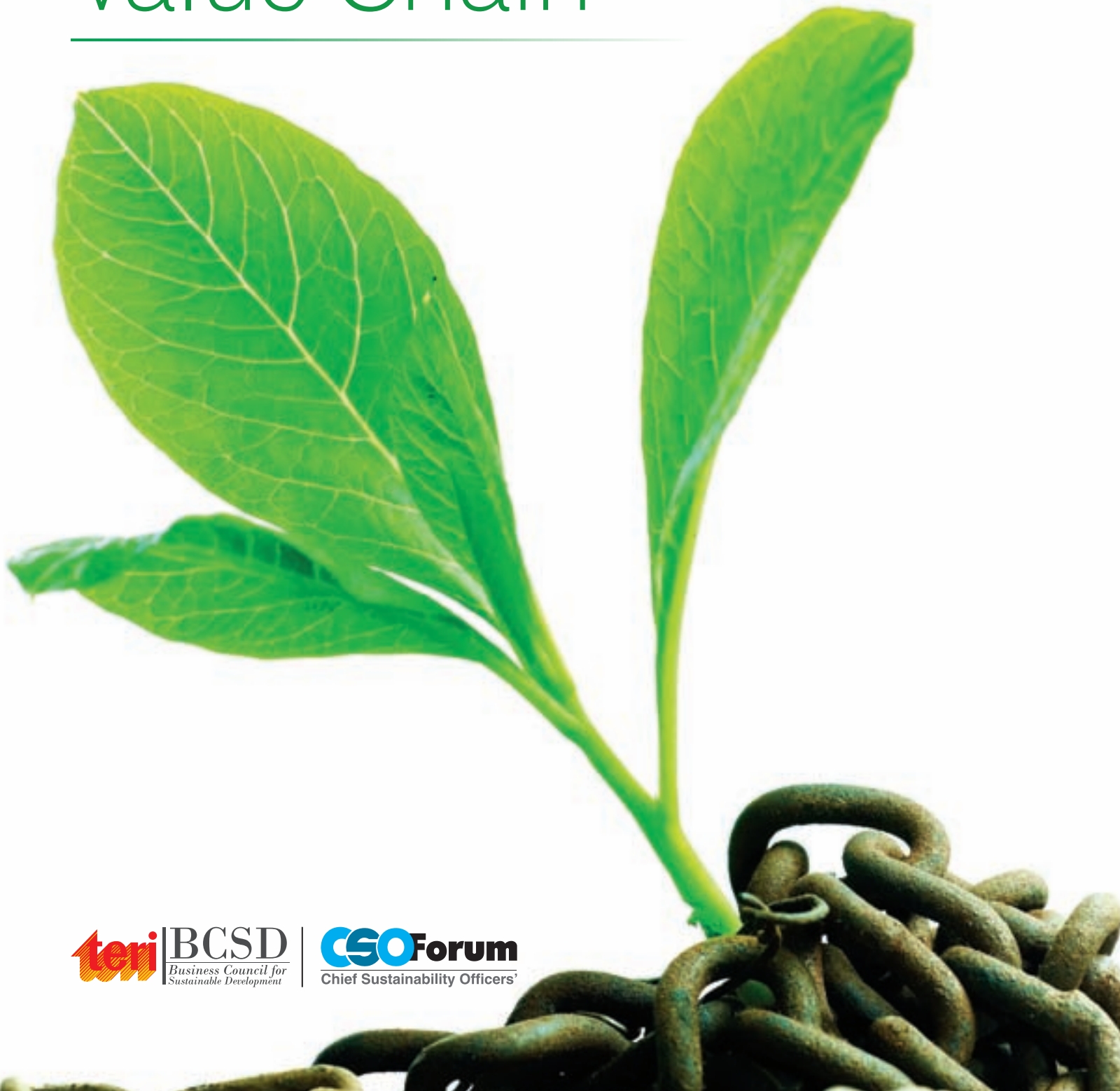


Operationalizing Sustainability in Value Chain



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Value Chain Working Group

The knowledge paper has benefited greatly from a highly engaged set of thought leaders from the industry and beyond. We would like to acknowledge the contribution of the following individuals (arranged in alphabetic order of the first name):

- Mr Ajay Kumar, Mahindra and Mahindra Ltd
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ABOUT THE KNOWLEDGE PAPER

Today, an increasing number of businesses recognize the importance of sustainability as they look to create long-term shareholder value and build competitive advantage. However, for sustainability to mature into an integral part of organizational structure and culture, and for organizations to reap tangible long-term benefits, businesses need to operationalize sustainability across the value chain – upstream, instream, and downstream. This process is undoubtedly fraught with challenges as businesses are forced to fundamentally rethink the way they operate. Sometimes, the business case for doing so is not apparent, and even when it is, corporates find it difficult to get sustainability projects off the ground for lack of the right kind of knowledge and expertise.

In November of 2012, TERI-BCSD convened the first ever Chief Sustainability Officers' (CSO) Forum to provide further impetus to the corporate sustainability journey. This knowledge paper is a product of the 'Value Chain' Special Interest Group (SIG).

Recognizing the need for a dependable ready-reckoner or a guidance document for the corporate sector to refer to, the mandate to this SIG was to create a knowledge paper that lays out step-by-step approaches with case studies to help companies get started with the process of integrating sustainability dimensions in their value chains, irrespective of their size.

It is also recognized that issues and level of complexities in the value chain differ in manufacturing and services sectors, and beyond a point there would be differences in structures of the value chain in different industries within each of the above sectors. The SIG was therefore of an opinion that, to start with, the knowledge paper would be focused on the upstream supply chain in case of the Manufacturing Sector, and cover the entire value chain only for the Financial Services Sector.

This paper is therefore structured in three sections:

Section I sets out the background and the business case for incorporating sustainability into the value chain, along with basic terminologies to help better understand the concepts,

Section II covers the upstream supply chain in the Manufacturing Sector, and

Section III discusses the approach for a sustainable value chain in the Financial Services Sector.

We acknowledge and appreciate the efforts and contributions of all the Value Chain SIG members — YES Bank, Mahindra and Mahindra, CLP and SAP — for taking the initiative to lead the way.

SECTION I

Operationalizing Sustainability in Value Chains: The Business Imperative

Background

In today's globalized economy, organizations are competing with each other, not only for a substantial market share but also for resources. In this global scenario, the ever growing emphasis on organizational responsiveness towards the environmental and societal impact of their products and services is changing the dynamics of the market place and the way organizations do business. If India has to be at the forefront of development and growth internationally, Indian corporations will have to quickly adapt to stricter legislations and soaring pressure from various key stakeholders, for greater accountability and responsibility in business operations. To stay competitive, organizations will have to work closely with their partners in the value chain and other key stakeholders, for effective resource management and risk mitigation. If managed well, these challenges could also provide an opportunity for businesses to, discover innovative solutions, drive impactful action, realize efficiencies, and enhance market share. Thus, operationalizing sustainability across the entire value chain through effective value chain management is not only the need of the hour but a business imperative.

This knowledge paper aims to address the fundamentals of a sustainable value chain management, substantiate the benefits an organization can leverage through a collaborative interaction with the key stakeholders of their value chain, and provide a step-by-step understanding of the process involved in institutionalizing sustainability across their value chains. This paper will be a ready-reckoner for organizations to implement and practice value chain management sustainability and present some examples to inspire action.

For the purpose of this paper, we shall be focusing primarily on two major sectors — the Manufacturing Sector, and the Financial Services Sector and will be addressing methodologies and processes for operationalizing sustainability in their value chains, as a starting point.

What is Value Chain or Supply Chain Sustainability?

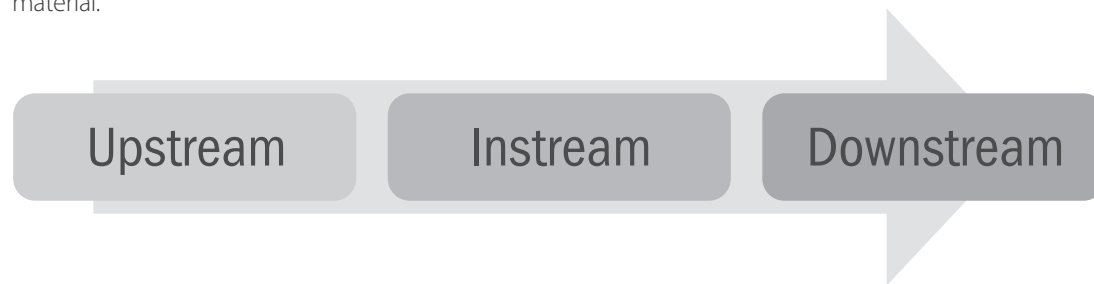
Value Chain or supply chain sustainability¹ is the management of environmental, social, and economic impacts, and encouragement of good governance practices, throughout the life cycle of the goods and services.

¹ Supply Chain Sustainability - a practical guide to continuous improvement, published by UNGC and BSR

The objective of this approach is to create, protect, and grow long-term environmental, social, and economic value for all stakeholders involved in bringing products and services to market.

The Various Stages of a Value Chain

The upstream stage essentially comprises input materials supplied for manufacturing the product or delivering the service. It is, therefore, also referred to as supply chain. The input material depends upon the stage of the manufacturing process. For example, a steel manufacturing company the input material would be iron ore, coal, etc., but for a component manufacturing company, the input material would be the processed steel manufactured by the steel manufacturing company and for the product manufacturing company, the components would be the input material.



The instream stage: Comprises inputs required to run the operation e.g. ,physical infrastructure such as office space, storage, energy, etc.

