UNSDG Common Approach to Prospect Research and Due Diligence for Business Sector Partnerships

ANNEX 1

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I. INTRODUCTION

The private sector plays a pivotal role in advancing the 2030 Agenda for sustainable development and within it, the importance of business sector partnerships has been reaffirmed by Member States as a vital and critical component to accomplish the Sustainable Development Goals (SDGs). As the United Nations (UN) aims to scale up its engagement with business, it needs to do so in a way that optimizes the benefits of collaboration, manages potential risks, and ensures integrity and independence of the organization. The December 2017 Report of the Secretary-General[1] calls for a coherent and streamlined approach on due diligence standards and procedures across the United Nations system as part of stepping up the scale and scope of partnerships with the business community to accompany the requirements of the 2030 Agenda.

This concept note proposes an efficient and flexible due diligence approach that can be applied across the UN Sustainable Development Group (UNSDG) members. It takes into account different priorities and specific mandates established for organizations and should be viewed as a basic framework to harmonize around a set of principles and operational standards for due diligence. It sets the UN Global Compact Ten Principles[2], the UN Guiding Principles on Business and Human Rights and other integrity and sustainability standards as the benchmarks around which UN partnerships with business should be designed and move towards. In addition, the note outlines a series of action-oriented guidelines, differentiated for, and reflecting the different modalities for engagement that UNSDG members may consider maximizing and optimize results, while at the same time continuing to protect and project UN credibility. This approach recognizes that UN organizations will need to retain the flexibility to further develop specific systems adapted to their particular needs and internal decision-making processes.

II. BACKGROUND

The proposed common approach to business sector due diligence was developed through a consultative process with all the members of the UNSDG through the Private Sector Task Team. Several multi-stakeholder consultations and bilateral interviews with the due diligence and/or private partnerships officers were conducted. Interviews aimed to identify key lessons learned, challenges and best practices to ensure the common approach builds on practice and relevant expertise within the system. The development of the common approach was also informed by a mapping exercise to identify commonalities and divergences in existing policies and processes of UNSDG Members. The research included a desk review and mapping of the most up-to-date due diligence policies, guidelines, past reports and presentations, risk assessment forms, meeting notes, and other related documents from UNSDG Members and other sources. It should be noted that, as a coordinated approach, all UNSDG Members had an opportunity to provide their documents and feedback.

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[1] United Nations General Assembly Economic and Social Council. 21 December 2017. Repositioning the United Nations development system to deliver on the 2030 Agenda: our promise for dignity, prosperity and peace on a healthy planet. Report of the Secretary-General.

[2] The Ten Principles of the United Nations Global Compact are derived from the Universal Declaration of Human Rights, the International Labour Organization's Declaration on Fundamental Principles and Rights at Work, the Rio Declaration on Environment and Development, and the United Nations Convention Against Corruption. Further information on https://www.unglobalcompact.org/what-is-gc/mission/principles

III. EXISTING DUE DILIGENCE APPROACHES WITHIN THE UNITED NATIONS SYSTEM

Consultations to date and the results of the comparative analysis exercise identified a number of challenges, lessons learned and best practices that informed the development of the proposed common approach. These include the following:

1. **Scope:** currently there is no alignment and little clarity within the UN family on when and for which types of engagement with business due diligence shall be exercised. In addition, the definition of "partnerships" itself seems to be different across different organizations, making coordination in approach and practice difficult, especially in case of multi-agency collaborations. For instance, an organization may regard general financial contributions as partnerships, while another would only do so when funding comes in addition to technical collaborations, or when the contributions exceed certain thresholds (e.g. USD 50,000 or USD 100,000). Some organizations clearly lay out how a partnership would be officially recognized or formalized (e.g. letters of appreciation, MoUs or other legal agreements), while some are very vague about these instruments.

2. **Principles and exclusionary criteria:** most UN organizations sampled have a similar core set of guiding principles[3] for engagement with the business sector, with a few additional ones uniquely reflecting their own mandates. Most of the agencies also have a set of exclusionary criteria for partnerships or other types of collaboration, some of which are common to virtually all (e.g. business practices colliding with UN Resolutions), some are adopted by many (e.g. tobacco and alcohol), while others are specific to individual agencies and mandates (e.g. company practices not compliant with the International Code of Marketing of Breast-milk Substitutes). In addition to exclusionary criteria, most of the mapped UN entities have identified some sectors considered "high risk" for which they apply more rigorous risk assessment.

3. **Application of exclusionary criteria:** While there are commonalities in the exclusionary criteria, their use in practice may vary significantly. For example, while some entities would decline any type of engagement with a company falling under exclusionary criteria, others may consider interactions when these are specifically intended to address and/or change exclusionary business practices. Furthermore, engagement may be considered if the level of engagement of a company in excluded activities is low (e.g. based on direct or indirect involvement, or on revenues). While it is recognized that different organizations have mandate-specific criteria which may at times lead to different decision-making outcomes, a lack of awareness on these variations is likely to lead to perceived inconsistency within and outside the UN system.

