

The Guidelines
on
China's Sustainable Agricultural Overseas Investment

China Association for the Promotion of International Agricultural Cooperation

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Introduction

Since its reform and opening-up, China's agriculture has made increasingly close relations with worldwide agriculture. So far, China has established agricultural partnership with more than 50 countries and regions, and nearly 300 domestic enterprises have agricultural resource cooperation and development projects in 46 countries and regions, including Southeast Asia, Russia, Latin America and Africa. Meanwhile, the scale of China's overseas agricultural investments keeps expanding. In 2016, China's outward foreign direct investment flows from agriculture, forestry, husbandry and fishery sectors was \$3.29 billion, with 27.8% increase on a year-on-year basis, and the stock reached \$14.89 billion. Under the framework of the "Belt & Road" Initiative, China will further enhance its agricultural cooperation with relevant countries to the benefit of forming a new pattern on global agricultural international cooperation and making the countries along the "Belt & Road" give full play to their comparative advantages so as to improve the orderly flow of agricultural elements, the efficient configuration of agricultural resources, and the in-depth integration of agricultural products market within the region and push these countries to achieve economic mutual benefit and win-win development.

However, as for China's agriculture-related overseas investment, the problems such as insufficient understanding on international investment criteria and convention management, unfamiliarity with local social and economic context of recipient countries as well as weak social responsibility awareness, not only increasing corresponding investment risks but also impacting the image of Chinese enterprises in a negative way. In order to normalize Chinese enterprises' foreign agricultural investments and facilitate the sustainable development of overseas investments, *The*

Guidelines on China's sustainable agricultural overseas investment (hereinafter referred as “the guidelines”) is hereby established in accordance with China’s relevant laws and regulations as well as corresponding foreign investment criteria, conventions and practices so as to push the government departments to issue relevant guiding policies to standardize the domestic enterprises’ overseas agricultural investment behaviors and promote the images of such enterprises and the country.

The guidelines provides instructions for enterprises with overseas agriculture-related investments in terms of the establishing responsibility system, selecting investment locations and projects, due diligence operation, strengthening information disclosure and building social responsibility awareness. The guidelines is applicable to all enterprises intending to carry out overseas agricultural investments or those that have done so. And it will be amended from time to time according to the feedback from its promotion and application.

Table of Contents

Introduction	1
I. General Information	1
(i) Background and purpose	1
(ii) Basis and range of application.....	3
(iii) Fundamental principles	4
II. Establishment and Implementation of Due diligence System	6
(i) Preparation for Investment Due diligence	6
(ii) Investment due diligence organization	7
(iii) Implementation of investment due diligence.....	9
III. Selection of Countries and Projects for the Investment	12
(i) Selection of countries	12
(ii) Selection of industries for investment	13
(iii) Selection of investment projects.....	14
IV. Compliant operation for Win-Win Results	16
(i) Rational and Compliant operation	16
(ii) Establish benign connections with farmers and other actors throughout the industrial chain	18
(iii) Guarantee the interests of Chinese and foreign employees	20
(iv) Guarantee the quality safety of agricultural products	23
V. Enhance Social Responsibility Awareness and Strengthen Information Disclosure.....	25
(i) Improve corporate social responsibility fulfillment system and establish long-term operation concepts	25
(ii) Paying attention to orderly utilization of resources and maintaining the local ecological environment	27
(iii) Actively participating in charity and establish sound interaction mechanism with the local communities.....	29
(iv) Emphasize publicity and communication, improve enterprise transparency.....	30
References:	31

The Guidelines on China's sustainable agricultural overseas investment

I. General Information

(i) Background and purpose

Since the reform and opening-up, China has kept deepening its integration with the world economy, and the foreign capitals attracted and foreign investment made have all been increasing. As its economic strength keeps growing rapidly, China's foreign direct investment (FDI) increases fast. In 2015, China's FDI exceeded the foreign investment attracted for the first time, making it one of net capital exporters. In 2013, during his visits to the countries in Central Asia and Southeast Asia, Chinese President Xi Jinping put forward important proposals of establishing the "Silk Road Economic Belt" and the "21st Century Maritime Silk Road" successively so as to actively develop China's economic partnerships with these countries and jointly establish the community of shared benefits, destiny and responsibility with political mutual trust, economic integration and cultural tolerance with the historical resources of the ancient Silk Road and the principal of peaceful development. The "Belt & Road" Initiative has not only made China's foreign economic cooperation come to a new stage, but also pointed out directions for China's agricultural foreign cooperation and investment.

So far, China has established agricultural cooperation with more than 50 countries and regions worldwide, and nearly 300 domestic enterprises have agricultural resource cooperation and development projects in 46 countries and regions. China's agricultural investment scales in foreign countries is kept expanding. In 2016, China's agriculture, forestry, husbandry and fishery sectors' FDI reached \$3.29 billion and the stock reached \$14.89 billion, accounting for 1.1% of the state's total FDI. The main

body of China's agricultural FDI have developed from single to multiple. Large and medium-sized state-owned enterprises have become the main force in agricultural foreign investment and cooperation, and a number of middle and small-sized enterprises, in particular private ones are forming an indispensable emerging force. China's agricultural foreign investment has gradually shifted from trading to field of production, processing, warehousing and logistics. In terms of invested industries, it has expanded from planting and processing of grain, natural rubber, and palm oil to animal husbandry. The form of investment have shifted from investment on building of factories to merger and acquisitions as the main form to strengthen the cooperation and resource integration with overseas enterprises, promoting the integration of Chinese and international agriculture.

