Ministry of Foreign Affairs

DGGF ESG Policy

Track 2: Financing local SMEs in emerging markets and developing countries via intermediary funds

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Dutch Good Growth Fund

Financing Local SMEs

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1. Introduction

1.1. Purpose and scope of the ESG Policy

This document sets out the ESG[1] policy for DGGF Track 2: Financing local SMEs in emerging markets and developing countries via intermediary funds (hereafter: DGGF[2]).

The ESG policy outlines the standards that all IFs applying for DGGF funding are expected to consider and integrate into their policies, investment strategies, and operational processes. Its focus is on ESG risk management and value protection, rather than societal impact, which is monitored separately through the DGGF Impact Monitor. Because this policy specifically addresses ESG aspects, it should not be viewed in isolation. It must be read in conjunction with other key policy documents, including the tax policy and finance criteria.

The policy is structured as follows

- Section 1 provides a brief description of the purpose and scope of ESG in the context of DGGF Track 2.
- Section 2 elaborates on the selection process for intermediary funds (hereafter: IFs) seeking to join DGGF, and outlines the technical assistance provided to funds already included in the DGGF portfolio.
- Section 3 outlines the exclusion list and the ESG principles that are applicable to all IFs
- Section 4 contains various appendices referenced throughout the ESG policy

DGGF will only invest in IFs whose business practices are in line with these ESG standards. IFs are responsible for encouraging and ensuring good ESG practices by the SMEs in their portfolios. We will assess the way in which IFs take up this responsibility.

IFs in which DGGF invests are required to comply with the principles outlined in this policy based on their materiality. A contractual obligation to do so is in included in the investment contract between DGGF and the IF. Non-compliance will be dealt with at contractual level.

1.2. Sustainable Development Goals for IFs

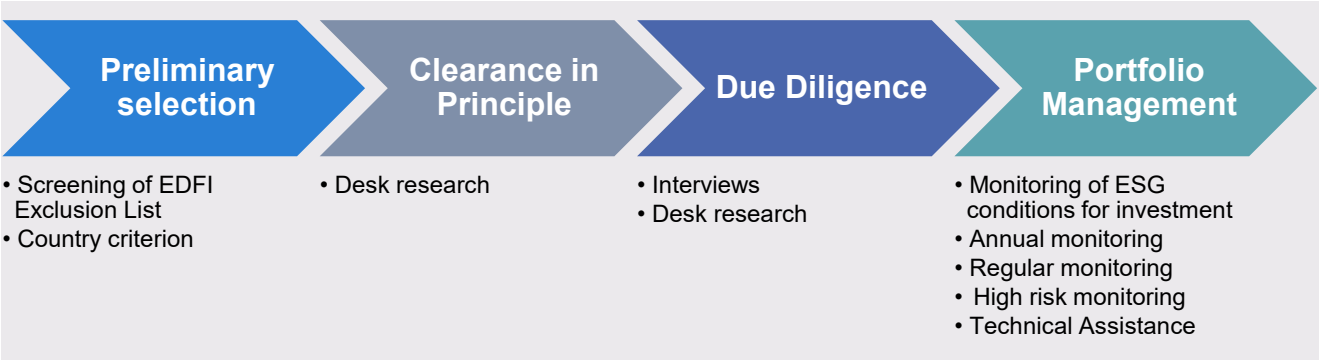
DGGF endorses the Sustainable Development Goals (SDGs) and encourages IFs to consider integrating the SDGs into their ESG and impact approaches and – where relevant- in their investment strategies. IFs can use the SDGs as a holistic framework, i.e. both as an ESG risk compass and a capital allocation guide. There are other strategic considerations for engaging with the SDGs, such as clear communication to stakeholders, attracting investments, public and private partnerships, and engaging in innovative business opportunities.
The rationale for this endorsement and open call is that in frontier markets, where DGGF operates, the financial sector has a catalyst role to ensure that capital is deployed where it is most needed and where it can have the greatest impact.

[1] ESG: This includes environmental, social and governance aspects. For more information on our interpretation of ESG we refer to the DGGF ESG principles in this document.

[2] Each DGGF Track has a separate ESG policy, based on the IFC performance standards and tailored for the specific needs of that Track. This policy is only applicable for Track 2.

2. ESG in DGGF investment process

This chapter outlines how DGGF integrates ESG management throughout the different stages of investing in IFs: Preliminary selection, Clearance in Principle (CiP), Due Diligence (DD) and Portfolio Management. ESG aspects play a critical role in the first three steps of the selection process, specifically during the exclusion check, the CiP and the DD. After our investment, ESG is integrated in our approach to portfolio management.



2.1. Preliminary selection

In the selection process DGGF assesses ESG compliance based on past performance, current performance and the ability to safeguard future compliance with DGGF's ESG standards by embedding ESG principles into the IF's own policies and procedures.

The preliminary selection has two elements: the country criterion and the EDFI Exclusion List.

- IF submits a financing request to the DGGF Investment Manager, who evaluates whether the IF meets the country's eligibility criteria. This requires IF to invest in one or more of the DGGF target countries. The complete list of eligible countries can be found here.
- If this is the case, the DGGF Investment Manager evaluates whether the IF has an exclusion list in place and, if so, whether it is at least as strict as the EDFI Exclusion List. If discrepancies exist between the IF's exclusion list and the EDFI standard, IFs are required to amend their exclusion list in order to be eligible for investment.

