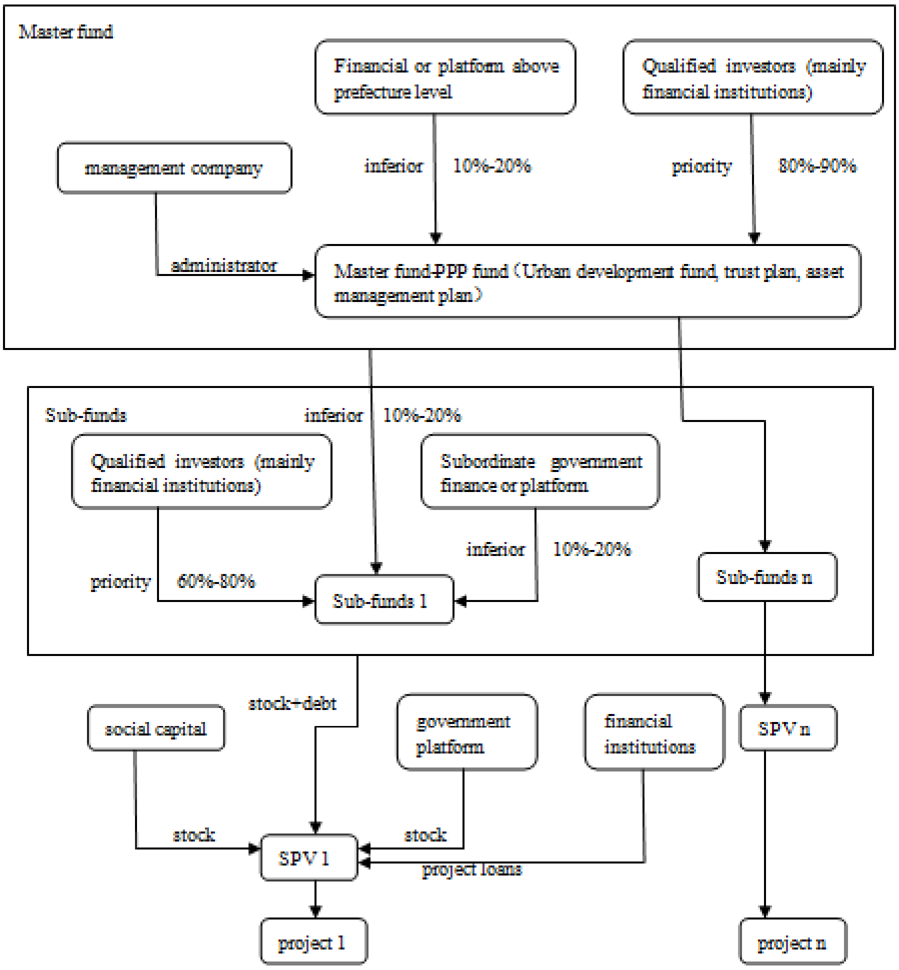

Figure 1. Basic model of government guidance fund.

4. Analysis on the Operation Dilemma and Inducement of Government Guidance Fund

By combing the development trend of government guidance fund, on the one hand, the new government guidance fund is cooling down year by year, on the other hand, there is still the problem of insufficient actual investment of a large number of government funds. Behind it reflects many difficulties and contradictions in the actual operation of the guidance fund, which directly leads to the dormancy of some guidance funds and fails to give effective play to the guidance efficiency and support industrial development.

(1) The capital amplification effect is weak

After the introduction of the new regulations on asset management in 2018, the newly established government guidance fund faces many restrictions, such as "term mismatch, multi-layer nesting, balance replenishment". In October 2019, the national development and Reform Commission, the people's Bank of China, the Ministry of finance, the China Banking and Insurance Regulatory Commission, the China Securities Regulatory Commission and the State Administration of Foreign Exchange jointly issued the notice on further clarifying and standardizing matters related to the investment of venture capital funds and government funded industrial investment funds in asset management products of financial institutions, which made it clear that the guidance funds established before the introduction of the new asset management regulations are not bound by the new regulations, However, the LP funds of the early guidance fund mainly come from bank financial funds. Such funds themselves have the problem of term matching between short-term funds and long-term assets. The rolling issuance of existing financial products will inevitably be affected, and the scale of investing in the new government guidance fund will continue to shrink. Government guided funds generally have a long investment period (at least 5 years). According to the requirements of the new asset management regulations, banks, securities, trusts and other financial institutions can only invest in government guided funds through private banking products and private asset management products sold on a commission basis. Such products are not the mainstream consignment products in the market, so it is difficult to raise funds, which directly makes it more difficult to raise funds for the newly established government guidance fund. In recent years, due to the sharp fluctuation of the capital market and the depression of the venture capital market, China's LP market has shrunk, and most LP's long-term investment willingness is not high, which further exacerbates the difficult situation of fund-raising guided by the government.

