



# Covid-19 ESG guidance

For IFs invested in SMEs that cannot guarantee business continuity

## Navigating this document

Click on each stakeholder group to understand which ESG issues are important and what is expected in case of business closure

<u>Employees</u>	<u>Suppliers and third parties</u>	<u>Clients and consumers</u>	<u>Communities</u>	<u>Vulnerable stakeholders</u>	<u>Local, regional and national authorities</u>	<u>Environment</u>
Non-discrimination	Health and safety	Health and safety of workers	Health and safety	Health and safety	Anti-corruption	Pollution prevention and abatement
Remuneration	Anti-corruption	Health and safety of customers	Pollution prevention and abatement	Non-discrimination		
Freedom of association and right to collective bargaining	Complaints mechanism	Anti-corruption				
Complaints mechanism		Complaints mechanism				
Information privacy and data security						

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# Dutch Good Growth Fund



# Additional guidance on ESG during the Covid-19 crisis

## Explanatory note for IFs invested in SMEs that cannot guarantee business continuity

### 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 cannot guarantee business continuity and will have to close down due to precarious cashflow, limited capacity and disruption in their supply chains. Entire sectors that appealed to DGGF IFs in the past few years, such as hospitality and tourism, are being severely impacted by measures aimed at containing the spread of Covid-19, such as lockdowns and travel bans.

We are confident that management of these SMEs will do everything in their power to ensure that retrenchment is conducted responsibly. 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 at stake in case of retrenchment.

This explanatory note is meant to show IFs how SMEs that cannot guarantee business continuity should take care of ESG.

### How to use this document?

The document provides an overview of ESG issues that arise when SMEs terminate their business activities. It is organized through a mapping of affected stakeholders and issues that are relevant per stakeholder group. 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 employees now that it is clear there are no alternatives to retrenchment?
4. Final check – did the SME address all potentially relevant risks prior to formally closing down?

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 in case of retrenchment, reach out to [DGGF's 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 business termination and collective dismissals 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*

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.



# Employees

## What should SMEs take into consideration when letting their employees go?

### Questions / issues

- I have to close down my business. What steps do I need to take when terminating my employees' contracts?

### ESG principles affected:

- Non-discrimination
- Remuneration
- Freedom of association and right to collective bargaining
- Complaints mechanism
- Information privacy and data security

### 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:

- [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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Ministry of Foreign Affairs

# Suppliers and third parties

## How should SMEs deal with ongoing contracts and outstanding payments?

### Questions / issues

- I have to close down my business. What ESG responsibilities do I have towards my suppliers?

### ESG principles affected:

- Health and safety
- Anti-corruption
- Complaints mechanism

### Illustrative example:

A hotel in Vietnam needs to close down as a result of lockdowns and travel bans that severely impacted the tourism sector. The company contracted to provide laundry service to the hotel was almost entirely dependent on this one contract and **now has to lay off workers**. The hotel management and the owner of the laundry company work together to ensure **proper retrenchment**. Moreover, there is **a publicly available complaints mechanism** open to suppliers and third parties on the website of the hotel, as well as a phone line managed by the laundry company. The hotel management also ensured it will **deal with all outstanding payments in a responsible way**, without taking up any informal offers by the owner of the laundry company, e.g. lowering the debt in return for payments to his personal account.

### KEY CONSIDERATIONS AND STEPS TO TAKE:

In line with the IFC Performance Standards and international good practice, a company needs to consider risks and impacts associated with primary suppliers. The most significant impact is often on the suppliers' workforce. As an SME in this situation, you should:

1. Map your primary suppliers and those over whom you could historically exercise some form of control or leverage, e.g. those fully dependent on you for their revenues
2. Connect with these suppliers to understand how your current situation impacts their chances to stay in business
3. Assess whether the situation at the supplier will result in furloughs or retrenchment. You can refer to the employee- related ESG issues discussed on page 4 of this guidance
4. When dealing with outstanding payments, be aware of potential governance (corruption and bribery) risks. Prioritize full compliance with national and international anti-corruption regulation and decline all offers involving informal settlement of payments
5. Ensure you have an easily accessible complaints mechanism should any concerns arise