2.2. Clearance in Principle (CiP)

DGGF's ESG expert team provides input for the IC's decision on whether to extend a CiP to a potential investee. This input is based on desk research and analysis of the documentation received regarding the IF's policies. The aim of this initial assessment is to identify any ESG issues that may be considered no-go's and therefore require further investigation during due diligence, or that may indicate a need for capacity building. The IC receives a memo summarizing the ESG findings, including an overall conclusion presented using a traffic light system: Green, Orange, or Red. Based on this input, the IC decides whether the IF proceeds to the due diligence phase.

2.3. Due Diligence (DD)

The DD input builds on the information gathered during the CiP, including any potential ESG issues that were identified or open questions. It is based on further desk research into the fund's systems, procedures, and management, and includes telephone calls and email correspondence. Depending on the outcome of the desk research, the ESG expert team may join the site visit or request the DGGF Investment Manager or someone in a similar capacity to investigate specific aspects on their behalf. Unlike the CiP phase, which focuses solely on desk research into the IF's policies, the DD involves a more in-depth document review and an assessment of systems, processes, and risk management measures. As in the CiP phase, the ESG expert team provides input to the IC in the form of a memo accompanied by a traffic light rating.

2.3.1. Further explanation of the “ESG Traffic Light”

The IC receives ESG input for both the CiP and the DD in a memo including an overall conclusion in the form of a traffic light: Green, Orange or Red. The “ESG Traffic Light” categorisation considers environmental, social and governance aspects and is explicitly intended as an investment advice rather than a risk categorisation.

- Green (positive without conditions): No ESG concerns were identified during CiP or DD.
- Orange (positive with conditions): Attention points have been identified during CiP or DD, which can likely be resolved together with the IF. These issues may either be addressed prior to investment or incorporated as conditions in the investment agreement. Capacity building may be recommended depending on the nature of the attention points. In the CiP phase, an orange rating may also reflect incomplete information.
- Red (negative): There are attention points, which are unlikely to be resolved and the ESG expert team would advise against investing in the IF.

2.4. Portfolio management

ESG Portfolio Management consists of the monitoring of the IFs in the DGGF portfolio and builds on the understanding gained during the CiP and DD. After an IF is closed or a first disbursement has taken place, DGGF will actively and continuously monitor ESG related matters.

DGGF will appoint an external evaluator to evaluate the DGGF portfolio. The evaluation will include ESG aspects. When deemed necessary, the external evaluator may make use of information regarding ESG at the IFs which was collected during the selection and portfolio management stages.

2.4.1. Following up on conditions for investment

As mentioned above, the “ESG Traffic Light” categorisation could result in conditions for investment in some cases. These conditions for investment will be specifically targeted at the attention points identified during the DD and be included as additional clause in the side letter of the investment contract. These conditions can range from providing additional documentation to drafting or aligning policies (e.g. the Exclusion list, ESG Policy or ESMS) or implementing certain risk mitigating measures (e.g. setting up a grievance mechanism, hiring additional staff and providing appropriate training). The exact conditions and timeframe in which these conditions should be met differ per IF. IFs are expected to give timely updates on the status of the conditions for investment and progress towards resolving the attention points, but the DGGF ESG expert team will also do check-ins on a regular basis. Updates and documentation received from IFs concerning the conditions for investment will be reviewed carefully. In case the conditions for investment have been complied with, the IFs will be notified of their achievement.

2.4.2. Annual monitoring

Annual monitoring of the entire DGGF portfolio is carried out once per year. During this period all IFs are asked to fill out a reporting template provided by the DGGF team covering a range of topics. The annual monitoring also consists of a telephone interview to touch base with IFs. The goal is to gain insights into the current situation at the IF and whether any changes, newly emerged risks or trends have been identified. Monitoring also focuses on changes in the IF’s ESG Policy and on ESG performance (e.g. policy breaches and complaints).

As DGGF is an EU-based investment fund, reporting on the Sustainable Finance Disclosure Regulation (SFDR) is mandatory. As such, DGGF will collect data on the relevant Principal Adverse Impact indicators (PAIs) to show the sustainability-related impacts the fund has. Some of these indicators are very difficult to collect in the contexts in which DGGF invests. We therefore expect IFs to report these KPIs to us on a best-effort basis, sensitive to the time and cost some of the more complex indicators (e.g. Scope 3 emissions). An overview of the PAIs on which DGGF reports can be found in SFDR PAIs.

2.4.3. Regular monitoring

In addition to annual monitoring, DGGF conducts regular monitoring throughout the year to maintain a proactive understanding of ESG performance and emerging risks. This process focuses on deepening engagement with IFs and identifying areas where additional support may be needed. This approach helps DGGF maintain strong relationships with IFs and address ESG issues early, reducing the need for reactive measures.

2.4.4. High risk monitoring

Despite structured monitoring, high-risk issues may arise during the year. These include Category A investments, serious incidents, reputational risks, or ESG breaches flagged through various channels such as IF reports, media coverage, or other investors.

When such issues occur, DGGF will:

- Assess the severity and urgency of the matter.
- Determine appropriate actions, which may include enhanced monitoring, capacity-building measures, or escalation to relevant stakeholders.
- Ensure timely communication with IFs and, where necessary, other parties to mitigate risks.
- Track resolution progress and incorporate lessons learned into future monitoring practices.

