



Expanding Opportunities Worldwide

# Private Sector Engagement Toolkit



**Conducting  
a Due  
Diligence on  
the Private  
Sector**

January 2021

## About this Series

The Private Sector Engagement (PSE) Toolkits draw upon insights from USAID guides, ACDI/VOCA staff experiences, and other PSE resources.

The toolkits are intended to be living documents and will periodically be updated.

## Due Diligence Background

Activities proposed by private sector partners are a starting point for designing agreements that achieve the greatest potential for commercial and development impact. In fact, the private sector expects development organizations to negotiate! In this context, think of due diligence processes as an opportunity to collect valuable information that is going to help both the private company and development partner understand each other's approaches and incentives for engagement.

This guide focuses on the due diligence process for private sector firms that plan to collaborate with an ACDI/VOCA activity, typically through a grant award to undertake certain business activities that will also create development benefits and contribute to market systems changes. This due diligence process will focus on ensuring that the firm has internal structures and capabilities to successfully carry out the proposed partnership activities, and to help ACDI/VOCA identify any reputational risks that may arise from the proposed collaboration.

Contrary to popular belief, due diligence begins the first time you interact with a private sector partner. Think about the first time you hear about a business and initial assumptions you might make about their capacity for engagement. Due diligence spans through several lifecycles of a partnership from the solicitation/co-creation phase and into formal negotiations, and even during the partnership management process.

Due diligence sets the stage for eventual negotiations, and in many cases, due diligence and negotiations happen simultaneously. While there are several program tools that guide donor programs through a formal collection of priority due diligence and negotiation information, there are also some “subtle” factors that should be accounted for during the due diligence process:

**Committed Leadership:** Commitment and buy-in from senior leadership to a proposed partnership is one of the most important factors to partnership success. This includes alignment in the vision to supporting a particular market segment (i.e. smallholder farmers), as well as the product or service being proposed through the partnership. Senior leadership should be “champions” within the organization that are advocating for what a partnership is trying to do, and without these champions in place (if they leave or are fired), commitment can quickly disintegrate. Lastly, senior leaders demonstrate commitment through creating a long-term vision for how the organization will remain competitive in the proposed market for the long-term. **Without committed leadership, even the best ideas can fail.**

**Capacity:** Businesses should have the incentives and capacity to manage donor funding and be able to overcome some of the specific market constraints they may experience during a partnership. During the due diligence process, a company's capacity gaps should be identified and plans to address these gaps should be one of the focuses of the partnership. Note it is important to identify whether the capacity constraints can be overcome. Some constraints (i.e. limited distribution channels) can be overcome while

others (i.e. distortionary government policies decreasing demand for a company’s product) may be more challenging to address through most partnerships.

**Incentives for Engagement:** Trust and incentives for entering into a partnership are critical to understand during the due diligence process. There have been instances where companies may only be seeking access to capital or technical assistance to pursue profit-motive objectives that may not align with donor development goals. In other cases, some companies may enter a partnership for the wrong reason, thinking that they should enter a market segment or commercialize a technology that runs counter to their need to make money. Shared alignment and additionality are critical to understand during the due diligence phase. While these may be better clarified through formal negotiations, there may immediate red flags or other signals that indicate you should or should not move forward with a partner.

## What is Due Diligence

According to most USAID guidance, due diligence refers to actions taken to evaluate the risks and benefits of working with a potential private sector partner. This tool will focus on the corporate image, social responsibility, environmental accountability, and technical due diligence considerations only. For more information on financial due diligence required when providing USAID funds directly to a private sector partner, refer to your project’s grants manual.

### Instructions

Due diligence helps assess the willingness, capacity, and readiness to become a high-quality partner which includes engaging in co-creation, pause and reflect actions, significant co-investment, significant impact aligned with the project’s goals of inclusive systems change; and minimizing any potential business or reputational risks.

Due diligence is to be completed for all potential partners by the Partnership Manager and the Grants Manager, based on engagements with the partner and modest secondary research, appropriate for the scale and nature of the anticipated partnership. Additional personnel, such as the Director of Monitoring, Evaluation, and Learning and Collaborating, Learning, and Adapting (CLA), may be consulted. Any supporting documentation should be attached to the final package and maintained in the partner file. The final grants package, including the recommendation of the Partnership Manager and the Grants Manager, will be submitted to the Chief of Party for review and endorsement.

