

# The Dilemma and Optimization Path of Performance Evaluation of Government Guided Funds

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**Abstract:** As an important policy tool for promoting scientific and technological innovation and industrial upgrading, the performance evaluation mechanism of government-guided funds plays a key role in enhancing the efficiency of financial funds. At present, China's government-guided funds have gradually changed from pursuing incremental development to pursuing high-quality development of stock funds. At this stage of development, it is of great significance to construct a perfect performance evaluation system for government-guided funds in order to play the guiding role of such funds and realize the policy objectives.

**Keywords:** Government Guiding Fund; Performance Evaluation; Financial Funds

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## 1.Introduction

With the continuous promotion of China's economic structure transformation and innovation-driven development strategy, government guiding fund has become an important policy tool for the government to support scientific and technological innovation and promote industrial upgrading. By guiding social capital, sharing investment risks and promoting entrepreneurship development, government-guided funds have played a positive role in promoting the cultivation of emerging industries and the growth of small and medium-sized enterprises. Along with the continuous expansion of fund scale and increasingly complex operation structure, how to carry out performance evaluation in a scientific and fair manner has become a key link to ensure the standardized operation of the fund and enhance the efficiency of the use of financial funds.

Performance evaluation is not only an important means to understand the actual operation effect of the fund, but also a key instrument to promote the improvement of fund management and policy optimization. At present, the performance evaluation system of China's government-guided fund has been gradually established, but there are still some problems in the construction of the index system, method selection, data acquisition and results utilization, which can hardly reflect the policy results and economic and social contributions of the fund. In this regard, this paper focuses on analyzing the main obstacles faced by the performance evaluation of government-guided funds, and proposes optimization paths that fit the actual problems, with the intention of giving reference to the improvement of relevant policies and practical exploration.

## 2.Basic positioning and performance evaluation of government-guided funds

### 2.1 Connotation and Basic Positioning of Government Guiding Fund

Government-guided funds are arranged by the budgets of governments at all levels, and are set up with separate funding or

co-funding with social capital, and invested in key areas of economic and social development and weak links by professional investment management institutions in a market-oriented way such as equity investment, so as to achieve the optimization of the allocation of social capital, give full play to the leverage effect of financial funds, improve the efficiency of the use of financial funds and social funds, and coordinate the development of the regional economy to promote innovation and entrepreneurship, and Promote the optimization and upgrading of the industrial structure<sup>[1]</sup>.

In recent years, government-guided funds have expanded rapidly. According to the latest statistics of Zero2IPO Research Center, as of 2024, China has cumulatively set up 2,178 government-guided funds, with a total target size of about 12.84 trillion yuan. Most of them focus on high-tech fields such as integrated circuits, biomedicine and green energy. Such a large-scale allocation of financial funds also puts forward higher requirements for the performance evaluation system. How to establish a scientific evaluation index system, integrate financial and social benefit indicators, and improve the dynamic tracking and whole-process management mechanism has become an important content and key link in the current policy management.

## **2.2 The basic structure and development status of government guiding fund performance evaluation**

The performance evaluation system of governmental guiding funds has initially formed a basic structure with multiple dimensions, and the whole tends to be standardized and unified. In terms of indicator design, the central-level evaluation mainly starts from the three dimensions of policy effect, investment efficiency and management effectiveness; while the local-level evaluation mostly draws on the idea of project expenditure performance evaluation, and centers on the four aspects of decision-making/input, process, output and efficiency/effectiveness. Although there are differences in the expression of dimensions at the first level, they are basically the same in terms of specific evaluation content and focus, and a unified common evaluation index system has been initially formed, which lays a good foundation for the construction of a nationally unified performance evaluation method for governmental guiding funds in the future<sup>[2]</sup>.

In terms of evaluation practice, local governments have also started to explore a more practical and targeted differentiated evaluation mechanism. Some funds have tried to set different evaluation focuses according to the stage of life cycle, and a few regions have also extended the evaluation object to sub-funds and management organizations, and opened the exploration of the tiered assessment mode of mother-sub-funds, which is more in line with the actual situation of fund operation. For example, Zhejiang has constructed a “tax contribution discount model” to incorporate non-financial outputs; Shenzhen has built a “data cockpit” platform to realize the whole process of visualization and supervision of sub-funds, which effectively improves the scientific and practical nature of performance evaluation.

On the whole, the performance evaluation system of China’s government-guided funds is gradually developing in the direction of standardization, scientific rigor, and digitization, and has formed a comprehensive evaluation framework covering multiple dimensions and levels, such as financial, economic, social and management.

