# Socially Responsible Investing and Lending

## Updated 31 December 2022

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# Contents

## Introduction

### Who we are

When we refer to "Capitalflow", "we" or "us" in this document, it means:

(i) Capitalflow Group DAC which is incorporated in Ireland with limited liability having its registered office at Second Floor, Block A, The Crescent Building, Northwood Business Park, Santry, Dublin 9, D09 X8w3, with registered company number 574943; and

(ii) The subsidiaries of Capitalflow Group DAC

Capitalflow is a group of financial services companies which provides invoice discounting, asset finance and commercial real estate finance to small- and medium-sized local businesses.

### Positive Screening of Companies by their relative ESG Score

Capitalflow Group favour investments and Advances to companies excelling on ESG policy and implementation. Borrowers who are known to breach the ESG criteria outlined in the following document will not be financed by us. The ensuing ESG criteria takes into account materiality for the respective sector/industry and size of the company. These criteria can be categorized in six domains covering all aspects of corporate social responsibility (CSR): human rights, human capital, environment, social impact, market ethics and good governance.

To the extent applicable all borrowers are expected to act in accordance with the criteria outlined in the following CSR domains:

1. Human capital domain
2. Environment domain
3. Market ethics domain
4. Corporate governance domain
5. Social impact domain
6. Human rights domain
7. .

### 1. Human Capital Domain

The human capital domain seeks to establish whether companies are compliant with the following international standards:

- ILO: Tripartite Declaration of Principles concerning Multinational Enterprises and Social Policy
- ILO: Equality of Treatment Convention (Conv. 118)

- UN: Declaration on the Right and Responsibility of Individuals, Groups and Organs of Society to promote and protect universally recognized Human Rights and Fundamental Freedoms
- EU: Community Charter on the Fundamental Social Rights of Workers
- EU: Council Decision 2003/578/CE of 22 July 2003 on Guidelines for the Employment Policies of Member States
- IFC: Environmental, Health and Safety guidelines, 2007 and subsequent updates
- IFC: Performance Standards, 2006 and subsequent updates

The human capital domain is further broken down into six criteria

**1.1 Promotion of Social Dialogue**

Companies should be committed to ensuring the respect of independent workers' representatives through information, consultation, and notably collective bargaining, in the workplace.

**1.2 Encouragement of Participation**

Companies should be committed to providing employees with information on all areas likely to affect their work and employment conditions, promoting freedom of expression among employees, particularly on policies and procedures that potentially affect the work environment, providing an environment for employees that is conducive to acknowledging, taking, and implementing initiatives. Companies should be committed to non-discrimination, including gender discrimination and should explicitly define the categories and the management processes to which these apply (management processes referred to concern discrimination in employment decisions (hiring / promoting / redundancies) and discrimination in working conditions (working hours / training (of local staff) / remuneration / social security).

**1.3 Care for Individual Career Planning and Professional Availability**

Companies should be committed to:

- anticipating short and long-term employment needs and skill requirements;
- adapting employees' skill sets to their career path;
- enabling progressive improvement in employees' qualification levels; and
- putting in place a concerted career management framework that is transparent and personalized.

**1.4 Quality of Remuneration**

Companies should be committed to ensuring the fairness, transparency and objectivity of employees' remuneration systems, including decent wages.

**1.5 Improvement of Safety, Health and Prevention**

Companies should be committed to:

- defining and continually improving health and safety systems, and ensuring that they are known and respected; and
- putting in place systems to prevent accidents and occupational diseases.

**1.6 Working Hours Policy**

Companies should be committed to respecting the rights of employees to vacation and leisure time (reasonably limiting the duration of work), providing compensation to employees working atypical hours or overtime, and taking into account the needs of employees in determining working hours by offering different options for flexibility in working hours and measures favouring a healthy work-life balance.

