

# Problems and Countermeasures in the Transformation and Development of Local Government Investment and Financing Platform

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## Abstract

Since its birth, local government investment and financing platform has raised funds for China's local economic growth, urban infrastructure construction and social construction. Under the contradiction of the mismatch between the administrative power and financial power of local governments in China, as a product of China's special period of economic development, local government investment and financing platforms can greatly alleviate the government's financial pressure and make outstanding contributions to promoting local economic development. Under the new economic normal, with the continuous growth of the scale and number of local government investment and financing platforms, they are now facing problems such as excessive debt growth, unreasonable asset structure and insufficient risk supervision. The survival and development of local government investment and financing platforms are facing challenges. Adapting to the situation of new economy and new investment pattern and realizing high-quality transformation and development are the inevitable choice of government investment and financing platform. This paper mainly analyzes the problems existing in local government investment and financing platform companies, combined with China's current political and economic environment, puts forward corresponding transformation measures, and explores the feasible path of transformation and development.

## Keywords

Public investment, Local government investment and financing platform, Transformation and development.

## 1. Introduction

Under the background of increasing countercyclical regulation, local governments' demand for funds is increasing. It is urgent to build an efficient and sustainable local government investment and financing system to alleviate the pressure of fund-raising. Since the founding of new China, local governments have constantly explored new sources of funds to strengthen local economic and social construction, and constantly tried available investment and financing methods. Local government investment and financing platforms are a special product of China's political and economic system. After the financial crisis in 2008, China's economic growth was affected. The government issued a 4 trillion investment plan to stimulate economic growth. Stimulated by the "4 trillion" currency, local government investment and financing platforms entered a prosperous period of development. While the rapid and continuous expansion of financing scale has made great contributions to China's economic development, the potential

risks and problems are gradually exposed. The state has strengthened the supervision of local government investment and financing, and the local government investment and financing model must be adjusted. Especially in recent years, the government has tightened the financing policy in an all-round way, and the investment and financing behavior guaranteed by government credit, such as local government investment and financing platforms, has been greatly restricted. The local government investment and financing platform lost the government's credit endorsement, and the investment and financing capacity decreased sharply. According to the data, in 2022, about 4.01 trillion yuan of urban investment bonds will be sold back when they are due, and the urban investment bonds will face certain repayment pressure. At the same time, the investment and financing related policies are imperfect, their own supervision is not strict, there are many problems left over by history, the risks of local government investment and financing platforms are becoming increasingly prominent, the investment and financing model is facing great challenges, and the transformation and development is imminent.

In recent years, domestic scholars have conducted extensive research on the development and transformation of local government investment and financing platforms. Gao Min (2021) believes that due to the continuous reform of the financial system and the accelerating process of urbanization, there is a fiscal revenue and expenditure gap within some local governments. In the current market-oriented transformation period, realizing the effective prevention and governance of debt risk of platform companies is of great significance to promote the transformation of platform companies and prevent the hidden debt risk of local governments [1]. Jing Kedi, et al. (2021) discussed the improvement of local financial resources in different transformation directions of local government investment and financing platforms, selected Hefei industrial investment platform as the analysis object, analyzed the win-win model of Hefei industrial investment platform while investing in strategic emerging industries such as integrated circuits, and explored the regional platform transformation under the background of modernization of national governance system Coupling path between industrial development and local financial growth [2]. Su Qin and Xiong Yi (2021) believe that due to a large number of new financing from local government financing platforms, the total amount of local government debt in China continues to grow. At the same time, China's macroeconomic growth has slowed down, the fiscal revenue of local governments has decreased, and the debt pressure has expanded rapidly. At present, the transformation of local government financing platforms is still relatively slow, and there is a large debt stock in local government financing platforms. In the process of transformation, if there is no support from local governments, the stock of debt may have cashing pressure, or even cashing security risk [3]. Pan Liquan, et al. (2019) believe that local government financing platform companies are an important carrier causing local government debt risk. Forced by a series of policies to prevent and resolve local government debt risks, it is the general trend to promote the market-oriented transformation of local government financing platform companies by classification [4].

## **2. Basic Theory**

### **2.1. Local Government Investment and Financing Platform**

Local government financing platform refers to an investment company established by government departments and social institutions with the goal of meeting the investment in urban infrastructure construction. Different types of investment companies are established according to different functional project types, but no matter which type of company needs to meet the relevant standards of national financing regulations. Under certain circumstances, it is also necessary to take local financial subsidies as a commitment to repay financing debts. All funds of these companies are directly used in the field of municipal engineering construction

and public utilities construction [5]. The funds of local government financing platform can be bank loan funds or funds raised by banks selling financial products.