(2) Contradiction between the return investment proportion and investment opportunities

The reinvestment base of the government guidance fund is calculated according to the government contribution of the guidance fund. Generally, the minimum reinvestment amount is not less than twice the government contribution of the guidance fund; Some guiding funds are calculated according to the total size of the sub fund, and the minimum requirement for the return investment proportion is 40% ~ 60% of the total size of the sub fund. Usually, the government guides the foundation to take disciplinary measures such as pre-approval or rejection of foreign projects by the Investment Committee for GP that fails to meet the requirements of return investment proportion. In practice, there are relatively few investment opportunities in the regions to which some guide funds belong, the project exploration cycle is long, and the high return investment requirements directly lead to the low operation efficiency of the fund, resulting in the idleness of some funds. At the same time, the head fund managers in the market are limited by the return investment ratio, gradually reducing the willingness to participate in the management of funds guided by the government, and further reducing the level of fund management.

(3) The conflict between market expectation and policy orientation in investment decision-making

The government generally guides the fund through the method of "committee decision-making + professional operation of institutions", expects to rely on the professional team to improve the market operation ability, maintain the fund investment projects in line with the national policy guidance, and strive to achieve the unity of public interest and market efficiency. In practice, on the one hand, the approval process of the government guided fund is long, and the decision-making power of the project does not only depend on the fund level. It often happens that other LPS have made clear their investment intention, and even the funds have been in place, but the approval process of the guided fund has not been completed; On the other hand, out of the policy orientation of guiding the fund, such as support for specific industries, magnification of financial funds, investment progress and tax growth, the goals often conflict with the market-oriented expectation, that is, the investment return of the fund.

(4) Single exit management mode and long cycle

At present, the exit mode of government guided funds is still limited to IPO, M & A of listed companies, enterprise repurchase and so on. According to the Interim Measures for the administration of the evaluation of state-owned assets of enterprises, Interim Measures for the administration of the transfer of state-owned property rights of enterprises and other relevant provisions, "the paid transfer of state-owned property rights shall be carried out publicly through the property rights trading institutions established according to law, and the transaction price shall be evaluated, approved or filed". On the one hand, these processes lead to the low operation efficiency of the government guidance fund controlled by state-owned assets, It is easy to miss the opportunity to exit; On the other hand, it is difficult to evaluate without corresponding fault-tolerant mechanism, which also increases the exit cost.

5. Enlightenment of the Operation Mode of Scottish Co-Investment Fund to China

Scotland, as the northernmost remote area of Britain, has a bad climate, a very poor business environment for small and medium-sized enterprises, and the venture capital industry in the past was also very backward. In order to promote the development of venture capital and increase the capital supply to small and medium-sized enterprises, the Scottish government specially established the Scottish Enterprise Bureau in 2000. Its main function is to promote the development of venture capital through tax incentives and capital support, so as to support the innovation and Entrepreneurship of small and medium-sized enterprises. In terms of funding support, in the past, the Scottish enterprise authority mainly supported small and medium-sized enterprises by directly engaging in venture capital. In view of the limitations of direct support, in order to speed up the development of venture capital industry and create the necessary environment for industry development, the policy turns to indirect support. In 2003, the Scottish enterprise authority established the "Scottish Co-Investment fund" with a financial contribution of £ 72 million. The fund guides the market-oriented venture capital fund to increase investment in small and medium-sized enterprises through follow-up investment. Where the market-oriented fund invests in small and medium-sized enterprises, the guiding fund shall give a corresponding proportion of follow-up investment, and the assets formed by follow-up investment shall be entrusted to the market-oriented fund for management. The single follow-up investment amount of the guidance fund for small and medium-sized enterprises is between 100000 and 1 million pounds. Through the Scottish Co-Investment fund, Scottish enterprise bureau has formed a guidance fund system to effectively guide the transformation of private capital into venture capital of small and medium-sized enterprises, and has played a good role in capital amplification. In the financial year 2009-2010 (from early July 2009 to the end of June 2010), the total investment of enterprise Scotland in the three types of guidance funds was £ 32 million, driving the private investment of £ 68 million, with a total investment of £ 100 million and a leverage magnification of 3.125 times. A total of 115 investment transactions were supported and 106 companies were supported, including 63 enterprises in the seed stage, the initial stage and other early stages of entrepreneurship, accounting for 59.4%. These enterprises created 2057 jobs and a turnover of £ 120 million. The leading effect of guiding funds to promote capital formation played a particularly prominent role during the financial crisis. In the fiscal year 2009-2010, the investment growth rate in the UK was - 23%, but driven by the guidance fund, the investment growth rate in Scotland still maintained a positive growth level of 0.4%.