High-risk issues are managed with the aim of safeguarding ESG standards and minimizing potential adverse impacts on stakeholders and the environment.

IFs have an obligation to report on any serious incidents that occurred in their portfolio or potential investments that could be deemed high risk. Serious incidents are adverse events, whether actual or alleged, which result in or risk significant:

- Physical injury or mental harm to the IF's or SME's staff, community, customers, or other related persons
- Loss or damage to the IF/SME's assets
- Lawsuits, negative media attention, or community action related to the IF/SME's activities
- Environmental damage caused by or associated with the IF/SME's activities

The IF is expected to report on such incidents within 5 business days. If in doubt about whether an incident qualifies as serious, IFs are expected to reach out to DGGF's ESG team. Other incidences, such as near-misses, can be disclosed in regular monitoring conversations. The IF is expected to report all instances of (suspected) fraud, corruption, or bribery with a value of >10.000 EUR to the DGGF ESG team within 5 business days. All other cases are to be reported during annual monitoring. Similarly, all instances of gender-based violence and harassment are to be reported on an annual basis, with severe cases to be reported within 5 business days.

2.4.5. Technical Assistance

One of DGGF's main goals is to strengthen the capacity of IFs. This also applies to ESG, either directly, or by supporting IFs in helping SMEs within their portfolios improve their ESG practices. Capacity building needs are identified on a case-by-case basis, based on the outcomes of CiP and DD, or if issues are flagged during regular monitoring.

The IC typically decides whether to offer ESG capacity building as part of the investment decision. IFs that show potential but have ESG-related attention points may receive support to help them meet DGGF's ESG standards. This support can be provided by the Fund Manager or by a consultant appointed by the Fund Manager. Where possible, we aim to collaborate with other investors. ESG capacity building may include training, workshops, tailored materials and coaching on how to develop strong ESG policies and processes.

3. DGGF's expectations on ESG

DGGF expects ESG risk management and value protection to be fully integrated into the policies and processes of the IF. These expectations apply regardless of whether the IF invests in SMEs through equity or debt.

This includes

1. Having an ESG policy that applies to the IF's own operations.
2. Having a process in place that integrates ESG in the investment process.
3. Ensuring that both the IF, and where relevant, the SMEs they invest in, have a grievance mechanism in place.

DGGF investments are made at the IF level. It is not possible for the DGGF Fund Manager to directly decide whether to invest in a specific SME unless explicitly mentioned in the side letter. This differs fundamentally from the other two DGGF tracks.

3.1. ESG policy

IFs are expected to have an ESG policy in place that reflects their position and commitment to responsible management within their own operations. A good ESG policy includes the following elements

- Beliefs and stance on ESG matter and responsible investment
- Scope and applicability of the policy
- Approach of the IF to integrate ESG in investment process
- Top-level management sign-off
- Regular review and update process for the ESG related documents
- Where applicable, ESG norms and standards the IF will follow, including reference to international initiatives or principles adopted
- Exclusion list

3.2. ESG integration in investment process

This section explains which ESG topics IFs are expected to consider during the initial screening and ESG due diligence. In addition, IFs are expected to integrate ESG considerations as outlined below.

A distinction is made between two categories of IFs: **financial institutions** and **investment funds**.

- **Financial institutions** include SME banks, leasing companies, fintech platforms, and other lending facilities that provide direct financing to small and medium-sized enterprises (SMEs) in DGGF target countries.
- **Investment funds** refer primarily to private equity and venture capital firms that invest in SMEs in DGGF target countries, typically through equity or quasi-equity instruments.



3.2.1. Initial screening: The Harmonised EDFI Exclusion List

DGGF has adopted the exclusion list from the Harmonised European Development Finance Institutions (EDFI) as a non-negotiable starting point ESG risk management. IFs are expected to integrate this exclusion list into their investment decision-making processes. This means that IFs must screen all potential investments against the EDFI criteria and ensure that no financing is provided to activities listed therein.

The EDFI Exclusion List has been benchmarked against the UN Declaration of Human Rights, the ILO Core Conventions and the IFC Performance Standards on Economic and Social Sustainability. The complete EDFI Exclusion list can be found in Appendix 4.1 EDFI Exclusion List.

3.2.2. ESG Due Diligence: Risk based approach for DGGF ESG principles

IFs are expected to conduct ESG due diligence on relevant DGGF ESG topics and principles using a risk-based approach. ESG issues should be prioritised based on their likelihood and potential impact within the context of each investment. DGGF recognises that the application of a risk-based approach may differ between financial institutions and venture capital investors and allows for some flexibility accordingly.

- Financial institutions may apply a portfolio-level risk-based approach. This means that limited ESG due diligence is acceptable for smaller or lower-risk loans, provided that a comprehensive ESG due diligence is conducted for loans that represent the majority of the portfolio's value.
- Venture capital investors may apply lighter ESG requirements for early-stage companies and more advanced requirements for later-stage companies, reflecting the maturity and evolution of business models. However, DGGF expects VC investors to continuously monitor ESG risks and ensure that investees uphold DGGF's ESG principles throughout their growth. VC funds can refer to the FMO–CDC Good Practice Note on Responsible Venture Capital for tailored guidance[1].

