



Summary: DGGF Track 1 ICSR Policy

Financing Dutch SME investing in emerging markets and developing countries

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1 Introduction

This document is a summary of the ICSR assessment of RVO for DGGF Track 1: Financing Dutch SME in emerging markets and developing countries (hereafter: DGGF). It describes the ICSR principles (chapter 2) and the way in which ICSR is included in the Investment process (chapter 3). The DGGF ICSR principles are based on the OECD guidelines, the IFC performance standards and the FMO exclusion list. The Ruggie Principles and the ILO Declaration on fundamental rights and principles at work are integral part of the OECD guidelines. Furthermore, the OECD guidelines also reflects, among others, the UN Convention on Biological Diversity. These principles provide guidance but leave room for interpretation and adaptation according to local context when they are applied in practice.

The assessment for DGGF Track 1 is oriented towards the activities of the local entity, which is the local subsidiary in one of the DGGF-countries the Dutch SME (applicant) invests in. The Dutch SME is held accountable towards DGGF for appropriate ICSR implementation of local entity and also acts itself in accordance with the OECD guidelines.

If an Investment Fund applies the ICSR assessment is different. Other forms are used while the emphasis is not on individual projects but on the quality of the internal ICSR assessment procedures of the Investment Fund. For more information please refer to the RVO DGGF secretariat.

2 DGGF ICSR Principles (Track 1)

Below we outline each of the DGGF ICSR principles. Local entity is expected to comply with these guidelines, as well as with local laws and regulations. Please contact us in case of specific questions about the interpretation/ application of these guidelines in your situation. In addition, certain activities are excluded from investment. DGGF follows the FMO exclusion list, which can be found at:

<https://www.fmo.nl/exclusion-list>.

2.1 Human Rights

2.1.1 Human rights in general

Local entity should support and respect the protection of internationally proclaimed human rights and make sure they are not complicit in human rights abuses. This means SMEs should avoid infringing on the human rights of others and should address adverse human rights impacts with which they are involved. See also the other aspects below.

2.1.2 Land acquisition and involuntary resettlement

Land acquisition and involuntary resettlement can have adverse impacts on communities and persons that use this land. Involuntary resettlement refers both to physical displacement (relocation or loss of shelter) and to economic displacement (loss of assets or access to assets that leads to loss of income sources or other means of livelihood) as a result of project-related land acquisition and/or restrictions on land use. Land acquisition is acceptable, if it can be demonstrated that involuntary resettlement has not taken place. At least, involuntary resettlement should be avoided and where it is unavoidable, it should be minimised. Resettlement is deemed acceptable if involved parties are informed, consulted, and properly compensated through a process of informed participation of those affected.

2.1.3 Indigenous people

Indigenous people are often the most marginalized and vulnerable segments of the population, yet their rights should be protected. In practice local entity should ensure that they establish and maintain an ongoing relationship with the affected indigenous people, based on informed consultation and participation. Activities which impact or involve indigenous people are deemed acceptable if these people are properly informed, consulted, compensated (if applicable), and if free, prior and informed consent is obtained for any such activities.

2.2 Employment and Industrial Relations

2.2.1 Remuneration and contracts

Organisations shall respect the right to personnel to a living wage and ensure the wages for a normal work week, not including overtime, shall always meet at least legal or industry minimum standards, or collective bargaining agreements. Wages shall be sufficient to meet the basic needs of personnel and to provide some discretionary income. Local entity should strive working towards a living wage for their employees, based on local circumstances (including average family size) and taking into account secondary benefits. Deductions from wages for disciplinary purposes are not acceptable. All local employees have (permanent or temporary) contracts in which the rights and responsibilities of both parties are stipulated.

2.2.2 Freedom of association and right to collective bargaining

Business should uphold the freedom of association and the effective recognition of the right to collective bargaining. Workers should be able to form and join a workers organisation of their choice and to bargain collectively without fear of intimidation or reprisal, in accordance with (inter)national law. Organisations should have in place non-discriminatory policies and procedures with respect to workers organisations, union membership and activity in such areas as applications for employment and decisions on advancement,

dismissal or transfer. Intimidation of workers who form or join a collective association is unacceptable. In countries where freedom of association is prohibited or limited, we expect that local entity will not restrict or discourage workers from developing alternative measures to express their grievances and protect their rights.

2.2.3 Discrimination

Discrimination in employment and occupation means treating people differently or less favourably because of characteristics that are not related to their merit or the inherent requirements of the job. In national law, these characteristics commonly include: race, colour, sex, religion, political opinion, national extraction, social origin, age, disability, HIV/AIDS status, and sexual orientation unless selectivity concerning worker characteristics furthers established governmental policies which specifically promote greater equality of employment opportunity or relates to the inherent requirements of a job. Discrimination in principle is not acceptable. In countries where discrimination is incorporated into law (for example anti-gay legislation), we expect that local entity explicitly pay attention to how they plan to compensate for this.

