

Analysis of the Operation and Management Mode of Chinese Government Venture Capital Guiding Fund

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Abstract—In recent years, China's high-tech industry has developed rapidly, which is closely related to the development of China's Government venture capital guiding fund. This paper uses the inductive method to analyze the operation mode, management mode and exit mode of Chinese government venture capital guiding fund. The conclusions can be drawn: there are five operation modes, six management modes and three exit modes. This paper aims to provide comparison and reference for the practice of other countries and regions.

Keywords—Venture capital; guiding fund; operation mode; management mode

I. INTRODUCTION

According to the requirements of "Guiding opinions on the standardized establishment and operation of the venture capital guiding fund", the government venture capital guiding fund (hereinafter referred to as guiding fund) shall carry out investment business in accordance with the principles of "government guidance, market operation, scientific decision-making and risk prevention"[1] and its supporting objects are mainly ventured capital enterprises established in China. These venture capital enterprises must be filed in accordance with the procedures of the Interim Measures for the administration of venture capital enterprises, while the guiding fund itself is not directly engaged in venture capital business[2].

In recent years, the high-tech industries represented by the Internet, biopharmaceutical, artificial intelligence, new energy, new materials, etc. have made a very rapid development in China, which has made a great contribution to the industrial transformation and upgrading, supply-side structural reform, and the development of strategic emerging industries in China. These achievements are closely related to the development of the guiding fund. Therefore, in order to summarize the successful experience of guiding fund, it is necessary to analyze the main operation mode and management mode of guiding fund.

II. THE OPERATION MODE OF THE GUIDING FUND

The operation modes of guiding fund in China are as follows:

A. Equity participation

It means to guide the fund to invest in venture capital enterprises by way of investment and equity, and to clear the exit time in the contract, and to support the establishment of new venture capital enterprises[3]. This is the main mode of guiding the fund operation in China at present, which can give

full play to the leverage effect of financial funds. In this mode, the guiding fund and venture capital institutions cooperate to establish a sub-fund. The sub-fund invests in start-ups. The guiding fund only plays the role of capital contribution and shares. The guiding fund of the sub fund's daily management activities does not participate, but has the right to supervise. The proportion of equity that the guiding fund shares in the venture capital institutions is set at the upper limit, usually no more than 25%, and the guiding fund cannot become the first shareholder of the venture capital institutions.

In order to give full play to the policy effect of the guiding fund, the guiding fund usually makes a minimum proportion regulation for the investment of the participating venture capital enterprises to the enterprises in the seed stage and the start-up stage. For the regional guidance fund, in order to support the economic development of the region, the regional guidance fund usually requires venture capital enterprises to make a minimum proportion of investment in the region's start-ups, which varies from 50% to 80% depending on the region.

B. Follow-on investment

It means that the guiding funds and venture capital institutions jointly invest in small and medium-sized technology-based enterprises in the initial stage that venture capital institutions choose to invest[4]. The guiding fund has the following follow-up investment methods for the venture capital institutions: firstly, after the project is selected by the venture capital institutions, if the project meets the requirements, after being approved, the guiding fund conducts equity investment under the same conditions according to a certain proportion of the actual investment amount of the venture capital institutions and entrusts the equity rights to the venture capital institutions for management, which is called the project follow-up investment method; secondly, after the venture capital organization is determined to be its own partner, it guides the fund to make equity investment with a certain proportion of the capital contribution of venture capital organization and entrusts the venture capital organization to jointly invest in the venture enterprise and implement equity management, which is called parallel fund follow-up investment. When the guiding fund invests in the start-up enterprises in the way of follow-up investment, it should reflect the policy objectives of the guiding fund, rather than simply pursue commercial interests. In order to prevent the guiding fund from pursuing commercial interests, "the guiding opinions" strictly limit the follow-up investment of the guiding fund.

The guiding fund usually rewards a part of the equity income generated by the follow-up investment to the venture capital institutions with which it co-invests, so as to better support the development of the venture capital institutions with which it co-invests.

In order to control risks, the guiding fund will also set a maximum limit on the proportion and amount of investment in the way of follow-up investment. The maximum limit will vary according to different places. In some places, the guiding fund also stipulates that it has the priority of liquidation when withdrawing from the investment. That is to say, if the invested venture enterprise goes bankrupt due to loss, it will pay off the guiding fund first after paying off the creditor's rights according to the legal procedure in the bankruptcy liquidation.