Although China's foreign agricultural investment has made certain achievements, some enterprises have met a number of problems and challenges when investing overseas projects such as disputes due to the differences of Chinese and foreign laws and conventions, investment losses because of local political unrests and negative impacts on the enterprises themselves and the China for worsening ecological environment in single development actions. In order to avoid relevant risks, and realize sustainable FDI to promote compliance and legal foreign investment, it is urgent to develop a referential investment guide for domestic enterprises.

It is expected that through sorting out key instructions, potential risks and foreign traditional customs, the guidelines would provide references for Chinese enterprises on overseas agricultural investments. Specific to potential risks and problems in overseas agricultural investments, countermeasures would be provided according to relevant international investment criteria and domestic practices. Also,

recommendations are made for such enterprises to establish favorable relations with local communities in accordance with international practices. In the meanwhile, it encourages all enterprises to pay attention to their social responsibilities and normalize their investing and production behaviors, focus on the environment and the rights and interests of all stakeholders so as to establish a good image of the enterprises and China.

(ii) Basis and range of application

1. Basis

The basis for the guidelines mainly includes:

(1) *The Measures for the Management on Overseas Investment of Enterprises*, National Development and Reform Commission (NDRC) (NDRC Order No.11, 2017);

(2) *The Instructions on Further Guiding and Normalizing Overseas Investment Directions*, NDRC, Ministry of Commerce, People's Bank, and Ministry of Foreign Affairs (the state office issued [2017] No. 74);

(3) *The Measures on the Management of Foreign Investment*, the Ministry of Commerce (Ministry of Commerce Order No.3, 2014);

(4) *The Environmental Protection Guidance for Foreign Investment Cooperation*, the Ministry of Commerce and the Ministry of Environmental Protection (Ministry of Commerce joint issued [2013] No.74);

(5) *The Guiding Policies on Industries for Overseas Investment* , jointly issued by NDRC, Ministry of Commerce, Ministry of Foreign Affairs, Ministry of Finance, General Administration of Customs, State Administration of Taxation, and State Administration of Foreign Exchange (NDRC on foreign investment [2006] No.1312);

(6) *FAO Tenure Governance Technology Guide 3 – Respecting Free, Prior and Informed Consent*;

(7) The Environmental and Social Impact Assessment (ESIA) Standard

developed by the UN, UNDP, World Bank, and international finance corporations;

(8) The *Guidelines on Cooperative Countries (Regions) for Foreign Investment*, the Ministry of Commerce;

(9) Relevant research reports, documents and case studies.

2. Range of application

The guidelines is applicable to all enterprises intending to carry out overseas agricultural investments or those have done so, including enterprises working on crop planting, livestock breeding, forest and fruit product production, agricultural byproduct processing and agricultural product trading ,etc.

(iii) Fundamental principles

Overseas agricultural investments should abide by the following principles:

- Abiding by international general principles. Based on the principle of free, prior and informed consent (FPIC), emphasizing the communication and exchanges with local communities and residents, following the international practices and conduct Environmental and Social Impact Assessment (ESIA).

- Respecting the rights and interests of local communities in utilizing all natural resources. Project design and operation shall prioritize to the local communities' rights and interests on natural resources such as land, forests, and water resources as well as their long-term resource utilization models and methods.

- Insist mutually beneficial cooperation. The interests and concerns of all stakeholders shall be considered and maximize the cooperation potentials to form an interdependent and win-win cooperation patterns.

- Insist racial, religion and gender equality. All races, religions and genders shall be treated equally without discrimination. Females shall be respected and multiple measures shall be taken to guarantee their rights and interests in terms of land,

employment, and health.

- Insist information disclosure and transparency. All operations shall be conducted legally as per laws and regulations, all project information shall be disclosed on a regular basis. Cooperation with media shall be strengthened to enhance the extent and range of project publicity and improve the transparency of relevant projects.

- Abiding by the principle of compliance operation,¹ stressing the sense of duty and establishing due diligence and operation systems to guarantee a full-course due diligence and operation.

- Keep preventing all kinds of risks. The risk prevention and control at all stages shall be conducted and close relations with relevant embassies and consulates shall be kept for timely report of any issues and abide by the arrangements made by such embassies and consulates.

- Insist sustainable development and the concept of green and sharing. The agricultural development paths and models of each host country shall be respected and the idea of sustainable development shall be established so as to save resources, protect the environment and avoid short-term behaviors.

- Strengthen the awareness of social responsibility. Good relations with all stakeholders, such as surrounding communities, enterprise employees, related small farmers and suppliers shall be established and maintained for a mutual development.

- Strictly Control the product quality and safety. The quality management system and traceability system covering all steps and processes shall be established and quality standards shall be strictly controlled to ensure product quality and safety.

- Paying close attention to local food security. The relations between the

¹ The principle of compliant operation is used for preventing and controlling risks in investment process. An enterprise shall establish its responsibility management system, assess the actual and potential impacts of the investment project and activities on all stakeholders, analyze its due social responsibility, and improve all relevant implementation mechanisms so as to control and reduce negative social and environmental impacts to the greatest extent.

construction and operation of the projects and local food supply should be handled carefully to guarantee the food supply and safety in project locations.