## 2. Environment Domain

The environment domain seeks to establish whether companies are compliant with the following international standards:

- UN: Rio Declaration
- UN: Agenda 21
- UN: Kyoto Protocol to the Framework Convention on Climate Change
- EU: The Green Paper on Integrated Product Policy
- EU: Council Directive 85/203/EEC of 7 March 1985 on Air Quality Standards for Nitrogen Dioxide
- IFC: Environmental, Health and Safety guidelines, 2007 and subsequent updates
- IFC: Performance Standards, 2006 and subsequent updates

The environment domain is further broken down into 10 criteria.

**2.1 Environmental Strategy and Eco-Design**

Companies should be committed to defining clear eco-design objectives and targets, and appropriate measures to ensure management of the environmental impacts of products and services.

For the financial sector, their investment and lending activities (including mortgage loans) should integrate environmental and social impacts, reduce its indirect impact on climate change and follow the Equator Principles.

**2.2 Pollution Management (Prevention and Control)**

Companies should identify, prevent, evaluate, reduce and manage risks of accidental pollution or soil pollution. Companies should be committed to reducing the use of plastic.

**2.3 Risk Management Related to the Affection of Biodiversity**

To the extent applicable companies should be committed and have systems in place to:

- identifying the impacts of business operations (or the closing of those operations) on biodiversity and establishing evaluation systems to assess the health of impacted ecosystems;
- assess how food companies allocate resources to promote sustainable agriculture;
- assessing measures allocated to biodiversity protection, to sustainable agriculture, to prevent fragmentation of habitats (eg. limited size of fields) and to prevent deforestation;
- assessing initiatives taken by companies to restore sensitive areas in terms of biodiversity;

- avoiding or reducing the exploitation of sensitive ecosystems and, when there has been exploitation, rehabilitating the ecosystem;
- for exploration activities like mining: assessing whether environmental consequences can be unmanageable and whether water-scarcity in that areas is pre-existing;
- assessing the initiatives taken by companies to prevent negative impact on protected areas under the categories V-VI of the IUCN;
- assessing the initiatives taken by companies to save freshwater resources, especially in areas of water scarcity;
- assessing the animal well-being for relevant sectors respecting the Five Freedoms of the Animals, being (1) freedom from hunger and thirst; (2) freedom from pain, injury and disease; (3) freedom from discomfort (temperature, hard bedding etc.); (4) freedom from fear and distress and (5) freedom to express normal behaviour.)
- Ban trading of endangered species (such as IUCN red list or CITES list)
- Companies prevent the introduction of invasive alien species in ecosystems

Each sector might face particular risks and opportunities in terms of Biodiversity. For example, protecting biodiversity is one of the main challenges encountered by food companies due to their heavy reliance on intensive agriculture and over-fishing. Preserving ecosystems and species is not only a matter of environmental awareness, but also a key factor in terms of risk and opportunity. In what follows we give a few examples of key topics and expectations to determine the ESG practices of a company, including its suppliers when this is of particular relevance (for example topics relating to the food sector):

a) Sustainable agriculture
- Minimize the use of external inputs (fertilizers, chemicals)
- Measures to protect pollinators
- Protection of soil from erosion and prevention of soil poverty from single-crop farming
- International certification schemes (including but not limited to: Fair Trade certification, UTZ certification, Sustainable Agriculture Network, Certified palm oil/RSPO, Sustainable Tree Crops Program)
- Promotion and effective development of organic farming
- Measures to prevent fragmentation of habitats (e.g. limited size of fields) - Measures to prevent deforestation and protect existing natural forests
- Measures to preserve peat lands and avoid soil degradation Measures to prevent contamination and minimize the introduction of non-native species

b) Promotion of sustainable fishing/ aquaculture
- Limit the use of nutrients, antibiotics and fungicides
- Protect wild species (including minimizing the introduction of non-native species)
- Stop fishing endangered species
- Temporal and spatial restrictions or closures/precautionary conservation and management measures (prohibition of fishing a certain species to allow its biological regeneration)

