

# Research on the Construction of Government Investment and Financing Platform for Small and Medium-Sized Cities in the Process of Urbanization

—A Case Study on XX City

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**Abstract**— The main purpose of this paper is to solve the current problem of urban construction fund shortage in small and medium-sized cities of China, namely the government's investment and financing platform construction problems. The main process of this study is: it firstly analyzes the status of the financing platform construction in the urbanization of small and medium-sized cities, and then analyzes further the existing problems of financing platform in small and medium-sized cities, discusses how to accelerate the construction of financing platform and make up for a large amount of funding sources required in the urbanization construction, and puts forward the reasonable, effective measures to promote the urbanization construction of small and medium-sized cities. The innovation of this article is: firstly, it is based on XX city in Hebei in order to make the analysis more realistic and more persuasive. Secondly, it discusses the government investment and financing platform construction problems in the background of urbanization in China.

**Keywords**- urbanization; financing platform; small and medium-sized city

## I. INTRODUCTION

Urbanization is the maximum potential of domestic demand to support the sustainable development of China's economy and sustained growth momentum. However, urbanization projects are generally advanced, social, and public welfare, require large investment and long construction period and have other characteristics. Therefore, a shortage of funds has become the main factor in restricting the development of urbanization. To relieve the government debt risk, ensure the government credit, and achieve the goal of urbanization, we must establish the investment and financing platform adapting to the development of the local economy.

In fact, the local government investment and financing platform at present widely includes different types companies set up by local government, such as city construction investment company, urban construction development company, and urban construction asset management companies. These companies can generally reach the financing standard by allocating land and other assets to form a flow of

assets and cash. When necessary, they will use financial subsidies as repayment commitment and will be integrated into the capital investment in municipal construction, utilities and other projects. In recent years, along with the urbanization, in the main credit, investment and financing platform of local government is one of the most active and most striking financing body, but in the managing and operating process, it has exposed a series of problems such as scales and risks. Considering the risk issues of the platform, the State Council and the relevant state ministries and commissions promulgated relevant policies. For instance, in June 10, 2010, the State Council issued a "notice on Relevant Issues Concerning Strengthening the Financing Platform Co management of local government" (of the [2010]19, hereinafter referred to as "the 19 man"), then, the National Development and Reform Commission Office issued the "notice on further standardizing the behavior of issuing bonds of local government financing Platform Co" (Development and Reform Office Financial No. [2010]2881), at the end of 2012, China's Ministry of Finance, the National Development and Reform Commission, the Central Bank and the CBRC jointly issued the "notice on stopping the illegal behavior of local government financing" (hereinafter referred to as the 463 article). With the announcement of this series of policies, the local government faces particularly prominent contradiction between urbanization process of unlimited high financing needs and national investment and financing policy tightening.

## II. CURRENT SITUATION OF GOVERNMENT FINANCING PLATFORM CONSTRUCTION OF SMALL AND MEDIUM-SIZED CITIES IN THE PROCESS OF URBANIZATION MUNICIPAL

According to the 2012 China's small and medium-sized cities green book published by Chinese academy of social sciences, from 2000 to 2011, China's urbanization rate rose from 36.2% to 51.3%, among them, the small and medium-sized cities urbanization rate reached 33.9%. According to Northam's S theory about urbanization development, the urbanization of small and medium-sized cities is at the stage of sharp rising. The financing platform of Small and medium-sized cities during this period mainly shows three

characteristics. First, the need of infrastructure investment is very large; Second, financial capital is the main mode of setting local government financing platform. Third, bank loan is the main way of financing platform loan and one of the important sources of urbanization construction fund of local government. Therefore, it is a norm for government to carry out infrastructure construction through debt financing in this period.

Taking XX city as an example, the city is located in Hebei province, and its GDP lies at low level in 2012 in the province. It is a typical small and medium-sized city in our country. Hebei XX investment group co., LTD, which is responsible for the city's investment and financing platform, was approved in June 2011 by the municipal government as an independent legal entity of state-owned capital operation. Its registered capital is RMB1.5 billion and group total assets is RMB5.68 billion. The group, on behalf of XX city government, is in charge of urban infrastructure projects and other government investment projects which related to the financing, guarantee and the repayment of the debt, operating the urban assets and manage the asset of all enterprises and institutions, in charge of business franchise projects authorized by the government. Currently, the group has completed the transfer of water, gas, heating power corporation industry group company, bus company, affordable housing investment company, and set up four subsidiaries, respectively, asset management companies, enterprise management service co., XX city affordable housing investment companies and advertising companies; Set up the XX city land reserve information; Launched the XX called horse surface water plant project of south-to-north water diversion project, launched in silver spring water co., LTD., listed on the preparation; Fact cooperation to raise RMB1.56 billion, including: the CDB RMB330 million, RMB150 million Xingtai bank loans, housing loans northwest district BT project finance, RMB320 million, at the same time, to seize the state advocates the housing city debt of the favorable opportunity, XX group launched the "2012" Ji debt project.

### III. FINANCE PROBLEMS OF THE PLATFORM OF SMALL AND MEDIUM-SIZED CITIES

We can see that the investment and financing platform companies of the small and medium-sized cities have played a positive role in supporting the construction of the city and the reform of the State-owned enterprises. But at this stage during the process of urbanization, it requires construction of basic facilities, and small and medium cities platform started relatively late, it is a trial and error phase and is still not a commercial operation mode. The transparency is not high. Whereas the too high local financial liabilities, large-scale financing, the extensive financing mode and too dependent on the Government's credit, all these series of questions are worthy of our attention.

#### A. *The Platform of the Investment and Financing in the Middle-and-small Cities Was in the Starting stage. Its Management System is not Perfect and the Relationship is not Proper, Either.*

At present, the legal person in the investment and financing corporation of the middle-and-small cities is occupied by the official from government all over the country.

