

Government Industrial Funds Driving Rural Urban Renewal in the Greater Bay Area: An Investigation into the Mechanism Alleviating Financing Constraints for Privately Owned Enterprises under the Henggang Street Case

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Abstract:

Rural urban renewal in the Guangdong-Hong Kong-Macao Greater Bay Area represents a critical approach to addressing urban land resource limitations and promoting integrated urban-rural development; however, privately owned enterprises commonly encounter participation challenges due to financing constraints. This study examines the Henggang Street urban renewal project in Shenzhen as the case, utilizing literature review, case study, and comparative analysis methods to investigate how government industrial funds alleviate financing constraints for privately owned enterprises. The study finds that government industrial funds can significantly reduce the financing costs of private enterprises and improve financing efficiency and project implementation rates through a three-dimensional mechanism of 'credit endorsement – trust transmission – risk sharing.' Among these, the synergistic model of 'government funds + family trust' possesses unique value, as the enhancement of villagers' trust can reciprocally strengthen the financing credit of private enterprises, increasing the probability of loan approval by 20%. Based on this, the paper offers recommendations in three areas: improving fund operation mechanisms, strengthening coordination in grassroots governance, and enhancing the supporting policy framework, to provide a reference for overcoming financing challenges faced by private enterprises in rural urban renewal within the Greater Bay Area.

Keywords: Government industrial funds, Guangdong-Hong Kong-Macao Greater Bay Area, Rural urban renewal, Privately owned enterprises, Financing constraints, Trust mechanism, Henggang Street

1. Introduction

1.1 Research Background

The Guangdong-Hong Kong-Macao Greater Bay Area, as a vital national strategic region, has prioritized the coordinated advancement of urban renewal and rural revitalization as a key issue for high-quality development. As the core city of the Greater Bay Area, Shenzhen faces a pronounced scarcity of land resources. In 2023, the stock of construction land in Shenzhen accounted for only 31% of the city's total area, while rural urban renewal areas exceeded 45%, representing a crucial breakthrough for urban spatial expansion. Henggang Street is located in the Longgang District of Shenzhen, positioned within the eastern industrial cooperation belt of the Greater Bay Area. The area contains numerous village-level industrial parks and old factory buildings constructed in the 1980s and 1990s, characterized by high building density, low industrial capacity, significant safety hazards, and an urgent demand for urban renewal. In 2022, Henggang Street launched the 'Three-Year Rural Urban Renewal Action Plan,' targeting a renovation area of 2.8 square kilometers and involving over 320 enterprises, of which more than 90% are privately owned. However, urban renewal projects require substantial upfront capital investment and have long capital recovery periods (typically 5 to 8 years). Privately owned enterprises commonly face financing difficulties and high financing costs, which have become the principal barriers to project progress. Against this background, Shenzhen established the 'Greater Bay Area Rural Urban Renewal Special Industrial Fund' in 2023, with an initial scale of 5 billion yuan, focusing on supporting urban renewal projects such as those in Henggang Street, thereby providing a typical case study to investigate how government industrial funds alleviate financing constraints for private enterprises [1].

1.2 Research Objectives and Significance

This study aims to verify the effectiveness of government industrial funds in alleviating financing constraints for privately owned enterprises through the Henggang Street urban renewal case, to elucidate the synergistic mechanism involving 'government funds + market entities + grassroots governance,' and to propose replicable policy models. From a practical perspective, the research findings offer a reference for rural urban renewal in other cities within the Greater Bay Area, helping to alleviate the financing constraints faced by private enterprises engaged in urban renewal, and promoting the profound integration of rural revitalization and urban renewal. At the same time, this study aids in optimizing the operational models of government industrial funds, improving the efficiency

of fiscal fund utilization, and promoting the healthy development of the private economy. From an academic perspective, this study moves beyond the traditional single-subject view in financing constraints research by introducing variables such as 'family trust' and 'grassroots governance,' thereby enriching the theoretical framework concerning the interaction between government industrial funds and private enterprise financing, and providing a new analytical framework for related research fields.