- Adopt changes in gear design (of use of selective gear so as to avoid catching undersized and non-targeted species, reduce contact between fishing gear and seabed, use of technical measures to eliminate or minimize ghost-fishing), or
- Implementation of the Marine Stewardship Council or the Aquaculture Stewardship Council certification, which includes the respect to Marine Protected Areas and no-take zones
- Specifically for the geophysics sub sector within the oil equipment and services sector, companies should reduce the effects of seismological research on whales and other marine mammals.
- Allocate measures to sustainable fishing and protect wild species (including minimizing the introduction of non-native species)

c) Preventing negative environmental impacts from first and second generation biofuels
- Minimizing the use of external inputs (fertilizers, chemicals...)
- Prevention of habitat fragmentation and protection of endangered species (including pollinators)
- Protection of soil from erosion and prevention of soil poverty from single-crop farming
- Prevention of deforestation to produce biofuels
- Prevention of the invasion of non-native species

d) Preventing GMO cross contamination
- Full traceability and labelling systems
- Information to farmers/cooperation between farmers to organise co-existence
- On-farm measures for co-existence (isolation distances, buffer zones, pollen traps/barriers, crop production cycle planning, etc.)
- Harvest and post-harvest measures (e.g. Minimizing seed loss during harvest, cleaning of harvest machinery)
- Transport and storage measures (avoiding spillage during transport, physical segregation of gm/non-gm crops after harvest)
- Monitoring of gm crops in non-gm neighbouring fields
- Biological gene flow barriers
- Companies prevent the introduction of invasive alien species in ecosystems

e) Preventing animal testing
- Measures allocated to the reduction of animal testing, including measures on the 3Rs (refinement, reduction, replacement), to reduce the suffering and distress of animals, and whether the company has these measures certified by third parties. It also includes companies subcontracting production to third parties for which the issue becomes a supply chain one.

f) Promotion of sustainable animal rearing
- Measures to ensure animal well-being including the avoidance of stress, anxiety or pain, spacious facilities and safeguarding adequate environmental enrichment and quality for (farm) animals
- Safeguarding good welfare for animals
- Ensure appropriate feeding of animals
- Avoid negative impacts on local environment

- Awareness raising/ training to farmers on sustainable animal rearing
- Minimize non-therapeutic use of antibiotics and hormones
- Measures to ensure humane-slaughter methods for farm animals

g) Where forest products and paper are concerned, particular attention is given to the preservation of forest biodiversity, forest management certification (FSC and/or PEFC), traceability and chain of custody certification. Companies are required to have in place a process for the systematic tracking of forest products to provide evidence that the ultimate origin of the commodities they are trading and/or processing is known and that these commodities do not stem from a controversial source (e.g. illegally logged wood). Companies should respect the High Conservation Value principles.

**2.4 Sustainable Water Management**

Companies should take measures to reduce water consumption and to improve, reduce or treat wastewater emissions/water discharges, including but not only the water scarce regions. Also, companies should not start new operations in areas where water scarcity is pre-existing and if operations will impact the needs of communities.

**2.5 Rational Energy Consumption**

Companies should have a strategy in addressing energy-related issues (energy consumption and atmospheric emissions related to energy consumption ($CO_2$, $SO_2$, $NO_x$)). Companies should be committed to and implement measures in order to reduce their GHG emissions and the results of these measures taking into account:

- technological change (change of process, energy-saving technologies, R&D initiatives, BATs);
- use of renewable energy in accordance with to sector-related constraints and legal obligations;
- measures to inform, raise awareness and train people on energy savings;

**2.6 Management of Atmospheric Emissions (VOC, SOx, NOx, POPs, CO, HF, HC)**

Companies should take steps to control and reduce atmospheric emissions related to the manufacturing or creation of products/projects/services minimizing environmental impacts and to effectively manage atmospheric emissions unrelated to energy consumption:

- Greenhouse gases (GHG) that are not related to energy consumption (including $CH_4$ (methane); $N_2O$ (Nitrous oxide); HFC (hydrofluorocarbon); PFC (perfluorocarbon); $SF_6$ (sulfur hexafluoride).
- Volatile Organic Compounds - Persistent Organic Pollutants
- Hazardous substances that have an impact on the ozone layer.