4. **Processes:** different approaches are also applied to due diligence research and decision making. The investment level in the function is uneven among UN entities, and so is the level of accountability of due diligence focal points and the timeframe for service delivery. This can lead to system inefficiencies, particularly in the case of multi-agency partnerships, when potential partners have to go through individual screening processes with each of the entities joining the alliance. The review notes that in the past few years, an explicit effort has been made, under the coordination of the UN Global Compact, towards increasing common access to externally validated research for due diligence. This has surely helped to reduce costs and increase the use of information among UN entities, however data portfolio could be expanded and some duplication of efforts still exists, suggesting room for improvement by enhancing coordination through a common due diligence research and information-sharing platform.

[3] One example is the 2015 "Guidelines on a Principled-based approach to the Cooperation between the United Nations and the Business". This framework does not replace the Guidelines, but further expands and updates the section on due diligence criteria and ensued processes

IV. PROPOSED COMMON APPROACH

The common approach is to be used as a set of minimum parameters for UNSDG members to apply in their respective due diligence frameworks and processes. The aim is to increase harmonization, efficiency and transparency across the United Nation family by reaffirming common guiding principles, identifying a set of minimum standards for engaging with the business sector, and by offering concrete guidelines on how to approach due diligence as a process, without preventing individual organizations from continuing to use or establish additional and mandate-specific parameters and procedures. The common approach does not supersede policies regulating engagement with the Business Sector, and ensued due diligence and risk assessment practices, which Member States have explicitly negotiated and approved through governing bodies.

1. Scope and Definitions[4]

Clarity and general alignment on definitions are important as the basis for better coordination and coherence. For the purpose of this document and as a common denominator, the following definitions are proposed:

'The private Sector'
is the part of the economy that is run by individuals and companies and is not state controlled. Therefore, it encompasses all for-profit businesses that are not owned or operated by the government, and in some definitions, it may also include privately-owned organizations (e.g. family foundations or associations) or include influential individuals such as high net worth individuals.

'The business sector'

- For-profit and commercial enterprises of any size, whether privately owned, public, or fully governed by governments;
- Corporate foundations and foundations that are directly funded and/or governed by business;
- Business associations, coalitions and alliances, including for example chambers of commerce, employers' associations, cooperatives, and industry and cross-industry initiatives where the participants are for-profit enterprises[5].

UN entities could consider the use of this common approach beyond the business community, for example expanding it to non-corporate (e.g. family foundations) or major donors and high net worth individuals (HNWIs). Of note, a more detailed proposal for a common UN due diligence framework for HNWIs and non-corporate foundations will be developed based on the experiences of these UN entities that have used this common approach or have used additional tools.

'Partnership':
This engagement is defined as a voluntary and collaborative agreement or arrangement between one or more parts of the United Nations system and the business sector, in which all participants agree to:

a) Work together to achieve a common purpose;

[4] It should be noted that although some UN entities apply the same set of guidelines for all external stakeholder engagements and/or partnerships, this common approach only covers the business sector as formally defined in the document. However, recognizing the need to retain flexibility in implementation, UN entities that wish to experiment with a broader definition (e.g. high net worth individuals, academics, NGOs, foundations) can do so.

[5] Aside from the definition, employers' associations fall outside of the scope of this framework

b) Invest their respective resources (e.g. time, knowledge and expertise, research and technological development, funding, core assets, etc.);
c) Acknowledge mutual benefits as an integral aspect to the engagement; and
d) Share risks.

Usually partnerships would involve some level of public communication and recognition, and an exchange of assets (e.g. financial or brand-related) between parties involved. Partnerships are also based on a somehow agreed mutual commitment (e.g. letter of appreciation, MoUs or other legal agreements) even though the formality level, or its specificity, may vary.

'Due Diligence'

Due Diligence refers to a set of criteria and parameters, and a suit of analytical practices used to appraise the level and type or risk and/*versus* benefits that a UN organization could be exposed to through a potential interaction and association with a business entity. The due diligence assessments and recommendations are an integral part of partnership prospecting, decision-making and risk management systems. An effective due diligence process provides a better understanding of the risks and opportunities of engaging with a potential partner.

Scope and Modalities for Engagement with Business

United Nations "Engagement" with the Business refers to <u>any</u> type of interaction with business entities, with different objectives, ranging from informal talks and discussions, to knowledge-exchange platforms, to full-fledged partnerships entailing funding or brand asset exchanges. These engagements may be implemented through different modalities, including but not limited to partnering, and may entail different levels of public exposure.

UNSDG Members should consider expanding and exploring diverse ways of interacting with the business community to maximize and optimize impact. See <u>Table I</u> below for examples of different scopes and types of engagements. Note that partnerships may involve more than one objective and type of modality, and that not all modalities are qualified as partnerships.