1.3 Research Innovations

The innovations of this study are primarily manifested in three aspects: first, an innovation in regional perspective, focusing on rural urban renewal within the Greater Bay Area, a specific scenario that addresses the gap in existing studies which predominantly center on urban renewal in central urban areas, thereby better meeting the Greater Bay Area's development demand for 'urban-rural integration.' Second, an innovation in mechanism elucidation, for the first time proposing a synergistic pathway of 'government funds + family trust,' analyzing how government funds transmit trust signals through grassroots cadres to reduce information asymmetry between villagers and private enterprises, thereby overcoming the traditional research focus limited to 'financial leverage.' Third, methodological innovation incorporates the perspective of 'household decision-making' into the analysis. By tracking changes in villagers' attitudes towards urban renewal projects, this approach quantifies and assesses the role of government funds in cultivating private trust, thereby enhancing the study's explanatory power at the micro level[2].

2. Research Design

2.1 Research Methods

Focusing on the Henggang Village Processing Factory Urban Renewal Project in Henggang Street, this project has a total investment of 1.2 billion RMB, involves eight private enterprises, and introduced 300 million RMB of government industrial fund in 2023. It exemplifies a typical case of government fund intervention in rural urban renewal within the Greater Bay Area. Through field research and interviews, the entire process of fund injection, financing coordination, and project progression was tracked, with key milestone data recorded to reveal the operational mechanisms [3].

The Liuyue Village Urban Renewal Project in Henggang Street, which did not introduce government industrial funds and is similar in scale and types of private enterprise participation to the Henggang Village project, was selected as a control sample. By comparing indicators such as

financing costs, financing efficiency, and project implementation rates of private enterprises in the two projects, the policy effect of the government industrial fund is quantitatively assessed. At the same time, by comparing the financing data of private enterprises in Henggang Village projects before and after the introduction of the fund, the effectiveness of the mechanism is further verified.

2.2 Feasibility Analysis

Regarding data availability, internal data from Village Committees and enterprises can be accessed through family relationships, addressing the shortcomings of public data, while the Henggang Street Urban Renewal Project has a relatively short implementation period with complete data records. In terms of operational simplicity, the case study focuses on a single project with a small sample size for comparison, which reduces the difficulty of research and data processing, making it suitable for the scope of classroom assignments. From the perspective of risk controllability, this study does not involve sensitive information; all interviewees have publicly disclosed identities, and data usage complies with privacy protection requirements, with no ethical risks[4].

3. Theoretical Analysis of Government Industrial Funds and Financing Constraints of Private Enterprises

3.1 Overview of Government Industrial Funds

Government industrial funds are policy funds established with government capital contribution and entrusted to professional institutions for management. They support the development of specific industries through equity investment, debt investment, and other methods, characterized by 'government guidance, market operations, professional management, and risk sharing.' Their operational model generally encompasses four stages: 'fundraising – investment – management – exit.' In the fundraising stage, government capital contribution typically accounts for 20% to 30%, while also attracting social capital from banks, insurance companies, and other entities. The investment stage focuses on specific sectors, engaging in projects through a combination of equity investment and debt interest subsidies. The management stage involves professional fund management companies responsible for project selection and risk control. The exit stage achieves capital recovery through equity transfers, project liquidation, and other methods, thereby forming a closed loop. In economic development, government industrial funds not only address market capital allocation failures but also guide social capital toward underdeveloped areas through credit endorsement, serving as a crucial instrument for

government economic regulation[5].

3.2 Theory of Financing Constraints of Private Enterprises

Financing constraints of private enterprises refer to the difficulty private enterprises face in obtaining sufficient and low-cost funds due to information asymmetry, high risk premiums, insufficient collateral, and other factors. This primarily manifests as limited financing channels, high financing costs, and low financing efficiency. From the perspective of causes, firstly, there is information asymmetry; private enterprises have low financial transparency, which makes it difficult for financial institutions to assess their credit risk. Secondly, institutional discrimination exists; some financial institutions exhibit a 'preference for state-owned enterprises,' leading to greater caution in lending to private enterprises. Thirdly, insufficient collateral; private enterprises predominantly operate with light assets and lack traditional collateral such as land and factory properties. Traditional solutions, such as relaxed bank credit and fiscal subsidies, may alleviate the issue in the short term but fail to fundamentally address information asymmetry and trust deficits, while also suffering from limitations like low capital-use efficiency and heavy policy dependence.

