Research on the Local Government Investment and Financing System Innovation and Risk Assessment under the New-Type Urbanization Background

Ruoqian Yang

Abstract

At present, with the new urbanization as the background of the situation in our country, local governments in China especially in the central region as the representative of Henan Province, is to take this opportunity to create their own economic heights and industrial agglomeration, and constantly improve the level of urbanization of the original, but the town level cannot improve open the power of capital, the local government of is facing financing, financing platform, financing channels and financing policy and a series of financing systems caused by financing difficulties. Therefore, as the perspective of the local government, a new study of investment and financing system and the risk measure, can more effectively guide and encourage the existing capital city infrastructure and public services to improve the field.

Keywords: Local government; Urbanization; Mechanism innovation; Risk assessment

1. Introduction

Local government investment and financing platform in China from the beginning until now, has been praised by the domestic public attention. Under the background of the new urbanization trends and, in particular, the local government in raising money to complete the urbanization transformation, enhance the level of urbanization has relatively urgent motivation and needs. Therefore, the construction of the local government investment and financing platform in China, capital channel and risk measures to expand the monitoring are particularly important.

1.1 Types and features of the local government financing platform

The type of local government financing platform, can be divided according to the following dimensions, from the perspective of profitability can be basically divided into three types of platforms: profit-making local government financing platform, business and public welfare of local government financing platform, local government financing platform for public interest.

From the perspective of organizational hierarchy can be divided into the basic single local government financing platform and the mass of the local government financing platform.

From the perspective of professional division of labor can be divided into professional basic financing platform and comprehensive financing platform.

From the angle of its head unit administrative levels can be divided into basic provincial, municipal and county-level local government financing platform; From the perspective of financing platform function attributes can be divided into urban infrastructure financing platform, the basic industrial park financing platform, asset management, financing, etc.

The characteristics of local government financing platform, also can be summarized as the following several aspects according to the above classification standards.

- From the point of view of historical evolution, the characteristics of its development path can be more flexible to meet the needs of the market mechanism, not subject to the restrictions of
the original policy model. The supply and demand of funds for the two sides to build a more convenient docking platform.

- From the size on the regional coverage of local government investment and financing platform basic in China's eastern, central and western have distribution in the administrative area, the eastern coastal developed province local government investment and financing platform number and the Midwest underdeveloped provinces, the local government investment and financing platform is higher.

- Created from the point of view, it is for urban infrastructure construction and other public service development to raise funds for the establishment, there is no doubt that local government investment and financing platform of origin outside almost of capital demand, in this case expedites the emergence of the first characteristics of it is to raise capital.

- From the point of view of development, local investment and financing platform is affected by various factors of influence and role, through the from static to dynamic process of a series of changes, in the adjustment of China's macro-economic policy guidelines and micro market environment, ongoing restructuring transformation, better serve the local economic and social comprehensive development.

1.2 Types and advantages and disadvantages of local government financing channels

The financing channels of local government, according to its different sources can be roughly divided into the following categories: packaged loans, bank loans, urban construction investment bonds, medium-term notes, and this product.

Packaged loans "refers to the financing platform to finance the reimbursement commitment as a repayment guarantee, issued by the multiple infrastructure construction project portfolio as an overall project class financial institution loan to the bank of a kind of financing way." Its advantage is able to build the good cooperation between the bank and the government platform, whereby Banks' funding to the government more high quality projects, to realize the mutual benefit of both. Behind the disadvantage is that it's great to repay the loan risk, because most of the local government investment and financing platform are under the leadership of reimbursement strength and term, the legal effect factors such as the restriction of credit risk has been formed, hence the channel has been now regulators to block.

Bank loans, it is to point to the local government investment and financing platform to seek cooperation with commercial banks, as far as possible to raise the most money, maximum limit to complete required by the urban construction of local government funding gap. The opportunity of local government investment and financing platform, grasp the monetary policy relaxation, makes commercial bank loan financing platform of the main financing channels. But it’s hidden behind and packaged loans of the same recessive debt risk.