C. Financing guarantee

It means that the guiding fund provide a certain proportion of guarantee for the venture capital company with good credit by means of currency, pledge, etc. to help the venture capital company obtain the funds needed for its development[5]. The financing guarantee mode is widely used in the United States. The precondition of this financing operation is the developed credit system. China's venture capital enterprises are not strong enough, and the credit system is far from perfect, so it is rarely used in China. Financing guarantee mode is not the main operation mode of guiding funds in China. The reasons are as follows:

Firstly, debt financing improves the financial leverage of venture capital enterprises and increases financial risks, which makes venture capital enterprises very cautious in their investment. In practice, it will increase the investment in the growing and mature enterprises and reduce the investment in the early start-ups, because the latter is very risky, which is contrary to the original intention of the guiding fund.

Secondly, debt financing has raised the demand for capital liquidity of venture capital enterprises. In other words, enterprises need to withdraw before the maturity of debt in order to repay the debt. However, there are too many uncertainties in the investment of the seed-stage and start-up stage, which will inevitably lead venture capital institutions to be keener to invest in the later stage enterprises with more stable returns, which also conflicts with the policy objectives of guiding funds.

D. Risk subsidy

It refers to the subsidy given by the guiding fund to the venture capital institutions[6]. The precondition is that these venture capital institutions have invested in the technology-based small and medium-sized enterprises in the initial stage. The essence of risk subsidy is to make up the losses of venture capital institutions with financial funds. There are two ways of risk subsidy:

Firstly, compensation shall be made according to a certain proportion of the actual amount invested by venture capital institutions in early start-ups. In this way, the upper limit of the maximum proportion and the upper limit of the maximum amount will be stipulated. For example, the Ministry of science and technology has stipulated that the maximum proportion is

5% of the actual investment amount, and the maximum amount of subsidy is 5 million yuan.

Secondly, compensation shall be made according to the actual loss of the investment of the venture capital institution.

E. Investment Guarantee

It refers to guiding funds and venture capital institutions to jointly invest in small and medium-sized technology-based enterprises in the initial stage that venture capital institutions choose to invest[7].

In the venture capital industry, some high-tech start-ups that have investment prospects, are developing high-tech products and are in the initial stage are usually selected as "mentoring enterprises" by venture capital companies. After that, the guiding fund gives support to it, which is an investment guarantee. After being determined as a tutoring enterprise, the venture capital enterprise and the tutoring enterprise shall jointly apply for pre-investment funding. The maximum counseling period shall not exceed 2 years, usually 1 year, and the funding amount shall not exceed 1 million yuan, which is mainly used for the scientific research expenses of the start-up enterprise.

In addition to pre-investment funding, there is post-investment funding. After the entrepreneurship guidance and the venture capital enterprise's investment, the venture capital company and the guidance enterprise together apply to the guiding fund for post-investment support. According to the actual situation, the guiding fund can provide post-investment support to the start-up enterprise with the upper limit of 2 million yuan, which is mainly used to subsidize the cost of the start-up enterprise to convert technology into products.

III. MANAGEMENT MODE OF GUIDING FUND

For the daily management of the guiding fund, there are some differences in the management modes of different regions. At present, there are mainly the following types in China:

A. Taking an independent legal person as a fund management organization

For example, Shenzhen guiding fund has set up a municipal venture capital office, whose daily management is in the charge of the municipal venture capital office; Nanjing guiding fund has set up a Nanjing venture capital development center, whose daily management is in the charge of the Nanjing guiding fund.

B. The entrusted state-owned assets management company

For example, the management of the guiding fund in Shijingshan District of Beijing is entrusted to the state-owned the assets management company of Shijingshan, which is responsible for guiding the daily management and operation of the fund as a trustee; similarly, the management of the guiding fund in Shijiazhuang is entrusted to the development and investment company of this city for management. As a trustee, the company is responsible for the guiding fund daily management and operation.

C. Entrust state-owned venture capital enterprises

For example, the management of Suzhou Industrial Park guiding fund is entrusted to the state-owned venture capital

enterprise Suzhou Yuanhe holding group for daily management; the management of Shanghai guiding fund is entrusted to the state-owned venture capital enterprise Shanghai venture capital for daily management; the management of Guangzhou guiding fund is entrusted to the state-owned venture capital enterprise Guangzhou Science and technology venture capital company for daily management.

