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Path Selection for Preventing the Financial Risks and Optimizing the Financing Environment of Private Enterprises

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Abstract: *With a network structure consisting of multiple governance entities as the carrier, the modern financial governance is based on institutions and takes promoting the financial stability and balancing the development of the real economy as the objectives. Only by promoting the modernization, improvement of the system, the enhancement of the capabilities, and the correction of differences and failures of financial governance, can it keep a balance between preventing and resolving the financial risks and optimizing the financing environment of private enterprises. On the basis of the differences and the reasons of deviations and failures in financial governance, as well as the attribution analysis of the imbalance between preventing and resolving the financial risks and optimizing the financing environment of private enterprises from a two-dimensional perspective, this paper proposes a path to promoting the correction and improvement of financial governance in order to keep a balance between preventing and resolving the financial risks and optimizing the financing environment of private enterprises.*

Keywords: *Financial risk; Private enterprises; Financing environment; Path selection*

1. Introduction

Table 1: Matrix Structure of the Attribution for Preventing and Resolving the Financial Risks and Optimizing the Imbalance of the Financing Environment of Private Enterprises

	Difference in Financial Governance		Failure in Financial Governance	
Type	Strong Controllable	Weakly Controllable	Strong Controllable	Weakly Controllable
Subject	Absorb the Multiple Entities①	Engage in Global Governance ⑤	Improve the Corporate Governance ⑨	Regulate the Market Effectively ⑬
Process	Strengthen Policy Implementation ②	Motivate the Constraining Entities ⑥	Match the Benefits and Responsibilities ⑩	Meta-governance ⑭
Relation	Strengthen the Policy Cooperation ③	Improve the Governance System⑦	Cooperate with the Finance ⑪	Figure out the Boundary of Government and Market ⑮
Structure	Diverse Governance Tools ④	Establish a Sound Governance System ⑧	Optimize the Financial Allocation ⑫	Reform the Financial System ⑯

The report of the 19th National Congress of the Communist Party of China put forward "deepening the reform of the financial system and strengthening the financial services for the real economy. Developing the private economy plays a key role in revitalizing the real economy, and it shall focus on cultivating the development environment of private enterprises when developing the real economy. The private enterprises are not only a crucial driving force for the economic development, but also a significant engine for the economic transformation, upgrading and high-quality development in China. Since the prevention of the financial risks, different financial risks have shown a converging and controllable situation with a series of "strict supervision" policies launched and carried out. The financial leverage ratio in China has been controlled effectively with the stable financial system. However, the financing environment of private enterprises becoming worse highlights the difficulties

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and high costs in financing for private enterprises[1]. To tackle the problem, the Chinese government is taking a variety of measures to alleviate the difficulties and high costs for the private enterprises, which have improved the financing environment of private enterprises but have caused the problem of a rapid rebound in leverage ratios in some areas because of the continuous ease of policies. This paper will try to find out the financing path to optimizing the private enterprises from the matrix structure of the attribution for preventing and resolving the financial risks and optimizing the financing environment of private enterprises, as shown in Table 1.

2. Improve the Application of Financial Governance Tools

As shown in Table 1 Matrix Structure of the Attribution for Preventing and Resolving the Financial Risks and Optimizing the Imbalance of the Financing Environment of Private Enterprises, the "Absorb Multiple Entities ①" and "Diverse Governance Tools ④" are the most practical, which are the simplest methods and approaches to be put into practice and achieve good results in a short time in the modernization of the national financial governance. Therefore, it shall introduce multiple governance entities so as to achieve the diversification of governance tools and the technological governance methods in practice.