The ESG principles that should be considered are listed below are based on the IFC Performance Standards[2], the United Nations Guiding Principles on Business and Human Rights[3] and the OECD Guidelines for MNEs on Responsible Business Conduct[4].

Environmental	**Social**	**Governance**
• Climate change mitigation • Climate change adaptation • Waste management and circularity • Pollution prevention and control • Biodiversity conservation	• Health and safety • Adequate wages and income • Non-discrimination and equal treatment • Prohibition of violence and harassment • Other labour rights • Indigenous rights • Land acquisition and involuntary resettlement • Client protection • Other human rights	• Politically Exposed Persons • Anti-corruption and bribery • Fraud • Access to a grievance mechanism

The table below provides guidance the ESG topics that IFs are expected to assess in the investment process. For more specific references (e.g., international human rights law references) please refer to the Appendix 4.2

[1] CDC group and FMO (2020) *Responsible venture capital*.
[2] International Finance Corporation (2012) *IFC Performance Standards on Environmental and Social Sustainability* and (2023) *Guidance Note on Financial Intermediaries*.
[3] Organisation for Economic Co-operation and Development (2023) *OECD Guidelines for Multinational Enterprises on Responsible Business Conduct*.
[4] United Nations Office of the High Commissioner for Human Rights (2012). *Guiding Principles on Business and Human Rights: Implementing the United Nations "Protect, Respect and Remedy" Framework*.

Specific ESG topics references. Each principle covers a specific E, S or G topic and, in several instances, an inter-relation and dependency among E, S and G is identified.

Environmental topics	Guidance and requirements
Climate change mitigation	IFs should qualitatively assess the GHG emissions of SMEs during due diligence when relevant to the investment context. If an SME is likely to generate significant GHG emissions, this presents an ESG risk. Such risks should be considered during the investment decision and addressed through appropriate mitigation measures. We encourage Ifs to evaluate emissions in the context of a country's NDC and national energy policy. IFs are encouraged to support SMEs to measure and reduce greenhouse gas emissions over time. Early-stage SMEs are expected to focus on reducing direct (scope 1) and electricity-related (scope 2) emissions. As businesses mature, they should also consider emissions across their value chain (scope 3).
Climate change adaptation	IFs should assess the climate risk profile of SMEs during due diligence when relevant to the investment context. This concerns identifying exposure to physical risks e.g., extreme weather, changing precipitation. If an SME is exposed to material climate risks, this presents an ESG risk. Such risks should be considered during the investment decision and addressed through appropriate mitigation measures. IFs are encouraged to help SMEs understand and manage climate risks when these are relevant. This may include supporting actions to strengthen resilience.
Waste management and circularity	IFs should assess how SMEs manage resources during due diligence when relevant to the investment context. This may include looking at whether SMEs use raw materials and other resources (including water) efficiently and apply practices to reduce (hazardous) waste streams and its environmental impact. If an SME relies heavily on unsustainable resource use or produces large volumes of (hazardous) waste, this presents an ESG risk. Such risks should be considered during the investment decision and addressed through appropriate prevention and/or mitigation measures. IFs are encouraged to support SMEs in improving sustainable resource use, such as promoting reuse, recycling, and responsible disposal, and in adopting technologies that help minimise environmental impact.
Pollution prevention and control	IFs should assess whether SMEs take appropriate steps to avoid or reduce pollution (air, water, or soil pollution but also noise pollution, including in aquatic environments, and light pollution.) when relevant to the investment context. This may include looking at how SMEs manage pesticides, herbicides, production site runoff, environmental contamination, noise, light and hazardous materials. If an SME is likely to cause significant pollution, this presents an ESG risk. Such risks should be considered during the investment decision and addressed through appropriate mitigation and/or prevention measures. IFs are encouraged to support SMEs in applying practical measures or technologies to reduce pollution and its impact.
Biodiversity conservation	IFs should assess whether SMEs negatively impact biodiversity and/or ecosystems. This may include pressures caused by land and water use (habitat reduction, habitat destruction), invasive species, overexploitation or extraction of natural resources (unsustainable forms of harvesting natural resources or illegal harvesting of natural resources such as Illegal, Unreported, and Unregulated (IUU) fishing or illegal logging), pollution, and/or contributing to climate change. These pressures can overlap with the environmental impact and risk domains

	described above, but that IFs should assess in what ways these pressures might specifically affect biodiversity or ecosystems. If an SME is likely to cause significant harm to biodiversity and/or ecosystems, this presents an ESG risk. Such risks should be considered during the investment decision and addressed through appropriate mitigation measures. IFs are encouraged to promote nature-positive practices and support SMEs in identifying and managing both direct and indirect impacts on biodiversity and ecosystems.

