



# Covid-19 ESG guidance

For IFs invested in SMEs that face increased operational pressures

## Navigating this document

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Employees

Customers

Employees

Employees

Employees

Business

Customers

All

Communities

All

Customers

Customers

Employees

Investors

Employees

Employees

Communities

Society a

Business

Business

April 2020

# Dutch Good Growth Fund



# Additional guidance on ESG during the Covid-19 crisis

## Explanatory note for IFs invested in SMEs that face increased operational pressures

### Why do we need additional ESG guidance now?

The Covid-19 crisis is affecting investors and businesses globally. DGGF intermediary funds (IFs) and the SMEs they invested in are no exception.

Many SMEs operating in essential sectors such as agri-food, healthcare, financial services and delivery services are currently facing increased operational pressures, some of which result in a larger exposure to ESG risks. Examples of these risks range from occupational and customer health & safety to stressful increases in working hours to governance risks involving bribery and corruption.

We are confident that management of these SMEs will do everything in their power to ensure that ESG risks are properly managed. However, IFs also have a role to play. Actual leverage will depend on the investment position of the IF and the relationship they have with the affected SMEs, but it is good practice for IFs to know which ESG issues are impacting companies providing essential goods and services.

This explanatory note is meant to show IFs how these SMEs should act to manage the ESG risks resulting from increased operational pressures.

### How to use this document?

The document provides an overview of ESG issues that arise when SMEs come under increased operational pressure. It is organized through a mapping of the most relevant issues – where relevance is determined by a combination of likelihood and severity of impact. It can be used in different ways:

1. General overview – what ESG issues are potentially relevant?
2. General guidance – what is the SME's responsibility towards their stakeholders?
3. Finding further guidance and resources on specific issues – how should SMEs deal with their the issues at hand?
4. Final check – did the SME address all potentially relevant risks or are there any blind spots?

This document outlines some of the most relevant risks and next steps, but it is not a blueprint for all SMEs. If you are not comfortable with how your portfolio companies are handling ESG while operating at full (or beyond) capacity, or if you think they are facing an issue that is not covered here, reach out to the [DGGF ESG team](#)

### What happens if I do not consider ESG risks in this situation?

The current crisis puts considerable pressure on businesses and investors. At this time, it is important to make sure that ESG risks are dealt with in a responsible way. Not taking ESG issues sufficiently into account can have a severe negative impact on SMEs and IFs, through:

- Litigation
- Penalties / fines
- Reputation, affecting relationships and future business with:
  - *Investors*
  - *Employees*
  - *Media*
  - *Local communities*
  - *Clients*
  - *Suppliers*
  - *Government*
  - *NGOs*

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# Occupational health and safety

## What should SMEs take into consideration in terms of workplace safety?

### Defining the issue

In case of continued business operations during Covid-19, management shall provide a safe and healthy work environment and take effective steps to prevent potential health and safety risks, such as exposing employees to a higher risk of infection.

### Impact on stakeholders

Continued work activities affect employees because:

- Exposure to colleagues and/or customers could increase the risk of virus transmission.
- Sharing workspaces, equipment and machinery could increase the risk of virus transmission.
- Knowing that colleagues may have tested positive may lead to anxiety and stress related to fear of infection

### Illustrative example:

A supplier of household items and processed foods in India is experiencing **changes in supply-and-demand patterns**. Due to stay-at-home orders and to guidelines asking communities to reduce the frequency of supermarket visits, demand for processed and canned foods has increased. The company took all necessary measures to ensure warehouse workers and transport workers are able to keep **sufficient distance**. **Hand sanitizer and soap** are available, as well as **personal protective equipment**. Vehicles used for deliveries to retailers and supermarkets are regularly cleaned. A **designated complaints mechanism** is in place so that workers can flag issues or raise health and safety concerns.