II. Establishment and Implementation of Due diligence System

In order to prevent and control risks in investment, each enterprise shall establish sophisticated due diligence system. Based on thorough assessment of its actual conditions and situations, the enterprise should understand the demands and expectations of all stakeholders in production, trading and other steps, evaluate the actual and potential impacts of investment projects and activities on the stakeholders and sustainable development, establish duty performing mechanisms and to take corresponding measures and actions to achieve its investment economic purposes as well as controlling and reducing negative social and environmental impacts to the greatest extent.

(i) Preparation for Investment Due diligence

1. Taking overall consideration on overseas investment projects and its context

(1) All internal and external factors influencing investment strategies, objectives and expected results shall be identified and determined, including all circumstances and other conditions influencing enterprise's investment and operation as well as factors and environments subject to enterprise investment and operation.

(2) Based on the features of the project, the environmental factors for overseas investment project shall be identified from multiple dimensions and levels, including global, country, industry, region, community, and internal and external context of the enterprises.

2. Understanding and identifying the demands and expectations of all stakeholders

(1) Identifying all stakeholders. All stakeholders that may influence the project and those that may be influenced by it shall be analyzed and the demands and expectations of all stakeholders shall be assessed so as to develop the code of conduct that the enterprise investment should abide by and its due responsibilities.

(2) The demands and expectations of important stakeholders, such as project operators, local communities and governments and project employees, shall be analyzed carefully to develop due social responsibility for the investment project.

3. Determining the range for investment due diligence

(1) The boundary and range of application for investment due diligence shall be rationally determined. In order to guarantee the applicability and pertinency of investment due diligence, the definitions for investment environment, all stakeholders, investment projects and activities shall neither be too extensive nor too narrow.

(2) The enterprises or companies involved in the industry chain of invested project shall be included in the due diligence. The analysis on investment project influence factors and all stakeholders shall be expanded to the whole industry chain, and all enterprises and companies involved, including all suppliers related shall abide by the due diligence rule.

(ii) Investment due diligence organization

1. Top management

(1) The top management shall play a leading role in investment due diligence and make commitments to it.

(2) The due diligence shall conform to enterprise's strategic direction and business environment and shall be implemented throughout the project cycle.

(3) The investment due diligence shall be understood and fully implemented within the enterprise.

(4) The resources and all supports required for investment due diligence shall be guaranteed.

2. Establishment and delivery of due diligence policies

(1) Based on the features of relevant investment project and actual and potential impacts on all stakeholders and sustainable development, corresponding due diligence policies shall be established, implemented and maintained, and commitments shall be made to identify, prevent and alleviate relevant negative impacts during investment activities.

(2) The policies shall specify that relevant due diligence would cover the whole investment process in a continuous and dynamic manner so as to achieve continuous improvement and enhancement of social responsibility and performance.

(3) Such policies shall be clearly delivered to important stakeholders such as project operators, local communities and governments and project employees and be accessible to other stakeholders as well as the general public.

3. Internal and external compliance mechanism

(1) Proper internal management structure and mechanism shall be established to ensure that the due diligence policies and corresponding requirements of can be implemented in investment decision-making and management processes.

(2) It shall be guaranteed that such due diligence can be integrated into the relevant trans-department business management procedures and functional coordination mechanism can be established among business departments.

(3) A grievance mechanism focusing on and dealing with the social and environment impacts of agricultural investment projects shall be established at operational level,

and the investors shall participate in the external grievance mechanism established by local communities or the industry so as to improve the early warning on risks. After the grievance is received, the company shall negotiate with local stakeholders on corrective plans, propose effective remedial measures, find out root causes and adjust the company policies correspondingly.

4. Cooperation with stakeholders

The investors shall establish or participate in the information management systems and internal and external communication mechanisms required for investment due diligence and promote the cooperation with all stakeholders in terms of preventing and alleviating adverse impacts, including establishing necessary interest coordination mechanisms.

(iii) Implementation of investment due diligence

1. Risk identification

(1) Based on the features of investment project, the enterprises shall actively abide by international general environmental and social impact assessment (ESIA) standard, identify any actual or potential negative impact and its warning signal in the project, and evaluate its possibility and seriousness.

(2) In order to identify risks effectively, negotiations and consultations may be made with the affected groups and other stakeholders as appropriate to the nature and background of the investment project to fully understand risk related information and facilitate an agreement among all stakeholders.

(3) Risk identifications and impact assessments shall be conducted on a regular basis. They shall be carried out at different investment stages, before starting new activities and relations, or before any significant business decisions and operation

changes are made. When doing the assessments, multiple channels shall be used to collect the suggestions and advices from communities and all stakeholders.

2. Risk prevention and response

(1) Management integration shall be made. Improve the internal management and coordination mechanism, and include the risk assessment results into the whole enterprise management to design and implment risk management plans to prevent and mitigate any negative impacts. Senior managers from all departments shall be responsible for eliminating or alleviating such impacts and ensuring effective integration through appropriate internal decision-making, budget appropriation and monitor procedures.

(2) Based on integrating the assessment results of the agricultural investment activities into management, appropriate actions shall be taken to respond to risks. According to the impacts of the risks caused by the enterprise, specific actions and measures shall be taken to eliminate the their impact on the enterprise and the related stakeholders, including terminating the investment project. However, the negative impacts of the termination on the society, economy, environment shall also be evaluated before it is actually done.

