

ESG Toolkit Process Snapshot

C4D Partners has developed an ESG Toolkit that helps the Investment Officers to screen (potential) portfolio companies on ESG aspects and to design Action Plans for investee companies to improve on ESG and to monitor their progress of implementation.

The excel based ESG Toolkit is developed based on the earlier mentioned internationally accepted IFC performance standards and methodologies for assessing and screening companies on ESG aspects. Furthermore, the tooling is designed around the investment process that C4D applies, to safeguard ESG is embedded in all phases of the investment process (pre- and post-investment).

In this document we would like to share few snapshots of the toolkit explaining step-wise process on how we use this to conduct the assessment pre- and post-investment.

Step 1: Exclusion List

A	B	C	D	E	F	G	H	I	J
S No	Exclusions	Description	Check (Select)		Instructions:				
1	Local law and regulations and international conventions and agreements	Production or trade in any product or activity deemed illegal under local laws or regulations or banned as per global conventions and agreements, such as certain pesticides, chemicals, wastes, ozone depleting substances, and wildlife or wildlife products.			<p>1. After careful analysis of the company, select 'YES' (if applicable) in Column D.</p> <p>2. If any of Exclusions are marked 'NO' in Column D then the company is not eligible for an investment from C4D Partners.</p> <p>3. Some of the Exclusions contain a link in the Description. You are requested to ensure that you run the initial screening through these links</p>				
2	Weapons and munitions	Manufacturing of equipment (including nuclear products) primarily designed or primarily designated for military purposes.							
3	Forced labour and child labour	Production or activities involving forced labour or child labour.							
4	Unbonded asbestos fibres	Production, use of, or trade in unbonded asbestos fibres, excluding cement sheeting where the asbestos content is less than 20%.							
5	Gambling	When a significant source of revenue: the establishment or operation of casinos or any form of							
6	Pornography and prostitution	When a significant source of revenue: pornography or the provision of products or services of a substantially similar nature.							
7	Tobacco	When a significant source of revenue: manufacture or distribution of tobacco or tobacco related products (unless phase-out plan in place).							
8	PCBs: Polychlorinated Biphenyls are highly toxic chemicals found in e.g. oil-filled electrical transformers, capacitors, etc.	Production or use of or trade in hazardous materials such as PCBs. This chemical is found in electrical transformers, waste incineration and chemical and fertilizer manufacturer. Any electrical transformers in use which contain PCBs must be phased out by 2025.							
9	Ozone depleting substances	Production or use (including its use in food packaging, refrigerant, aerosol propellant, fire fighting agents) or trade in Chlorofluoro Carbon (CFCs), halons (fire fighting agents) and other ozone depleting substances such as Carbon tetrachloride (found in dry cleaning agent), Methyl Chloroform (found in metal cleaning solvent, photographic film cleaning), Methyl Bromide (found in pesticide) and Bromochloromethane (found in aerosol propellant) subject to international phase-							
10	Hazardous wastes	except for non-hazardous waste destined for recycling. Hazardous wastes are defined by the Basel Convention as wastes which are explosive, flammable, toxic or corrosive. Also covered by the Basel Convention are those substances that are proscribed as hazardous by							

Process: This is the first step of the process, where we check if the potential investee company is involved in any sort of activity that is prohibited. If the company falls under any of the exclusions, then the deal is dropped at this stage.

Step 2: Risk Matrix

Risk Matrix		Risk	
Ratings Assigned	A (High)	B (Medium)	C (Low)
Environment	4	3	2
Social	4	3	2
Governance	4	3	2