### Additional resources:

- [IFC Performance Standards](#)
- [IFC Good Practice Note - Managing Retrenchment](#)
- DGGF ESG policy: Guidance regarding complaints mechanisms

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# Clients and consumers

## How should SMEs deal with clients that they cannot serve?

### Questions / issues

- I have to close down my business. What ESG responsibilities do I have towards my clients and consumers?

### ESG principles affected:

- Health and safety of workers
- Health and safety of customers
- Anti-corruption
- Complaints mechanism

### Illustrative example:

A solar panel manufacturing company in Kenya had to close down due to supply chain disruption and cashflow challenges. One of their main clients is a solar panel installation company. As a result, the installation company **now also has to lay off workers**. The manufacturer and the owner of the installation company work together to ensure the situation is clearly communicated to the employees of the installation company. Also, there is **a publicly available complaints mechanism** that employees can access. At the same time, the **client still owes the manufacturer money**. The manufacturer ensures they deal with his in a way that is in line with local and international regulation. Also, the manufacturer ensures it does not sell any remaining inventory without assessing the applicable laws and regulations.

### KEY CONSIDERATIONS AND STEPS TO TAKE:

It is essential to understand that a company's current situation will affect others down the value chain, for example clients with whom the company might have long-term contracts and commitments in place. The company should inform them as soon as possible and manage expectations. As an SME in this situation, you should:

1. Map your largest clients and/or consumers that are highly dependent on your products or services
2. Connect with these suppliers and understand the impact of your current situation on continuation of their business.
3. Assess whether the situation at the client will result in will result in furloughs or retrenchment. You can refer to the employee- related ESG issues discussed on page 4 of this guidance
4. When dealing with remaining inventory or outstanding payments, of potential governance (corruption and bribery) risks. Prioritize full compliance with national and international anti-corruption regulation and decline all offers involving informal settlement of payments
5. Ensure you have an easily accessible complaints mechanism should any concerns arise

### Additional resources:

- [IFC Good Practice Note - Managing Retrenchment](#)
- DGGF ESG policy: Guidance regarding complaints mechanisms
- [CDC toolkit: Business Integrity](#)

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# Communities

## How should SMEs deal with impacts on surrounding communities?

### Questions / issues

- I have to close down my business. What steps do I need to take to minimize the negative impact on surrounding communities?

### ESG principles affected:

- Health and safety
- Pollution prevention and abatement

### 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 (see CoC in Resources). 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:

In line with the IFC Performance Standards, it is important to avoid or mitigate any actual or potential negative impacts on surrounding communities. This responsibility still applies when a company is forced to close down. Communities could experience setbacks and even loss of livelihoods if community members are dependent on the company (e.g. through the informal economy). Any assets you leave behind can also lead to negative impacts on surrounding communities and might need to be temporarily supervised until you can dispose of them. As an SME in this situation, you should:

1. Carry out a simple Social Impact Assessment (SIA) to identify (a) any socioeconomic dependencies at community level and (b) any actual or potential impacts on livelihoods
2. Map your physical assets, such as inventory, property and equipment
3. Make a clear plan on how to sell or dispose of all assets
4. Perform security risk assessment and take proper security measures (e.g. manage private security, set up physical safety measures)
5. Ensure you have an easily accessible complaints mechanism should any concerns arise

### Additional resources:

- [UNHR: Corporate Responsibility to Human Rights](#)
- [UNHR Code of Conduct for Law Enforcement Officials](#)
- [IFC Good Practice: Use of Security Forces](#)

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# Vulnerable stakeholders

## How should SMEs deal with migrant, seasonal and other vulnerable workers?

### Questions / issues

- I have to close down my business. What steps do I need to take to minimize the negative impact on vulnerable stakeholders?