Social topics	Guidance and requirements
Health and safety (workers, communities and/ or consumers)	IFs should assess whether SMEs take appropriate steps to ensure a safe and healthy environment for workers, consumers, and affected communities when relevant to the investment context. This may include reviewing how SMEs prevent workplace incidents, occupational injuries, and health risks, as well as how they manage health and safety in their product offering and interactions with communities. If an SME does not take appropriate steps to protect health and safety, this presents an ESG risk. Such risks should be considered during the investment decision and addressed through appropriate mitigation measures. IFs are encouraged to support SMEs in: • Implementing workplace health and safety policies that prevent accidents and promote well-being. • Ensuring that products and services do not pose risks to consumer health or safety, and that any potential hazards are clearly communicated. • Providing accessible, accurate, and timely information about products and services, regardless of the consumer's background or abilities. • Respecting data privacy by informing users about what data is collected, how it is stored, and offering options to access, correct, or delete personal data. • Promoting community safety by encouraging SMEs to engage with local stakeholders, assess potential risks from operations, and implement measures that prevent harm to surrounding populations.
Adequate wages and income	IFs should assess whether SMEs provide fair wages when relevant to the investment context. This may include reviewing whether wages meet basic living standards and comply with applicable laws, collective agreements, and industry norms. If an SME does not take appropriate steps to ensure fair and equal pay, this presents an ESG risk. Such risks should be considered during the investment decision and addressed through appropriate mitigation measures. IFs are encouraged to support SMEs in adopting wage practices that ensure all employees receive compensation that meets basic living standards and complies with local laws and industry norms. This can include promoting transparency in pay structures and regularly reviewing wages against cost-of-living benchmarks.
Non-discrimination and equal treatment	IFs should assess whether SMEs treat employees, customers, and other stakeholders fairly and without discrimination, especially regarding characteristics such as sex, race, gender, disability, age, sexual orientation, ethnicity, religion, or other protected traits. This may include reviewing equal remuneration for work of equal value, discrimination workplace practices, product and service offerings, and general business conduct. If an SME is likely to engage in discriminatory practices, this presents an ESG risk. Such risks should be considered during the investment decision and addressed through appropriate mitigation measures.

	IFs are encouraged to support SMEs in promoting equal treatment and closing social gaps, such as those related to gender or other vulnerable groups. This can include ensuring that compensation practices are free from bias based on personal characteristics such as gender, race, age, or ethnicity.
Prohibition of violence and harassment	IFs should assess whether SMEs take appropriate steps to prevent violence and harassment in the workplace. This may include risks such as psychological, verbal, physical, sexual, economic, or gender-based violence. If an SME does not take appropriate measures to prevent violence or is likely to expose individuals to such risks, this presents an ESG risk. Such risks should be considered during the investment decision and addressed through appropriate mitigation measures. IFs are encouraged to support SMEs in creating safe and respectful environments and in addressing context-specific risks, especially those affecting vulnerable or marginalised groups.
Other labour rights	IFs should assess whether SMEs respect workers' rights related to working hours, freedom of association and expression, and overall working conditions, when relevant to the investment context. This may include reviewing whether SMEs adhere to industry norms and local legislation regarding working hours, breaks, and public holidays, and whether they avoid excessive or involuntary overtime. If an SME does not take appropriate steps to safeguard workers' rights, this presents an ESG risk. Such risks should be considered during the investment decision and addressed through appropriate mitigation measures. IFs are encouraged to support SMEs in: • Applying reasonable working hour practices (in principle: maximum 8 hours per day, 48 hours per week), with any deviations clearly justified and in the interest of workers. • Respecting workers' freedom of association and expression, including the right to organise and voice concerns. Establishing clear policies and practices that promote fair, safe, and respectful working conditions.
Indigenous people	IFs should assess whether SMEs respect the rights of Indigenous Peoples, minorities, and marginalised groups, particularly in relation to their right to self-determination, when relevant to the investment context. This may include evaluating whether business activities may impact the cultural, social, or economic integrity of these groups, especially those living in or adjacent to SME operation sites. If an SME is likely to operate in areas inhabited by Indigenous Peoples or marginalised groups, this presents an ESG risk. Such risks should be considered during the investment decision and addressed through appropriate mitigation measures. IFs are encouraged to support SMEs in adopting inclusive practices that respect the rights of Indigenous and marginalised communities. This includes enabling these groups to shape the design, implementation, monitoring, and evaluation of projects, and ensuring their ability to enjoy their own culture, practice their religion, and use their language without interference. Special attention should be given to protecting vulnerable populations from exclusion, exploitation, or cultural erosion.
Land acquisition and involuntary resettlement	IFs should assess whether SMEs' operations involve land acquisition or may result in involuntary resettlement of individuals or communities, when relevant to the investment context. This may include evaluating whether SMEs have identified affected communities, conducted meaningful stakeholder engagement, and implemented fair, transparent, and inclusive processes for land acquisition.

	If an SME is likely to acquire land or cause involuntary resettlement, this presents an ESG risk. Such risks should be considered during the investment decision and addressed through appropriate mitigation measures. IFs should ensure that the SME has a Resettlement Action Plan (RAP) or equivalent framework in place. This plan should include compensation at replacement cost, restoration of livelihoods, and grievance mechanisms accessible to affected persons.
Client protection	IFs should assess whether adequate client protection safeguards are in place, depending on their role: • Financial Institutions (FIs) should have robust client protection mechanisms embedded in their operations. • Funds investing in SMEs that offer financial services should assess whether those SMEs uphold client protection standards. This may include evaluating whether repayment schedules align with clients' cash flows, pricing is fair, and loan officers are trained in client protection. It also involves assessing how repayment terms are communicated, how non-repayment is handled, and whether collateral use is appropriate and non-exploitative. If an SME is likely to offer financial services without adequate client protection this presents an ESG risk. Such risks should be considered during the investment decision and addressed through appropriate mitigation measures. IFs are encouraged to support SMEs in strengthening their client protection frameworks. This includes promoting responsible lending practices, ensuring respectful treatment of all clients, and reinforcing the capacity of loan officers to uphold protection standards.
Other human rights	IFs should assess whether SMEs respect fundamental human rights not covered by other principles, including the right to life, freedom of movement, freedom of expression, and the right to work. This may involve reviewing whether business practices or partnerships risk infringing on these rights. If an SME is likely to inhibit or violate such rights, this presents an ESG risk. Such risks should be considered during the investment decision and addressed through appropriate mitigation measures. IFs are encouraged to support SMEs in upholding universal human rights and avoiding harm to individuals or communities through their operations, especially in fragile or high-risk contexts.