The downstream stage: Comprises business partners who enable the distribution and actual sale of the product or service. For example, logistics providers, distributors, dealers, marketing agents, etc.

Clean and Green Supply Chain: It is a terminology used for a holistic approach deployed by companies for dealing with business partners who are responsible towards the environment, social, and governance responsibilities.

A 'green' supply chain is an eco-efficient supply chain which is optimized to cut down on its use of natural resources, emissions, waste, and energy. A 'clean' supply chain is the one that is transparent, and which follows good governance and ethical practices. A supply chain needs to be both clean and green in order to be sustainable in the longer run.

There are various stakeholders which can help partner with an organization to institutionalize sustainability in value chains. Given below is the diagram which is indicative of the various stakeholders along the Upstream, Instream, and Downstream.

Sustainability in Value Chains: A Business Case

Companies often perceive undertaking sustainability measures to be a cost centre for their organization. However, contrary to these perceptions there are several compelling business reasons to take action to improve the social and environmental impacts throughout the value chain. Immense business value can be added and shared through a comprehensive and integrated approach towards a sustainable value chain. Enumerated below are some of the important business reasons, which cuts across all lines of business:

- **Cost Efficiencies:** Working with suppliers/contractors (both upstream and downstream) to improve efficiencies in resource consumption, and driving out process inefficiencies results in clear cost savings and helps improving the performance of the business' own operations.
- **Opening up to Newer Markets:** The natural fall out of cost efficiencies is opportunities to grow, for both, the company as well as the suppliers.
- **Managing Risks:** By developing a 'clean and green' value chain, regulatory, operational, and reputational risks can be mitigated.

- **Sustaining Brand Equity:** The demands and expectations of external stakeholders are changing regulators, investors, customers, and civil society are expecting more responsible conduct and transparency from corporates, from 'cradle to grave'. Any questionable act, in any part of the product life cycle, can adversely affect growth in sales, legal tangles and most importantly the image of the organization.

Case Study 1 [Managing Risks]

In order to address environmental, health, and safety impacts across its supply chain, M&M Limited started a programme to enable knowledge and best practice sharing with suppliers. A detailed questionnaire was sent to all suppliers. This provided the basis for understanding the current processes in the supply chain and the level of the environmental challenges, such as effects of waste disposal. The suppliers were then categorized under four heads:

- Suppliers with hazardous processes and dangerous operations with no EMS/OHSAS certification
- Suppliers with hazardous processes and/or dangerous operations with EMS/OHSAS certification
- Suppliers with non-hazardous processes and/or non-dangerous operations with no EMS/OHSAS certification
- Suppliers with non-process and/or non-dangerous operations with EMS/OHSAS certification

The suppliers in the categories A and B were determined to be top priorities for the company's continuous improvement programme.

Case Study 2 [Brand Equity]

Mahindra and Mahindra Limited's Farm Equipment Sector has established annual sustainability awards for suppliers who exhibit progress on sustainability as defined by Global Reporting Initiative (GRI) guidelines. So far, over seventeen suppliers have received training on GRI indicators and tools such as stakeholder engagement.

Case Study 3 [Quality and Brand Equity]

Mahindra and Mahindra Limited works with selected suppliers to improve their management capabilities in a number of areas. The company's farm sector established the Mahindra Yellow Belt (MYB) Business Partner's Training Program to help in building supplier's capabilities to address quality problems. The training programme includes two days of training, a test to verify that the learning objectives are met, and a follow up project to apply the learning that is selected by the suppliers and approved by Mahindra.

Institutionalizing Sustainability in Value Chains : A Step-by-Step Approach

Moving towards a sustainable value chain is a strategic initiative, the successful implementation of which is only possible with Leadership commitment. This should be backed by a structured approach and the following process is recommended.

1. Establishing Vision and Objectives:

Articulation of a vision and objectives for creating a sustainable value chain, would give a perspective and a common understanding of the intent of the leadership across the organization as well as to the external stakeholders. These should be framed based on:

- Issues material to the organization as well as its key stakeholders.
- What the organization wishes to achieve and by when.

2. Planning and Team building:

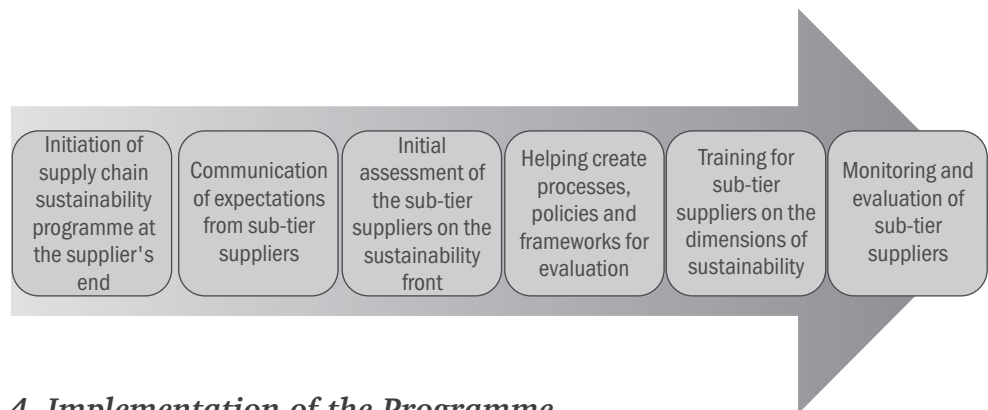
Planning and Team building is a prerequisite to the successful implementation of operationalizing sustainability in value chains. This step would include the following:

- Setting up a team with responsibilities for developing the required framework. Identification of the major stakeholders and making a list of priorities critical to both. The detailed process for which is explained as Tool 1 (refer Annexure 1) to this Knowledge paper.
- Framing of appropriate policies codes of conduct and guidelines in sync with the priorities agreed upon. The aspects to be covered in the policies are elaborated in Tool 2 (refer Annexure 2).

3. Create a Roadmap with Goals

A document setting out the plan of action to:

- Outline a strategic framework document or roadmap with timelines, milestones, and key deliverables for institutionalizing a sustainable value chain
- Identify activities and assign goals and rewards against each deliverable
- Define the responsibilities for achieving and reviewing of targets



4. Implementation of the Programme

- **Communicate Expectations to the Suppliers and Collaborate with them:** Build awareness and capacities based on the vision and the goals set, through dialogue, training and best practice sharing. This will create an understanding and a buy-in which will help the company to pursue its agenda.
- **Measuring and Monitoring:** Gauge the achievements against the milestones outlined in the strategic framework document to assess your progress and review any changes that need to be made to facilitate the progress. For a detailed framework on supplier assessment, refer to Tool 3 (refer Annexure 3).

Note: The steps elaborated in this section are general and would be applicable to almost all companies irrespective of the industry. Additional steps as specifically applicable to manufacturing and service companies are mentioned Section II and III, respectively.

SECTION II

Manufacturing Sector Guide to a Sustainable Upstream Supply Chain

The reason for integrating sustainability in supply chain has been adequately dealt with in section I supported by the business case as well as a step by step approach of how to get started.

This section concentrates on the manufacturing sector (mainly the upstream portion of supply chain), and provides a guide and tools to help companies get started with their sustainable supply chain programme.

Making a Business Case

Besides the business compulsions for integrating sustainability in value chain given in Section I, the following are some of the striking issues that are more critical for the upstream supply chain of manufacturing companies.

- **Growth through Inclusivity:** The major part of the supplier base in India comes under the category of Micro, Small, and Medium Enterprises, which are largely unorganized and have compliance issues that result in undue damage to environment and exploitation of communities. Considering the increased dependence on supply chains, it makes good business sense to incorporate practices that would not only help the primary suppliers but also the sub-tier suppliers, to adopt best practices, follow laws, and be sensitive to people and the environment. Their stability and sustainability is very critical for not only the growth of India Inc., but for National growth.
- **Innovation through Co-creation:** For businesses to survive in a highly transformative environment, innovation for use of alternative material, renewable energy, reduction of waste across the life cycle of the product, is a business imperative. This needs to start from the components used for manufacturing the product. By working with suppliers and showing them how, a culture of innovation would fuel a sustainable growth for both the manufacturer as well as the supplier, besides of course creating a long standing relationship.
- **Mitigating the Business Continuity Risk:** Long-term relationships with suppliers are key to business continuity. Any hitch in the supply chain, be in regulatory non-compliance or ability to be cost- and eco-efficient, or violation of Human Rights or compromise on safety with the primary or sub-tier supplier, could pose a potent business continuity risk to the manufacturer.

Understanding the Supply Chain

While the above are overarching and applicable universally, companies should identify specific business drivers for value chain sustainability, depending upon their own unique business compulsions. The drivers would depend upon

a variety of issues including, the type of industry, the depth of the supply chain, specific stakeholder expectations, business strategy, organizational culture, etc. Understanding the supply chain, and prioritizing on issues based on internal business strategy and compulsions, would help developing internal practices that respond to multiple drivers and maximize value to business.

Beginning with the Upstream Value Chain or the Supply Chain

Although sustainability across the entire value chain is important, for this exercise the focus is only on upstream suppliers, as it is at the root of all manufacturing businesses.