### ESG principles affected:

- Health and safety
- Non-discrimination

### Illustrative example:

A large hotel in India needs to close down as a result of lockdowns and travel bans that severely impacted the tourism sector. All staff are laid off. During high-season the hotel employs **seasonal workers**, most of them coming from other regions of the country. As it is still high-season, the seasonal employees are currently out of work but unable to access railway and other public transport means to return home.

The hotel arranges **temporary accommodation** and **continued health insurance** for its the employees and discusses options (with the local authorities) for arranging **transport** as soon as possible, so that the workers can return home.

### KEY CONSIDERATIONS AND STEPS TO TAKE:

In line with the IFC Performance Standards, the ILO Conventions and international good practice, a company needs to consider whether vulnerable stakeholders in their value chains are being disproportionately impacted. Vulnerable stakeholders include migrant workers, seasonal workers, contract/ informal workers, as well as women and young workers. As an SME in this situation, you should:

1. Carry out a simple Social Impact Assessment (SIA) to map (a) any specific stakeholder group that is particularly at risk as a result of your business closing down and (b) any actual or potential negative impacts
2. Collaborate with local and national governments and reach out to NGOs to harmonize efforts and build ongoing capacity in terms of infrastructure and services that can support vulnerable stakeholders through the crisis
3. Decide on best approach going forward and set up appropriate support mechanisms for:
  1. Housing, health care and social support if vulnerable workers are staying on-site
  2. Logistical and/or financial support if workers are returning to country or region of origin (for migrant and seasonal workers this might be determined by government guidelines or orders)
4. Ensure you have an easily accessible complaints mechanism should any concerns arise

### Additional resources:

- [UNHR: Corporate Responsibility to Human Rights](#)
- [ILO: World Social Security Report – providing coverage in times of crises and beyond](#)
- [UN: international Convention on the Protection of the Rights of All Migrant Workers and Members of their Families](#)

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# Local, regional and national authorities

## How should SMEs deal with bankruptcy and other (related) proceedings)

### Questions / issues

- I have to close down my business. What responsibilities do I have when dealing with local, regional and national authorities?

### ESG principles affected:

- Anti-corruption

### Illustrative example:

A furniture retailer needs to close down due to lack of demand for its products. It files for bankruptcy and, as part of the process, needs to disclose all assets owned by the business. In what appears to be an effort to help, the official explains the possibility of **not disclosing some assets**. Holding on to these assets would help the furniture retailer to set up a smaller company in the future. The official then explains that he would **need something in return** for concealing this information. The furniture retailer understands that this offer amounts to paying a bribe, and that engaging in some form of bribery would have a very negative impact on his reputation as an entrepreneur and would decrease his chances to secure future financing. Therefore, he refuses the offer.

### KEY CONSIDERATIONS AND STEPS TO TAKE:

When terminating business, companies are required to file for bankruptcy and therefore will likely be dealing with different entities and public officials. It is important to always be aware of the governance risks involved in this type of situation. As an SME in this situation, you should:

1. Be aware of the fact that your business is currently in a vulnerable position. If you receive an offer to minimize the burden on your business, make sure this is in line with local and international laws and regulations. Make sure the officials on the other side of the table do not expect anything from you in terms of money, advantages or promises
2. Be sensitive to the current situation. Make sure you behave in a way that does not point to any misunderstandings. For example, gifts (however small) to bankruptcy judges or other officials involved in your formal bankruptcy proceeding are not considered appropriate.
3. Ensure you have an easily accessible complaints mechanism should any concerns arise

### Additional resources:

- [CDC toolkit: Business Integrity](#)
- DGGF ESG Policy
- DGGF ESG policy: Guidance regarding complaints mechanisms
- National bankruptcy legislation

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# Environment

## Are there any environmental risks that SMEs should take into account?

### Questions / issues

- I have to close down my business. What environmental risks do I need to consider?