With the surge in the number of local government investment and financing platforms and the steady expansion of financing scale, experts and scholars' doubts about the financing platform are also increasing, the responsibility subject is not clear, the corporate governance structure is not perfect, and there are many loopholes in the operation process. Local governments can apply for credit loans from different banking institutions on different platforms. However, it is difficult for banks to review the solvency of government liabilities and cannot grasp the actual situation of government financing platform liabilities. When the income of financing projects is lower than the input cost, the government financing platform will have debt risk, which will put great pressure on the financial expenditure of local governments. In case of serious losses of the project, the central government needs to use financial funds to repay the debt or the bank pays the bill by itself [6].

## **2.2. Financing Mode of Local Government Investment and Financing Platform**

The two main financing modes of local government financing platform are bank loan and bond financing.

First, bank loans. In the process of urban development and construction, when there is a large capital gap, local governments will actively seek the cooperation of commercial banks with their own financial revenue and land revenue as guarantee. Commercial banks also favor to provide high loans to financing platforms guaranteed by government credit. Due to financial innovation and the tightening of regulatory policies of the Ministry of finance, the national development and Reform Commission, the CBRC and other departments, the proportion of bank loans in the borrowing sources of financing platforms has decreased in recent years. However, bank loans have the characteristics of fast financing and good flexibility. They are still the preferred way of financing platform, and the total amount is still huge [7].

Second, bond financing. Bond financing is the fund raised by the financing platform directly issuing bonds in the capital market, and the financing cost is lower than indirect borrowing. The funds raised by issuing bonds are mainly invested in infrastructure projects or public welfare projects, which is the preferred financing channel for financing platforms, second only to bank loans [8].

## **2.3. The Main Functions of Local Government Investment and Financing Platform**

Local government financing platform plays an important role in China's urbanization construction and people's livelihood. At present, it is spread all over China's governments, and its main functions are financing function and investment function.

First, financing function. After the implementation of the new budget law, local governments have been given the power to issue bonds independently. The state's restrictions on local bonds still make it difficult for local governments to raise sufficient project supporting funds, so local government investment and financing platforms appear in the capital market to finance local governments [9].

Second, investment function. The financing platform is not only responsible for financing urban construction projects issued by the government, but also responsible for project development and construction. The financing platform has become the legal subject and responsible subject of urban construction.

### **3. Problems in the Development of Local Government Investment and Financing Platform**

#### **3.1. The Dependence on Government Finance is Too High, and the Problem of no Distinction between Government and Enterprises is Prominent**

Most of the members of the local government investment and financing platform are appointed or concurrently held by the staff of the local government departments. They are funded and established by the local finance and state-owned assets departments on behalf of the local government. They have a close relationship with the local government. Their operation and management are more interfered by the government departments, and there is no real sense of establishing the enterprise's own operation and management system. It has not formed a management model suitable for its own business situation. Especially in the actual operation, many enterprises need to work in accordance with the government's rules and resolutions. The investment structure is obviously different from other enterprises responsible for their own profits and losses. The actual rate of return on investment and profitability are poor, they are highly dependent on government subsidies, and there is no distinction between government and enterprises, so they can not operate and develop normally and realize income. Moreover, for the investment and financing platform of local government, more consideration is given to political factors and social benefits, without paying attention to economic benefits, the investment benefits are low, the capital operation process often exceeds the budget and cost, the enterprise development is abnormal and has no market competitiveness. Once it is separated from the financial support of the government, it will not be able to survive in the market [10].

#### **3.2. The Asset Liability Ratio is Too High, and the Investment and Financing Risks Are Becoming Increasingly Prominent**

Due to its poor hematopoietic function, local government investment and financing platforms can only raise funds through large debt in order to meet the needs of local infrastructure construction. Because the local government investment and financing platform has always been endorsed by the government, it is easier to finance in the capital market, which leads to high liabilities and hidden risks of the investment and financing platform. Most of the financing funds received by the government invest in infrastructure construction projects. These projects lack capital flow, have large investment amount, unable to circulate funds, long construction cycle, mismatch between debt repayment assets and liabilities, and most of the debt repayment sources are government project subsidies or capital increase of investment and financing platform companies, resulting in great pressure to pay off loan interest, the debt principal can only be maintained by rolling the way of borrowing the new to repay the old. With the increasing scale of debt, once one of the links has a problem, the capital chain will break. At the same time, there is a close relationship between local government investment and financing platforms and local government departments. There are also a large number of large amount of funds lent and a large number of guarantees. The debt ratio is high without risk control measures and actual solvency [11].

