500

2020 ESG Annual Report

Environmental, Social, Governance
For Startups

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The Global Flagship Fund ESG Policy

Environmental, social, and governance (ESG) policies are a set of criteria that regulate a company's operations, which 500 Startups has incorporated into its investment analysis, decision-making, and portfolio management processes. These criteria include:

Environmental criteria to examine how a company performs as a steward of nature.

Social criteria to consider a company's relationship with its employees, suppliers, customers, and communities where it operates.

Governance criteria to review a company's leadership, shareholder rights, executive pay, audits, and internal controls.

Importantly, these criteria are put in place to mitigate risk for investments; companies that identify and manage these risks early are likely to survive longer, be more resilient, and create more value for stakeholders. ESG is often used interchangeably with impact investing, the latter of which focuses on specific impact goals.[1] However, ESG policies are not limited to a particular industry or market but rather look to increase diversity in the workplace, minimize environmental destruction, and foment better labor practices.

We integrate ESG into every aspect of our investment strategy through a three-stage process that involves screening, investment, and monitoring and reporting.

1. Screening: We use a pre-selection questionnaire to ensure companies are in compliance with our exclusion list and identify opportunities for ESG integration.

2. Investment: An ESG specialist recommends tools and mentors to support the development of ESG policies and practices in portfolio companies.

3. Monitoring and Reporting: The ESG specialist reports on company progress, provides quarterly educational opportunities on ESG topics, and publishes a yearly report.

This policy enables 500 Startups to mitigate risks in investments, invest in diverse and inclusive teams, support Sustainable Development Goals,[2] and help portfolio companies develop ESG criteria internally.

1. https://pitchbook.com/news/reports/2020-sustainable-investment-survey
2. https://sdgs.un.org/

What We Don't Invest In

At 500 Startups, our investment screening process includes a survey of questions that incorporate the IFC Exclusion List[3] and Principles of the UN Global Compact[4]. While individual investors or investment firms may take different exclusionary approaches, there are a few activities which we at 500 Startups avoid financing, including companies operating in sectors such as weapons, pornography, alcohol and tobacco, or nuclear energy.

These exclusions can also be based on regional or global agreements, for instance, the UN Global Compact or International Labour Standards.[5] In recent years, many investors have extended their exclusionary list to include labor-related activities, for example, companies that have a habit of employing forced or child labor.

During the exclusionary screening process, we take into account whether or not a company is involved in these types of unacceptable or controversial activities by asking questions such as whether or not a company's products or operations:

Exclusion List

- Use exploitative forms of "forced labor" or "harmful child labor.
- Impinge on the lands owned, or claimed under adjudication, by Indigenous Peoples, without full documented consent of such peoples.
- Involve the production or trade in radioactive materials (including storage and treatment of radioactive wastes), business, or activities relating to the nuclear industry or nuclear materials.
- Involve the production of pornography.
- Have ever been charged with regulatory non-compliance.
- Involve the production or trade in arms or ammunition developed solely for civilian use.
- Involve the cultivation, production, delivery, or commerce of tobacco or cannabis.
- Have ever been (A) sanctioned by the United Nations Security Council under any resolution issued under Chapter VII of the United Nations Charter, or (B) debarred by the World Bank Group (see the World Bank Listing of Ineligible Firms and Individuals at www.worldbank.org/debarr or any successor website or location).

3.https://www.ifc.org/wps/wcm/connect/topics_ext_content/ifc_external_corporate_site/sustainability-at-ifc/company-resources/ifcexclusionlist
4. https://www.unglobalcompact.org/what-is-gc/mission/principles
5. https://www.ioe-emp.org/policy-priorities/international-labour-standards

Executive Summary

In 2020, 500 Startups introduced a standardized approach to ESG policies and procedures that applies throughout a portfolio company's pre-and post-investment lifecycle. Our latest global flagship fund makes ESG monitoring and reporting core to our firm's focus through a four-step process, beginning with a pre-selection questionnaire. This questionnaire asks founders to disclose information regarding internal operations and overall company goals through a series of questions ranging from labor rights and gender equality to environmental impact and anti-corruption practices. The following report summarizes the responses we received from 93 portfolio companies.

In this report, we highlight how startups are addressing the issues faced when building a workforce, and how ESG helps to overcome any challenges and build teams aligned around shared values. We outline key diversity and inclusion issues for startups, and why it's important for founders to define policies and work towards diversity and inclusion goals. One particular area of importance for 500 Startups is supporting female founders. Therefore, we've also incorporated specific questions that help us understand women's participation in various roles and encourage more startups to commit to improvement.

We understand that startups face many competing priorities in the early days, and thinking about what impact the company will have on the environment or the latest data laws and regulations might not be top of mind. However, consumers increasingly look to support companies with sustainable and ethical business practices. We believe there are sensible actions that early-stage startups can take today, which can add up to make a significant difference in the future. For this reason, we also take into account how companies are addressing environmental, data privacy, and compliance issues to analyze ESG risk.

Finally, this report highlights some of the startups in our portfolio that are particularly motivated by ESG criteria and have made it central to their mission and business operations. We also recap some of the discussions we hosted over the past year on various ESG-related themes and summarize the ESG themes that will be significant in 2021.

At 500 Startups, we believe integrating ESG criteria into the early-stage investment process can enable investors to mitigate risks and identify value creation opportunities without disrupting the markets, geographies, or sectors where they currently invest. For early-stage and growing companies, ESG reporting is an ongoing opportunity to showcase progress in meeting sustainability milestones, build competitive advantage, and ultimately, set meaningful goals that will attract future customers, investors, and talent.

Webinar Recap

Too Early for ESG? Accelerating Responsible Venture Capital

In October 2020, 500's Director of Global Marketing, ESG, and Investor Relations, Tracy Barba, hosted a panel entitled, *Too Early for ESG? Accelerating Responsible Venture Capital*,[3] alongside several experts on responsible investing and ESG. Speakers included Susan Winterberg, co-author of Harvard's report, *Responsible Investing in Tech and Venture Capital*,[4] Jasper Veel, corporate governance officer at Dutch development bank FMO, and Hilary Wiek, a senior analyst at PitchBook and author of its *2020 Sustainable Investment Survey*.[5]

The event touched on defining ESG, the challenges of implementing policies at early-stage companies, and opportunities for investors to help young companies get started with ESG monitoring.

While many early-stage startups eschew ESG policies to try to remain lean, we argue it is never too early to start considering issues that might arise as a company scales. Venture capital can play an important role by encouraging and framing the importance of ESG policies for investments to help build resilient companies from day one.

"Something I think is very prominent in early-stage companies is that it's a constant fight for priorities," said FMO's Veel. Surprisingly, even general partners at investment firms might not be focusing on ESG and responsibility, added Winterberg.

One of the significant challenges facing ESG investment is communicating the importance of these policies to LPs without signaling lower returns. According to Wiek, "One of the biggest forces driving both asset managers and asset owners towards sustainable investing is the prospect of improved investment returns."

While communicating this outcome to investors can be tricky, interest in ESG has increased during the current crisis rather than receded as it did in 2008. Wiek shared that Pitchbook's *2020 Sustainable Investment Survey* garnered three times as many respondents as usual. It is more important than ever for startups to consider these risks early in their development to help them become more resilient and open to larger investments in the future. For companies looking to get started, Winterberg suggested examining areas of diversity and inclusion, technology risk assessment, and building data and transparency. Venture capital can play a significant role in helping their companies explore these opportunities as they scale.

3. https://500.co/blog/accelerating-esg-adoption-in-early-stage-venture-capital
4. https://www.belfercenter.org/publication/responsible-investing-tech-and-venture-capital
5. https://pitchbook.com/news/reports/2020-sustainable-investment-survey

The Global Flagship Fund ESG by the Numbers

93 startups
completed the questionnaire [6]

Full-time employees per company:
1 (*min*) - 55 (*max*) -
6.14 (*average*) - 4 (*median*)

% Full-time from underrepresented groups
50 average
50 Median

Contractors per company:
0 (*min*) - 60 (*max*)
3.6 (*average*) - 2 (*median*)

6. Responses are based on questionnaires completed by 93 portfolio companies of 500 Startups V, L.P. ("Fund V") between June 21, 2018 and January 31, 2021. There were a total of 115 portfolio companies in the Fund V portfolio as of January 31, 2021. The percentage of portfolio companies in the Fund V portfolio that completed a questionnaire may be greater than the percentage of total capital invested by 500 Startups V, L.P. as of January 31, 2021 represented by such companies.

Founder Representation by Company Globally

Black/African/African-American

Total # Companies: 93
85 with identification (91.4%)
15 companies with at least one founder who identifies as African, African-American, or Black **(17.6%)**[7]

Venture Industry 1.0%[8]

LatinX

Total # Companies: 93
85 with identification (91.4%)
8 companies with at least one founder who identifies as LatinX **(9.4%)**[7]

Venture Industry 1.8%[8]

Women

Total # Companies: 93
91 with identification (97.8%)
28 companies with at least one female founder **(30.8%)**[9]

Venture Industry 13%[10]

7. This data is based on internal analysis of portfolio company data aggregated across all investment funds within the 500 Startups group ("PortCos"). The data is based on (i) a voluntary survey of PortCo founders/management teams which received responses from 68.82% of the founders polled on gender and 53.76% polled on ethnicity and (ii) independent research conducted on the public records relating to PortCo founders/management teams by representatives of 500 Startups. The founder responses and the research data have not been verified and the accuracy or completeness thereof is not guaranteed. This data is as of January 31, 2021 and is provided for educational or informational purposes only, does not constitute any solicitation or marketing content, and should not be relied upon by any person (i) in making a decision whether to invest in, or engage in business with, 500 Startups and (ii) as legal, tax or investment advice. Further details on methodology and assumptions can be obtained from the 500 Startups Data Team

8. Industry wide percentages as reported in https://www.forbes.com/sites/committeeof200/2020/09/22/diversity-as-uperpower-the-well-known-data-against-homogeneous-teams-in-venture-capital/#2e0c2cba2019 and https://about.crunchbase.com/female-founder-report-2020/. Note that such datasets may be as of a different date than the data presented for 500 Startups. Such external data has not been verified.

People and Culture

Corporate governance and strong company culture are crucial to support ESG efforts. Developing a framework for governance may not seem like a priority at the onset of a new business; however, as a startup grows, so do the benefits of putting good governance practices in place. After all, workers are increasingly looking to companies that truly care about worker wellbeing, the environment, the community, and their customers.[9]

Outlining these practices may begin with making sure that all employees have formal contracts, creating a human resources policy or employee handbook, and creating guidelines to manage any potential health and safety risks for staff, customers, or partners.

