



**ASEAN-China Center  
China-ASEAN Investment Cooperation Fund**

**Jointly Issue**

# **Social Responsibility and Environmental Protection Guidelines for Investments in the ASEAN Region**

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## **1. Background**

Since the establishment of China-ASEAN dialogue relations in 1991, China and ASEAN relations have achieved a leapfrog development, allowing for a comprehensive and in-depth cooperation pattern. The strategic partnership between China and ASEAN constitutes the largest free trade zone among developing countries, in which China has become the biggest trading partner of ASEAN with bilateral trade growing at an average annual rate of 20%. China and ASEAN countries strive to deepen China-ASEAN neighborly friendship and reciprocal cooperation to jointly create a “Diamond Decade” for future partnership. China-ASEAN relations stand at a new starting point to gear towards further development opportunities. In the 10<sup>th</sup> China-ASEAN Business and Investment Summit held in September 2013, China’s Premier Li Keqiang set a new goal for China-ASEAN bilateral investments to increase by US\$ 150 billion in the coming 8 years. China-ASEAN cooperation delivers substantial interests for the people, and contributes to the region’s harmony, stability and prosperity.

As the first offshore USD-dominated equity investment fund approved by State Council and National Development and Reform Commission, China-ASEAN Investment Cooperation Fund (CAF) is committed to promoting the sustainable development of China-ASEAN region through investing in regional infrastructure, energy and natural resources sectors, while fostering their trading partnership and strategic cooperation. CAF emphasizes the sustainability of environmental and social development, and adopts a high environmental and social responsibility (E&S) standard. Over the last few years, CAF has been working closely with International Finance Corporation (IFC), a member of the World Bank Group, to establish a comprehensive environmental and social management system in accordance with IFC’s Performance Standards, and continuously improve the system with reference to past investment experiences.

To promote the sustainability of Chinese enterprises’ overseas investments, ASEAN-China Center and China-ASEAN Investment Cooperation Fund (See Appendixes A-B for respective introductions) jointly issued Social Responsibility and Environmental Protection Guidelines for Investments in the ASEAN Region to provide guidance on corporate social responsibility and environmental protection during investment process.



## **2. Applicability**

- a. All CAF's investee companies and investment projects are required to accept and execute this Guideline.
- b. All Chinese enterprises operating and investing in the ASEAN region should follow sustainable and responsible investment activities with reference to this Guideline.

## **3. Principles and Implementation Procedure**

Enterprises pursuing outbound investments must observe the following principles to fulfill their social responsibilities and maintain a sustainable environment:

### **a. Compliance with legal regulations**

Uphold national and public interests, comply with local legal regulations and relevant Chinese regulations, as well as international business protocols.

### **b. Respect for stakeholders**

Emphasize communication with stakeholders and address their reasonable expectations and concerns.

### **c. Transparency and business ethics**

Disclose all enterprises' decisions and activities that would have material impact in terms of social, economic, and environmental on host countries and local communities.

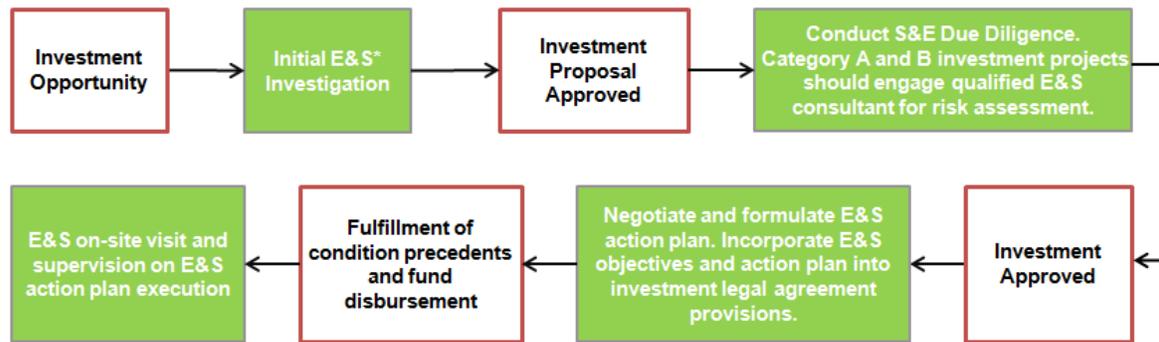
### **d. Commitment to mutual development**

Promote economic growth, social development, and environmental protection of host countries. Seek mutual sustainable development with local communities.