Governance topic	Guidance and requirements
Politically Exposed People (PEPs)	IFs should assess whether appropriate measures are in place to identify and manage risks related to PEPs, if relevant for the investment context. are natural persons who are or have been entrusted with prominent political functions, or immediate family members of persons known to be close associates of such persons. If an SME is likely to engage with PEPs without adequate safeguards, this presents an ESG risk. Such risks should be considered during the investment decision and addressed through appropriate mitigation measures. IFs are encouraged to implement risk management systems that detect PEP involvement and prevent misuse, in line with anti-corruption and anti-money laundering standards.

Anti-corruption and bribery	IFs should assess whether robust measures are in place to prevent, detect, and address corruption in all its forms, including bribery, facilitation payments, and extortion, if relevant to the investment context. This may include reviewing compliance with national and international anti-corruption regulations, evaluating internal controls, and ensuring that any gifts or advantages given in the course of business are properly recorded and do not influence decision-making. If there are corruption risks are present at an SME, especially in contexts where bribery is common, this presents a material ESG risk. Such risks should be considered during the investment decision and addressed through appropriate mitigation measures. IFs are encouraged to support SMEs in strengthening anti-corruption practices by providing guidance, capacity building, and access to expert advice, particularly in high-risk environments.
Fraud (including greenwashing and socialwashing)	IFs should assess whether adequate measures are in place to prevent, detect, and address fraud, including deceptive practices that result in financial or reputational gain, if relevant to the investment context. This may include reviewing digital, financial, and governance controls to safeguard against internal and external fraud, such as embezzlement or phishing, and evaluating whether business practices are transparent and truthful in how they represent ESG performance, to avoid greenwashing and social washing. If fraud or misleading ESG claims are likely to occur at an SME, this presents a material ESG risk. Such risks should be considered during the investment decision and addressed through appropriate mitigation measures. IFs are encouraged to support SMEs in strengthening internal controls, promoting transparency, and regularly reviewing the effectiveness of fraud prevention systems.
Access to a grievance mechanism	IFs should assess whether effective grievance mechanisms are in place to receive, handle, and respond to concerns both at the IF level and at the SME level. The grievance mechanism should be in accordance with the principles on submission, handling, communication and governance of complaints as laid out in section 3.3.

3.3. Grievance mechanisms

DGGF expects IFs to implement a grievance mechanism at IF level (i.e. complaints regarding the IF itself) as well as gathering complaints at SME level (i.e. about the SME). The latter implies that SMEs also implement a grievance mechanism.

DGGF requires that IFs implement a mechanism to allow stakeholders to report complaints about the IF itself. Complaints may be made by SMEs/ staff/ the general public/other parties. The grievance mechanism should be in accordance with the principles below, which are in line with the IFC interpretation note for financial intermediaries[1].

DGGF also requires that IFs implement a mechanism to allow stakeholders to report complaints about the SMEs it invests in. Depending on the size and maturity of each SME, the SME may implement its own grievance mechanism; or SME stakeholders could be given access to the IF's grievance mechanism. Complaints may be made by staff/the general public/other parties.

3.3.1. Expectations on grievance mechanisms

Submission of complaints:

- Transparent, (non-) anonymous, publicly available and easily accessible process for submitting complaints (e.g. phone number; website; email address; suggestion box etc). Multiple sources through which complaints can be submitted to improve accessibility of the complaint's mechanism are encouraged. Employees and Investees are informed about their right to complain

Handling of complaints:

- Each complaint is recorded, assessed and the appropriate response determined if applicable. Staff involved in complaints handling have been given appropriate training on how to deal with complaints

Communication regarding complaints:

- Involved parties are informed about the nature of the complaint as well as the response (and may be involved in formulating the response). Communication is appropriate and timely.

Governance of complaints process:

- Physical and non-physical safety of person submitting complaint is ensured throughout the process, e.g. through anonymity and/ or separation of duties

Governance expectations for IF level grievance mechanism

- A monitoring system is in place to ensure that complaints have been resolved satisfactorily
- IF takes (informal) measures to ensure completeness of complaints, for example grievance mechanisms are well known and complaining will not carry negative consequences
- Complaints are analysed and used to improve policies/ processes/ operations and so on.

Governance expectations for IF SME the level grievance mechanism

- An informal monitoring system is in place to ensure that complaints have been resolved satisfactorily, and complaints are analysed and used to improve policies/ processes/ operations and so on, e.g. complaints are discussed periodically
- IF and SME take (informal) measures to ensure completeness of complaints

3.3.2. Reporting complaints

IFs are required to report annually about the number and nature of complaints at both IF level and SME level. The fund manager summarises these results in its reporting to the Dutch Ministry of Foreign Affairs.