D. Establishment of guiding fund management company

For example, Zhejiang Guiding fund management company and Beijing Equity Investment Development Fund Management Company is only responsible for the daily management of the guiding fund, not the main investor.

E. Self-management of guiding fund by company system

For example, Chengdu Yinke Venture Capital Co., Ltd. and Shanghai Pudong Science and Technology Investment Co., Ltd. are responsible for the daily management of the guiding fund by the internal team of the company, and the internal governance is strictly implemented in accordance with the company law.

F. Entrusted external management organization

For example, the guiding fund of Yangpu District in Shanghai is entrusted to Silicon Valley Bank of America for management; the guiding fund of Jinshan District and Minhang District in Shanghai is entrusted to Shengshi investment company for management; the guiding fund of Shaoxing City in Zhejiang Province is entrusted to Kaitai fund for management, etc.

In the collection of the management fee, the management organization usually gets about 2% fixed management fee. Because the policy attribute is the basic attribute of the guiding fund, in other words, the main purpose is to attract social capital to participate in the field of venture capital, so it is relatively rare for management organizations to obtain profit sharing.

Some guiding fund to create some incentive mechanisms to encourage investment in the region. For example, Shenzhen guiding fund stipulates that 20% of the net income of the sub-fund can be allocated to the management company of the sub-fund, and each investor shares the remaining 80% according to his / her own contribution proportion. In order to encourage the sub-fund to invest in the local projects in Shenzhen, when clearing the operator fund at maturity, the reward proportion to the management organization will increase from 20% to 50% for the net income from the local start-up projects in Shenzhen; the reward proportion to the management organization will also increase from 20% to 30% for the net income from the local early and medium-term projects in Shenzhen.

IV. WITHDRAWING MODE OF THE GUIDING FUND

From the perspective of practical work, the withdrawing mode is mainly as follows:

A. IPO

Initial public offering (IPO), in short, refers to the first public offering of a company's securities (generally common stock) to an unspecified group of people in the society. It is a reflection of the company's strength and a recognition of the

company's operating performance by the capital market to be able to carry out the public offering of shares. The IPO company can also obtain a way of continuous financing in the capital market and has a greater valuation advantage. Therefore, for guiding fund, IPO is the best way to exit.

B. Sale of shares

In practice, there are two forms of share sale: share repurchase and share transfer. The former refers to the purchase of company shares held by venture capital enterprises, and then their cancellation; the latter mainly refers to the merger and acquisition between companies, which is often implemented by the acquirer based on strategic considerations, which is likely to lead to the loss of the independence of venture capital enterprises, and the contradiction between venture capital investors and venture enterprises. Another kind of acquisition refers to the acquisition of the company's equity by another venture capital enterprise, which can be called the second phase acquisition, which is also one of the ways of share transfer.

C. Liquidation

This way is a "Do what you are forced to do" exciting way, which is the last thing venture capitalists want to see. Because venture capital mostly invests in the early stage of venture enterprises, there is a high failure rate. When the venture enterprises are confirmed to lose the prospect and can not get the expected high return, the venture investors will choose to liquidate the venture enterprises or declare the bankruptcy of the venture enterprises. This shows that venture capital has to choose to exit when it encounters a failure, and it usually suffers huge economic losses.

V. CONCLUSIONS

Through the analysis of the guiding fund in China, the following conclusions can be drawn:

1. About the operation mode of the guiding fund.

There are mainly five modes: equity participation, follow-up investment, financing guarantee, risk subsidy and investment guarantee. The most commonly used mode is equity participation.

2. About the management mode of the guiding fund

The main management modes are as follows: Taking the independent legal person as the fund management organization, entrusting the state-owned assets management company, entrusting the state-owned venture capital enterprise, setting up the guiding fund management company, guiding the fund self-management by the company system, and entrusting the external management organization.

3. About withdrawing mode of the guiding fund

There are three withdrawing modes of the guiding fund: IPO, equity sale and liquidation.

When setting up guiding funds, local governments at all levels can establish appropriate guiding fund operation mode, management mode, and withdrawing mode in combination with the local actual situation. It is hoped that the analysis results of this paper can play a reference role for it.

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