Responsible Investment in Technology

Investor Guidelines for ESG Risk Management

KFW DEG

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Introduction

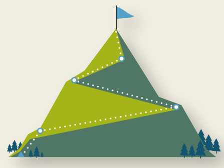
Background and objectives

The rapid pace of technological advancements has simultaneously increased the scale and scope of both positive impact and of social or environmental harm. To ensure that technology companies can scale responsibly, they benefit from assessing and mitigating the Environmental, Social, and Governance (ESG) risks associated with their business activities.

A Market Study (*Responsible Investment in Technology: Market Study on the ESG Risks of Technology Investments*) conducted by DEG, AfricaGrow, and Steward Redqueen set out to understand the ESG risks of technology companies, and potential mitigants for these risks. The Market Study highlighted a key challenge to technology companies, where existing ESG risk management frameworks are focused on real economy risks but tend to overlook technology inherent risks. The study further showed that regulatory attempts often do not capture technology developments. Where targeted technology guidance has been developed, these mostly focus on single technologies.

As a follow up to the Market Study, the *Responsible Investment in Technology: Investor Guidelines for ESG Risk Management* were developed. The ambition is to leverage existing industry standards to offer guidance to technology investors in identifying and managing risks and opportunities as their portfolio companies grow and scale. The objectives of these guidelines are twofold:

The objectives of these guidelines



1 Develop a complete framework that is *fit for purpose* for funds investing solely in technology

Investors can apply the guidelines to develop a complete ESG risk management framework. The guidelines take an outcomes-focused approach to maintain the framework's relevance amid technological advancements.

2 Offer a 'plug-and-play' solution that helps investors bolster their ESG due diligence and monitoring of technology investments.

For investors with existing ESG risk management practices, or with an investment universe that stretches beyond technology, the modular guidance, tools, and templates can be integrated into a more comprehensive ESG risk management framework.

The impact of technology

Digital technology bears the potential for significant positive impact on various aspects of human development. The proliferation of smartphones and mobile data has connected nearly 70% of people across the world to the internet, and technology companies have built digital solutions atop this network, improving connectivity, and increasing access to finance and healthcare. Next to this uplifting social impact, technology can help address environmental challenges. Advances in digital technology have enabled smart grid systems, waste management solutions, and agricultural technology, mitigating the impacts of climate change and helping to optimise resource use.

To leverage the development impact of technology in emerging markets, investors are increasingly financing companies that provide digital solutions and the fund managers that invest in them, as they can generate employment, increase access to (basic) products and services, and reach low-income, or geographically dispersed individuals.

Despite the potential impact of technology businesses, there is a lack of actionable resources to help investors focus on the flipside – on the ESG risk associated with technology activities. These guidelines provide a framework for technology investors to manage the ESG risks in technology companies.

Scope

The guidelines focus on investment in digital technology (i.e., concerned with the creation and manipulation of data, and the software and hardware that enable digital technologies). For funds that only invest in technology, the guidelines and associated resources should serve as a complete ESG risk management framework. However, the growth of personal computing and networking technology has ensured all modern companies are technology-enabled, widening the potential applicability of these guidelines. Where digital technology is only a part of a business's value proposition, the guidelines can be used to address technology-linked risks but should be applied alongside a comprehensive ESG risk management system that addresses real economy ESG risks. The guidelines are developed for emerging companies (i.e., start-ups) but can also be applied to more mature businesses.

Structure

These guidelines are structured into three sections:

Section A

Building an ESG framework for investment in technology

The first part guides investors in developing their own ESG risk management framework for technology investments. This includes guidance, tools, and templates to: (i) draft a *Responsible Investment Policy*; (ii) develop risk management procedures throughout the investment cycle; and (iii) define roles and responsibilities.

Section B

Conducting ESG due diligence on technology companies

The second part guides investors in conducting an ESG due diligence on technology companies. This section serves as a blueprint with concrete steps and tasks, centred around a due diligence questionnaire.

Section C

Tools & Templates

This section includes all tools and templates referred to in Section A and B.

How to navigate throughout the report using interactive buttons

The guidelines are supplemented with a range of Tools and Templates (Section C). Throughout Section A and Section B, the interactive buttons help to navigate to the corresponding Tool or Template.

Refer to a tool

Tools are guiding documents to develop a tailored ESG risk management framework. .

Refer to a template

Templates are structured forms that can be filled out for every investment.

Section A

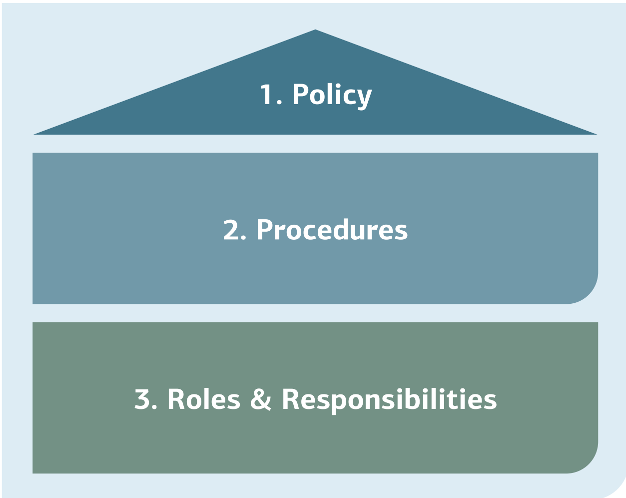
Building an ESG framework for investment in technology

Building an ESG framework for investment in technology

Comprehensive risk management frameworks are structured around a policy, a set of procedures, and assigned roles and responsibilities (Figure 1).

Section A of the guidelines supports investors in developing a *Responsible Investment Policy* (component 1) that covers technology specific risks and standards. The guidelines then discuss how investors can implement risk management procedures (component 2) across the investment cycle. Lastly, the guidelines offer perspectives on how technology investors can develop the roles and responsibilities (component 3) to ensure good governance.

Figure 1: ESG Risk Management Framework



Component 1: Policy

Responsible investment policy

A *Responsible Investment Policy* lies at the core of the risk management framework. In your policy, you define your approach to concerns like environmental protection, labour standards, social inclusion, supply chain management, and good governance. Defining your approach, values, principles, and standards in this policy is not only best practice amongst investors, but it also serves as a communication tool for both internal and external stakeholders. Tool 1 guides investors on how to develop a *Responsible Investment Policy* and equips them to set the foundation of their framework.

Develop a policy in line with your principles. ▶ Tool 1: Draft responsible investment policy

ESG clauses

After drafting your policy, you can use Tool 2 to formulate ESG clauses. This allows you to insert ESG related language in the term sheet and contract.

Develop ESG-focused language for your investee term sheet and contract. ▶ Tool 2: Formulate ESG clauses

Component 2: Procedures

Screening

When screening potential deals, investors should exclude or escalate the level of scrutiny required, based on ESG escalation criteria.

Define criteria for a red-flag or exclusion list in line with your risk appetite. ▶ Tool 3: Develop escalation criteria

Due Diligence

When conducting due diligence, investors should identify the material ESG risks that affect an investee and its stakeholders.

Synthesise findings from DD to share with the Investment Committee before approval. ▶ Template 1: DD memo

Approval

When approving an investment, investors should prioritise which risks to address through an Action Plan and establish a legal commitment from the investee through an ESG clause.

Prioritise and structure ESG risks that investees need to address. ▶ Template 2: Action plan

Monitoring

When monitoring portfolio companies, investors should engage productively with investees to monitor and mitigate ESG risks as the company scales.

Enable investees to report key ESG metrics to the investor. ▶ Template 3: Monitoring report