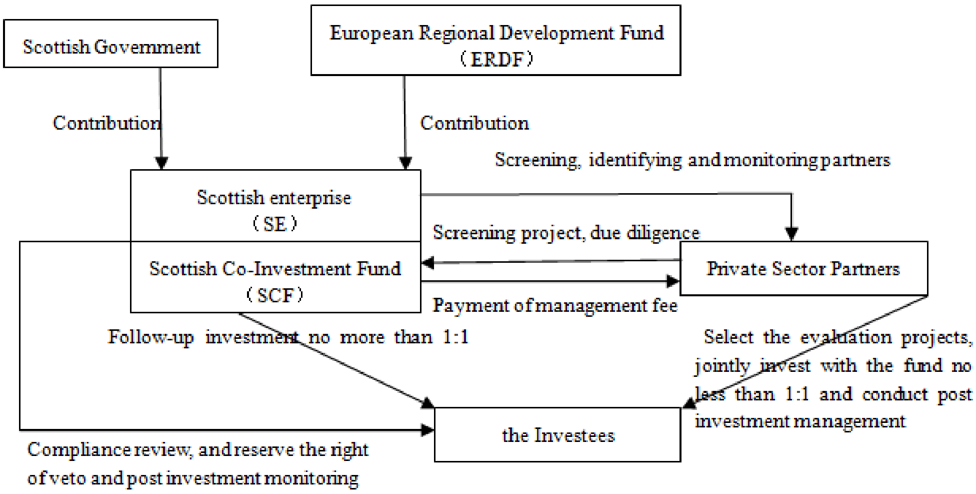

Figure 2. *Operation mode of Scottish Co-Investment fund.*

The Scottish Co-Investment fund itself does not conduct project screening and due diligence, but 16 partners (private investors) selected by it undertake this responsibility (the fund conducts compliance review) and pay management fees to partners at 2.5-3.5% of its invested funds. The fund and its partners jointly invest in the target enterprise under the same conditions and in a ratio of no more than 1:1. The fund has an independent account to manage its funds and allocate funds to the invested enterprise when the investment is determined. At the same time, the fund has signed an investment agreement with the invested enterprise separately, and has the right to supervise the invested enterprise and occupy an observer seat on the board of directors. Fund investment performance can be measured from the realization of public financial objectives (objectives) and financial performance objectives.

(1) Degree of achievement of the fund's public finance objectives

From 2003 to 2007, the fund made 245 investments through 26 partners, with a total investment amount of £ 28.12 million and an average investment amount of £ 115000 per investment (Table 1). Although the software, health care, biotechnology and electronics industries absorbed 59% of the total investment, the investment industry is still fragmented in general. The evaluation results show that (Keith Hayton et al., 2008) among the above investments, 21-31 small and medium-sized enterprises will not be able to successfully finance without the investment of the joint investment fund. It can be seen that the risk sharing mechanism of the joint investment fund has indeed played a role, thus attracting private investors (partners) to invest in high-risk early-stage enterprises, which is conducive to the solution of the equity capital gap of small and medium-sized enterprises [11].