### KEY CONSIDERATIONS AND STEPS TO TAKE:

In line with the ILO Standards, employers have the responsibility to ensure that all practicable preventive and protective measures are taken to minimize occupational risks. Employers are also responsible for providing adequate information and appropriate training on OHS and providing measures to deal with emergencies. As an SME in this situation, you should:

1. Provide information on measures and raise awareness on COVID-19 (through campaigns, training or specific communication channels). Social dialogue is critical, as workers need to be informed, consulted and overall be aware of (a) any impacts on their own terms and conditions of employment and (b) of the steps they can take for their own protection and to contribute to containment.
2. Consider more thorough or frequent cleaning/disinfecting of the workplace, check on air quality and ventilation, and ensure availability of appropriate cleaning supplies. If applicable, the same holds for worker accommodation.
3. Allow for social distancing: ensure that workers keep a safe distance of 2 meters (6 feet). This might imply rearranging the workplace and adjusting shift structures.
4. Make preventative tools available (awareness about cough hygiene and handwashing technique, adequate water and soap, personal protective equipment).
5. Maintain regular and open communication to address concerns, manage expectations and build trust.

### Additional resources:

- [ILO: Key ILO and Covid-19 Provisions](#)
- [PRI: How Responsible Investors Should Respond to the Covid-19 Coronavirus Crisis](#)
- [IFC Interim Advice on Supporting Workers in the Context of COVID-19](#)

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# Health and safety of customers

## What should SMEs take into consideration in terms of customer safety?

### Defining the issue

In case of continued business operations during Covid-19, management is expected to be aware of actual and potential health and safety impacts on customers and end-users of the company's products.

Consumers need to be able to access non-hazardous products and services, offered to them through transparent and fair practices.

### Impact on stakeholders

Continued business activities affects customers because:

- Exposure to employees and/or other customers could increase the risk of virus transmission.
- Use of products or services that have not been handled with proper sanitary measures could increase the risk of virus transmission.
- Company measures could change availability and opening hours for customers and communities

### Illustrative example:

A supermarket in Colombia has continued to operate during Covid-19 and experienced an increase in sales. To continue to offer the same level quality and quantity products and **minimize health risks for customers**, the supermarket has adopted some measures.

Employees work using plastic gloves and a face mask, there is a line outside the supermarket **ensuring a safe distance** between customers, **hand sanitizer** is freely available upon entry and no more than three customers are allowed in the same aisle at once. The supermarket equipment (such as baskets, cash registry and other tools) are **sanitized after each use** with wipes and/or cleaning supplies.

**Transparent communication** is ensured through a notice board at the entrance of the supermarket. Matters falling in scope for communication include clear instructions for customers on the measures taken as well as updates on temporarily unavailable products.

### KEY CONSIDERATIONS AND STEPS TO TAKE:

It is essential to understand that a company's current situation will affect others down the value chain. Companies should inform their customers about the current situation and the measures they have taken. This will manage customers' expectations. As an SME in this situation, you should focus on the following:

#### Transmission prevention measures

1. Additional sanitation measures should be taken during production, such as regular and extensive cleaning of the equipment and machinery used and ensuring all workers handle produce with protective personal equipment.
2. Review of 'non-essential' products and services should be gender sensitive with special attention to sanitary products, including maternal health products.
3. In case of direct customer interaction, basic transmission prevention measures should be adopted:
  1. Allow for social distancing: ensure that customers are able to keep a safe distance of 2 meters (6feet). This might imply rearranging the premises.
  2. Make preventative tools available (hand sanitizer, personal protective equipment).

#### Transparent communication

1. Customers may not be always able to access the latest information. To minimize the risk of information asymmetries and support customers' ability to make informed decisions, you should communicate transparently on the measures you take. This will help you deal with any concerns customers may have around quality or reliability of your products and services.

### Additional resources:

- [ILO: Key ILO and Covid-19 Provisions](#)
- [CDC: Guidance on Protecting Customers during Covid-19](#)

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# Changes in working hours

## What should SMEs take into consideration in terms of working hours?

### Defining the issue

Some SMEs will be confronted with pressures related to working hours. We can identify two categories:

- SMEs with a decrease in working hours due to decreased demand and/or supply during Covid-19
- SMEs with an increase in working hours thanks to increased demand for products/services during Covid-19

### Impact on stakeholders

A change in working hours affects employees because:

- A (temporary) reduction in working time potentially results in loss of income for employees
- A (temporary) increase in working time can affect employees' health and wellbeing and expose them to a higher risk of infection if the work cannot be done remotely.