2.2.4 Health and safety (employees and communities)

This relates to Health and Safety in the workplace as well as Health and Safety for communities. Employees should be able to carry out their work without risk to their health. In case of any minor risks which are deemed acceptable, Employees should be well aware of the risk. In addition, project activities, equipment, and infrastructure can increase community exposure to risks and impacts. For example, communities that are already subjected to impacts from climate change may also experience an acceleration and/or intensification of impacts due to project activities. These risks should also be taken into account during business activities and stakeholder engagement.

Health and safety risks are undesirable, but acceptable if they lead to substantial positive economic performance and social progress. Local entity should at least comply with national and international safety and health regulations and, accordingly, reduce these risks as much as possible. In case health and safety issues are present (and within the legal limits), local entity should carry out (independent) inspections, be transparent about the risks and implement mitigation measures including training programmes and protection (e.g. through clothing).

2.2.5 Issues of forced or child labour

Child labour refers to situations where children are economically exploited in a manner that is likely to be hazardous, interferes with the child's education or is harmful for the child's health or development. All work of persons under the age of 18 will be subject to an appropriate risk assessment and regular monitoring of health, working conditions and hours of work. Forced labour is any work or service that is not voluntarily performed but exacted under threat of force or penalty.

To avoid being associated with child and/or forced labour, local entity should contribute to the effective abolition of child labour, and take immediate and effective measures to secure the prohibition and elimination of the worst forms of child labour as a matter of urgency. They should contribute to the elimination of all forms of forced or compulsory labour and take adequate steps to ensure that forced or compulsory labour does not exist in their operations. Child Labour and forced labour are never acceptable. However, in case child labour occurs, the company should start a remediation approach ensuring the protection of the child's rights, including access to schooling and family's access to alternative sources of income.

2.2.6 Working hours

We expect compliance with applicable law, collective bargaining agreements and industry standards on working hours, breaks and public holidays. The normal working week should not be excessive. Furthermore, the overtime should be voluntary and should not be requested on a regular basis. An acceptable standard working week should be a maximum of 48 hours, and a maximum of 8 hours per day, with a maximum of 12 hours of overtime per week. Deviations from these figures are possible, if it can be demonstrated that these deviations are in the best interests of the labourers involved.

2.3 Environment

Business should apply pollution prevention principles and techniques that are best suited to avoid, or where avoidance is not possible minimise, adverse impacts on the environment. They should have a management system to this end and, if required, should implement an Environmental and Social Impact Assessment (EISA).

2.3.1 Biodiversity conservation and sustainable natural resource management

Biodiversity conservation and sustainable natural resource management relates to topics such as habitat loss, degradation and fragmentation, invasive alien species, overexploitation, hydrological changes, nutrient loading, and pollution. It is important that local entity is aware of the risks and impacts of the SMEs they invest in on biodiversity and natural resources. Local entity should have an identification process in place to consider direct and indirect project-related impacts on biodiversity and ecosystem services and identify any significant residual impacts. Biodiversity loss is not acceptable, unless the local entity has a policy in place which they can demonstrate lessen their negative environmental impact within a certain timeframe. These policies should include clear formulations of goals and clear consequences of not adhering to the policy. Note that animals can be seen as part of natural resources and their welfare shall be taken care of according to European legislation.

2.3.2 Pollution prevention and abatement

Increased economic activity and urbanization generate increased levels of pollution to air, water, and land, and consume finite resources in a manner that may threaten people and the environment at local, regional, and global levels. There is also a growing global consensus that the current and projected atmospheric concentration of greenhouse gases threatens the public health and welfare of current and future generations. It is important to avoid or minimize adverse impacts on human health and the environment by avoiding or minimizing pollution from project activities. Sustainable use of resources, including energy and water, should be promoted, project-related GHG emissions should be reduced. Pollution (land, water, air) is undesirable, but acceptable if it leads to substantial positive economic performance and social progress. Local entity should at least adhere to the minimum requirements of national law in the countries in which they operate.

2.4 Combating Bribery, Bribe Solicitation and Extortion

Businesses should work against corruption in all its forms, including extortion and bribery. Corruption can take many forms that vary in degree from the minor use of influence to institutionalized bribery. Bribery is not allowed and should be avoided at all costs. Small gifts which are given as part of the "normal course of business" are acceptable, but should be reported and registered. Corruption is not acceptable, unless in a life-threatening situation.

2.5 Consumer Interests

Organisations should ensure that the goods and services they deliver comply with all agreed upon norms regarding health and safety of customers.