Table 1. *Investments of Scottish Co-Investment fund in 2003-2007.*

Partner category	Number of partners	Number of investments	own investment amount (GBP)	Average investment amount per investment (£)
Banks	1	3	550,000	183,333
Venture capitalists	5	30	5,265,768	175,526
Companies	5	11	1,430,000	130,000
Angel investors and angel investment alliance	15	201	20,878,614	103,873
Total	26	245	28,124,383	114,793

In addition to the successful financing of early enterprises that could not obtain investment, the amplification effect of joint investment fund on investment funds is also obvious. As of January 2008, the fund's capital magnification was 2.43 times, that is, for every £ 1 invested by the fund into enterprises, £ 2.43 of non-venture capital guidance fund investment was driven (of which £ 1.42 came from partners, £ 0.96 from other private sectors and £ 0.06 from the public sector), Thus, the policy investment of £ 30.6 million has driven the social investment of £ 74.4 million (Table 2), which has greatly strengthened the investment support for early innovative enterprises. The evaluation results also show that (Keith Hayton et al., 2008), from the perspective of public finance, the Scottish Co-Investment fund increased the turnover of the invested enterprises by £ 38 million to £ 55 million in 2007, and increased the total added value (GVA) by £ 24 million to £ 34 million. At the same time, the fund also increased the number of full-time jobs increased by the investment to 449 to 664 in 2007. Generally speaking, the enterprises invested by the Scottish Co-Investment fund have significantly exceeded other similar enterprises in the same region in terms of employment, turnover and sales growth [12].

Table 2. *Capital amplification effect of Scottish Co-Investment fund.*

Partner category	**SCIF investment (GBP)**	**Partner investment (£)**	**Other private sector investments (£)**	**Other public sector investments (£)**	**Magnification ratio=(c+d+e) /b**
Banks	550,000	550,000	0	0	1:1
Companies	2,874,676	3,106,560	3,739,760	728,000	1:2.63
Venture capitalists	9,346,396	11,521,355	10,573,890	632,349	1:2.43
Angel investors and angel investment alliance	17,839,544	28,332,351	14,951,870	338,817	1:2.45
Total	30,610,636	43,519,266	29,265,520	1,699,166	1:2.43

(2) Achievement degree of fund financial performance objectives

As of January 2008, one of the total investments of the Scottish Co-Investment fund has exited through M & A. in this investment, the Scottish Co-Investment fund invested £ 499999, recovered £ 1130638, made a profit of £ 630639 and the rate of return was 126%. In addition, four invested enterprises have been listed on the UK aim market. The Scottish Co-Investment fund holds its common shares with an original investment of £ 1902499. As of January 4, 2008, the market value of the investment was £ 2373943, with a return rate of 25%. On the other hand, as of January 2008, 12 enterprises of the Scottish Co-Investment fund had failed to invest. The total loss disclosed by the fund was £ 1649282, accounting for 5.5% of its total foreign investment. The investment loss of the fund in each enterprise ranged from £ 25000 to £ 300473. Among the 12 enterprises that failed to invest, 6 obtained only one round of financing, and the other 6 obtained 2 to 7 rounds of financing. Since the fund itself does not make commercial judgment on investment decisions, but relies on market-oriented partners to make decisions, this failure rate can be regarded as the normal level of early enterprise venture capital market. After offsetting the above calculable gains and investment losses, from the establishment of the fund to January 2008, the accumulated loss of foreign investment of the fund was £ 547199, accounting for 1.8% of the total invested funds. According to the evaluation of the European Regional Development Fund (ERDF), although the internal rate of return of the investment in the first few years of the investment is negative, once the investment exit starts, the internal rate of return will become negative to positive. Assuming that the investment exit is realized within 6 to 10 years after the investment enters, it is expected that the fund will produce positive returns from 2009 to 2013, so that its yield presents a "J" curve. However, it remains to be seen whether the actual performance can be as expected by ERDF. Although some studies have shown that the average internal rate of return of angel investment in the United States is 27%, and the Scottish Co-Investment fund mainly selects angel investors and angel investment alliance as partners, it may be unrealistic to expect the fund to achieve such investment performance based on the differences in angel investment environment between the United Kingdom and the United States. In addition, relevant data show that in the past 20 years, the return on investment in early European enterprises is usually only 1.9%. Based on the above analysis, although the Scottish Co-Investment fund can expect to achieve a positive return after the investment expires, it is not very likely to achieve the financial goal of 20% compound annual return [13].