### Illustrative example:

#### Decrease in working hours:

A hotel chain in Colombia is facing pressures due to Covid-19. In order to protect their jobs, the owner has **asked all employees** to consider whether they are open to discussing salary reduction. The **workers' council has negotiated** the terms that are equal to all employees and **each employee has individually signed** an agreement to the terms.

#### Increase in working hours:

A company specializing in personal care and hygiene products in India has decided to ramp up production of hand sanitizer. In order to meet the demand it is necessary for workers to **work overtime**. The HR policy is adjusted to **reflect national and international standards** on overtime and **employees are informed** of the new situation and their rights and benefits. **Overtime is sufficiently compensated.**

### KEY CONSIDERATIONS AND STEPS TO TAKE:

Decrease in working hours: As an SME in this situation, you should check whether government support is available to compensate for reduced working time and potential loss of earnings. Also, SMEs that want to avoid laying off or furloughing employees should work to reach an agreement with employees on salary reduction and/or unpaid leave. In any case, you should:

1. Consult with trade unions, worker associations or similar to ensure they are aligned with the proposed measures
2. If employees freely agree to the proposed measures, make sure the agreement is in writing
3. Make sure there is no discrimination in the process: all employees should be treated equally in terms of salary reduction

Increase in working hours: SMEs should always at least comply with national and international working hours regulation. In line with IFC Performance Standard 2, employees should be aware of their rights related to hours of work, overtime and compensation. You should:

1. Ensure the HR policy and procedures clearly outline employees' rights with regards to overtime
2. Inform employees of the temporary situation as a result of the Covid-19 crisis, explain their rights, and ensure agreement between employees and employer
3. Ensure employees are sufficiently compensated for their overtime (According to ILO Conventions 1 and 30, the pay rate for overtime shall not be less than 125% of the regular rate)
4. In case of wanting to maintain continuous production, a potential answer is for factories to go to shift work, which eliminates machine downtime.

### Additional resources:

- National legislation
- [ILO Standards and COVID-19 \(coronavirus\)](#)
- [ILO Q&As on business and overtime](#)
- [ILO information sheet on overtime](#)
- [IFC Performance Standards](#)

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# Remuneration

## What should SMEs take into consideration in case of retrenchment?

### Defining the issue

Due to a decrease in business activities caused by Covid-19, some SMEs will not be able to guarantee business continuity and will have to close down. When this occurs, the company should at least comply with national and international remuneration regulation and properly manage the retrenchment process.

### Impact on stakeholders

Putting business activities to a halt could affect employees because:

- Lay-offs result in loss of income for employees

### Illustrative example:

A local, medium-sized apparel and footwear chain had to close down due to supply chain disruption and cashflow challenges. The chain employs mostly female workers and **all of them have seen their contract being terminated.** The retrenchment has been communicated during a general assembly and a dedicated **complaints mechanism** has been set up. Measures to cushion the negative impacts of the retrenchment have been taken, such as personal recommendation letters, severance pay, and shared network connections to find a job elsewhere.

### KEY CONSIDERATIONS AND STEPS TO TAKE:

In line with the ILO Labour Standards, a company should consider how (mass) retrenchment impacts employees. As an SME in this situation, you should:

1. Evaluate the necessity and look for alternatives (e.g. workhour reduction, hiring freeze, internal transfers and redeployment, reduction in salaries)
2. Gather information and decision-making (taking into consideration worker rights, collective agreements, employability level of retrenched employees, gender and ethnic breakdown)
3. Decide on nature of retrenchment and establish procedure (e.g. determine revised shape of workforce, develop objective criteria by which workers will be chosen for dismissal, determine how to handle information privacy and dispose of data of clients and employees properly, decide on budgets associated with retraining, redeployment, etc.)
4. Implement retrenchment plan
  1. Prepare the tools and procedures (including complaints mechanism)
  2. Announce number of dismissals and basis for criteria
  3. Carry out assistance programs for retrenched workers

### Additional resources:

- (Inter)national legislation
- [IFC Good Practice Note – Managing Retrenchment](#)
- [IFC Interim Advice on Supporting Workers in the Context of COVID-19](#)
- [ILO: a Guide to Worker Displacement](#)
- [ILO Termination of Employment Recommendation 1982](#)

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# COVID-19 Contingency Plan

## What should SMEs take into consideration in case of working-from-home plans?

### Defining the issue

Some SMEs will be challenged by simply being located in proximity to an area that has reported high infection rates. When this happens, management shall take effective steps to prevent further transmission and arrange for the appropriate measures to allow employees to work from home (if possible).