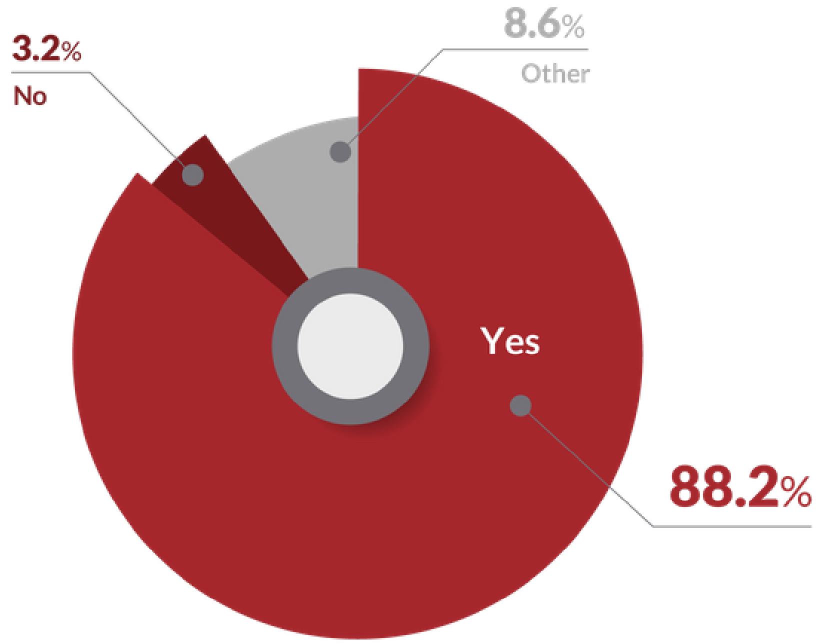
Forming a great company culture is one of the hardest things to do for any new company, but it's something that startups must work on proactively. A board can help provide an independent perspective and oversight on these matters, ensuring that both the management team and shareholders' interests are considered. Apart from establishing a board, focusing on ESG criteria that relates to people and culture issues early on benefits the company, its employees and stakeholders, and society in the long-term.

When asked about these issues, 88.2% of founders said they already have formal contracts for employees. However, fewer (61.3%) have yet to develop a human resources policy (or employee handbook) or guidelines to manage potential health and safety risks for their staff, customers and supply-chain partners (59.1%). A majority (93.5%) said they do comply with national employment regulations.

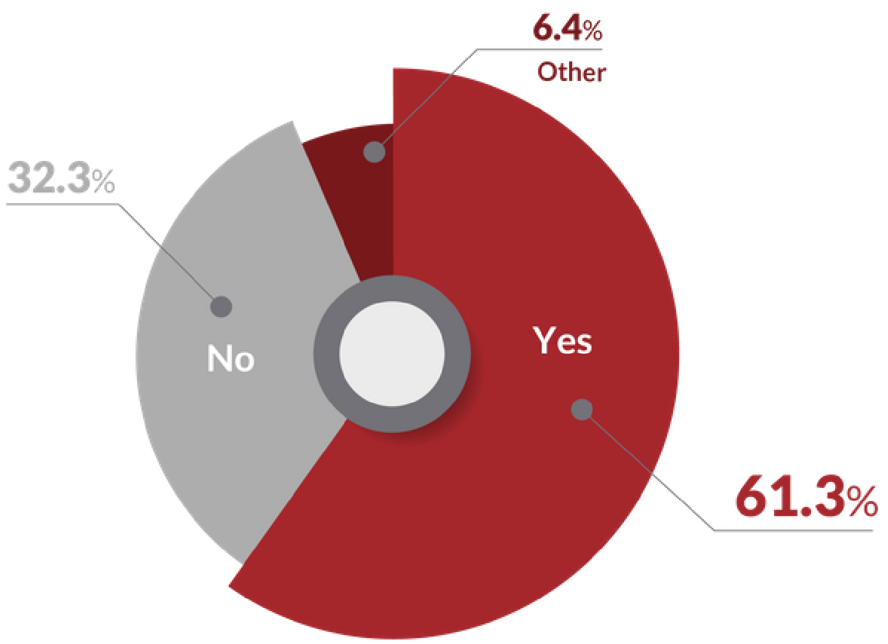
Among the companies that indicated they do not have any of these policies in place, the primary reasons were because they do not have any employees yet, the team works remotely, or they are currently developing these policies and agreements.

9. https://www.glassdoor.com/employers/blog/corporate-social-responsibility-why-employees-expect-you-to-give-back

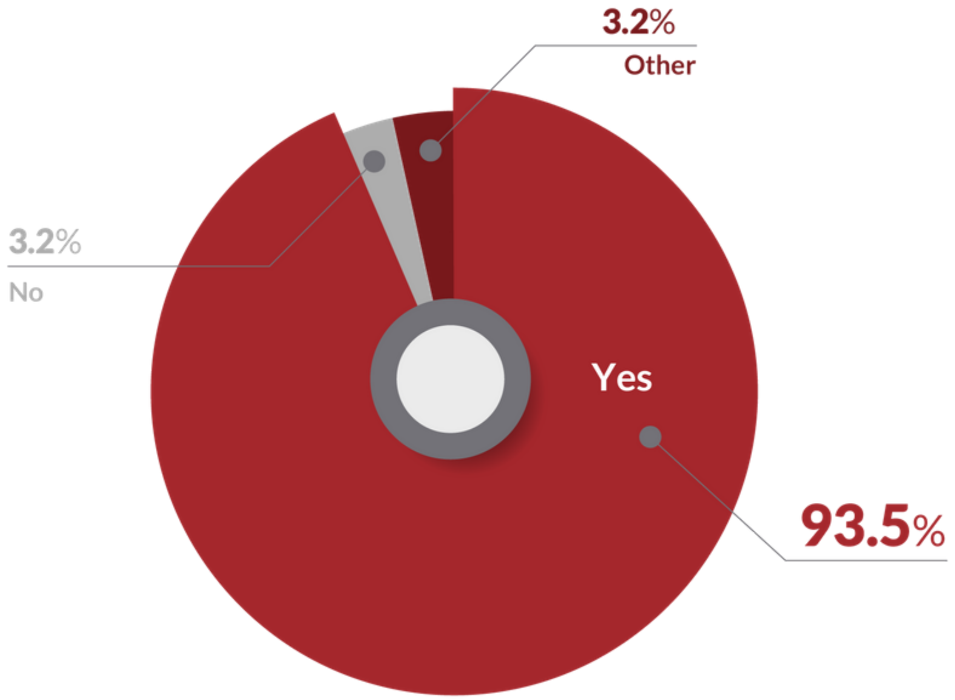
Do all employees of the company have a formal contract of employment?



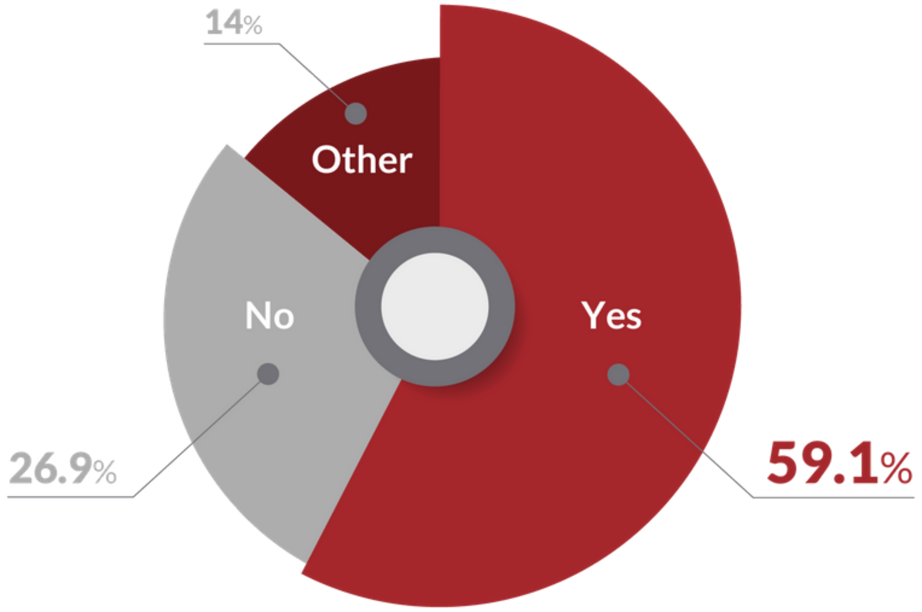
Is there a human resources policy in place and/or employee handbook?



Does the company ensure compliance with national employment regulations?



Are there guidelines in place to manage potential health and safety risks for staff, customers and supply-chain partners?



Webinar Recap

Beyond Disruption: How Tech Startups Can Shape the Gig Economy

In November 2020, we invited author Alex Rosenblat to discuss her book, *Uberland: How Algorithms Are Rewriting the Rules of Work,*[10] in a fireside chat.[11] The talk focused on how the gig economy, and in particular, Uber, is shaping the future of work in the US and worldwide by redefining labor and employment. This conversation became particularly germane after the historic passing of Proposition 22[12] in California, which exempted app-based transportation and delivery companies in California from a 2019 State law requiring them to re-classify drivers as employees.

Rosenblat noted that while the gig economy is currently a hot button issue, it currently represents only 1% of employment[13] in the United States. However, this topic is receiving significant attention because it is framed as a Silicon Valley innovation laying legal framework and creating precedents for how to define employment in the future.

Uber continues to assert that its drivers, much in the same way as its riders, are consumers of its technology and that this enables the company to treat these workers under consumer protection laws rather than labor laws. Not all gig companies operate in this way. Rosenblat pointed out that how companies handle this issue can range from encouraging individual providers to act as entrepreneurs (Care.com) to providing tips and algorithms to improve user experience (Airbnb). Each model comes with its pros and cons.

Rosenblat also emphasized that gig work can go beyond simply being a convenient way to find employment and receive services. The industry can look for ways to provide more appealing opportunities to their contractors. “Gig companies have an opportunity to create specific health services for contractors that don’t involve insurance. Ultimately, there are ways of circumventing the bureaucratic entanglements of insurance just like there are ways to extract benefits that are more attractive to a gig workforce,” she added.

