

Due Diligence Assessment Tool

Private Sector Engagement Toolkit:

Purpose

To structure research into the risks and compatibility of a potential private sector partner.

Description

Due diligence is the process that Mercy Corps uses to determine possible risks and advantages of new private sector partnerships. The inter-related purposes of due diligence is to ensure that partnerships:

1. Are compatible with, and contribute to, our mission to promote secure, productive, and just communities;
2. Do not pose a serious risk to Mercy Corps’ reputation for integrity with the populations we serve, host country governments, the development community, and our donor base.
3. Will not pose any risk to the security and wellbeing of Mercy Corps staff.

.In many cases, a due diligence assessment will not result in a “black or white” picture. The due diligence process is designed to present a balanced assessment of the potential positive and negative aspects of new relationships based on each particular case. This will allow the staff negotiating these partnerships to make informed decisions about where, when, and how to partner with specific firms.

Assumptions: There are two key assumptions about the due diligence process outlined in this tool. First, this process is for potential private sector program partners. Mercy Corps has a separate [Corporate Partnerships Due Diligence Guide](#) to assess firms that may engage with us as donors or corporate social responsibility partners. Second, this level of due diligence is not appropriate for firms that we may partner with in a more strategic relationship. If we are considering a longer term corporate engagement, such as creating a joint venture, investing in a firm, or merging/acquiring a firm, we will conduct a more in-depth due diligence process, conducted jointly with Legal Finance-Compliance, to understand the firm’s overall financial and organizational health. This involves areas including; legal, operational, business processes, financial/accounting, technical, environmental, and human resources.

Engagement Stage(s) this Tool Supports

TOOL	ENGAGEMENT STAGE					
	Context Analysis	Assessing a Specific PSE Opportunity	Partner Assessment	Partnership Development	Engagement Agreement	Ongoing Management
Due Diligence Tool	•		•		•	•

- Stage 1: Context Analysis/Prepositioning; high-level assessment of potential private sector partners
 Stage 3: Partner Assessment; assists in comprehensive evaluation before effort is spent building relationships
 Stage 5: Engagement Agreement; contributes to understanding all knowable risks before we enter into a partnership; incorporates mitigation activities, as needed, in MOUs.
 Stage 6: Ongoing Management; helps uncover emerging risks

Generally, the stage of relationship engagement will determine how in-depth the due diligence process is. If conducted for *Context and Pre-Positioning* (Stage 1), or *Ongoing Management* (Stage 6) it is likely the assessment will be less in-depth. If in support of *Partner Assessment* (Stage 3) or *Engagement Agreement* (Stage 5), due diligence will be more detailed. All four activities outlined should be completed for each private sector partner.

Expected Output

The *Due Diligence Report* that summarizes the research and findings related to a specific private sector actor.

Key Activities:

1. Assignment of responsibility
2. Due diligence research
3. Documentation and reporting
4. Review and approval

1. Assignment of Responsibility:

Whether the firm is local, national, or multi-national, will determine who will be tasked with primary responsibility for the due diligence assessment. This person(s) will be the *Assessor*. If firm has only a local presence then the responsibility will fall primarily to the country team. However if the opportunity is with a regional or multi-national firm, the Corporate and Foundation Team (CFT) may lead the assessment. In all circumstances, the CD (or RPD) in the specific region should be involved.

2. Due Diligence Research:

The *Assessor* will compile an overview of the potential positive and negative aspects of the private partner and make an initial recommendation about whether to pursue the partnership. His/her findings will be documented in the *Due Diligence Report*. Generally, we need more detailed research and due diligence (and a higher level of approval); when we have higher levels of publicity, funding, or staff interaction; when the partner has a negative reputation judged by the community, donors, or Mercy Corps experience; or when the partner is regional, or multi-national. There are two channels for conducting this research; field research and web research.

2.1. Due Diligence Checklist: This checklist estimates the company's overall social responsibility record and identifies possible areas of concern. In general, the more negative factors identified, the higher the potential risk to Mercy Corps' mission and image. In that case, approval at RPD / VP of Programs level is needed, and a mitigation strategy created for those partnerships we decide to pursue.

Positive Factors

- Company whose primary business supports income generation or improved livelihoods including local job creation, enterprise development and provision of affordable products and services.
- Company whose primary business supports improved health and well-being including sanitation, healthcare and water.
- Companies whose primary business supports sustainable resource management including products reducing waste, conserving energy, and/or reducing climate change.
- Company has a positive track record with _____ (example of a pro-poor intervention.) *This factor should be developed based upon the program goal this assessment is supporting.*
- Company meets all or most of the following:
 - Good human rights record, labor relations as evidenced by adherence to recognized voluntary agreements, consistent reporting on these issues¹;
 - High level of accountability to communities in their area of operation;
 - Has a good reputation in the community
 - Operates with an appropriate level of transparency.
 - No outstanding issues related to product safety, or conflicts or disputes with the government.
- If there is a local or national social responsibility assessment framework, the company has been assessed positively under that standard.
- Company is reasonably transparent with their financial records with Mercy Corps.

¹ For large MNCs, this may be evidenced by participation in the UN Global Compact (www.unglobalcompact.org), the Global Reporting Initiative (www.globalreporting.org/AboutGRI/) etc.