### ESG principles affected:

- Pollution prevention and abatement

### Illustrative example:

A textile company in South Africa closes down and needs to dispose of all assets including materials and equipment. The company uses a significant amount of **potentially hazardous chemicals** (for dyeing) as well as bleach. The company maps all potentially dangerous materials and makes a clear plan on how to sell or dispose of them safely. The plan also includes measures to **dispose of other (non toxic) materials including plastic and equipment/machines**. Finally, the EHS officer and team conduct a final factory inspection to ensure that all hazardous materials and substances have been disposed of.

### KEY CONSIDERATIONS AND STEPS TO TAKE:

Closing down your business potentially leaves you with inventory, equipment and/or other materials that you need to dispose of or sell in a responsible way. As an SME in this situation, you should:

1. Map your physical assets, such as inventory, property and equipment
2. Carry out a simple Environmental Impact Assessment (EIA) to assess the potential negative environmental impact of these assets (please refer to IFC's EHS guidelines per industry to familiarize yourself with potential impacts)
3. Make a clear plan on how to sell or dispose of all assets that have a potentially negative environmental impact
4. When leaving the premises, check one last time (last site inspection) that you have adequately disposed of all assets that can harm the environment in the short- or long-term
5. Ensure you have an easily accessible complaints mechanism should any concerns arise

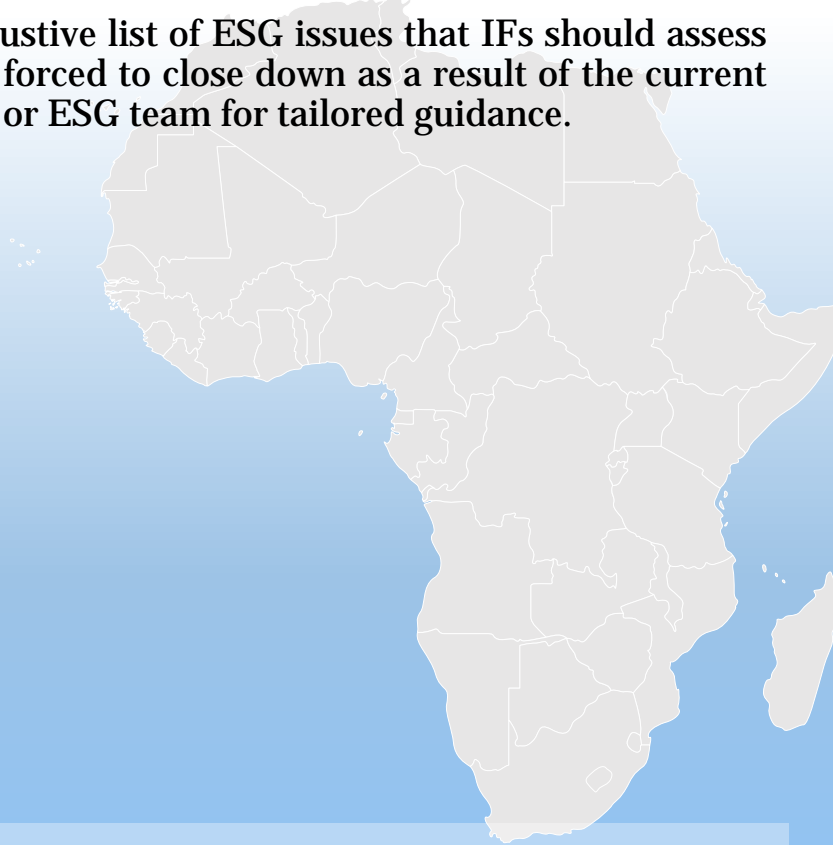
### Additional resources:

- [IFC Environmental, Health and Safety Guidelines per industry](#)
- DGGF ESG policy: Guidance regarding complaints mechanisms



# 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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