Making an ESG approach fit for purpose for Emerging Market Venture Capital Investors

— a Universe of ESG issues for ESG due diligence

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VentureESG is a community-based non-profit initiative from VCs for VCs aiming to enable the integration of good ESG practices within the industry. We work with 500+ VC funds and 100+ limited partners and asset owners worldwide on meaningful ESG integration in VC. This project was led by our Emerging Markets Research Fellows Zecheng Wang and Alexandriner Royer and VentureESG Co-Founder and Co-Director, Dr. Johannes Lenhard. You can learn more about VentureESG **here.**

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The views expressed in this document are those of VentureESG and do not necessarily reflect the views of British International Investment (BII) or the Dutch Entrepreneurial Development Bank (FMO), institutions that have sponsored this project.

Executive Summary

Introduction

Throughout a year-long project supported by British International Investment (BII) and the Dutch Entrepreneurial Development Bank (FMO), VentureESG drafted a pragmatic Emerging Markets ESG Due Diligence Framework for Venture Capital investors ("VC"). The pilot framework is a practical tool for VC and startups in low and lower-middle-income countries; it is focused on enhancing the Environmental, Social, and Governance (ESG) due diligence process through questions across 8 topical areas. A materiality filter is built in for fund managers to select relevant questions befitting the investment opportunity.Fund managers and other ecosystem participants are further invited to engage with the due diligence tool, which is subject to continuous updates, and share their perspectives on emerging markets ESG outlined in this paper. ***The tool can be accessed here***.

The overall project was comprised of three phases:

1. Development of the ESG due diligence toolkit based on research and interviews (completed)
2. Integration of a materiality filter (completed)
3. Development of further resources on portfolio support and continuous updates of the framework (ongoing)

Goal of the white paper and tool

The primary motivation for the tool development and accompanying white paper arose from the observed practical challenges repeatedly raised by VCs, development finance institutions (DFIs) and policymakers regarding existing ESG frameworks. These challenges can be broadly summarised across three themes:

1. Coverage
2. Risk profiles
3. Proportionality

Coverage

Existing due diligence instruments in emerging markets VC are not asset class specific and are thus regarded as impractical by the investors. Fund managers overwhelmingly relied on International Finance Corporation (IFC) Performance Standards, yet this framework was not built with tech-related ventures in mind. DFIs and policymakers are aware of such limitations but are also confronted by a lack of alternatives.

Risk profiles

VC investors in emerging markets are supporting innovative technologies that, at times, may be breaking into uncharted legal and social territory. Tech-enabled solutions, through algorithmic management, coded bias, and automated decision-making among others, are bringing in new risks to users, consumers and workers and controls over natural and human capital. Given the quick pace of industry and the pressures to support 'industry-creating innovations', VCs often lack the in-house capacity and tools to foresee, identify and manage novel material risks and impacts. Business integrity and governance risks like corruption and fraud, likely more relevant in emerging markets contexts, tend to be largely absent from leading ESG frameworks.

Proportionality

Many VCs questioned the scope and applicability of the existing tools. Frameworks were largely created for companies with a notably larger stature and considerable resources to operationalize, monitor, and report ESG processes. In emerging markets in particular, VCs often range from micro to medium-sized enterprises with scarce resources to oversee ESG, which can also be neglected internally (i.e. the impetus to 'clean your own house').

The confluence of these challenges makes existing tools not fit for purpose to the needs of funds and their ventures. Fund managers interviewed cited how they must often resort to bespoke in-house processes that reflect the capacity restraints of their management team who factor relevant risks by opportunity and draw from their knowledge of local, on-the-ground considerations. The Universe of Issues is designed to facilitate and guide VCs in applying a mitigation hierarchy within their own unique investment context, fund size and management and maturity of portfolio companies.

The focus of this tool is to provide guidance on due diligence and portfolio support for risk mitigation. It is not designed as a reporting or compliance framework. It is meant to assist fund managers in identifying material ESG risks most likely to affect their portfolio companies as early as the investment decision-making but also in portfolio support and open dialogue with portfolio companies to address potential challenges. This tool can be combined with other due diligence and support processes set in place by funds.

Process and methods

To develop the pilot due diligence framework, our study took place in two phases.