10. https://datasociety.net/people/rosenblat-alex
11. https://500.co/blog/how-the-gig-economy-is-shaping-the-future-of-work
12. https://calmatters.org/election-2020-guide/proposition-22-gig-workers-ab-5
13. https://www.bls.gov/opub/mlr/2018/article/electronically-mediated-work-new-questions-in-the-contingent-worker-supplement.htm

Diversity and Inclusion

Creating a diverse work environment is good for business[14] and increases employee morale, productivity, and retention. We believe it's important for startups to know what the law requires and then establish internal best practices that go above and beyond those requirements early on so they can make their company a great place to work.

Many early-stage companies understand the importance of establishing diversity and inclusion goals yet tend to enforce them informally and haven't outlined any specific policies or targets. While 65.9% of founders indicated they have set diversity and inclusion goals, our mission is to increase this number.
We can help more startups outline diversity and inclusion goals appropriate for the company's funding stage, employee size, customer base, and core business, and then keep track of progress.

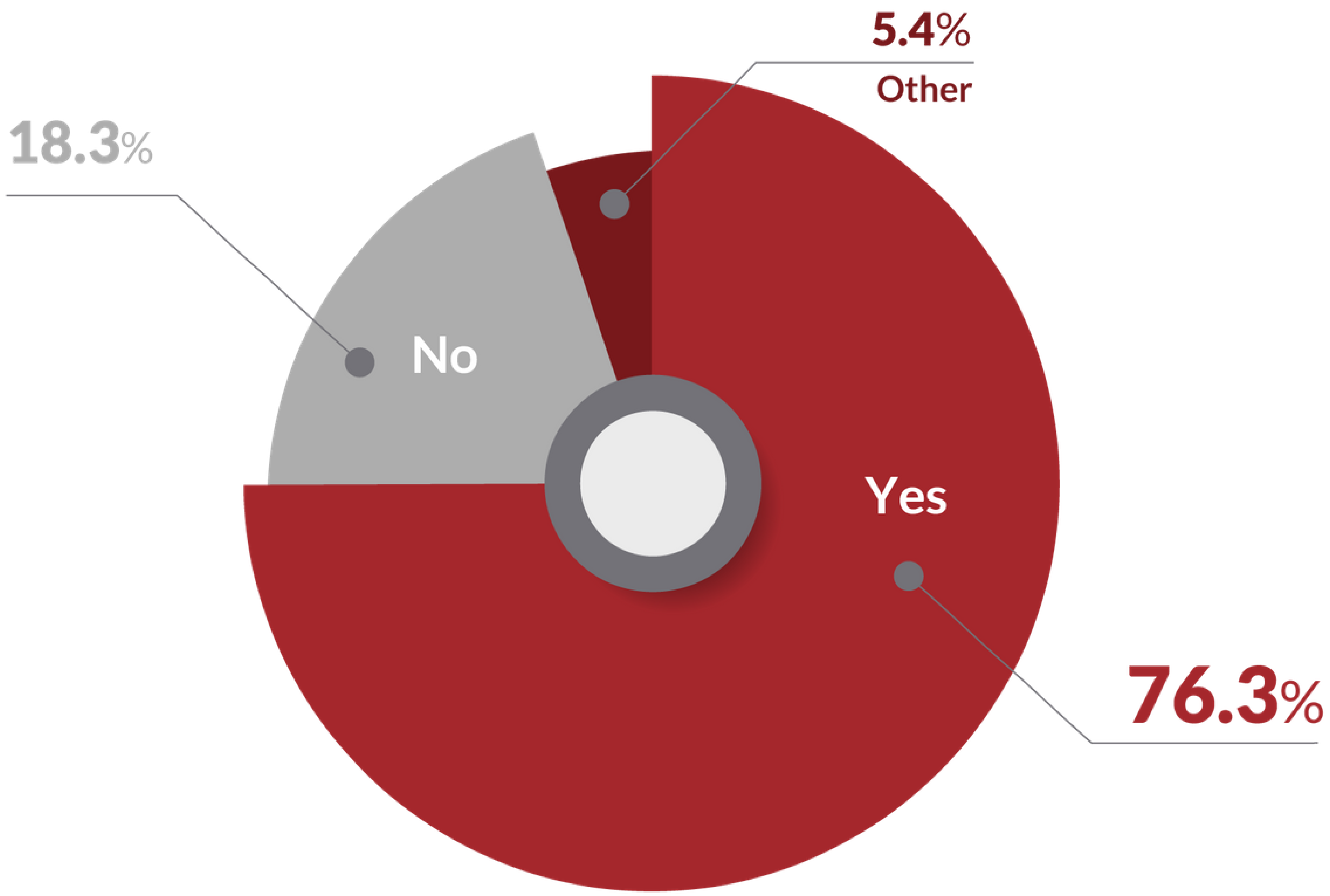
When we look at the specific diversity and inclusion activities startups are participating in, (76.3%) said they have a non-discrimination policy in place, and 40% said they have invested in people ops technology (POT), training programs, or resources that assist with mitigating bias in the employment life cycle; for instance, for sourcing, hiring, or promoting workers. In addition, 20.4% said they have organized volunteer opportunities for their employees to engage with underrepresented communities, and 45.4% said they have participated in diversity and inclusion learning to understand what works and what doesn't.

14. https://www.bcg.com/publications/2018/why-women-owned-startups-are-better-bet.aspx

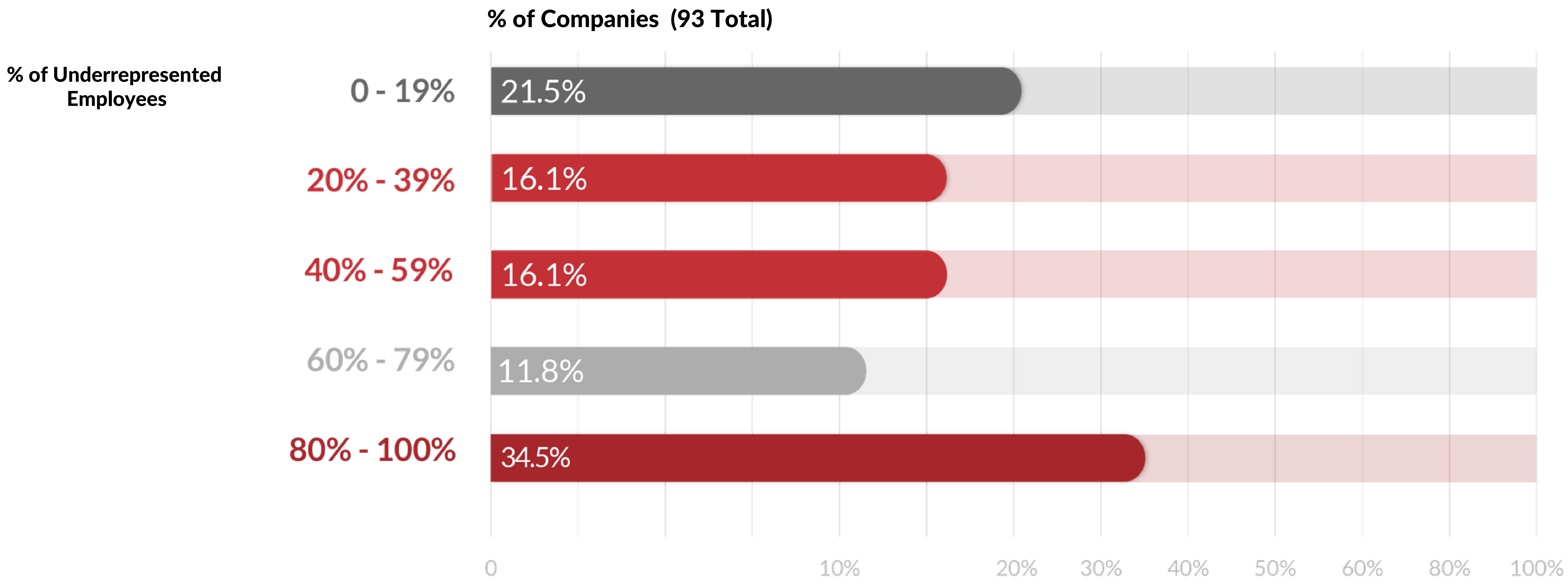
Among founders that indicated they have not yet defined diversity and inclusion goals, the primary reasons were because of the stage of their company or team size.

When it comes to ethnic diversity, the average percentage of ethnic minority employees working for the startups who completed the ESG questionnaire is currently 53%.

Does the company have a non-discrimination policy?



What is the total percentage of employees who are Black or African-American, African, American Indian or Alaskan Native, Asian, Indian, Middle Eastern, Native Hawaiian or other Pacific Islander, Mexican, Mexican-American, PuertoRican, Chicano, Cuban, Cuban-American, or other Spanish, Hispanic or Latino Group?



Does the company do any of the following?

Diversity and Inclusion-Related Activities	Responded Yes (%)
Establish diversity and inclusion goals that are appropriate for the company's funding stage, employee size, customer base, and core business	65.9%
Invest in people ops technology (POT), training programs, and/or resources that assist with mitigating bias in the employment life cycle	40%
Organize volunteer opportunities for employees to engage with underrepresented communities	20.4%
Participate in diversity and inclusion learning	45.4%
Other: *Over half that responded "Other" said they do not currently do any specific diversity or inclusion-related activities; however, many indicated they would like to implement them in the future.*	19.3%

Gender Equality

Women's equality and empowerment is another one of the UN 17 Sustainable Development Goals (SDGs) and is integral to achieving many of the other SDGs, specifically those aiming to improve access to skills and employment opportunities.

Women are still woefully underrepresented [15] as founders and funders in the technology industry. As enablers of wealth and job creation, the venture capital community can take a systematic approach to tackle this issue, starting at the early stage. At 500 Startups, we have committed to supporting female founders with the following initiatives: [16]

- Increasing the percentage of female founders in our programs.
- Expanding our global outreach to find the best female-led companies.
- Offering more resources for female founders, including access to mentors, advisors, and investors that have a specific interest in helping female entrepreneurs.

