

## Private Sector Development Synthesis Note

### Choosing who to Partner with: Approaches to Screening out Businesses with Negative Environmental and Social Impacts

January 2017 (links checked July 2021)

Most development organisations now engage the private sector as a strategic partner in achieving development results, including in private sector development (PSD). But how can they avoid working with businesses that have negative environmental and social impacts? As part of broader due diligence, most agencies screen potential partners for environmental and social risks, but approaches vary considerably between agencies. This Note highlights some of the criteria and processes in use, as well as common challenges and potential next steps. It also incorporates some experiences of large international NGOs, which can face similar challenges in choosing partners.

#### 1. Screening Criteria

In assessing potential partner companies, agencies often use a combination of

- **Mandatory exclusion criteria** (agencies will not partner with businesses not in compliance);
- **negative criteria** (agencies are less likely to partner with businesses not in compliance); and
- **positive criteria** (agencies look more favourably at partners with positive social and environmental practices).

**Mandatory exclusion criteria are used to exempt companies from public support if they engage in unethical or illegal practices** – and deliberately work “against development objectives such as promotion of health, protection of the environment or maintaining peace, or ... [engage in] corruption, fraud or criminal activity.”<sup>1</sup> Most agencies explicitly require non-involvement in any illegal activity and non-inclusion on [EU sanction](#) or [World Bank lists of ineligible firms and individuals](#).

**In addition, development agencies have mandatory exclusion criteria regarding the sector of operation.** Sectors commonly excluded are weapons, tobacco and gambling. However some sectors are more disputed. For instance, the [Netherlands Private Sector Investment \(PSI\) scheme](#) excluded support to the alcohol sector except for beer or wine. Mining or pharmaceutical are other sectors with varying approaches of development agencies. Some organisations have become more opportunistic about engaging in high-risk sectors if the benefits of collaboration outweigh the costs and potential negative impacts. For example, CARE International carefully assesses risks and opportunities of partnerships in the mining sector on a case-by-case basis, relying on the experience of staff at different levels of the organisation. CARE reviews whether basic conditions for partnership are in place, looks at how the company has invested positively in development initiatives and responded to negative incidents in the past, and whether long-term interests overlap with CARE’s objectives.

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<sup>1</sup> [Promoting Ethics when Partnering with the Private Sector for Development, North-South Institute, 2014.](#)

**This is where criteria regarding social and environmental practices come in:** They may serve either to assess positive investments of a company or as negative or mandatory exclusion criteria. Some common trends include:

- The **absence of child and forced labour** are often mandatory criteria on exclusion lists.
- **Working conditions** should at the minimum be safe and non-discriminatory, allow freedom of association and collective bargaining, and pay decent wages; further, positive criteria frequently include the active support of favourable working conditions for disadvantaged groups, providing staff with further benefits (such as rental housing or education), and support to the community.
- Partners are looked upon favourably if they invest in **resource efficiency and minimise pollution, waste and greenhouse gas emissions**. Some agencies such as Sida or Australia DFAT require mandatory **environmental impact assessments** for business ventures, to avoid supporting initiatives that cause environmental harm.
- In the area of governance, agencies increasingly require businesses to have **anti-corruption policies and management mechanisms in place** to assess the likelihood of, monitor and respond to negative impacts.

**International codes commonly referred to as benchmarks across these areas** include, among others:

- [ILO's Declaration on Fundamental Principles and Rights at Work](#);
- [UN Global Compact Core Principles](#);
- [OECD Guidelines for Multinational Enterprises](#);
- [IFC performance standards](#); and
- [UN Convention on Biodiversity](#).

**Practices vary, however, regarding the scope of the assessment**, including whether it looks at

- the company's global or local activity;
- actual past impacts and/or commitment of the company regarding current and future operations, as specified in internal policies and schemes in place;
- the whole of a company, its branches and suppliers (in particular in the case of multinationals), or only the company (or branch) with which the agency would engage.

It is noteworthy that impacts across partner supply chains seem to be increasingly considered, rather than just direct impacts.