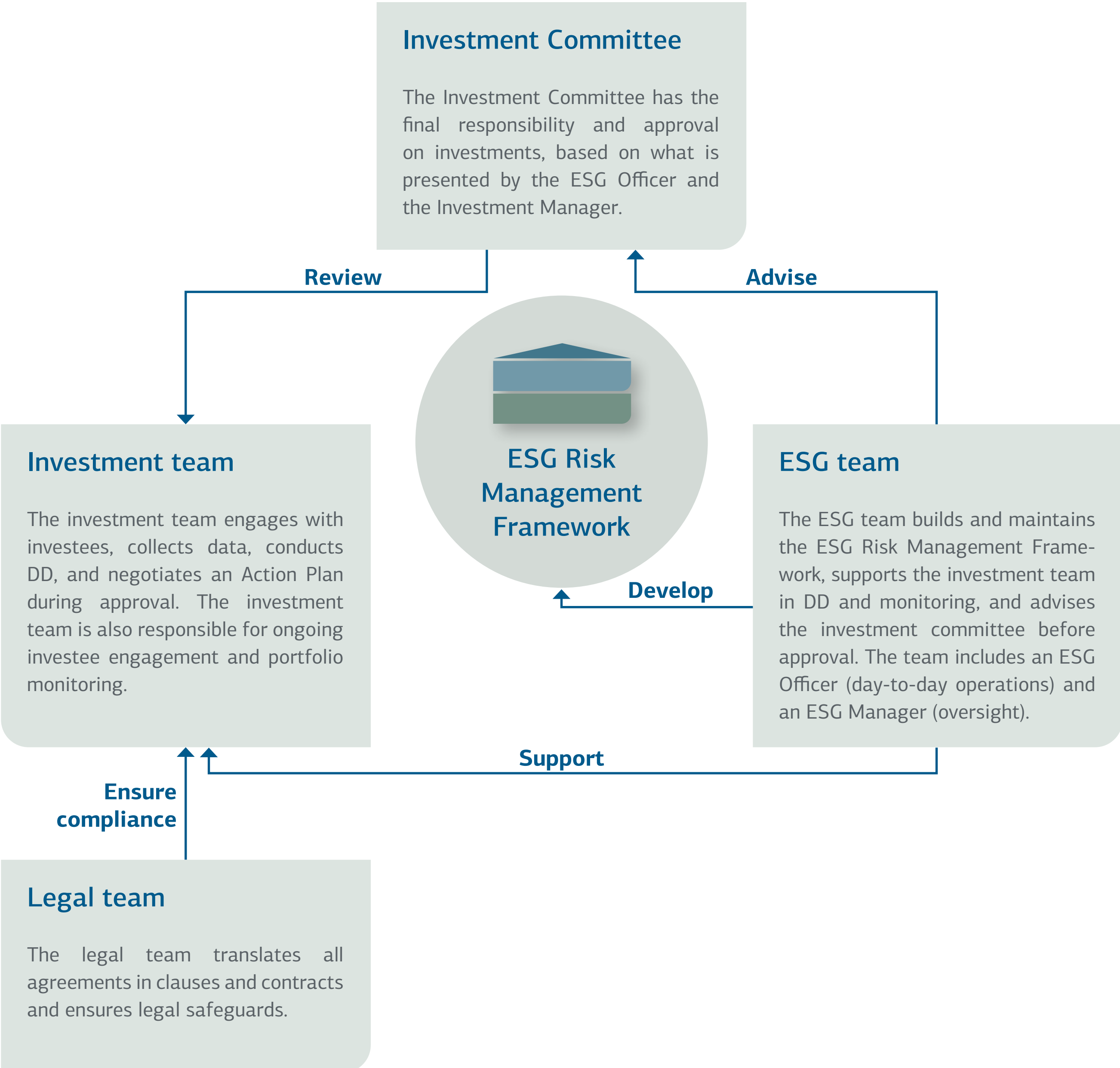
Exit

When exiting a company, investors should reduce risks from transfer of sensitive data and ensure continuity of ESG risk management practices.

Assess key elements to ensure continuity of ESG practices. ▶ Template 4: Responsible exit checklist

Component 3: Roles and responsibilities

Building accountability for the functioning and execution of the framework requires clearly defining the roles and responsibilities of relevant teams and individuals. When thinking about the structure between and within teams, it is helpful to differentiate those who execute tasks from those who provide oversight. The composition of roles and responsibilities should vary based on a fund's team size, risk exposure, and the assets under management. The general structure below can be adapted to your firm.



Section B

Conducting ESG due diligence on technology companies

Conducting ESG due diligence on technology companies

Section B of these guidelines takes an investor through the four steps they may take when conducting an ESG due diligence on technology companies. The process is outlined in Figure 2, which only begins once the company has passed the screening stage (see Section A, Component 2: Procedures) and is eligible for investment.

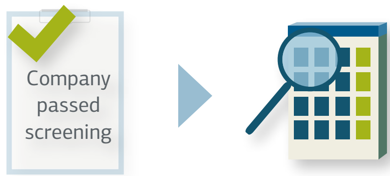


Figure 2: ESG due diligence process for investments in technology companies

Step 1

Determine if the transaction is a technology investment..

..to select the appropriate due diligence process

Step 2

Evaluate risk exposure..

..to understand the technology related ESG and human rights risk exposure and assign a risk category

Step 3

Evaluate risk management capacity..

..to identify whether the company's ESG risk management capacity is commensurate with its risk exposure

Step 4

Develop an action plan..

..to prioritise the most material risks and define appropriate mitigation measures

The following pages guide you through these four steps.

Note: *This process supplements existing ESG risk management practices by identifying risks that are specific to technology investments. As such, this process should be considered alongside existing risk assessment standards that focus on real-economy environmental and social impacts to obtain a more comprehensive understanding of the company's risk exposure.*

Step 1 Determine if the transaction is a technology investment

Select the appropriate due diligence process.

Review the **checklist** below. If one or more boxes are applicable, continue with this technology specific ESG due diligence process (steps 2 to 4). Where a transaction has a real economy footprint, this occurs in parallel with existing ESG due diligence practices. If none of the boxes are applicable, the transaction follows a traditional ESG due diligence approach.

Checklist

Is the transaction a technology investment?

The company...

- ☐ offers a product/service predominantly reliant on digital technologies (e.g., generating, storing, or processing data)
- ☐ has a business model that applies a combination of digital technologies (e.g., licensing cloud-based software)
- ☐ delivers a core product/service via a digital channel (e.g., mobile app, online platform)
- ☐ develops a product/service that enables digital solutions (e.g., technological equipment and hardware)

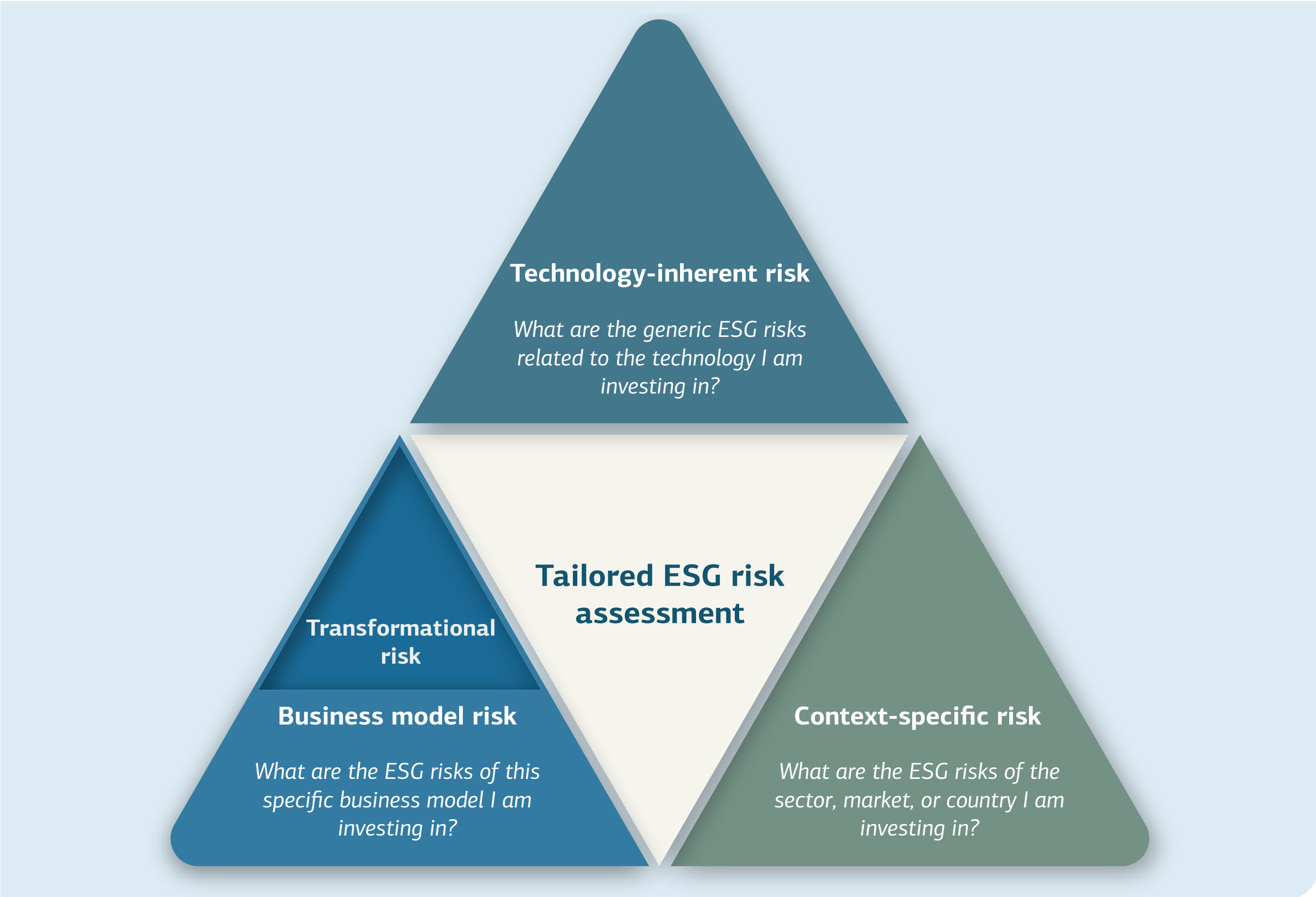
Step 2 Evaluate risk exposure

Determine the level of risk exposure and understand the underlying drivers of risk.

