

## Translation



The following Chinese government policy document provides guidelines for how state investment funds should operate. China uses government investment funds, or “guidance funds,” to promote the development of different industries, most notably strategic high-tech and emerging industries. This policy prescribes various ways to mitigate the problems associated with government investment funds, such as local governments using them to poach companies and talent from their neighbors, incompetent or overly risk-averse fund managers, and bureaucratic micromanagement of investment decisions.

### Title

Guiding Opinions of the General Office of the State Council on Promoting the High-Quality Development of Government Investment Funds  
国务院办公厅关于促进政府投资基金高质量发展的指导意见

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## Guiding Opinions of the General Office of the State Council on Promoting the High-Quality Development of Government Investment Funds

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To the people’s governments of all provinces, autonomous regions, and province-level municipalities, and all ministries and commissions of the State Council and their subordinate agencies:

Government investment funds are investment funds that are established by governments at all levels through budgetary arrangements, are either solely government-funded or jointly funded together with social capital,<sup>1</sup> and use market-oriented methods such as equity investment to channel various types of social capital to support the development of related industries and fields, as well as innovation and entrepreneurship. They play an active role in serving national strategies, promoting industrial upgrading, and facilitating innovation and entrepreneurship. The following Opinions are hereby proposed with the consent of the State Council in order to construct a more scientific and efficient government investment fund management system and promote the high-quality development of government investment funds.

## I. Overall Requirements

Adhering to Xi Jinping Thought on Socialism with Chinese Characteristics for a New Era as the guide, we shall deeply implement the spirit of the 20th Party Congress and the Second and Third Plenums of the 20th Chinese Communist Party (CCP) Central Committee, fully, accurately, and comprehensively implement the new concept of development (新发展理念), persist in and strengthen the Party's overall leadership, fully exploit the decisive role of the market in allocating resources, and make better use of the role of government, thereby promoting a better combination of effective markets and assertive government (有为政府). Highlight the guiding role of the government and policy-oriented positioning, regulate the operations of government investment funds in accordance with the principles of marketization, the rule of law, and professionalization, and develop patient capital, with the focus on achieving real results. Improve graded and categorized (分级分类) management mechanisms, and rationally plan the overall layout of funds, so as to prevent homogenized competition<sup>2</sup> and crowding out of social capital. Improve responsibility mechanisms with consistent rights and responsibilities and compatible incentives and constraints, so as to fully mobilize the enthusiasm of fund managers. Abiding by the underlying principles of industry development, strengthen the coordination of policies and institutions, maintain strict financial

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<sup>1</sup> Translator's note: The Chinese term 社会资本, translated literally as "social capital," refers to any source of funding outside of government budget outlays. This term encompasses investment by private individuals and private institutions. However, investment from state-funded entities such as state-owned enterprises (SOEs), including state-run banks, also falls under the umbrella of "social capital."

<sup>2</sup> Translator's note: "Homogenized competition" (同质化竞争) refers to a market dynamic common in China in which competing brands imitate each other's design, packaging, functionality, marketing methods, and so on, which eventually leads to a situation in which many unremarkable brands compete to sell virtually indistinguishable products and services. As applied to government investment funds, it refers to a situation in which many local governments compete with each other to lure the same technology companies to set up shop in their areas, using similar funding models and other incentives.

discipline, effectively prevent risks, and promote the formation of a pattern of high-quality development of government investment funds of suitable scale, reasonable layout, standardized operation, scientific efficiency, and controllable risks.

## **II. Find the right positioning to better serve overall national development**

**(1) Clarify the positioning of funds.** Government investment funds shall focus on major strategies, key areas, and weak links where the market fails to function adequately, attract and drive more social capital, support the construction of a modern industrial system, and accelerate the incubation and development of new productive forces (新质生产力). Government investment funds are mainly divided into industry investment funds and venture capital funds according to the direction of investment.

**(2) Optimize the functions of industry investment funds.** Industry investment funds shall play a leading role in industrial development. Centered around improving the modern industrial system, they shall support the transformation and upgrading of traditional industries, incubate and grow emerging industries, and lay out the construction of future industries. They shall focus on investing in key segments of production chains and in projects that extend, supplement, and strengthen those chains, promoting the improvement of production and supply chain resilience and safety, and creating internationally competitive industrial clusters.

**(3) Encourage development of venture capital funds.** Centered around developing new productive forces, venture capital funds shall support scientific and technological (S&T) innovation, and shall focus on early-stage, small-company, long-term, and hard S&T<sup>3</sup> investment. They shall promote the accelerated achievement of high-level S&T self-reliance (自立自强), and enhance independent innovation (自主创新) capabilities and the ability to tackle key and core technologies (关键核心技术), so as to solve “chokepoint” ( “卡脖子” ) problems in key and critical areas.