1. Benchmarking analysis of available toolkits: With a specific focus on emerging markets, we collected available tools to produce a raw version of a synthesised framework. The framework is furthermore informed by previous work from BII and FMO in their Good Practice Note for Responsible Venture Capital, BII's Business Integrity guidance for Venture Capital fund managers and in BII's Policy for Responsible Investing.

2. Interviews: We conducted over 30 interviews with VC fund managers and Limited Partners (LPs) across emerging market contexts to understand the state of the art for venture capital ESG due diligence questionnaires in practice. Incorporating feedback from other DFIs, we drafted the Universe of Issue tool in early 2024.

Toolkit and next steps

The Emerging Markets ESG Due Diligence Framework for Venture Capital investors - as well as forthcoming accompanying resources - aims to ensure sustainable and responsible technology investing, starting with due diligence. We hope to work with a growing number of LPs - DFIs and otherwise - to socialise this toolkit and forthcoming resources with emerging market VC fund managers to enable them to further integrate fit-for-purpose ESG across their value chain, from investment decision-making to portfolio support. Feedback is welcome as we aim to improve our resources continuously.

Definitions

A few definitional clarifications are needed before proceeding with the content of the paper. Investors operating in emerging markets may still encounter a definition barrier when distilling how ESG differs from impact and the assumption that impact naturally entails ESG. Reporting on the achievement of UN SDGs and impact outcomes is separate from risk management for ventures and investors alike.

As used throughout the paper:

» **"ESG"** covers environmental and social sustainability, corporate governance and business integrity matters and risks across business operations
» **"Impact"** means any outcome or output - positive or negative, potential or actual - of a business activity.
» **"Risk"** means a combination of the probability of certain hazard occurrences and the severity of impacts resulting from such an occurrence.
» An **"ESG assessment"** focuses on the *processes* behind a company's operations, including its exposure and response to various risks, whereas impact metrics aim to identify a company's *outcomes*.

Note: The conflation of ESG and impact is common and dangerous; both can be connected - e.g. if ESG risks are not properly mitigated across operations then there is an adverse effect on impact outcomes (incl. SDG targets) but the analytical distinction is crucial.

Part 1.

Why ESG for VCs in Emerging Markets?

In developed markets post-pandemic, converging factors have led to a significant uptake in ESG as part of business integrity and beyond. Firstly is growing evidence of the business case for ESG as a value-add beyond risk mitigation. Recent public market data have shown that ESG integration leads to higher annual returns. DEI initiatives and environmental considerations also contribute to cost reductions, productivity uplift and top-line growth. Managing business integrity risks around corruption, fraud and poor governance can help prevent financial losses and enhance business reliance and operational efficiency.

Secondly, European regulatory requirements for private asset classes are becoming more and more comprehensive as LPs are making ESG part of due diligence for VC fund managers and startups. ESG disclosure is increasingly expected for companies going public, as illustrated by the new climate reporting measures introduced by the US Security and Exchanges Commission. ESG is also scrutinised as a top CFO priority during mergers and acquisitions. These broader regulatory developments are a bi-directional byproduct of increased public awareness of technology's environmental impact and social pitfalls, leading to demand for ESG from consumers, employers and founders. The slew of public backlash faced by startups on workers' conditions and improper personal data usage reinforces the need to guard against reputational risks. Moreover, founders are looking to build more value-aligned ventures. Employees want to work for, and consumers purchase from, 'sustainable businesses'. Finally, governance scandals in recent years have led to the collapse of startups, which has raised concerns and increased scrutiny among investors, as well as highlighting the importance of good governance and fraud management.

The push towards ESG integration is also spilling over into emerging markets. Arguably, the larger presence of DFIs and the predominance of impact or cli-

mate-focused funds tied to the UN SDGs in such markets makes ESG a bigger concern; fund managers and founders are familiar with ESG-related policies and practices to raise substantial capital. ESG reporting is often required by the funds' LPs base as a way of mitigating what is perceived as heightened market-level risks for firms operating outside more 'traditional' markets. As noted in several interviews, even funds without stringent ESG policies in place often have extensive exclusion lists in place (e.g. mining and oil and gas, gambling and gaming, alcoholic substances and tobacco, pornography) and expect founders to generate reports on indicators such as estimated C02 emissions, gender balance within teams, number of jobs created, etc. Emerging markets are often also the regions most affected by climate change, encouraging local founders to tap into the growing availability of green capital and appeal to more climate-conscious consumers. The push towards ESG integration is not just a matter of global finance flows, as certain governments within emerging markets are increasingly looking to regulate mandatory non-financial reporting, financial transparency, tax compliance as well as consumer safety and data protection. However, variability in local regulatory standards – especially around data collection, transfers and storage, is adding new uncertainties for founders looking to operate in multiple geographies and adhere to EU standards.