3. Environmental and social impact assessment

(1) All investment project should conduct an environmental and social impact assessment (ESIA). Through scientific analyses and the participation of stakeholders, ESIA can evaluate the impacts the project's impact on local society and environment and possible problems it may cause, so as to minimize the negative impacts and guarantee the possitive ones. An effective ESIA process can enhance the local communities' overall understanding on the project and improve the trust between the

enterprise and the local communities so that a sustainable development would be achievable.

(2) ESIA evaluates all participants and stakeholders. It shall involve all actors and parties, including project implementers, independent consultants, relevant authorities and government departments, external auditors, financial institutions, local residents and communities, non-governmental organizations and interest groups.

(3) ESIA report contents should include analysis methods, key social and environmental issues, negotiation agendas, evaluation results, countermeasures as well as management and control plans for environmental and social issues.

(4) ESIA reports shall be published and be disclosed so that all stakeholders can have access to and discuss about it.

4. Effectiveness Tracking and Communication

(1) The effectiveness of the actions and countermeasures for risk prevention and response shall be tracked to verify whether the risks are mitigated or eliminated. Such effectiveness tracking shall be based on appropriate quantitative and qualitative indexes, and internal and external feedbacks shall be considered as well, including those from the affected stakeholders. In case the actual condition changes, a supplementary assessment may be made on risks that need to be mitigated when necessary.

(2) The due diligence policies and practices shall be reported to stakeholders, including the identified risks and measures taken for them. When the affected stakeholder put forward requirements or concerns, an official report on risk responses shall be made and provided to them.

(3) The report should provide sufficient information in forms and frequencies equivalent to relevant risks and make it accessible to target audience. In addition, it

shall be guaranteed that the report on relevant information will not have further negative impacts on the affected stakeholder.

(4) Multiple forms may be used for such reports, including personal meetings, online dialogues, negotiations with affected stakeholders and disclosure of official reports (including conventional annual reports and corporate responsibility/sustainable development reports as well as online information and comprehensive financial and non-financial reports).

III. Selection of Countries and Projects for the Investment

(i) Selection of countries

1. Non-sensitive countries and regions

Considering avoiding risks, non-sensitive countries and regions shall be given priority for overseas investment. Sensitive country include:

- Country and region that has not established diplomatic relations with China;
- Country and region with wars or internal disturbance;
- Country and region that Chinese enterprises' investments are restricted according to the international treaties and protocols that China has concluded and participated;
- Other sensitive countries and regions.

2. Diagnosis on investment environment

(1) Multiple channels shall be used to obtain data and relevant references. In China, relevant introductions can be obtained from the official websites of the Ministry of Commerce and the Ministry of Foreign Affairs and other ministries and departments, and there are various channels can provide information about the relevant countries and regions. In foreign countries, public data can be purchased and

relevant information can be obtained through investment invitation and promotion guidances. The data related to agricultural production can be inquired on official website of Food and Agriculture Organization.

(2) Besides analysis on resource conditions and social conditions, attention shall be paid to the corporate profit exit tax provisions of relevant countries. Some countries with favorable investment climate, superior natural resource conditions and great market opportunities might have high corporate profit exit tax rates and the gain costs of capital. They might not be ideal for investments.

(3) Information and data shall be obtained legally. In foreign countries, in collecting public information and data, the confidential information shall be avoided to the greatest extent. For secrecy-involved data that is necessary for project construction, it is recommended that such data shall be acquired by local partners and utilized as per the regulations and requirements of the host country.

(4) It is recommended that the enterprises should employ consultants and lawyers to have a thorough study on the laws, systems and policy frameworks of any proposed country for the investment, with a focus on the determination of resource ownership and recognition of community customary rights.

(5) Local traditional customs shall be fully understood, especially the related taboos.

(ii) Selection of industries for investment

Enterprise shall select its investment direction on the basis of the state encouraged directions and its need on raw materials and subsequent industry for its development. It should not make any haphazard investment on unconfirmed and incomplete information. For foreign investment cooperation required by the state, the enterprise should also consider and combine it with its own need in business development to the best of its abilities.

On one hand, sensitive industries shall be avoided. The enterprise can get the relevant information on specific industry information from government official websites.

On the other hand, enterprise should actively make investments on agriculture-related industries encouraged by the state government. Relevant information can be acquired from government official websites.

(iii) Selection of investment projects

1. Planning projects reasonably based on the need of the local communities

(1) The projects shall be planned reasonably with detailed implementation plans. Based on sufficient communication and exchanges with local communities, the enterprises shall design the project appropriately with detailed implementation plans according to the local social, economic and natural resource conditions as well as the project planning and objectives agreed by both parties.

(2) Win-win results shall be achieved for both the enterprise and community. For project design and planning, the profits for both enterprise and local community shall be taken into overall consideration. Sufficient information exchanges shall be made with local communities and stakeholders by following the FPIC Principle so as to guarantee that both parties can be benefited from project implementation. In certain circumstances, the project shall satisfy the need of the local communities as priorities.

(3) The enterprise should never sign official documents with superior authorities before getting the recognition of the local communities and stakeholders.

(4) When designing the project, local food safety and environment sustainability shall be taken into full account, especially the projects requiring a large size of leased land and those would have dramatical change on local ecological environment.