## **3.Realistic Dilemmas Facing the Performance Evaluation of Government Guided Funds**

### **3.1 Lack of systematic and adaptive indicator system**

The performance evaluation system of government guiding fund still faces the problem of insufficient unity and adaptability. Although a unified evaluation index system is generally adopted in many regions during the actual operation stage, this practice does not adequately measure the differences between different types of funds in terms of policy mission, investment direction, and degree of marketization, which leads to a lack of focus in the performance evaluation. Some zones still adopt a unified evaluation scale for different life cycle stages of the fund, such as fund raising, investment operation, post-investment management, liquidation and withdrawal, which makes it difficult to objectively reflect the real operational effectiveness of the fund at various stages and affects the scientific rationality of the evaluation results.

The current performance evaluation mechanism needs to be improved in terms of dynamics and periodicity. Even though the government-guided fund is oriented to realize the policy objectives, its operation relies on the market mechanism to a large extent, so the performance evaluation criteria should be dynamically adjusted according to the changes in the economic environment, industrial policies and fund management requirements. The existing evaluation system has not reflected the relative, stage and industry-specific characteristics during the actual operation, and lacks the synergistic linkage with the

external environment, making it difficult to accurately reflect the actual results of the fund. As a long-term policy tool, if the government-guided fund still takes the financial year as the main evaluation cycle, it is difficult to cover the fund's objectives and focuses at different stages of "raising, investing, managing and withdrawing", and it is not conducive to the comprehensive measurement of its long-term policy effectiveness and actual performance.

### 3.2 Imperfect fund dynamic data

In recent years, the rapid growth of government-guided funds around the world, the number and scale of funds continue to expand, but the corresponding information construction is still lagging behind<sup>[3]</sup>. A unified and comprehensive information system has not yet been established, and it is difficult to integrate a comprehensive database including financial data, industry data, fund operation data and relevant evaluation standards, thus lacking strong support for accurate, dynamic and comparable data required for performance evaluation. Fund management organizations set up by governments at all levels have not yet formed a systematic and sustainable mechanism for accumulating operational data, and key information in the fund operation process, such as investment decisions, project progress, post-investment management and withdrawal, often lacks a complete record, making it difficult to conduct in-depth analysis based on facts for performance evaluation.

In government-guided funds in which several local governments or departments jointly invest capital, given the lack of an efficient information-sharing mechanism, each contributor tends to carry out performance evaluation separately, resulting in duplicate evaluations of the same fund, which not only increases management costs, but also triggers duplication of financial and human resources and wastage.

### 3.3 Inadequate institutional norms for management and evaluation

With the gradual improvement of the policy system, the state has continuously strengthened the system construction for the management and performance evaluation of government guiding funds, and has issued a number of major policy documents to regulate them. Among them, the Opinions of the State Council of the Central Committee of the Communist Party of China on the Comprehensive Implementation of Budget Performance Management, which was implemented in 2018, clearly states that government-funded investment funds should be included in the performance management system to promote the implementation of the whole process and all-round performance management; the Opinions on Further Deepening the Reform of the Budget Management System, which was issued by the State Council in 2021, also explicitly proposes specific proposals on the establishment of the government-guided fund, capital contribution, performance evaluation, and information disclosure<sup>[4]</sup>. The Opinions on Further Deepening the Reform of the Budget Management System issued by the State Council 2021 also clearly put forward specific requirements for the establishment, contribution, performance evaluation and information disclosure of government guided funds. However, in actual operation, the relevant management system is still deficient, and there is a lack of uniform standards in the definition of the scope of evaluation, the formation of the index system, the setting of the implementation process and the application of the results of these key aspects, resulting in the implementation of different standards around the world, and the operational flexibility has exceeded reasonable limits, which affects the standardization and effectiveness of the performance evaluation.

### 3.4 Lack of strong planning for fund exit

After the government-guided fund enters the exit stage, some of the funds established in the early stage have gradually exposed the real problems such as difficult exit and slow progress. On the one hand, the planning of fund exit is not strong, and there is a lack of systematic arrangements and a clear timetable. At present, the survival period of the fund funded by the central government is generally 10~15 years, but a lot of funds near the deadline there are still a large number of projects that have not developed an exit path, part of the proposed exit through the transfer of equity or A-share listing of enterprises due to sustained losses, operational difficulties or financing constraints, etc. However, the exit is expected to fall short of the overall exit progress. There is a greater degree of uncertainty, a serious constraint on the evaluation of the performance and the effective recovery of funds.

On the other hand, poor exit mechanism is also an important factor restricting the realization of fund performance. Participating funds generally face problems such as multiple exit levels, difficulties in liquidation of underlying projects, and great resistance to industrial and commercial changes, leading to chain reactions such as slow liquidation and freezing of

custodian accounts. At the same time, there are big differences between fund managers and social capital in terms of priority exit arrangements, project valuation and transfer prices, which affect the exit efficiency. In addition, external factors such as complicated procedures for the transfer of state-owned assets, difficult valuation, and imperfect capital market systems (e.g., tightened IPO audits, poor M&A and restructuring mechanisms) have further exacerbated the difficulty of fund exit, directly affecting the objectivity of the performance evaluation results and the efficiency of fund recycling.