2.1 Diversify the governance tools

The modernization of financial governance shall adopt the diverse governance tools like administration, economy, society and technology, which enables it to have more governance tools and policies, as well as more advanced concepts. Since the battle of preventing and resolving the financial risks started, the supervised authorities have achieved the stable macro leverage ratios by the means of administration and economy in a short period, but the temporary liquidity problems have arisen in the private enterprises. The reason for the great achievements of the economic system reform in China lies not only in the differentiation of organizational structure and optimization of responsibilities in the government system, but also in the government to realize the diverse "collaborative governance" by making use of the market and social mechanisms. That means, on the one hand, based on the operating principles of risk and return matching in the financial market, it makes use of market mechanisms reasonably, and offers guidance of the financial institutions for reducing the high-risk investment and financing activities by adopting the indirect intervention measures like taxation and finance, which helps to improve the service quality to the real economy. On the other hand, it shall be engaged in appealing the social organizations and the public in governance actively, supporting and instructing the local governments to establish the self-discipline and supervision systems of industry, strengthening the communication on the risk information among the government, social organizations and the public, collecting the information and sharing the resource by taking the advantage of the social organizations and the public, which helps to improve the risk response of the governance system. When optimizing the financing environment of private enterprises, based on the structural policies like the targeted reserve requirement reductions and mortgage supplementary loans, the People's Bank of China shall combine the economic tools "Regulatory Track" like the benchmark interest rates and floating ranges for deposits and loans, as well as "Market Track" like open market operations and the Standing Lending Facility (SLF), and Medium-term Lending Facility (MLF), which help to enhance the liquidity in the financial market and the real economy.

2.2 Promote the technological governance measures

It is necessary to accelerate the modernization of financial governance means in the modernization of financial governance. Served as one of the important forces in enhancing the modernization of financial governance, the financial technology greatly changes the mode and pattern of the financial governance system. Therefore, it is necessary to keep applying the supervision technology to the financial supervision agencies and financial institutions. By making use of the third-party enterprises, it can establish the outsourcing model with the cooperation technology in the industry, and promote the development of supervision technology together. According to the responsibilities of supervision authorities, the technologies like big data and artificial intelligence are applied to monitoring the transaction data in the financial market and the construction of financial risk warning platforms to improve the supervision efficiency[2]. Applying the new information in the technology systems helps to accelerate the sharing of information and data among the supervision agencies, conduct timely and efficient automated analysis of a large amount of information, and provide the convenience for

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supervising the cross-border financial activities. Exploring the penetrating supervision methods based on the technologies like big data and artificial intelligence helps to identify the financial risks timely and effectively.

2.3 Actively engage in the global financial governance

As shown in Table 1, "Engage in Global Governance⑤" is an extension of national governance with few difficulties, which enables it to gain the good results in improving the national financial governance in the short term. Improving the global governance will contribute to the national governance, as well as keeping expanding the national financial openness according to integrating into the global governance system, and finally enhance the national financial governance. With the economic and financial globalization, China shall actively engage in the global financial governance and promote the establishment of a more orderly and effective system of global financial governance. It shall also engage in the preparation and implementation of rules and standards of global financial governance, promote the reforms of global financial system and supervision, establish a more fair and transparent global financial order, and strengthen the security and stability of global finance. What’s more, it shall strengthen the bilateral and multilateral cooperation of financial governance to tackle the regional and global financial crises. Meanwhile, it shall involve in the international exchanges and cooperation on financial governance, take the advantage of the typical experiences and cutting-edge achievements of financial governance in the foreign countries via international forums, exchange and learning. It shall strengthen international coordination and cooperation in financial governance, take action and work together to tackle the global financial crisis. It shall enhance the national financial governance by making full use of the external resources, keep on opening-up in different financial fields, enhance the governance of financial risk, activate the capital market at home, and expand the financing channels for private enterprises.

3. Establish a Comprehensive Supervision Framework of Governance Policy

As shown in Table 1, "Strengthen Policy Implementation②", "Strengthen the Policy Cooperation③", "Cooperate with the Finance⑪" and "Optimize the Financial Allocation⑫", which have greater controllability and lower difficulty, are the goals shall be achieved in the short or medium term for the modernization of national financial governance. Therefore, in the process of the modernization of national financial governance, on the basis of strengthening the coordination of different policies, adhering to structural deleveraging policies and carrying out the long-term development policies for private enterprises, it shall establish a comprehensive supervision policy of framework governance to keep a balance between preventing and resolving the financial risks and optimizing the financing environment of private enterprises.