### **e. Continued performance improvement**

Commit to achieving social responsibility in accordance to its own economic development state. The company should strive to continuously improve environmental and social responsibility performance according to the requirements of different responsibility levels (including the required legal obligations, ethical responsibility and voluntary undertakings).

The flowchart below demonstrates the general investment procedures and relevant environmental and social responsibility practices. Enterprises can adapt to such procedures in accordance with their own circumstances.



\* E&S: Environmental and social responsibility

#### 4. Execution Standards

CAF combines its own Environmental and Social Management System (ESMS) and investment experience in the ASEAN region in establishing this Execution Standards (the Standards). Enterprises investing abroad are advised to refer to the Standards to identify and manage environmental and social risks, assess and evaluate the application of the Standards, and monitor post-investment performance, encourage investee companies to adopt sustainable operation to avoid, mitigate and manage risks.

Together, the 8 Performance Standards establish standards that the clients are to meet throughout the life of an investment by CAF:

1. Assessment and Management of Environmental and Social Risks and Impacts
2. Labor and working conditions
3. Resources efficiency and pollution prevention
4. Community health, safety and security
5. Land acquisition and involuntary resettlement
6. Biodiversity conservation and sustainable management of living natural resources
7. Indigenous people
8. Cultural heritage

(See Appendix D for the individual performance standards)

In addition to meeting the requirements under the Performance Standards, clients must comply with applicable national law, including those laws implementing host country obligations under international law.

When host country regulation levels and measures differ from those presented in the ESMS system, projects are expected to achieve whichever is more stringent.

In the process of project execution, the documentation process should be emphasized, including: specific plans (primary content, relevant details, project modeling), environmental impact evaluation report, proof of permits, and records of consultation with local residents and other stakeholders (such as media and NGOs).

## **5. Evaluation System and Performance Monitoring**

In principle, CAF's investee companies are required to execute this evaluation system. All investing enterprises are advised to formulate their own evaluation systems to accommodate their needs.

Throughout the process of selection, due diligence, investment, and post-investment operation, enterprises should communicate with investee companies to obtain information to evaluate the gaps between environmental and social realities and the Standards. When conducting environmental and social due diligence, enterprises should engage qualified environmental and social consultants to evaluate the project, particularly for Category A and B projects (see Appendix E for investment project categories). Enterprises should formulate action plans according to due diligence results to address the gaps. Through execution of relevant action plans, investee companies could gradually achieve the desirable environmental and social standards.

### **a. Assessment and management of environmental and social risks and impacts**

- Verify any environmental, health, safety, and social issues involved in the company's organization and operation. Formulate a plan to eliminate the project's adverse impact on local environment and communities.
- Anticipate and assess potential challenges faced by the project in terms of social responsibility and environmental protection based on the project's circumstances and the company's business activities. Develop specific measures and procedures to address the identified challenges.



- Determine potential issues that would attract media, NGO, and public attention during project implementation and company operation.

**b. Labor and working conditions**

- Ascertain the estimated number of workers required during the construction and operation phase, the number of workers required by the contractors and sub-contractors during the demolition, building, and renovation phases, in particular the number of temporary and part-time workers required; the number of workers hired through agencies, and the number of non-local workers.
- Ensure labor contractual terms (such as work hours and holidays) are consistent with the labor laws of host country
- Develop a grievance mechanism between the company and staff to handle labor complaints. Investigate the labor complaints received by the company over the past year.