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Emerging markets have also experienced a fair share of startup-related controversies, some of which are similar to scandals observed in the United States. The rapid rise and quick downfall of many tech-enabled startups across Latin America, South Asia and Africa have caused a series of headaches for founders and investors. Fintechs in all three geographies have come under fire with accusations including customer fraud and money laundering, with the Central Banks going so far as to freeze company accounts and assets. Customer protection in emerging markets is being hindered by fraud incidents and controversies around data protection, which can negatively impact vulnerable/unbanked populations the financial service industry is looking to tap into.

Additionally, there have been several cases across emerging markets, especially when GPs took a more founder-oriented approach, of capital being poured to under-experienced founders. Such founders' lack of financial expertise or discipline contributed to incidents of misappropriation of companies' funds or revenue manipulation. The desire of VCs to get in on competitive deals lcan lead them to overlook founder failings that contribute to malpractice, even during the recent tightening of global financial markets. In some cases, these fraud incidents have been driven by rapid company growth and the inability of the company and founders to keep up with adequate financial controls. There have also been numerous reports of sexual harassment, gender-based violence and toxic work environments within the tech industry across these geographies. Such instances reinforce the need for safeguarding policies within portfolio companies and the early implementation of governance structures and oversight.

Dash, a Ghanaian fintech, declared bankruptcy in 2023 after raising over 50 million USD. Reports emerged of its CEO, Prince Boakye Boampong, living on a 50 000-a-month salary and allegedly diverting 25 million of investor funds. Source: In the wake of Dash's closure due to fraud, 5 investors talk due diligence in Africa | TechCrunch

BharatPe, an Indian fintech unicorn, was engulfed in numerous legal controversies when investigations by the Delhi High Court's Economic Offences revealed the production of fraudulent invoices and diversion of company funds by the startup's co-founder and former Managing Director. Source: BharatPe fraud: EOW finds fake invoices generated by Ashneer Grover family. Source: BharatPe fraud: EOW finds fake invoices generated by Ashneer Grover family

Legal action was undertaken by Argentina's Central Bank (BCRA) against a group of fintechs due to accusations of unauthorized financial intermediation through cryptoassets, excessive fees and fraud. Source: Argentina Is Investigating 9 Fintech Firms for Unauthorized Crypto Offerings (yahoo.com)

Eke Urum, CEO at Risevest, a Nigerian stock investment startup, was found guilty of sexual impropriety and abuse of power after a six-week-long investigation into the company's work culture. Before the investigation, Risevest did not have a board of directors in place. Source: Risevest CEO found guilty of sexual impropriety | TechCabal

Governance-related scandals are not unique nor inherent to emerging markets, yet have re-emphasized the value of ESG integration. The benefits of strong governance, and VC fund managers' role in shaping such practices, have already been espoused and preached by many fund managers interviewed[1]:

> *"A healthy governance is important. We've seen a lot of things that started going wrong because of, let's say dynamics either between investors and founders [...] If I look at the big collapses that we've had in the Middle East, but in Africa as well, for me the board did not play its role at all. There were many warning signals. I would not mention names, but you probably have seen a few. Like in Nigeria. You had quite a few in Kenya. But in the Middle East, also Egypt. Definitely, I think the board is as much to blame as the founders. If not more." - Middle East and African VC*

> *"[Until we invest] there really is no governance, we have a lot of influence in how that cap table needs to be structured...if we make external investments, we have a big influence in the way they (these companies) develop." -Accelerator and VC in Brazil*

Many of the funds interviewed spoke about the benefits of ESG integration in their due diligence process and risk mitigation strategies. Some further mentioned the value-add of ESG in supporting portfolio companies and ensuring better returns on investment.

