PRIVATE SECTOR ENGAGEMENT AND DUE DILIGENCE: REPUTATIONAL RISK ASSESSMENT

The United States Agency for International Development (USAID) is committed to working with the private sector to drive inclusive economic and social development. The Agency recognizes that effective collaboration with appropriate businesses, financial institutions and other private sector entities can dramatically increase the sustainable development impact of our work.

When determining whether to collaborate with specific private sector partners, the Agency assesses the potential development impact of the proposed collaboration and the reputational implications of working with the proposed partner. As a public agency and steward of taxpayer dollars, USAID seeks responsible partners whose financial, social and environmental policies and practices are consistent with USAID's mission and values, as well as our obligations under relevant law and policy.

In order to assess such matters, USAID uses the due diligence questions below to gather information regarding the prospective private sector partner(s). These questions help USAID identify any reputational risks that might arise from the proposed collaboration. This **reputational risk assessment**, which is different from other types of due diligence the Agency may be required to conduct, will be incorporated in USAID's decision of whether to proceed with the proposed collaboration.[1]

The Agency strives to minimize how much time and effort our reputational due diligence might require from our prospective partners. For example, if we have worked with a partner previously, we can try to build on the previous due diligence. This might allow us to focus the current due diligence on a shorter time period or a particular country context. We also try to use publicly available information as much as possible; this helps us reduce how much information we request from a potential partner.

Of course, many of our prospective partners are eager to move forward with the proposed project or collaboration; as a result, they are often quite proactive in providing information related to the questions below and we certainly welcome such assistance. We are eager to conduct due diligence as efficiently and effectively as possible, and we look forward to working with you on such efforts.

If you have any questions regarding the due diligence process, please contact Ken Lee at kenlee@usaid.gov.

Please see below for the due diligence questions used in conducting reputational risk assessments. You are also encouraged to review the Process for Conducting Reputational Due Diligence for a broader overview.

[1] Please note that in some situations, USAID may need to conduct additional types of due diligence specific to the proposed collaboration or pertinent program. For example, if the private sector entity will be a recipient of USAID funding, the Office of Acquisition and Assistance will conduct a specific due diligence process (such as risk assessments or responsibility determinations) required to receive such funding pursuant to relevant U.S. laws and regulations. In addition, Development Credit Authority (DCA) programs involve a financial risk assessment tailored to the objectives and requirements of the DCA approach. We appreciate your understanding.

REPUTATIONAL DUE DILIGENCE RESEARCH QUESTIONS [2]

Questions to consider in the process of conducting reputational due diligence on companies and other private sector entities.[3] The questions are organized according to the six essential areas for investigation.

I. CORPORATE IMAGE

- Has there been anything in the media that would reflect negatively upon the entity? If so, how has the entity dealt with significant negative publicity?
- Are there any pending lawsuits or prominent prior lawsuits (including, but not limited to sexual harassment) against the entity? Is the entity looking solely for PR opportunities by aligning itself with USAID?
- Is the entity only or primarily looking for procurement opportunities or money from USAID?
- Is the entity willing to engage with USAID in a transparent manner without expecting an exclusive relationship (i.e., seeking to exclude competitors)?
- Is the entity willing to accept limitations on publicity of the alliance (i.e., on corporate PR releases, press and media coverage) to ensure that USAID is not perceived as endorsing the entity or its products or services?
- Review sustainability reports, metrics, etc. the entity uses for gaps in information and cause for concern. What are they NOT saying or including? For example:
    - If the board is gender balanced, is there also gender balance among leadership? Are there advances in gender gaps, such as achieving wage parity, or flexible work hours, access to daycare, etc.
    - Has the entity made net-zero commitments, are signatories to the Principles for Responsible Investment (PRI), participate in the Task Force on Climate-related Financial Disclosures (TCFD), use standards such as those of the Global Reporting Initiative (GRI) or the Sustainability Accounting Standards Board (SASB)? Use impact investment indicators such as IRIS+? And if so, what are they reporting?

II. SOCIAL RESPONSIBILITY

- Is the entity primarily involved in tobacco or the manufacture or sale of firearms, i.e., involvement in these activities constitutes a significant share of an entity's total portfolio?
- Does the entity have a good reputation (no serious red flag issue areas), especially in areas of corporate social responsibility (CSR)? In the case of new entities or entities with past CSR troubles, are they committed to instituting/improving a sound CSR policy?
- If relevant, does the entity have policies barring harmful child labor or forced labor?
- Does the entity have a non-discrimination policy governing the hiring and promotion of minorities, women? Does it demonstrate they enforce the policies they have?
- Are there human resources policies to facilitate the recruitment, hiring, promotion and retention of women? (ie., blind hiring mechanisms, leadership tracks for women, etc.) Is there gender balance

---

[2] Note to USAID staff: This type of reputational due diligence is distinct from a responsibility determination for purposes of acquisition (see ADS 302.3.6.3(b)) or a pre-award risk assessment for purposes of assistance (see ADS 303.3.9), which are formally conducted by USAID's Office of Acquisition and Assistance.

[3] "Entity" means any type of organization, whether legally incorporated or not.

at all levels of the organization?