[1] International Finance Corporation (2018). *FI Interpretation Note*.

4. Appendix

These appendices serve to give further details on standards mentioned in the main body of the policy. If further information is necessary, please reach out the DGGF ESG Team.

4.1. EDFI Exclusion List

The European Development Finance Institutions (EDFI) have as a result of their harmonisation process mutually agreed on the following Harmonised EDFI Exclusion list for co-financed projects:

EDFI members will not finance any activity, production, use, distribution, business or trade involving:

1. Forced labour[1] or child labour[2].

2. Activities or materials deemed illegal under host country laws or regulations or international conventions and agreements, or subject to international phase-out or bans, such as:
    a. Ozone depleting substances, PCBs (Polychlorinated Biphenyls) and other specific, hazardous pharmaceuticals, pesticides/herbicides or chemicals;
    b. Wildlife or products regulated under the Convention on International Trade in Endangered Species or Wild Fauna and Flora (CITES); or
    c. Unsustainable fishing methods (e.g. blast fishing and drift net fishing in the marine environment using nets in excess of 2.5km in length).

3. Cross-border trade in waste and waste products, unless compliant with the Basel Convention and the underlying regulations.

4. Destruction[3] of High Conservation Value areas[4].

5. Radioactive materials[5] and unbounded asbestos fibres.

6. Pornography and/or prostitution.

7. Racist and/or anti-democratic media.

8. In the event that any of the following products form a substantial part of a project's primary financed business activities[6]:
    a. Alcoholic beverages (except beer and wine);
    b. Tobacco;
    c. Weapons and munition; or
    d. Gambling, casinos and equivalent enterprises

[1] Forced labour means all work or service, not voluntarily performed, that is extracted from an individual under threat of force or penalty as defined by ILO conventions.
[2] Persons may only be employed if they are at least 14 years old, as defined in the ILO Fundamental Human Rights Conventions (Minimum Age Convention C138, Art. 2), unless local legislation specifies compulsory school attendance or the minimum age for working. In such cases the higher age shall apply.
[3] Destruction means the (1) elimination or severe diminution of the integrity of an area caused by a major, long-term change in land or water use or (2) modification of a habitat in such a way that the area's ability to maintain its role is lost.
[4] High Conservation Value (HCV) areas are defined as natural habitats where these values are considered to be of outstanding significance or critical importance. For more information please visit HCV Resource Network.
[5] This does not apply to the purchase of medical equipment, quality control (measurement) equipment or any other equipment where the radioactive source is understood to be trivial and/or adequately shielded.
[6] For companies, "substantial" means more than 10 % of their consolidated balance sheets or earnings. For financial institutions and investment funds, "substantial" means more than 10% of their underlying portfolio volumes.

Furthermore, the following investment exclusions are considered as a minimum common requirement by all EDFI members for all new Direct Financing (Debt or Equity), for Indirect Equity through new commitments to investment funds, and new dedicated lending[1] via financial institutions:

a. Coal prospection, exploration, mining or processing
b. Oil exploration or production
c. Standalone fossil gas exploration and/or production[2]
d. Transport and related infrastructure primarily[3] used for coal for power generation
e. Crude Oil Pipelines
f. Oil Refineries
g. Construction of new or refurbishment of any existing coal-fired power plant (including dual)
h. Construction of new or refurbishment of any existing HFO-only or diesel-only power plant[4] producing energy for the public grid and leading to an increase of absolute CO2 emissions[5]
i. Any business with planned expansion of captive coal used for power and/or heat generation[6]

[1] "Dedicated lending" is defined for these purposes as loans conditioned by a use of funds clause specifying that such financing will be used for one or more of the purposes described.
[2] Gas extraction from limnically active lakes is excepted from this exclusion.
[3] "Primarily" means more than 50% of the infrastructure's handled tonnage.
[4] For indirect equity through investment funds, investments (up to a maximum of 20% of the fund) in new or existing HFO-only or diesel-only power plants are allowed in countries that face challenges in terms of access to energy and under the condition that there is no economically and technically viable gas or renewable energy alternative.
[5] I.e. where energy efficiency measures do not compensate any capacity or load factor increase.
[6] This does not apply to coal used to initiate chemical reactions (e.g. metallurgical coal mixed with iron ore to produce iron and steel) or as an ingredient mixed with other materials, given the lack of feasible and commercially viable alternatives.

4.2. Specific ESG topics references

The table below provides more detailed references for DGGF's ESG Principles.