Instructions Table			
Risk categories	Description of categories	Examples	
Environment	A	A proposed investment is classified as Category A if it is likely to have significant adverse environmental impacts that are sensitive, diverse or unprecedented.	• Large dams and reservoirs • Forestry (large scale) • Agro-industries (large scale) • Industrial plants (large scale) • Major new industrial estates • Extractive industries, including mining, major oil and gas developments and major pipelines • Large ferrous and non-ferrous metal operations • Large port and harbour developments • Developments with large resettlement components • Large thermal and hydro-power developments • Projects that include the manufacture, use or disposal of environmentally significant quantities of pesticides or herbicides • Manufacture, transportation and use of hazardous and/or toxic materials • Domestic and hazardous waste disposal operations
	B	A proposed investment is classified as Category B if its potential adverse impacts on environmentally important areas including wetlands, forests, grasslands and other natural habitats are less adverse than those of Category A investments but more adverse than Category C investments. These impacts are site-specific, few if any of them are irreversible and in most cases mitigating measures can be designed more readily than for Category A investments.	• Agro-industries (small scale) • Electrical transmission • Aquaculture • Renewable energy (except large hydroelectric power projects) • Tourism (including hotel projects) • Rural water supply and sanitation • Rehabilitation, maintenance and modernisation projects (small scale) • Manufacture of construction materials • General manufacturing • Telecommunications • Greenfield projects in existing industrial estates
	C	A proposed investment is classified as Category C if it is likely to have minimal or no adverse environmental impacts.	• Advisory assignments • Media and information technology • Life insurance companies • Securities underwriters and broker/dealers • Technical assistance
Social	A	A proposed investment is classified as Category A if it is likely to have significant adverse impacts on human populations that are sensitive, diverse or unprecedented.	• Large dams and reservoirs • Agro-industries (large scale) that involve use of pesticides and herbicides that can be toxic for workers • Industrial operations (large scale) that involve machinery or substances that can be hazardous for workers from a health and safety perspective • Major extractive industries operations, with on-site workers who often work on remote locations • Projects with large resettlement components and all projects with potentially major impacts on local communities • Projects affecting indigenous or tribal populations • Projects that include the manufacture, use or disposal of environmentally significant quantities of pesticides and herbicides • Manufacture, transportation and use of hazardous and/or toxic materials • Domestic and hazardous waste disposal operations • Any projects which pose serious health and safety risks • Any projects which pose serious socio-economic concerns
	B	A proposed investment is classified as Category B if its potential adverse impacts on human populations are less adverse than those of Category A investments but more adverse than Category C investments. These impacts are site-specific, few if any of them are irreversible, and in most cases mitigating measures can be designed more readily than for Category A investments.	• Agro-industries (small scale) • Electrical transmission • Aquaculture • Renewable energy (except large hydroelectric power projects) • Tourism (including hotel projects) • Rural water supply and sanitation • Rehabilitation, maintenance and modernisation projects (small scale) • Manufacture of construction materials • General manufacturing • Textile plants • Greenfield projects in existing industrial estates
	C	A proposed investment is classified as Category C if it is likely to have minimal or no adverse impacts on human populations.	• Advisory assignments • Media and information technology • Life insurance companies • Securities underwriters and broker/dealers • Technical assistance

Process: This is the second step in the process. Based on the examples provided and ‘corruption perception score table’ the investment manager maps the potential investment opportunity to its risk category.

Step 3: Questionnaire

Key due diligence areas		S No. (Auto Update)	Relevant (Auto Update)	Due diligence on Business Integrity Matters	Response to the Questions	Narrative Description (Describe)
3. GOVERNANCE - DD QUESTIONS						
Country corruption situation	1	YES	How does the country rank in Transparency International's Corruption Perceptions Index?	YES/NO/NARRATIVE		
	2	YES	How are business integrity issues dealt with locally?			
	3	YES	Is the financial regulatory system of the country operating in line with high international standards?			
Business integrity of company	4	YES	Is there a designated person at the company with responsibility for managing compliance issues, ethics and potential conflicts of interest?			
	5	YES	Any criminal convictions amongst the company management, staff or board members?			
	6	YES	Has any management person, staff or board member been, or is, under investigation by law enforcement or regulatory authorities?			
	7	YES	Evidence or suspicion of company management criminal activity, e.g. intimidation, blackmail, etc?			
	8	YES	Involvement or association with criminals?			
	9	YES	Does anyone connected with the company appear on any UN list of persons suspected of involvement in terrorist activities or any other relevant national or international blacklists? The response should include the results of enquiries in Compliant, World-Check or other comparable systems. If not accessible or available, this should be noted here.			
	10	YES	Involvement or association with money laundering?			
Code of conduct	11	YES	Does the company have a code of conduct for employees prohibiting bribery?			
	12	YES	How are employees made aware that the company does not condone bribery?			
Anti-bribery	13	YES	Is there regular anti-bribery training for employees?			
	14	YES	Does the company operate in a sector where bribery is prevalent?			
	15	YES	Does the company have a policy on gifts, entertainment and other potential sources of conflict of interest?			
Anti-money Laundering	16	YES	Does the company have appropriate anti-money-laundering training and procedures in place?			
	17	YES	Have background searches been performed on beneficial owners and others with a significant relationship to the company?			
Accounting and Compliance	18	YES	Are the accounting records fully up to date and complete?			
	19	YES	Does the company send regular and complete information to the tax authorities?			
		NO				

Process: Based on the risk matrix and relevant ESG sub-topics the investment manager will be responsible for selecting the applicable questions out of one exhaustive questionnaire list. Post the selection of questions, the investment manager interviews the promotor and other related personnel at the investee company to get details and collect relevant supporting documents. Based on the responses the investment manager scores each question for priority and risk involved with it.

Step 4: Action Plan

S. No (Auto)	ESG SubTopics	Priority (Auto)	Risk Rating (Auto)	Action to be taken (Auto)
45	Local laws	Level 1	A (High)	The company needs to file annual return form D-1 under FSSAI,
54	Risk Management	Level 1	A (High)	Arohan needs to renew its factory insurance at the earliest

S. No (Auto)	ESG SubTopics	Priority (Auto)	Risk Rating (Auto)	Action to be taken (Auto)
11	Code of conduct	Level 1	B (Medium)	The company needs to put in place a strong code of conduct and values to its empl
12	Anti-bribery	Level 1	B (Medium)	The company needs to have anti-bribery policy in place.
16	Anti-money Laundering	Level 2	B (Medium)	Proper training about anti-money laundering should be provided to employees eve
52	Commitment to good corpora	Level 1	B (Medium)	The company must include code of ethics in place
53	Commitment to good corpora	Level 1	B (Medium)	The company should develop a corporate governance policy
92	Control and risk management	Level 2	B (Medium)	The company needs to set-up formal team to manage ESG related risks.