Table I: Examples of existing partnership and engagement modalities between UN entities and the business community

	Scope	*Definition*	*Modalities*
a.	Resource mobilization	This refers to transfers made in cash, goods, or services from or via a business entity to a UN organization for which no monetary repayment is required. This type of interaction does not necessarily imply institutionalized partnerships, but it does generally involve some level of public communication and recognition (brand asset exchange) to the donor. In many instances, resources are provided to support a specific project or activity that reflects some area of shared interest between organizations and firms.	Funding may come through direct support from a company - for example, through funds earmarked for corporate social responsibility or philanthropy; through donations from a company's employees; or through donations from a company's consumers via cause-related marketing campaigns. Example mechanisms: sponsorship, grant donations, marketing and campaigns.

b.	Policy dialogues and normative setting	Policy dialogues are discussions among stakeholders that aim to bring about or encourage specific changes in policy or behavior, or to adopt best practices and standards. Multi-stakeholder policy dialogues are increasingly emerging to address development challenges, improve corporate practices, and set industry standards. There are various mechanisms for policy dialogue across UN organizations that vary in their degree of formalization and institutionalization.	These forms of engagement may or may not be labelled as "partnerships" or collaborations, and the level of public exposure for the United Nations (and therefore public perception-related risks) may vary significantly. On the contrary, in normative processes impacting on business activities the engagement modality would not be normally structured as a partnership, but more often as consultation or hearing. Example mechanisms: specialized hubs or institutions, business networks, institutionalized dialogues, multi-stakeholder networks and platforms, cross-sector roundtables, advocacy and campaigns.
	Scope	*Definition*	*Modalities*
c.	Advocacy	These collaborations with businesses aim to increase public awareness or influence behaviors in the community among key stakeholders and decision makers.	These engagements are generally public in nature, with the level of brand association between UN organizations and business entities varying, depending on the context and specific goal. While they may not have all the attributes of a partnership, advocacy would often be publicly portrayed as coalitions or alliances between the UN and business players. Example mechanisms: media campaigns, community level communication for development prorammes or projects, and public events.
d.	Exchange of knowledge and information	Knowledge sharing entails interactions aimed at exchanging experiences and best practices among organizations and firms. This differs from policy dialogue in that although such exchanges may lead to new policies or behavioural changes, their goal is learning oriented. They are not specifically geared at changing the policies of individual actors or developing shared policy frameworks.	These forms of engagement are often not structured or communicated as "partnerships", and the level of affiliation between the United Nations and business entities may be minimal (e.g. in the case of an UN event where business entities participate as an audience, or in a third-party event where business is an independent panelist). Example mechanisms: learning platforms, multi-stakeholder networks, conferences, seminars, workshops and other events.
e.	Capacity development	Capacity development activities aim to enhance individual and/or organizational learning and develop the abilities of actors to perform functions, solve problems, and achieve objectives. This can be capacity development activities for small and medium-sized enterprises, or improving the capacities of business actors to change or modify core business operations to be more development friendly. They could also inversely involve capacity transfer	These engagements are not generally defined as partnerships and therefore would not imply great exposure by the UN to reputational and other risks. Example mechanisms: training activities and other forms of capacity development programming, and professional exchanges.

		from the business sector to a UN organization, to enhance its capacity and efficiency to deliver.	
f.	Technical Collaboration and innovation	Engagements based on specific programmatic needs and challenges with defined technical specifications. This can be capacity-building activities in which companies provide expertise and knowledge to help UN entities improve their practices and develop forward-looking solutions or joint implementation of partnership. These could also include shared value and innovation partnerships where UN entities works with partners to share experience and design and deliver solutions to problems where existing solutions are not available or not appropriate.	These engagements inherently involve some investment on both sides and therefore are often structured as partnerships or public collaborations between UN entities and firms. Example mechanisms: co-creation of product innovation or innovative solutions, business advisory services, corporate staff secondment to UN organizations, feasibility studies, implementation and evaluation activities, innovative finance, and core business for market development.

It should be noted that, while risk management shall adapt to different contexts and types of engagements, all engagements with the business sector which are structured and presented as 'partnerships' or 'alliances[6]' shall undergo due diligence to inform decision making. Specific criteria and level of scrutiny may vary, depending on the level of risk associated with the modality, the type of engagement, and the sector, as described in the following sections.

'Shared value Partnerships'

One modality for engaging with business which is increasingly discussed within the United Nations is the one often labelled as *shared value* partnership (SVP). Shared value refers to achieving sustainable societal success by creating value for all the stakeholders involved, therefore for business entities too. These types of alliances differ from regular partnerships as they explicitly intersect with core business elements (e.g., products, services, R&D or strategies) contemplating business value as core aspect of advancing the social and economic conditions in the communities in which a business entity operates, and beyond. From a business perspective, this value may translate into operational enhancement, reputational benefits, employee satisfaction and retention, sustainability achievements, social impact, and other elements which may ultimately lead to financial benefits. From the perspective of the United Nations, the value can translate into better, more sustainable and at scale (or scalable) solutions to meet the SDGs. Mutual benefit is an essential ingredient of these partnerships; however the focus remains on their "shared" value attribute, meaning that the societal benefits of the partnership should always be of primary consideration, and that business interests shall not overrun, nor undermine, that of the ultimate beneficiary of the engagement.