> *We did find the recommendations [from the ESG assessment] extremely important, especially around sustainability and a sustainable supply chain. If you don't build a sustainable supply chain, maybe you're shooting yourself. Also, recommendations around the safety protocol, those are more linked to the risk angle of the business. Making sure that all those things are integrated cuts costs. You are mitigating potential risk and you improve your revenue because you think about a sustainable supply chain that benefits everyone and that will benefit your business in the long run.* - West African VC

> *We are convinced that ESG is linked with the operational performance of the company. If the company doesn't want to buy a fire extinguisher, the company will have a fire and lose all the products that they make. All is linked, so it is why we try to do a very deep ESG due diligence to make sure all the risks are taken into account - health and safety at work, every financial and operational performance. We are investors, we know in the long term risks will occur, we are here to prevent them.* - Global venture builder

However, conversations on the potential of ESG always came with the asterisk that current frameworks were often overly burdensome and time-consuming for fund managers and founders alike, creating the tendency for ESG to be viewed as a checklist exercise.

> *I think most of the time people are using it as a checklist, which is just to tick a box. How do you make that mindset shift? It's not just because I receive money from the DFI that I need to send this ESG report. I'm being very proactive in integrating this ESG recommendation in the day-to-day of the business. Not all funds do this.* - West African VC

A lack of phased and proportionate frameworks creates a lost opportunity around ESG and hinders fund managers and founders from extracting maximum value from such assessments. The ESG landscape in emerging markets is constantly evolving; these markets have complex challenges and risk profiles that are not fully reflected in current ESG frameworks. The following section presents eight distinctive themes across emerging markets, sourced from interviews with VCs', related to ESG standards.

1 Please consult the following reports for additional guidance and support on governance in emerging markets. BII-FMO Governance Red Flags in VC and How to Develop Phase Governance Framework for VC Startups.

Part 2.

The unique context of emerging markets

Uniqueness of EM contexts: how it differs from European/North American ecosystems

- **Lack of fit-for-purpose tools designed for Emerging Markets**
- **Need for guidance and resources on ESG due diligence and portfolio support**

Emerging markets have their unique challenges and simply extrapolating the lessons from the European and North American context may often not work. As presented above, ESG is not an entirely novel concept for funds in emerging markets. Contextualization is key when approaching ESG for emerging markets. Listed below are the dominant cross-cutting themes and considerations for funds specialising in such markets:

1. **Variability in startup ecosystem maturity and sources of capital**: Emerging markets is a broad term that tends to eclipse the immense variability in market maturity, access to capital, and strength and interests of regulators. For example, the 'big four' in Africa made up of Kenya, South Africa, Egypt and Nigeria secured over 90% of private equity funding on the continent in 2023. Countries such as Niger, Burkina Faso and Togo are just starting to receive private equity financing. Within South Asia, the global and local venture capital ecosystem in India is well-established and the country boasts over 113 unicorns, whereas Pakistan and Bangladesh are still struggling to attract foreign VCs and establish local funds. The Latin American market has a more mature venture capital ecosystem overall, with Brazil, Mexico, Chile and Argentina having local funds since the early 2000s. In these countries, regulators are starting to implement certain ESG policies for the banking sectors, with interviewees noting that this will eventually cascade into private equity. The investment landscape in Latin America is also heavily influenced by the United States and there have been similar pushbacks on green investing. The challenge in more mature markets is getting older traditional VC funds to commit to the ESG agenda. As was related by one Mexican entrepreneurship support and market intelligence organisation:

   > "*the issue in Mexico regarding VCs is that all the funds are quite old. They still have this momentum of just making money. The newest ones have this insight that they are more interested in impact and ESG. The stock market in Mexico had a green index that doesn't work*".

   The different priorities of national regulators and local asset owners across emerging markets may create further variability in funds' willingness to comply and drive the ESG agenda.