**(4) Develop and grow long-term capital and patient capital.** The duration of government investment funds shall be determined rationally, and full play shall be given to the cross-cyclical and counter-cyclical regulating role of funds as long-term and patient capital. Long-term capital investment from the National Council for Social Security Fund and insurance funds shall be actively channeled. In areas that require long-term arrangements, follow-on investment can be used to ensure investment continuity.

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<sup>3</sup> Translator's note: "Hard S&T" (硬科技) refers to technologies that require long-term research to come to fruition, have high technical barriers and clear applications, are at the technological cutting edge, and have a transformative effect on the economy and society. Photonic chips, AI, aerospace, biotech, and IT are all examples of hard S&T. "Hard S&T" is more or less synonymous with "key and core technologies" (关键核心技术).

### III. Refine graded and categorized management mechanisms

**(5) Clarify the graded management requirements for the establishment of funds.** The establishment of government-funded funds must be fully assessed and justified, and follow the prescribed approval procedures. The establishment of a national fund with central government fiscal funding shall be reported to the State Council for approval. The establishment of a provincial-level (including, in all cases below, cities with independent planning status under the national economic and social development plan and the Xinjiang Production and Construction Corps) or prefecture-level fund shall be reported to the government at the same level for approval. County-level governments shall strictly control the establishment of new funds. If counties or districts with relatively good financial strength and resource endowments do indeed need to initiate fund establishment, they shall apply to a higher-level government for approval. Except in the above circumstances, Party and government organs and public institutions<sup>4</sup> shall not establish new funds with government budget allocations or their own revenues. Funds that have already been established shall be managed in a uniform and regulated manner in accordance with the management requirements for government investment funds.

**(6) Improve differentiated management mechanisms for different types of funds.** For venture capital funds, the government's contribution ratio can be increased, the duration requirement can be relaxed, and the performance evaluation cycle can be extended, as appropriate. For industry investment funds, management requirements shall be set reasonably according to the type, stage, and distribution characteristics of the industry, so as to highlight the focus of support.

**(7) Regulate the budget management of various types of government funding.** Government funding methods mainly include direct funding through the budget, arrangement of funds (安排资金), and entrusting funding to state-owned enterprises (SOEs). Where a government establishes a fund by injecting capital into an SOE, and it is made clear that the relevant funds are to be used specifically to contribute to the fund, it shall in principle be managed in accordance with the relevant requirements for government investment. Where a government contributes funding to establish a fund, the finance department shall rationally determine the scale, percentage, and schedule

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<sup>4</sup> Translator's note: "Public institutions" (事业单位) are organizations created and led by Chinese government departments that perform a variety of functions. Notably, universities, research institutes, and hospitals in China tend to be public institutions. Unlike state-owned enterprises (SOEs), public institutions do not create material products and are non-profit. Public institutions are not considered government agencies, and their employees are not civil servants. Most public institutions are fully or partially government-funded, but some fully privately funded (but still government-led) public institutions exist.

of the contribution, taking into account the circumstances of the fund's establishment and the government's fiscal capacity. A government's contributions to funds shall be included in the government's fiscal budget management in accordance with regulations, and the connection between the annual budget arrangements and fund contributions shall be strengthened. Government fiscal departments shall rationally arrange contributions, taking into account the progress of fund investment and the balance of funds, so as to prevent idle funds.

#### **IV. Strengthen overall planning, and integrate and optimize layouts**

**(8) Create synergies between national and local funds.** National funds shall be firmly rooted in the bigger picture, centered around playing a demonstration and leadership role in key areas such as building a modern industrial system and incubating and developing new productive forces, and shall support research to tackle key and core technologies, so as to address shortcomings in industrial development. National funds are encouraged to strengthen linkages with local funds, and to create financial synergies in cutting-edge S&T fields and key links in the production chain, through such means as jointly establishing subsidiary funds or investing in local funds, taking into account local resource endowments. Overall planning of government fiscal resources shall be strengthened, and the formation of linkage mechanisms shall be promoted between major national S&T projects that support front-end research and development and government investment funds that support the commercialization and industrialization of S&T achievements.

**(9) Strengthen provincial governments' integrated management of funds in their regions.** Taking into account national development plans and special national and regional plans, provincial governments shall coordinate the overall management of government investment funds in their regions, comprehensively consider the financial resources, industrial resource base, debt risks, etc., of the region, find the right positioning, and strengthen guidance for lower-level governments in establishing funds. Provincial governments shall support the development of well-positioned (优势) and characteristic industries (特色产业) according to local conditions, encourage innovation and entrepreneurship, formulate a list of key investment areas for government investment funds, and clarify the vetting or record-filing requirements for the establishment of funds by lower-level governments, so as to prevent duplication of investment and disorderly competition.