Table 3. *Investment performance data of Scottish Co-Investment fund (2014).*

Number of invested enterprises	113
Total investment	£ 15.2105 million
Portfolio holding value	£ 13.3668 million
Recovered capital (cash)	£ 209.98 (13.5% of investment capital)
Total portfolio value (holding value and cash)	£ 15.4666 million
Investment multiplier	1.01
Portfolio internal rate of return (from the beginning)	0.43%
Investment years (median)	36 months
Number of investment exits	4 (accounting for 3.5% of all invested enterprises)
Number of enterprises with zero assets	28 (24.8% of total investment)

6. Optimization Strategy of Government Guided Fund Operation in China

China and the UK also face the problem of financing difficulties for small and micro enterprises, so China's small and micro enterprises need "Chinese version of SCIF". Market demand portability. On the one hand, both in the UK and China, small and micro enterprises need growth funds. Especially when the new bank capital supervision standards were implemented, the market was generally worried that these more stringent capital supervision requirements might lead to banks tightening credit conditions and unable to meet the financing needs of small and micro enterprises. On the other hand, commercial banks of both countries hope to provide financial services for the financing of small and micro enterprises. By providing equity growth funds for small and micro enterprises with real growth potential, the bank will explore its own new profit growth point. Therefore, like the UK, China has a strong market demand for equity investment funds similar to SCIF that focus on the growth and development of small and micro enterprises. In view of the above difficulties in the operation of government guided funds, the following optimization strategies are proposed to promote the healthy operation of government guided funds and the high-quality development of regional economy.

(1) Improve the contribution proportion of guidance fund and increase the profitability

From the perspective of organizational structure, SCIF belongs to a single investment entity. It helps to concentrate the resources of multiple investors, realize economies of scale, quickly start investment, gradually expand the financing scale, straighten out the thinking of investment decision-making and management, establish reasonable expectation of return, and promote the efficient and sustainable operation of the fund. China can also focus its funds on investment entities such as SCIF in the UK, integrate multi-party investment capabilities, coordinate multi-party investment funds, and fully reflect the control and commitment of government departments and commercial banks in promoting the growth and development of small and micro enterprises. According to the data analysis of Qingke Research Center (private placement link) and according to the public reports of the media, the key investment fields of national, provincial and municipal guidance funds are highly differentiated, while the industrial similarity of district and county-level industrial investment funds is high, and the industrial positioning is not clear enough. It is suggested to make overall planning and coordination at the provincial and municipal levels as far as possible, focus on establishing the development direction of strategic emerging industries, and sort out the key supported industries in combination with the regional industrial layout [14]. In view of the more difficult situation of guiding fund-raising, it is suggested to increase the contribution proportion of guiding fund, for example, the total contribution proportion of municipal and district levels should be increased from 30% to 50%, and the joint contribution proportion of provincial, municipal and district (city) should be increased from 50% to 70%. At the same time, the government funds should be increased to continuously attract and broaden financing channels.

(2) Appropriately relax regional restrictions and balance the differences between policy orientation and market-oriented expectations

SCIF is essentially a new private equity fund with banks as the main investors dedicated to the growth and development of small and micro enterprises. Compared with other standardized financing models, it is more in line with the integration and personalized characteristics of small and micro enterprises and their flexible, complex and changeable financing needs. More importantly, it does not only focus on creating short-term returns for investors, that is, commercial banks, but emphasizes investment confidence and patience, in order to provide long-term equity investment without excessive emphasis on Control for the growth and development of small and micro enterprises, which makes the investment itself more professional, reasonable and targeted. In addition, SCIF model is also conducive to the integration of government departments, commercial banks, social organizations and individual investors, and can fully mobilize the enthusiasm of all parties, give full play to their advantages, and focus on providing services for the financing of small and micro enterprises. In China, small and micro enterprises also need an innovative financing model integrating flexibility, long-term and diversification. Practices similar to SCIF in the UK can also be designed and started relatively quickly in China. The government guidance fund should take the policy guidance of promoting the development of emerging industries, paying attention to key technologies and breaking through economic weak links as the starting point, and pay attention to the overall policy effect of the fund, rather than the profit and loss of a single project. The guiding fund usually has restrictions on the proportion of funds invested in local enterprises and even investment in specific industries, but the market-oriented sub fund should pursue profits and avoid risks in order to meet the profitability of social capital. To properly handle the contradiction between policy orientation and market-oriented expectations, it is necessary to appropriately relax regional restrictions at the level of investment target projects. In particular, due to the lack of investable projects and more idle funds, the district and county-level guidance funds need to modify the fund management measures, appropriately expand the regional restrictions on investment, properly tilt to the market-oriented profit requirements of social capital in the early stage, cultivate a number of high-quality projects first, and then tilt to policy objectives. At the same time, relax the calculation standard of local investment proportion, provide a larger screening range for fund investment, reduce the return investment ratio, and the minimum return investment amount can be set to be no less than the government contribution of the guidance fund [15].