And the government leadership changes frequently. However, the management of the investment and financing platform is hardly to keep up with, which leads to the appearance of the vulnerability in the management. In some platform corporation, the legal person and the management are changed. But the financing capitals have not been performed effectively. So banks always meet with problems when taking bank loans. Because of the improper relationship, the platform is difficult to operate. Take City XX as an example. According to the requirements of the city financial sector, only the project proprietor can operate the project financing. Nevertheless, most project owners who use financing to construct are not groups. But as the project owners, three districts and one country and the related departments do not meet the requirements of financing, they cannot operate project to finance, leading to the result that the new projects have no financing resources.

#### B. *The Commercial Assets Value Which can be Used in Mortgage does not Accord with the Financing Scale and the Risk Transfer Probably occurs.*

Now, the assets of the government financing platform in the middle-and-small cities mainly focus on land. Moreover, the estate business in those cities has developed steadily in recent years. As a result, the intention of the government to pay the bank loan by land grant and increment income becomes obvious. When the macro policies are adjusted, the expected land return maybe will be decreased greatly. And due to the large liability scale, the government can not repay the debt in time. It can only use the land mortgaged in the bank as repayment. Thus, the bank has to accept that transferred risk.

#### C. *The Commercialized Operation Model has not been Shaped in Financing Platform and It Lacks Long Acting Debt repayment Mechanism.*

Currently, one of the main characters of the financing platform in middle-and-small cities is that financial fund is the main method established by local government. So, the municipal government is not only the manager but also the investor and the operator. And the decision, financing, construction, operation and management of the project of the urban infrastructure are carried out by different government departments. The urban infrastructure investment company only plays the role of cashier. The real subject of investment and financing participants in the investment and financing has not been formed yet. The assets operation rights are hardly to be fully carried out, leading in the imperfect function in the platform financing. What's more, foreign circulation of funds is based mainly on the bank long and short-term loan. And the collected funds are used in city infrastructure which earns little. At the same time, the bank becomes more cautious in the long-term loan which results in that the follow-up loan becomes unsustainable. And the operating assets of the platform that can be used as mortgage are small. All those will the assets liability ratio increase sharply. The repayment of debt can not be guaranteed and the local financing power is weak. So, if we still depend on debt financing, not only we can not meet the requirement to increase the construction funds day by day, but

also the sustainable development of the platform will be threatened.

#### IV. SUGGESTED MEASURES TO PERFECT THE FINANCING PLATFORM OF SMALL AND MEDIUM-SIZED CITIES

##### A. *Manage the Platform Companies, Improve the Operation Mechanism.*

From investment and financing platform for small and medium cities survey company situation, many companies are not real asset condition, such as the assessed value of land assets accounted deviation benchmark premium rate is too large, a wholly owned subsidiary losses not included in the consolidated statements of income multi-meter and less mention depreciation, fees and other issues. So it should establish and improve the modern enterprise management system, improve the investment and financing platform for the company's governance structure, introduce the market-oriented management talent, promote the development of norms and improve operational efficiency.

##### B. *Establish the Local Government Debt Management System and Improve Transparency.*

The relevant local government credit support investment and financing platform of the debt should be included in the scope of government debt management. Government debt risk should be controlled strictly in accordance with auditing standards and the scale of its borrowing behavior. If it is beyond the level of local government debt risk control, the government should limit its further expansion of debt financing scale and reduce its debt levels, thus effectively control the size of the debt sprawl of the local government. Regulate local investment and financing platform for the financing, investment, construction. Improve the transparency of the scale of debt of the investment and financing platform. Prevent the debt risks of the investment and financing platform and the formation of financial debt risks associated risk and systemic financial risks.

##### C. *Innovative Financing Model to Promote Investment and Financing Platform for Commercial Operation Capability.*

Positioning In recent years, the debts of small and medium cities financing platform companies grow rapidly. On one hand it is to complete the task of local matching central government investment projects, on the other hand it is to meet the local arrangements for the public welfare projects of

capital expenditures. Take XX City as an example, in order to meet local arrangements, at present the city actively carries out the urban construction, transportation, tourism, culture and other counterparts of the municipal project investment and financing platform. Accordingly, fiscal policy and economic development needs, in accordance with the specific circumstances of the task of building, the city should implement different investment and financing styles. In public goods, quasi-public goods and supplied services, it can take on public-private partnership mode. For new infrastructure, governments can adopt build - transfer - operate (BTO), build - operate - transfer (BOT), build - own - operate (BOO) and other forms to cooperate with private enterprises and finance private capital for the new infrastructure, while improve capital efficiency and improve the quality of infrastructure. As for the infrastructure, the government can cooperate with private enterprises by selling, leasing, operation and maintenance contracting and other forms. The government can grant franchise warrants to private enterprises, and let them operate and manage. For the expansion and renovation of existing infrastructure, the government can adopt lease - construction - operation (LBO), buy - build - operate (BBO), construction and other forms of external cooperation with private enterprises in upgrading the existing infrastructure capabilities. It can also raise some funds to create other new infrastructure.

##### D. *Integration Platform resources.*

The key to urbanization is to solve two major problems—one is where people go, the other is where money comes from. Thus, as the investment and financing platform of small and medium-sized cities, it should fully integrate with the reality of urbanization, operate standard, build cities and counties linkage system, expand platform scale and economies of scale. It should promote financing capacity in the construction of major projects with the operational resources, qualified assets and stable cash flow to achieve unified deployment of resources, unified project planning and unified control of risk. Through the integration of resources, they can get more preferential policies to enhance the management capacity and financing capacity.

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