

## State Council of the People's Republic of China Lowers the Minimum Capital Ratio Requirement for Infrastructure Projects

China Business Solution Office  
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On November 27, 2019, the State Council of the People's Republic of China (State Council) released a circular regarding the strengthening of capital fund management for fixed-asset investment projects (Guofa [2019] No. 26, hereinafter "Circular No. 26"), moderately lowering the minimum capital ratio requirement for some infrastructure projects with conditions.

### Key Takeaways

- The capital of an investment project must be non-indebted funds, and the corporation in charge of the project shall not bear any debt or interest on these funds.
- Banks shall comply with the rules of the capital system when providing loans for fixed-asset investment projects.

### 1. Background of the Policy

A capital system for fixed-asset investment projects began in 1996 and was initially aimed at calibrating the investment structure and preventing investment risks. The State Council has since modified the system four times in 2004, 2009, 2015, and 2019 (this time). These changes primarily aim to strengthen the weak parts of the urban and transportation infrastructure, and to attract further effective investment in the face of increasing risks of an economic downturn.

### 2. Main Contents of the Policy

**[Figure 1] Main Contents of the Policy Regarding Corporate Capital Investment Projects**

<b>Approach to Capital in Investment Projects</b>	The capital of an investment project must be sourced from non-indebted funds provided by the investor for the entirety of the project, and the corporation in charge of the project <b><u>shall not bear any debt or interest on the funds concerned.</u></b>	
<b>Scope of Investment Project Capital</b>	The system applies to <b><u>corporate investment projects in China</u></b> and investment projects for business operations backed by the government.	
<b>Classification and Conduct of Investment Project Capital Assessment Management</b>	<b>If establishing an independent corporation</b>	All interests of the owner can be utilized as capital for the investment project
	<b>If NOT establishing an independent corporation</b>	A dedicated account shall be opened on a per project basis to standardize the setting and use of accounts. It shall adhere to the relevant national financial and accounting system, and the allocated capital and assets and liabilities of each investment project shall be calculated individually. The amount and ratio of capital of the investment project must be determined based on the above.

<b>Supervisory Authority for Corporate Investment Projects</b>	<b>Relevant financial institutions that provide financial services</b> must strengthen the examination and supervision of the status of capital sources, ratios, and payments for investment projects.
<b>Expansion of Financing Channels</b>	The corporation in charge of the project and project investors in industries that promote the development of the nation and infrastructure are encouraged to procure capital through multiple channels including financial instruments such as equity and stocks. The funds procured by the issuance of financial instruments are classified as equity products through the nationally unified accounting system. Equity products can be certified as the capital for a project, but they shall not exceed 50% of the total capital.
<b>Requirements for Financial Institutions</b>	When a financial institution certifies capital funds for an investment project, the institution shall stringently classify the fund as an investment project or project investor, determine the attributes of the capital or liabilities based on the rights and responsibilities of the investment project in order to examine capital credibility, compliance, return on investment, lending risk, and to independently determine the loan eligibility, loan amount, and the loan ratio.

Fixed asset investment projects are categorized by sectors, mainly divided into (1) urban and transportation infrastructure facilities, (2) real estate development, and (3) industrial construction. Circular No. 26 expresses that the minimum capital ratio of a project can be reduced by 5% or less mainly by moderately reducing the minimum capital of urban and transportation infrastructure and by keeping the mechanism for returns on investment transparent while ensuring profitability and controlling risk.

**[Figure 2] Minimum Capital Ratio for Fixed Asset Investment Projects**

Category	Subcategory	Minimum Capital Ratio
<b>Urban and Transportation Infrastructure</b>	Airports	25%
	Ports, coastal and inland waterway routes	20%*
	Railways, roads (including government toll roads)	15–20%*
	Urban construction, logistics, ecosystem, social welfare	15–20%*
<b>Industries with Overcapacity</b>	Steel, electrolytic aluminum	40%
	Cement	35%
	Coal, calcium carbide, iron alloy, caustic sodium, coke, white phosphorus, polysilicon	30%
<b>Other Industries</b>	Chemical fertilizers (excluding potassium fertilizers)	25%
	High value-added processing of corn	20%
<b>Electricity and Others</b>	-	20%

\* Revised this time

### 3. Impact on Companies

In the event that a company invests in a fixed-asset investment project (for example, a new project, an expansion in production capacity, a land purchase, purchase of new equipment, procurement of new production lines), screening and approval must be conducted in advance by the department for national investment administration (the development and reform department at the relevant level of government), through which the total amount of the project investment can be determined. Companies can borrow from commercial banks on the assumption that the required minimum capital ratio is met. Of course, there is no need to review and notify

the authorities for certain fixed-asset investments (for instance, when the investment is not for increasing production capacity or purchasing land, or it is for a simple equipment procurement or replacement). In practice, however, commercial banks are conservative and there are cases when such a loan amount is based on the determined minimum capital ratio.

**[Figure 3] Characteristics of Project Financing**

<b>Use of Loan Funds</b>	Financing one unit or one set of large construction equipment, infrastructure facilities, real estate projects, or for construction of any other project. Refinancing for projects under construction or finished projects also qualifies.
<b>Borrower</b>	A company or operations corporation that is established specifically for the purpose of constructing, managing, or financing the project. This also includes existing companies and business corporations that are mainly engaged in the construction, management or financing of the project.
<b>Repayment Sources</b>	Sales revenue, subsidy revenue, or other revenue generated by the project. In general, other repayment resources are excluded.

Source: Project Finance Business Guidelines (Issued by China Banking Regulatory Commission, Yinjianfa[2009] No. 71)

**[Figure 4] Example of Fixed-Asset Project Financing through Banks**

<p>For a submitted project that has been approved, if the project's total investment is RMB 1 million, and the minimum capital ratio of the project is 20%, the minimum capital for the project is RMB 200,000 and the maximum amount of loans for project financing on fixed assets by banks will be RMB 800,000.</p> <p>Reference: Temporary Regulation on Lending for Fixed Assets (China Banking Regulatory Commission, 2009 No. 2)</p> <p>Article 9: Approved applications for fixed-asset lending shall be subject to the following conditions:</p> <p>(VII) The project conforms to the provisions of the national investment project system.</p>	<p><b>Total investment of fixed-asset investment project</b></p> <p><b>RMB 1Mn</b></p>	<p><b>Loanable amount by commercial banks for fixed-asset investment project</b></p> <p><b>RMB 800,000</b></p>	<p><b>Minimum capital required for fixed-asset investment project</b></p>
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Circular No. 26 has moderately reduced the minimum capital ratio requirement for infrastructure projects. It is recommended that companies, upon obtaining financing for fixed-asset investment projects, pay attention to the movement of the minimum capital ratio in relevant industries and formulate a rational financing plan based on the minimum capital ratio requirements in the project's industry.

We will continue to follow up on relevant information and share the details as they come.

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