- If the company is a MNC, they are considered a leader in corporate social responsibility as evidenced by high scores on Socially Responsible Investing indices such as Calvert Ratings, Pax World Fund, FTSE4Good, DOW Sustainability Index
- Other positive factors: _____

Negative Factors

- Companies producing products or services that may conflict with our mission including weapons and military equipment/services, and pornography.
- Companies with production facilities or suppliers in developing countries where their operations have increased poverty or contributed to social unrest and conflict, either locally or globally.
- Companies that have a poor environmental record.
- Company's ownership or operations has been directly linked to conflict
- Company's ownership has been associated with criminal or controversial political activity locally, regionally or globally.
- Companies involved in disputes or scandals related to:
 - Corruption or coercion
 - Environmental damage
 - Consumer safety
 - Labor issues, work place safety, discrimination, human rights concerns.
- Companies with a brand image that is viewed negatively in the local, or global, community .
- Other negative factors: _____

2.2. Field research. Field research supports completion of the *Due Diligence Report* and includes interviews, meetings, surveys and networking with private sector, government, customers and CSO contacts that have experience with the private sector actor. The Country Director should always be involved in the due diligence process in that specific country, although s/he may choose to involve additional staff in the process of gathering and analyzing information.

2.3. Web Research: General web research is a good place to begin building a picture of a potential partners reach and impact. If available, their company website is a good starting point. However this may of limited value if the potential partner is a local firm or a micro, small or medium enterprise (MSME). In many countries there are also national watchdog organizations that review private business activity. We should, however, be cautious of general web information as it could be inaccurate or exaggerated and should triangulate web research with other sources.

If the company is a MNC or has regional reach, there are two categories of websites that may provide a fuller perspective;

- Corporate social responsibility sites: To determine if the prospective partner is considered a leader in Corporate Social Responsibility see their ranking on the following sites:
 - http://www.calvert.com/sri_calvertratings.html
 - <http://www.ftse4good.com/> (Note that FTSE4Good no longer publishes their findings, however a google search of "FTSE4Good" and company name will generally find press releases from companies who have been included for a given year.)
 - http://www.bitc.org.uk/cr_index/index.html
- Independent Watchdog and Press Sites: The following sites are most useful for investigating negative press about a company. They may also have information, such as whether the company is listed on sustainability indices (generally a good sign), and include links to both positive and negative information from the company itself, as well as criticism from watchdogs and the press.
 - www.business-humanrights.org (run by Amnesty International)
 - www.corpwatch.org

www.corporatecritic.org (Provides score based on 15 areas of interest and links to related articles – subscription required for most information.)

www.csrwire.org

www.socialfunds.com/csr/index.cgi

3. Documentation and Recommendation:

Summarize the results of the due diligence research including detailed supporting information for both positive and negative factors in the *Due Diligence Report*. This includes a recommendation from the Assessor including a rationale for their recommendation, a list of any serious risks identified and suggestions for mitigating them

Due Diligence Report (sample)

Company Name:
Assessor Name / Date:
Opportunity. Briefly describe the proposed partnership.
Due Diligence Check List Summary: Summarize the findings including: Key positive factors: Key negative factors:
Web Research Results Summary: Briefly list the channels used for web research and any major findings:
Field-Based Research Results Summary. Briefly describe the research sources and major findings:
Assessors Recommendation:
Review Committee Members:
Approval Level: <input type="checkbox"/> Fast Track Due Diligence <input type="checkbox"/> In-Depth Due Diligence
Review and Approval Recommendation: The committee should briefly explain their recommended action (Proceed with Partnership, Proceed Subject to Additional Negotiation, Decline Partnership) including the rationale for that recommendation.
Other Comments:

4. Review and Approval:

There are two paths for due diligence review and approval determined by the scope of the potential partnership. In either case the *Due Diligence Report* will document the rationale that supports reviewer’s opinion.

- *Fast Track:* If the partnership is with a local firm for a program in the respective country only, a *Fast Track* due diligence review is appropriate. This will familiarize Mercy Corps with the company’s background, operations, and possible areas or concern. For *Fast Track* due diligence, decisions can be limited to the Country Director and Regional Program Director.
- *In-Depth:* Partnerships with a multi-national corporation (or a branch of a multi-national corporation) or involving any type of co-branding will need an *In-Depth* review that provides more detailed information on potential liabilities to Mercy Corps. This level of review should include at a minimum the Corporate and Foundations Team in Portland, plus additional members of Senior Leadership, to be determined based on the specific company and partnership involved.

Supporting documents / Resources:

Partnerships that involve a deeper level of engagement, including long-term MOUs and investment of funds, such as joint ventures, mergers, or acquisitions, require a significantly thorough due diligence. This could include exploration into a variety of aspects of the potential partner including those listed below.²

² Adapted from “Due Diligence” by William A. Brandt, Jr., R. Brian Calvert, Clare M. Pierce & Catherine E. Vance. Accessed from: <http://www.dsi.biz/articles/BBA-Due-Diligence-Chapter-&-Checklist-F.pdf>

- I. Corporate and Organizational Structure
- II. Securities, Shareholder Information, Stocks and Stock Options
- III. Financing Documents
- IV. Financial Statements
- V. Financial Analysis
- VI. Operations
- VII. Employee Information
- VIII. Tax Matters
- IX. Business Analysis
- X. Sales and Marketing
- XI. Officers and Directors, Employee Benefit Plans, and Labor Matters
- XII. Properties, Leases, and Insurance
- XIII. Electronic Data Processing
- XIV. Intellectual Property (Patents, Trademarks, Copyrights, and Trade Secrets)
- XV. Contracts and Arrangements
- XVI. Litigation
- XVII. Environmental and Related Matters
- XVIII. Acquisition Documents and Sales of Securities
- XIX. Transactions with Officers and Other Insiders
- XX. Filings and Reports
- XXI. Regulatory Compliance
- XXII. Consents

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