### Impact on stakeholders

Setting up a contingency plan to deal with Covid-19 affects employees because:

- Implementation of Working from Home (WFH) policies can affect employee wellbeing

### Illustrative example:

A micro-insurance company in Sri Lanka continues to operate as its services are deemed essential. However, it has come to the attention of management that one employee has **reported sick due to Covid-19**. The employee will self-isolate for at least three weeks. He can count on paid sick leave. To prevent the risk of discrimination and prejudice against said employee, **management is discrete** and does not share the name of the employee nor his reasons for reporting sick with the broader team. Besides, all employees have been ordered to **work from home** where possible for the duration of one month. One member of the management team has been assigned as contact person and has the task of assessing whether all employees have sufficient means to be able to carry out their work at home. Moreover, a **designated complaints mechanism** has been set up so that employees can voice their concerns.

### KEY CONSIDERATIONS AND STEPS TO TAKE:

As an SME considering a contingency plan, you should keep in mind that:

1. Workers who have contracted Covid-19 should be entitled to paid sick leave or sickness benefits as long as they are unable to work.
2. Leave of absence should be expanded to include access for workers who are dealing with family responsibilities in relation to an immediate family member who needs that worker's care or support. In case of a live-in family member or housemate contracting Covid-19 the worker should be able to continue work activities from home in order to not spread the infection further.

As an SME considering Working from Home policies, you should keep in mind that:

1. If possible or when required due to a lack in workforce mobility (e.g. public transport is limited), employees should be encouraged to make use of teleworking and stay at home. Companies should check whether all employees have the means to continue working independently.

In all cases, you should keep in mind the principles of non-discrimination and privacy

1. In case an employee testes positive to Covid-19, you should protect his/ her privacy and ensure that health surveillance is not used for discriminatory purposes or in any other matter prejudicial to the employee's interests.
2. Incidents of racism and xenophobia are likely following the outbreak, in particular towards persons of certain ethnic backgrounds and persons from countries where the number of positive cases is high. In many countries, discrimination based on race or health status is prohibited by law. You should be aware of this potential risk and take legal and practical measures to prevent and protect employees against discrimination.

### Additional resources:

- [Unicef: Family Friendly Policies and Other Good Workplace Practises in the Context of Covid-19](#)
- [IFC Interim Advice on Supporting Workers in the Context of COVID-19](#)
- [ILO: Key ILO and Covid-19 Provisions](#)
- [ILO : Promoting Employment and Decent Work in a Changing Landscape](#)

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# Anti-corruption

## What potential bribery and corruption risks should SMEs be aware of?

### Defining the issue

We identified two types of dynamics that make SMEs potentially vulnerable to corruption and bribery:

- Very high and immediate demand for certain products or services (for example PPE, test kits, and medical supply) increases the risk of unethical pricing, resale or bribery
- Governments are expected to act quickly, which can lead to some dishonest officials prioritizing their personal gain

### Impact on stakeholders

The impact of corruption and bribery is twofold, hitting investors (such as IFs and DGGF as a whole) and society:

- impact on business and investors, in the form of reputational damage.
- impact on society at large, because corrupt practices around medical products hinder fair distribution to the ones most in need

### Illustrative example:

A pharmaceutical company in Peru is seeing an increased demand in their products. Several private parties, as well as public and private hospitals are placing multiple orders. One of the **private parties approaches a sales officer** of the pharmaceutical company to ask whether their order can be prioritized. They offer to pay a premium, partially to the **personal account** of the sales officer. The sales officer was instructed by management of the company that this could happen, so she **immediately informs management**.

At the same time, the company wants to start producing its own hand sanitizer to meet the demand, but it **needs a new permit** for that. The government official dealing with this permit says it normally takes two weeks, but **is willing to prioritize** this as he sees the importance for society. However, this requires a **cash payment**. Management does **not accept this**, as this is considered a bribe/ facilitating payment.