2. **Ecosystems focused on early stage - without ESG**: The venture capital community in emerging markets takes a different shape than in developed markets. Aside from the composition of the LP base, emerging markets tend to be over-represented at the pre-seed stage, yet with international VCs focusing on Series A-D investments. A scarcity of local capital has resulted in an abundance of venture builders set up to pique the interest of larger VCs and to create tech pipelines in areas where talent from industry and academia is harder to source. Many founders go through venture builders to obtain small investments to get their venture off the ground. These venture builders support a range of company types, anywhere from ideation to pre-seed, and whose business model is likely to undergo successive iterations. Very few have ESG criteria readily in place and are disincentivized by the small size of teams, often just two or three founders, participating in the program. Given the difficulty of securing post-program Series A investment, founders will participate in several venture builders to secure short-term capital and resources, leaving them stuck in an early-stage loop. ESG is not a priority for angel investors in certain geographies, who tend to emphasise growth metrics for founders. The competitive drive for limited funding results in ESG being a low priority for founders, who are unlikely to learn about ESG until later-stage investment, thus building on shaky governance.

"For many startups in the tech sector, the goal is to get funding. ESG thus takes a back seat. Many startups don't have the human resources and financial resources. Startups need to get off the ground first. They need to focus on more pertinent agenda items. Like market response, strategy, etc. But we make sure that down the line they need to consider some ESG." - African angel and VC investor

3. **Capacity of funds and startups limited**: Many VC funds in emerging markets are made up of smaller teams with limited bandwidth to closely engage with the ESG performance of portfolio companies. Contrary to larger global VCs, local funds often do not have the financial or operational capacity for a full-time dedicated or specialist / technically trained ESG officer, yet can have sizable portfolios reaching forty to fifty companies. Interviews from Latin America in particular revealed the significant gap between the capacities of local climate-based funds, which tended to have much smaller teams and just a few LPs mainly from family offices, and global climate funds which had dedicated teams to measure environmental impact. Due to a lack of internal expertise and capacity constraints, founders often must resort to hiring costly ESG experts from developed markets - even when risks can be relatively easy to identify in an early-stage scenario, an abundance of caution takes over. Even global investors with ESG teams note that beyond capacity, the lack of readily available and accessible data limits the effectiveness of reporting. ESG frameworks thus need to be primarily risk-based and proportionate to funds' portfolio risk profile, ticket size, and stage of a company's development to effectively organise internal teams to best support portfolio companies.

    "I've seen too many (reporting templates) that are clearly built for Fortune 500. When it comes to calculating emissions, it's very nice to be in Geneva and have PwC to crunch data (...). I face a lot of difficulty reporting emissions for my startups in Africa". - ESG officer for a global venture builder

4. **Localisation of ESG terms and market realities**: A lack of specificity and localization around certain ESG terms, such as 'indigenous', 'ethnicity' and 'diversity', and quotas related to age and gender tend to further the perception of ESG as an LP-imposition rather than a value-add for founders. Questions surrounding diversity also need to be reframed and adapted to local vocabulary and concepts surrounding ethnic and racial categories. Legal and societal norms in certain geographies that prevent the open declaration of LGBTQ identities can make it a challenging issue for funds and founders alike to monitor. As with developed markets, women tend to be underrepresented as founders, in senior managerial roles and board positions. Yet, the obligation to meet certain quotas under investor conditions can lead to instances of gender-washing and, as one global venture builder related, a discrediting of women's capabilities as "mostly a box-ticking exercise". Gender quotas can also lead to contradictions with other ESG aims and policies. For example, many startups working in the retail or e-commerce sector are reluctant to hire women to work in warehouses due to inadequate security, potential dangers of returning home from a night shift, and cultural taboos against working in predominantly male environments. Such concerns can however be mitigated through the implementation of safeguarding measures. [2]As one early-stage global VC in Brazil explained: "*When you talk for example about inclusion and diversity, for example, the broader term in the firm is related to gender, the big difference in Brazil is that we also include skin colour. There is a specific word in Portuguese for it, if you are a descendant of people of colour. In Brazil, this has a huge correlation with social environments*".

5. **Pure-tech vs. tech-enabled businesses**: Many ventures in emerging markets are targeting primary sectors, making it challenging to adopt the agile, asset-light, pure-tech model preferred by VCs in developed markets. Due to the predominance of disaggregate value chains and the unreliability of outsourcing, founders in emerging markets will often need to vertically integrate across the supply chain to effectively deliver their solutions. For example, agri-tech startups will often need to source farmers, open and oversee warehouses, and develop their own cold-chain trucking and transportation systems. Fintech, insurtech, and e-commerce businesses will depend on a network of in-person agents to assist customers, process orders and set up accounts given varying levels of digital literacy and access to smart devices. Such businesses often end up being more tech-enabled than pure tech by either requiring a large workforce and/or engaging across industries and operating physical assets/value chains. More asset-heavy businesses can pose greater ESG risks even within the companies' early-stage, such as waste, emissions, and pollutants as well as the health and dignity of workers, suppliers and customers. Investors will need to factor in the expansion of such risks in their monitoring and allocation of resources across their portfolios. As noted by one African fund with a pre-investment accelerator program,

2 Please consult the following reports for additional guidance and support on governance in emerging markets. BII-FMO Governance Red Flags in VC and How to Develop Phase Governance Framework for VC Startups.