3.1 Strengthen the cooperation among different policies

The modernization of financial governance shall enhance the pool efforts and effectiveness of financial policy regulation among different governance departments, strengthen the mutual policy coordination, reinforce the information disclosure and improve the transparency and credibility. With the double impacts of financial policy tools on different policy objectives, the central supervision authorities shall match and allocate the policy objectives and tools to different supervision authorities.[3] It shall not only coordinate with the help of Financial Stability Board(FSB), and strengthen the coordination among the monetary policy, regulatory policy, fiscal policy and industrial policy, but also allocate different policy objectives to the independent supervision agencies so as to avoid any conflicts of the supervision objectives and tools. It shall adhere to the principle of dynamic governance when carrying out the policies. Therefore, it is necessary to establish a modern model of financial risk governance on the basis of process management. The governance of dynamic process focuses on the assumption of mismatch and information asymmetry between risk makers and risk bearers, pays attention to tracking the risk transfer, follows the path to risk transmission and prevents the risks in the whole process. The governance of dynamic process helps to tackle the problem of policy fragmentation in the relevant governance departments, which matches the concept of collaborative governance of financial risks for optimizing the organization and institution.

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3.2 Adhere to the structural deleveraging policies

The current financial risks have the obvious characteristics of diverse types, quick changes and uneven distribution among different entities. Therefore, it is necessary to control the process and progress of deleveraging, and gently reduce leverage with purposes[4]. With stabilizing the macro leverage ratio, it establishes a reasonable structure of leverage. The private enterprises shall first stabilize the leverage, deleverage, relieve the control of the asset management industry, and allow developing the asset management industry and other forms of shadow banking, which helps to lower the financing difficulties of private enterprises and small and micro enterprises. The focus of structural deleveraging is to strengthen the deleveraging of state-owned enterprises, adjust the leverage ratio of the real estate, deal with the key institutional risks orderly and improve the disposal of non-performing assets by financial institutions. On the basis of what has been mentioned, it is necessary to increase the leverage appropriately, optimize the leverage and adjust the distribution of leverage. In the process of deleveraging, when optimizing the resource allocation, it shall control the internal relationship between stable growth and risk prevention, as well as the balance among the structural deleveraging, strong regulation and stable growth without the approach of "one size fits all", which helps to promote the economy to grow steadily.

4. Promote the "Meta-governance" of Modern Financial Governance

As shown in Table 1, "Meta-governance" refers to recombining the governance mechanisms of government, market and society, which is a difficult and tough task, as well as a mid-term task to realize the modernization of financial governance. With the same starting point of market failure and government failure, the governance mechanisms of "meta governance" may fail, either. Governance failure results from the different statuses and positions of governance entities, as well as taking different interests into consideration. Therefore, the government ought to undertake the task of institutional design and proposing a vision, which allows the entire social system to promote self-organization in different fields with a good institutional arrangement, and enables the government and other social authorities to communicate and fully understand the interests and positions of each other[5]. The government should serve as a setter of system, coordinator of goals, and responsible person, who committed to the long-term planning, rule preparing, goal setting and action coordination, as well as rebalancing the governance of market, network and bureaucracy. The four ways of meta-governance are as follows: self construction, storytelling, establishing and promoting autonomous institutions and networks, and joint engagement, which refer to shaping the political, economic and institutional environment of governance, promoting the collective recognition and benefit sharing, building governance platforms, coordinating the organizations and looking for the methods of collective consultation.

From the perspective of meta-governance of financial governance, the enhancement of financial governance capabilities of the government requires the division of boundaries among the government, market and society in the allocation of financial market resources with the systems, rules and strategies, and actively improving the governance conditions and normative framework for other governance entities to engage in the governance. To make it come true, the government needs to strengthen the internal Meta-governance with different reforms, shape itself into a government that primarily engages in the macro governance, formulate the behavioral rules for the governance entities and take the indirect management as the focus. At the same time, it shall clarify the goals of meta-governance, cultivate the social and market forces, promote the positive interaction among the government, market and society, and actively push the "Meta-governance" of modern financial governance.

5. Sort out the Different Relationships in Financial Governance

As shown in Table 1, the comprehensive control of "Regulate the Market Effectively⑬", "Figure out the Boundary of Government and Market⑮", "Match the Benefits and Responsibilities⑩", and "Motivate the Constraining Entities⑥" is weak and difficult, and should be included in the medium and long-term task list of national financial governance modernization. To achieve the matching of the benefits and responsibilities, it is necessary to establish the corresponding risk sharing and accountability mechanisms, improve the incentive and constraint mechanisms of governance entities, which will lay the foundation for sorting out different relationships in financial governance. And it can be carried out from three aspects as follows.