**2.7 Waste Management**

Production and delivery of products and services result in great quantities of waste to be incinerated or landfilled. The intended objective is to minimize the use of both ways of disposal and to promote the development of valorisation and recycling.
Companies should take steps to manage waste, including:

- identification of the different sources of waste;
- reduction in waste production at source;
- management of industrial and commercial packaging and packaging waste;
- waste recycling, energy recovery from waste (waste to energy); and
- reduction in the toxicity of hazardous waste.

**2.8 Management of Local Pollution**
Companies should minimize local pollution (noise, dust and odours) resulting from the production processes and maintenance of installations, as well as skyline pollution, specifically relating to telecommunications equipment, utilities (cables), media (Ads boards) and construction installations, and addresses the expectations and/or complaints of various stakeholders regarding these elements as well as evaluating these impacts in selecting the location of production facilities.

**2.9 Impact of Transport and Distribution**
Companies should take into account the environmental impact of its products' transportation and actions taken to reduce these impacts. This includes the evaluation of reductions in pollution due to transportation (reduction in fuel consumption, vehicle maintenance, use of alternative fuels, driver training), the rationalization of transportation flows, and the evaluations of the transport mix for goods and services (alternative transport to road: rail, waterways, or sea) and for employees (car sharing, public transports).

**2.10 Environmental Impact on the Overall Life Cycle of Products and Services**
Companies should take steps to control direct or indirect environmental impacts related to the use and the disposal of products or services.

## 3. Market Ethics Domain

The market ethics domain seeks to establish whether companies are compliant with the following international standards:

- UN: United Nations Guidelines for Consumer Protection, revised 1999
- UN: Global Compact
- United Nations Convention against Corruption
- OECD: OECD Guidelines on the Protection of Privacy and Transborder Flows of Personal Data
- WTO: Agreement on trade-related aspects of intellectual property rights (ADPIC) Annex 1C to the Agreement establishing the WTO, Marrakech, 1994 REACH directive

The market ethics domain is further broken down into 7 criteria.

**3.1 Product Safety and Safe Products**
Companies should take product safety issues into account and the related steps taken to prevent and repair emergency/crisis situations affecting product safety. Issues under review vary from transparent labelling, directions on safe handling, customer support

measures, health and safety risk impact assessments, to publication of the outcome of internal audits/studies on potential product concerns, substitution of harmful compounds with alternative substances, a precautionary stance on nanomaterial, technological developments, and initiatives to phase out hazardous chemicals. We also expect companies to apply a prudent use of antimicrobial medicines (antibiotics) in human beings in order to minimize antimicrobial resistance.

**3.2 Information to Customers**

Companies should have defined and implemented principles of conduct, and should be taking measures to prevent the negative impact of marketing practices on financial, moral and ethical issues as well as on the health and safety of users and/or customers. For relevant sectors (as the food and supermarket sector in particular) companies should be transparent when labelling GMOs in particular.

**3.3 Responsible Relation with Customers**

Companies should include guarantees in its contractual relations that promote the customer's freedom of choice, customer satisfaction and right to recourse, disregarding any type of discrimination.

**3.4 Integration of Environmental Factors in the Production Chain**

Companies should be integrating environmental factors into the supply chain, looking at the production and distribution of product/service by suppliers and/or sub-contractors. The integration of environmental factors into the supply chain, like the use of certified materials, covers the complete business relationship with suppliers and subcontractors. This includes animal rearing (for the relevant sectors). For other relevant sectors (such as technology and telecom), companies should comply with the EICC code of conduct.
It refers to:

- criteria that the company applies when selecting and evaluating suppliers and subcontractors;
- continuous monitoring to ensure compliance with environmental standards for delivered products as well as their production processes and distribution conditions;
- corrective measures and joint CSR steps, their financing and impact on business relations;
- assistance in resolving any conflicting objectives suppliers/subcontractors might face (e.g. financial profitability vs. respect for social and environmental standards);
- integration of social, environment and economic issues into contractual clauses, supplier risk assessments and questionnaires, support through training or technical assistance, training of employees in charge of relationships with suppliers, internal/external audits.