“*We’re in an ecosystem where it’s very hard to say I’m going to start an adventure or launch a startup that has a narrow focus. Oftentimes, you do have to think about the broader ecosystem. So you might start by saying, okay, I have this wonderful idea for a digital project to do XYZ. And very often, the startups realize they might need to engage in other parts of the value chain. So it’s very hard to say I’ll build one thing or one part. You have to engage in many parts.*”

6. **Formalisation, labour laws, and workers’ safety and protection**: Employment conventions and practices tend to vary greatly across emerging markets. Many countries are still lacking standards around occupational health and safety, working hours and the provision of a minimum wage. In many countries, the gig economy - short-term, temporary contracts- tends to be the norm rather than the exception and protections have not been captured in regulatory frameworks. The formalisation of employment contracts across startups’ operations is a challenge, especially for pre-seed ventures, as is the limited financial capacity of employers to provide for social insurance and pension plans. Tracing the possibility of child labour across the supply chain is especially difficult for founders working in the agri-tech industry as produce may be sourced from subsistence-based family enterprises in which children are part of the production process. Outside of sourcing and procurement from subcontractors, there have been several instances internally and within upper management of harassment, toxic workplace culture and a concentration of power among founders in startups, re-emphasizing the need to have basic HR policies in place. The monitoring and prevention of the aforementioned risks is especially crucial as companies may have their licence to operate revoked and/or funds may face a loss of investment from DFIs in current and future fundraising. One African impact VC explained this further:

   “speaking to other fund managers in any stage and tech VC, we find that issues around sexual harassment, and just general gender-based violence issues are things that people are starting to notice happen a bit more frequently within this industry.”

7. **Bureaucratic challenges, lag in regulatory frameworks and corruption**: Business integrity is a matter of concern across all markets but can be especially pronounced in emerging markets. Ventures, especially with young founders, may lack the experience and support when encountering business integrity challenges such as bribery and corruption risks. Refusing to engage in petty bribes can often result in entrepreneurs being potentially cut off from certain markets, delays in acquiring certain licensing approvals and the obtention of patents, and added difficulties in acquiring suppliers and vendors. Alongside challenges with public service delivery, ventures may fear delays in a company’s operation or, in certain cases, a loss of intellectual property. Furthermore, regulators in emerging markets may be lagging in introducing regulatory frameworks to govern novel technology risks. For instance, large numbers of emerging countries have yet to implement adequate data protection laws. Founders looking to follow best practices around responsible business conduct must turn to international norms and best practices, which can be difficult to implement in full. For example, storing data on local servers is a challenge in markets where local cloud infrastructure is often too expensive or unavailable. Yet, early mistakes made on business integrity can embed poor practices within the structure of a company and can have serious future consequences both on operations and on investment.

   “*We know that there are bribes with those in the public sector, and if you don’t engage in these bribes, it can ruin your company. For the founder we have funded, they want to know how they can meet our requirements, but we are almost the only ones who request this with our ticket size*” - West African venture builder

Part 3.

Universe of Issues for Emerging Markets

The due diligence process is the starting point to move towards more effective and proportionate integration of ESG for VCs working in emerging markets. As the first part of a comprehensive set of tools, VentureESG's Universe of Issues serves as an ESG due diligence questionnaire framework, aimed to provide practical guidance for fund managers to assess portfolio-level ESG risks and impacts in their initial understanding of companies' business models and operations. As a dynamic tool going through an iterative process of continuous development, we are open to receiving feedback and comments on how to improve it further to better serve its intended audiences.