**(10) Strengthen fund layout planning and investment guidance.** The National Development and Reform Commission, together with the departments in charge of relevant industries, shall give full play to the guiding role of layout planning and investment guidance, and, taking into account the production capacity utilization

circumstances of the industries in various regions of the country, guide local governments to adjust the layout of government investment funds based on the actual development situations of local industries, so as to prevent overcapacity and low-quality, redundant construction.

**(11) Promote the integration and optimization of funds.** In principle, the same government shall not establish duplicate government investment funds in the same industry or field, but funds can pool their efforts and provide continuous support for the same project according to market principles. Where there are relatively many funds of the same type and there is significant investment area overlap, on the premise of assuring the legitimate rights and interests of business entities and maintaining market order, promotion of fund integration and restructuring is encouraged, so as to enhance economies of scale and better serve policy goals. Funds that have insignificant policy effects or slow fundraising and investment progress due to an insufficient industrial base or resource endowment shall be pushed to actively improve their performance through investment direction optimization and other methods.

#### **V. Improve the level of professionalized and market-oriented operations**

**(12) Regulate management of fund operations.** The governance structure of government investment funds shall be improved, and mechanisms shall be established for scientific and regulated operation management and investment decision-making. Government departments may promote the compliant operation of funds by means such as monitoring investment direction, tracking investment progress, and appointing observers. Funds of funds (FOFs; 母基金) shall strengthen supervision of the investment, operation, and financial conditions of subsidiary funds (sub-funds; 子基金), and strengthen due diligence responsibilities. Mechanisms for selecting investment projects shall be optimized, so as to prevent deviation from policy objectives and competition with the private sector for profits (与民争利). Government investment funds shall select financial institutions that have fund trustee qualifications within China to carry out trustee services. Trustee institutions shall fulfill their trustee duties in accordance with law and submit regular trust reports to investors. Government investment funds shall regularly report the operation and management circumstances, financial reports, major events, and other information to investors and to the main industrial oversight departments (行业主管部门) for the relevant industries.

**(13) Optimize the investment methods of funds.** New government investment funds may invest using FOF/sub-fund or direct investment project methods, and venture capital funds are encouraged to adopt the FOF/sub-fund method. In principle, sub-funds shall use the direct investment project method to carry out investment, and

shall control the fund hierarchy to prevent multi-layer nesting from adversely affecting the achievement of policy goals.

**(14) Give full play to the role of fund managers.** Rationalize the relationship between government investment funds and managers to achieve the organic unity of government guidance, market-oriented operation, and professionalized management. Fund managers shall, in principle, be selected and determined using market-oriented methods. They shall have professional, investment, and management abilities appropriate to the fund's operation, experience in equity investment or management of related funds, and investment management performance that meets the requirements. The establishment of new fund managers by county-level governments shall be strictly controlled. The management fees for new government investment funds shall be scientifically justified. In general, they shall be based on paid-in capital or the actual amount invested, and the provisioning standards shall be rationally determined.

**(15) Improve fund performance management.** Government investment funds shall rationally set performance targets and construct a scientific, differentiated, and quantifiable performance indicator system focused on the comprehensive achievement of policy goals. Government finance departments, together with other relevant departments, shall implement whole-process performance management of funds. Measures such as adjusting management fees and reallocating excess earnings shall be comprehensively adopted to strengthen the application of performance evaluation results, reflect incentives and constraints, and effectively leverage the role of performance evaluation as the “baton” for fund operation and management.

**(16) Establish and improve fault tolerance mechanisms.** Following the underlying principles of fund investment and operation, normal investment risks shall be tolerated, and the assessment and evaluation system shall be optimized over the entire chain and life cycle, and shall not simply use the profit or loss of a single project or year as the basis for assessment. In order to create a good atmosphere that encourages innovation and tolerates failure, it is encouraged to establish fault tolerance mechanisms with due diligence and compliance liability exemption at their core, and to improve the standards and processes for determining liability exemption.

**(17) Optimize the fund development environment.** Putting into practice the deployment requirements for constructing a unified national market, government investment funds shall not be established for the purpose of attracting investment, and it is encouraged to remove restrictions on the place of registration of government investment funds and managers, and to strengthen credit constraints in accordance with law. Mechanisms for adjusting government contribution percentages shall be optimized, and the reduction or elimination of [predetermined] local investment (返投)

ratios is encouraged. Positive incentive policy orientations shall be highlighted to boost market confidence in investment.

## **VI. Optimize exit mechanisms to promote a virtuous cycle of investment**

**(18) Regulate fund exit management.** Policy guidelines for the exit of government investment funds shall be studied and formulated, so as to improve the exit policies for different types of funds. Fund managers shall establish a fund exit management system and formulate exit plans. Government investment funds shall scientifically and rationally determine the exit period, and shall clearly specify the exit conditions in the articles of association or partnership agreement. When exiting a government funding contribution, the conditions agreed to in the articles of association or partnership agreement shall be followed; where there is no such agreement, an assessment shall be conducted in accordance with laws and regulations, and the transfer price shall be determined using market-oriented methods.