Due diligence topics we will cover in this tool include:

Corporate Image	Social Responsibility	Environmental Accountability	Technical Compatibility
-Public image	-Corporate Social Responsibility Policy	-Mitigating impact	-Aligned with & furthers a project’s systemic change objective
-Pending lawsuits	-Labor and Human Rights Standards	-Improving performance	
-Negative media	-Health and Safety	-Land ownership/ community consultation	
-Transparency	-Ethical Code of Conduct		
-Financial Soundness			

## Due Diligence: Step-by-Step

As development practitioners, we should strive to minimize how much time and effort our 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.

Since due diligence is a crucial to partnering with the private sector, we must develop a plan for gathering this information in an efficient and effective way. Planning is essential, as it may take some time to gather appropriate information, consult subject matter specialists, analyze the information, and provide answers to questions and concerns from project management and/or USAID. The intensity of the due diligence process should be tailored to the scope and circumstances of the partnership. While the due diligence review must be comprehensive, it may be appropriate to limit the review in certain cases, such as prospective partnerships with smaller entities.

### Step 1: Planning

Plan the due diligence steps so that the work can be completed well before partnership discussions are too far advanced. As mentioned above, this will also help identify and potential red flags that could arise further down the partnership process.

For private sector partners that present immediate concerns, a consultation with USAID is typically required to plan an efficient approach toward conducting the due diligence. Consider the kinds of questions that will need to be answered for the particular due diligence analysis (see Step 3). If particular areas of inquiry are going to be a focus, the information gathering stage can be tailored appropriately.

### Step 2: Gather Information

#### Conduct Initial Searches

- Search news articles, company reports and subscription resources, such as Dun & Bradstreet, Lexis-Nexis, Factiva, and others.
- Search the [USAID Partnerships Database](#). Determine whether USAID has previously partnered with the entity in other regions or in the past by searching the Partnerships Database online. Not all USAID partners or partnerships are included in the database. In addition, while a company may have a good reputation in one country, this may not be the case in another. The inclusion of the company in the database is one factor to consider, however, it is not sufficient information for proposing a partnership.
- Web Searches and local press. Conduct searches and weigh the source of the information when considering its content and merit. While the credibility of sources may vary, it is still valuable to cite to all relevant information located in these searches.
- Conduct searches of databases and resources maintained by relevant international organizations, such as labor and human rights, transparency, and environmental organizations.

- In some situations, you may have questions about particular individuals, such as management or board members of particular companies, or other sensitive matters. In those situations, you should contact USAID for assistance.

### Supplement and verify with local sources

Internet-based searches will give you limited information. It is important to contact local sources for information about the company or entity. Talk to individuals/organizations to get a clearer picture of the entity's performance and reputation locally/regionally including, for example:

- Community organizations and leaders.
- Other donors/stakeholders that have formally or informally supported the private sector business
- Potential partners' current customers, suppliers, and/or private sector or government partners.
- Relevant local entities such as human rights, transparency, or environmental organizations. If local groups do not report any concern, but there is concerning information found in national or international sources, this must be documented in the due diligence memorandum.
- Consider asking the company directly for information, such as annual reports.
- Local staff can also provide insights about local private sector firms and their reputations.

### Step 3: Analyze the Information Gathered

The illustrative list of questions below should serve only as a guide. The researcher should think about other relevant questions based on the potential partner, project, location and findings. It is not necessary to answer each question in the due diligence memorandum. The due diligence memorandum should summarize major issues of concern.

#### CORPORATE IMAGE

Consideration	Notes	Rank (1= not a risk; 2 = medium risk 3= high risk)
Has there been anything in the media that would reflect negatively upon the company? If so, how has the company dealt with significant negative publicity?		
Are there any pending lawsuits or prominent prior lawsuits against the company?		
Has the company been named in corruption scandals?		
Is the company looking solely for public relations (PR) opportunities by aligning itself with USAID?		
Is the company willing to accept limitations on publicity of the partnership (i.e., corporate PR releases, press and media coverage) to ensure that USAID is not		

Consideration	Notes	Rank (1= not a risk; 2 = medium risk 3= high risk)
perceived as endorsing the company or its products or services?		
Does the company have a long track record (how many years has it been in business)?		
Does the company management structure appear to be stable?		