The tool can be accessed here. Below is a summary breakdown of the topic areas and related sample questions entailed in the due diligence framework:

1. Context and General Filtering

- What investment stage is the company's business?
- Is the company's product/service purely digital and asset-light, or does it rely on physical operations and/or assets (e.g. hardware production)?
- List the countries the company operates in, in terms of team, customers, and suppliers.
- In what sector / vertical is the company's business?

2. Environmental Management

- Does the company have an environmental policy and/or management process related to team, culture, product, operations, supply chain, etc.?
- Does the company track and report its carbon footprint? If so, which sources (from scope 1 to 3)?
- What contributes most to the company's environmental footprint?

3. Working Environment and Team Culture

- Does the company adhere to the labour laws of the regions it operates in, as well as ILO fundamental conventions, including freedom of association, child and forced labour?
- How does the company ensure no forced labour directly through its own employment channels and indirectly through third-parties (e.g. suppliers or partners)? If applicable, how does the company ensure migrant workers are treated equal to other workers?
- Do employee wages adhere to local minimum wage standards?
- Does the company have a health and safety policy?
- What other protocols are in place to assess, monitor, investigate, and prevent potential health and safety risks for all employees and supply-chain partners employees (e.g. risk management plan, standard operating procedures, physical mitigants)?

4. Diversity and Inclusion

- Please provide the percentage of female (and non-binary) members for your employee base, C-level, and Board. If possible, please provide the percentages for minority ethnic; local or indigenous; and low socioeconomic background.
- Does the company have any policies related to anti-discrimination, diversity and equal opportunity across protected characteristics (such as race, sex, disability, age, as outlined by ILO Core Conventions)?
- Does the company have reasonable accommodation policies in the event of disability, medical, and mental health needs?
- Describe any special initiatives the company has launched to promote DEI (e.g. increase female representation in technical or management positions).

5. Social Risks and Community Engagement

- What are the possible direct or unintended negative impacts the company's product/services may have on its external stakeholders (e.g. non-users, local communities)? Describe any processes in place to monitor and mitigate these.
- How has the company incorporated client protection considerations into the product design and operations (e.g. risks of over-indebtedness of vulnerable customers, child protection, product safety, customer complaints mechanisms)?
- Has a macroeconomic shock (either supply or demand side) or other external factors (e.g. health epidemic) impacted delivery/access of critical public or private goods/services? How does your business intersect with these and what measures have you taken to mitigate the impacts?
- Does the company have an external communications and grievance mechanism?
- Does the company's business intersect with Indigenous communities? If so, has the company incorporated any Indigenous Data/ Technology Sovereignty frameworks into its practices and policies?

6. Supply Chain and Third-Party Risk Management

- Does the company have a transparent procurement process to select and onboard suppliers (e.g. competitive tendering, multilevel approvals, conflict checks, etc.) to manage related corruption/collusion/fraud risks?
- Does the company assess and monitor ESG-related risks in their physical supply chain, particularly focusing on higher-risk suppliers? If so, describe any mechanisms or processes in place (e.g. traceability protocol, incidents detection system).
- Are ESG-related compliance requirements included in the agreements with direct suppliers and passed down to sub-suppliers?
- Does the company have a supplier code of conduct?

7. Data Privacy and Security Practices

- Does the country where the company operates has a data protection legislation in place? How is the company tracking the regulatory developments?
- Does the company obtain informed consent for data collection and use from users? If so, how does the company manage user privileges and permissions?
- When did the company last execute a compliance assessment with local data and privacy laws?

7. Data Privacy and Security Practices

- Does the company have a cyber security procedure? If so, does it include a disciplinary process in the event of the procedure's violation for a user or employee?
- How well is the company aware of its responsible AI risks, such as fairness, data rights, discrimination, transparency, explainability, and human control? Does the company educate relevant employees about responsible AI risks?
- How does the company include responsible AI practices in its workflows, products and strategy, including all stages of their product life cycle?

