

Private Sector Engagement Working Group (PSE WG)
Integrating ESG/ RBC considerations into PSE programming
Online meeting, 29 January 2024
Summary of discussion

6 February 2024

Participants:

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| 1. Gottfried Traxler, ADA | 10. Akos Koszegvary, UNIDO |
| 2. Tomislav Ivancic, FAO | 11. Dominika Dor, UNIDO |
| 3. Tobias Zeller, GIZ (Co-Chair) | 12. Stefan Kratzsch, UNIDO |
| 4. Annie Van Klaveren, ILO | 13. Katie Garcia, USAID (Co-Chair) |
| 5. Atsuko Toda, Mastercard Foundation | 14. Keith Dokho, USAID |
| 6. Paul Wade, Norad | 15. Mandeep Jangi, USAID |
| 7. Cécile Rivière, SDC | |
| 8. Irene Frei, SECO | 14. Melina Heinrich-Fernandes, DCED Secretariat |
| 9. Lara Vecchio, UNHCR | 15. Holger Grundel, DCED Secretariat |
| | 16. Ella Duffy, DCED Secretariat |

Introduction

In the recent past, several members of the PSE working group have highlighted their interest in how to enhance the sustainable development impact of businesses by promoting Responsible Business Conduct (RBC). Following the publication of a [DCED scoping paper](#) on RBC for donors supporting PSE, there has been continued demand by members for peer exchange on the topic, especially in light of growing legal due diligence obligations for companies. This meeting served as an opportunity for working group members to discuss current challenges and learn from each other's experiences.

Session 1: How can donors use information on ESG/ Responsible Business Conduct of companies to develop collaboration ideas? Current thinking and case examples by USAID

Mandeep Jangi, Managing Director of the Communities & Influence Team at USAID's Private Sector Engagement Hub, introduced a new USAID initiative to use Environmental, Social and Governance (ESG) data as entry points for conversations with business leaders on collaboration ideas, or for promoting more responsible business practices.

Using ESG data for these purposes is based on the idea that businesses are making growing efforts to capture and manage their ESG impacts, opening up opportunities for engagement with USAID. This is due to business executive increasingly recognising that ESG factors are materially affecting companies' financial performance, and the increasing scrutiny faced by businesses regarding their ESG impacts, including through a growing array of standards and reporting initiatives.

USAID is actively developing the knowledge and capabilities of staff to interpret ESG data to better understand which issues matter most to leading businesses and to identify opportunities for collaboration. Mandeep also presented three practical examples from the financial sector.

During the Q&A and peer exchange session, WG members raised a range of questions, including how to encourage companies to take their impact materiality more seriously (especially when it comes to human and environmental capital which cannot be priced easily); how to strengthen the

competitiveness of companies in developing countries that struggle to comply with growing ESG demands; how to make ESG reporting more meaningful for SMEs; and the importance of training ESG reporting organisations and the auditors they employ to fully capture performance against complex issues, e.g. international labour standards.

Session 2: What are experiences among donors in actively promoting Responsible Business Conduct (both legal and voluntary aspects) through PSE programming?

Holger introduced the second session as an opportunity for peer exchange and support between working group members. In preparation for the meeting, several members had informally suggested topics for discussion – see the box below for a summary of the questions raised. During the discussion, participants highlighted several challenges and initiatives, including the role of help desk functions to support companies in understanding and complying with new legislative initiatives requiring greater human rights and environmental due diligence; the trade-offs in high-risk sectors which expose donors to reputational challenges, but where donor engagement may achieve significant benefits; and how RBC-related due diligence assessments might be used to gauge the future success of private sector partnerships.

Compliance perspective:

- **How are legal and voluntary RBC considerations being integrated in partner selection and project approval processes?** How are these being adapted to local partner companies?
- **Can/ should PSE programmes be used to help businesses to comply with new legislative due diligence obligations** in the early years after their adoption to speed up progress? As a general rule, PSE programmes used to explicitly exclude support to any legislative obligations, as support would not be considered additional in this case.

Performance perspective:

- What are **approaches and experiences of donors in engaging with companies in high-risk sectors (e.g., extractive industries)** - to reduce negative impacts or enhance positive impact in social and environmental areas. How do **they deal with possible trade-offs between different ESG priorities, such as social and environmental objectives** (e.g., forced labour in solar power supply chains)?
- How do donors **handle possible tensions between the requirement of compliance prior to engagement vs the objective to enhance RBC performance** through partnerships and engagement with companies? How good is good enough for companies to be considered eligible for partnerships and engagement?

AOB and date of the next meeting

The working group's next in-person meeting which will be hosted by BMZ/GIZ in Berlin on 29 February and 1 March 2024. The main focus will be on discussing the synthesis of PSE portfolio evaluations which is currently in progress. A detailed agenda will be circulated closer to the time.