Challenges	Ways to Address
Complexity	Supply chains of a number of manufacturing companies are complex and prioritization becomes critical. Hence, focusing on key or strategic suppliers and the hotspots in the supply chain (non-compliance, availability of rare metal, etc.), would be the best place to begin. The strategic suppliers can be further divided into large corporates, SMEs, and MSMEs. Focus on enhancing the capabilities with the latter two.
Sub-tier Management	The sub-tier supplier often gets missed in the sustainability programmes. Hence there is a perceived lack of influence. One of the ways of not ignoring the sub-tier supplier is to map the supply chain as deep as possible. Here again a focus is required on the hot-spots which are likely to affect business continuity, due to any reason.
Logistics	Packaging and transporting are two areas where huge wasteful expenses and carbon emissions are hidden. These can be unravelled by working with suppliers for reviewing and reducing packaging, realigning the modes of transport and routes, reuse packaging, incorporating green warehousing, etc.
Magnitude of other Issues	An increase in stakeholder demands has enhanced the magnitude of issues. New issues are gaining importance e.g. country specific laws, carbon/water footprint across value chain, redefinition of 'Hazardous material' etc. These issues should be prioritized and addressed depending upon their importance to business continuity.

How to get started

Over and above the steps suggested in Section I manufacturing companies would need to consider two important processes:

1. Mapping the Supply Chain

As stated above, manufacturing companies have very deep and complex supply chains. Any problem in the sub-tier supply chain in terms of compliance or issues such as human rights or safety violations would immediately put the company to a business continuity risk and/or a Brand risk.

Many companies struggle with whether and how to include sub-tier suppliers in the scope of their supply chain programme because of the lack of direct interaction and perceived lack of influence.

In developing economies such as India, sub-tier suppliers have the most significant challenges in addressing sustainability issues. Hence, companies need to be aware of where sustainability challenges are likely to arise by mapping their supply chain, and go as deep into the sub-tier as possible.

The challenges will differ from industry to industry, and hence companies need to evaluate the importance of the issue relevant to them and its potential impact on society to determine how to include it in the scope of its supply chain sustainability programme.

A supply chain map helps to trace the key activities of organizations and people involved in bringing a product from raw material to market.

2. Segmenting the Supply Chain

Segmentation of suppliers helps in resource allocation and risk assessment as it allows companies to focus on the most critical elements of the supply chain.

Good segmentation is a balance between acknowledging that some risk will always exist but that specific risks need to be addressed to avoid negative impacts to business and to society.

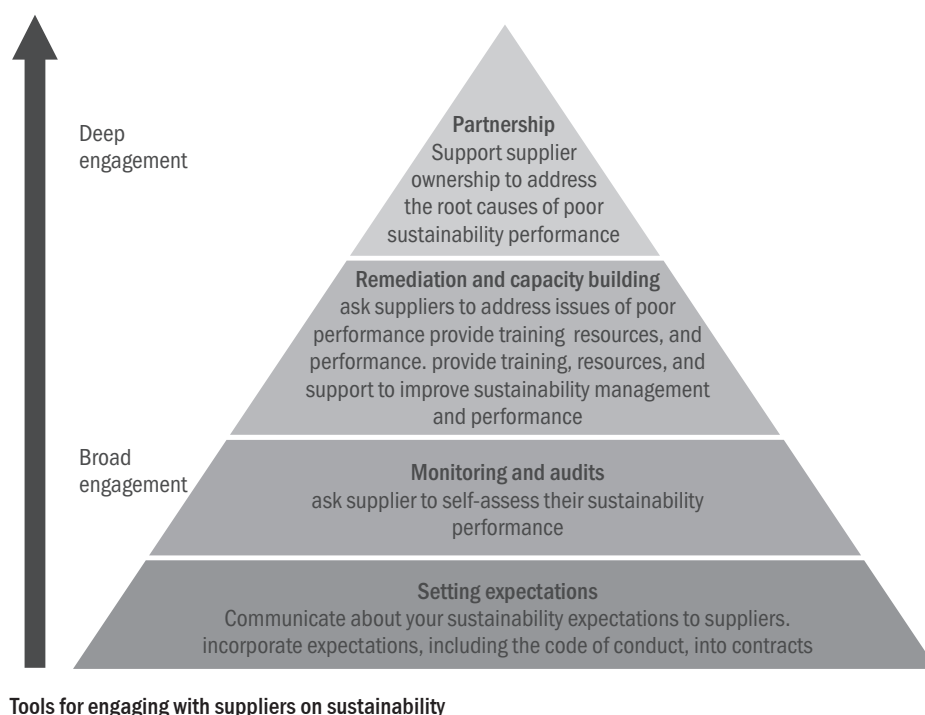
Both business and societal risk can be influenced by:

- The level of financial exposure to the suppliers and hence the potential influence or control the supplier has on the business
- Country in which the suppliers operate in, and which of those countries are high risk because of weak legal and regulatory frameworks, high levels of corruption, etc.
- **Tier:** Which suppliers sell to your company directly, and which are sub-tier suppliers? Nature of transaction in terms of the level of transparency and accountability for conditions in the supply chain? For example, sub-contracted labour, brokers, agents, and middlemen may lead to gaps in knowledge, awareness, and influence.

Engaging with Suppliers

Only a shared mindset about sustainability issues, between the companies and its suppliers can result in a successful execution of the sustainability programmes in the supply chain. Hence, continuous engagement with suppliers is very critical. A graded approach could help effective integration of sustainability levers in the supply chain, as depicted below¹:

Detailed tools for setting expectations through Supply Chain Policies, Self-Assessment, and Supplier Audit, are given as an annexure to this Knowledge paper.



¹ Supply Chain Sustainability - a practical guide to continuous improvement. published by UNGC and BSR

SECTION III

Financial Sector Guide to a Sustainable Value Chain

As intermediaries, financial institutions can have far-reaching positive impacts by persuading and assisting businesses to manage their externalities by factoring triple-bottom-line impacts to avoid long-term risks from social and environmental imbalances, thereby acting as a catalyst for change. Sustainable finance is, therefore, all about good governance, effective risk management, and proactive social and environmental intervention. To embed sustainability in this sector, the Government of India and the Reserve Bank of India as a regulator encourage financial institutions to extend their arms to the underserved.

Introduction: Sustainability

The challenge before business today is to not only sustain its growth but also to contribute to social equity. Industry leaders would, therefore, have to drive this transformation from within — placing sustainability at the centre of business strategy and value creation.

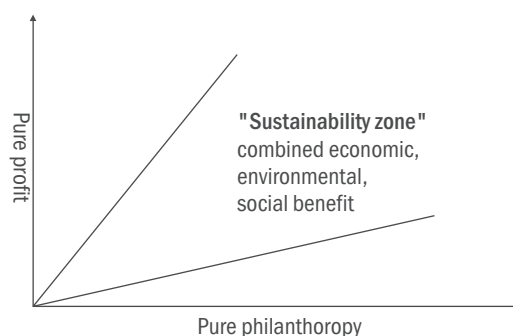
Sustainability in its largest sense is the purpose of Business. It lies in our collective ability to share resources equitably, accept that everyone has the same rights, and consistently act in the best interest of humanity. A sustainable decision therefore, cannot be, good for one but not for others, or good for today but not for tomorrow.

Financial Services Sector and Sustainability

The banking sector has major influence on economic outcomes as it intermediates financial flows, some of which have significant Environmental and Social (E&S) impacts. Therefore, the banking sector's ability to influence the transition towards a more sustainable and stable economy is unparalleled. But with the recent financial crises, there is a decline of public trust in banks.

Incorporating Sustainability in Finance has many advantages aside from the direct reputational benefits in regaining public trust. Finance of the future is moving towards a holistic analysis of risk and opportunity that includes socio-environmental costs and benefits, resulting in a profitable business case.

Today, organizations have no option but to evolve and innovate on business models that operate in a 'Sustainability Zone', where wider economic, environmental, and social objectives are met by using a profit-driven business approach.



To achieve this, they need to establish frameworks to recognize, evaluate, monitor and manage the environmental and social facets which feed into the decision-making process. Financial institutions would need to consider the triple-bottom-line in their credit decisions and integrate Environment and Social (E&S) considerations in lending, proactively fund business that has positive E&S impact and sensitize human capital towards E&S aspects.

The financial sector could look at a three 'I' approach: Influence, Innovate and Invest:

- **Influence Positively:** Positively influence and educate stakeholders, clients, investors, and employees, on environmental and social issues
- **Innovate for BoP Markets:** Innovate on business solutions and services for BoP markets that directly impact society or environment
- **Invest in Green Businesses:** Incentivize sustainable businesses

There are globally acclaimed investing practices such as Socially Responsible Investing (SRI), which assesses the risk involving the entire gamut of stakeholders in a value chain and the business' impact on these stakeholders. SRI which requires a thorough process of due diligence, serves as a lens that helps mitigate long-term risks, and identifies opportunities thus managing the spectra of risks.

However, in emerging markets such as India, mainstream investments look at only financial risks and returns, abandoning E&S risks and opportunities. Firstly, the financial sector finds it difficult to source E&S data and secondly, the analysts are not equipped to deal with this data. This scenario could be changing soon as there is momentum in Government and Regulators, in drafting guides and policies on E&S issues and risks.

The Reserve Bank of India (RBI) with the implementation of Basel II Norms, has tried to limit the operational risks. Basel-II considers at present only capital adequacy as the main weapon to cover the degrees of risks attributed to different types of assets. These have been criticized for their broad-brush approach which is irrespective of quality of counter party or credit, encouraging regulatory arbitrage by cherry picking, lack of incentives for credit risk mitigation techniques and not covering operational risks.

Even with the reengineered Basel III Norms, there is no significant provision to cover E&S risks which are equally responsible for delay in execution of projects and augment the percentage of the bad loans.