2. Attach importance to the communication with the local communities

(1) The consent from local communities will facilitate a successful implementation of the project. It's necessary to make local communities fully understand the effects of the project, its impacts on their lives and the changes it would bring to the local ecology and obtain their recognition so as to avoid misunderstandings and disputes in project implementation.

(2) It's a common practice to fully communicate with the local community for international investment projects. Chinese enterprises shall fully learn from the well-established methods and skills on this matter.

(3) The FPIC Principle is a worldwide recognized principle in communicate with local communities, namely free, prior and informed consent. It has been an international principle. It originated from indigenous people's rights on independent decision-making and their comprehensive rights on their lands, territories and other assets. However, this principle has gone beyond the scope of indigenous people now. Domestic enterprises may carry out communication and exchanges in a flexible manner as per actual conditions in the spirit of the FPIC Principle. The key is not to impose the enterprise's idea on the local community, and have the local people or community to make their own decisions.

(4) The key points in communication with local communities are:

- Identify the ownership on resources. The existing rights holders and resource users in project location shall be identified through communication with various groups in the communities.

- Identify the legal status of various resources. Based on community surveys, it is necessary to reconfirm the owners of the target lands and resources as per national laws and customary laws in the invested country.

- To communicate and negotiate with various groups (different genders, ages,

ethnic groups, and social classes) in the community.

- To understand the organization structure of the community and find out the leaders and key figures in it.

FPIC Components

“Free” means no coercion, intimidation and manipulation.

“Prior” implies that consent is sought sufficiently before any authorization and activity, and time for the consultation process of the indigenous people and getting their agreement must be guaranteed.

“Informed” means that the information about the project and activity provided to the indigenous people should be objective and accurate, it should be presented in a way that they can fully understand it. This information is including:

1. The nature, scale, duration, reversibility and scope of the project;
2. The reasons for the project;
3. Areas that would be affected;
4. A preliminary assessment on potential economic, social, cultural and environment impacts, including risks and benefits;
5. People who may and would participate in the project;
6. Measures that may be applied in the project;

“Consent” means that indigenous people have agreed the implementation plan proposed in the consultation process.

In the meantime, indigenous people have the rights to withdraw permits or attach other conditions. Consultation and participation are two main factors in seeking their consents. It must be made in good faith with indigenous people to get their consent. In case both sides fail to reach an agreement, subjective and impartial explanation shall be made to them. All stakeholders shall communicate on an equal and mutual respect basis so as to propose an effective and agreed solution and have sufficient time to make decisions. Indigenous people and local community have the rights to independently select their representatives or organizations to participate in such consultation process as per local customs. Moreover, the opinions from women and children shall be considered as well.

(Sources: 2005 United Nations Forum on Issues about the Indigenous People, Expert Mechanism on Indigenous People, 2011)

IV. Compliant operation for Win-Win Results

(i) Rational and Compliant operation

1. Legal operation

(1) Once the project is determined, the enterprise shall go through all relevant procedures strictly following the laws and regulations of the host country.

(2) During the operation, the enterprise shall abide by the laws of the host

country and employ professionals to help it to pay all taxes and fees in full in a timely manner.

(3) The enterprise shall consult with the local community and governments to establish the grievance mechanism to deal with the negative impacts of its business activities.

2. Focusing on ethnical, racial and gender equality

(1) Eliminate employment discrimination. The enterprise shall treat people from different ethnic groups and races equally in recruitment. No special employment policies shall be made for people from different ethnic groups and races.

(2) In terms of the matters such as employment, remuneration, training opportunities, promotion, dismissal and retirement, the enterprise shall not engage in or support any discrimination based on race, social class, nationality, religion, physical disability, gender, sexual orientation, union member, political status, or age.

(3) The enterprise shall not interfere with employees' rights of beliefs and customs and it shall satisfy employees' rights on race, social class, nationality, religion, physical disability, gender, sexual orientation, union member, and political status;

(4) Women's rights and interests shall be respected. Except for some special posts that need certain restrictions on genders, women shall be given priorities in recruitment.

(5) Coercive, abusive or exploitative sexual harassment shall be strictly prohibited, including any inappropriate gestures, languages and physical contacts.

(6) The enterprise shall concern about the health and life of female employees and provide them with equal payment and managerial posts, professional trainings and career development opportunities. The enterprise shall pay maternity insurance for female employees and provide pregnant employees with prenatal examinations,

maternity leave, breastfeeding leave and childbirth allowance for.

(ii) Establish benign connections with farmers and other actors throughout the industrial chain

1. Providing local community with as many jobs as possible

(1) The “localized management strategy” shall be enhanced to promote the proportion of local employees hires. Improving local employment through project construction is usually a common premise for the project to get approval by host country. The enterprise shall give priority to employing people in the host country and deliberately reserve a certain number of jobs for local communities, especially for women.

(2) When reserving jobs, job requirements shall be made according to the educational levels and life styles and customs of the local people and adjust work and rest schedual and time for salary payment as per local customs.

(3) Strengthen trainings for local employees. The enterprise shall provide technical trainings for local employees as per production requirements to help them to master the required skills. During such trainings, attention shall be paid to the differences of Chinese and foreign traditional cultures, and interactive and participatory training methods shall be applied as much as possible. On an equal footing, trainings for female employees shall be prioritized.