### KEY CONSIDERATIONS AND STEPS TO TAKE:

Crises and emergency situations require a quick response from many different stakeholders. In these situations, pressure is high and controls are weak. This results in a corruption-prone environment. It is important to be aware of this context and to assess whether your company's vulnerability has increased. Corruption and bribery is unacceptable and should be avoided at all time. You should always:

1. Assess if the Covid-19 crisis could expose the business to a corruption-related risk, for example acquiring medical supplies or PPE from the market, dealing with new suppliers, and/or dealing with the government (see CDC guidance 'Risk assessment')
2. Instruct staff on the risks related to corruption, especially in relation to the existing policies, procedures and code of conduct
3. Be aware of unacceptable behaviour. Some examples:
  - If an SME sells products needed for the Covid-19 response, it should not ask higher prices now that there is a higher demand (unethical pricing)
  - If an SME buys products, do not accept paying too high price. If possible, this should be reported to the relevant authorities (unethical pricing)
  - If an SME sells products that are in high demand, it should ensure its employees are not vulnerable to bribes of potential clients
  - If an SME receives government relief funds, these should not be used for other purposes than Covid-19 relief
  - If an SME is subject to lockdown regulations, no payments should be made to government officials to be excluded from these regulations

### Additional resources:

- [CDC Covid-19 Business Integrity Guidance](#)
- [Transparency International: Corruption and the Coronavirus](#)
- [Covid-19 Pandemic: Statement by the OECD Working Group on Bribery](#)
- [Corruption in emergency procurement \(U4 Anti-Corruption Resource Centre\)](#)



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# Information security and data privacy

## What should SMEs take into consideration when increasing online presence?

### Defining the issue

During the Covid-19 crisis, an increasingly large part of the economy is rapidly moving online. This affects information security and data privacy.

For example in case of:

- Increased storage of (personal) client information and data due to increased sales through online channels
- Increased vulnerability to cybercrime due to less secured internet connections when working from home

### Impact on stakeholders

Issues of privacy and security affect multiple stakeholders:

- Personal information of clients and employees could end up in the hands of external parties who might want to sell it.
- A breach in security can have a strong negative impact on the organization's reputation. Sensitive (financial) information should be protected at all times

### Illustrative example:

An e-commerce company in India is strongly affected by the Covid-19 crisis. All employees are **working from home on their laptops**. At the same time, demand for the e-commerce services has shown strong growth with **a 60% increase in registered customers**. The company's management has come together to assess the implications of these changes on their data security and data privacy measures. The fact that they process a larger amount of client information than usual could result in an **increased number of cyberattacks**, most likely due to the fact that cybercriminals are aware of the increase of customer information on e-commerce platforms. Management decides to immediately improve security measures, especially now that vulnerability has increased with **people working from less protected home connections**.

### KEY CONSIDERATIONS AND STEPS TO TAKE:

It is likely that (part of) your business has moved online. You need to assess whether this has an effect on your company's vulnerability to cybercrime and you should think of the resulting reputational damage. You should ensure you are at least compliant to the applicable national and international regulation. As an SME in this situation, you should:

1. Map the impact is of Covid-19 on your online presence. Specifically consider e-commerce and employees working from home
2. Assess the potential negative impacts of the increased online presence. Consider vulnerability with regards to both data privacy (what personal information is stored) and data security (how to protect information)
3. Consider whether the existing information privacy and security policy, procedures and practice covers the potential negative impacts of increased online presence. If there is no such policy in place, consider developing one to reflect the new (online) situation
4. For data privacy, ensure alignment with the OECD Privacy Guidelines. For data security, the Cyber Essentials provide decent guidance
5. If the current situation has resulted in changes to data protection policies and procedures, make sure to inform the affected clients and employees

### Additional resources:

- National legislation
- [OECD Privacy Guidelines](#)
- [Cyber Essentials](#)

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# Complaints mechanism

## What should SMEs take into consideration when handling complaints?

### Defining the issue

Increased pressures resulting in ESG issues such as those outlined in this guidance, and in the previous guidance for IFs invested in SMEs that cannot guarantee business continuity, may lead to an increase in complaints from all stakeholders: employees, suppliers and contractors, customers and communities.