3.3 Theoretical Mechanisms through which Government Industrial Funds Alleviate Financing Constraints of Private Enterprises

Government industrial funds alleviate financing constraints faced by private enterprises through three major mechanisms: first, the government credit endorsement mechanism, whereby government capital contributions to the fund signal 'project compliance and controllable risk' to financial institutions, thereby reducing their risk assessment of private enterprises, which in turn lowers loan interest rates and shortens the approval cycle. For instance, following the intervention of government funds, financial institutions can raise the credit rating of private enterprises by 1 to 2 levels and reduce the guarantee fee rate by 0.5 to 1 percentage point. Secondly, the risk-sharing mechanism: the government industrial fund utilizes a 'preferred-subordinated' structured design, whereby government capital contribution assumes the 'subordinated' risk, covering part of the losses to reduce the risk exposure of private enterprises and financial institutions, thereby attracting increased social capital participation. Thirdly, the trust transmission mechanism: the government fund conveys project value information to villagers through grassroots cadres, reducing villagers' distrust of private enterprises, minimizing conflicts and disputes during Urban Renewal, ensuring the smooth advancement of projects, and consequently enhancing the repayment capacity and financing

credit of private enterprises[6].

4. The Henggang Street Urban Renewal Project and the Current Financing Status of Private Enterprises

4.1 Overview of the Henggang Street Urban Renewal Project

The Henggang Street Urban Renewal Project is one of Shenzhen City's '20+8' industrial cluster supporting projects, with a planned total area of 2.8 square kilometers, encompassing five administrative villages including Henggang Village and Liuyue Village. The project is positioned as an integrated community of 'Intelligent Manufacturing + Ecological Living,' planning to construct 1.5 million square meters of standard factory buildings and 800,000 square meters of talent housing, introducing over 200 enterprises, with full completion anticipated by 2027. The project implementation adopts the model of 'government-led, enterprise-operated, and villager-participated,' wherein the government is responsible for planning approval and policy support, private enterprises undertake capital investment and project construction, and villagers obtain dividends through land equity participation. By the end of 2023, the project had completed demolition over an area of 1.2 square kilometers, introduced 12 private enterprises, and realized investments totaling 4.5 billion yuan; however, 1.6 square kilometers remain to be redeveloped, with a funding gap of approximately 6 billion yuan, thereby imposing considerable financial pressure on project advancement.

4.2 Current Financing Status of Private Enterprises Participating in Urban Renewal

The private enterprises involved in Henggang urban renewal are mainly small- and medium-sized manufacturing and construction firms, totaling 12 enterprises, among which 83% have asset scales below 500 million yuan and generally confront financing difficulties. In terms of financing channels, 8 enterprises depend on bank loans (accounting for 75% of total financing), 2 utilize private lending, and only 2 have secured a small portion of equity financing, reflecting a limited and concentrated financing structure. From the perspective of financing costs, the average bank loan interest rate is 5.8%, while private lending interest rates reach 12%–15%, and the guarantee fee rate averages 2.2%, significantly exceeding the industry average. In terms of financing difficulties, six enterprises reported a prolonged loan approval period, four enterprises were denied loans by banks due to insufficient collateral, and two enterprises encountered difficulties attracting social capital because of high project risk, highlighting

pronounced financing constraints. Moreover, the upfront expenditures involved in the Urban Renewal project, including compensation payments to village residents and demolition resettlement, have further intensified financial pressures on private enterprises, with some experiencing project delays due to tight capital liquidity.

4.3 Government Industrial Fund Intervention

In June 2023, Shenzhen City's Greater Bay Area Rural Urban Renewal Special Industrial Fund formally intervened in the Henggang Street urban renewal project, with an initial investment of 300 million yuan, accounting for 25% of the total investment in the Henggang Village Processing Factory Urban Renewal Project. The fund employs a combination of equity investment and debt interest subsidies: 200 million yuan was injected as equity investment into eight private enterprises participating in the urban renewal, with equity stakes ranging from 5% to 10%. The fund does not engage in the enterprises' daily management but receives dividends following project profitability. One hundred million yuan is allocated for debt interest subsidies, providing a 3 percentage point interest rate subsidy for urban renewal loans obtained by private enterprises from banks. Concurrently, the fund offers guarantee and credit enhancement services, reducing the guarantee fee rate to below 1%. The fund management is overseen by Shenzhen Capital Group, a state-owned enterprise in Shenzhen City, establishing a comprehensive mechanism encompassing project screening, risk assessment, and post-investment management. The evaluation emphasizes private enterprises' project experience, financial capacity, and credit records to ensure that funds are allocated in a compliant and efficient manner. By the end of 2023, the fund had assisted eight private enterprises in securing bank loans totaling 600 million yuan, with the average loan interest rate reduced to 2.8% and the guarantee fee rate lowered to 0.8%, effectively mitigating the financing constraints faced by private enterprises.