Notwithstanding the regulatory omission, there are valid reasons why the banking sector should take into account E&S risks. A client in a high-risk industry managing risks efficiently poses a negligible effective credit risk. On the other hand, another client in a seemingly low-risk industry could pose considerable credit risk owing to inadequate risk mitigation methods. It is difficult to determine the extent of the Bank's responsibility for the client's actions. The risk might be transferred to the lender, not just in the form of Non-performing Asset (NPA) or bad loan, but also in the form of penalties and clean-up costs which far exceed the value of assets held as collateral.

The first step would be to set up a credit policy/framework and ensure implementation of such policy. The percolation of the policy would only be possible with aptly trained human capital to look at E&S parameters.

Project benefits and costs need to be adjusted for risks associated with climate change, global warming which needs to be factored in cash flows. In a nutshell, the project appraisal for banks needs to be graded on the basis of E&S risks and their assessments. In view of this education and training of Bank risk officers on ESG risk assessment is important.

Major Stakeholders in the Value Chain of the Financial Sector

The financial services value chain is a complex interlinking of multiple stakeholders such as customers, suppliers, internal employees, external agencies or NGOs, regulators, investors and the community at large. Our paper will focus on the three major stakeholders which are:

- **Investors:** Investors influence business decisions. This section discusses the need to focus and influence investors to consider sustainability practices in their investment decisions.
- **Employees:** Steering employee behaviour towards sustainability influences client and customers indirectly. This section will discuss the importance of employee involvement to enhance sustainability in the sector which will also result in reduction of the organization's carbon footprint.
- **Customers:** The financial sector has a key role in influencing customers positively creating a win-win situation, thereby mitigating both the sector's and the clients' risks.

Financial Sector Guide to a Sustainable Value Chain

Sustainable finance is all about good governance, effective risk management and proactive social, and environmental intervention. Previously, very few financial institutions considered non-financial parameters in decision-making. Now, due to the increased incidence of climate change, the financial sector is slowly moving towards developing measures to monitor and mitigate Environmental, Social, and Governance (ESG) risks.

There are many challenges in integrating sustainability practices in the value chain. While not adhering to sustainability-led policies may seem advantageous in the short run, it would certainly prove economically, socially and environmentally impactful to incorporate sustainability in long term.

There are three elements that would dominate the business case for sustainability in case of Financial Services Sector which are risk, accountability, and innovation. The focus would particularly be on creating a blue print that the sector may use to integrate sustainability principles within its core business operations.

In line with that, we have developed a toolkit for investors/lenders to assess environmental, social, business integrity, and corporate governance aspects of a potential investee/client. It can be used to arrive at a risk score of the potential investee/client. Each investor can decide their own risk threshold (for each category) against which they can assess the client's policies and practices.

This questionnaire is mostly based on CDC Toolkit on ESG for fund managers. These general questions should be supplemented as relevant with questions specifically related to the ESG risks and opportunities for the industry sector in which the potential investee company operates.

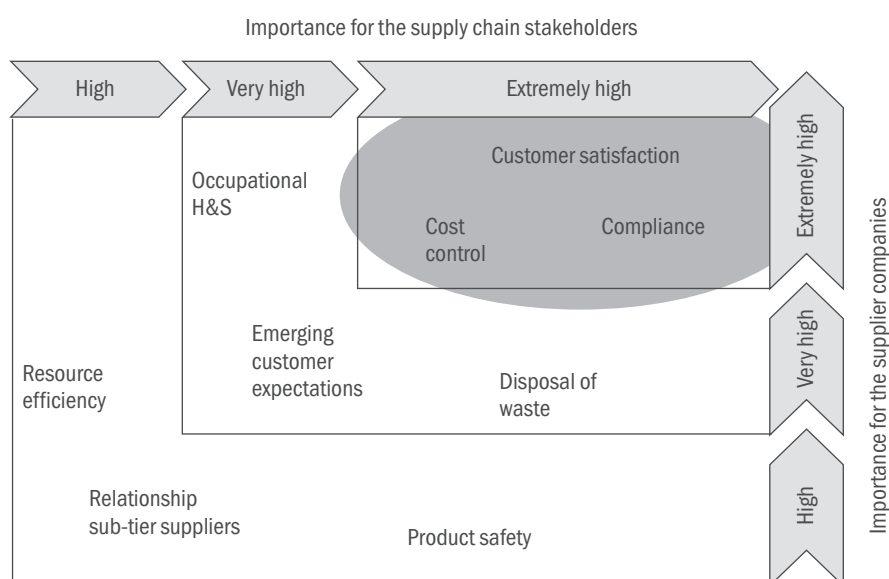
Annexure I

Identifying the priority areas of primary importance to the company - Tool 1

The procedure for making a list of priority issues consists of two main steps:

1. **Identification:** Factors such as cost control, compliance, resource efficiency, disposal, customer satisfaction, etc., should be identified. The issues are different for different companies and for different industries. These will depend on the overall vision and business aspirations of the company.
2. **Prioritization and Validation:** The identified issues need to be prioritized with reference to the importance of each of them to the company as well as the suppliers. The prioritized issues should be validated with the key and target suppliers and confirmed by the top management handling supply chain.

Once validated they should be categorized as shown in the matrix below;



This is just an example and the issues might vary in importance from company to company

Annexure II

Developing a Supplier Code of Conduct: Tool 2

This tool presents a list of parameters that should be included in the Code of Conduct of suppliers. This ties in with the sustainability parameters that are required to create a clean and green supply chain, and be in sync with the self-assessment and the supplier assessment tool.

While creating the code of conduct, companies should ensure that the material issues identified and prioritized are appropriately covered.

After the code of conduct is formalized, there should be mechanisms in place to communicate the same to the Supplier Community with proper reasoning and explanations. There should also be a mechanism within the organization to review the Code annually or at such intervals as deemed fit. Reference to the code of conduct designed by best in class peer companies is recommended while undertaking this exercise.

Indicator	Criteria (Levels can be looked at from Table 1)	Examples
Employer relations and labour practices	Compliance with local and international labour standards	• Maximum work hours • Wage rate above the legal minimum • Security of contracts • Respect to unions and freedom of association • Age, gender, and disability sensitive policies • Frequent communication of policies • Equal opportunity employer • No child labour and no forced labour
Health and Safety	Commitment to health and safety which meets minimum legal requirements	• Health and Safety Policy in place • Frequent Employee health monitoring • Training of Safety, and usage of Personal Protective Equipment • Practices as per OHSAS 18001
Governance	Demonstration of good governance commitments at the higher management	• Inclusion of sustainable development in strategy by top management • Whistleblower policy • Governance Redressal Committee • Internal Audit Targets in top management's performance review
Environmental Responsibility	Compliance with international norms with regard to pollution and energy	• Reduction of energy by some target level in a year • Reduction of emissions by some target level in a year • Energy efficient design of plants and buildings • Energy auditing done frequently • Water management, rain water harvesting, etc.
Product Responsibility, Hazardous Material and Wastes	Compliance with the laws pertaining to hazardous wastes	• Environmental Impact Assessments • Segregation of Hazardous and Non-hazardous materials • Disposal of Wastes through a certified agency
Supplier Management	Commitment to local economies and reduced transport costs	• Review of supplier bases • Support to the supplier base in monetary and labour terms • Presence of a local supplier base • Training to suppliers regarding the environmental and social dimensions of sustainability • Helping suppliers for transparent reporting and certification

Annexure III

Tool for Self-Assessment and for Assessing Suppliers using Sustainability Criteria: Tool 3

This tool is to assess the supplier as well as initially assess the company regarding where it stands on each of the indicators. The company rates itself against various indicators, then sets out where it wants to be, sets the timeline, and designs policies to implement so that it goes to that level after the stipulated time period.

Indicator (Rate against each indicator)	1	2	3	4	5
(5 is excellent)	No Compliance	Marginal Compliance	Marginal Lapses	Full Compliance	Beyond Compliance
Good Employer and Labour Practices	- There is no commitment from the top management on the issue - No survey has been conducted to look at employee satisfaction levels	- There are some compromises observed in compliance - The satisfaction levels from the survey show trends that are volatile and constantly changing	- There are well laid out policies and the company adheres to the wage and labour practices - There are some programmes for employee development - Employee satisfaction levels are favorable	- There are very good wage and other practices as per the prescribed norms - Employee satisfaction levels are very good - There is penetration of these policies to the contract workers	- The remuneration levels and the work practices are the best in the industry - Employee satisfaction levels are the highest in the industry - There is penetration of these satisfaction levels among contract workers
Health and Safety Practices	- There is no compliance with the legal requirements of H&S - The practices adopted are sub-par and frequency of occurrence of accident is high	- There are compromises observed in the compliance of H&S practices - There are records maintained but are infrequently used	- There is good commitment from the management regarding H&S practices - There are basic records maintained - No plans are made to get certifications	- There is good demonstration of H&S practices and it overshoots the legal requirements - Certifications are obtained for H&S - There is recording and monitoring of the results in H&S	- The H&S practices are among the best in the industry - The voluntary reporting and certification rates the company as the best in the area/sector - Preventive measures are included in the strategy
Governance	There is no commitment from the top management for monitoring social and environmental impacts and neither is there any compliance	There is commitment from the top management, but no transparency in the monitoring mechanism is observed; compliance is doubtful in certain critical areas	- The firm commits to balance its social, economic and environmental impacts - Measures are taken to put specific policies in place	- There is transparent reporting of the impacts on the economic, environment, and social fronts - There are policies laid out for sustainable development - Reviews are frequent	- There is a good history of the sustainability reporting - There is proper governance policies to deal with contingencies and has support of the board