## **4. Optimization Path of Performance Evaluation of Government Guided Funds**

### **4.1 Improve the performance evaluation index system**

Constructing a scientific, comprehensive, hierarchical and categorized performance evaluation index system is a prerequisite for improving evaluation quality. In view of the fragmentation of the current evaluation system and the lack of uniformity in standards, a unified basic system and procedures for performance evaluation should be established, with clear common indicators, and on this basis, more targeted and refined indicators and evaluation methods should be formulated according to the differences in the types of funds and industry sectors.

In addition, performance evaluation should realize the organic unity of dynamic adjustment and stability of policy objectives, and cover the whole life cycle of the fund from establishment to exit. Combining the characteristics of each stage of “raising, investing, managing and withdrawing”, the evaluation focus should be set in a coordinated manner to ensure the wholeness and continuity of the evaluation and avoid fragmented assessment. The performance evaluation cycle should be reasonably set according to the operation stage of the fund, and the financial department and the relevant competent units should jointly organize the evaluation work by stages and focuses, and set differentiated indicators and weights in combination with different stages, so as to take into account the supervisory needs and the actual operation law of the fund, and to enhance the comprehensiveness and effectiveness of the performance evaluation.

### **4.2 Strengthening information exchange and sharing, and promoting the standard management of the fund**

Informatization is an important way to improve the operation monitoring and performance evaluation of government-guided funds. Relying on the construction of a unified and efficient information platform, information integration and dynamic updating of the entire process of fund management can be realized. In cross-shareholding funds, informatization can help break down data barriers between departments and regions, promote the interoperability and sharing of evaluation results, and reduce the duplication of efforts and waste of resources caused by the separate performance evaluations conducted by each contributor.

Information sharing can also promote vertical and horizontal comparative analysis of performance evaluation results, so that differences in the performance of funds set up by the same government at different times or in different fields can be compared, and differences in the strengths and weaknesses of management mechanisms and investment strategies can be identified; it also facilitates the tracking and assessment of changes in the performance of the same fund at different stages of fund-raising, investment, management and exit.

### **4.3 Scientific and standardized performance evaluation to enhance the objectivity and fairness of the results**

Currently, the performance evaluation system of governmental guidance funds is not detailed enough, and the system can be improved by organizing the evaluation work in a scientific manner. As this kind of fund generally has a long survival period, its performance will be subject to the stage, the state of development of the invested enterprises, changes in industrial policy and the macroeconomic environment and other factors, resulting in the same fund in different time nodes of the evaluation results may have significant differences. Therefore, it is necessary to establish a set of scientific and systematic evaluation mechanism, reasonably grasp the evaluation time point, set targeted indicators in combination with different life cycle stages of the fund, and introduce a third-party evaluation organization or team with professional capabilities to carry out the evaluation work.

In the process of promotion, the scientific design of evaluation methods should be strengthened, taking into account both quantitative and qualitative means of analysis, to ensure that the evaluation process is based on evidence and that the results

truly reflect the actual operation of the fund, so as to enhance the objectivity and fairness of performance evaluation. This not only helps to improve the performance management system, but also provides a more accurate and effective decision-making basis for subsequent financial funding arrangements and policy optimization.

#### **4.4 Strengthening exit planning and realizing safe and orderly exit of financial funds**

The fund should actively respond to the newly introduced regional equity market policy, explore the implementation of share transfer pilot and other exit initiatives, enhance the communication and cooperation with the contributors of the participating funds and invested enterprises, and legally broaden the exit paths in accordance with the rules and regulations, so as to enhance the proactive nature of the participating funds and invested enterprises in the exit phase. For some of the projects that are difficult to exit in the long term, it is possible to study the establishment of a coordination mechanism for major matters relating to the exit of the fund, promote the feasibility of the construction of an asset disposal platform, and formulate a systematic and operable exit package. By improving the mechanism arrangement and organizational guarantee, the possible risks of centralized exit can be effectively dealt with, and institutional support can be provided for the safe recovery and reasonable exit of the central financial funds.

### **5. Conclusion**

After more than 20 years of development, government-guided funds have reached a deeper stage of development in pursuit of quality and effectiveness, and performance evaluation is both a general trend and an endogenous demand of the industry. Valuable experience has been accumulated in the pilot process in various regions, identifying common problems such as imperfect indicators, poor information flow and difficulties in exit, and laying a practical foundation for the continuous optimization of the performance evaluation system.

In the future, government authorities at all levels and fund management agencies should follow the development trend, strengthen the performance awareness, and promote the performance evaluation work to scientific, institutionalized and normalized direction. Improving the index system, optimizing exit mechanisms, and strengthening information sharing and institutional coordination can continuously enhance the quality and practical utility of performance evaluation, so as to guarantee the safety of financial funds and promote the realization of policy objectives while promoting the development of government-guided funds in the direction of more standardized, efficient and sustainable development.

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### **Conflict of Interests**

The authors declare that there is no conflict of interest regarding the publication of this paper.

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