#### **3.3. Lack of Professionals and Non-Standard Management**

The local government investment and financing platform involves a wide range of knowledge and difficult management. It involves professional fields such as capital operation, enterprise management, financial supervision, investment operation and project construction. At the same time, it involves multiple businesses, including real estate, science and technology, finance, new energy, transportation and water conservancy and other industries. Local government investment and financing platform, enterprises have a great demand for professionals, but the

reality is that there is a serious shortage of professionals, the management mode is chaotic, and the government and enterprises are confused. The senior level is mostly held by government personnel, without enterprise management experience and ability. The grass-roots personnel have great mobility and uneven professional quality. At the moment of rapid economic development, they are left unattended and poorly managed. Moreover, due to its non-standard supervision, its anti risk ability is almost zero in the face of external and internal risks [12].

#### **4. Countermeasures to Promote the Transformation and Development of Local Government Investment and Financing Platforms**

##### **4.1. Promote the Construction of Institutional System and Clarify the Responsibilities of Investment and Financing Platform in the form of Laws and Regulations**

The existing local government investment and financing platforms have a large stock, chaotic management and opaque information. It is necessary to standardize the establishment, operation and restriction of local government investment and financing platforms by relevant targeted laws and regulations, strengthen information disclosure, effectively supervise the development of investment and financing platform enterprises, and give certain support to investment and financing platform enterprises on a standardized basis, help its transformation and development [13,14].

##### **4.2. Integrate Resources and Assets to "Find Out the Family Background"**

Make a comprehensive and systematic analysis of the stock assets of enterprises on the investment and financing platform, peel off false assets, integrate operational assets, expand the scale of the investment and financing platform through the high-quality assets of local governments, realize the capitalization of resources, asset capitalization and capital securitization, open the channel between assets and funds, and realize direct financing. On the other hand, we should do a good job on the integration of assets, focus on optimization and reorganization, increase the income assets, and provide a strong guarantee for the efficient operation of the investment and financing platform. Combined with the actual situation of local governments, optimize business ideas and management system, and effectively promote the transformation and development of local government investment and financing platforms [15,16].

##### **4.3. Clarify the Boundary between Government and Enterprises and Improve Their Profitability**

We must straighten out the relationship between the government and enterprises, clarify responsibilities, reduce the excessive intervention of local government departments in the normal business activities of investment and financing platform enterprises, truly carry out market operation, and establish enterprises that can operate independently and be responsible for their own profits and losses in line with the modern enterprise management system. At the same time, local government investment and financing platform enterprises need to carefully screen investment projects, conduct sufficient feasibility analysis and strict project management. They can not select projects completely according to the wishes of government departments, and try to select projects that can produce certain economic benefits in the future [18,19].

#### **4.4. Strengthen the Introduction and Training of Professional Talents, Strengthen Their Own Supervision Ability, and Build a High-quality Talent Team**

For senior managers, professionals can be employed through talent introduction; For middle-level managers and grass-roots employees, personnel with strong professional skills and excellent learning ability should be selected as far as possible, and the possibility of personnel mobility should be reduced by establishing an appropriate salary system. In terms of self-regulation, we must formulate reasonable and effective regulatory systems and accountability mechanisms to reduce enterprise development risks caused by internal risks [20,21].

### **5. Conclusion**

With the accelerating pace of social and economic development, local governments at all levels continue to increase investment in infrastructure construction, resulting in local financial burden. In order to solve the financial dilemma, many local governments have set up investment and financing platforms to raise funds for local construction, which has effectively alleviated the pressure caused by the financial deficit of local governments. There are many difficulties and problems in the development of investment and financing platforms. With the increasing scale of financing, there are more and more problems. Local government investment and financing platforms are facing the pressure of transformation and development. In the face of the complex international political and economic development environment in the post epidemic era, the proposal of the CPC Central Committee on formulating the 14th five year plan for national economic and social development and the long-term objectives for 2035 proposes to build a new development pattern dominated by the domestic cycle and mutually promoted by the domestic and international cycles during the 14th Five Year Plan period. Facing the new pattern of economic development, local government investment and financing platforms face both opportunities and risks, which requires local government investment and financing platforms to make full use of their own advantages, change their own disadvantages, improve their own operation and management level, strengthen their own supervision ability, and combine the local economy and national policies, find out the most suitable transformation direction of local government local investment and financing platform to achieve good transformation and development.

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