Indicator (Rate against each indicator)	1	2	3	4	5
Environmental Responsibility	There are no policies laid out regarding environmental responsibilities and suppliers have no commitment	- The supplier has failed to provide a commitment but there are policies at the company - There are impact assessments being made by the company	- The supplier has identified issues and has provided impact assessments - The company has policies to deal with environmental responsibility and has conveyed it to suppliers	- The supplier has done product life cycle assessments and has plans to address them - There are voluntary reporting and certification levels by both suppliers and the company	- The suppliers are the best in the industry with regard to commitment to the environment - There are separate contingency plans at both supplier and the company level and an action plan with specific timely targets
Product Responsibility and Dealing with Hazardous Substances and Wastes	- There is little knowledge about the existing laws on hazardous wastes among suppliers and the company - The packaging of products do not take into account environmental impacts	- There is some amount of knowledge about the laws regarding hazardous substances and some compliance is present - Product packaging waste is minimized, and some attempts made at Reuse and Recycling of wastes	- The suppliers are unable to provide information and details of their handling of wastes and hazardous materials but company has proper policies in place - Product packaging is efficient and efforts are done to minimize wastage, and to recycle and reuse	- The company and suppliers are fully aware of the hazardous materials being used across the supply chain and policies and action plans are present - The product responsibility among the suppliers and company is high and good efforts are done to reuse and recycle	- The supplier is actively involved with the company to deal with hazardous materials and wastes - Timely audits are conducted in a transparent manner - Has a process in place for environmental labeling of products
Supplier Management	No decision to consider geography in supplier decision-making	Some amount of consideration is done occasionally to consider geography of the supplier	- There is clear picture of the supplier base and efforts are made to reduce transportation emissions - There are specific policies in place to establish a supplier base and take the sustainability to them	- The company has identified the suppliers that meet requirements from the local supply base and supports the economic sustainability of the suppliers - Occasional review of the supplier base is done	- The company demonstrates commitment to local economies and has the lowest transportation cost in the industry - There is frequent review of supply base
Actions taken to Address Impacts and Implement Policies	There is no action currently being taken to address environmental and social impacts at the supplier's end	There is some commitment by the supplier to address the social and environmental impacts	Proper policies are there at the supplier end to address the social and environmental impacts	The supplier is able to demonstrate and transparently report on the environmental and social impacts frequently	The supplier is able to demonstrate innovation and is the best in class with regard to addressing social and environmental impacts

Annexure IV

Tool for Financial Institutions : Tool 4

This tool kit is developed for investors/lenders to assess environmental, social, business integrity, and corporate governance aspects of a potential client/investee. It can be used to arrive at a risk score of the potential client/investee. Each investor can decide their own risk threshold (for each category) against which they can assess the client's policies and practices.

The questionnaire is mostly based on CDC Toolkit on ESG for fund managers. These general questions should be supplemented as relevant with questions specifically related to the ESG risks and opportunities for the industry sector in which the potential investee company operates.

If the company operates in a sector with significant risks, the relevant industry specific IFC Environmental, Health and Safety (EHS) Guidelines should be used as a reference. See www.ifc.org

Instructions

- 1) Answer all questions by selecting yes/no boxes or providing the required information. The respective score is indicated in each box and is to be noted in the adjacent score column.
- 2) Calculate the total score of a section, by adding the contents of the score column and note them in the score sheet provided in Appendix – 1.
- 3) Appendix – 1 provides a complete picture of how a company/client fares on ESG parameters

1. Due diligence on Environmental Matters

A. Compliance with Local Laws (Max Risk Score = 12)

Documents:

Company environmental policies, permits, certifications; environmental sign-offs or audits performed; effluent and Emission records; energy and resource consumption records; recycling contracts; waste treatment contracts; environmental impact assessments.

Interviews:

CEO, operations, and plant managers, workers responsible for effluent and emission monitoring, workers dealing with any hazardous substances and wastes, specialist consultants, local authorities, local community representatives.

		Yes	No	Score
1	What are the local environmental laws, standards, and regulations of relevance for the company's operations?			
2	Does the company comply with all relevant local environmental laws, standards, and regulations?	0	2	
3	Are local environmental laws, standards, and regulations effectively enforced by the local authorities?	0	1	
4	What environmental permits or certifications for the company's operations are required by the local environmental authorities?			
5	Are there any environmental sign-offs, checks, or audits required by the local environmental authorities?	0	1	
6	Has the company obtained all relevant environmental permits and certifications and are they up-to-date? Request copies as part of the due diligence.	0	2	
7	Are there any international environmental conventions or standards of particular relevance to the operations of the company? Examples include hazardous wastes, ozone depleting substances, herbicides and pesticides, timber, desertification, etc. See Appendix 5.			

		Yes	No	Score
8	Does the company operate in a sector for which the IFC has issued industry specific Environmental, Health, and Safety (EHS) Guidelines? See www.ifc.org . If so, use the industry specific environmental guidelines as reference for the due diligence.			
9	Has the company successfully complied with all locally required environmental sign-offs, checks and/or audits? Request copies of any relevant records as part of the due diligence.	0	2	
10	Does the company have processes to assess the environmental risks arising from its operations?	0	2	
11	Does the company have processes to ensure that protective measures are put in place and enforced?	0	2	

B. Environmental Track Record (Max Risk Score = 8)

		Yes	No	Score
1	Have there been any serious environmental incidents in the last five years?	1	0	
2	Does the company have the records of all serious environmental incidents?	0	1	
3	Does the company conduct full investigations of such incidents?	0	2	
4	Had the company paid charges, fines or penalties for non-compliance with environmental regulations and standards in the last two years? Request to see copies of records as part of the due diligence.	0	2	
5	Is the company exposed to potentially significant environmental liabilities, such as those arising from land or ground water contamination, related to the company's past or ongoing operations? If yes, specify magnitude.	2	0	

If the company is not materially in compliance with environmental regulations and standards, or if there are potentially significant environmental liabilities, please describe further actions required by the authorities and/or planned by the company to address these issues satisfactory and to achieve regulatory compliance.

C. Effluents (Max Risk Score = 10)

		Yes	No	Score
1	Does the company generate wastewater or other effluents? If yes, what types, qualities and quantities?			
2	Are any effluents hazardous and toxic?	1	0	
3	How are these dealt with?			
4	Where are effluents released?			
5	Are effluents treated before release?	0	2	
6	If yes, is there an effluent treatment plant?	0	1	
7	Are effluent quantity and quality monitored regularly and effectively?	0	2	
8	Are company effluents (quality and quantity) and pollution prevention measures in line with local laws, standards, and regulations?	0	2	
9	Are company effluents and pollution prevention measures in line with IFC industry specific environmental guidelines? (If applicable – check for a list of IFC industry specific Environmental, Health, and Safety (EHS) guidelines).	0	2	

D. Emissions (Max Risk Score = 9)

		Yes	No	Score
1	Does the company generate air emissions? If yes, what types, qualities and quantities?			
2	Are any emissions hazardous?	1	0	
3	How are these dealt with?			
4	Does the company take measures to reduce emissions?	0	2	
5	Is emission quantity and quality monitored regularly and effectively?	0	2	
6	Are company emissions (quality and quantity) and pollution prevention measures in line with local laws, standards, and regulations?	0	2	
7	Are company emissions and pollution prevention measures in line with IFC industry specific environmental guidelines? (If applicable – check for a list of IFC industry specific Environmental, Health and Safety (EHS) guidelines).	0	2	

E. Resource Conservation (Max Risk Score = 4)

		Yes	No	Score
1	Does the company keep records of and monitor its use of energy and other resources? If yes, Please ask for these records	0	2	
2	Could use of energy and / or other resources be reduced with more efficient processes and controls or different technologies?	0	2	

F. Waste Management (Max Risk Score = 6)

		Yes	No	Score
1	What wastes does the company generate (types, quantities)?			
2	Are any wastes hazardous?	1	0	
3	How are these dealt with? How is the waste managed?			
4	Are wastes recycled?	0	2	
5	Could wastes be reduced? If so, how?	0	2	
6	Does the company produce a significant amount of packaging which creates substantial solid waste elsewhere?	1	0	

G. Water Use (Max Risk Score = 3)

		Yes	No	Score
1	Does the company use large quantities of water?			
2	Might water supply for the company be under threat of shortages?	1	0	
3	Does the company's use of water reduce the supply available to other users?	2	0	

H. International Certifications (Max Risk Score = 4)

		Yes	No	Score
1	Does the company have ISO 14000 certification(s), including ISO 14001 for its environmental management systems?	0	2	
2	Does the company have any relevant industry specific certifications, e.g. from the Forestry Stewardship Council (FSC) or other relevant industry bodies?	0	1	
3	If relevant, does the company qualify for 'organic' certification of its products, which could command a premium price in international markets?	0	1	

I. Land Clearance (Max Risk Score = 3)

		Yes	No	Score
1	Do the company's activities involve land clearance?	1	0	
2	Are all land clearances well managed, including consultations with local authorities and affected communities?	0	2	

J. Biodiversity (Max Risk Score = 4)

		Yes	No	Score
1	Are there any risks for negative impacts on local flora or fauna from the company's operations?	1	0	
2	Are there any risks for biodiversity loss from the company's operations? See IFC Performance Standard 6	1	0	
3	Has the company identified and addressed all biodiversity impacts of its operations if it operates within an industry with significant risks through an environmental impact assessment?	0	2	

K. Sensitive Forests

		Yes	No	Score
1	Does the company source materials from sensitive forests or use inputs in its production process which could contribute to loss of sensitive forests?			