**3.5 Integration of Social Themes in the Production Chain**

Companies should integrate social standards into the supply chain with suppliers and contractors, focusing on freedom of association and right to collective bargaining, abolition of child labour, abolition of forced labour, non-discrimination, health and safety, decent wages, working hours and other rights (e.g. prevention of cruel, degrading and inhumane behaviour, etc.).

**3.6 Prevention of Corruption**
Companies should have an effective anti-corruption management system (founding documents, and prevention, information and monitoring systems, disciplinary actions and external investigations of allegations). Corruption is studied in its broadest sense. Conflicts of interest are also taken into account as they can cast doubt on the quality of the company's decision-making process and on the integrity of the people involved.

**3.7 Integrity and Transparency in Terms of Strategy and Influencing Tactics**
This includes both direct lobbying in relation to a specific piece of legislation and more general 'atmosphere-setting' around an issue or public debate. Companies should;

- Be transparent in its involvement in lobbying practices and on how it undertakes them, whether in-house or by engaging specialist organizations (think-tanks, lobbyists, trade associations);
- Neither undermining nor be in conflict with internationally recognized principles of corporate social responsibility (public international conventions (UN, ILO, OECD)) and with those set by the company itself, and the extent to which the company discloses the objectives of its lobbying practices and the resources dedicated to achieving them;
- Demonstrate their commitment to being transparent and ethical about their lobbying practices and consistency of these practices with its social responsibility; and
- Assign clear responsibilities and design specific procedures to monitor the correct implementation of the company's lobbying strategy.

## 4. Corporate Governance Domain

We expect companies to follow 'good governance' practices. We focus on the following aspects and we expect from companies that the overall ESG controversy is at least minimum:

- Sound management structures
- Employee Relations
- Staff Remuneration
- Tax Compliance

The corporate governance domain seeks to establish whether companies are compliant with the following international standards:

- OECD: OECD Corporate Governance Principles
- EU: EU Regulation 1606/2002 of the European Parliament and of the Council of 19 July 2002 on the Application of International Accounting Standards

The corporate governance domain is further broken down into two criteria.

**4.1 Audits and Control Mechanisms**
Companies should be committed to establishing effective risk management systems, ensuring the quality of internal reporting and this commitment should be reflected in financial information provided to the public. The Board of Directors is responsible for the objectivity and relevance of the system. Companies should make relevant social and environmental disclosures, including quantitative indicators, and it should be audited/reviewed by a third party.

**4.2 Remuneration**
Companies should not provide financial incentives to its management and staff that are detrimental to its other stakeholders and notably its clients.

## 5. Social Impact Domain

The social impact domain seeks to establish whether companies are committed to being compliant with the following international standards:

- WTO: Agreement on trade-related aspects of intellectual property rights (ADPIC) Annex 1C to the Agreement establishing the WTO, Marrakech, 1994
- EU: Commission Regulation of 27 April 2004 on the application of Article 81(3) of the Treaty regarding certain categories of technology transfer agreements

The societal impact domain is further broken down into three criteria.

**5.1 Contribution to Economic and Social Development of the Territories of Establishment and their Human Communities**
Companies should be committed to making a sustainable contribution to the economic and social development of local areas and to optimizing the economic and social impact of activities: local investment, promotion of local employment, transfer of technologies and skills. Companies should also enhance small scale and artisanal businesses that improve sustainable economic and social development on a local level. Particular attention will be given to the way in which the company makes use of its local presence to boost the effective development of local initiatives related to community involvement. Companies should respect International Humanitarian Law.

As part of the contribution to economic and social development, companies should promote a responsible tax strategy and publish transparently on their tax payments. Companies need to justify their presence in offshore financial centres and non-compliant jurisdictions.