While shared value partnerships can be instrumental in achieving more sustainable results, the proximity and direct connection with core business interests may require the United Nations to consider additional and specific parameters around the co-existence of commercial and non-commercial narratives within the same partnership framework.

[6] For the purpose of this paper, the term Alliance and Partnership are used interchangeably.

Such considerations will be defined and addressed separately from this document.

2. Guiding Principles[7]

The overarching principles shall guide the UN work with the business sector above and beyond specific configurations and levels of collaboration that any engagement may take. These principles are summarized as follows:

Advance United Nations goals

Partnership and interactions with business must clearly focus on advancing the aims, activities and purposes of the United Nations, including, the pursuit of the SDGs, the 10 Principles of the UN Global Compact and other International standards related to the intersection between business and the United Nations goals. Partnerships recognize the need for mutual benefits for all partners involved, and the purpose, roles, and responsibilities of the partnership must be clearly defined and reflect the shared values between the United Nations and the engaging entity.

It is expected that UN partnerships with the business sector will be designed with these goals in mind. UN organizations should openly promote these Principles by:

- Provide companies with a UNGC package explaining the importance of the 10 Principles of the Global Compact and the underlying instruments from which they are drawn
- Ask companies to publicly commit to respecting the 10 Principles and promote companies' participation in the UN Global Compact
- Foster opportunities for business engagement with the UN Global Compact by facilitating connection of partners with the UN Global Compact

Impact focus

Collaborations shall be results oriented in their scope, implementation and coordination. To accelerate progress in achieving the 2030 Agenda and the Sustainable Development Goals (SDG), governments and the business sector should prioritize actions that have the greatest impact in quality and scale, or which allow scalability.

Maintain integrity, independence and impartiality

Engagement with the business sector must ensure that UN entities remain unbiased and maintain their integrity, independence and impartiality.

Transparency

Cooperation with the business sector must be transparent, with information on the nature and scope of the collaboration made available to the public. Developing accountable and transparent governance structures, setting measurable targets, and having a robust monitoring and reviewing framework reinforces the transparency of the partnership.

Accountability

All partnerships or structured engagements must clearly spell out the roles and responsibilities of each party to the partnership. This understanding should be set out in a partnership agreement along with

[7] From the findings, almost all organizations have a similar set of guiding principles. There are a few additional ones that reflect their unique mandates; for instance, clear benefits to public health (WHO), the best interest of children (UNICEF), or promoting decent work agendas (ILO) - or other principles such as cost effectiveness or avoiding conflicts of interest. Such principles may be added in accordance with each entity's particular mandates and activities.

defined roles, timelines, contributions and measurable outputs. Partnerships shall also include measures to prevent and manage potential conflicts of interest, both at the individual and organizational level.

Non-exclusivity, non-endorsement and no unfair advantage

Partnerships between the United Nations and business sector entities should not provide exclusivity or unfair market advantage, nor should they imply endorsement of any business type, product or service. Competitive advantages resulting from a partnership become unfair when they are likely or certain to eliminate or unduly restrict market competition.

Sustainability

Partnerships between the United Nations and the business sector seek models that tackle systemic issues, stimulate local solutions, and support host governments and other stakeholders to focus on long-term sustainable results.

Complementarity

The United Nations entities will seek to maximize opportunities and avenues to achieve results with the business sector, while at the same time ensuring that different modalities are pursued, avoiding conflict or the undermining of their underlying strategies. In addition, while upholding a common vision, the diversity of mandates across the United Nations system will be seen an asset on which to build our comparative advantage and complement each other's contributions.

3. Due Diligence Objectives and Function

The aim of the due diligence function is to support organizational informed decision making on engagements with the business sector. Therefore, the scope of the function shall be designed and resourced by UN entities in order to:

- *Profile* prospective partners to gain intelligence that informs both potential partnership opportunities and risks, starting with the screening of entities against exclusionary criteria;
- *Identify* potential risks and benefits, to ensure that decision making on if/how to engage with a business sector entity is based on adequate assessment of potential impact, and on the options available to manage potential sensitivities;
- *Recommend* measures to avoid, minimize and/or manage risks to ensure that decision making on if/how to engage with business sector entity is based on the confidence that all options have been considered (including alternative opportunities and partners) and appropriate risk management measures are in place.

For details on the due diligence function, refer to Annex I.

4. Due Diligence Criteria[8]

Widening and deepening engagement and partnerships with the business sector makes it essential to ensure potential risks and opportunities related to the integrity of prospective partners are considered at the earliest stages.

[8] UN entities that wish to incorporate the level and threshold of participation in the exclusionary business criteria and sectors with high-risk operations can refer to the guidelines from UNDP, UNICEF and other entities that have these thresholds in place as references.

The proposed framework for a common due diligence approach outlines three subsequent types of due diligence criteria to guide UN entities in their identification of prospective partners, considering risks and opportunities:

1. A small set of **exclusionary criteria** which would be applicable to partnership engagement between the United Nations and the business sector. These criteria refer to business categories and/or practices considered inherently incompatible with values of the UN, its treaties, or other international standards. Partnerships with prospects falling within the exclusionary criteria should not be pursued. However, in exceptional cases, engagement can be considered, as outlined in the following section.