L. Climate Change (Max Risk Score = 6)

		Yes	No	Score
1	Does the company operate in a carbon-intensive industry, e.g., cement, aviation, power generation?	1	0	
2	Has the company taken measures to reduce greenhouse gas emissions?	0	1	
3	Could greenhouse gas emissions be reduced further through use of different technologies?			
4	Do the company's activities include significant use of transportation?	1	0	
5	In what ways could carbon emissions from transportation be reduced?			
6	Is the company working to reduce carbon emissions from transportation?	0	2	
7	Can the company certify its reductions in green house gas emissions and thereby augment cash flows under the Clean Development Mechanism?	0	1	

M. Supply Chain (Max Risk Score = 5)

		Yes	No	Score
1	Is the company aware of the environmental practices of its sub-contractors and / or of other companies from which it sources significant inputs?	0	2	
2	Are the environmental practices of sub-contractors and / or of other companies from which the company sources significant inputs sound?	0	2	
3	If not, can the company influence its major sub-contractors and / or suppliers to improve their environmental practices, potentially by making improved practices a condition for continued business?	0	1	

2. Due Diligence on Social Matters

A. Compliance with Local Laws (Max. Risk Score = 6)

Documents

Company human resource policies, including on wages, non-discrimination, representation, grievance mechanism, etc; contracts for different types of employees and seasonal/temporary workers if applicable; other labour records as relevant.

Interviews

CEO, company managers, human resource manager, workers (of different gender), seniority, and pay levels, representatives of minority groups, union representatives.

		Yes	No	Score
1	What are the local labour laws, standards and regulations of relevance for the company's operations?			
2	Has the country ratified the ILO's Fundamental Conventions and are these reflected in local laws?	0	1	
3	Are local labour laws, standards and regulations effectively enforced by the local authorities?	0	1	
4	Does the company comply with all relevant local labour laws, standards and regulations?	0	2	
5	What labour records are the company required to keep according to local laws and regulations?			
6	Are all of the company's labour records and contracts properly kept and up to date?	0	2	

B. Child Labour (Max. Risk Score = 4)

		Yes	No	Score
1	Is the company operating in a country or sector where child labour is common?	2	0	
2	What is the local minimum working age?			
3	Is the local minimum working age in confirmation with ILO Conventions 138 and 182?	0	2	

C. Minimum Wage (Max. Risk Score = 9)

		Yes	No	Score
1	Does the company adhere to local and/or industry minimum wage standards?	0	2	
2	Are local minimum wage standards consistent with decent living wages?	0	1	
3	Is the company operating in a sector where competitive advantage arises from paying low wages?	1	0	
4	If so, are there any systems in place to ensure that the legal minimum wage is adhered to?	0	2	
	Details to be provided			
5	Is the company operating in a country where the cost of living has increased substantially (e.g., because of inflation or drought)?	1	0	
6	If so, have wages paid by the company kept up with increases in living costs?	0	2	

D. Discrimination (Max. Risk Score = 9)

		Yes	No	Score
1	Does the workforce appear to be representative of the local population with respect to gender, race, religion, etc?	0	2	
2	Are any local customs likely to result in discriminatory practices?	1	0	
3	What are local norms regarding the employment of women?			
4	Does the company have a non-discriminatory policy with respect to gender, race, colour, disability, political opinion, sexual orientation, age, religion, social or ethnic origin, or HIV status?	0	2	
5	Is such a policy adhered to?	0	2	
6	Does the company improperly conduct non-confidential or mandatory HIV tests for its workers?	2	0	

E. Representation (Max. Risk Score = 4)

		Yes	No	Score
1	What systems does the company have in place to enable workers to present and argue their views to management?			
2	Is the workforce unionised?	0	2	
3	If so, is the union representative of all workers including minority groups?	0	2	

F. Vulnerable Labour (Max. Risk Score = 2)

		Yes	No	Score
1	Does the company employ migrant labour, non-local workers or other workers which are likely to be particularly vulnerable?	2	0	
2	If so, are their interests looked after? And how?			

G. Human Resources (Max. Risk Score = 10)

		Yes	No	Score
1	Does the company have a human resource policy which informs workers of their rights and conditions of employment?	0	2	
2	Are workers aware of their rights?	0	2	
3	Are proper labour contracts in place for all staff, including for temporary and seasonal workers?	0	2	
4	Does the company have policies in place for overtime, maternity leave, sick leave, and disability?	0	2	
5	Does the company have a grievance mechanism for staff to make formal complaints to human resources?	0	2	

H. Supply Chain (Max. Risk Score = 5)

		Yes	No	Score
1	Is the company aware of the labour practices of its sub-contractors and /or of other companies from which it sources significant inputs?	0	2	
2	Are the labour practices of sub-contractors and / or of other companies from which the company sources significant inputs as sound as those deployed by the company?	0	2	
3	If not, can the company influence its major sub-contractors and / or suppliers to improve their labour practices, potentially by making improved practices a condition for continued business?	0	1	

I. Health and Safety

A. Local Laws (Max. Risk Score = 11)

Documents:

Health and safety policy; health and safety records; documentation of any accidents; any relevant permits and certifications; records of any health and safety checks or audits performed.

Interviews:

CEO, company management, HR manager, operations and plant managers, workers, especially any worker that has been exposed to a serious health and safety incident, specialist consultants (where relevant), local authorities (where relevant), local community representatives (where relevant).

		Yes	No	Score
1	What are the local health and safety laws, standards and regulations of relevance for the company's operations?			
2	Are local health and safety laws, standards and regulations effectively enforced by the local authorities?	0	1	
3	Does the company comply with all relevant local health and safety laws, standards and regulations?	0	2	
4	What permits or certifications on health and safety are required by the local authorities for the company's operations?	0	2	
5	Has the company obtained all relevant health and safety permits and certifications?			
	Request copies as part of the due diligence.	0	2	
6	Are there any health and safety checks or audits required by the local authorities?	0	2	
7	Has the company successfully complied with any locally required health and safety checks or audits?	0	2	

B. IFC Performance Standards and industry specific health and safety guidelines (Max. Risk Score = 2)

		Yes	No	Score
1	Does the company operate in a sector for which the IFC has issued industry specific Environmental, Health and Safety (EHS) Guidelines? See www.ifc.org			
2	If so, does the company follow the industry specific health and safety guidelines? Use the questions in IFC performance Standards for the due diligence	0	2	

C. Risk Management (Max. Risk Score = 14)

		Yes	No	Score
1	Does the company have an appropriate health and safety policy for the health and safety risks of its operations?	0	2	
2	Does the company have processes in place to assess the health and safety risks arising from its activities? (e.g. hazardous chemicals, machinery, dust, noise, odours, fumes, vibrations) If so, what are they?	0	2	
3	Does the company have processes to ensure that appropriate protective health and safety measures are put in place? If so, what are they?	0	2	
4	Does the company follow processes to ensure that workers use protective equipment (e.g. hats, goggles, gloves) when dealing with hazards (e.g. handling chemicals, machinery)? If so, what are they?	0	2	
5	Does the company have regular training programmes for all relevant staff on occupational health and safety?	0	2	
6	Does the company have an emergency plan in place, if relevant including provisions for fires, leakage of hazardous chemicals or explosions?	0	2	
7	Does the company conduct regular and effective inspections and compliance checks on health and safety?	0	2	

D. Health and Safety Track Record (Max. Risk Score = 11)

		Yes	No	Score
1	Has the company paid charges, fines or penalties for non-compliance with health and safety regulations and standards in the last two years? Request to see copies of records as part of the due diligence.	0	1	
2	Is the company exposed to potentially significant health and safety liabilities, such as those from ongoing or future claims from negatively affected workers and/or communities, related to the company's past or ongoing operations? If yes, specify magnitude.	2	0	
3	Is the company materially in compliance with local health and safety laws, regulations and standards?	0	2	
4	Are there potentially significant health and safety liabilities?	2	0	
5	Are there any actions planned by the authorities and/or the company to address these issues satisfactorily and to achieve regulatory compliance? Please specify	0	1	
6	Have there been any accidents in the last five years?	1	0	
7	Does the company record accidents and conduct full investigations of any serious incidents?	0	2	
8	What is the company's health and safety record (ask to see the accident record book)?			
	On a tour of the factory or other site of operations (if applicable), keep an eye out for obvious areas of health and safety risks and ask for management's and workers' views. Any issues?			

E. Community Health and Safety (Max. Risk Score = 3)

		Yes	No	Score
1	Are there any health and safety risks for local communities or consumers associated with the company's operations or products?	1	0	
2	Are all health and safety risks for local communities or consumers managed in a satisfactory manner?	0	2	
	Refer to the IFC Performance Standards and any relevant industry specific health and safety guidelines.			

F. International Certifications (Max. Risk Score = 1)

		Yes	No	Score
1	Does the company have OHSAS certification?	0	1	

G. Supply Chain (Max. Risk Score = 4)

		Yes	No	Score
1	Is the company aware of the health and safety practices of its subcontractors and / or of other companies from which it sources significant inputs?	0	1	
2	Are the health and safety practices of sub-contractors and / or of other companies from which the company sources significant inputs as sound as those deployed by the company?	0	1	
3	If not, can the company influence its major sub-contractors and / or suppliers to improve their health and safety practices, potentially by making improved practices a condition for continued business?	0	2	

J. Other Social Matters

A. Local Communities (Max. Risk Score = 9)

Documents:

Company community consultation policy, records of consultations, retrenchment policy, and social impact assessments.