**(19) Broaden fund exit channels.** The linkage of rules and the unification of standards for regional equity markets shall be promoted. Development of secondary market funds (S funds) for private equity, merger and acquisition funds, etc., is encouraged. The multi-level capital market system shall be perfected, enhancing the ability of the New Over-the-Counter Market<sup>5</sup> and regional equity markets to serve equity investment, and broadening the exit channels for government investment funds.

**(20) Refine fund exit mechanisms.** Government investment funds shall equitably safeguard the interests of all investors with respect to earnings distributions and loss sharing, and protect the legitimate rights and interests of social capital. Ways to simplify the project exit process shall be explored, the business process and pricing mechanism for the transfer of shares in government investment funds shall be optimized, and improvement of the government investment fund evaluation system shall be promoted, so as to build smoother exit mechanisms.

## **VII. Strengthen internal controls to prevent and defuse risks**

**(21) Improve risk prevention and control systems.** Government investment funds shall strengthen internal control management and assure the rights and interests of investors in accordance with law. Fund managers shall establish and improve a system for managing interested-party transactions, and improve the system for preventing and controlling risks related to clean government (廉政), and they shall

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<sup>5</sup> Translator's note: The New Over-the-Counter (OTC) Market (新三板) is a board of the Shanghai Stock Market that acts as platform for trading equity in non-publicly listed Chinese companies, mostly micro-, small-, and medium-sized enterprises.

not use fund assets to engage in improper transactions or transfer benefits to interested parties, nor engage in business prohibited by laws and regulations or industry rules. Risk prevention for government investment funds shall be strengthened. Local governments are strictly forbidden to make contributions through illegal and irregular debt financing, and they shall not create new hidden local government debts, nor shall they force SOEs and financial institutions to contribute or advance funds.

**(22) Maintain strict financial discipline.** The education, training, and management of government investment fund employees in terms of laws and regulations and professional ethics shall be strengthened. Financial performance management shall be regulated, the financial situations of funds shall be truly and accurately reflected, and financial fraud shall be strictly prevented. The China Securities Regulatory Commission and the Ministry of Finance, together with relevant departments, shall study and introduce measures to strengthen the management of senior management personnel of government investment funds. Fund employees who are negligent in their duties, abuse their powers, engage in favoritism or irregularities for personal gain, or use their positions to solicit or accept property from others shall be dealt with in accordance with regulations, discipline, and the law; where such actions constitute a crime, criminal responsibility shall be investigated in accordance with law.

### **VIII. Strengthen organizational assurance**

**(23) Uphold and strengthen the Party's leadership.** The decisions and arrangements of the Party Central Committee shall be thoroughly implemented, and the Party's leadership shall be integrated throughout the government investment fund management process, providing solid political assurance for the high-quality development of government investment funds, and promoting the implementation of national strategies.

**(24) Strengthen inter-departmental collaboration.** Finance departments shall fulfill their duties as government investors and be responsible for budget management, performance management, state asset management, and information and statistics of government investment funds. Development and reform departments shall be responsible for the credit-building and credit information registration of government investment funds, and shall work with the main industrial oversight departments to strengthen guidance and evaluation of the investment directions of government investment funds. The securities regulatory authorities shall organize the carrying out of government investment fund registration and record-keeping, and related supervision work, according to their responsibilities. The relevant departments shall, according to the division of their responsibilities, formulate and issue supporting

detailed rules for government investment fund budgets and state-owned asset management, performance evaluation, information statistics, credit-building, registration, record-keeping, etc., and establish a “1+N” institutional system. Information sharing and communication-coordination shall be strengthened to form a joint effort, and thereby promote the resolution of problems in the development of government investment funds.

**(25) Regularize regulatory conduct.** Government departments shall fully respect the underlying principles of government investment fund development and the characteristics of project investment, perform their regulatory duties in accordance with laws and regulations, and not use administrative means to interfere with the day-to-day management of funds or specific project investment decisions. All levels of government shall adhere to the principles of marketization and the rule of law when carrying out the optimization and adjustment of existing government investment funds, and master their rhythm and methods, and they shall not adopt a “one-size-fits-all” approach, nor adversely affect the normal investment and operation of the funds. They shall continue to make the required capital contributions to existing government investment funds, and protect the legitimate rights and interests of social capital.

All regions and relevant departments shall raise awareness, strengthen organizational leadership, consolidate responsibilities level-by-level, do a good job of overall coordination, raise management and service levels, and make better use of government investment’s role in supporting the high-quality development of the economy and society.

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(This document is released publicly)