8. Business Integrity and Corporate Governance

- Does the company have in place all necessary licenses, regulatory permits, and/or other processes to ensure regulatory compliance with the local laws?
- How does the company monitor developments in regulations that affect its business and ensure continuous compliance with these?
- How does the company manage corruption risks related to interactions with governments (e.g. sales to/contracts with government bodies, licence/permit acquisition, negotiation of land rights)?
- Is there any politically exposed person (PEP) involved at the company level (e.g. management, board, ownership)? If so, how is the company managing related corruption risks?
- Does the company have formalised financial control systems and a financial function? Has the company hired a senior finance manager or a CFO?
- Does the company have any risk mitigation and contingency planning in the event of external emergencies or crises (e.g. macroeconomic shocks, geopolitical conflict, and political instability)?
- Has there been any issue related to corruption, money laundering/terrorism financing, other related fraud or gross misconduct issues involving the company, its management or major third-parties acting on behalf of the company?

Part 4.

Future Outlook

Looking forward, in partnership with FMO and BII, VentureESG will continue to update the tool and work on developing accompanying resources to support and guide the fit-for-purpose integration of ESG practices for VCs operating in emerging markets. This White Paper laid out both the rationale that motivates this work and the process of the tool development; the Universe of Issues (in its XLS and eventual server-based version) serves as a hands-on questionnaire tailored to the needs of fund managers working on the ground.

In the following months, we will continue to iterate the ESG due diligence framework as we socialise the toolkit and receive feedback and recommendations on this living document from the broader VC ecosystem. *Please do get in touch if you have any comments or questions.*

In the meantime, we are also working on providing resources for different aspects of the investment and portfolio management processes. These include a set of ESG legal term sheet clause templates, a set of human resources policy templates, a Best Practices guidance document, and an open-source web-based interactive Universe of Issues tool. We will also be hosting a series of convenings with LPs to further synergise efforts on ESG integration in the emerging markets' VC landscape, in hopes of harmonising the standards, procedures, and reporting around ESG for funds. Lastly, in a project we are conducting in partnership with the German development organisation GIZ, we will repeatedly travel to Latin America and West Africa to conduct ESG trainings for VC funds. These trainings will also serve as a fantastic testing ground for resources, such as the Universe of Issues.

We hope that over the coming years, we can contribute to the development of adequate resources to further the integration of fit-for-purpose and proportionate ESG also across the emerging markets VC ecosystems. This Universe of Issues and the accompanying White Paper are the first steps.

Appendix
Method and Process

Our methodological approach involved a comprehensive three-phase process aimed at addressing the challenges identified in Part 1, leading to the development of a purpose-built framework for emerging market venture capital due diligence.

1. Desk research and benchmarking analysis: In the initial phase, we conducted extensive desk research, focusing on benchmarking existing toolkits calibrated for emerging markets. This involved a meticulous examination of frameworks designed to accommodate the development stature of countries or regions, considering risks specific to these dynamic environments. Additionally, we analysed how Environmental, Social, and Governance (ESG) considerations were proportionally calibrated based on the stage of the company. This desk research laid the groundwork for understanding the existing landscape and identifying gaps that needed to be addressed.

2. Stakeholder Interviews: A crucial aspect of our methodology was engaging with practitioners intimately familiar with the emerging market VC ecosystem. Through semi-structured interviews, we gleaned insights from over 50 stakeholders, including VCs, LPs and representatives from the larger ecosystem of entrepreneurship support organisations, government partners, and civil society organisations. Our interviewees are spread across geographies, based or with operations in Africa (40%), Latin America (30%), and others transcontinentally. These interviews were thoughtfully designed to capture diverse perspectives, considering factors such as venture stage, geographical location, and sector representation within the venture capital landscape. Rigorous sanitisation processes were employed to ensure confidentiality, fostering candid conversations that enriched our understanding of the nuanced challenges faced by practitioners.

3. Continuous consultation and iteration of framework development: Armed with insights from desk research and stakeholder engagement, we transitioned to the iterative development phase of the Universe of Issues ESG framework. Practical feedback from practitioners and DFIs sponsoring this project (BII and FMO) informed the continuous development of this working prototype, which is open to further inputs as we launch and mainstream it with the larger community. The collaborative process allows for the fine-tuning of the framework, ensuring it is not only theoretically sound but also practical for adoption in diverse VC settings. The iterative nature of our framework development process aims to create a tool that not only aligns with industry best practices but also resonates with the day-to-day operational realities and changes faced by VCs operating in emerging markets. This comprehensive and collaborative methodology reflects our commitment to producing a purpose-built framework that is not only informed by industry insights but is also shaped by the real-world experiences and needs of VCs navigating the unique landscape of emerging markets.