Topic	International standards	Additional resources
Climate change mitigation	IFC PS3 GHG Protocol Corporate Standard	Climate Watch (NDC database) IPCC (Interactive climate atlas)
Climate change adaptation		ND-GAIN (Vulnerability and Readiness index) WorldBank (Climate and disaster risk Screening tools) Aqueduct (Water risk Atlas)
Waste management and circularity	IFC PS3 and PS6 UN Water Convention	UNECE (Resource principles and requirements)
Pollution prevention and control	IFC PS3	UNEMG (Common approach towards a pollution-free planet)
Biodiversity conservation	IFC PS6 Convention on Biological Diversity Convention on Wetlands UN Water Convention	KBA (Key biodiversity areas) Protected planet (Protected areas)
Health and safety (workers, communities and/ or consumers)	IFC PS2 and PS4 UN Guidelines for Consumer Protection	ILO (National Occupational Safety and Health Profiles)
Adequate wages and income	IFC PS2 ILO C131, C95, C100	Global living wage (Country living wage)
Non-discrimination and equal treatment	IFC PS2 ILO C111, C100	
Prohibition of violence and harassment	IFC PS2 ILO C190	IFC (Addressing Gender-Based Violence and Harassment)
Other labour rights	IFC PS2 ILO Core Conventions	
Indigenous people and marginalised groups	IFC PS7 and PS8 UNDRIP ILO C169	
Land acquisition and involuntary resettlement	IFC PS 5	
Client protection	IFC PS2	CERISE (Client Protection Standards)
Other human rights	International Bill of Human Rights	
Politically Exposed People		FATF (Guidance Politically Exposed Persons)
Anti-corruption and bribery	UNCAC	
Fraud (including greenwashing and socialwashing)		OECD (Mishandling Green claims)
Access to a grievance mechanism	IFC PS2	CAO guidance

4.3. SFDR PAIs

Based on the requirements set out by the SFDR, DGGF reports on the following PAI indicators:

Indicator	Metric	Description (where applicable)
1. **GHG emissions**	Scope 1 GHG emissions	Amount of greenhouse gases (GHG) emitted expressed by tCO2eq through the organisation's operations from direct emissions sources during the reporting period.
	Scope 2 GHG emissions	Amount of greenhouse gases (GHG) emitted expressed by tCO2eq through the organisation's consumption of purchased electricity, heat, or steam during the reporting period. NB: CO2 and Non-CO2 emissions are included.
	Scope 3 GHG emissions	Amount of greenhouse gases (GHG) emitted expressed by tCO2eq by the organisation's suppliers and suppliers of suppliers during the reporting period, except from direct energy providers (i.e. scope 2).
	Total GHG emissions	Total of scope 1, scope 2 and scope 3 emissions.
2. **Carbon footprint**	Carbon footprint	The carbon footprint are emissions of investee companies expressed as tonnes of CO2eq (scope 1, 2 and 3 emissions) per million EUR invested.
3. **GHG intensity of investee companies**	GHG intensity of investee companies	Unattributed amount of greenhouse gases (GHG) emitted expressed in tCO2eq through the investee companies divided by million EUR revenue of the investee companies. The GHG intensity of investee companies is calculated using the formula required by SFDR. This formula calculates the average greenhouse gas (GHG) intensity of investee companies in a portfolio. GHG intensity measures how environmentally efficient a company is, given its GHG emissions and revenue. It sums the GHG intensity of each investment, weighting them by their contribution to the portfolio's total value in euros (€M). For more detailed definitions of GHGs, see definitions above.
4. **Exposure to companies active in the fossil fuel sector**	Share of investments in companies active in the fossil fuel sector	Share of investments calculated based on share of investments in companies active in the fossil fuel sector per portfolio company
5. **Share of non-renewable energy consumption and production**	Share of non-renewable energy consumption and non-renewable energy production of investee companies from non-renewable energy sources compared to renewable energy sources,	Corresponds to non-renewable energy sources compared to total energy sources, expressed as a percentage.

	expressed as a percentage of total energy sources	
6. **Energy consumption intensity per high impact climate sector**	Energy consumption in GWh per million EUR of revenue of investee companies, per high impact climate sector	Energy consumption intensity' means the ratio of energy consumption per unit of activity, output or any other metric of the investee company to the total energy consumption of that investee company. PAI 6 is estimated by dividing the Total energy consumption (in GWh) by the Total revenue of investee companies (in mEUR).
7. **Activities negatively affecting biodiversity-sensitive areas**	Share of investments in investee companies with sites/operations located in or near to biodiversity-sensitive areas where activities of those investee companies negatively affect those areas	
8. **Emissions to water**	Tonnes of emissions to water generated by investee companies per million EUR invested, expressed as a weighted average	
9. **Hazardous waste and radioactive waste ratio**	Tonnes of hazardous waste and radioactive waste generated by investee companies per million EUR invested, expressed as a weighted average	
10. **Violations of UN Global Compact principles and Organisation for Economic Cooperation and Development (OECD) Guidelines for Multinational Enterprises**	Share of investments in investee companies that have been involved in violations of the UNGC principles or OECD Guidelines for Multinational Enterprises	
11. **Lack of processes and compliance mechanisms to monitor compliance with UN Global Compact principles and OECD Guidelines for Multinational Enterprises**	Share of investments in investee companies without policies to monitor compliance with the UNGC principles or OECD Guidelines for Multinational Enterprises or grievance /complaints handling mechanisms to address violations of the UNGC principles or OECD Guidelines for Multinational Enterprises	
12. **Unadjusted gender pay gap**	Average unadjusted gender pay gap of investee companies	The unadjusted gender pay gap (GPG) represents the difference between average gross hourly earnings of male paid employees and of female paid employees as a percentage of average gross hourly earnings of male paid employee
13. **Board gender diversity**	Average ratio of female to male board members in investee companies, expressed as a percentage of all board members	The average ratio of female to male board members in investee companies expressed as a percentage of all board members.
14. **Exposure to controversial weapons**	Share of investments in investee companies involved in the manufacture or selling of controversial weapons	