5. Empirical Analysis of the Mechanism through which Government Industrial Funds Alleviate Financing Constraints of Private Enterprises

5.1 Analysis of Policy Effects

By comparing the financing data of private enterprises before and after the introduction of the government industrial fund in Henggang Village, a significant policy effect was observed. Regarding financing costs, prior to the introduction of the fund, the average bank loan interest rate for the eight private enterprises participating in the urban

renewal of Henggang Village was 5.9%, with a guarantee fee rate of 2.3%. Following the introduction of the fund, the average loan interest rate declined to 2.8%, and the guarantee fee rate decreased to 0.8%, corresponding to reductions of 3.1 and 1.5 percentage points respectively, resulting in financing cost decreases of 52.5% and 65.2%. In terms of financing efficiency, prior to the fund's introduction, the average loan approval period for private enterprises was 48 days. Following the introduction of the fund, as the government fund provided guarantee and credit enhancement, the approval cycle was reduced to 22 days, resulting in a 54.2% increase in efficiency. From the perspective of project implementation rate, in 2022, the Henggang Village Urban Renewal Project completed only 30% of the demolition tasks. After the fund's introduction in 2023, the project implementation rate rose to 65%, with progress accelerating markedly. Compared to the Liuyue Village Urban Renewal Project, which did not introduce a fund, the financing constraint alleviation effect in the Henggang Village project was more pronounced, thereby validating the policy effectiveness of the government industrial fund[7].

5.2 Analysis of the Trust Mechanism

The government industrial fund transmits trust signals through grassroots cadres, effectively mitigating information asymmetry between villagers and private enterprises. The Henggang Street Office established a special task force for the 'fund + Urban Renewal' initiative, led by the deputy director of the street office, in collaboration with members of the Village Committee and private enterprise leaders, to conduct eight villagers' briefing sessions and distribute over 2,000 informational materials detailing the operational model of government funds, risk mitigation measures, and revenue distribution schemes of Urban Renewal Projects. Simultaneously, the task force organized field visits for village representatives to Urban Renewal Projects completed by private enterprises to strengthen villagers' trust in the capabilities of these enterprises. Survey tracking revealed that prior to the introduction of funds, 65% of villagers distrusted private enterprises, fearing project abandonment and the inability to fulfill compensation agreements. Following the introduction of the fund, due to the endorsement effect of the government fund, villagers' trust increased to 82%, with only 18% of villagers still expressing concerns. The increase in trust reduced conflicts and disputes during the urban renewal process. In 2023, villager complaints in the Henggang Village Urban Renewal Project decreased by 70% compared to 2022, ensuring the project's smooth progression. This, in turn, enhanced the financing credit of private enterprises. Financial institutions incorporated the villagers' support level as an indicator when assessing private enterprises' creditworthiness, increasing the likelihood of loan approval

by over 20% for enterprises with high support[8].

5.3 Analysis of the Risk-Sharing Mechanism

Government industrial funds reduce the risk exposure of private enterprises and financial institutions through a risk-sharing mechanism combining subordinated investment and loss protection. In the Henggang Village Urban Renewal Project, the government industrial fund's 300 million yuan investment is entirely allocated as subordinated capital, bearing the project's initial loss risk: if the project incurs losses, government fund capital will first compensate these losses. When losses are within 300 million yuan, private enterprises and financial institutions bear no loss. If losses exceed 300 million yuan, the excess portion is shared by private enterprises and financial institutions in a 7:3 ratio. This "government underwriting plus tiered responsibility" design significantly reduces the risk expectations of market participants.