Use the **risk navigator** (see page 16) to assess the company's exposure to technology related ESG and human rights risks. The navigator helps investors identify risks based on four risk drivers of technology companies (Figure 3). Refer to the Market Study '*Responsible Investment in Technology: Market Study on the ESG Risks of Technology Investments*' for a more detailed explanation of the risk drivers.

1. **Technology-inherent risk** – risks integral to the use of digital technology in products and services.
2. **Business model risk** – risks driven by the business model used to deploy the digital solution.
3. **Transformational risk** – risks tied to transformative change and disruption of the status quo.
4. **Contextual risk** – risks tied to the economic sector and country in which the business operates.

Figure 3: Tailored approach for assessing ESG risk in technology investments



Based on the answers to the questions in the navigator, technology investors can determine relevant risks applicable to the company. Investors can identify the level of risk for each risk driver according to the definitions for ESG risk categorisation as provided in Figure 4 (see next page).

This assessment results in two key insights:

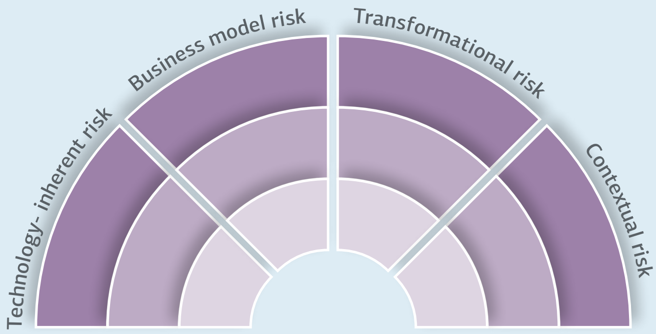
1. Specific risk drivers

The individual scores on the four risk drivers highlight which risks should be prioritised for further investigation. A medium level of risk requires engagement from internal experts, whereas a high level of risk requires an in-depth due diligence by an external specialist who has expertise on evaluating that type of risk in the investee's geographic and sectoral context. Where there are no specialists capable of evaluating novel risks, investors are encouraged to engage their investment committee or LP advisory committee to decide how to move forward, considering risk exposure, appetite, and potential mitigation measures.

2. Overall risk profile

The overall risk profile provides a broad understanding of the company's risk exposure which is calculated by taking the average risk level of the four risk drivers.

Figure 4: Overall risk profile and individual risk levels for each risk driver based on ESG risk categorisation definitions



High Risk: Business activities with potential significant adverse environmental or social risks and/or impacts that are diverse, irreversible, or unprecedented.

Medium Risk: Business activities with potential limited adverse environmental or social risks and/or impacts that are few in number, generally location or context-specific, largely reversible, and readily addressed through mitigation measures.

Low Risk: Business activities with minimal or no adverse environmental or social risks and/or impacts.

An example of how the individual scores on the four risk drivers translate into one overall ESG risk exposure level.

Overall ESG risk exposure level:

Medium

Investors can note their findings in Template 1:

Template 1: DD memo

Note: *While the navigator offers an overarching insight into the focal areas of an ESG due diligence for a technology company, this overview needs to be consumed with caution. The continuous innovation in the technology space will bring to light risks that no one can yet anticipate. Although the questions in this tool are categorised and formulated to hold up as technology evolves, an investor's deal- and ESG team remain best equipped to lend their expertise to each individual transaction and confirm the hypotheses of this navigator.*

The risk navigator

Assess the company's exposure to technology related ESG and human rights risks

Start: Does the company...

Technology-inherent risk (1/4)

The first set of risk drivers are inherent to digital technology. These are the ESG risks that are tied to the underlying technology used in digital products and services and can apply broadly across all technology companies.

... collect, store and/or use personal data? If yes:

Privacy violation

This relates to the risk of violating the human right to privacy, including unauthorised monetisation of (personal) data, surveillance, and data leakage.

risk spectrum

Low risk: Companies that collect and/or store data which cannot be traced down to an individual.

High risk: Companies that collect and/or store personal data in sensitive areas (i.e., financial services, healthcare); and/or have experienced recent data breaches.

...use algorithms to make decisions and/or generate information? If yes:

Unequal treatment

This relates to the risk of violating the human right to equal treatment through discrimination, bias, and exacerbating existing socioeconomic inequalities.

risk spectrum

Low risk: Companies that use transparent, well-understood, and targeted algorithms with predictable results and human oversight.

High risk: Companies that automate decision-making in sensitive areas (i.e., recruitment, finance, healthcare) without testing results across contexts or oversight, with limited insight into the algorithm.

...rely on data centres/cloud storage? If yes:

Intensive resource use

This relates to the risk of high GHG emissions and water usage due to the energy use and water consumption required to operate data centres.

risk spectrum

Low risk: Companies that measure, manage, and mitigate the environmental impact of their data centre use.

High risk: Companies with cloud-intensive services or that own or operate cloud services facilities.

Business model risk (2/4)

The second set of risk drivers are connected to the business model surrounding the digital solution. There are three business models depending on the company's products/services: building hardware (e.g., electronic equipment); creating intellectual property (e.g., licensed software); and operating a network (e.g., peer-to-peer platforms). Business models that scale without cost and enable user-to-user interactions increase the exposure and complexity of risk.

☐ **...build or operate hardware? If yes:**

Environmental and social harm

This relates to real economy ESG risks (e.g., pollution, displacement of communities, poor working conditions) tied to the company's direct operations and its supply chain.

risk spectrum

Low risk: Companies with small-scale production operations with a supply chain that is local and transparent.

High risk: Companies that have a material real economy footprint without an ESG risk management system; and/or have a global supply chain that is not transparent.

☐ **... sell/license software or other intellectual property, and/or operate a network platform? If yes:**

Restricted access to technology

This relates to the risk of a technology excluding people (digitally illiterate, vulnerable groups) or exacerbating inequalities if it is the only way to access basic services.

risk spectrum

Low risk: B2C companies that enhance access to basic services, in parallel to alternatively accessible delivery methods.

High risk: B2C companies that (can) monopolise access to basic services (i.e., healthcare, financial services, legal, education, agricultural services) in a market.

Abuse of market power

This relates to companies that use their market power to unfairly compete in new markets, monopolise existing markets, and violate worker and consumer rights.

risk spectrum

Low risk: Companies that compete in crowded categories; and/or benefit from (but not rely on) network effects.

High risk: Companies with high market power in parallel markets, or that have high market share in sectors without protections for workers and consumers.

The following risk only applies when the company operates a network platform:

Spread of misinformation

This relates to the spread of misleading (either human or artificially generated) information which can manipulate public opinion and cause harm.

risk spectrum

Low risk: Companies that limit the scope and/or spread of generated information.

High risk: Companies that allow users to create/share content and have unclear or limited content moderation practices.

Transformational risk (3/4)

The third set of risk drivers are tied to whether the business optimises or transforms existing processes. Optimising businesses make existing social and technical structures more efficient and effective. Transformational businesses, on the other hand, reimagine and challenge existing processes, structures, and capabilities. For example, they can disrupt existing labour structures in protected markets (e.g., taxis, maintenance work) or expand the ability of individuals to offer their assets on a rental basis (e.g., short-term rental, clothing). Transformational businesses potentially have greater impact and harm, as the new structures may not have sufficient environmental and social protections in place, and there may not be ways for those harmed to address their concerns or access remedies.

... change the nature of work? If yes:

Precarious work

This relates to companies that alter labour market structures, such as platform work (e.g., food delivery services by independent contractors, ride sharing)

risk spectrum

Low risk: Companies that offer products/ services, enabling automation of routine tasks that increase workers' efficiency.

High risk: Companies that rely on platform work; and/or transform the local labour market through alternative employment structures that are not yet covered under labour laws and regulations.

... have the potential to scale at low cost? If yes:

Unmitigated scaling of harm

This relates to companies that provide widely adopted software or services that influence users' impact on the environment and on society.

risk spectrum

Low risk: Companies that systematically identify and track their own ESG impact and their supply chain and customer ESG impact before scaling.

High risk: Companies that help manage resources (B2B, i.e., ERM software) or significantly influence behaviour (B2C, i.e., social media), as software defaults or dark patterns can have adverse impacts at scale.

... disrupt existing socioeconomic structures? If yes:

Lack of access to remedy

This relates to companies with innovative business models that upend existing socioeconomic structures and create new ones without access to remedy.

risk spectrum

Low risk: Companies that comply or build upon existing socioeconomic structures to ensure protections for stakeholders.

High risk: Companies that disrupt or displace existing socioeconomic structures (e.g., ride hailing, short-term rental markets) without creating protections and mechanisms to access remedy for those affected.

Contextual risk (4/4)

The final set of risk drivers are related to the specific context in which the business operates. This includes the operating region or country and the economic sector. Adding this contextual lens helps to identify whether the exposure to certain technology-inherent and business model risks are higher, or whether there is larger potential for (unintended) negative impact.