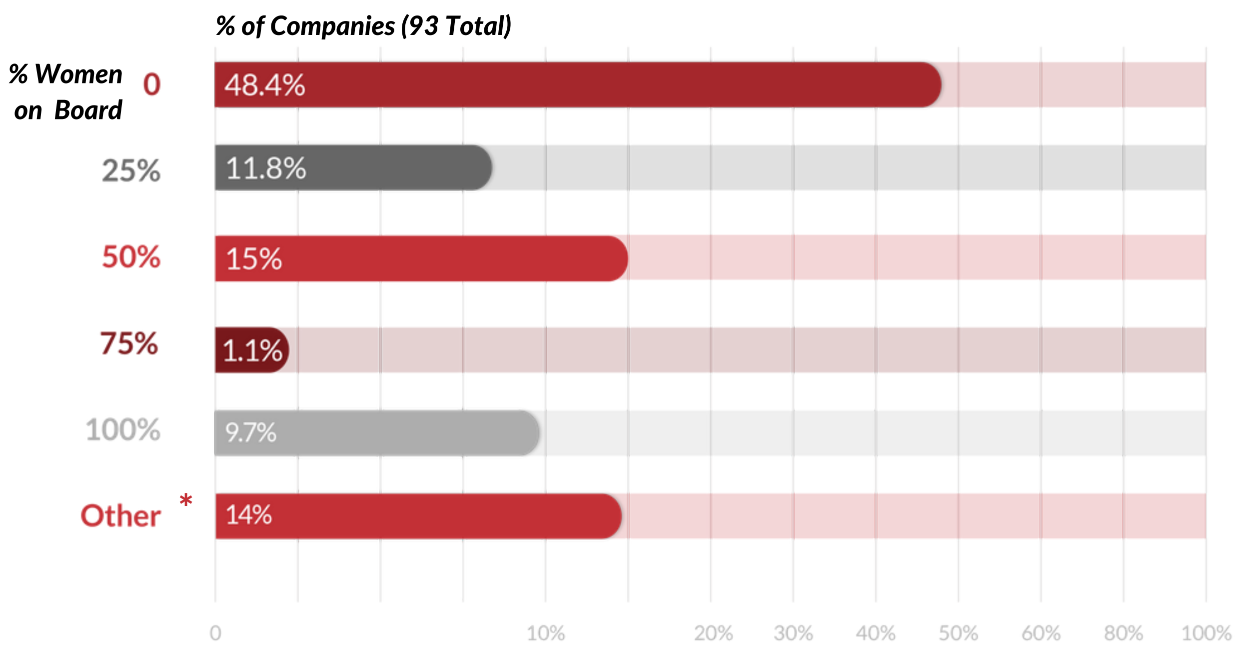
We are in a position to help the startup community understand how diversity benefits both individuals and business opportunities, and we believe one of the best ways to do this is to start from day one. Investors can help founders build inclusive workplaces, as well as understand the barriers that can hold women back throughout a company's growth and how to overcome those challenges as they arise. The more we can educate on these issues early on, the greater the chances that the next generation of companies will emerge through the lens of gender equality.

We have incorporated specific diversity and inclusion questions in the investment screening process to understand women's participation in various roles at each company and encourage more startups to commit to improvement. Currently, 49.5% of the companies do not have female representation in management positions with ownership in the company, and 46.8% of the companies do not have women in management positions at all. Less than 5% indicated they were in the process of recruiting women for management positions.

Another area for improvement is the percent of female representation on the company's board of directors. 48.4% of companies said they do not have any women on their board, 11.8% said women represent 25%, and 15% said they represent 50%. Only 9.7% said women represent 100% of their board, while 7% said they do not yet have a board of directors or that they have an informal board in place.

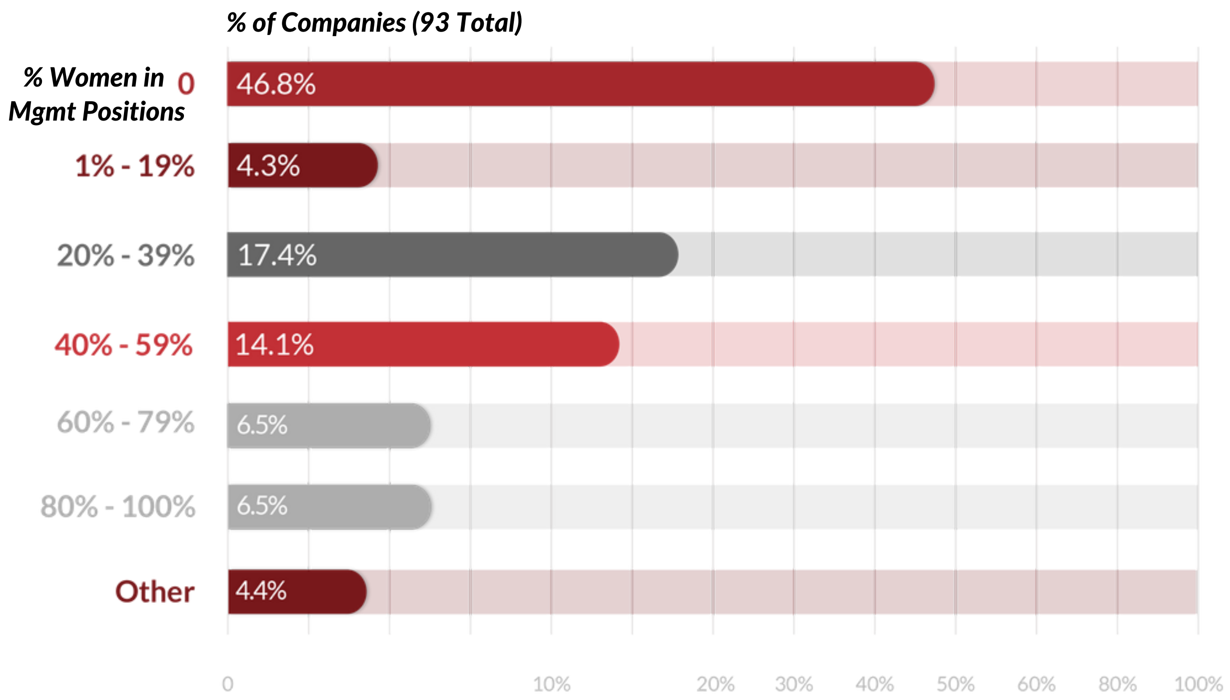
15. https://www.spglobal.com/en/research-insights/featured/the-changing-face-of-tech
16. https://pitchbook.com/news/reports/2020-sustainable-investment-survey

What is the percent of female representation on the board of directors?

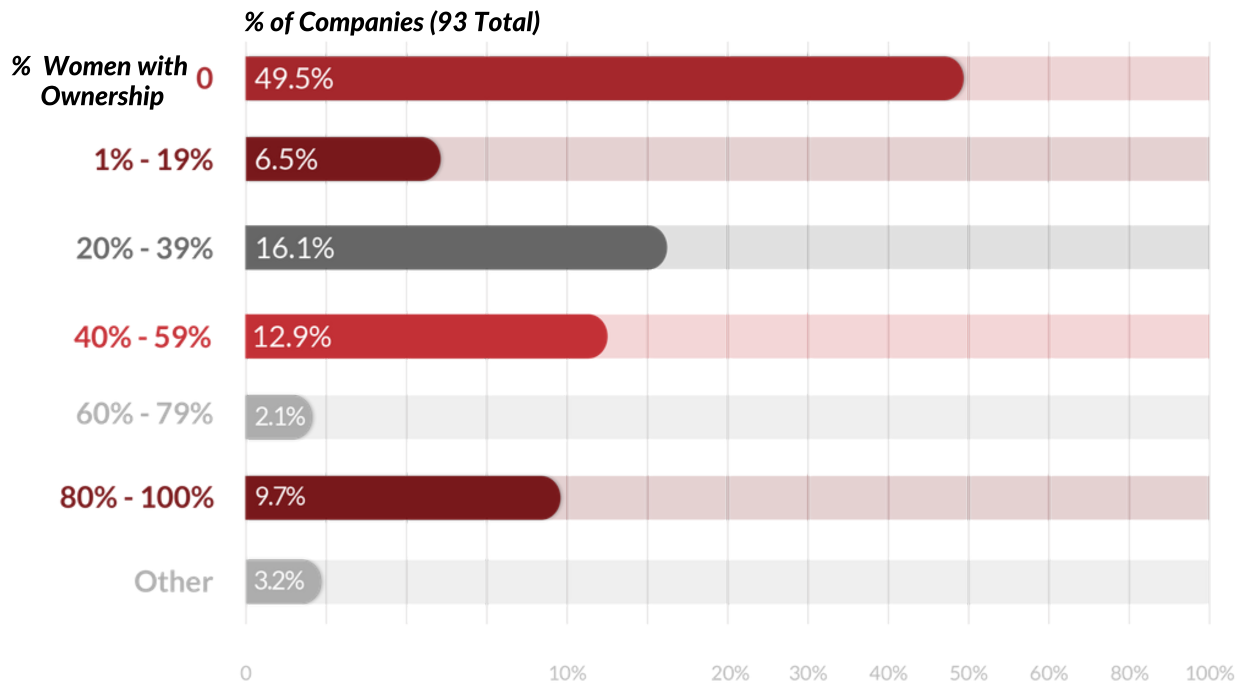


*Seven founders said they don't have a board yet or have an informal board.

What is the percent of women in managerial positions in the company?



What is the percent of female representation in managerial (VP or C-Suite) with ownership in the company?