From the perspective of financial institutions, the risk-sharing mechanism directly increases their willingness to lend. Prior to the introduction of the fund, cooperative banks in the Henggang Village Urban Renewal Project generally limited the loan amount for private enterprises to within 30% of the total project investment and required additional collateral such as real estate and equipment. Following the introduction of the fund, banks raised the loan amount limit to 50%, relaxed collateral requirements to pledging future project revenue rights, and some banks even waived additional collateral requirements. The credit manager of Shenzhen Rural Commercial Bank Longgang Branch stated in an interview: 'The subordinated commitment from the government fund reassures us, effectively providing a safety cushion for the project. As a result, our risk rating for the private enterprises was upgraded from BBB to A, naturally accelerating the loan approval process.'

From the perspective of private enterprises, the risk-sharing mechanism alleviates their concerns, encouraging greater capital investment in the projects. The head of Shenzhen Henggang Building Materials Co., Ltd., participating in urban renewal, stated: 'Previously, we were concerned that project losses would undermine the company, so we only dared to invest 40% of our own funds.' With the government fund guarantee in place, we have increased the proportion of self-owned capital investment to 60% and additionally allocated 20 million yuan for equipment upgrades. The project is progressing three months ahead of schedule. Data indicate that after the introduction of the fund, the average increase in self-owned capital investment among eight private enterprises reached 45%, and the participation of social capital improved significantly. In 2023, new social capital investment totaled 280 million yuan, representing a 120% increase compared to 2022, further validating the effectiveness of the risk-shar-

ing mechanism.

6. Research Conclusions and Recommendations

6.1 Research Conclusions

Through theoretical analysis and empirical verification of the Henggang Street urban renewal case, this study draws the following conclusions:

First, government industrial funds can effectively alleviate the financing constraints faced by private enterprises in urban renewal. Data from the Henggang Village project indicate that following the intervention of the fund, the average financing cost for private enterprises decreased by 52.5%, financing efficiency improved by 54.2%, and the project implementation rate increased by 35 percentage points. Moreover, these effects significantly outperformed those observed in control projects without fund involvement, demonstrating that government industrial funds serve as an effective tool to address the financing difficulties encountered by private enterprises in urban renewal.

Second, the three-dimensional mechanism of ‘credit endorsement – trust transmission – risk sharing’ functions synergistically. The government transmits credit signals through fund injections, which reduces financial institutions’ risk assessments of private enterprises. Utilizing grassroots cadres to explain policies to villagers and organize field visits, thereby cultivating family trust. By using subordinate capital to cover initial losses and reduce market participants’ risk exposure, a synergistic effect is created, addressing the financing difficulties of private enterprises from the three dimensions of ‘funds—trust—risk.’

Third, the collaborative model of ‘government fund + family trust’ holds distinctive value. This study is the first to reveal that enhancing villagers’ family trust not only mitigates urban renewal conflicts but also, through the ‘Villagers’ Support Level’ metric, reinforces private enterprises’ financing creditworthiness, encouraging financial institutions to extend more loans. In the Henggang Village case, villagers’ trust increased from 65% to 82%, directly driving a 20% increase in the likelihood of private enterprises obtaining loans. This model offers a replicable micro-level interaction paradigm for rural urban renewal in the Greater Bay Area.

6.2 Research Limitations and Prospects

This study has two primary limitations: first, the sample scope is relatively narrow, focusing solely on one core case and one control case in Henggang Street, without encompassing rural urban renewal projects in other cities

within the Greater Bay Area. The regional applicability of the findings warrants further validation. Second, the analytical depth is limited, as it does not thoroughly investigate the differences in financing constraints faced by private enterprises of different scales, nor the varying alleviation effects of government funds on different types of enterprises.

Future research can be extended in two main directions. Firstly, by expanding the sample scope to include rural urban renewal projects in 3-5 different cities within the Greater Bay Area for comparative analysis, the applicability of the ‘government fund + family trust’ model across different regions can be examined. Secondly, by incorporating variables such as ‘enterprise size’ and ‘industry type’ to conduct segmented studies, the differential impacts of government funds on micro and small enterprises, manufacturing enterprises, and service enterprises can be explored, providing references for the formulation of more targeted policies. Furthermore, the integration of big data technologies to develop an ‘Urban Renewal Financing Constraints Index’ would enable dynamic monitoring of the policy effects of government funds, thereby improving the research’s timeliness and practical relevance.

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