Process: Post the interview the investment manager fills in action plan which acts as a condition precedent for pre-investment deals in some cases. This action plan is shared with the investee companies with a deadline for their reference and so that they take necessary actions to become ESG compliant. Post-investment the investment manager follows up on the action plan and keeps a track of all the requirements pertaining to ESG compliance.

Step 5: Assessment Sheet

ESG risk category (High/medium/low)	Summary (please provide a summary of findings)				
Conclusion ESG risk assessment	<p>A (High Risk)</p> <p>The company is one of the pioneers in starting a Green Industrial Revolution in Manipur and its main aim is to restore the economical condition by utilizing the already available resources and manufacture world class products. It does so by the organic plantation of lemongrass and employs roughly 1500 tribals, majority of which are women. Apart from the above, the company has, through its foundation, initiated tree plantation campaigns and referral programs and is based towards registering women as its workers, thereby contributing towards empowerment of women.</p> <p>Environment: Environmental risks surround using water resources to help expand crop cultivation. While the company uses large quantities of water from a local pond, its use of water does not affect the supply available to the community. Lack of infrastructure has led the company to be dependent on diesel generators for its supply of electricity, which results in air and noise pollution. Activities which contribute to water and soil pollution need to be looked at in detail. The company treats its waste water with basic chemicals of alum and chlorine before releasing it into the reservoir and pond.</p> <p>Social: Since the activities of the company involve working on fields, health and safety of the workers need to be taken care of and emergency exit plans should be laid down, in accordance with the standards laid down under law. The company does not have a grievance mechanism system or a system where the employees can present their views to the management, despite a vast majority of its workers being tribal. Additionally, the company operates in a sector where child labour is common, but has taken measures to ensure prevention at its own plantations. The company's manufacturing products which are directly consumed by consumers but does not should have a quality assurance function in place.</p> <p>Governance Risks: While the company creates excellent impact on society, the company needs to also focus on governance and compliance with laws. Considering the large number of workers employed by it, compliance with labour laws, if applicable, may be challenging. The company operates in the difficult north-east region of India, which faces challenges of instability, corruption, political influence and lack of infrastructural facilities related to corporate governance.</p>				
FMD toolkit: ESG risk assessment - understanding the results	Risk Score of Performance Standard (Score 1-5)	ESG risk level (low, medium, high)	Description of ESG risks identified	How are these risks managed by the company (if any)?	Procedures performed by C4D to assess risks (e.g. types of questions asked, site visit, interview, etc)
IC Performance Standard					
PS 2: Labor and working conditions	2.85	B (Medium Risk)	<ol style="list-style-type: none"> Compliance with Labour and health and safety laws: the company needs to identify the labour laws which are applicable to it and maintain accurate records and registers as mandated. Child Labour: Vulnerable Labour and Women labourers Emergency exit plans: Since the factory is an open factory, the company does not have in place any emergency exit plans, fire extinguishers or factory insurance. Working conditions (Lemongrass fields) Medical facilities on factory/field 	<ol style="list-style-type: none"> Child Labour: the company does not employ persons below 18 years of age and as part of the terms of employment, the workers agree that they cannot bring children to fields to work. Women Labourers: The company prefers women workers over men for their dedication and has equal remuneration and wage rate irrespective of gender. Working conditions: The company provides workers with boots and gloves while working in the fields as protection against snake bites. 	<ol style="list-style-type: none"> Review of certifications, agreements / contracts, records and registers. Interview with the founder. Review of Factory license, and Research on health and safety and labour laws applicable to organic tea sector.
PS 3: Resource efficiency & pollution prevention	3.19	C (Low Risk)	<ol style="list-style-type: none"> Air Pollution: Use of diesel generators Water pollution: release of treated waste water into the pond and reservoir Soil Pollution: Land clearance activities for farming 	<ol style="list-style-type: none"> Air pollution: the company is in discussions with vendors for installation of solar panels to reduce their dependency on diesel generators Water pollution: the company treats the waste water generated with alum and chlorine before releasing it into the pond and reservoir. Soil pollution: the company avoids cutting down trees as part of its land clearance activities and as far as possible, clears only the weeds and waste grass. 	<ol style="list-style-type: none"> Discussion with the founder promoter, and Review of pollution control certificate
PS 4: Community health, safety, and security	2.00	A (High Risk)	<ol style="list-style-type: none"> Consumption of products manufactured by the company, and release of waste water into the pond/ reservoir 	<p>Release of waste water: treatment with alum and chlorine before release into the pond and reservoir</p>	<p>Discussions with the founder promoter</p>

Process: This is the final step where the investment manager describes about the risks identified, how are these risks managed by the company (if any)? and procedures taken by the fund manager to assess risks. This assessment sheet is pasted in the IC Memorandum to give the IC members a fair idea of where the potential investee company stands with respect to ESG risks and how compliant the company is?