Responsible Tech

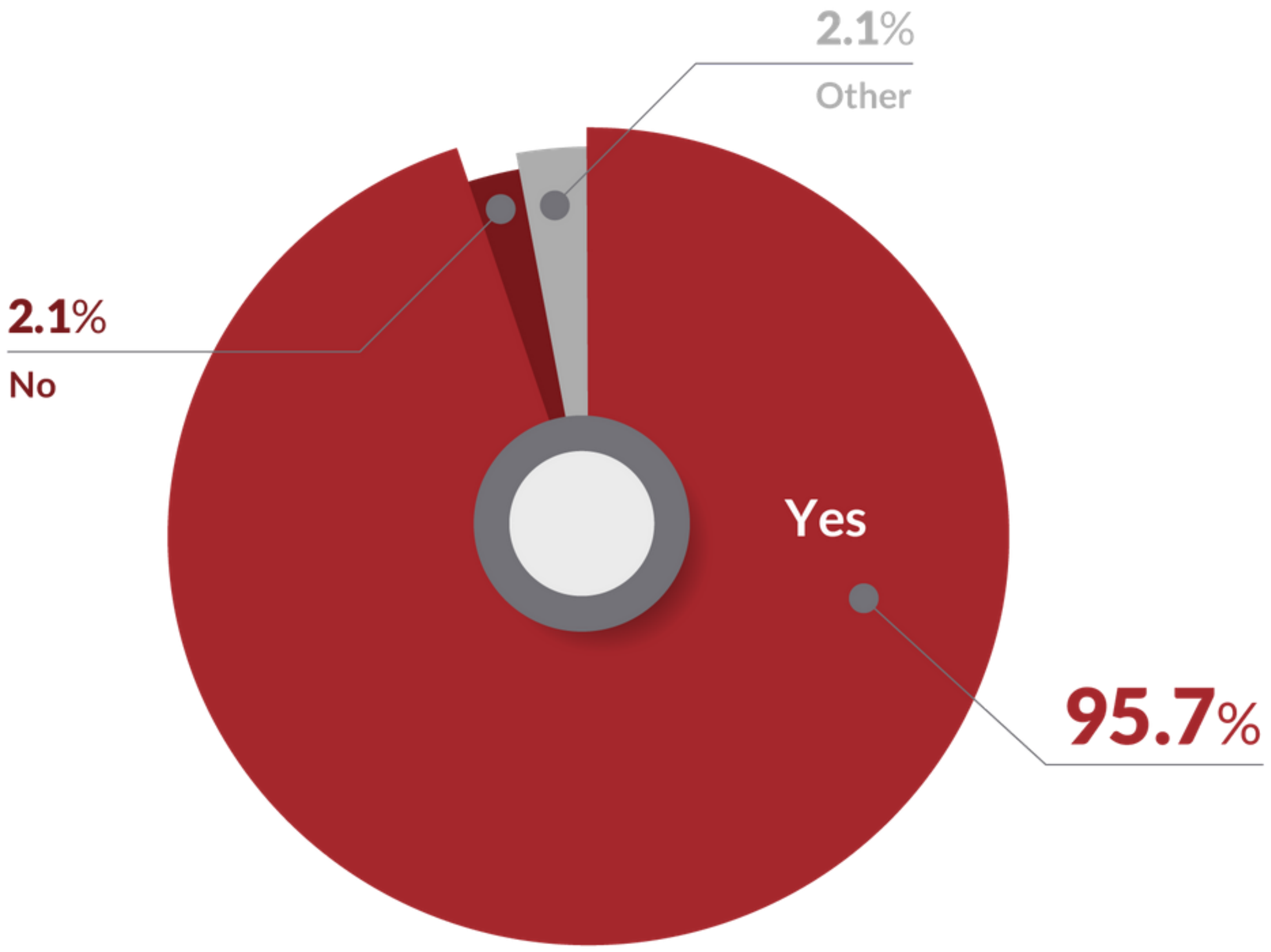
Many principles of ESG are finding their way into the latest data laws and regulations, affecting all companies regardless of size. Startups are not exempt from safeguarding customers from data and cybersecurity breaches. For example, Europe's General Data Protection Regulation (GDPR) [17] on personal data applies regardless of a company's size or location. The California Consumer Protection Act (CCPA),[18] which went into effect in 2020, also enhances consumer privacy rights and protections for California residents, by creating new rules and regulations for companies that seek to collect personal data from customers in California, and gives the California Attorney General power to issue non-compliance fines.

Even companies at the earliest-stages must be ready to comply with these existing regulations, along with new data protection laws that are likely to pass in the future. Compliance also helps startups stand out among competitors, and shows that they care about the security and privacy of employee and customer information.

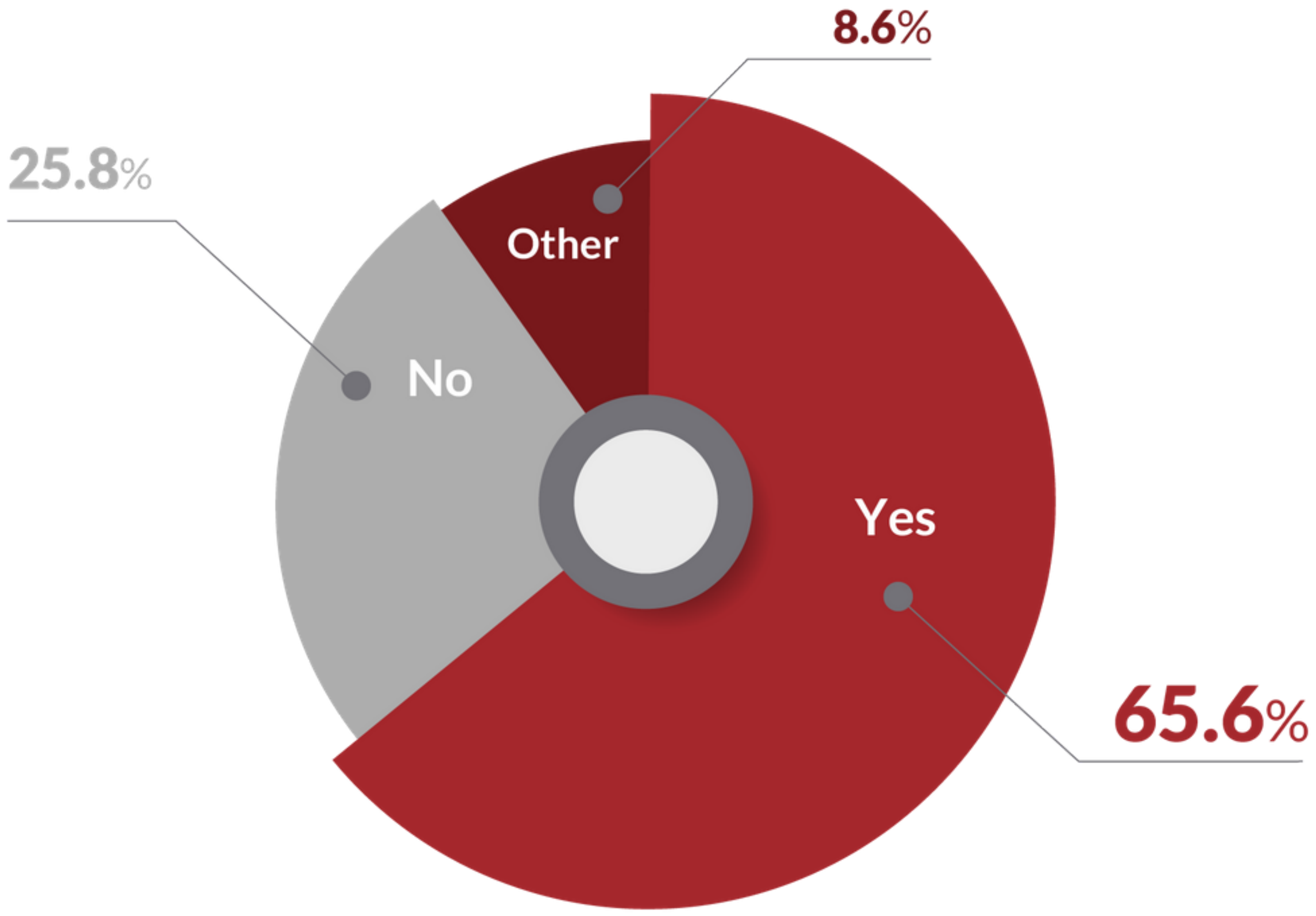
17. https://gdpr-info.eu
18. https://oag.ca.gov/privacy/ccpa

We take into account how companies are addressing data privacy and compliance issues to analyze ESG risk. Among the founders surveyed, 95.7% said they have a process in place to protect sensitive data, and 65.6% said they had implemented an IT security management system. Those that answered "Other" indicated that data security is not relevant at their current stage, that they are in the process of developing a process, or that they use a third-party service to protect this data and to minimize exposure.

Does the company have a process in place to protect sensitive data (such as customer and employee information?)



Has the company implemented an IT security management system?



Webinar Recap

Why Responsible Tech is a Business Imperative

In October 2020, the Co-Founder of Swayable, Lyel Resner,[19] joined us for a conversation about the intersection between business, tech, politics, and social responsibility.[20] Swayable is a public benefit corporation using data science to create persuasive media for organizations like the ACLU, Airbnb, and Girls Who Code, so he is well-positioned to discuss how technology and society might interact more responsibly.

During this discussion, Resner pointed out that the world has found itself in a moment of tech reckoning. Far from the optimism of 2008 and the new iPhone, we are now seeing tech companies as agents of misinformation, foreign political interference, and threats to our ever-shrinking privacy. He compared the current situation in technology to Mary Shelley's *Frankenstein*, saying, "Frankenstein is ultimately about being careful about what you create, because the thing you create could ultimately become the thing that destroys you."

While the largest companies are bearing the brunt of the criticism, the societal skepticism of technology affects the entire sector. Tech companies frequently find themselves battling legal and ethical battles over features and issues they did not solve during the early stages. Resner believes that early-stage companies should now pay attention to responsible technology issues alongside other issues, such as product-market fit, if they are to survive public scrutiny and unforeseen risks.

He also indicated that employees in the tech industry are increasingly aware of this issue, meaning that slowing down to create more responsible solutions can help attract and retain talent who care about not negatively impacting society. Building responsibly can also boost social capital and customer loyalty, both critical to a startup's long-term success. Startups can begin to plan for these existential risks by creating boards and ESG policies early, incentivizing social responsibility in employees, and even seeking out third-party ethics audits. In short, businesses should consider the wider implications of their work before it scales and is no longer in their hands.

19. https://www.swayable.com
20. https://500.co/blog/how-early-stage-companies-can-make-responsible-technology-a-competitive-advantage