## **2. Categorising and ranking risk**

**Most agencies consolidate their findings on negative and positive screening criteria in some form of scorecard or evaluation matrix** - including different levels of risk (e.g. unlikely or certain) and impact (e.g. minimal or significant). Typically, different types of risk or impact areas are considered. While terminologies and definitions vary across agencies, these may include categories such as:

- organisational risks (to what extent sectors or company practices are in line with, or contradict, an organisations' mission);
- contextual risks (how working with a company may have adverse outcomes on a particular context, e.g. a geographic area);
- programmatic risks (the likelihood of a programme failing to achieve its objectives because of company practices); and
- institutional risks, including reputational risks (ways in which an organisation or its staff members might be adversely affected as a result of working with a business).

**Companies involving higher levels of risks may be asked to provide more information, and be assessed in more depth and/ or require approval by more senior staff or committees** (see also section 3). A decision is then made on whether the risk level is acceptable. Where agencies decide to enter a partnership despite high risk, they may agree with the partner to work together on specific issues during the partnership or require partners to develop relevant action plans. While most agencies repeatedly review social and environmental risks (e.g. on an annual basis), this is seen as particularly important in higher-risk partnerships.

### **3. Sources of information and division of responsibilities in the screening process**

**A variety of information-gathering and assessment processes are used in the partnership design or application stage to inform the decision of whether or not to work with a business:**

#### **Basic processes:**

- **Internet research:** Abuses of environmental and social standards are frequently reported by local and international media and civil society. For larger companies, regular Corporate Social Responsibility (CSR) reports, relevant public statements and policies can also be reviewed.
- **Self-assessment forms for companies:** In application-based programmes such as challenge funds, application forms are sometimes used to ask companies to self-report on their track record, relevant policies that they have in place, as well as expected environmental and social impacts of the partnership. For instance, some donor agencies ask prospective partners if they have read, accepted and will act in accordance with the [OECD Guidelines for Multinational Enterprises](#) or the [ILO Declaration on Fundamental Principles and Rights at Work](#). Companies are also expected to provide CSR policies, or if they do not have these, commit to developing them. GIZ asks companies about which environmental, social and governance policies they have in place, and if the company is aware of any public accusations against them in regards to issues such as violations of labour rights and considerable environmental pollution.

#### **More sophisticated processes involving agency staff at different levels of the organisation:**

- **Global leadership through dedicated departments or committees:** The NGOs PSI and Oxfam have set up a global department (PSI's corporate partnerships team) or group of people (Oxfam's ethical checking committee) in charge of due diligence for all major collaborations with business, with the possibility of ad-hoc technical inputs from technical or country staff if needed. In the NGO Path, an internal risk review group of executive team members reviews data gathered by external service providers and submits recommendations to a Board of Directors, which can then approve or reject the proposal, or request further analysis;
- **Joint HQ-field leadership:** In Care International, headquarters and field offices routinely collaborate in due diligence for major corporate partners; only if CARE is considering entering a new sector that it has not worked in before, extensive discussions are held at headquarters to agree on a global approach; or
- **Flexible levels of involvement of global, local external stakeholders** – depending on the risk level and scope of the partnership. In World Vision, for example, field staff can implement checks in low-risk partnerships with a veto possibility for the global team. The global team leads on due diligence for riskier partnerships or multinational partners, with support from external service providers as needed.
- **Informal advice from other agency staff:** Several donor agencies also draw on informal advice from staff at headquarters or field offices that have knowledge of a particular sector or have already worked with a particular company.

- **Division of responsibilities to avoid conflicts of interest:** Some development organisations also actively seek to minimise conflicts of interest in the screening process. In Danida, for example, at least two staff members participate in the risk assessment process and it is recommended to work jointly with a local programme committee in the target country if possible. In the NGO Pact, due diligence is managed by teams not involved in partnership development and management. While Pact is still deciding on the best institutional home for due diligence, it is currently handled by the knowledge management unit.

#### **Processes involving external expertise and advice:**

- **Hiring specialist expertise:** Some agencies also bring in external technical experts or contract out parts of the screening process to specialist agencies. This can be of particular use if agency staff has limited time and/or expertise to conduct partner assessments, or more in-depth assessments are required. Some agencies require the active participation of companies at the risk assessment stage: [Finnpartnership](#), for instance, can co-finance social and environmental assessments jointly with companies at the beginning of partnership planning.
- **Working with other development organisations:** In Danida, for example, staff is encouraged to assess risks jointly with likeminded donors active in the same context wherever possible. Some NGOs also exchange knowledge about particular partners or context-specific advice.