Key themes in digital technology regulation:

- Data protection & privacy
- Cybersecurity & cybercrime
- Innovation & start-ups
- Intellectual property
- Content moderation
- Consumer rights & protection
- Digital financial services

One of the key sources of risk in operating countries comes from regulation. Regulations often fail to meet their objectives, either due to lacking or misaligned regulation or from a lack of enforcement. A regulatory review finds that the themes listed above are receiving most attention from regulators and evolve rapidly. When looking for information, investors can find the country-level information on these topics from sources such as LexisNexis, ICLG, Lexology, CMS Law, and Mondaq[1].

☐ **… operate in a sector and/or country with limited regulatory oversight? If yes:**

Violations of human rights

This relates to the disruption of the (local) market, where limited regulation is in place to provide sufficient oversight or guidance. Alternatively, it can relate to operations in countries where limited checks and balances may lead to human rights violations despite regulatory compliance.

risk spectrum

Low risk: Companies that moderate access to human rights or basic services (i.e., finance, healthcare, expression) with management of human rights risk, and organisational or regulatory oversight.

High risk: Companies that moderate access to human rights or basic services (i.e., finance, healthcare, expression) without sufficient internal or external management of human rights risk.

End

[1] LexisNexis – https://www.lexisnexis.com.sg/; ICLG – https://iclg.com/; Lexology – https://www.lexology.com/; CMS Law – https://cms.law/; Mondaq - https://www.mondaq.com/.

Step 3 Evaluate risk management capacity

Identify whether the company's ESG risk management capacity is commensurate with its risk exposure.

Complete the **risk management capacity questionnaire** to understand the company's ability to manage risks along these three dimensions:

1. **Insight** – Understanding the technology related ESG and human rights risks and potential impacts associated with the company's business activities
2. **Implementation** – Applying policies and procedures to manage and mitigate technology related ESG and human rights risk.
3. **Oversight** – Having governance structures in place to oversee compliance to responsible technology practices.

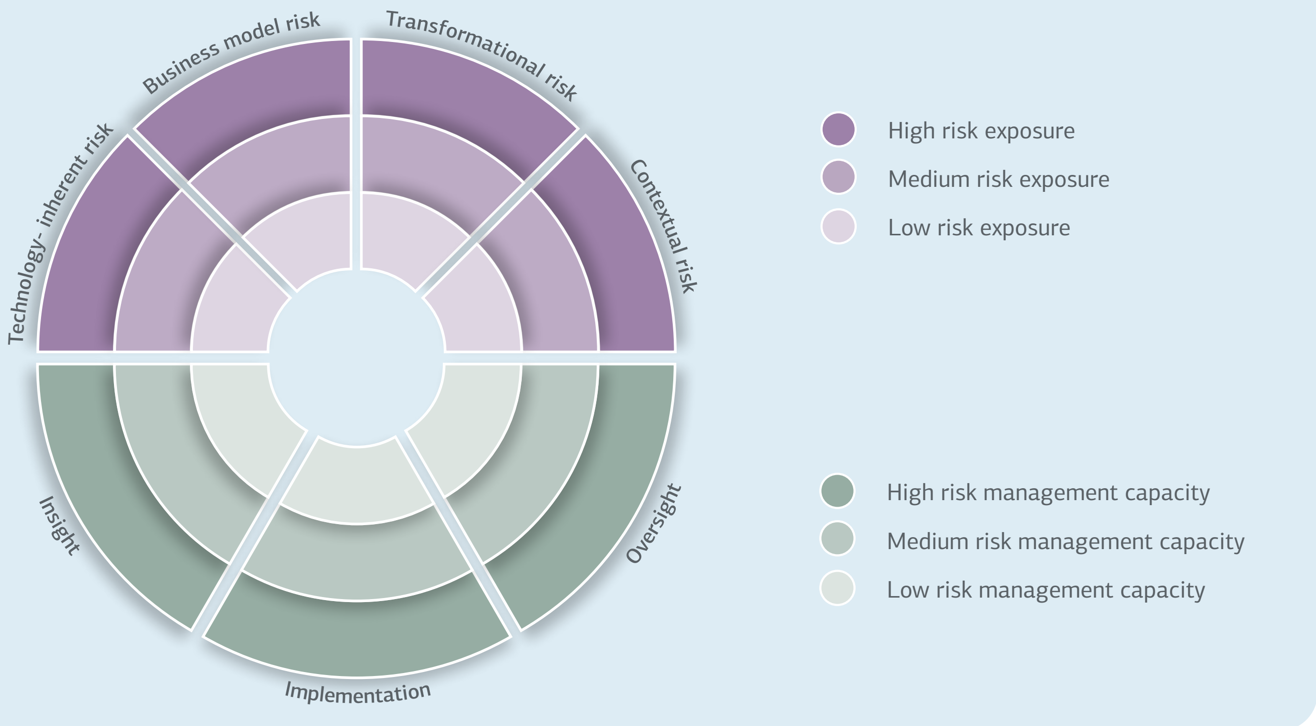
Then, determine if the company's risk management capacity is commensurate with its risk exposure (Figure 5). Generally, a low risk management capacity suffices for a company with low-risk exposure, while a high risk management capacity is needed to address a company with high-risk exposure.

After completing the questionnaire, for those risks that are identified to have a high-risk exposure (e.g., privacy violation), investors are advised to tailor the questionnaire to assess the specific risk(s) at hand (e.g., Question 1: How does the company articulate the risk of *privacy violation* that is associated with its business activities?; Question 2: How does the company educate employees on *privacy violation* and its negative impacts on stakeholders and society?)

Conclude the findings in the Template 1:

Template 1: DD memo

Figure 5: Overview of the company's risk exposure and risk management capacity



Risk management capacity questionnaire

Assess the company's risk management capacity along three dimensions

Dimension 1 Insight - Understanding the technology related ESG and human rights risks and potential impacts associated with the company's business activities.

1. How does the company articulate the technology related ESG and human rights risks that are associated with its business activities?
2. How does the company educate its employees on technology related ESG and human rights risks and the potential negative impacts on society and environment?
3. How does the company engage with various external stakeholders to understand different perspectives on technology related ESG and human rights risks and impacts?

Dimension 2 Implementation - Applying policies and procedures to manage and mitigate technology related ESG and human rights risk.

4. How does the company commit to responsible technology practices, for example as laid out in its strategy, policies, standards, and metrics?
5. How does the company implement, review, and update responsible technology practices in its daily operations, including all stages of the product/service life cycle?
6. How does the company provide access to remedy for affected rightsholders, both internally and externally?

Dimension 3 Oversight - Having governance structures in place to oversee compliance to responsible technology practices.

7. Does the company have assigned responsibilities at management level to oversee compliance to responsible technology practices?
8. How and at what frequency does the company report on its responsible technology practices to its Board and other external stakeholders?
9. Does the company culture promote responsible technology practices?
10. How often does the company go through external audits, including those pertaining to the assessment of responsible technology practices?

Step 4 Develop an action plan

Prioritise the most material risks and define appropriate mitigation measures.

Answer the **guiding questions** to prioritise the various types or risks associated with the company. Prioritisation of material risks is based on whether the risk is within the investee's sphere of control (what can be addressed) and the potential negative impact to the business and society (what should be addressed first).

Guiding questions

Prioritise the various types or risks associated with the company

What can be addressed?

Is the risk…

1. …systemic to the company's business model and/or the market in which the company operates, OR rather specific to the company's operations and/or how the product/service is used?

2. …within the company's sphere of control (i.e., related to the business model and/or operations), OR within the sphere of concern (i.e., related to the value chain or how the product/service is used)?

Risks systemic to the operating market require a management approach, as they are typically outside the company's sphere of control and are not directly addressable by the company. Business model risks can be managed in the short term but may be addressable in the long term with a considered strategy. Specific risks tied to the company's operations or product/service usage tend to be within the sphere of control, and targeted mitigation measures can be designed to address these risks.

What should be addressed first?

Does the risk…

3. …potentially have a high impact on the business and therefore its financial performance?

4. …potentially have a high impact on society?

Risks that are highly material either to the business or to the business's stakeholders in society should be addressed with higher priority and urgency. Both questions are important as they ensure that the action plan prioritises risk based on a holistic view on materiality.

Based on the risk prioritisation, define a set of appropriate mitigation measures. The table below indicates suggested mitigation measures for each type of risk. Note that next to the suggested mitigation measures that are rather specific to a certain type of risk, all companies benefit from implementing governance structures, assigning roles and responsibilities, developing policies and procedures, and ensuring access to remedy for affected rightsholders.

Conclude the findings in Template 2:

Template 2: Action plan

For companies that have high exposure to risks that cannot be addressed by the company, it is advised that investors address risks using an Exclusion List and/or a Red Flag List (Tool 3).