- Is the entity accepting of unions or attempts to organize a union?
- Does the entity have a health and safety action plan for workers, including the reporting of gender-based violence and sexual harassment, the handling of hazardous materials and the prevention of environmental accidents?
- Does the entity have or is the entity a signatory to relevant codes of conduct (e.g. social responsibility codes, inclusive business practice codes, etc.) or labor standards? If so, does the entity apply this across its supply chains and distribution channels? What types of sick, vacation, and parental leave policies does the entity offer?
- Does the diversity of an entity's sales, marketing, and product or services design teams reflect that of their customers?

III. ENVIRONMENTAL ACCOUNTABILITY

- Does the entity collect and evaluate adequate and timely information regarding the environmental, health, and safety impacts of their activities?
- If relevant, does the entity set targets for improved environmental performance, and regularly monitor progress toward environmental, health, and safety targets?
- Does the entity assess, and address in decision-making, the foreseeable environmental, health, and safety-related impacts associated with the processes, goods and services of the entity over their full life cycle? And provide the public and employees with adequate and timely information on the potential environment, health and safety impacts of the activities of the entity?
- Does the entity maintain contingency plans for preventing, mitigating, and controlling serious environmental and health damage from their operations, including accidents and emergencies; and mechanisms for immediate reporting to the competent authorities?
- Does the entity continually seek to improve its environmental performance, by encouraging, where appropriate, the adoption of technologies and operating procedures in all parts of the entity that reflect environmental best practices? Are its products or services designed to have no undue environmental impacts, be safe in their intended use, and be efficient in their consumption of energy and natural resources? Can they be reused, recycled, or disposed of safely.

IV. POLICY COMPATIBILITY

- Is the entity subject to US government sanctions?
- Is the entity involved in activities, countries, governments, business sectors, or customers that would raise questions whether USAID is acting inconsistently with its own or US government policy?
- Does the entity, or any entity in which it is invested or providing loans, appear on any USG "excluded parties" list? (Consult with your RLO or GC).
- Is the entity a state-owned enterprise? Are any of the entity's significant shareholders a state-owned enterprise? Is the entity investing in state-owned enterprises or entities whose significant shareholders are state-owned enterprises? (If yes, please contact the GDA APS Activity Manager for further guidance).
- Are the entity's board members, officers and key employees listed on particular watchlists? (Consult with your Regional Legal Officer or General Counsel representative).
- Is the entity's policies consist with the National

V. FINANCIAL SOUNDNESS

- Does the entity appear to have the resources needed to fulfill its commitment in a non-binding agreement to support the agreed alliance activities?
- Is the entity publicly traded and does it issue annual reports with audited financials?
- Does the entity have a long track record (how many years has it been in business)?
- Does the entity structure appear to be stable? In some cases in the past, corporate restructuring has led to the elimination of an entity's CSR or pertinent business division.
- Does the entity track sex-disaggregated business metrics, such as for customer segmentation, loyalty and employee turnover?

VI. INVESTMENT AND LENDING POLICIES (AS APPLICABLE)

- Have the entity's investment or lending policies, practices or portfolios received attention in the media? Was the attention positive or negative? If negative, how did the entity handle the publicity? Does the entity use any impact investment metrics or standards? (Corporate Image)
- Do the entity's investment or lending policies, practices and portfolios demonstrate social responsibility by addressing the matters listed in the bullets above? For example, when making investments, does the entity assess whether the entities in which it invests have and effectively apply a non-discrimination policy governing the hiring and promotion of minorities and women? (Financial Soundness).
- What specific environmental standards does the entity use when assessing the environmental performance of the entity, the entity's suppliers, or entities in which the entity is investing? (Environmental Accountability)
- Do the entity's investment or lending policies, practices and portfolios demonstrate social responsibility by addressing the matters listed in the bullets above? For example, when making investments, does the entity assess whether the entities in which it invests continually seek to improve environmental performance and ensure that its products and services have no undue environmental impacts? (Environmental Accountability)
- When making investments, does the entity assess whether the entities in which it invests are gender-balanced at all levels of the organization, have policies in place prohibiting gender-based violence and harassment, and offer the same benefits to all employees, regardless of gender or geographic location? (Social Responsibility)
- Do the entity's investment or lending policies, practices and portfolios expose the entity to potentially problematic levels of risk? Does the entity have the capacity to remain financially sound if its investments fail to generate the anticipated returns? (Financial Soundness)
- What policies and approaches does the entity use to set interest rates? How do they compare to other rates, such as government debt, various banks, and other entities? Does the entity implement any KYC standards or practices? How does the entity ensure the entity (as well as its subsidiaries and partners) is not engaged in predatory lending?
- Given the entity's investment or lending policies, practices and portfolios, would collaboration with the entity or any of its investees or borrowers raise questions whether USAID is acting inconsistently with USAID or US government policy? (Policy Compatibility above)

SCOPE OF INQUIRY

When conducting reputational due diligence, it is important for USAID operating units to gather information about an entity's governance structure, including any material parent entities and subsidiaries. The mission or operating unit should consult its legal advisor to determine whether and to what extent any of those entities or subsidiaries should be deemed material enough to be subject to due diligence as well. If an entity or subsidiary is deemed “material” (which could take into reasonable consideration a variety of factors, including the relevance to the proposed partnership), USAID should, at a minimum, seek answers to the due diligence questions under “IV. Policy Compatibility.” The mission or operating unit should also work with its legal advisor to determine whether the due diligence questions in other sections should be addressed.