**c. Resource efficiency and pollution prevention**

- Ensure proper management, prevention, and mitigation measures for project-related gas emissions, wastewater discharge, and solid waste disposal. Develop good monitoring system and adopt appropriate technical measures to reduce pollution.
- Confirm if specialized contractors are engaged to handle waste collection and disposal. Monitor the final destination of waste.
- Identify and document all hazardous materials used and stored in the construction sites. Verify relevant measures for handling, disposal, and access control.

**d. Community Health, Safety, and Security**

- Consult existing communication and grievance mechanisms with local residents (in case of health and safety incidents).
- Estimate the number of non-local contractors and sub-contractors required by the project.
- Develop emergency preparedness and response plans.

**e. Land acquisition and involuntary resettlement**

- Obtain all land acquisition information for each land plot and acquired project site.
- Anticipate the number of persons involved in the sale of land and the number of persons to be resettled.
- Consult the original and customary uses of land.

**f. Biodiversity conservation and sustainable management of living natural resources**

- Ensure the company has identified and addressed project-related impacts on biodiversity as part of their operations.
- Confirm if the company conducts any operations in legally protected areas.
- Verify if introduction of non-native species is involved throughout project's life-cycle. Where this case is applicable, the company shall obtain permission from relevant governmental agencies.
- Ascertain the renewability of natural resources, forest resources and vegetation, freshwater and marine resources to be used for the project. Adopt a sustainable management approach for these resources.

**g. Indigenous People**

- Identify all ethnic minority groups inhabiting the project area and estimate the approximate population of each.
- Estimate the number of indigenous persons to be recruited as workers, contractors, and subcontractors for the project.
- Assess potential project-related impacts on these groups.
- Formulate company policies dedicated to local minorities (such as days off during special ethnic festivals, staffs who speak dialects to effectively communicate with local ethnic communities, regular consultation sessions, etc.)

**h. Cultural Heritage**

- Identify all cultural properties, artifacts, archaeological/cultural objects and features found on or near the project site (e.g. large banyan trees are regarded as spiritual symbols, ancestral graves, and structures of particular historical, social, and cultural importance).
- Consult heritage preservation policies of the host countries in relation to on-site cultural property protection.

**6. Post-Investment Management**

Effective environmental-social management is a dynamic and continued process. Investing companies should initiate environmental-social management programs and provide support for investee companies, while engaging clients, employees, impacted local communities, and other key stakeholders in this process. After the investment process, enterprises should continue



monitoring investee companies environmental-social practices and project development in this regard.

- a. Enterprises shall keep an ongoing monitoring system for investee companies' environmental and social responsibility performance in various forms, including but not limited to online news research and communication with management levels, etc.
- b. Enterprises shall conduct on-site assessment at least once a year after investment, inspect and verify the agenda items listed on the action plans of investee companies.
- c. Enterprises shall prepare an evaluation report with reference to obtained information and on-site assessment on a yearly basis.

## **APPENDIX A ABOUT ASEAN-CHINA CENTRE**

During the 12th ASEAN-China Summit in 2009, the Chinese government signed The Memorandum of Understanding (MOU) on Establishing the ASEAN-China Centre with Brunei Darussalam, Cambodia, Indonesia, Lao PDR, Malaysia, Myanmar, Philippines, Singapore, Thailand and Vietnam. The signing parties accordingly establish an information and activities centre – the ASEAN-China Centre (ACC).

The ASEAN-China Centre is an international agency between governments. It seeks to promote ASEAN-China cooperation on trade, investment, tourism, education and culture. The Centre is headquartered in Beijing, and is seeking development to establish affiliated centers in other parts of China and ASEAN member countries.

According to the MOU, China and the 10 ASEAN countries are the core members. Enterprises and organizations in China and ASEAN can apply for liaised members through the Centre's Secretariat. In the spirit of the MOU, the Centre strives to promote China-ASEAN cooperation in all aspects.