(3) Improve the multi-level capital market of private equity and broaden the exit channels of funds

At present, the Chinese and British governments are trying to build an efficient commercial financing system that encourages competition, including direct financing and indirect financing. Combined with national conditions and their own development needs, they are trying to build a policy support system that focuses on indirect financing and combines direct and indirect financing. It can be said that China's policy support for small and micro enterprises is no less than that of the UK. The good external environment created by China for the financing of small and micro enterprises and the unique strong policy financial support can provide support for the establishment of growth funds similar to SCIF in China. Broaden the exit channels of funds, establish a market-oriented private equity asset package trading platform, promote the trading mechanism of fund asset circulation and realization, flexibly use the means of asset securitization, and broaden the exit channels of funds guided by the government. Relying on the provincial property rights exchanges to build a market-oriented secondary market trading platform, strive to give full play to the capital agglomeration ability, market radiation, value discovery function and resource allocation function of the platform, establish a secondary market trading fund, and specifically acquire alternative asset fund shares, investment portfolios or fund products with investment commitments. Guide funds to shorten the operation cycle of guide funds through more flexible and convenient exit methods such as M & A and equity transfer.

(4) Standardize the fault-tolerant mechanism, improve the fund incentive and restraint mechanism and performance appraisal mechanism

Small long-term equity investment usually requires a return on investment of 10% - 15%, and the investment cost and investment loss rate are likely to make the final return lower than the minimum return on investment required by the bank. In the UK, generally speaking, all equity investments above 9.9% should be deducted from capital. However, in order to build SCIF into a successful business model, the UK financial regulatory authority (FSA) agreed to give special treatment to SCIF and solve this problem through a special capital structure. That is, the investment is regarded as a risk weighted asset, and the risk weight coefficient is set at 190% - 370% according to the scale and dispersion of the portfolio. This key step enables banks to build a bridge between traditional loans (3% - 4% return) and pure equity investment (30% + return). China's regulatory authorities can also learn from the handling method of SCIF investment by the UK financial regulatory authority to create conditions and provide support for the innovation of financing mode of small and micro enterprises from the technical and regulatory levels. On the one hand, it is suggested to increase the distribution proportion of excess returns of fund managers and other social investors for projects that meet the strategic needs of local industrial development and play a major role in industrial support, so as to attract social capital by transferring profits; On the other hand, different proportions of fault tolerance rates are set for angel funds and venture capital funds in local equity funds to prevent accidental injury to due diligence managers [16]. We will improve the fund incentive and restraint mechanism and performance evaluation mechanism, introduce a third-party evaluation organization to evaluate the investment operation and investment benefit effect, and improve the fairness and fairness of the evaluation.

7. Conclusions

As the main policy tool of our government to promote entrepreneurship and innovation and support the development of scientific and technological small and medium-sized enterprises, it has been nearly 15 years since the large-scale implementation in 2008. The introduction and implementation of the guiding fund policy has significantly activated the investment and financing activities of the venture capital industry, expanded the capital supply and investment of the industry, and played a better guiding effect on social capital. There are some problems and deficiencies in the government guided fund operation, such as insufficient linkage, difficult landing of enterprises, insufficient fund funds, and the operation efficiency and standardization need to be improved. Many difficulties and contradictions in the actual operation of the guidance fund directly lead to the dormancy of some guidance funds, which fail to give effective play to the guidance efficiency and support industrial development. In contrast, SCIF has solved the above problems in terms of public financial objectives and financial performance objectives, and its operation mode is worthy of our government's guidance fund for reference. By combining regional industrial advantages, improve the contribution proportion of guidance fund; Appropriately relax regional restrictions and balance the differences between policy orientation and market-oriented expectations; Improve the multi-level capital market of private equity and broaden the exit channels of funds; Standardize the fault-tolerant mechanism, improve the fund incentive and restraint mechanism and performance evaluation mechanism, so as to promote the government to guide the healthy operation of the fund and the high-quality development of regional economy.

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