The city voted bonds, local government financing platform for the city traffic, municipal construction and public finance and corporate bonds issued. This kind of financing way took the lead in the eastern coastal provinces and municipalities of China appear to use, due to its capital raising ideal effect and fast in China's large and medium-sized cities cast financing platform is widely used, but recent different city investment bond have appeared acceptance risk, making the funding channels of financing costs rising, market transactions continue to shrink.

Medium-term notes, is a period between commercial paper and corporate bonds direct debt financing tools, for the local government investment and financing platform, medium-term notes although high barriers to entry, but once the channel financing cost is relatively low. Its advantage is the loan credit evaluation, in the implementation of the relevant departments of the central government regulations, the issuance of the sources of funds to carry out credit rating in general will be able to obtain the
financing of enterprises are large central enterprises and state-owned enterprises. Furthermore, compared with other instruments of the medium-term notes issued interest rate has more advantages. But due to the credit standard is high, the applicable local investment, only a handful of financing platform, application scope is narrow, and not a substitute for bank loans the main channel status.

This financial related product, in fact, the depth of the derivative products as a kind of bank loans, it is to the bank, based on trust and investors a way of financing, the financing channel advantage is not only for Banks to expand business, increase profits, does not affect the deposit-loan ratio under the condition of lower risk assets. Its disadvantages are mainly the following points, this kind of financing way could also boost inflation, go against regulation, at the same time as a result of the financial products for wide audience, easily lead to instability of financial and social risks.

2. Urban construction of local government financing platform and analysis the problems in the innovation process

2.1 Constitute the subject of local debt, reimbursement deadline looming.

Along with the 2008 financial crisis, the Chinese government in order to boost the economy, once the implementation of a more relaxed monetary policy, during China's local government debt scale expanding, then these debts, especially to bank loans as the main body, in other words, if the debt maturity, the local government financing platform cannot repay the money would constitute a debt default will not only affect the local government administrative units to the normal operation of, it will have a serious impact on the livelihood of the local people.

2.2 The ability to repay the debt within the nature of the lack of excessive reliance on land transfer revenue.

At present, most of the local government investment and financing platform's solvency, rely on the local government's finance and tax revenue, also means the transfer of land income as the main source of revenue, and the excessive development of China's real estate market in the local income an excessive emphasis on the industry, so that almost government debt funds depend on the land auction price, the longer it will form a closed-loop high-risk funds, once the real estate market slump, will lead to land auctions, the government, there is no abundant finance and tax revenue, finally unable to honour maturing debt.

2.3 Financing platform defined attributes, management processes to be specification

Local government financing platform, the platform has been difficult to clarify the functions of the government and is the attribute of enterprise, so the financing platform on the organization structure and the strategic layout are faced with, which leads to many governance issues exist in the process of operation, can't timely to market as the guidance, adjustment of business orientation. Financing platform management is relatively chaos, for example, registered capital, credit guarantee and pledge collateral system is not sound holes, it should to be solved.

2.4 Regional development imbalances, less developed areas of the debt financing dependence on the high side

Have a serious imbalance in the development of problem areas and regions in China, the eastern coastal developed provinces have a good foundation in stock, the western region and under the guidance of macroeconomic policy in the development of West China, the people's living standards and the construction of urban infrastructure can be significantly improved, the central region in recent years in order to rely on policy support the rise of central China, the level of urbanization with each passing day. However, we found that, when different regions are in the development of the
same time, the gap between the developments of the region is still further widening. In the central and western regions, the government financing platform of the developed regions generally has a high degree of dependence on the debt.

2.5 Information asymmetry financing platform, easy to cause the problem of capital flows

The pursuit of performance and budget balance constraints that prompted the local government fiscal opportunism, which requires by the current budget law of local financing platform debt to cover the status of local government fiscal deficits an therefore, the local government financing platform has a lower natural preference information transparency. Because many local government financing platform is not a listed company, does not require mandatory, but the lack of voluntary disclosure of financial information and external public do not know its business operations and financial conditions. These funds and illegal chaos in operation can easily lead to large scale financial crisis of local government.