In October 2010, Premier Wen Jiabao and leaders of ASEAN countries launched the Centre's official website ([www.asean-china-center.org](http://www.asean-china-center.org)), and announced the construction of physical centre in 2011. On 18th November 2011, the China-ASEAN Centre was formally established in the 14th ASEAN-China Summit to commemorate the 20th Anniversary of Dialogue Relations. Premier Wen, leaders of ASEAN countries and Secretary of ASEAN jointly unveiled the signboard of ASEAN-China Centre.



## **APPENDIX B: ABOUT CHINA-ASEAN INVESTMENT COOPERATION FUND**

The China-ASEAN Fund (CAF) is a US Dollars denominated offshore equity fund approved by the State Council of the People's Republic of China and the National Development and Reform Commission. The establishment of the Fund is sponsored by the Export-Import Bank of China together with other prominent Chinese and international institutional investors. CAF specializes in investments in infrastructure, energy, and natural resources in ASEAN in the principles of integrating government strategic guidance with market-driven practices. The Fund strives to achieve commercial success and wield social influence to promote China-ASEAN cooperation in achieving sustainable development, while expediting the construction of China-ASEAN Mega Free Trade Zone and infrastructure for RECP. The current investment size of Phase I operation is US\$ 1 billion. The Fund's ultimate investment target is US\$ 10 billion.

### **Core Value**

Integrity, professionalism, pursuit of excellence, social responsibility and sustainable development

### **Vision**

Become the most reputable and best-performing Chinese equity investment fund in ASEAN and global equity investment markets;

Promote an integrative business model to combine the strengths of China, ASEAN and CAF through professional and international practices.

### **Investment Projects:**

CAF equity investments span 8 ASEAN countries, encompassing the fields of infrastructure, transportation, telecommunication, media, mining, healthcare, and energy. Through professional and responsible operations, CAF has emerged as a reputable principal investor in ASEAN. CAF has gained recognition and respect from host countries for the Fund's commitment to market-driven practices, high standard environmental-social responsibility, and sustainable developments.

## **APPENDIX C: PERFORMANCE STANDARDS ON ENVIRONMENTAL AND SOCIAL SUSTAINABILITY**

CAF adopts the Performance Standards on Environmental and Social Sustainability issued by International Financial Corporation (IFC) of the World Bank Group to manage and assist target companies to achieve best performance. Enterprises are advised to adopt the Performance Standards to manage environmental-social risks and impacts, in order to enhance opportunities and achieve sustainable development for the project.

### **Performance Standard 1: Assessment and management of environmental and Social Risks and Impacts**

- Identify and evaluate environmental and social risks and impacts of the project.
- Adopt a mitigation hierarchy to anticipate and avoid, or where avoidance is not possible, minimize, and, where residual impacts remain, compensate/offset for risks and impacts to workers, affected Communities, and the environment.
- Promote improved environmental and social performance of clients through the effective use of management systems
- Ensure that grievances from affected Communities and external communications from other stakeholders are responded to and managed appropriately
- Promote and provide affected Communities with means for adequate engagement throughout the project cycle on issues that could potentially affect them and to ensure that relevant environmental and social information is disclosed and disseminated
- Hire qualified E&S consultants to evaluate project risks, particularly for Categories A, B companies and projects (please refer to Appendix V for investment project categories).

### **Performance Standard 2: Labor and Working Conditions**

- Promote the fair treatment, non- discrimination, and equal opportunity of workers
- Establish, maintain, and improve the worker-management relationship
- Promote compliance with national employment and labor laws
- Protect workers, including vulnerable categories of workers such as children, migrant workers, workers engaged by third parties, and workers in the client's supply chain
- Promote safe and healthy working conditions, and the health of workers

- Avoid the use of forced labor

**Performance Standard 3: Resource Efficiency and Pollution Prevention**

- Avoid or minimize adverse impacts on human health and the environment by avoiding or minimizing pollution from project activities
- Promote more sustainable use of resources, including energy and water
- Reduce project-related GHG emissions