### Impact on stakeholders

Stakeholders that may need to lodge complaints include:

- Employees
- Customers
- Suppliers and contractors
- Communities

### Illustrative example:

A hotel in Tanzania needs to close down as a result of lockdowns and travel bans that severely impacted the tourism sector. The hotel consists of 25 rooms and a restaurant. For the time being, management decides **to lock the hotel site**. Management decides to take **security measures**, including hiring private security guards who have been adequately trained on the use of force and other relevant matters. A **publicly available complaints mechanism** (phone number and web-based) is still available. In fact, the phone line has been used by community members to complain about **the remaining waste** outside the hotel premises. The hotel management acted immediately and arranged for the waste to be disposed of.

### KEY CONSIDERATIONS AND STEPS TO TAKE:

Changing the way your company operates is challenging for you as management but it is also challenging for employees, customers, suppliers and other stakeholders. It is important to take time to clearly communicate with your stakeholders around (at least) any operational changes and the rationale behind them. For example: your employees and customers should be aware of the health & safety measures you decided to take; retrenched or furloughed employees should be aware of the reasons behind the decision to permanently or temporarily stop their contracts; suppliers, vendors and others along the supply chains may have expectations that do not align with the current situation.

At a minimum, you should :

- Review existing whistleblowing policies, complaints mechanisms and escalation procedures to ensure they are fit for the “new normal”, including for example employee complaints mechanisms being fit for remote working scenarios
- Ensure your complaints mechanism is still accessible for all stakeholders you are involved with. Complaints may surge, so ensure that all stakeholders receive the attention they need and think of reorganizing staffing to properly handle complaints
- Follow the recommendations relating to the handling of complaints available throughout this guidance note
- In case of retrenchment and closing down, follow the recommendations in the first guidance note, [Covid-19 ESG guidance for IFs invested in SMEs that cannot guarantee business continuity](#)

### Additional resources:

- DGGF ESG policy: Guidance regarding complaints mechanisms
- [CDC Covid-19 Business Integrity Guidance](#)
- Covid-19 ESG guidance for IFs invested in SMEs that cannot guarantee business continuity

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# Pollution prevention and abatement

## What pressure does COVID-19 put on the environment?

### Defining the issue

Covid-19 is changing the way of working of many companies. This in turn can lead to pressures on the environment. We identified three issues:

- Improperly discarded single-use plastics (such as masks)
- Cost cutting on waste management
- Non-compliance: environmental regulatory requirements continue to apply to temporarily changed/closed operations

### Impact on stakeholders

Apart from negatively affecting the environment and its ecosystems, pollution also has a negative effect on:

- Surrounding communities, who are increasingly confronted with waste in their living space
- Business: not properly managing waste can have a strong negative impact on the company's reputation, but also leads to fines and penalties

### Illustrative example:

A textile company in Vietnam has changed its way of working as part of their Covid-19 response. All people on the company premises **are required to wear face masks and plastic gloves**. The workers allowed on-site are less than usual, meaning there have been minor changes in the **production process**. Management has assessed the potential negative impacts of these changes. To mitigate these impacts, they decided to set up a **simple waste management system** to ensure that workers are adequately disposing of used masks and gloves when exiting the factory. Secondly, they acknowledged that the reduced number of workers resulted in a **bottleneck in disposing of the fibre waste** as this is normally disposed of manually by two workers. This was solved by slightly adjusting the way of working again. Thirdly, they assessed whether their new way of working was still **compliant with all relevant environmental regulatory requirements**.

### KEY CONSIDERATIONS AND STEPS TO TAKE:

SMEs need to consider the potential environmental impact of their new (or covid-adjusted) way of working. It is likely that part of the operations have been altered by the inclusion of new protective measures. SMEs are asked to assess the potential negative impacts and avoid or minimize them, in line with IFC Performance Standard 3. As an SME in this situation, you should:

1. Assess if the way of working has changed due to Covid-19 and if the changes have a potential impact on waste and pollution. This relates to the 'normal' operations and related waste management, but also to the use of single use plastics such as face masks, gloves or other personal protective equipment. Moreover, cost-cutting measures could also potentially affect waste management procedures
2. Review the crisis management plan to include environmental regulatory requirements, as these continue to apply to temporarily changed or closed operations
3. In case of increased use of plastics or other materials, update the waste management procedures to reflect this increase.
4. In case your normal operations have been affected by any changes, you need to consider whether the normal waste management procedures are still fit for purpose and can be relied on.