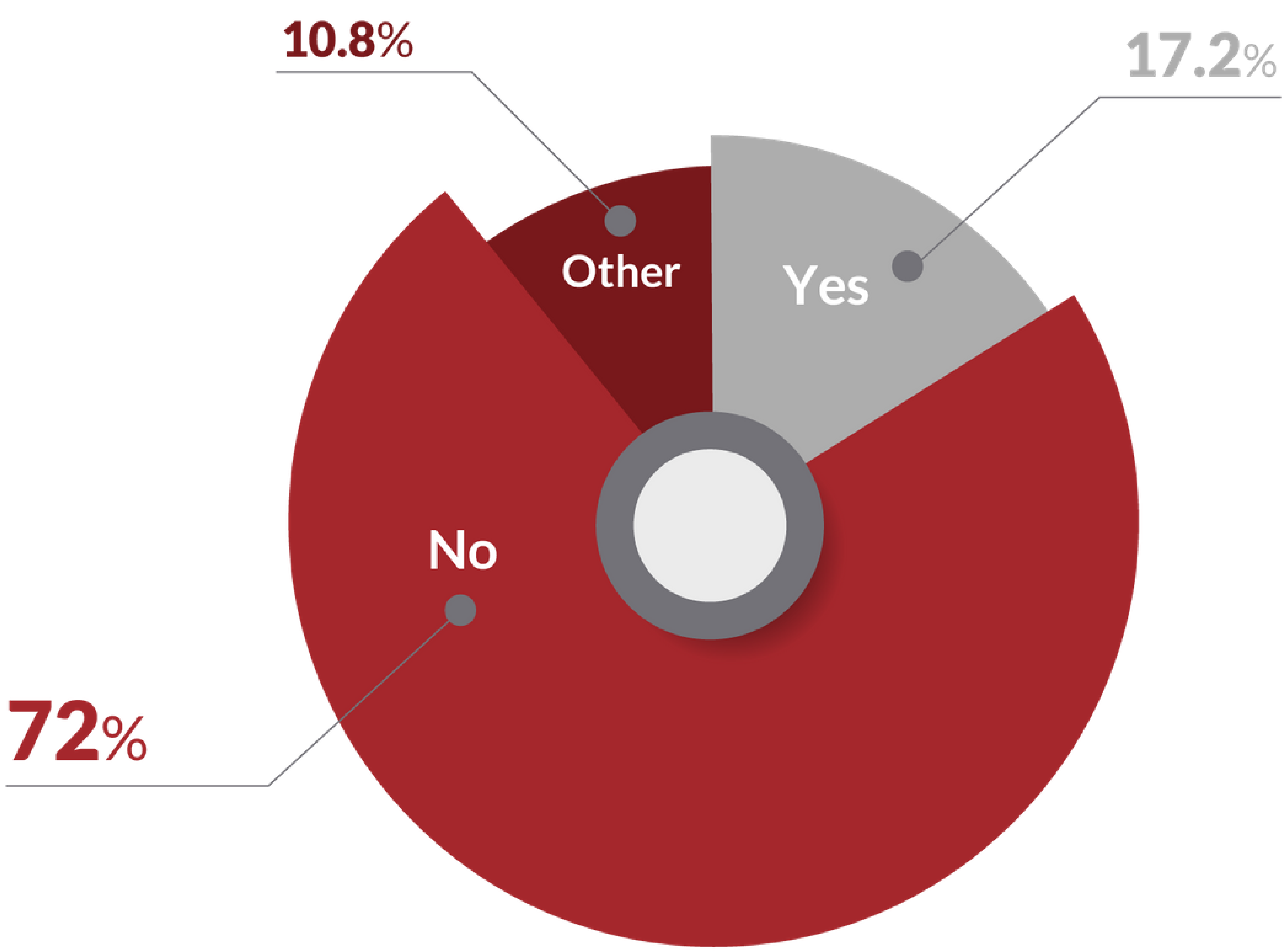
Environmental Stewardship

From acquiring customers to building a team, startups face many competing priorities in the early days. Often, there's little time to think about what impact the company will have on the environment, especially if the company's primary activities do not involve addressing environmental issues or the production of any physical products that have a significant environmental impact.

72% of founders said they do not currently monitor energy and water sources and consumption. The top reason for not monitoring energy and water consumption is that many of the companies work remotely, from a coworking space or from home. Still, it is important for startups to think about how they can operate as efficiently as possible, regardless of where they are physically performing their work. Not only are there financial benefits, but consumers are also increasingly looking to support companies with sustainable business practices.[21]

As investors, helping startups establish a sustainability program early on doesn't have to be a complicated undertaking. Small actions that startups take now can add up to make a big difference in the future. It's much easier to think about how a company affects the environment from the beginning and address any issues upfront, rather than fix or replace already-established processes in the future.

Does the company monitor energy and water sources and consumption?



21. https://www.ibm.com/downloads/cas/EXK4XKX8

Startups as Global Actors

[22]

In today's age of information, consumers and employees are able to be extremely discerning when deciding which companies receive their business or support. There's never been a greater need to increase corporate social responsibility and address real issues our world faces, specifically among the technology sector. Many more consumers are 'voting with their wallets' and supporting companies that conduct business ethically and transparently.[23] While customers may not notice when early-stage startups lack overt policies for conducting business ethically, if these companies scale without plans in place, they might find themselves in hot water once they reach the public eye.[24]

22. https://www.un.org/sustainabledevelopment/blog/2015/12/sustainable-development-goals-kick-off-with-start-of-new-year
23. https://hbr.org/2019/06/research-actually-consumers-do-buy-sustainable-products
24. https://fortune.com/2019/09/25/wework-adam-neumann-we-co-corporate-governance-investors

ESG risks may rarely be top-of-mind for early-stage startups, but as early-stage investors, we can help founders think about internal policies that fit their goals. When startups and investors take a proactive approach to incorporate ESG policies together, everyone benefits and the end result can be a more inclusive, sustainable, and equitable economy.

In our ESG questionnaire, we ask founders whether their company's product, service, technology, or field of activity helps promote or achieve any of the UN Sustainable Development Goals. Here are some of the top areas of focus:

- **Goal 8: Decent Work and Economic Growth**: Creating quality jobs (34.4%)
- **Goal 3: Good Health & Wellbeing:** Ensuring healthy lives and promoting the well-being for all at all ages (28%)
- **Goal 10: Reduce Inequalities:** Supporting the marginalized and disadvantaged (22.6%)
- **Goal 11: Sustainable Cities & Communities:** (17.2%)
- **Global 1**: **No Poverty:** Ending poverty in all its forms everywhere (15%)

> ***"When it comes to early-stage companies, ESG provides an opportunity to attract talent and consumers, enhance regulatory compliance, and develop greater market access. The sooner companies start, the greater the ability to capture these opportunities and mitigate risk."***

[25]

- Christine Tsai, CEO of 500 Startups

25. https://pitchbook.com/news/reports/2020-sustainable-investment-survey

Does the company's product, service, technology, or field of activity help to promote or achieve any of the UN Sustainable Development Goals?

Sustainable Development Goals	Responses (%)
Goal 8 - Decent Work and Economic Growth: Create quality jobs	34.4%
Goal 3 - Good Health & Well-Being: Ensuring healthy lives and promoting the well-being for all at all ages	28%
The company does not contribute to the Sustainable Development Goals	28%
Goal 10 - Reduce Inequalities: Support the marginalized and disadvantaged	22.6%
Goal 11 - Sustainable Cities and Communities	17.2%
Goal 13 - Climate Action	16.1%
Goal 1 - No Poverty: End poverty in all its forms everywhere	15%
Goal 4 - Quality Education: Help educate the children in your community	15%
Goal 5 - Gender Equality: Empower women and girls and ensure their equal rights	15%

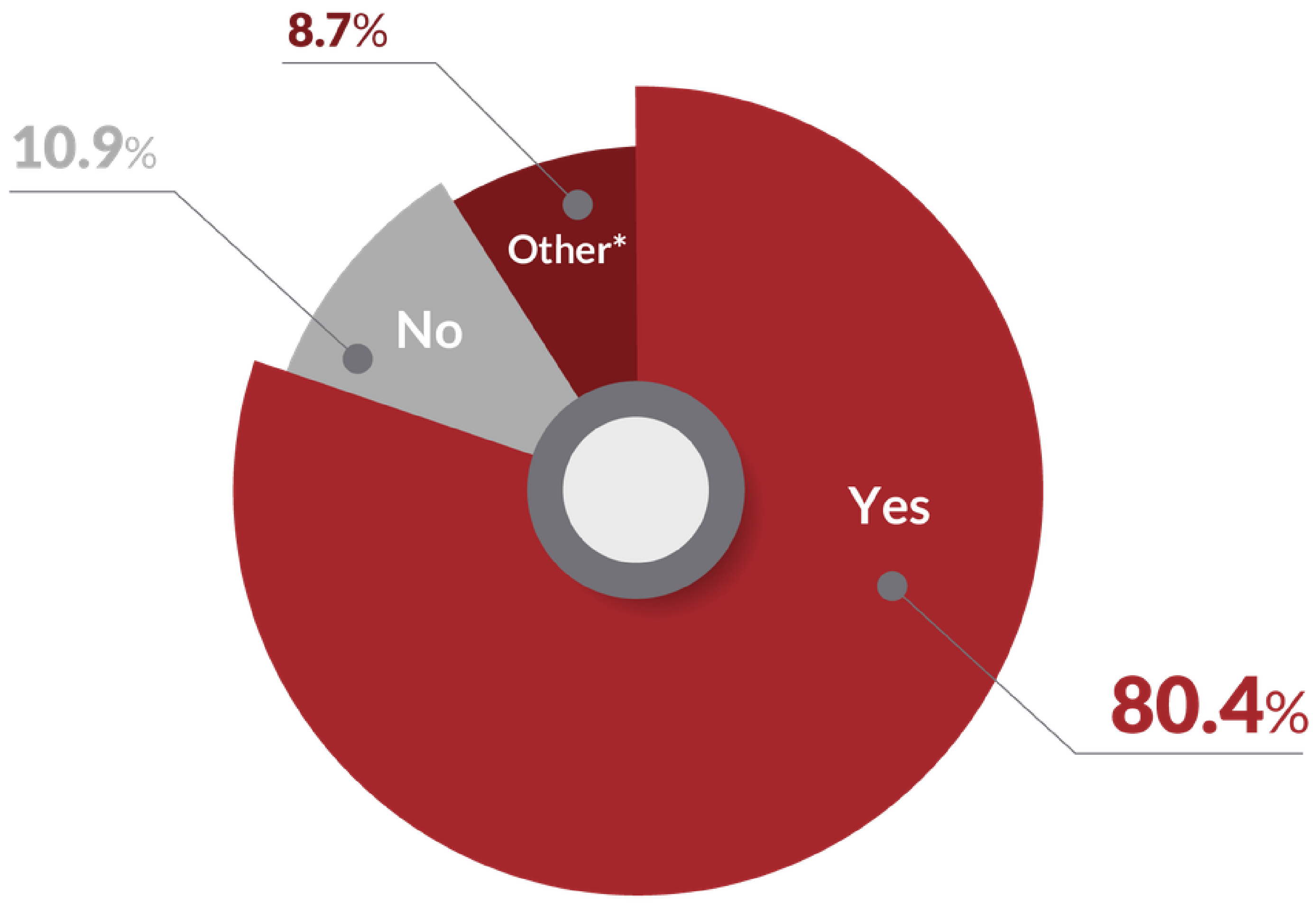
Sustainable Development Goals	Responses (%)
Goal 17 - Partnerships: Create or participate in partnerships between goverments, the private sector and civil society that are built upon principles and values that place people and the planet at the centre.	15%
Goal 7- Affordable and Clean Energy	11.8%
Goal 12 - Responsible Consumption and Production	11.8%
Goal 9 - Industry, Innovation & Infrastructure: Projects that provide roads, water, sanitation or electricity	10.7%
Goal 2 - Zero Hunger: End hunger, achieve food security and improve nutrition and promote sustainable agriculture	7.5%
Goal 16 - Peace, Justice and Strong Institutions: Building effective, accountable institutions at all levels	5.4%
Goal 6 - Clean Water & Sanitation: Clean accesible water for all	3.2%
Goal 15 - Life on Land: Sustainably manage forests, combat desertification, halt and reverse land degradation, halt biodiversity loss	3.2%
Goal 14 - Protect Life Below Water	1.1%

Early-Stage Startup Attitudes Towards ESG

While many early-stage startups have identified specific Sustainable Development Goals (SDGs) they would like to achieve, 28% indicated they are not yet contributing to any specific goals.