**Performance Standard 4: Community Health, Safety, and Security**

- Anticipate and avoid adverse impacts on the health and safety of the affected Community during the project life from both routine and non-routine circumstances
- Ensure that the safeguarding of personnel and property is carried out in accordance with relevant human rights principles and in a manner that avoids or minimizes risks to the affected Communities

**Performance Standard 5: Land Acquisition and Involuntary Resettlement**

- Avoid, and when avoidance is not possible, minimize displacement by exploring alternative project designs
- Avoid forced eviction
- Anticipate and avoid, or where avoidance is not possible, minimize adverse social and economic impacts from land acquisition or restrictions on land use by (i) providing compensation for loss of assets at replacement cost and (ii) ensuring that resettlement activities are implemented with appropriate disclosure of information, consultation, and the informed participation of those affected.
- Improve, or restore, the livelihoods and standards of living of displaced persons
- Improve living conditions among physically displaced persons through the provision of adequate housing with security of tenure at resettlement sites

**Performance Standard 6: Biodiversity Conservation and Sustainable Management of  
Living Natural Resources**

- Protect and conserve biodiversity
- Maintain the benefits from ecosystem services



- Promote the sustainable management of living natural resources through the adoption of practices that integrate conservation needs and development priorities

**Performance Standard 7: Indigenous People**

- Ensure that the development process fosters full respect for the human rights, dignity, aspirations, culture, and natural resource-based livelihoods of Indigenous Peoples
- Anticipate and avoid adverse impacts of projects on communities of Indigenous Peoples, or when avoidance is not possible, to minimize and/or compensate for such impacts
- Promote sustainable development benefits and opportunities for Indigenous Peoples in a culturally appropriate manner
- Establish and maintain an ongoing relationship based on Informed Consultation and Participation (ICP) with the Indigenous Peoples affected by a project throughout the project's life-cycle
- Ensure the Free, Prior, and Informed Consent of the affected communities of Indigenous Peoples when the circumstances described in this Performance Standard are present
- Respect and preserve the culture, knowledge, and practices of Indigenous Peoples

**Performance Standard 8: Cultural Heritage**

- Protect cultural heritage from the adverse impacts of project activities and support its preservation
- Promote the equitable sharing of benefits from the use of cultural heritage

## **APPENDIX D: PROJECT CATEGORIZATION**

### **Category A Projects**

- Projects affecting indigenous peoples
- Projects involving resettlement of communities/families
- All projects which pose serious socioeconomic concerns
- Project associated with induced development (e.g. inward migration)
- Projects which impact on cultural property (e.g. religious and archeological sites):
- Projects which pose serious occupational or health risks
- Projects with impacts on high biological diversity of protected natural habitats or areas including wetlands, coral reefs and mangroves
- Forestry operations
- Mining(open cast and pit)
- Construction of dams and reservoirs
- Pesticides and herbicides: production or commercial use
- Major irrigation projects or other projects affecting water supply in a given region
- Domestic or hazardous waste disposal operations
- Hazardous chemicals: manufacture, storage or transportation above a threshold volume
- Oil and gas development, including pipeline construction
- Large infrastructure projects, including development of ports and harbors, airports, road, rail and mass transit system
- Metal smelting, refining and foundry operations
- Large thermal and hydropower developments
- Cement manufacture (Greenfield)

### **Category B Projects**

- Breweries
- Cement manufacture (renovation or expansion)
- Dairy operations
- Food processing

- General manufacturing plants
- Healthcare
- Hotel/tourism developments
- Mining (small scale)
- Metal plating
- Modernization of existing plants
- Pulp and paper mills
- Textile plants

### **Category C Projects**

- Software development
- Consulting firms
- Service industries
- Technical assistance
- Factoring companies
- Share registries
- Stock brokering
- Retail banking

### **Category FI Projects**

- Credit lines
- Agency lines
- Venture capital companies
- Leasing companies