Tool 3: Develop escalation criteria

Table 1: Suggested mititgation measure per risk

Abuse of market power	Establish governance structures to oversee responsible scaling practices. Identify potential affected rightsholders and implement actions to minimise (unintended) negative impact.
Environmental and social harm	Assess environmental and social risks. Identify potential affected rightsholders and implement actions to minimise (unintended) negative impact. Refer to local environmental and social legislation and international standards such as the IFC Performance Standards.
Intensive resource use	Calculate the baseline carbon footprint, set targets to reduce emissions over time, and report on progress on a structural basis. Refer to the GHG Protocol to determine baselines and Action Plan for a Sustainable Planet in the Digital Age to define environmental targets.
Lack of access to remedy	Engage with a wide variety of stakeholders in the development, implementation, and improvement of the company's product/service, and ensure that stakeholders have access to a grievance mechanism and to avenues for remedy. Refer to the CAO Grievance Mechanism Toolkit for resources to develop procedures providing access to remedy.
Precarious work	Establish a *Decent Work Policy* and related processes and procedures that defines labour conditions in line with international standards and ensure this applies to all workers, including independent contractors. Refer to BII Good Practice Note on Platform Work.
Privacy violation	If the business model relies on use of personal data, ensure that users' data privacy rights are protected, and are aware of how their data is used, referring to the UNDG Guidance Note on Data Privacy, Ethics and Protection, or the Principles for Digital Development to Establish people-first data practices. Ensure internal controls protect data access in line with best practices in data protection and information security. To implement an information security management system, refer to ISO/IEC 27001 & ISO/IEC 27002.
Restricted access to technology	Identify relevant stakeholders and vulnerable groups and involve them in the design process. Refer to Mighty Bytes' guidance on Stakeholder Mapping in the Design Thinking Process, or the Principles for Digital Development to Design for inclusion. Further refer to sector-specific guidance such as the Client Protection Principles and other industry best practice guidelines.
Spread of misinformation	Contain the spread of misinformation as part of content moderation practices, balancing removal of illegal/harmful content with user expression. Refer to the Santa Clara Principles.
Unequal treatment	Use internal controls to ensure AI is developed and deployed responsibly. Identify relevant stakeholders and vulnerable groups and involve them in the design process. Refer to the B-Tech Project paper on Responsible AI, Human Rights, and Company Practices, the VentureESG Guidebook on Responsible Investing in AI (which includes assessment along the EU AI Act) and the MIT guide to AI Blindspots.
Unmitigated scaling of harm	Identify, assess, and develop processes to manage and mitigate downstream ESG risks before scaling. Refer to IFC Performance Standard 1.
Violations of human rights	**Sector-level:** Engage with a wide variety of stakeholders in the development, implementation, and improvement of the company's product/service. Refer to industry-specific guidelines to ensure international best practices are followed, even if that means going beyond the scope of contemporary legislation. **Country-level:** Identify operating countries with a high-risk regulatory environment and determine the risk exposure to human rights violations. Consult human rights and/or legal experts and withdraw and/or exclude use in high-risk countries. Alternatively, work with regulators in operating markets to create guardrails (i.e., regulatory sandboxes). In all cases, ensure users are well-informed.

Section C

Tools & Templates

Back to Section A | Back to Section B

Tool 1: Draft responsible investment policy

How to use this tool

This policy tool guides investors in creating their own *Responsible Investment Policy*, which is a document that describes investors' commitments, standards, and processes to manage the ESG impact resulting from their investments. A policy document should contain sections describing why the company has such a policy (objective), the activities that the policy applies to (scope), the approach taken towards focal areas (principles), and the industry best practices committed to (standards and guidelines).

Component 1: Policy
Communicate your approach to ESG risk management by completing:

- Objective & scope
- Principles
- Commitments & standards

Component 2: Procedures
Then, explain how you put your approach into action by completing:

- Implementation

Component 3: Roles & Responsibilities
Finally, create accountability around your procedures by completing:

- Roles & Responsibilities
- Policy Maintenance

Investors are advised to draft their *Responsible Investment Policy* as they work through **Section A** of the guidelines. The figure above explains which parts of this tool should be completed alongside which components (1, 2, 3) of the guidelines.

Please fill below the dotted line.

Objective

Explain the purpose of this policy and what it seeks to accomplish (such as to describe key environmental and social impact areas, to define principles and standards the company applies to improve its performance, to communicate on the Fund's commitment to sustainability).

For example
"The objective of this policy is to define [the Fund]'s principles and standards for the management of ESG risk in its investments, and to determine the requirements for its portfolio companies. This policy seeks to communicate the Fund's commitment to sustainability internally as well as for stakeholders. (...)."

Scope

List the business lines/products/portfolio companies/stakeholders this policy applies to.

For example
"The scope of this policy extends to all transactions under [the Fund]. This policy is applied consistently across all investment and management activities related to the Fund. Staff involved in Fund activities are expected to act in accordance with the policy. (...)."

ESG focal areas

Describe the ESG focal areas related to the Fund's investments, and the (potential) adverse environmental and social impact of investee companies.

For example

"[The Fund] commits, on a best effort basis, to avoid and mitigate the adverse environmental, social, and governance impact that may result from its investments. Identified focal areas include:

- *Environmental topics, such as resource and energy use, e-waste, and greenhouse gas emissions.*
- *Social topics, such as labour conditions, violations of human rights (mainly, but not limited to, the right to privacy, equal treatment, decent work, access to technology for basic services, and freedom of expression).*
- *Governance topics, such as information and data security, business integrity, board structure and functioning, and scaling responsibly.*

Although the specific impacts of companies evolve rapidly in line with the development of digital technology, [the Fund] commits to avoiding negative outcomes linked to the use of digital technology. (...)."

Commitments

List the relevant standards that are applicable to the products/services the Fund invests in, or anything specific to the Fund's target sector(s).

For example

"[The Fund] does not provide financing to companies with activities or characteristics mentioned on the Fund's Exclusion List. At minimum, [the Fund] requires portfolio companies to comply with the legal and regulatory environmental and social requirements applicable in the jurisdictions in which portfolio companies operate, as well as applicable international conventions.

In addition, [the Fund] commits to industry best practices, following the Principles for Digital Development and the United Nations Guiding Principles on Business and Human Rights ('UNGP') to avoid, minimise, and mitigate the negative impacts of its business activities on human rights, the International Labour Organisation ('ILO') Core Labour Standards and ILO Basic Terms and Conditions of Work, and when applicable, the IFC Performance Standards ('IFC PS'). To this end, the Fund consults third-party guidelines and resources, such as the UN Human Rights Office's B-Tech Project, the GIZ and Danish Institute Digital Rights Check, IAHR Investor Toolkit on Human Rights, the Investor Guidelines for Digital Financial Services, and VentureESG Guidebook for Venture Capital on Responsible Investing in AI.

[The Fund] supports its investees to align with applicable voluntary industry principles and standards, including but not limited to [see examples below]. (...)."

Table 2: Applicable voluntary industry principles and standards per topic

Artificial Intelligence	NIST AI Risk Management Framework
Blockchain	WEF Building Block(chain)s for a Better Planet
Immersive technology	XRSI Privacy and Safety Framework; CyberXR Immersive Technology Standards
Platforms	BII/SIFEM Good Practice Note on Managing Labour Risks and Opportunities of Platform Work; Santa Clara Principles on Content Moderation
Digital financial services	Centre of Financial Inclusion Client Protection Principles
Digital health services	UN Development Programme Guidance on the Rights-based and Ethical Use of Digital Technologies in HIV and Health Programmes
Information security	ISO/IEC 27001 and 27002

Implementation

Explain how the Fund implements its ESG Risk Management Framework, as well as the commitments and standards, as mentioned in this policy throughout operations and investment procedures.

> **For example**
>
> *"To ensure a consistent application of responsible practices across operations, [the Fund] embeds them throughout the investment procedure. This means that the Fund commits to the following tasks:*
>
> - *Screening a potential transaction for eligibility against the Fund's Exclusion List.*
> - *Assessing the ESG risks of a potential transaction triggered by the company's product/service and business model.*
> - *Defining mitigation measures to avoid or minimise adverse ESG impacts to a risk level acceptable to the Fund's standards.*
> - *Considering the findings and recommendations from the ESG due diligence as a key factor in the Investment Committee's decision-making.*
> - *Agreeing on an ESG Action Plan (as applicable) with the portfolio company describing measures to improve the company's operations and risk management that are appropriate to the nature and scale of their operations and commensurate with the ESG risk associated with their operations.*
> - *Monitoring the portfolio company's compliance with the Fund's standards in general and the activities from the mutually agreed Action Plan (if any) in particular.*
> - *Supporting portfolio companies with the continuous improvement of their ESG management and performance.*
> - *Providing access to remedy for rightsholders affected by the Fund and/or its portfolio companies.*
>
> *In case a portfolio company is in a state of non-compliance with respect to the Fund's policy, [the Fund] takes all reasonable efforts to (i) assert and enforce any right of the Fund to require the portfolio company to comply with the Action Plan, including but not limited to, any available action for specific performance or similar remedy, and/or (ii) dispose the Fund's investment in this portfolio company on commercially reasonable terms, taking into account liquidity, market constraints, and fiduciary responsibilities. (...)"*

Roles and responsibilities

Describe the internal roles and responsibilities to implement and maintain the Fund's ESG Risk Management Framework.