5.1 Figure out the boundary between government intervention and market regulation

It is necessary to figure out the boundary between government intervention and market regulation, and the government shall avoid any direct intervention in the economic activities, but leave the dominance of resource allocation to the market. Firstly, it shall handle the relationship between the government and the market on the function of the resource allocation and enable the market to play a crucial role in the allocation of financial resources. However, as the financial market mechanism aims to gain the maximum efficiency and returns, which is speculative and blind, the market mechanisms will not be able to effectively control the risks with high infection. It is necessary to conduct the financial supervision timely by making use of the government's "tangible hand". While observing the laws of market, it provides the positive externalities to make up the failure of market mechanism with the help of the government's hand. In addition, it shall regulate the government intervention to avoid any negative effects of hindering fair competition, macroeconomic dependence on government policies, misleading the behavior motives of corporate and ruining the operating rules of market. Secondly, it should strengthen the institutional constraints on the government's governance, improve the transparency in government's governance, and sort out the relationship among the government, financial institutions and state-owned enterprises[6]. And it is necessary to keep promoting the reform of state-owned enterprise shareholding system, walk out of the "soft budget constraints" and rule out the zombie enterprises with severe overcapacity.

5.2 Establish a reasonable risk sharing and accountability mechanism

Due to the externalities of financial risks, it is not necessary for the market entities to bear the financial risks caused by their own decisions, and they may transfer and transform the risks they face with some measures for the individual interests, which may form an "interest barrier", disrupt the risk return relationship of financial market entities and fail to figure out the responsibilities of financial governance. Therefore, it shall establish a sound risk sharing and accountability mechanism. Firstly, establish a reasonable risk allocation mechanism between the central and local governments, and determine the principle of risk territorial governance while the central government assumes the governance responsibility of macro financial risk. Secondly, prevent the local governments from transferring financial risks to the financial institutions by regulating the borrowing behavior and clarifying the relationship between local governments and financial institutions. And it shall establish a debt constraint mechanism for state-owned enterprises, sort out the debt relationship between the government and state-owned enterprises, and prevent the state-owned enterprises from transforming the debt transformation. Thirdly, establish a sound mechanism for the loss sharing and accountability of financial institution, take the advantage of the resources from all parties in handling the risks, and then cut down the handling cost of public funds. The establishment of policy financing guarantees helps to provide guarantees for the credit of private enterprises, especially for the small and medium-sized enterprises. So it is necessary to establish the mechanisms of debt risk accountability, and figure out the responsibilities of the debt disposal.

5.3 Establish the incentive and constraint mechanisms for governance entities

Maintaining the financial stability results from the externality segmented by the market entities in the market. The high transaction and governance costs make it difficult for the market entities to internalize the external costs of the market with the contractual mechanisms, which results in the laxity or favoritism of governance. Therefore, it is necessary to establish the incentive and constraint mechanisms for the governance entities, which enables them to have the correct motivation and ability to achieve the objectives of the governance. In the process of preventing and resolving the financial risks, it shall adhere to the principle of "Competition Neutrality" in the assessment of non-performing asset liability as well as strengthening the incentives for different financial institutions to write off the debts. For example, it is necessary to carry out that the bank executives shall bear the equal accountability for bad debts of state-owned and private enterprises, and promote the banks to equally deal with different types of enterprises on financing. When optimizing the financing environment of private enterprises, it shall follow the differentiated supervision on the loans of financial institutions.

6. Reform and Improve the Financial Governance Mechanism and System

As shown in Table 1, the control of "Improve the Governance System⑦", "Establish a Sound

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Governance System⑧", "Improve the Corporate Governance⑨", and "Reform the Financial System⑯" is weak and difficult. It will take a long time to achieve the expected results with continuous exploration, reform and innovation. Therefore, reforming and improving the financial governance mechanism and system are a sustainable project that will take a long time and much efforts. The details can be shown from four aspects as follows.