2. Attract more people in industry development

(1) The enterprise may learn from China’s domestic successful experience and models based on local actual conditions and apply multiple methods to include more communities and stakeholders into the industry chains, and let more local women participate in such industry chains so as to help them to enjoy the benefits from industrial development.

(2) **Order acquisition model.** The enterprise may sign purchase orders with members from local associations other than project employees, specifying the number of purchased items, quality requirements, bottom prices, and delivery dates. Upon the delivery date, it will purchase the qualified products and pay cash as either per the bottom prices (if the market price is lower than the bottom prices) or market prices (if it is higher than the bottom prices). When signing purchasing contracts with local communities and farmers, both parties shall specify the rights and obligations in detail on an equal footing. The contract should be quantized to a great extent so as to avoid subsequent legal disputes arising from omissions in the contracts.

(3) **Establishing cooperatives.** Local farmers shall be encouraged to establish cooperatives according to the raw material demands of the enterprise to conduct standard production in big scale so that they can supply stable raw materials for the enterprise. The cooperative shall be established on the principle of voluntary participation, democratic management, and democratic supervision. The enterprise shall give full play to the roles of local communities and elites instead of making excessive interventions. Corresponding technical services may be provided when necessary.

(4) **Land investment model.** Based on the negotiations and consultations by both parties, local people and stakeholders may participate in project construction through pooling their land as investing shares, and dividends can be allocated after the project has profits. If such model is used, the enterprise shall carefully study the land policies of the host country to avoid conflicts with relevant policies. In addition, relevant **land value evaluation** shall be determined by a third-party assessment agency recognized by both parties.

(5) **Project profit returning mechanism.** Within the scope of consultations and negotiations between the enterprise and the community, the joint-stock system

and shareholding cooperative system can be explored to encourage the farmers to use elements such as their land management rights and agricultural machines as shares for participating the project through the distribution mode of “minimum guarantee + a second dividend” so as to form a cooperative and win-win community of shared interests with them.

(iii) Guarantee the interests of Chinese and foreign employees

1. Guarantee reasonable working hours and wage level

(1) The enterprise shall abide by the requirements on working hours and public holidays specified in the laws and regulations of the host country and internationally recognized industrial standards.

(2) The enterprise shall establish rational vacation systems according to the customs and habits of the host country and guarantee employees can enjoy paid leaves of various periods based on their length of working in the enterprise. For male employee whose wife has just given birth to a baby, a vacation of certain period can be given to him as per local customs. And wage compensations shall be provided for any employee who still works during any holiday or vacation.

(3) The compositions of salary and welfares shall be explicit. The enterprise shall clearly indicate the compositions of salary and welfare for all employees on a regular basis and guarantee that such salary and welfare are completely conform to all applicable laws. Besides, the way of payment shall be determined in the principle of making it convenient for the workers.

(4) The enterprise shall guarantee its salary level for a standard working week is not below the minimum wage standard specified in local laws or industry regulations.

(5) The principle of distribution according to work shall be followed for payroll distribution. Equal pay for equal work shall be implemented, and relevant

wage levels shall be improved in paralleled with the economic development in the host country.

2. Providing secure and healthy working environment

(1) The enterprise shall provide a healthy and secure working environment for all employees and take appropriate measures to minimize the hazards and hidden danger in working environment, especially taking female employees' needs into consideration and provide them with healthy working environment.

(2) Based on the labor laws of the host country, labor safety and hygiene systems shall be established and improved. The safety and hygiene regulations and standards specified in laws and regulations shall be implemented strictly, and labor safety and hygiene trainings shall be provided for employees to prevent accidents and reduce occupational hazards in work.

(3) Occupational health and safety management systems shall be established, including routine health and safety detection systems and contingency plans. Specific health and safety management systems shall be established for female employees based on their features and needs.

(4) Health and safety trainings shall be provided for all employees on a regular basis and include health and safety into corporate culture. The employees' safety awareness shall be raised to help them realize that they have the rights to suspend or reject working in any area with uncontrollable dangers.

3. Guarantee employees' legal interests

(1) It is prohibited to take any punitive measures to force employees to work. The enterprise shall not employ forced laborers or support behaviors of employing them. They shall neither ask employees to pay cash pledges or hand in ID cards when such employees are hired, nor engage in or support any physical punishment,

spiritual/physical coercion or verbal insults.

(2) Respect employees' rights on free association and collective bargaining. The enterprise shall respect the rights of all employees to establish and join labor unions and participate in collective bargaining. In case such rights are restricted by laws, the enterprise shall assist the employees to take similar ways to exercise their rights. In addition, the enterprise shall assist female employees to establish joint organizations to protect their rights and interests.

(3) The enterprise shall learn from domestic experiences to guarantee the communication channels between employees and management. It shall guarantee all employees' participation rights, rights to be informed and supervision right through learning from the experience of publicizing factory affairs. It shall establish smooth opinion expression channels for employees via factory affair column, staff forum, GM mailbox, and enterprise website to share enterprise operation information with all employees. The enterprise shall invite employees (including female ones) for communication and information sharing on a regular basis.

(4) It's strictly prohibited to employ child labors. According to the international definition, a child laborer refers to any worker under the age of 15. In case the minimum working age or compulsory education age specified in local laws is higher than 15, the higher one shall apply. In case the minimum working age specified in local laws is 14 and meets the exceptional provisions on developing countries specified in Convention No.138 of the International Labor Organization, the lower one shall apply.