> **For example**
>
> *"All staff involved in [the Fund] participate in the implementation and maintenance of the Fund's ESG Risk Management Framework. The responsibilities are divided between four key roles.*
>
> ***ESG team*** *- The ESG team carries responsibility for the development and maintenance of the ESG Risk Management Framework, including all policies, procedures, and tools. The ESG team also supports the investment team in the ESG due diligence of transactions by providing advice and capacity building. The ESG team may also be consulted by the IC for advice on specific challenges and dilemmas regarding a transaction's ESG risk.*
>
> ***Investment team*** *- The investment team is responsible for applying the ESG Risk Management Framework to the applicable transactions and engage with portfolio companies on the Fund's ESG standards and requirements. Throughout the investment procedure, the investment team carries responsibility for a transaction's ESG due diligence, agrees on corrective measures with the portfolio company in case it does not comply with the Fund's ESG standards and requirements, and monitors performance over time. In case of specific issues, the investment team can involve the ESG Coordinator.*
>
> ***Investment Committee*** *- The Investment Committee ('IC') carries final responsibility for ratifying the ESG risk assessment from the due diligence assessment and any corrective measures in the ESG Action Plan. The IC can overrule conclusions and recommendations from the investment team or the ESG Coordinator and define additional requirements, up to and including declining the suitability of the investment.*
>
> ***Legal team*** *- Legal counsel ensures that the applicable ESG standards and requirements are adequately included in a transaction's legal agreement. This should fortify the investment team's leverage to keep a portfolio company to the commitments and mitigation measures and to take action in case of any breaches of law or activities contrary to the Fund's policy. (...)"*

Policy ownership and development

Describe how the Fund maintains this policy in terms of responsibility, frequency of revision, and approval.

> **For example**
>
> *"The maintenance of this policy falls under the responsibility of the ESG Coordinator. This policy is revised by the ESG Coordinator on an annual basis. Major adjustments beyond the annual revision are approved by the Board and implemented by the ESG Coordinator. (...)."*

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Tool 2: Formulate ESG clauses

How to use this tool

This tool helps investors develop ESG clauses that can be used in term sheets and investment contracts. The tool provides the elements that need to be included in a term sheet clause or in a set of legal covenants, which can be used by a fund's legal team or general counsel to draft contractual language. Elements can be added or adjusted as appropriate and applicable to the Fund. Note that the ESG clause is an extension of the *Responsible Investment Policy* and should therefore be aligned with the Fund's commitments and standards.

Please fill below the dotted line.

Term sheet clause

Draft language that indicates the investee company will make best efforts to comply with the Fund's ESG standards and requirements.

Term sheet should cover:

A. Compliance with the standards, requirements, terms, and conditions as set forth in the Fund's Legal Covenants, specifically:

- All applicable local laws, and [insert commitments and standards that are included in the Fund's ESG policy, for example United Nations Guiding Principles on Business and Human Rights ('UNGP'), the International Labour Organisation ('ILO') Core Labour Standards and ILO Basic Terms of Conditions of work, and when applicable, the IFC Performance Standards ('IFC PS')].
- The Action Plan, as agreed with the Fund.

B. Alignment of company ESG policy with the Fund's ESG policy, and that changes or updates to the ESG policy shall be discussed with and approved by the Company's Board.

C. Regular review and update of the company's ESG policies.

Full legal covenant for contract

Detail the actions expected of the investee company to identify, manage, and mitigate ESG risk, specifying the standards and requirements the Fund expects of the company.

Legal covenants should cover:

A. Environmental and social compliance:

- Implement a management system, commensurate with the scale and significance of the ESG issues, that ensures a systematic approach to ESG risk assessment and management.
- Adhere to applicable international conventions including, but not limited to, [insert commitments and standards as included in the Fund's ESG policy, for example United Nations Guiding Principles on Business and Human Rights ('UNGP'), the International Labour Organisation ('ILO') Core Labour Standards and ILO Basic Terms of Conditions of work, and when applicable, the IFC Performance Standards ('IFC PS')].

Continued on the following page

- Adhere to voluntary standards and guidelines, including [insert voluntary standards and guidelines as included in the Fund's ESG policy, for example ISO/IEC 27001 and 27002, Client Protection Principles].
- Not employ or make use of forced labour or child labour.
- Pay wages and ensure working conditions which meet or exceed industry or legal national minima, including for independent contractors/self-employed individuals/third-party labour within the company's value chain.
- Not discriminate in terms of recruitment, progression, terms and conditions of work and representation, on the basis of personal characteristics unrelated to job requirements.
- Adopt an open attitude towards workers' organisations and respect the right of all workers to join workers' organisations of their own choosing, to bargain collectively and to carry out their representative functions in the workplace.
- Establish mechanisms to assess the risk of human rights violations and to avoid, manage, or mitigate human rights harm.
- Provide an appropriate grievance mechanism that is available and accessible to all workers and other rightsholders.
- Take steps to protect my own health and that of my employees / clients / suppliers.
- Assess climate risks that may affect the business in the medium to long term, and develop strategies to address these identified risks, to measure, and reduce the carbon footprint of the operations.

B. Corporate Governance compliance:

- Comply with government regulations.
- Establish corporate governance practices appropriate to the size and nature of my business.
- Implement measures to ensure the protection of data privacy and avoid, minimise, and/or mitigate the potential for data breaches.
- Do not employ or associate with Politically Exposed Persons (appearing on the UN of OFAC sanctions lists), potentially posing a risk to the Company.
- Fully commit to the fight against financial crime and make every effort to remain in full compliance with all applicable financial crime compliance laws, regulations, and standards in the applicable jurisdictions.
- Adopt and implement policies and procedures to prevent extortion, bribery, fraud, corruption, and financial crime in accordance with local law requirements and relevant internationally recognized practices.
- Properly record, report, and review financial and tax information as required by relevant accounting standards.
- Implement a procedure for the reporting of wrongdoing and misconduct in the workplace that includes protection for the reporter and appropriate disciplinary action for anyone found to harass the report.

C. Action Plan commitment:

- Commit to implementing the agreed Action Plan and individual action items under the pre-determined timeframe.Implement measures to ensure the protection of data privacy and avoid, minimise, and/or mitigate the potential for data breaches.

D. Monitoring and reporting commitment:

- Measure and monitor ESG and impact related data points as listed on the template supplied with this agreement.
- Provide periodic reporting (at least on an annual basis) on proof of the compliance with the above-mentioned items and the progress on the implementation of the action items as mentioned in the Action Plan, if any.
- Report on the occurrence of a serious incident, fatality, accident, or injury, within 24 hours to [the Fund] and follow up with a more detailed report with all necessary details on the time, type, nature, cause, consequences as well as remedial activities within 30 days.
- Assist with the Fund's requirement to conduct a site visit and evaluate company activities to ensure compliance with environmental, social, and corporate governance obligations.

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Tool 3: Develop escalation criteria

How to use this tool

A common feature of ESG risk management frameworks is a negative screening criteria. This tool guides investors along two approaches to negative screening: an exclusion list and a red flag list.

Exclusion List

This list specifies the industries or activities that an investor is barred from investing due to the expected negative environmental and social impact of those investments. The list is developed in line with an investor's principles and risk appetite and helps to communicate the clear boundaries of the investable universe to internal and external stakeholders. Oftentimes, GPs adopt exclusion lists that reflect the risk management practices of their LPs, such as this exclusion list used by all EDFI members. Though, existing exclusion lists do not cover investments in technology.

Red flag List

This list specifies the industries or activities that require a more rigorous ESG due diligence. Investors are not barred from investing in companies that trigger a red flag but are expected to perform a more stringent due diligence, as well as conduct more rigorous monitoring activities after investment. This red flag list is developed in line with the investor's risk appetite and management capacity. The list also serves to communicate the investor's risk management system to internal and external stakeholders.

For both exclusion and red flag lists, investors should build on their ESG commitments to develop escalation criteria. These criteria can be built from a bottom-up perspective, by thinking of the outcomes to avoid and relating them to an investee's activities, or from a top-down perspective, by thinking of the technologies, business models or activities to avoid.

Bottom-up approach

This approach requires investors to start from the drawing board and think about the outcomes or impacts they want to avoid, such as driving addictive behaviour or discrimination.

Example: An investor may want to avoid driving addictive behaviours, and as such chooses not to invest in videogames with a 'loot box' mechanism, or apps that use 'pull-to-refresh' to algorithmically suggest new content.

Top-down approach

Investors often have soft boundaries on the investable universe of a fund, which is informed by the expertise of the investment team and the risk appetite of the fund. Topics that fall outside this universe due to the higher potential of risk can be added to the escalation criteria.

Example: An investor may have a general avoidance of gaming deals that include a 'loot box', as they don't have the leverage or expertise to manage and mitigate the risk of driving gambling.