### Additional resources:

- National legislation
- [IFC Performance Standards](#)
- [IFC Environmental, Health and Safety Guidelines per industry](#)

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# ESG Action Plan Follow-Up

## What to consider when looking at your ESG Action Plan?

### Defining the issue

In relation to the ESG Action Plan, two things are important to keep in mind:

- During the Covid-19 pandemic, businesses may need to reassess their ESG Action Plan to reflect on identified priority issues
- The after-COVID perspective should also be taken into account, so that long-term issues are not forgotten

### Impact on stakeholders

Following up on the existing ESG Action Plan in the wake of Covid-19 could affect multiple stakeholders:

- Reprioritization of Action Plan items and extended deadlines could affect shareholders, employees, customers, governments and communities as they may have to wait longer than foreseen for relevant ESG risks to be tackled

### Illustrative example:

Due to Covid-19 a garment factory has been operating at minimum capacity for a couple of months. The government now allows businesses to slowly pick up activities again provided that they can ensure a **safe distance of 1,5 meter** between workers and the availability of **protective personal equipment**.

Although health and safety was not mentioned as a priority item in the company's initial ESG Action Plan, management decided to allocate **the highest priority** to health and safety conditions in order to start up again in line with government regulations. **In consultation with stakeholders, new timelines** for the previously set ESG Action items will be communicated, so other existing ESG risks will be properly handled in the post-COVID period.

### KEY CONSIDERATIONS AND STEPS TO TAKE:

The consequences of the Covid-19 crisis create challenges in the ESG domains and will have far-reaching effects on business as usual. To deal with these challenges and keep the business afloat, you should consider the following:

#### ESG Risk prioritization

1. Affected companies and sectors should prioritize issues relating to Covid-19 and the crisis management response. Companies should be allowed time and capacity to manage their way through the crisis. Companies should consider appointing one management team member as main responsible for ESG priority assessment and action plan follow-up

#### Extended deadlines for existing ESG Action Points

1. The extension of existing deadlines for ESG Action Points should be discussed and feasible new timelines and procedures agreed to

#### Efforts towards stakeholders

1. Companies should set up internal and external crisis communication and ensure transparency to stakeholders throughout to minimize the risk of reputational damage. This accounts for short-term Covid-19 priority items, but also for other ESG Action Plan items that now will have extended timelines
2. Companies should consider putting in effort to join forces with other stakeholders such as peer companies, governments, associations or NGOs in exploring the possibility of setting-up a sector or economy-wide response

### Additional resources:

- [BIO: Covid-19 ESG Guidance Note](#)
- [PRI; How Responsible Investors Should Respond to the Covid-19 Coronavirus Crisis](#)

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These are some of the most relevant ESG issues and next steps, but they do not constitute a blueprint for all SMEs. Reach out to DGGF ESG team if you need specific guidance.



Ministry of Foreign Affairs

# Responsible lending

## What to consider when dealing with an increase in loan applications?

### Defining the issue

Businesses need cash to go through the current crisis and financial service providers may see an increase in loan applications.

- A rapid and compassionate response is needed
- Still, it is important to check whether clients can reasonably be expected to afford the interest rate, or whether this could lead to a cycle of bad debt

### Impact on stakeholders

- Borrowers can be negatively affected if they cannot afford the interest rate of the loan that covers their expenses during this crisis.

### Illustrative example:

A financial institution that provides loans to SMEs in Nigeria is suddenly facing a **large increase in loan requests**. The institution has a longstanding relationship with some of these clients and wants to **respond rapidly to address their liquidity needs**. At the same time however, the loan officer also recognizes the risk of putting these clients through a **cycle of bad debt** as they might not be able to afford the interest rate anymore. Management develops a **Covid-19 policy** that provides the loan officers with **guidance on how to assess loan requests** in this new situation. At the same time, the policy also explains how to deal with clients that might **default due to Covid-19**. The website of the financial institution clearly shows the principles of the Covid-19 policy, which is also shared on flyers in the local offices. Next to that, customer service has a **specific telephone number available for Covid-19 related requests**.