4. Guarantee employees' rights on learning

(1) Quality trainings for employees shall be emphasized. The enterprise shall support its employees to participate in the trainings to improve their professional ability, comprehensive quality as well as the trainings for their post promotion.

Necessary fund support for such professional trainings and education shall be guaranteed. Trainings for female employees shall be prioritized. The enterprise shall provide guidance to their employees in planning their career development, improve its promotion mechanism for all employees and increase promotion opportunities for female employees.

(2) A learning organization system shall be established. Establish the enterprise as a learning organization and create training and capacity building platforms through multiple channels, forms, levels and focuses.

5. Concern about the employees' life demands

(1) Concern about the employees' life and psychological needs. The employees stationed aboard, especially the work and life of those stationed in concentrated areas of ethnic groups, shall be concerned. Special sparetime activities shall be organized and mental health conseling shall be provided to relieve employees' working pressure. The family-visiting system shall be improved to eliminate employees' worries and improve their happiness index. Handicapped employees shall be respected, and convenient working environment and necessary living guarantees shall be provided for them. Specific mental health consultation system shall be established as per the features of female employees.

(2) The employee assistance and support system shall be improved. Multiple ways shall be used to help employees to solve their practical difficulties in life. Regular, systematic and standard assistance and support for employees with difficulties shall be established through learning of domestic experience.

(iv) Guarantee the quality safety of agricultural products

The product quality safety is closely related to people's health as well as the long-term sustainable development of the enterprise. The enterprise with overseas

investment must insure a better product quality safety.

1. Establishing and strictly abide by relevant regulations

(1) High standards and strict requirements shall be established. The input operating standards, production management standards and product quality standards of agricultural products of China, host countries and the world shall be collected and sorted out, and the highest standards amongst them shall be determined as the final quality standards for relevant products.

(2) Detailed and practical production technology regulations shall be established. The technical regulations for all production procedures shall be established and all relevant technical standards and the dosages for inputs shall be determined according to local natural resource conditions and the quality requirements of final products.

(3) Production technology regulations shall be strictly followed. The enterprise shall supervise its employees to organize production and make records strictly as per relevant production technology regulations. The managers shall conduct inspections and supervisions regularly and occasionally to normalize the employees' operations.

(4) Emergency response mechanisms and pre-arranged plans for major accidents shall be developed to cope with food safety accidents and significant food quality and safety accidents in a rational manner.

2. Get a clear picture of the background and obtain certifications

(1) Figure out the background of environmental pollution. The soil, air and water in project area shall be tested and analyzed carefully to make sure the production environment is healthy without any heavy metal, toxic substance residue and air pollution so as to guarantee the quality safety of the products from the source.

(2) Relevant certifications shall be obtained. Food processing enterprise must

obtain production permits from local health departments and obtain internationally recognized certifications such as GAP, HACCP, QS, and GMP. In addition, such enterprise shall strictly test raw materials and additives and strictly forbid use of any unqualified raw material or additives.

3. Enhancing trainings and encouragement

(1) Trainings shall be organized to help employees fully understand the specific requirements of relevant regulations. For those practices and requirements inconsistent with local traditional customs, the trainers shall provide detailed explanations and guarantee that local employees can fully understand them so as to avoid misunderstandings.

(2) Awards shall be granted to outstanding employees who abide by relevant regulations. Such awards can be material, cash and moral encouragement as per local customs. The number of awards for female employees shall be increased.

V. Enhance Social Responsibility Awareness and Strengthen Information Disclosure

(i) Improve corporate social responsibility fulfillment system and establish long-term operation concepts

1. Establish long-term operation concepts

(1) Long-term operation concepts shall be established. The enterprise shall adhere to its long-term investment and development beliefs if they have confidence in the future development of the host country and the industry to achieve future benefits.

(2) Agricultural investment project has the particularity of long payback period. Agricultural project usually has low rate of return on investment and long payback period. In addition, long-term stable input is required to guarantee steady output in

such project.

(3) The project shall be operated with concepts of sustainable development. Based on the particularity of agricultural projects, the enterprise shall establish the concept of sustainable development and achieve social benefits and long-term profits from sustainable development rather than solely pursuing on short term gains.

2. Clarify the social responsibility

Compared with enterprises in other industries, agriculture-related enterprises will shoulder more social responsibilities. Generally speaking, there are five:

(1) The responsibility of guaranteeing the quality safety of products. Especially for the enterprise providing food, the quality safety of its products must be guaranteed

(2) The responsibility of helping local farmers to increase their income. When agricultural enterprises purchase agricultural products from local farmers, they shall set rational purchasing prices to let the farmers have reasonable profit and income;

(3) The responsibility of guaranteeing employees' welfares and the welfare and physical and mental health of female employees;

(4) The responsibility of protecting resources and ecological environment;

(5) The responsibility of participating in local charities and assistances.

3. Disclosure of social responsibility performance regularly

(1) The enterprise shall determine its specific social responsibilities in detail, carry them throughout all procedures in production and operation, and evaluate the performance on a regular basis.

(2) Generally speaking, the enterprise shall prepare and release its social responsibility report annually.

(ii) Paying attention to orderly utilization of resources and maintaining the local ecological environment

1. Establish the concept and guarantee solid implementation

(1) The enterprise shall include environmental protection into its developing strategies, plans and objectives and establish sophisticated and specific environmental protection rules and regulations so as to enhance its environmental pollution control and risk prevention management.