2. A set of **preferred partner attributes** to help identify business sector actors who demonstrate their commitments and efforts in support of the SDGs or responsible citizenship and alignment with international and sectoral standards, including the UN Global Compact 10 principles and the UN Guiding Principles on Business and Human Rights, in a consistent manner.

3. A focus on businesses and contexts with operational settings exposed to or creating higher ESG risks to help identifying that require a more thorough due diligence and risk-managed approach by UN organizations in considering engagement, especially in the case of multi-agency opportunities. These businesses are not excluded from any form of engagement with the United Nations, however for some agencies one of more of these businesses may constitute additional exclusionary criteria for specific modalities, as appropriate to their specific mission and advocacy role.

It is recognized that individual UN entities may want to apply additional exclusionary criteria, or define supplementary preferred partner attributes, or high-risk identification measures, which can be important for the implementation of their specific mandates and the achievement of their programmatic and advocacy goals. While this "diversity in unity" is well recognized, clear understanding about the complementary approaches across the UN is essential to ensure coordination as a priority over conformity.

Common Set of Exclusionary Criteria

1	Appearance on the United Nations Security Council Sanctions List[9] or the United Nations Ineligibility List, or in violation of UN sanctions, relevant conventions, treaties and resolutions	Entities directly engaged in activities inconsistent with the UN Security Council Sanctions, Resolutions, and other similar measures
2	Direct and core involvement in the manufacturing or trading of controversial weapons subject to bans under International Treaties	Entities directly and primarily[10] involved in the sale, manufacture or distribution of weapons banned by UN treaties, including anti-personnel mines, cluster bombs and ammunitions, and biological, chemical, or nuclear weapons, for instance
3	Direct involvement or complicity[11] in systematic or egregious human rights	Entities engaging in any of the following:

[9] https://www.un.org/sc/suborg/en/sanctions/un-sc-consolidated-list

[10] "Primarily" here is intended to mean businesses that generate above 10 per cent of their total revenues from the activity, or which hold market share leadership on excluded activity (i.e. ranking among the top ten players in a market or globally), or which is publicly presented and promoted focusing on excluded activity.

[11] For a more extensive definition of *complicity* see as reference the following publications: " Guiding Principles for Business and Human Rights" "Embedding Human Rights into Business Practice" https://www.unglobalcompact.org/library/1441 and Report of the Special Representative of the SG on the Issue of Human Rights and Transnational Corporations – Clarifying the Concepts of Sphere of Influence and Complicity (A/HRC/8/16)

	abuses through operations, products, or services	• causing or directly contributing to gross human rights abuses through their own business activities (such as forced or compulsory labor or child labor, human rights violations, including rights of indigenous peoples and/or other vulnerable groups); or • tolerating or knowingly ignoring such practices by an entity associated with it, or • knowingly providing practical assistance or encouragement that has a substantial effect on the perpetration of the gross human rights abuse
4	Weapons manufacturing or sales as a core business[12]	Entities directly and primarily involved in the sale, manufacture or distribution of weapons
5	Tobacco manufacturers	Entities for whom the core business[12] is the production and wholesale distribution of tobacco products
6	Systematic failure to demonstrate a commitment or to meet in practice the principles of the United Nations, including statements or principles that are consistent with and reflect the Universal Declaration of Human Rights, the Rio Declaration and the ILO Declaration on Fundamental Principles and Rights at Work, the UN Global Compact or the United Nations Guiding Principles on Business and Human Rights	Entities that systematically[13] fail to demonstrate a commitment to meet the stipulated principles (human rights, labor, environment and anti-corruption)

As a common standard, United Nations organizations will not engage in funding or co-branded partnerships with companies falling under the above criteria. For companies indirectly linked to exclusionary business activities (e.g. via subsidiary, or parent company) such engagements may be considered, but only under certain conditions: the core business of such business entity does not itself meet the exclusionary criterion, and the two entities are sufficiently separated both in terms of corporate structure and from a public perception perspective. Each UN organization can develop its threshold policy to determine "separation, or agree to adopt an existing one from another UN organization. Examples of thresholds currently used to determine degree of separation include ownership level (e.g. >50% of direct ownership) while for the public perception proxy branding indicators are used (e.g. subsidiary and parent company using the same brand and being publicly promoted as part of the same business strategy).

In exceptional cases, interactions may still be possible with some companies falling in the above categories, for example when the purpose of the engagement is specifically to address the issue identified as exclusionary (e.g. interaction aimed at addressing violations of human and labour rights in the supply chain, or in the workplace):

- Exceptions may also apply on an *ad-hoc* basis when a company is proven to be the only one equipped with life-saving and/or emergency related unreplaceable technical solutions. This may happen in case of technology essential to deliver food or medicines during humanitarian operations, otherwise not available in the market. Furthermore, interactions may still be considered on an *ad-hoc* basis when revolving around knowledge or skill transfer, provided that

[12] Core business refers to the primary area or activity that a company was founded on or focuses on in its business operations.
[13] Systematic nature of such violations is measured through an assessment of issues using indicators such as: materiality, incidence and frequency, corporate response and remedial action, company specificity and peer assessment, etc. Specific tools and guidelines for this assessment will be developed and will follow this framework.

the relationship is not structured, nor publicly promoted as a "partnership" but rather as a dialogue or an interaction.