### KEY CONSIDERATIONS AND STEPS TO TAKE:

It is important to ensure that borrowers are able to repay their debts. Even though a rapid response is required, it is also important to protect clients and uphold the principle of responsible lending. As a financial institution in this situation, you should:

1. Explore the impact of Covid-19 on the (potential) clients' liquidity needs
2. Assess what local and/or international relief funds are available for these type of clients. Perhaps another type of financing is more suitable in the current situation
3. The lender should draft a Covid-19 policy that includes guidance on how to properly form a credit assessment during the Covid-19 crisis
4. Next to assessing new loans, the pipeline with approved loans should be reviewed to confirm whether borrowers will be able to repay after the Covid-19 period
5. Given the current circumstances, it is important to draft a policy on how to deal with clients that default. If possible they should be given the opportunity to repay loans at a later time
6. Lenders should be transparent about their Covid-19 policies and ensure there is sufficient customer support available to deal with this unprecedented situation. The complaints mechanism should be readily available to address clients' concerns

### Additional resources:

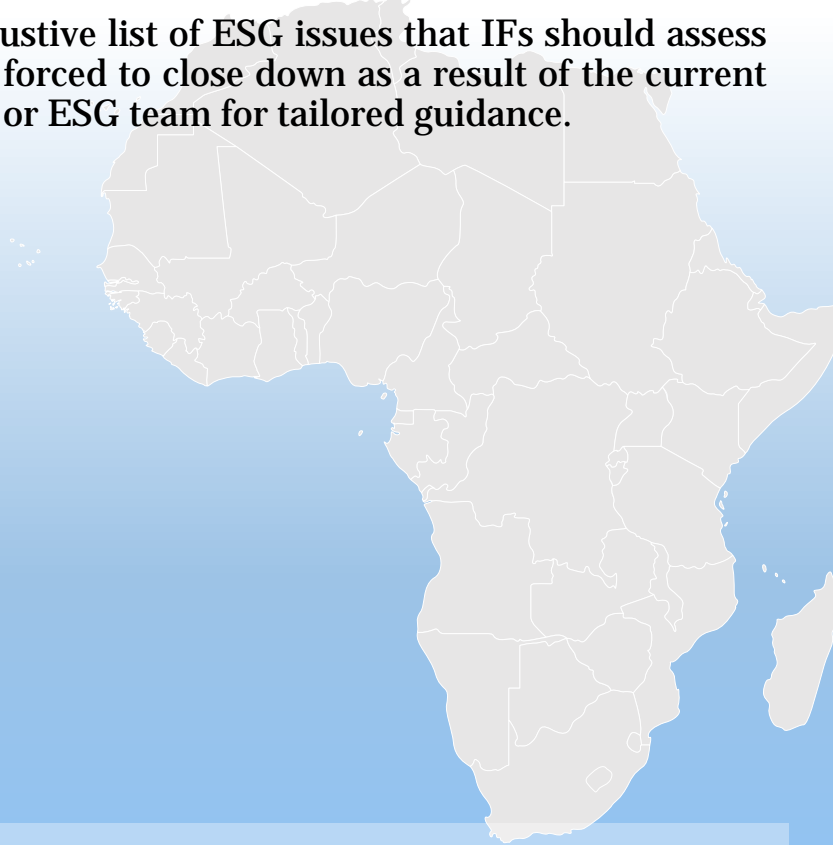
- [FinDev Gateway: Covid-19 resource hub](#)
- [Smart Campaign Client Protection Principles](#)
- [Retail banking and responsible lending during COVID-19](#)

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# Reach out to the DGGF team

Our guidance note is a non-exhaustive list of ESG issues that IFs should assess together with the SMEs that are forced to close down as a result of the current COVID crisis. Consult the DGGF or ESG team for tailored guidance.



## You can reach the DGGF team through:

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