		Yes	No	Score
1	What impacts may the company's activities have on local communities and other stakeholders?			
2	Are there any significant adverse impacts on local communities due to the company's activities?	2	0	
3	Has the company conducted a social impact assessment and followed up on its findings and recommendations with mitigating measures?	0	1	
4	Does the company have good relations with the local communities and NGOs?	0	2	
5	Does the company employ local workers? If not, why?	0	1	
6	Do the company's activities have a direct or indirect impact on marginal or vulnerable social groups with identities distinct from the dominant groups on the basis of race, religion, HIV status or other potential basis for discrimination?	2	0	
7	Does the company contribute to any community development programmes through financial donations or in other ways?	0	1	

B. Consultations

		Yes	No	Score
1	What systems does the company have in place to consult with persons and groups affected by its operations and/or products?			

C. Adverse Effects and Mitigation (Max. Risk Score = 2)

		Yes	No	Score
1	Are there any adverse effects on local communities or other stakeholders from the company's operations? How are such effects minimised, reduced or compensated for?	2	0	

D. Relocation (Max. Risk Score = 5)

Interviews:

CEO, company management, operation and plant managers, workers, representatives from local communities, NGOs, local authorities.

		Yes	No	Score
1	Are persons being moved as a result of the company's new or expanded operations? See IFC Performance Standards	1	0	
2	Even if persons are not being moved, might their livelihoods be affected because of a change in land use as a result of the company's operations?	2	0	
3	If persons are being moved or otherwise negatively affected as a result of company operations, are they adequately compensated by the company, including through provision of new housing and / or financial compensation?	0	2	

E. Particular Social Issues (Max. Risk Score = 3)

		Yes	No	Score
1	Are there any particular sensitive social issues to consider for the country of company operations, such as a high HIV / AIDS prevalence rate, civil conflict or discrimination against indigenous, religious or other minority groups? See IFC Performance Standard 7, if any issues concerning indigenous peoples.	1	0	
2	If so, does the company have appropriate policies and procedures to address such sensitive social issues?	0	2	

F. Cultural Matters (Max. Risk Score = 2)

		Yes	No	Score
1	Do the company's operations have an impact on a natural or historical location with a local cultural significance? This is particularly relevant for new or expanded operations.			
	See IFC Performance Standard 8	2	0	

G. Non-local Workers and Remote Locations (Max. Risk Score = 6)

		Yes	No	Score
1	Does the establishment or expansion of the company's operations require the import of non-local labour to the region, either for construction or for longer-term employment?	0	1	
2	Why is it appropriate or necessary to use non-local labour?			
3	What are the company's measures to ensure that non-local labour has no or insignificant negative impact on the local communities? Note the risk of an increase in prostitution as a frequent result of the import of non-local male workers, with subsequent increases in HIV / AIDS prevalence.			
4	Have the local communities and NGOs been consulted as relevant?	0	1	
5	How are non-local workers accommodated?			
6	Do they have decent housing conditions and other adequate facilities, including health care and other provisions for remote locations?	0	2	
7	What are the plans for non-local labour to return to their destination of origin?			
8	Are the families of non-local workers also relocated by the company?	1	0	
9	Are they, in that case, adequately provided for (schools, health centres, family housing, etc).	0	1	

H. Retrenchment (Max. Risk Score = 2)

		Yes	No	Score
1	Are substantial job losses expected as a result of this investment or the company's future strategy?	2	0	
2	What is the company's retrenchment policy (who would be affected by job losses, what compensation is provided, etc)?			
3	How has the company dealt with any major retrenchments in the past?			
	Impressions from workers and unions?			
4	What has the company done to ensure that any retrenchment is managed fairly?			

I. Use of Security Force (Max. Risk Score = 5)

		Yes	No	Score
1	Will / does the company employ its own security force?			
2	How are company security guards trained?			
3	Are proper mental health and criminal record checks carried out for all security guards prior to contracting? See p. 70-71	0	2	
4	What weapon will / do the guards use?			
5	Have there been any complaints about the corporate security guards, e.g. for use of force, from local communities?	2	0	
6	Have there been any accidents and/or fatalities associated with the company's security guards during the last five years?	1	0	

J. Road Safety

		Yes	No	Score
1	What is the company's road safety record?			
2	Have there been any accidents and/or fatalities in the last five years?			
3	What road safety measures does the company follow?			

3. Due Diligence on Governance/Business Integrity Matters

Documents:

Code of ethics, code of conduct, legal records, accounting records, compliance policy, audit statements, relevant legal records.

Interviews:

Board chair, board directors, CEO, company management, CFO, controller, staff members, compliance or risk officer, legal counsel, auditors, specialist consultants.

A. Country Corruption Situation (Max. Risk Score = 1)

		Yes	No	Score
1	How does the country rank in Transparency International's Corruption Perceptions Index?			
2	How are business integrity issues dealt with locally?			
3	Is the financial regulatory system of the country operating in line with high international standards?	0	1	

B. Business Integrity of Company (Max. Risk Score = 10)

		Yes	No	Score
1	Is there a designated person at the company with responsibility for managing compliance issues, ethics and potential conflicts of interest?	0	2	
2	Any criminal convictions amongst the company management, staff or board members?	2	0	
3	Has any management person, staff or board member been, or is, under investigation by law enforcement or regulatory authorities?	2	0	
4	Evidence or suspicion of company management criminal activity: e.g. intimidation, blackmail, etc? Involvement or association with criminals? Involvement or association with money laundering?	2	0	
5	Does anyone connected with the company appear on any UN list of persons suspected of involvement in terrorist activities or any other relevant national or international blacklists? The response should include the results of enquiries in Compinet, World-Check or other comparable systems. If not accessible or available, this should be noted here.	2	0	

C. Code of Conduct (Max. Risk Score = 2)

		Yes	No	Score
1	Does the company have a code of conduct for employees prohibiting bribery?	0	2	

D. Anti-bribery (Max. Risk Score = 4)

		Yes	No	Score
1	How are employees made aware that the company does not condone bribery?			
2	Is there regular anti-bribery training for employees?	0	1	
3	Does the company operate in a sector where bribery is prevalent?	1	0	
4	Does the company have a policy on gifts, entertainment, and other potential sources of conflict of interest?	0	2	

E. Anti-money Laundering (Max. Risk Score = 4)

		Yes	No	Score
1	Does the company have appropriate anti-money-laundering training and procedures in place?	0	2	
2	Have background searches been performed on beneficial owners and others with a significant relationship to the company?	0	2	

F. Accounting and Compliance (Max. Risk Score = 4)

		Yes	No	Score
1	Are the accounting records fully up to date and complete?	0	2	
2	Does the company send regular and complete information to the tax authorities?	0	2	

G. Dealings with Government (Max. Risk Score = 8)

		Yes	No	Score
1	Evidence of company involvement in misuse or misappropriation of public property?	2	0	
2	Evidence of bribing public officials or use of inappropriate means to influence public decisions or processes?	2	0	
3	Evidence of major political affiliations or contributions?	2	0	
4	Evidence of politician or government official involvement in the company? (e.g., beneficial owners, on board of directors, etc).	2	0	

H. Corporate affairs (Max. Risk Score = 32)

		Yes	No	Score
1	Media references to illegal or disreputable activities?	2	0	
2	Persistent rumours of illegal or disreputable activities? Requests for or suggestions of illegal or disreputable actions (e.g. falsification of document, bribes, etc)?	2	0	
3	Misappropriation, fraud or other crimes against the company or its owners or stakeholders?	2	0	
4	Any undisclosed or unusual beneficial ownership or carried interests?	2	0	
5	Sudden or unexplained withdrawal of potential customers, investors or other affiliates to the company?	2	0	
6	Sudden or unexplained change of shareholders, auditors, accountants, lawyers or other professional advisors?	2	0	
7	Unnecessarily complex ownership structures?	2	0	
8	Evidence of tax evasion?	2	0	
9	Evidence of suspicious use of tax havens?	1	0	
10	Evidence of suspicious use of offshore companies?	1	0	
11	Evidence of suspicious use of transfer pricing?	1	0	
12	Are there pools of unexplained cash or near cash investments (e.g. slush funds)?	2	0	
13	Large or serious law suits for which there is not a satisfactory explanation?	2	0	
14	Inappropriate or above-market costs, fees or other company expenses?	2	0	
15	Non-market compensation of key staff, management or company shareholders?	2	0	
16	Unknown or suspicious sources of wealth for company staff, management and / or shareholders?	2	0	
17	Ostentatious lifestyle inappropriate to the financial situation of the company of company staff, management and / or shareholders?	1	0	
18	Reluctance to discuss integrity or corruption issues from company staff, management and / or shareholders?	2	0	

I. More Detailed or Formal Investigation (Max. Risk Score = 2)

		Yes	No	Score
1	Is a more detailed or formal investigation warranted? Why or why not?	2	0	

J. Commitment to Good Corporate Governance (Max. Risk Score = 23)

Documents:

Articles of incorporation, corporate governance code, corporate governance section of the annual report, code of ethics, whistleblower policy, minutes of board meetings.

Interviews:

Board chair and other board members, CEO, compliance or corporate governance officer.