2.6 Financing channels are still dominated by banks, by the impact of regulatory policy

In our country, more than half of the financing channels of local government investment and financing platform still rely on commercial bank loans, its financing for the ease of firmly associated with the bank's credit conditions, the financing channels, it is necessary to change the simplification of if not solve this problem, the financial situation of the financing platform will also be facing a serious crisis, directly affects the stability of the local economy.

3. Local governments in the process of urbanization of financing risk control measures

For dealing with this issue, we can consider the countermeasures form the following perspectives. The Midwest in China local government financial funds nervous one big reason, structural imbalance is the government transfer payments. The Midwest in less developed areas in China in order to enhance the level of urbanization, promote local economic growth, often special dependence on government investment and financing platform construction projects to raise funds, the financial capital is not enough, however, that due to repay the debt principal and interest itself has a lot of risk, is likely to borrow again to repay udic due debt, etc., into a vicious cycle of capital chain. Only the real increase of local government disposable financial resources, reduce the financing platform of dependence is a long-term project. To speed up the improvement of Chinese local government accounting system, the operation of the past due to various reasons the system complex redundancy, already can't adapt to the requirements of form a complete set of modern financing platform, so to streamline its running program, improve the efficiency of its operation, the platform run more scientific, standardized and systematized.

Reasonable guide private capital into the local government investment and financing platform, has a positive role and influence. First, the private capital into the helps to enhance the strength of project construction funds; Second, the introduction of the DPP capital is helpful to enhance the efficiency of project investment, Third, the introduction of private capital can better for the project in the future operation into the marketization of power, form a real industrial upgrading and sustainable development. Long-term there exists a serious imbalance between regional economic development in our country's present situation, the central and western regions because of geography and urban construction foundation block and weak, and in the economic development for a long time of depression, in order to better promote the economic development in less developed areas, to raise the level of urbanization of our country to the central and western regions should focus on the central government introduced special policies, encourage the local financing platform to quickly start, benign development, boost the local coordinated development of urban and rural dual structure as a whole. From the point of China's current economic situation, the basic condition for the expansion of
local government bond issuance. Provincial local fiscal solvency is relatively stable, and after a few years the development of the pilot areas, has accumulated a lot of useful experience and train of thought, has the theoretical support to enlarge the range of the pilot. Throughout the current capital market performance, the choice is also an issue local government bonds now a reasonable time.

4. Conclusion

For dealing with the mentioned challenges, we propose the following suggestions. Local government investment and financing platform in China in the process of urbanization construction, more measures in hand to attract private capital into the infrastructure construction of urbanization. First of all, guide the folk capital investment in urban infrastructure construction, encourage private capital to equity participation, holding, wholly owned by the city infrastructure construction; guide the private capital to participate in the development of public services. Second, dredge channels in the field of private capital into the urbanization construction, encourage private capital to creditor's rights financing platform company and equity investment place. Finally, actively explore the PPP and other business model, to establish the cooperation mechanism of private investment and government investment. In view of China's local government investment and financing platform risk is accumulating, so on the question of investment and financing system innovation, on the basis of the standardization of operation platform. First, to innovate management mechanism of investment and financing platform, according to the requirements of the national related documents, do enterprise and activate the platform's own operations. This, to standardize the order of platform management, builds a progressive transformation of the provincial, municipal, local governments at the county level for platform system. Finally, to consummate the platform of risk control, compliance, internal audit of self-check governance system, supervise and urge the benign development of the local government investment and financing platform, continuous power. To accelerate and improve the city's financing service system construction, and need of local financial institutions to cooperate, give play to the role of the local finance support. First, extensive cooperation with developmental financial institution, form the financing channels of docking project exclusive. Second, perfect the local government investment and financing platform of financial guarantee mechanism in the process of urbanization, the safeguard project money running smoothly and finally, financing innovation optimization, to promote the use of external capital scale and quality.

Acknowledgement

This paper is financially supported by the Xinyang institute college scientific research project for 2015. Innovation and debt risk prevention of new urbanization investment and financing mechanism in Henan Province (2015yb28).

References