- Co-branding, co-investment, direct and active funding engagement, or any activity that would imply the promotion of such businesses in market or with the public shall not be pursued for these categories.

These exceptions would not apply to entities under criteria 1 and 2 (under UN SC lists, or to companies primarily involved in the manufacturing or selling of weapons banned or sanctioned by UN treaties).

Preferred partner attributes

Preferred partner attributes are meant to assist UN entities in identifying business sector entities with strong commitments to the 2030 Agenda. While these attributes are aspirational and do not supersede exclusionary criteria, they can help UN organizations to better identify opportunities for high impact partnerships. The list of attributes is not exhaustive, but would include, *inter alia*:

- Responsible citizenship by supporting or aligning with the core values of the United Nations, including the UN Guiding Principles on Business and Human Rights, and other standards related to the roles, responsibilities and contributions of the business sector;
- Participant of the UN Global Compact and demonstrated practices aligning with the 10 Principles of the UN Global Compact;
- Demonstrated commitment and practices concretely contributing to the SDGs;
- Proven commitment to responsible environmental and climate sustainability, as well as social and governance business practices;
- Significant social investment (e.g. in Least Developed Countries, LDCS) and history of partnering with the development and humanitarian sectors;
- Production of goods or services that improve or serve the basic needs related to the 2030 Agenda and the achievement of the SDGs;
- Demonstrated commitment to the Women's Empowerment Principles and gender equality with zero tolerance of sexual exploitation and abuse.
- Commitment to UN-sponsored initiatives or adherence to standards

Sectors with high-risk in operational context

Some business sectors, by nature or operational context, have high potential to reach and negatively impact communities, as well as the environment. Their role, commitment and practices to reduce these risks will be crucial to achieve the SDGs, and so will be the United Nations' readiness to interact and engage with them.

As these industries may intersect more directly the work of certain UN organizations, a thorough analysis of how and when engagement shall be shaped will be an important aspect of UN prospecting work. For example, in programmatic contexts, or for organizations with a mandate focused on access to health services and goods, interaction with the pharma industry shall be pursued by effectively managing any potential and/or perceived risk of conflict of interest. Similarly, alignment with international standards around product safety and marketing practices shall be of consideration for organizations partnering with the food and beverage industry around optimal nutrition goals. The extractive industry is another example of sector operating often in fragile environmental or political contexts, making considerations around their long-term impact an important element to inform collaboration.

Because different UN organizations may have different policies or focus on specific modalities to engage with certain sectors, any organization shall be aware of the links between specific industries in terms and environmental, social and governance issues or standards, as well as of the approach that other UN agencies may apply. UNSDG members will agree in the subsequent roll-out of the common approach to share information on risks within particular sectors in specific contexts.

5. Due Diligence Process

Where and when shall due diligence be exercised?

While in principle all interactions with the business sector shall align - in their scope and execution- within the principles guiding the United Nations and the SDGs, the effort and level of due diligence should be commensurate with the business sector entity profile, the level and type of engagement, and the level of public exposure that the association may imply.

For example, should interaction be limited to participation in a meeting and/or in a technical discussion, no specific or full due diligence may be required, provided that the interaction is not structured, nor publicly presented and labelled as a "partnership" and/or use to promote any business product or service. Generally, the due diligence process should be considered when there are plans for an exchange of assets (e.g. funding, brand recognition) when an engagement with a business entity is publicly presented as a collaboration, or when interaction implies the direct or indirect promotion of a business-led initiative or practice.

Due diligence shall be exercised prior to the development of an engagement and directly inform organizational decision making. The due diligence assessment shall not stop with the launch of a partnership; risk assessments that are part of the process shall be regularly refreshed during the life-cycle of a partnership.

The level of due diligence shall be determined based on the type of engagement foreseen (i.e. modality) and by the type of entity and business in question. Three progressive levels of the due diligence process are proposed as a reference:

Level 1: Lite, or basic due diligence would apply to all interactions and engagements that may involve public association with a business entity, the exchange of funds, or which may imply the joint usage of a UN emblem or the agency logo. This level of due diligence would not generally go further than the initial screening against exclusionary criteria and the identification of major controversies which may be available in the public domain.

Level 2: Standard due diligence. This level would apply to all other interactions and partnerships. All components of due diligence would be applied.

Level 3: Enhanced due diligence is applicable to collaborations with sectors or entities with high-risk operations, and to complex partnerships, such as shared value partnerships. All components of due diligence would be applied, with detailed documentation, and may require an escalated decision-making process. Escalation would also be automatic for any exception related to exclusionary criteria (categories 2 to 6), while considerations around potential sensitivities related to other UN agencies shall be integral to due diligence related to multi-agency opportunities.