2.6 Science and technology

Multinational enterprises are an important channel for cross border transfer of technology. They contribute to the innovation capacity of their host countries. R&D activities may, if good relations are maintained with the national innovation system, contribute to increasing economic and social development. If intellectual property rights are extended or otherwise technology is transferred, this should be done at reasonable conditions.

2.7 Competition

All activities of enterprise should be in conformity with all relevant laws and regulations that cover issues concerning agreements between companies that aim to limit competition. This includes, among others, mutual agreements to: use fixed prices, harmonize bids, apply voluntary production restrictions or quota, or divide markets (clients, geographically, activities).

2.8 Taxation

It is important that enterprises contribute to the government budget of the host country through timely and full payment of all required taxes. All tax laws should be respected by letter and in spirit. An important issue is transfer pricing. The arms-length principle is the international accepted standard for the calculation of profit for international enterprises that have interrelated activities. This principle prevents shifting of profits or losses as well as lowers the risk of double taxation. This requires enterprises to cooperate with tax authorities and to share with them all relevant information that underpins their choice of methodology for the estimation of the transfer prices for their international transactions.

2.9 Supply chain responsibility

Part of the general principles of the OECD standards includes action to prevent negative impact in the supply chain. Multinational enterprises have to undertake due diligence to identify, prevent and/ or mitigate negative impacts in their value chains. Companies are obliged to use their influence and leverage on their business partners in the supply chain to prevent or mitigate negative impacts. To gain insight in the social and environmental risks in the supply chain, companies should execute a risk analysis of the supply chain based on the OECD Guidelines and covering the same CSR principles as mentioned in this chapter. The analysis concerns the entire upstream part of the supply chain of their most essential raw materials or semi-finished products. To prevent or mitigate the identified negative effects in the supply chain an action plan should be made with clear measures and objectives. Good agreements should be made with the direct suppliers and make them responsible for their suppliers. Proper monitoring of the suppliers is part of the chain responsibility.

3 ICSR in the investment process

This chapter describes how the ICSR principles are taken into account during the investment process: selection, Monitoring & Evaluation, and capacity building.

3.1 Selection

3.1.1 Quick Scan (QS)

The QS provides information about the ICSR conditions of DGGF track 1: the SME has a CSR policy, the Dutch SME respects the OECD guidelines, the proposed activity is in accordance with OECD guidelines, the proposed activity is not on the FMO-exclusion list. The CSR policy of the SME can also be provided in a later stage of the process, but the other aspects of the DGGF conditions need to be positive in order to be selected for the Deep Scan.

3.1.2 Deep Scan (DS)

The first phase of the DS, the due diligence phase, starts with desk research on the ICSR reputation of the Dutch SME and the local entity. The risk category of the project is determined (according to IFC standards). The aim of the initial investigation is to identify any ICSR issues that are no-go's or that require further information during the second stage of the DS.

The second phase of the DS is based on further desk research into systems, procedures and management of local entity and may include telephone calls and email contact. These actions will result in an interview with the ICSR responsible person of the Dutch SME and, eventually, with a visit to local entity. The interview is conducted on the basis of a questionnaire that along the lines of the OECD guidelines and the IFC Performance Standards as described in chapter 2 of this brochure. The interview has a focus on the standards that are relevant for the proposed project. The ICSR team may ask the Investment Manager to investigate on their behalf.

After a positive evaluation of the proposal in this stage the proposed transaction will be published on the DGGF website to enable NGO's and other stakeholders to respond during 30 days. The Advisory Committee (AC) receives ICSR input of the DS in a memo including an overall conclusion and with eventual conditions.

3.1.3 Contracting

Eventual final conditions, after approval of AC, will be integral part of the loan agreement with the Dutch SME in the form of an ICSR Action Plan, including all ICSR conditions and actions that have been agreed. Note that local entities are required to comply with this policy as this is included in the loan agreement with the Dutch SME. Non-compliance will be interpreted at contractual level.

3.2 Monitoring

The local entity is expected to respect OECD guidelines and IFC Performance Standards. To this end, the Dutch SME/ local entity is required to regularly report to the Investment Manager, so that the Investment Manager/ CSR officer can take timely action to optimise portfolio management. This includes ICSR – both in general and on specific conditions as included in the loan agreement (ICSR Action Plan).

3.3 Capacity building and local impact (Technical Assistance)

If CSR can still be improved for local activities of Dutch SMEs, DGGF may look at areas of support through its Technical Assistance fund. One of the main aims of DGGF is to improve the capacity of Dutch SMEs in doing business overseas, also in dealing with ICSR issues, and to increase local impact. Specific needs and opportunities may be determined for each local entity individually on a case by case basis and as a result of the outcome of the deepscan phase.