## SOCIAL RESPONSIBILITY

Consideration	Notes	Rank (1= not a risk; 2 = medium risk 3= high risk)
Is the company primarily involved in tobacco, the manufacture or sale of firearms, mining, hydroelectric projects, or any activities that might displace people or have negative environmental impacts?		
Does the company have a good reputation (no serious red flag issue areas), especially in areas of corporate social responsibility (CSR) if applicable?		
If relevant, does the company 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?		
Is the company accepting of unions or attempts to organize a union?		
Does the company have or is the company a signatory to relevant codes of conduct (e.g. social responsibility codes, inclusive business practice codes, etc.), non-discriminatory practices, or labor standards?		

## ENVIRONMENTAL ACCOUNTABILITY

Consideration	Notes	Rank (1= not a risk; 2 = medium risk 3= high risk)
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 company 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?		
Are its products or services designed to have no undue environmental impacts and be safe in their intended use?		

## TECHNICAL CONSIDERATIONS

Consideration	Notes	Rank (1= not a risk; 2 = medium risk 3= high risk)
<p>The willingness of the partner to co-create and engage in pause and reflect sessions with the project (and other stakeholders as relevant).</p> <ul style="list-style-type: none"> <li>○ Why does the company want to engage with the project?</li> <li>○ How willing/open is the partner to potential new ideas that could strengthen the application?</li> </ul>		

Consideration	Notes	Rank (1= not a risk; 2 = medium risk 3= high risk)
<ul style="list-style-type: none"> <li>How willing is the partner to learn and adapt its activities based on progress and changes in the market?</li> </ul>		
<p>The technical understanding and commitment and buy-in from company senior leadership.</p> <ul style="list-style-type: none"> <li>To what extent do senior company leadership understand and value the potential role the project can play to strengthen/expand their business operations?</li> </ul>		
<p>The technical capacity of a prospective partner to commit to the long-term engagement anticipated in a partnership.</p> <ul style="list-style-type: none"> <li>Does the company have the capacity, resources, and willingness to invest in the partnership even if there is little immediate return on investment?</li> </ul>		
<p>The likelihood the partnership will make a significant contribution to advancing an identified project leverage point(s).</p> <ul style="list-style-type: none"> <li>To what extent is the partnership helping the company do something it would not be able to achieve on its own?</li> <li>To what extent will the partnership result in increased sales, farmer improving productivity and incomes, and/or creating a change in the market?</li> </ul>		
<p>The likelihood that a partner will effectively advance gender and social inclusion through integration into business activities. Consider asking the following questions:</p> <ul style="list-style-type: none"> <li>What is the partner's current commercial relationships and practices with women (as employees, suppliers, customers, etc.) and youth?</li> <li>Do their immediate, medium or long-term interests involve engaging women or youth? Are they open to changing their practices?</li> </ul>		



Consideration	Notes	Rank (1= not a risk; 2 = medium risk 3= high risk)
<p>The likelihood that a partner will effectively advance nutritional outcomes through integration into business activities. Consider asking the following questions:</p> <ul style="list-style-type: none"> <li>○ What is the partners commitment to improving nutritional outcomes for employees and suppliers?</li> <li>○ What is the willingness of the partner to collaborate with collaborate with government and civil society to improve nutrition in target communities?</li> <li>○ How committed is the partner to full transparency and good governance around corporate action on nutrition?</li> </ul>		
<p>The capacity and business viability of the partner to sustain the activities envisioned under the grant to achieve the desired results.</p> <ul style="list-style-type: none"> <li>○ To what extent does the partner value the intended outcomes of the partnership as a pathway to increasing their business growth?</li> </ul>		
<p>The extent to which a partnership balances the projects broader portfolio, creates synergies, or cooperation/competition.</p> <ul style="list-style-type: none"> <li>○ How does the partnership compliment the portfolio of existing investments?</li> <li>○ How will the partnership incentivize other companies to enter a product or market segment resulting in competition?</li> </ul>		
<p>The commitment of the partner to increasing co-investment.</p> <ul style="list-style-type: none"> <li>○ What is the capacity/willingness of the partner to leverage their own resources, staff time, and to demonstrate other forms of “buy-in?”</li> </ul>		
<p>The commitment of the partner to support the activities and outcomes after the partnership comes to an end.</p>		

Consideration	Notes	Rank (1= not a risk; 2 = medium risk 3= high risk)
<ul style="list-style-type: none"> <li>○ How likely is the partner to continue to value and invest in the intended outcomes of the partnership on their own?</li> <li>○ Does the partner have the incentives and capacity to continue these activities on their own?</li> </ul>		

#### Step 4: Draft the Recommendation and Due Diligence Memorandum

The due diligence investigation may result in red flags that will either suggest the partnership is not advisable or must be considered carefully before further discussions can take place with the potential partner. If the project is interested in pursuing the partnership it will inform the COR of any red flags.