**As several organisations repeatedly work with the same companies on different initiatives, several of them have introduced central databases to log, and accessibly store, information on all partners.** World Vision and USAID, for example, use customer relations management software for this purpose.

#### **4. Building deeper relationships with trusted partners**

**Alongside sophisticated due diligence processes for new partners, several organisations are putting increasing emphasis on engaging with trusted companies whose values align with their own.<sup>2</sup>** For example, Oxfam's Head of the Private Sector Team stresses that Oxfam's best collaborations with business arise from regular and deep engagement with senior leaders in companies. Donors could similarly leverage existing trust, for example by working increasingly with business already engaged in public-private platforms focused on sustainable development objectives. Several donors have also created new internal roles – relationship managers – to build deeper and longer-term relationships with companies that they have already successfully collaborated with. Such approaches can allow agencies to reduce the scope and duration of screening processes.

**In addition, there are ongoing discussions in several organisations whether businesses' legal form and governance may matter for social impact and could thus serve as a criterion for selecting suitable partners.<sup>3</sup>** For example, might employee-owned businesses be more socially oriented than shareholder-owned businesses? Are legal forms such as benefit corporations conducive to the prioritisation of responsible and socially impactful business practices? In short, it seems that there is currently not sufficient evidence that business structure is more important than other factors in influencing the mission and behaviour of businesses. Some legal forms such as benefit corporations may however involve special reporting requirements, which may make it easier for donors to assess business impact and behaviour as a basis for selecting partners.

<sup>2</sup> See also the DCED's briefing note on How donor agencies can make the transition to strategic private sector engagement (2017).

<sup>3</sup> See also DCED and Oxfam (2016): [Does business structure influence social impact? Early insights and practical implications for donor agencies.](#)

## 5. Challenges and Potential Future Steps

**The screening processes outlined here raise a number of challenges for agencies. Firstly, a number of trades-off need to be managed.** If requiring high partner standards, agencies may find they don't work with the companies with the worst environmental and social standards, where changing relevant company approaches could potentially have significant impacts. A possible way forward is to enter distinct collaborations with those offenders that are willing to engage, focused on addressing their specific issues. Some agencies choose not to work directly with such 'underperformers' but opt for targeted advocacy initiatives instead, for instance via NGOs.

**Secondly, development agencies use a wide variety of screening criteria,** which could cause confusion among businesses and civil society, and duplicate processes. [European Development Finance Institution](#) members have agreed on a harmonized exclusion list for co-financed projects. Further analysis on what should be prioritised would be valuable; as could potentially be the development of common criteria for agencies.

**Thirdly, the mechanisms are new for a number of agencies, or still under development, and present practical challenges.** Businesses are often in the best place to report on their policies, but are often put off by long and time-consuming forms. This is especially so if the partnerships are small, and for those with more limited resources, such as SMEs. Some agencies are therefore actively working to streamline due diligence processes to reduce transaction costs for companies and respond more quickly to partnership opportunities. Companies also have strong incentives to report too positively on themselves, but agencies have limited resources to verify reporting by companies. They may also be under political pressures to partner with firms regardless. These challenges suggest that practical approaches are needed that match limited agency and firm resources, and that are proportional to partnership size and risks of negative impacts.

**Further, screening partners is not a one-way process.** Companies also want to be re-assured that they are not putting their business model at risk by working with development partners. For example, development organisations may need to sign non-disclosure agreements about commercially sensitive information before entering MoUs or contracts with companies.

**Overall there is still little public data on how screening is carried out.** This reduces the credibility of screening mechanisms with both the private sector and public stakeholders, and also makes it more difficult for agencies to learn from each other and develop common standards. Increasing transparency and knowledge sharing between agencies would be a valuable next step, potentially leading to the development of guidance for agencies.

***For additional resources, please refer to the DCED's Private Sector Engagement page:***  
[www.enterprise-development.org/implementing-psd/private-sector-engagement](http://www.enterprise-development.org/implementing-psd/private-sector-engagement)