Early-stage startups are often laser-focused on building their products and reaching first customers, so they may not have the resources or bandwidth to manage ESG concerns. However, the promising news is that a majority (80.4%) do view the integration of ESG as an opportunity to identify additional opportunities and risks for their entrepreneurial activities. This shows a growing understanding among startups that monitoring ESG criteria and setting specific goals is in the best interest of their company and stakeholders. Not only does it help them grow more transparently and ethically, but it makes them more appealing to future customers, investors, and talent.

Does the company view the integration of ESG as an opportunity to identify additional opportunities and risks for their own entrepreneurial activity?



*Other: Seven respondents indicated they did not understand the definition of ESG or weren't sure if they viewed it as an opportunity at their current stage.

What's Ahead in 2021

The overlapping crises of 2020 had at least one positive outcome: ESG policies became a critical factor in investment decision-making. Under crisis conditions, investors and companies began to see how businesses mitigating risks through ESG plans often outperformed those that ignored these policies. With the pandemic continuing to rage in much of the world and the effects of climate change looming, investors are adding new investment criteria to the table to address ESG as critical to investment decision-making.

The most-popular ESG themes for 2021 were heavily influenced by lessons learned in 2020 from the pandemic, natural disasters, and growing political and social tensions. These topics include:

Racial inequality: The United States was rocked by protests throughout Summer 2020, decrying the impact of institutionalized racism on the lives of people of color. Numerous countries also echoed this anger. Investors like Blackrock and Vanguard are already pushing companies to address racial and gender diversity at every level of management and examine how they can be more antiracist to break down traditional forms of power and inequality.[26]

Government[33] regulation: Private markets in the US and Europe are in the process of creating additional transparency around how their investments impact the world. The three top European financial authorities have proposed that all participants in their financial markets must publish their ESG due diligence on public websites and provide documentation.[34] While the SEC currently recommends disclosure, it is also considering creating firm rules regarding ESG disclosure. Currently, most companies do so through third parties that are often unreliable. We may see more companies start defining ESG policies and monitoring their progress in preparation for these new regulations.

Climate change and greenwashing: Climate change is a hot button political issue for 2021, where it plays a strong role in President Joe Biden's agenda, including rejoining the Paris Agreement.[27] Companies are increasingly aware of the potential financial toll of climate-associated risks and are being asked to quantify these risks prior to receiving investment. Meanwhile, governments are increasingly pushing toward net-zero emissions, and businesses will need to comply with these new regulations. As pressures mount to consider environmental impacts and risks, businesses are coming under scrutiny for 'greenwashing' or pretending they are protecting the environment when they are not. Greenwashing, when discovered, can significantly harm a business' reputation and social capital and therefore poses a significant risk, as well.

26. https://www.esginvesting.co.uk/top-esg-themes-for-2021
27. https://www.whitehouse.gov/briefing-room/statements-releases/2021/01/20/paris-climate-agreement

Digital ethics: In 2020, technology revealed it can be a power for good and power for chaos. Issues such as the use of technology to spread disinformation and user privacy have been discussed heavily in the media and the political world, putting pressure on businesses to consider how to control their products and ensure they are not used to spread hatred or violence. The pandemic has also exacerbated digital disparities as work and education moved online, demonstrating that access to the Internet is rapidly becoming essential to accessing and continuing employment and education.

Emerging markets: ESG policies rarely translate directly to the context of emerging markets, where criteria like diverse employment practices mean something very different than in the US. However, as startups and VCs are increasingly building and investing in emerging market contexts, 2021 will be a year to see ESG criteria evolve to fit these new geographies and their associated risks.

2020 threw the risks in our current markets into sharp relief. As a result, investors and companies of all sizes are beginning to pay more attention to ESG policies as a way to insulate themselves from imminent risk, even from the early stages.[28] These themes are just a few of the topics that 2020 brought to global attention. As investors, it is up to us to continue to consider industry-specific and less predictable risks that may affect decision-making moving forward.[29]

The goal of 500 Startups Global Flagship Fund ESG Policy is to ensure that the Fund takes a responsible approach to investment throughout its investment cycle. It recognizes the potential impact of its companies on the environment, workers, communities, and society, as well as the potential impact of climate change on the companies in which the Fund invests.

We look forward to exploring these topics and more with founders and the investment community in 2021.

For more information and resources, visit 500.co/esg.

28. https://www.esginvesting.co.uk/top-esg-themes-for-2021
29. https://pitchbook.com/news/reports/2020-sustainable-investment-survey

Appendix

The Global Flagship Fund ESG Questionnaire

Standards Used to Design the Questionnaire

List of Companies Represented

Spotlight Companies

The Global Flagship Fund ESG Questionnaire

Exclusion Questions

1. Does the company have any production or activities (including supply chain) involving harmful or exploitative forms of “forced labor” or “harmful child labor?
2. Has the company been (A) sanctioned by the United Nations Security Council pursuant to any resolution issued under Chapter VII of the United Nations Charter; or (B) debarred by the World Bank Group (see the World Bank Listing of Ineligible Firms and Individuals at www.worldbank.org/debarr or any successor website or location) [1]
3. Does the production or activities of the company impinge on the lands owned, or claimed under adjudication, by Indigenous Peoples, without full documented consent of such peoples?
4. Is the company primarily involved in the production or trade in radioactive materials (including storage and treatment of radioactive wastes), business, or activities relating to the nuclear industry or nuclear materials?
5. Is the company involved in the production of pornography?
6. Has there been any finding of regulatory non-compliance against the company?
7. Have investigations or regulatory proceedings been commenced against the Company?
8. Is the company primarily involved in the production and/or trade in arms or ammunition developed solely for civilian use?
9. Is the company primarily involved in the production or trade in alcoholic beverages (excluding beer and wine)?
10. Is the company primarily involved in the cultivation[2], production, delivery, or commerce of tobacco or cannabis?
11. Is the company primarily involved in gambling, casinos, and equivalent enterprises?

The Global Flagship Fund ESG Questionnaire

Benefitting Stakeholders and Contributing to Solutions Questions

12. Do all employees of the company have a formal contract of employment?
13. Is there a human resources policy in place and/or employee handbook?
14. Does the company ensure compliance with national employment regulations?
15. Does the company have a non-discrimination policy?
16. Does the company do any of the following? (please check all that apply)

a. Establish diversity and inclusion goals that are appropriate for your company's funding stage, employee size, customer base, and core business.

b. Include progress on diversity and inclusion in quarterly investor updates.

c. Invest in people ops technology (POT), training programs, and/or resources that assist with mitigating bias in the employment life cycle (e.g. sourcing, hiring, promotion).

d. Organize volunteer opportunities for your employees to engage with underrepresented communities, especially those that reflect the company's customer base.

e. Participate in diversity and inclusion learning to understand what works and what doesn't.[2]
f. Other

17. Is the company aware of any potential health and safety risks for its staff, customers, and supply-chain partners? If yes, are there guidelines in place to manage these risks?
18 Does the company have a process in place to protect sensitive data (such as customer and employee information)?[1]
19. Has the company implemented an IT security management system?
20. Does the company monitor energy and water sources and consumption? 21. Does the company's product, service, technology, or field of activity help to promote or achieve any of the UN Sustainable Development Goals?
22. What is the percent of female and minority representation on the board of directors?
23. What is the percent of female and minority representation in managerial (VP or C-Suite) with ownership in the company?
24. Does the company view the integration of ESG as an opportunity to identify additional opportunities and risks for their own entrepreneurial activity?

Standards Used to Design Questionnaire

B Corp Certification - B Corp Certification is to business what "Fair Trade certification is to coffee or USDA Organic certification is to milk. "It legally requires a business to consider the impact of their decisions on their workers, customers, suppliers, community, and the environment. The certification process requires passing an online assessment for "social and environmental performance," integrating B Lab commitments into company governing documents, and paying an annual fee ranging from $50 to $50,000.

Global Reporting Initiative - The Global Reporting Initiative is an international independent standards organization that helps businesses, governments, and other organizations understand and communicate their impacts on issues such as climate change, human rights, and corruption.

IFC Exclusion List - The IFC Exclusion List defines the types of projects that IFC does not finance. For example, the production or trade in weapons and munitions, the production or trade in tobacco, gambling, casinos, and equivalent enterprises. Startups should keep this list in mind as many venture capital firms focused on sustainability also refer to this list during the decision-making process.

IFC Impact Principles - The Impact Principles provide a framework for investors to ensure that impact considerations are purposefully integrated throughout the investment life cycle. These 9 principles bring greater discipline and transparency to the impact investing market, requiring annual disclosure statements and independent verification of Signatories' impact management systems and processes.

+IRIS - IRIS+ is the generally accepted impact accounting system that leading impact investors use to measure, manage, and optimize their impact. Proper use of the IRIS+ system ensures a minimum level of consistency in a users' impact claims and performance, making it easier for investors to analyze and extract useful information for decision making. The use of IRIS+ also facilitates the comparison of impact information.

Sustainable Accounting Standards Board - The SASB is an organization that helps businesses worldwide measure, manage, and report on sustainability factors that drive value and affect operational performance. The standards not only help satisfy reporting and accounting requirements but provide useful additional information to investors as well. The SASB Materiality Map is an interactive online tool that startups can review to identify relevant ESG factors for their industry and business model.

United Nations Global Compact Principles - The Ten Principles of the United NationsGlobal Impact aim to standardize corporate sustainability across human rights, labor, environment, and anti-corruption issues. Startups can incorporate these principles into strategies, policies, and procedures to uphold basic responsibilities to workers, consumers, and the environment and set the stage for long-term success.

United Nations Sustainable Development Goals - The 17 SDGs are the United Nations' "best plan to build a better world for people and our planet by 2030." This blueprint seeks to achieve a better and more sustainable future, addressing global challenges related to "poverty, inequality, climate change, environmental degradation, peace and justice." Early-stage startups that grow with these goals in mind and use these SDGs to create policies in their company can help combat global challenges.