		Yes	No	Score
1	Does the company have a charter or articles of incorporation according to local legislation, with provisions on:			
	• The protection of shareholder rights and the equitable treatment of shareholders;	0	2	
	• Distribution of authority between the annual general meeting of shareholders, the board of directors and executive bodies, and	0	2	
	• Information disclosure and transparency of the company's activities?	0	2	

2	Are the board of directors and the senior management familiar with the voluntary code of corporate governance for the country (if such a code exists)?	0	2	
3	To what extent does the company comply with the provisions of this code?			
4	Is this compliance disclosed?	0	2	
	How is this compliance disclosed?			
5	Does the company have a code of ethics?	0	2	
6	Does the company have a corporate governance code and / or policies?	0	2	
7	Are there procedures for monitoring compliance with these?	0	2	
	What are these procedures?			
8	Who does the monitoring?			
9	Does the company have a whistleblower policy and procedures?	0	2	
10	Does the company disclose the extent to which it is complying with its corporate governance policies and procedures?	0	2	
11	Does the company have a designated officer responsible for ensuring compliance with the company's corporate governance policies?	0	2	
12	Does the management / board of directors approve the annual calendar of corporate events (board meetings, general shareholder meeting, etc)?	0	1	

K. Structure and Functioning of the Board of Directors (Max. Risk Score = 22)

Documents:

Articles of incorporation, board charter, directors' profiles, calendar of board meetings, minutes of board meetings, related party transactions table.

Interviews:

Board chair, corporate secretary, board committee chairmen, CEO, compliance or corporate governance officer

		Yes	No	Score
1	How is the composition of the board of directors determined?			
2	Are there any shareholder agreements, provisions of the company's charter, or informal understandings that specify which shareholders appoint directors?	0	2	
3	Are there any independent directors?	0	2	
4	How were they selected? How, if at all, does the company define independent' director?			
5	Does the company have board committees? Which functions?	0	2	
6	If so, how are board committees established, who sits on them, and how do they function?			
7	How often does the board of directors meet?			
8	Is an agenda prepared and distributed in advance of board meetings?	0	1	
9	Are minutes prepared and approved after board meetings?	0	1	
10	Does the company have a corporate secretary? If not, who organizes board meetings?	0	2	
11	What is understood as the role of the board of directors vis-à-vis management, particularly with respect to the following:			
	• Setting strategy and vision of the company;			
	• Selection and compensation of the CEO and senior management;			
	• Risk management, oversight of internal controls, external audit and preparation of financial statements; and			
	• Major capital expenditures and large-value transactions?			

12	How does the current mix of skills / experience on the board of directors CFO. serve the company's interests?			
13	Are directors appointed on the basis of a clear job description which identifies the required directors' background and expertise?	0	2	
14	Does the board of directors review material transactions that involve conflicts of interest and related parties?	0	2	
15	Does the board of directors conduct self-evaluations or other reviews of its effectiveness?	0	2	
16	How and when are such reviews conducted and with whom are the results shared?			
17	Do all board directors have a clean record when it comes to sanctions for violating any of his / her duties?	0	2	
18	How often are board directors re-elected?			
19	Is there a maximum number of terms that a director can serve?			
20	Does the company have a formal or informal succession plan for its current CEO?	0	2	
21	How much longer does the current CEO intend to remain in this position?			
22	Is the effectiveness of the board and its directors regularly evaluated by an independent third party?	0	2	

L. Control and Risk Management (Max. Risk Score = 23)

Documents:

Audit committee charter, internal control and risk management policies, management letters, compliance programme

Interviews:

Board chair, audit committee chair, CFO, controller, internal audit responsible risk officer, compliance officer, external auditor

		Yes	No	Score
1	Does the company have adequate internal controls in place?	0	1	
2	Are internal controls properly documented and periodically reviewed?	0	1	
3	Does the company have an audit committee?	0	2	
4	What is the role of the audit committee and the board of directors in ensuring that proper internal controls are maintained, risks are managed and that the company is in compliance with all relevant laws and regulations?			
5	Does the board of directors set the company's risk profile and periodically review the company's risk management system?	0	2	
6	Does the company have an internal audit (IA) function?	0	2	
7	Does the IA function have a charter that is approved by the audit committee or board of directors?	0	2	
8	Does the IA function have full access to records, property and personnel relevant to their audit?	0	2	
9	To whom does the IA function report?			
10	Is the IA chief independently hired and dismissed with the consent of the board of directors?	0	1	
11	Does the board of directors monitor management's response to deficiencies and weaknesses identified by the IA function and/or external auditors?	0	1	
12	Does the company have a risk management system including ESG matters?	0	2	
13	Who is responsible for developing the company's risk management system?			
14	How are the risks identified and compared with industry standards?			

15	Does the company have a compliance programme or procedures that include the training of employees, auditing and monitoring systems, and a company 'hotline' for reporting any violations?	0	1	
16	Have internal controls, risk management and compliance in the past 5 years operated without any significant problems being reported?	0	1	
17	Is the company's external audit in line with international standards on auditing (ISA)?	0	1	
18	Who formally and in practice, selects the external auditors and to whom are they accountable?			
19	Is there a policy to rotate the external auditors or the engagement audit partner?	0	2	
20	Does the company have a history of there being no qualified, adverse, or disclaimer of opinion/s on the financial statements issued by external auditor?	0	2	
21	If no (i.e., if the external auditor has issued qualified, adverse, or disclaimer of opinion/s on financial statements): why?			

M. Transparency and Disclosure (Max. Risk Score = 12)

Documents:

Financial statements, information disclosure policy.

Interviews:

Audit committee chair, CFO, controller, external auditor, chief of investor relations.

		Yes	No	Score
1	Are the financial statements prepared in keeping with internationally recognised accounting standards (e.g., IFRS or U S GAAP)?	0	1	
2	Have the company's financial statements in the past 5 years been re-statements in a material way?	0	1	
3	If re-statements have been made: please specify.			
4	Does the company disclose major transactions, related party transactions, off-balance sheet activities, and other material events?	0	2	
5	How (e.g., annual report, website)?			
6	Does the board of directors / audit committee review key elements of the company's financial statements? How often?	0	2	
7	Does the company have a written information disclosure policy that seeks to make all material information (financial and non-financial) fully, timely and equally available to all stakeholders?	0	2	
8	Is the company publicly listed? If the company is publicly listed: on what exchange?			
9	Are periodic meetings with securities analysts held? Who participates in such meetings?	0	1	
10	Has the regulator or the exchange required the company to provide additional information or clarification to the annual report, financial statements or other disclosures?	1	0	
11	If the regulator has required additional information: on what elements?			
12	Has the company ever been sanctioned or censured by the regulator or the exchange for any failure or delay in disclosing required information to the public?	2	0	

N. Rights of Minority Shareholders and Treatment of Stakeholders (Max. Risk Score = 12)

Documents:

Articles of association, annual report, by-laws on shareholders' meeting, minutes of shareholders' meeting.

Interviews:

Controlling shareholders, minority shareholders, board chair, corporate secretary.

		Yes	No	Score
1	Is there equality between the voting rights and the cash flow rights of the company's various classes of equity and quasi-equity securities (the 'one share, one vote' principle)?	0	1	
2	Do minority shareholders have any mechanism to nominate members of the board of directors (e.g. cumulative voting, block voting, etc)?	0	1	
3	Have such rights been exercised?			
4	Is ultimate beneficial ownership of shares disclosed by controlling shareholders and management?	0	1	
5	Are there any minority shareholders protection mechanisms in place?	0	2	
6	How will minority shareholders be treated in the event of a change of control of the company (e.g. tag-along rights)?			
7	Does the preparation and calling of annual and extraordinary shareholders meetings enable the participation of all shareholders (sufficient notice; agenda and supporting materials; proposing agenda items; participation personally or through proxy; the right to ask questions; dissemination of the results of the meetings)?	0	2	
8	Has the company a clean history when it comes to investigation into its treatment of shareholders, i.e. never having undergone such an investigation?	0	2	
9	How have any shareholder disputes been resolved?			
10	Does the company regularly consult with local communities, NGOs and other relevant stakeholders?	0	1	
11	Has there been negative media coverage about the company or its staff / management / board directors?	0	2	
12	How is the company perceived by media and NGOs?			

Appendix – 1

1. Due Diligence on Environmental Matters

		Max. Score	Score
A	Compliance with local law	12	
B	Environmental track record	8	
C	Effluents	10	
D	Emissions	9	
E	Resource conservation	4	
F	Waste management	6	
G	Water use	3	
H	International certifications	4	
I	Land clearance	3	
J	Biodiversity	4	
K	Sensitive forests	0	
L	Climate change	6	
M	Supply chain	5	
	Total	74	
	Percentage		

2. Due Diligence on Social Matters

		Max. Score	Score
A	Compliance with local law	12	
B	Child labour	4	
C	Minimum wage	9	
D	Discrimination	9	
E	Representation	4	
F	Vulnerable labour	2	
G	Human resources	10	
H	Supply chain	5	
I	Health and safety		
	• Local laws	11	
	• IFC Performance Standards and industry specific health and safety guidelines	2	
	• Risk management	14	
	• Health and safety track-record	11	
	• Community health and safety	3	
	• International certifications	1	
	• Supply chain	4	

J	Other Social matters		
	• Local communities	9	
	• Consultations	0	
	• Adverse effects and mitigation	2	
	• Relocation	5	
	• Particular social issues	3	
	• Cultural matters	2	
	• Non-local workers and remote locations	6	
	• Retrenchment	2	
	• Use of security force	5	
	• Road safety	0	
	Total	135	
	Percentage		

3 Due Diligence on Governance / Business Integrity Matters

		Max. Score	Score
A	Country corruption situation	1	
B	Business integrity of company	10	
C	Code of conduct	2	
D	Anti-bribery	4	
E	Anti-money laundering	4	
F	Accounting and compliance	4	
G	Dealings with government	8	
H	Corporate affairs	32	
I	More detailed or formal investigation	2	
J	Commitment to good corporate governance	23	
K	Structure and functioning of the board of directors	22	
L	Control and risk management	23	
M	Transparency and disclosure	12	
N	Rights of minority shareholders and treatment of stakeholders	12	
	Total	159	
	Percentage		