6.1 Improve the Financial Legal System

On the basis of legal governance, the key to the modernization of financial governance lays in the top-level institutional design, and it shall establish a sound financial legal and regulatory system. Now, the financial legal system in China is composed of administrative regulations, departmental rules and normative documents. It is necessary to keep improving the top-level design of financial governance, accelerate the financial legislation, and make up the legal gaps in the relevant fields. It shall accelerate taking the legislation of the upper-level legal system with the Law of the People's Republic of China on the People's Bank of China, Securities Law, Law of Financial Supervision and Financial Institution Bankruptcy Law as the core, and focus on promoting the legislative amendments in the key financial fields such as the Regulation on the Prevention and Treatment of Illegal Fund-raising, Interim Measures for the Administration of Credit Rating Industry, Regulations on Non-bank Payment Institutions, and Interim Measures for the Supervision and Administration of Financial Holding Companies, formulate and improve different regulations, measures, provisions and implementation rules, improve the supervision system for systemically important financial institutions and financial infrastructure, make up the gaps in the financial governance system and promote the standardization and institutionalization of financial governance.

6.2 Deepen the Financial System Reform

It shall adhere to the dominant position of market allocation of financial resources, promote the marketization reform of interest rate, and enhance the price discovery function of financial markets. It should promote constructing the multi-level financial markets such as the stock market, bond market and currency market, strengthen the identification function of the capital market, and enrich the tools of the capital market. It also should carry out the market-oriented measures gradually, figure out the optimal order of fiscal policy, monetary policy and foreign exchange policy, and perform the marketization of exchange rate while the central government maintains the stable fiscal revenue and expenditure and the stability of the capital market in China[7]. It is necessary to expand the opening of financial markets, broaden the entry to financial market, support the foreign investment to enter the financial services, strengthen the market competition, and improve the efficiency of financial fund supply. While promoting the financial marketization, it is necessary to establish a constraint system of financial market and a response system of financial crisis, and promote the fair competition with cautious and stable operation as the participants in the financial market.

6.3 Establish a sound financial supervision system

Without adequate supervision and accountability, the new drawbacks will arise with hastily breaking the current structure of financial governance and integrating different supervision authorities to establish the centralized departments of power. At present, China should establish an umbrella regulation system, which involves the division and cooperation under the unified leadership of the Financial Stability Board(FSB). One of the current tasks is to improve the working mechanism of the Financial Stability Board(FSB), empower it with the statutory rights of information collection, regulatory designation and rule making, and determine the specific work systems and methods. Clarifying the current supervision responsibilities and boundaries of the "One Bank and Two Sessions" helps to enhance the functions of leadership, coordination as well as the overall decision-making of the Financial Stability Board(FSB). The other task is to improve the central and framework of local financial regulation. Under the financial management system combining with central and local governments, it shall strengthen the construction of the central macro management system, optimize the allocation of financial regulatory powers between the central and local governments, empower the local governments with more autonomy, strengthen the collection, integration, sharing and application of regulatory information between the central and local governments, and improve the coordination mechanism between the central and local governments. As for the local financial supervision, the local financial supervision bureau integrates the financial management responsibilities scattered in multiple government functional departments, and determines the management object and scope of

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responsibilities of the financial supervision bureau.

7. Conclusion

The current financial system structure in China has a direct effect on the failure of keeping a relative balance between preventing and resolving the financial risks and optimizing the financing environment of private enterprises. However, the current deviation and failure of financial governance of Chinese government in financial governance are the main reasons for the imbalance between preventing and resolving the financial risks and optimizing the financing environment of private enterprises. At present, the national financial governance meets the challenges of changes in the international economic environment, economic transformation and downside risks, financial technology revolution and financial development practices. However, in the practice of financial governance, as the problems and deviations arise in the financial governance system, governance structure, financial policies and financial actions, as well as the contradictions in the financial system and governance system, preventing and resolving the financial risks and optimizing the financing environment of private enterprises run into the state of imbalance, which has an influence on the national financial stability and the sustainable economic development. Therefore, it is necessary to build a sound financial supervision system, financial regulation system, financial market system and financial security system to optimize the financing environment of private enterprises in preventing and resolving the financial risks. The financial governance of government serves as a crucial institutional variable in optimizing the financing environment of private enterprises, which has an effect on the supply of external support conditions for preventing and resolving the financial risks.

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