Investors are free to apply a mix of the two approaches to come up with a list of criteria that would warrant exclusion or a red flag. The list of escalation criteria can then be drafted into policy language that lists the escalation criteria and the follow-up actions required if a potential investment triggers the criteria.

Please fill below the dotted line.

Escalation criteria

List the business models, activities, or technologies that the Fund excludes or considers a red flag.

For example:

"When screening a potential deal, [the Fund] will not finance an activity [without conducting rigorous ESG due diligence, with support from external experts where needed] involving:

- *Video games with 'loot boxes' or similar mystery reward mechanisms, due to the potential for inciting gambling-like behaviour."*

Applicable escalation criteria

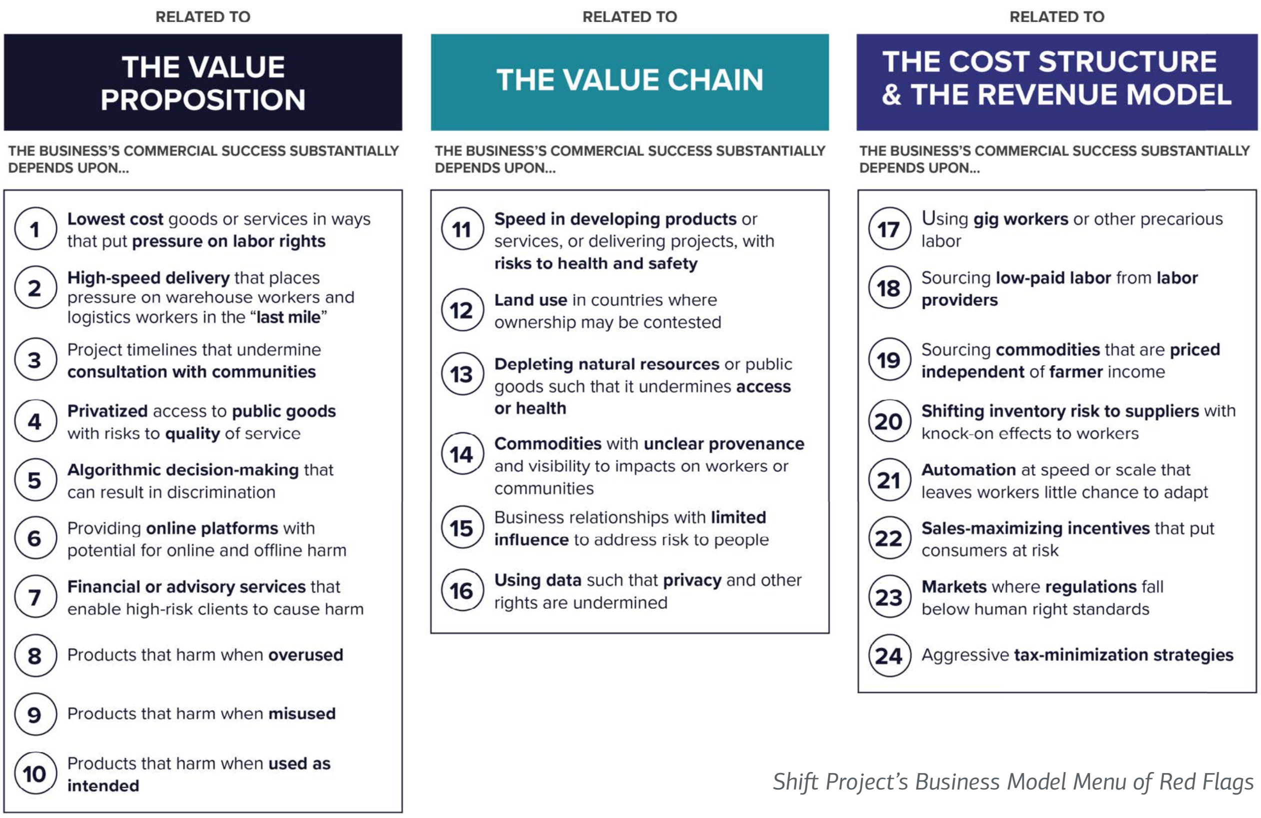
Criteria tied to technology

Escalation criteria may also be based on technologies, especially where an investor does not have the capacity to help an investee address risks in that space. This can include, for example:

- Video games with 'loot boxes' or similar mystery reward mechanisms.
- Artificial Intelligence or Machine Learning systems that automate decisions around human health, livelihoods, finances, employment, or other critical areas.
- Platforms that require extensive content moderation due to high levels of user-generated data.

Criteria tied to business model

Escalation criteria can be tied to the business model. As can be seen in Shift Project's Business Model Menu of Red Flags below. The Shift Project offers a resource that identifies red flags tied to the value proposition, value chain, cost structure and revenue model of a business. These red flags can be adopted by investors for an exclusion list or a red flag list.



Shift Project's Business Model Menu of Red Flags

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Template 1: Due Diligence memo

How to use this template

The due diligence memo summarises the insights from your due diligence and communicates them with the Investment Committee. The committee can then use these insights as part of the investment approval process.

Please fill below the dotted line.

Due diligence memo

Complete this template by inserting the insights from your due diligence process.

Overview

Company name	Country of operation	Ticket size	Sector and sub - sector
[Name]	*[Country]*	*[USD]*	*[Sector and subsector]*

Scope

Scope of ESG due diligence activities

[Describe the due diligence activities in detail, i.e., desk based, in person/ on the ground, interviews, methodology, applicable standards etc. List documents under review]

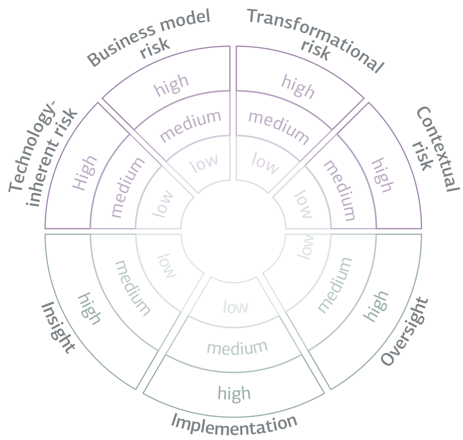
ESG risk exposure and management capacity

ESG risk exposure level

[Low/Medium/High, overall and by risk driver]

ESG risk management level

[Low/Medium/High, overall and by dimension]



ESG risk category justification

[Provide an explanation for why the ESG risk category above is appropriate. Break down the risk exposure along the four risk drivers. For justification revert to description of risk categories; are risks non-existent, limited, or if so, reversible?]

Risk exposure

[State summary of risk exposure, describing the ESG risks inherent to the business model. For risk drivers where a medium or high level of risk is indicated, describe how internal experts or external specialists were engaged.]

Risk management capacity

[State summary of risk management assessment, describing the ability of the company to assess, avoid, manage, and mitigate the ESG risks it is exposed to. Detail which risks the company is better or worse equipped to manage and why.]

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Template 2: Action plan

How to use this template

During the approval process, investors are advised to co-develop an action plan with the investee to address the most material ESG risks identified during due diligence. This template can be used to structure the action plan items.

Please fill below the dotted line.

Action plan

Engage with your investee company on the findings of the due diligence and subsequently agree on action plan items for the short and long term. Subsequently populate the template with your agreement and share it with your investee for final alignment.

Client information

Company name	*[Name]*
Contact person	*[Name and e-mail of person responsible for submitting the data]*
Date of action plan (or update)	*[Date YYYY-MM-DD]*

Risk prioritisation

Summary of DD findings	*[Discuss the ESG risks highlighted by the due diligence process]*
What can be addressed?	*[Consider which risks can be addressed or managed by the company, based on whether they are systemic/contextual or within/outside the company's control]*
What should be addressed first?	*[Prioritise which risks should be addressed first, based on their impact on the business and on society]*

Action plan: List of measures to manage ESG risk

#	Document/item	Activity	Responsibility	Deliverable	Deadline	Status / Result
#1	*[Insert text]*	*[Insert text]*	*[Insert text]*	*[Insert text]*	*YYYY-MM-DD*	*[Insert text]*
#2						
...						
...						

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Template 3: Monitoring report

How to use this template

The monitoring report structures your ESG reporting requirements to your Limited Partners. As reporting takes place regularly, having a reporting structure in place ensures consistency and timeliness. The portfolio company reporting requirements can also be shared with investees to facilitate the data collection process.

Please fill below the dotted line.

Monitoring report

Complete this monitoring report and share it with your Limited Partners on a 6-month, or annual basis.