List of Companies

Data in this report is based on responses to 500 Startups' ESG questionnaire from the following 93 portfolio companies:

Acadium
Accrue
ActualConversion Inc.
Adapty
Alba Care, Inc.
Alloy Card
Alluva
Amixr
AMPAworks
Apothecary
AppBind
Ash
Avatour
AvoMD, Inc.
AWSM Brand Management Inc.
Beatdapp Software Inc.
BlackCart
Bliinx
BlockVigil
Blue Studios.io
Brave Credit
Briza, Inc.
Butlr
Bytez
CENOS
Chipper Cash
Clout Technologies Inc. ("Clout Jam")
Compute Software
Connected Analytics Inc.
Crash
Curie
Drover Inc
EcoCart
EINO, Inc.
EMTECH
EZFARMING
Fakespot
FitzyTV Inc.
GamerzClass
Get on Board
Grow
Hamama
Heartex
HYVE INC
InnerTrends
Invidica
Juked
JusticeText
Kiira Health
KiKi
Kyndoo
LucidAct Health Inc.
Memoir Health
Mero
MightyFly
Momo Project
Nanno
Nanogrid
Newoldstamp
Omnitron Sensors
Ovation
Pariti
Pawsh Inc
Penfield.ai
Pilleve
Pilota
Pineapple Labs
PiQPiQ, Inc.
Plant an App
Pluto Brand, Inc.
Predina Tech
Renetec, Inc.
Resonado
Rovilus Inc.
Ryu Games
Savion Aerospace Corp.
Send4
Sendspark
ShardSecure Inc.
Silk + Sonder
Sira Medical
SNAPSHYFT
Spaceful
Stack
Stoovo
Svastia
tethr
The Atlas
Thematic
Tradespace
Trash Warrior
Visionful
Workclass

Startup Spotlight

pariti

Pariti is capitalizing on an unrelenting tech boom in Africa, which only seems to be growing, despite the pandemic. Over $1.3 billion[30] was invested into African startups in 2019, and population growth suggests African countries will make up five of the top ten most populous countries in the world by 2100. These statistics bode well for future economic growth, and Pariti is leading the charge.

In a short period, the startup has built a strong network of investors, talented workers, founders, and corporations across Africa's largest startup markets in Nigeria, Ghana, and Kenya.

> ***"People of color, minorities, women who are funded, usually outperform by 30% on average. They are used to doing more with less, until the narrative changes,"***
>
> *says Yacob Berhane, Co-Founder of Pariti.*

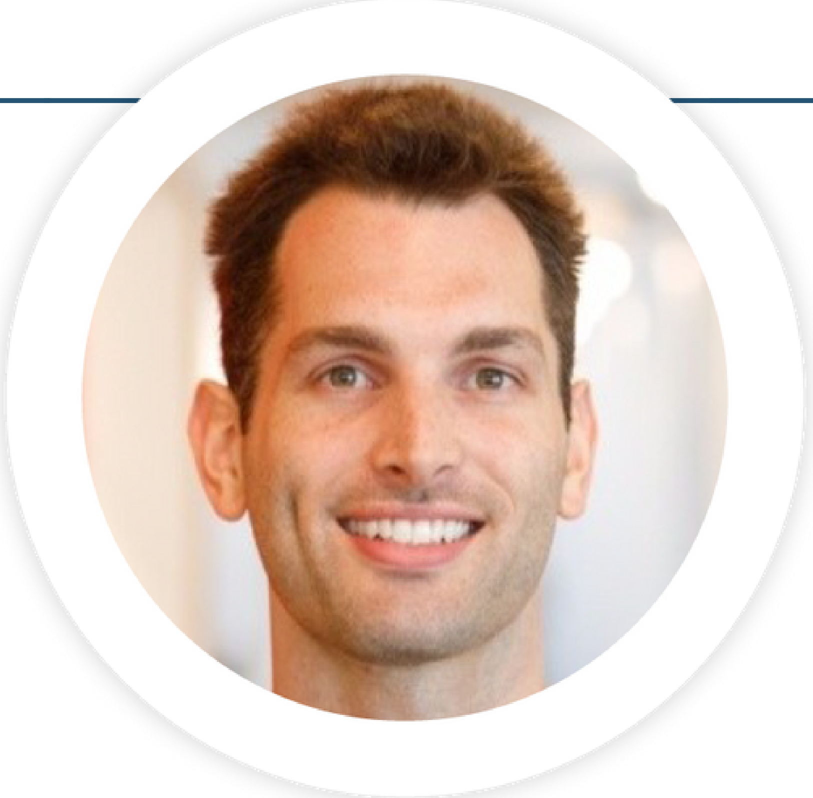
Pariti connects growing startups in Africa to talented freelancers, backend infrastructure, and global investors through a three-way marketplace. The company is riding a surge in under-capitalized African startups to help channel investment where it is most needed and help companies make the most of new capital. At the same time, the COVID-19 pandemic has increased demand for freelance work, and Pariti has been there to connect talent with exciting startups looking for skilled workers.

The Pariti team founders, Yacob Berhane and Wossen Ayele, were born in the US but have both lived in Kenya. They are tackling a number of UN Sustainable Development Goals (SDGs), including the creation of quality jobs and economic growth (SDG #8), reducing inequality by providing opportunities to people from all backgrounds (SDG #10), and finally, reducing poverty (SDG #1) by fueling the regional startup ecosystem. The Pariti team is on a mission "to make the world a more equitable place by evolving and growing underserved markets."

30. https://qz.com/africa/1782232/how-much-did-african-startups-raise-in-2019

Startup Spotlight

Grow



In the midst of a pandemic that has forced a significant number of companies to go remote, Grow seeks to answer ambitious employees' needs for rapid constructive feedback and support managers in providing thoughtful evaluations. Grow is a rapid feedback platform that connects remote workers with managers so they can rapidly evaluate performance, learn, and track growth over time. Importantly, Grow can be integrated into office communication software like Slack and Microsoft Teams so remote teams can stay connected and focused on the same goal.

"At its core, feedback can feel scary for many people," says Ryan Sydnor, Co-Founder of Grow. "With a lot of research into behavioral economics and psychology, we looked at the barriers people have to receiving feedback. We know they need a little more."

To incentivize long-term relationships and conversations, Grow plants a virtual tree that users can nurture over time by continuing to request and provide feedback. When the tree reaches a certain milestone, the Grow team plants a real tree in Madagascar and provides users with information about the tree's positive impact on the environment. The tree provides an element of 'delight' that keeps users excited to find more opportunities to work together and nurture each other. So far, Grow has planted over 3,000 trees in Africa. Sydnor adds that planting trees keeps employees engaged because they feel empowered and connected to the process.

Grow was created by former finance and healthtech professionals who understand the value of using data and records to help people grow professionally.

The company is well-placed to capitalize on the growth of remote work due to the pandemic and the soaring demand for digital tools.

Startup Spotlight

Kiira

75% of college-aged women in the US go online to self-diagnose sexual and reproductive health issues, often resulting in painful misdiagnosis and unnecessary stress. The founder of Kiira Health, Crystal Evoleocha, experienced this exact situation herself as an immigrant university student from Nigeria who often turned to the Internet, rather than medical professionals, for help when she was studying. This experience led her to create Kiira Health.

Kiira Health is an AI care coordinator that connects women to healthcare professionals virtually and discreetly to respond to their concerns. Kiira Health's mission is strongly aligned with key ESG criteria. Led by three women, the team is tackling the stigma surrounding reproductive healthcare. The platform provides care to women who are often excluded from adequate healthcare, which puts them at risk for future issues and even threatens the public health system. Kiira Health is also targeting a massive and growing market for healthcare technology, which has only grown during the pandemic.[31] Healthcare spending makes up 17.7% of the US GDP,[32] and health technology was already a $108 billion[33] market before the pandemic drove a spike in demand for telemedicine.

The COVID-19 pandemic is placing considerable strain on traditional healthcare systems, leaving a widening gap for telemedicine companies to gain market share, attract talent, and even outperform traditional systems financially. This anti-cyclical growth bodes well for Kiira Health's resilience to crisis. The startup has thrived and innovated at a time when reproductive health may have been deemed non-essential by hospitals, and continues to grow by targeting a demographic that has not previously been welcome in conversations around reproductive health.

"Research has shown that if a Black woman is taken care of by a healthcare provider who is Black, there are fewer risk factors and better outcomes," says Evoleocha. "Right now, 80% of our clinicians are Black or Brown; that is key for us."

31. https://www.beckershospitalreview.com/digital-transformation/10-big-advancements-in-healthcare-tech-during-the-pandemic.html
32. https://www.cms.gov/Research-Statistics-Data-and-Systems/Statistics-Trends-and-Reports/NationalHealthExpendData/NationalHealthAccountsHistorical

33. https://eresearch.fidelity.com/eresearch/markets_sectors/sectors/sectors_in_market.jhtml?tab=learn&sector=35

Startup Spotlight

BLUESTUDIOS

Following the Peloton business model, Bluestudios offers live stream educational videos and hands-on experiments for children for an affordable monthly subscription fee. Bluestudios.io content focuses specifically on Science, Technology, Engineering, and Math (STEM). Additionally, the hands-on experiment 'kits' save parents from having to track down materials at the grocery store.

The startup's business model has been particularly resilient under pandemic crisis conditions, helping entertain and educate children within the bounds of their homes. Bluestudios.io also incorporates ESG policies that mitigate future risks. Co-Founder and CEO Kelley Cambry explains that Bluestudios.io is working towards carbon-neutral and circular experiment kits which include reusable or biodegradable items.

The company is also focused on diversity and inclusion goals to improve the courses and opportunities they offer to their students and teachers. Children can choose to take courses on subjects such as chemistry, programming, or math that are taught by teachers of diverse backgrounds, encouraging them to consider these roles for themselves in the future.

Bluestudios.io also strives to pay its teachers and creators well, noting that traditional creative channels offer little financial incentive to create quality lessons and materials.

"The top 3% of YouTube channels make less than $17K per year," Cambry says. "For the time and energy creators put into teaching, it's not always sustainable... We are happy to be there for kids and their parents, and to help instructors realize their full potential."

Legal Disclaimer

Unless otherwise expressly stated herein, data included in this report is based on questionnaires completed by 93 Fund V portfolio companies between June 21, 2018 and January 31, 2021 and is not indicative of the Fund V portfolio as a whole. Questionnaire responses have not been independently verified. There were a total of 115 portfolio companies in the Fund V portfolio as of January 31, 2021. The percentage of portfolio companies in the Fund V portfolio that completed a questionnaire may be greater than the percentage of total capital invested by 500 Startups V, L.P. as of January 31, 2021 represented by such companies.

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