(2) Sophisticated environmental protection training systems shall be established to provide proper environmental protection education and trainings for employees and help them to understand the relevant environmental protection laws and regulations and corporate environment policies in host countries. The enterprise has the duty to raise the employees' law-abiding awareness and environmental protection qualities, especially the junior employees so that they can be equipped with fundamental environmental protection knowledge.

(3) The enterprise shall establish and operate pollution control facilities and carry out pollution prevention in line with the host countries' or worldwide recognized environmental protection laws and regulations and standards. The emission of exhaust gas, waste water, solid wastes or other pollutants shall conform to the pollutant emission standards of the host countries. The main pollutants discharged by the enterprise shall be monitored and keep pollution conditions informed at all time. Relevant monitor results shall be recorded and filed properly.

(4) The enterprise should strengthen its effective relations and communication with the environmental protection supervising departments in the host country and actively solicit their opinions and recommendations on enterprise environmental protection management as well as providing them with relevant information in a timely manner.

2. Protect the local environment with concret actions and measures

(1) Respect the local residents and indigenous people's traditional usage and customs on vegetation, lands and water resources, and take measures to prevent and mitigate the negative impact from business activities on the local communities.

(2) Taking measures to prevent and reduce the negative impacts on the environment, climate and biological diversity. Comprehensive agriculture and diversified operation are encouraged for realizing harmonious ecological and economic benefits. Relevant construction methods shall be improved to minimize its destructions on ecological environment.

(3) Protect the biological diversity. The enterprise shall identify speices of tree, vine, herbaceous plants, wild animals, and fish with biodiversity and cultural values. Identify the density of existing forests, vegetation forms, and traditional useful plants and agriculturally genetic resources, and carry out project construction and operation on the premise of protecting biological diversity and ecological service functions to the greatest extent.

(4) The amount of pesticides and chemical fertilizers used shall be strictly controlled and try to develop cyclic economy. The use of pesticides and chemical fertilizers shall be minimized. Green economy and cyclic economy models like comprehensive forestry economy shall be applied with effective measures on water and soil conservation, climatic change, chemical use, biodiversity, forest protection, and comprehensive utilization of all resources shall be taken to actively improve the environment and ecologial conditions and push the development of the local environmental economy.

(iii) Actively participating in charity and establish sound interaction mechanism with the local communities

1. Support the local social undertaking

(1) Make plans on providing funds and materials to science, education, culture and health, welfare, and environmental protection in project and surrounding areas to facilitate social development.

(2) The enterprise shall increase the economic income of the investing organizations, its employees, and local residents; support poverty reduction and community development, increase job opportunities; and make contributions to local economic development. It shall pay special attention to the economic benefits and assistance for small farmers and improve their economic development through demonstrative activities as appropriate.

(3) The enterprise shall purchase materials from local areas as much as possible to support local economy and middle and small-sized enterprises.

(4) Actively carry out volunteer activities. The enterprise shall encourage its employees to participate in voluntary services and public welfare activities and provide them with support in terms of organization, working mechanism, time arrangement, financial support and communication.

2. Actively participate in local charity

(1) The enterprise shall participate in local poverty reduction actively. It can help local impoverished groups to improve their living conditions and education by donating funds and materials.

(2) Donation management shall be normalized. Relevant organizations and management systems shall be established and improved and regular analysis reporting, evaluation and feedback mechanism shall be established as well. Attention shall be

paid to donation effects. Donations shall be made according to the need of the community, and the rights and interests of donors shall be guaranteed.

(3) The enterprise shall participate in local disaster relief activities actively. In case of any natural disaster in project area or host country, the enterprise shall actively coordinate with the local government and participate in disaster response organized by local government, provide them with financial and material support within its capacity, and participate in post-disaster rehabilitation.

(iv) Emphasize publicity and communication, improve enterprise transparency

1. Emphasize publicity and explanation

(1) The enterprise shall strengthen publicity and exchanges so as to help the governments and communities of the host country to know about the enterprise, understand the project and Chinese culture so that the enterprise can blend in local society for a sound operation and development.

(2) The enterprise shall pay attention to the publicity on local mainstream medias, especially focusing on promotion of the enterprises or project's benefit on local economic growth, its positive impacts on local economy and traditional life, and the protective measures it has taken. The enterprise shall organize public welfare activities and charity events as well as making related agreements with local communities.

(3) In case of any accident or major change, the enterprise shall publicize the details through local mainstream media promptly to make relevant clarifications and disclose updates in time.

2. Strengthen communication and enhance enterprise transparency

(1) The enterprise shall strengthen its communication with local government and communities. It shall invite government officials, key community figures and

representatives from all walks of life for visit and discussions regularly or occasionally so as to help them to have a better understanding about the enterprise and project.

(2) If decisions and adjustments are made for future development and production activities, key leaders of the community, government and representatives from all walks of life shall be invited for discussion. The decision-making process, impacts on local communities, and the opinions of the main right holders in the communities shall be made public after such decisions are made.

(3) By using the domestic practices of publicizing factory affairs, the enterprise shall publicize the fund use, profit distribution, personnel training, personnel turn over, rewards and punishments of the enterprise and the project to both Chinese and foreign employees.

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