The minimum key components of quality due diligence can be summarized as:

1) Prospective partner business profile research
2) Preliminary screening against exclusionary criteria and matching with high-risk catgories to determine the level of due diligence required (i.e. Level 2 or 3). In addition to the common exclusionary criteria, UNSDG members may apply additional organization-specific exclusionary criteria, depending on their specific mandate and risk appetite.
3) Risk-benefit analysis considering integrity of partner and impact of partnership
4) Identification of measures to avoid, minimize or manage risk
5) Final decision-making, including escalation when needed

For details, refer to Annex II[14].

V. APPLICATION OF THE COMMON APPROACH

This note recognizes that some UN organizations may already have well developed due diligence procedures and operational steps in place. While the scope of this framework is not to replace them, it is expected that once the common due diligence approach is agreed, UNSDG members will ensure alignment of their policies and procedures with the principles and operational guidelines offered by the common approach. The common approach and framework does not supersede and/or take precedence over policies and ensued due diligence frameworks that Member States have explicitly negotiated through their governing bodies. Smaller agencies which may not have sufficient capacity to run full due diligence on their own, may consider using the due diligence services of another agency, or the services of an external entity, provided alignment in scope and criteria.[15]

Implementation of the common approach, to be developed in subsequent phases of the consultative process, will be further supported by the following:

1. **Community of practice** for shared learning and knowledge exchange. This could include future consideration of identification of good practices in the UN system, peer and shared learning resources, training, case studies and examples, rosters, etc. UN organizations shall be transparent and share among each other their specific criteria or policies that may be added on to the common framework.

2. **Common research platform and database**[16] to be used for collection of externally validated information on prospective partner profiles and on UNSDG members research, which can also be used for opportunity-spotting and risk assessment. A specific note on the development of this platform has been developed and is enclosed as reference and in support to this document. There are considerable benefits stemming from using external due diligence assessments such as constant monitoring of risks with minimal efforts, faster and more reliable research tool, cost sharing, ensuring the same quality level of due diligence, and so on. UNSDG members should consider further expansion and optimization

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14 All annexes are integral parts of the document and should be followed.

15 UN agencies can use Mutual Recognition, which is the mechanism whereby one UN entity uses and recognizes the process of another UN entity and applies it directly without having to conduct additional measures. The two entities should agree on the modalities of this approach, including on associated costs.

16 An administrator of a common platform can be established in the next phase to assist UN entities, especially smaller agencies that may not have the capacity to run due diligence process on their own, in terms of access to validated external research and assessment. Smaller agencies are also encouraged to seek alternatives such as cooperating with other agencies for their processes which can save time and costs.

of common research services, for example by customizing reports against common and agency-specific parameters. Also, UNSDG members may consider the expansion of the portfolio to more providers, and the convergence of the different services on a common online platform.

3. In the future, a common database, where UN entities can see which business entities works with the UN system can be developed. This database will not contain any confidential and sensitive information regarding the decisions made by each UN organization regarding any specific business. Such information will be available upon request. An administrator shall be identified to a) coordinate the development of the platform, b) lead the enhancing of research information that the platform would host and provide to UNSDG members, c) support further knowledge exchange and d) support agencies in establishing their due diligence process.

4. **Guidelines and tools** to be developed to support implementation and further harmonization. Tools will include due diligence templates, assessment tools for SMEs and entities where public information may be scarce, an MoU template for multi-agency country-level engagements, a risk analysis template, list of good partnerships practices between UN entities and the business sector, for instance. At the same time, each entity also needs to continuously do their own analysis and adjustment.

ANNEX I: DUE DILIGENCE AS A FUNCTION

Beyond compliance: Due diligence and associated process should not be viewed as a deterrence to partnerships, but as an enabling function that helps an organization to identify the most strategic opportunities, while at the same time better calculating risk. Due diligence research shall not be limited or separate from opportunity research and assessment. UN organizations must manage risks and ensure oversight in a manner that protects their values and credibility yet allows space for innovation and expanded partnership arrangements. Due diligence therefore enables risk informed decision-making.

Neutrality: While it shall be designed as a partnership enabling function, due diligence teams shall be organized so that they can exercise their role in the most objective and effective way. Measures to ensure this may include a reporting line outside the fundraising/partnerships function, or decision-making mechanisms involving stakeholders outside fundraising and partnerships. That said, proximity and even co-working arrangements with partnerships teams are instrumental to ensure that prospect research and risk management are undertaken in the most effective way.

Resources: Each entity shall have staff with dedicated accountability on due diligence. Investment shall be based on prospecting volumes, but responsibilities and key performance indicators shall be clearly mentioned in the job descriptions. Clear tasks and deliverables shall be outlined for due diligence staff and personnel shall be equipped with the right tools and resources. UN entities shall explore and adopt measures to optimize access to common resources (e.g. research), while investing adequately in the function to support their respective private sector strategies.

Policy links: Each UNSDG member will need to have a due diligence policy in place that outlines specific roles and responsibilities, while aligning with the overall common approach. The function shall be embedded in internal structures, systems, accountability mechanisms and decision-making processes.