**5.2 Social Impact of Products or Services**
Companies should voluntarily develop initiatives based on the impact on the community of their products or services. This can take different forms (depending on sectoral issues):

- Availability of the product or service to as many people as possible if the company develops a product from which society stands to benefit

- Engagement in antibiotic stewardship initiatives, such as collaboration on research and development of solutions for antibiotic resistance, or partnerships with industry peers, academia, or other entities to address antibiotic resistance.

**5.3 Armament**

Companies should not be active in the following areas:

- Use, production, development, maintenance, testing, stockpiling of and trade in in anti-personnel landmines, including key components of landmines
- Use, production, development, maintenance, testing, stockpiling of and trade in cluster munitions, including key components of cluster munitions
- Use, production, development, maintenance, testing, stockpiling of and trade in weapons of mass destruction such as nuclear weapons.
- Use, production, development, maintenance, testing, stockpiling of and trade in chemical weapons, including key components of chemical weapons
- Use, production, development, maintenance, testing, stockpiling of and trade in biological weapons, including key components of biological weapons
- Supply of arms and weapon systems, military transport systems, and other military goods to countries that severely violate human rights

## 6. Human Rights Domain

The human rights domain seeks to establish whether companies are compliant with the following international standards:

- UN: Universal Declaration of Human Rights
- UN: Declaration on the Elimination of Discrimination against Women Proclaimed by General Assembly Resolution 2263(XXII) of 7 November 1967
- ILO: ILO Declaration on Fundamental Principles and Rights at Work
- OECD: OECD Guidelines for Multinational Corporations
- IFC: Environmental, Health and Safety guidelines, 2007 and subsequent updates
- IFC: Performance Standards, 2006 and subsequent updates

The human rights domain is further broken down into four criteria.

**6.1 Respect for the Fundamental Human Rights and Safeguarding Measures**

Companies should comply with the obligation to respect human rights in the community (community taken as a whole, i.e. within and outside the workplace). This obligation includes respect for the effective exercise of fundamental human rights and personal rights, prevention of human rights violations or complicity to violations (due diligence), addressing adverse human rights impacts and promoting or contributing to promoting rights as part of the obligation.
In general, special attention is provided to the respect for the fundamental rights of the children.

- At policy level, particular attention will be given to:
  - respecting the right to personal security
  - respecting property rights and resettlement
  - preventing cruel, inhuman, or degrading treatment

- preventing complicity in human rights violations
- respecting indigenous people rights
- ensuring no breaches in weak governance zone or conflict-affected areas
- companies have special attention for respecting the rights of persons with disabilities and prevent discrimination
- companies' policy commitments to mitigate gender-based violence in the workplace, including verbal, physical and sexual harassment, fair recruitment and prevention of modern slavery
- Voluntary Principles on Security and Human Rights

**6.2 Non-Discrimination**

Companies should have policies and implement the necessary measures to prevent any type of discrimination in the workplace (including verbal, physical and sexual harassment and gender based violence) and other discrimination involving working conditions, vocational training, promotion, remuneration, and other benefits. They should also have policies in place, affirmative action and specific measures intended to protect and support the rights of women) and other vulnerable categories of employees (for example, but not only, ethnic minorities, seniors, people with disabilities, LGBTIs etc).

Companies should have policies and measures to prevent discrimination for all worker categories including, when specifically relevant for the sector gender, age, contractors, local or migrant workers, seasonal workers, etc. For relevant sectors as the Heavy Construction there is special attention provided to the rights of migrant workers, where there is a large majority of cases using subcontracted labour for their projects.

**6.3 Exclusion of Child Labour and Forced Labour**

Companies should contribute in its sphere of influence to the elimination of child labour (taking into account the definition of a minimum working age (15), but also avoiding employing adolescents to perform duties they are not physically and mentally equipped to perform) and/or forced labour (e.g. prisoners working for the company of their own free will and having the same working conditions as other workers).