#### ASSESSMENT RECOMMENDATION

☐ I do **not** recommend this relationship move forward into a partnership. My primary reasons, based on the assessment results above, are as follows:

\_\_\_\_\_

☐ I recommend this relationship move forward into a partnership, **with the following concerns**, based on the assessment results above. I will work with the project leadership to develop and document a mitigation plan to address these concerns, based on the nature of this specific partnership.

\_\_\_\_\_

☐ I recommend this relationship move forward into a partnership.

Signed: \_\_\_\_\_ Name, Title: \_\_\_\_\_  
*Partnership Manager* Date: \_\_\_\_\_

#### RECOMMENDATION

☐ I do **not** recommend this relationship move forward into a partnership. My primary reasons, based on the assessment results above, are:

\_\_\_\_\_

☐ I recommend this relationship move forward into a partnership, **with the following concerns**, based on the assessment results above. I will work with the project leadership to develop and document a mitigation plan to address these concerns, based on the nature of this specific partnership.

\_\_\_\_\_

☐ I recommend this relationship move forward into a partnership.

Signed: \_\_\_\_\_ Name, Title: \_\_\_\_\_  
*Grants Manager* Date: \_\_\_\_\_

**Note:** in situations where assessment by the Partnership Manager and the Grants Manager are in conflict, the Chief of Party will host a joint meeting to reach a resolution, and document the final endorsed assessment here.

**Endorsed Decision:** \_\_\_\_\_

Signed (CoP) \_\_\_\_\_ Name: \_\_\_\_\_ Date: \_\_\_\_\_

## **DUE DILIGENCE MEMORANDUM**

FROM: [Chief of Party]

TO: [Activity COR]

SUBJECT: Due Diligence Review of [Company/Organization Name]

Recommendation(s)

In light of the due diligence findings discussed below relating to [Company/Organization Name], I recommend that you concur pursuing a partnership with [Company/Organization Name]. [CHANGE LANGUAGE IF A DIFFERENT RECOMMENDATION IS GIVEN.] If a sub-award subsequently arises out of this potential partnership, you will review and approve the sub-award at a later date.

Concur \_\_\_\_\_ Do Not Concur \_\_\_\_\_

### **Introduction**

- Implementing Partners' history with the potential private sector partner including current discussions.
- The type of partnership the Implementing Partner is exploring with the potential private sector partner.
- The USAID initiative that this partnership will further and a summary of the benefits to the activity undertaken by the Implementing Partner.

### **Summary of Key Issues for Consideration**

- Use this section to focus the AOR/COR's attention on any particular areas of concern that were identified through the due diligence process.
- Discuss the risk to USAID and the Implementing Partner posed by any concerns that have been identified.
- If the potential private sector partner is uniquely attractive as a partner, describe relevant factors.

### **Summary of due diligence findings**

- This section should be organized by subheadings: corporate image, social responsibility, environmental accountability, and award compatibility.
- Summarize positive and negative performance issues.
- Be sure to footnote all findings with their sources. Sources can include a variety of items, including newspaper articles, company reports or in-person interviews.

### **Conclusion**

- A brief summary of the most relevant issues for the Implementing Partner and implications for USAID and the U.S. Government more broadly.
- Recommendation of whether or not to proceed with the partnership.
- Any conditions that should be placed on a partnership to mitigate risk, or issues to monitor during the lifetime of the partnership.

Attachment(s): (Include copies of supporting documentation.)

## ANNEX 1 – Example of a Partnerships Database

Name of Company/ Association	Nationality of the Company /Association	Type of Company	Objective of Partnership	Impact	Amount of leverage for the year (cash, expertise, technology, communications, equipment, other)	Implementing Partner	POC for company (name, email address)	Date partnership was formed

## Additional Resources

- [USAID Private Sector Engagement and Due Diligence: Reputational Risk Assessment](#)
- [USAID Due Diligence Step-by-Step Guide](#)