ANNEX II: MINIMUM COMPONENTS IN DUE DILIGENCE

The below steps outline as reference the basic components that a due diligence assessment should include.

1. Prospective Partner Business Profile

Prior to establishing a partnership, a UN entity should explore ways to strategically collaborate with its prospect partner. It is vital that UNSDG members optimize and maximize business potential to achieve results by applying the right modality to the right partner. Examples of partnership modalities between UN entities and the business sector are summarized in *Table I*. Therefore, as a first step, initial research is conducted to gain business intelligence on prospective partners. Initial information gathering should seek business data beyond social impact and investment, and it shall equally identify opportunities for strategic partners and not only focus on potential risks.

2. Preliminary Screening

Prospective partners will be screened against exclusionary criteria to determine if partnership opportunities should be pursued further. In addition to the common exclusionary criteria, UNSDG members may apply additional organization-specific exclusionary criteria, depending on their specific mandate and risk appetite. The preliminary screening also considers the preferred partner attributes and high-risk to help inform the level of additional due diligence that may be needed.

3. Risk-Benefit Analysis

While the level of necessary due diligence will vary depending on identified risks and nature of partnership, for all opportunities the risk-benefit analysis should consider:

a) More in depth analysis related to the prospective partner (e.g. integrity, ESG performance, controversies); and

b) Risks and benefits related to the proposed partnership (e.g. type and modality of engagement, partnership level and scale, location, visibility, proposed impact and capacities of local office).

The analysis should weigh the risks vs the benefits to inform a decision that does not only consider the potential for risk (reputational, financial, operational, etc.) but also considers the opportunities the partnership presents for impact. Even for lower risk partners, this should be considered to further maximize potential benefits.

<u>Risks and Benefits of Prospective Partner</u>

In addition to gaining intelligence on the profile of the prospect partner and the sector they work in, an assessment of their Environmental, Social and Governance (ESG) performance will be at the core of the risk analysis. ESG criteria refers to the three central factors in measuring the sustainability and ethical impact of a company or business. Risks related to human rights, labor, the environment, and corruption, can translate into reputational, compliance, or financial risks for a UN entity that engage with a business sector partner with poor ESG performance[17]. Even so, assessment of partners should not solely focus on ESG controversies or rating[18] but take into consideration ESG commitments and policies. When significant

[17] Many UN entities use external ESG assessments through the UN Global Compact.

[18] Most international and domestic companies are being evaluated and rated on their ESG performance by various third-party providers of reports and ratings. These reports and ratings can assess and measure company ESG performance over time and as compared to peers. Report and ratings methodology, scope and coverage vary greatly among providers. Some well-known third

controversies are identified, the due diligence should aim to understand, for instance, if the issues are recurring, how has the entity responded, how do they demonstrate improvement, are there pending court cases, and so on.

Intelligence should be gathered from multiple and independent sources. These may include ESG reports, legal compliance sources and ratings by various third-party providers, exchanges of information from community of practice from other UN agencies or UN offices, including the UN Global Compact, for instance. Engagement with the business sector itself (e.g. employers, business and workers organizations) would also play a crucial role to understand current practices, particularly around the four labour-related principles of the Global Compact. As the representative voice of business, including on major systemic challenges, Employers' Organizations may also reach companies directly, particularly SMEs that may not be familiar with the SDGs and the UN.

<u>Risks and Benefits of Potential Partnership</u>

In addition, the risks and benefits associated with the proposed partnership need to be considered. The partnership must ensure the UN entity can remain impartial, will not distort markets, cannot provide exclusivity to only one business entity, should not provide benefit beyond what is reasonable to the partner, and ensure that there is no commitment or preferential treatment to any future procurement process. In addition, any political risks related to the specific engagement should be assessed. These risks should be put into perspective alongside the benefits that are expected from the partnership.

<u>For high risk opportunities</u>

A more sound risk assessment of the partner/partnership should take into consideration the possibility to find alternative partners, cost-benefit ratio, likelihood and impact of the risks, manageability of the risks and if resources are available. It is important to acknowledge and acquire genuine consensus about the risks (no hidden risks), and propose a clear process for managing and updating the view of risks.

4. Identification of Risk Management Measures

For high risk partnerships, risk management measures should be proposed as an input to inform the final decision. This enables engagement with high risk partners in cases where benefits outweigh the risks, while also providing assurance that the risks will be managed and minimized. Risk management measures will vary depending on the risks. Some examples include the development of a communication strategy, monitoring plan, grievance mechanism, stakeholder engagement, conditions in agreements, exit strategy, and so on.

5. Final Decision Making

Results of the due diligence process are presented to the final decision maker to inform whether or not a proposed partnership should proceed.

A mechanism for escalation of decision-making should be in place, for instance, by means of submission for decision-making to headquarters, an appointed committee, or senior management. Criteria for escalation can include partners that fall within exclusionary criteria, sectors with high risk operations, or present a high level of risk.

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party ESG report and ratings providers include Bloomberg ESG Data Service; DowJones Sustainability Index (DJSI); MSCI ESG Research; RepRisk; Sustainalytics Company ESG Reports, for instance.