Investor reporting requirements

General portfolio and process review

Name of ESG officer and any other person permanently assigned to the management and measurement of ESG topics

[Insert text]

Exclusion List: confirmation that no investments are undertaken in any of the activities listed in the Exclusion List. In case that the Portfolio Company is found to be partly active in activities included on the Exclusion List, submit a plan to phase out such activities)

[Insert text]

Red Flag List: investments in industries or engaging in activities with potentially significant negative environmental and social impacts have been flagged and there are clear plans established to track and address issues that may arise

[Insert text]

Portfolio breakdown in terms of applicable business model and/or technology solution

[Insert text]

Overview of current pipeline, status, and expected risk categorisation

[Insert text]

Compliance with all conditions and covenants in Investor Agreements

[Insert text]

Updates on changes in the ESG framework

[Insert text]

Transactions declined on ESG grounds

[Insert text]

Difficulties and/or constraints related to the implementation of the ESG framework
[Insert text]

Number of full-time employees
[#]

Capacity building

A summary of trainings undertaken/planned on relevant technology risk management (e.g., data privacy), environmental management, occupational health, and safety, and emergency response, as well as other ESG topics
[Insert text]

Planning

Overview of internal ESG priorities for the coming year including review and update of technology risk management, ESG Policy reviews and updates of international guidelines and frameworks, specific ESG themes
[Insert text]

Portfolio Company reporting requirements

ESG management

Risk categorisation of each investment and rationale behind that categorisation
[Insert text]

Summary assessment of ESG risks identified, including overall risk categorisation and specific risk drivers that are identified as high risk (i.e., technology-inherent risk, business model risk, transformational risk, contextual risk)
[Insert text]

Status of (i) ESG performance to date – including specific indication whether Core Labour Standards are adhered to (Y/N); (ii) ILO Basic Terms and Conditions of Employment (iii) implementation of ESG Management System and (iv) agreed Action Plan (if applicable)
[Insert text]

Employment data

General information

In country of operation, a standard working week consists of (...) hours
[#]

Please specify the reporting period
[MM/YYYY-MM/YYYY]

Number (total and female only) and breakdown of direct jobs

Permanent full-time direct jobs (# employees working full-time at the end of the reporting period, by gender)	*[#]*
Permanent part-time direct jobs (# employees working part-time at the end of the reporting period, by gender; Average workhours per week, by gender)	*[#]*
Temporary direct jobs, e.g., seasonal, or short-term jobs (# employees working over the reporting period, by gender; Average workhours per week, by gender)	*[#]*
Insourced / contracted jobs (# people working on-site for but not employed directly by your institution over the reporting period, including those working as contractors using your institution's platforms or in the 'gig economy', by gender; Average duration or work per week, by gender)	*[#]*
Has retrenchment of employees taken place in the reporting period? If yes, please specify number of employees affected and attach copy of retrenchment plan	*[#]*

Financial data

Turnover/Sales/Net interest income Reporting Year (# currency, P&L)	*[# currency]*
Turnover/Sales/ Net interest income (first year of fund inv., # currency, P&L)	*[# currency]*
EBITDA (# currency, P&L)	*[# currency]*
Capital expenditures (# currency, P&L)	*[# currency]*
Corporate income taxes (# currency, P&L)	*[# currency]*
Profit after Tax (# currency, P&L)	*[# currency]*
Community Development Contributions, e.g., via Corporate Social Responsibility (# currency)	*[# currency]*

Local value added (% local requests an estimate how much of the provided money flow remains in the investment country)

Estimate on % local for COGS approximated by Turnover-EBITDA	*[%]*
Estimate on % local for Capex	*[%]*

Others

Percentage of shares of the investee held by national/domestic parties (%)	*[%]*
Date of the last site visit for ESG purposes	*[YYYY-MM-DD]*

For High Risk and Medium-High Risk Activities

Summary of qualified external ESG assessment undertaken and reference to qualification of external expert undertaking assessment
[Insert text]

Optional information on each Portfolio Company

Any improvements in performance with a clear environmental benefit (e.g., energy savings, reducing (hazardous) waste, certification of relevant management systems, such as ISO 14001[2], ISO 45001[3])

[Insert text]

Any improvements in performance with a clear social benefit (e.g., improvements in labour conditions, certification of relevant information security management systems such as ISO/IEC 27001[4], 27002[5])

[Insert text]

Compensation data (can be collected based on multiple between highest and lowest wage earned)

[Insert text]

2 The ISO 14001 family of standards sets out criteria for an environmental management system. https://www.iso.org/standards/popular/iso-14000-family
ISO 14001 sets out requirements for occupational health and safety management systems. https://www.iso.org/standard/63787.html

3 ISO/IEC 27001 sets out requirements for information security management systems (covering information security, cybersecurity, and privacy protection).

4 https://www.iso.org/standard/27001
While ISO/IEC 27001 outlines requirements for an information security management system, ISO/IEC 27002 offers best practices and control objectives

5 related to key cybersecurity aspects. https://www.iso.org/standard/75652.html

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Template 4: Responsible exit checklist

How to use this template

In addition to ensuring continued responsible practices at the company, investors exiting technology companies need to consider risks tied to the value of personal data and the ability of technology companies to scale. These are expanded upon below.

Risks tied to data use
Technology companies are often bought based on the value of their user data, which may be comprised of personal data in HealthTech, FinTech, and other sectors. While the company may currently protect user privacy, it becomes important to ask: *What are the buyer's reasons for acquisition and what are their plans for the company?*

Risk tied to scaling
Investors acquire companies with well-built digital solutions with the intention of providing the company with the resources to rapidly scale. However, it can be a challenge to align internal structures and culture to cope with the rapid growth, and this risk can be heightened without responsible oversight. Exiting investors should consider the question: *Are there sufficient governance structures in place that ensure sound scaling practices?*

The checklist below can help ensure that an investor has made best efforts to exit responsibly.

Responsible exit checklist

Complete this checklist to assess the eligibility of potential buyers.

Buyer eligibility

Entity name & type	*[Name and type of entity, i.e., individual, fund, corporation]*
KYB scan (OFAC & UN)	*[State whether the buyer has been screened against OFAC and UN sanction lists]*
Acquisition rationale and intention	*[Discuss the buyer's reasons for acquisition and their probable intentions for the company, working with the buyer and the deal team]*

Buyer risk management disclosure

Has the counterparty shared:

- ☐ ESG policies
- ☐ High level overview of current practices
- ☐ Risk management system (if available)
- ☐ Any disclosable reporting commitments

Investee handover and information sharing

Have you/the investee shared:

- ☐ ESG policies
- ☐ ESG management related documents
- ☐ A brief status report on the current ESG performance

About the authors

KFW DEG

The German development finance bank, Deutsche Investitions- und Entwicklungsgesellschaft mbH ("DEG"), is one of the largest European Development Finance Institutions (DFIs). For 60 years, DEG has been financing and structuring the investments of private companies in developing and emerging markets. The bank reaches out to private enterprises by directly financing them with loans and equity investments or investing in local financial institutions, thereby indirectly supplying funds to SMEs. Beyond capital investment, DEG provides expertise to companies and financial institutions to facilitate economic growth, improve infrastructure, and expand access to financing in their respective markets.

AfricaGrow
Investments. Know-How. Growth.

Supported by the
Federal Ministry for Economic Cooperation and Development

The AfricaGrow Fund of Funds ("AfricaGrow") is a public-private cooperation between DEG, KfW – on behalf of the Federal Ministry for Economic Cooperation and Development (BMZ) – and Allianz insurance companies. DEG Impact, a subsidiary of DEG, acts as an investment advisor to Allianz Global Investors, the fund manager of AfricaGrow. The fund is based in Germany and focuses on supporting SMEs and start-ups in Africa. Around 30 percent of its funds are directed towards venture capital (VC) fund managers focused on technology and technology-enabled companies across diversified sectors. As an anchor investor, it provides a first-loss tranche on the fund-of-funds level with the aim to leverage additional funding from other investors for the emerging VC and private equity (PE) sector. Africa Grow is also designed to generate measurable positive environmental and social impact as well as to stimulate investment flows and support sustainable development into Africa.

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MAKING BUSINESS WORK FOR SOCIETY

Steward Redqueen is a consultancy that works across the globe helping its clients address today's sustainability challenges. As specialists since 2000, Steward Redqueen focuses on integrating sustainability, quantifying impact, and facilitating change. The consultancy works for leading bilateral and multilateral development financials, commercial banks, private equity funds and impact investors, industry associations, multinationals, and government donors in developed and emerging markets.

About this report

As a joint effort within the DEG Group, DEG and DEG Impact via AfricaGrow have asked Steward Redqueen to conduct research on the risks and opportunities of technology investments and develop well-researched practical guidelines for their investment processes. As both institutions increasingly invest in technology companies and fund managers in emerging markets, DEG and AfricaGrow want to offer a structure and guidance that can help technology investors leverage existing industry standards to identify and manage ESG risks and opportunities. These guidelines build upon the complementary Market Study (*Responsible Investment in Technology: Market Study on the ESG Risks of Technology Investments*) published separately, and aim to support the broader investor community towards more responsible investments in technology.

The authors of this report express their gratitude for the fruitful collaboration with the DEG and AfricaGrow project team: Ute Sudmann, Meike Goetze, Anna Niedergesäss, and Jacques Grassmann. We thank Marijn de Haas from de Groene Strik, who lent her human rights knowledge to this project. In addition, the authors extend their sincere appreciation to the organisations who participated in the pilot of the guidelines: Ventures Platform, East Ventures, and Openspace Ventures.

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