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# PROGRAMME COMMITTEE

**Hundred and Thirty-second Session**

**8-12 November 2021**

**FAO Strategy on Private Sector Engagement – Updates and  
Implementation Status**

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### EXECUTIVE SUMMARY

- This document provides updates and implementation status of the new Strategy for Private Sector Engagement since its approval by the 165th Session of the Council in December 2020, and, in particular, following the updates provided to the 130th Session of the Programme Committee in March 2021.
- This report focuses on the actions taken, highlighting both achievements and forecasted actions to be taken as part of the implementation of the Strategy that addresses the key recommendations made by FAO Members.
- FAO has also updated the analysis of the private sector engagement portfolio and the result of the analysis is hereby presented. It shows that FAO should continue working towards a more selected portfolio of active, strategic and transformative partnerships, which are better balanced in terms of geographical coverage, types of private sector entities and thematic areas of engagement.
- Since the updates provided to the 130th Session of the Programme Committee in March 2021, FAO has continued with accelerated efforts to complete the enabling environment for the implementation of the Strategy: launched the CONNECT portal and the Private Sector Interdepartmental Working Group; updated the Due Diligence Framework for Risk Assessment and Management of Engagements (FRAME); finalised the Terms of Reference of the informal Private Sector Advisory Group (PSAG); and started the design of FAO personnel training and capacity development programme. Upgrades of CONNECT portal, launch of PSAG and the rollout of the capacity development programme are major initiatives for the remainder of 2021 and the first quarter of 2022.

### GUIDANCE SOUGHT FROM THE PROGRAMME COMMITTEE

- The Programme Committee is invited to take note of the Updates and Implementation Status of the new Strategy for Private Sector Engagement and of the two proposed Annexes to the Strategy – the updated FRAME and the Terms of Reference of the informal PSAG.

#### Draft Advice

##### **The Committee:**

- **noted with appreciation the implementation progress of the Strategy for Private Sector Engagement since its endorsement by the 165th Session of the Council in December 2020, and the updates presented at the 130th Session of the Programme Committee;**
- **welcomed the updated Due Diligence Framework for Risk Assessment and Management of Engagements (FRAME), and the Terms of Reference of the informal Private Sector Advisory Group (PSAG); and**
- **looked forward to receiving the first annual report of the progress and achievements of the Strategy implementation at the 133rd Session of the Programme Committee.**

## I. Background and context

1. At the 165th Session of the Council held in December 2020, FAO Members approved FAO's *Strategy for Private Sector Engagement 2021-2025* (henceforth "the Strategy"). The Strategy reflects FAO's new forward-looking vision for strengthening strategic engagement with the private sector towards achieving the Sustainable Development Goals (SDGs) with an important focus on country-level impact.
2. The 165th Session of the Council<sup>1</sup> approved the Strategy contingent on a series of recommendations of the Joint Meeting of the 129th Session of the Programme Committee and the 183rd Session of the Finance Committee held in November 2020, and, with the understanding that the content of the Information Note 2<sup>2</sup> be incorporated into the Strategy, requested FAO to launch it as soon as possible.
3. Following the 165th Session of the Council, as an immediate action, Management adjusted the Strategy based on the Information Note 2 and, based on the Council's decision, presented it in six official languages of the Organization to its Members through the FAO Members Gateway.<sup>3</sup>
4. Furthermore, Management presented an Update on the Strategy for Private Sector Engagement at the 130th Session of the Programme Committee (22-26 March 2021). Members welcomed the update and noted the need for a better geographical balance, and encouraged Management to be proactive in forging partnerships that can have high impact on SDGs achievement.
5. The 42nd Session of FAO Conference (14-18 June 2021) endorsed the Strategic Framework 2022-31 to drive agri-food systems transformation. Conscientious of the role private sector needs to play in achieving transformative change, the Strategy and the Strategic Framework were developed in parallel, constantly ensuring they are aligned and complement each other. As such, the Strategy is fully aligned with the Strategic Framework 2022-31.
6. This Update focuses on the actions taken since the adoption of the Strategy by the 165th Session of the Council, and in particular following the Update presented at the 130th Session of the Programme Committee, highlighting both the achievements and envisaged actions to be taken as part of the implementation of the Strategy that addresses the key recommendations made by FAO Members. It emphasizes actions taken as FAO methodically advances the implementation of the Strategy.

## II. Gap analysis in the current private sector engagement portfolio

7. At the 130th Session of the Programme Committee, FAO presented the first gap analysis of the private sector engagements portfolio, to investigate diverse types of engagement instruments signed with the private sector, as well as geographical and typological balance of private sector partners, and to identify the links of existing engagements to FAO's priority thematic areas and the SDGs. This Update presents the gap analysis as of 1 September 2021, with an aim to highlight key changes in the private sector engagements portfolio in comparison to the previous analysis undertaken in November 2020.
8. As of date, FAO engages with 36 private sector entities with which a Memorandum of Understanding (MoU), Exchange of Letters (EoL) or a Letter of Intent (LoI) have been signed. They represent, respectively, 69, 6 and 25 percent of the private sector engagement portfolio.
9. There continues to be **an unbalanced representation of the private sector entities in the current engagements across regions** (Chart 1). European-based private sector entities account for a sizeable majority of engagements (53 percent), while Africa, Asia and the Pacific, Central Asia, Latin

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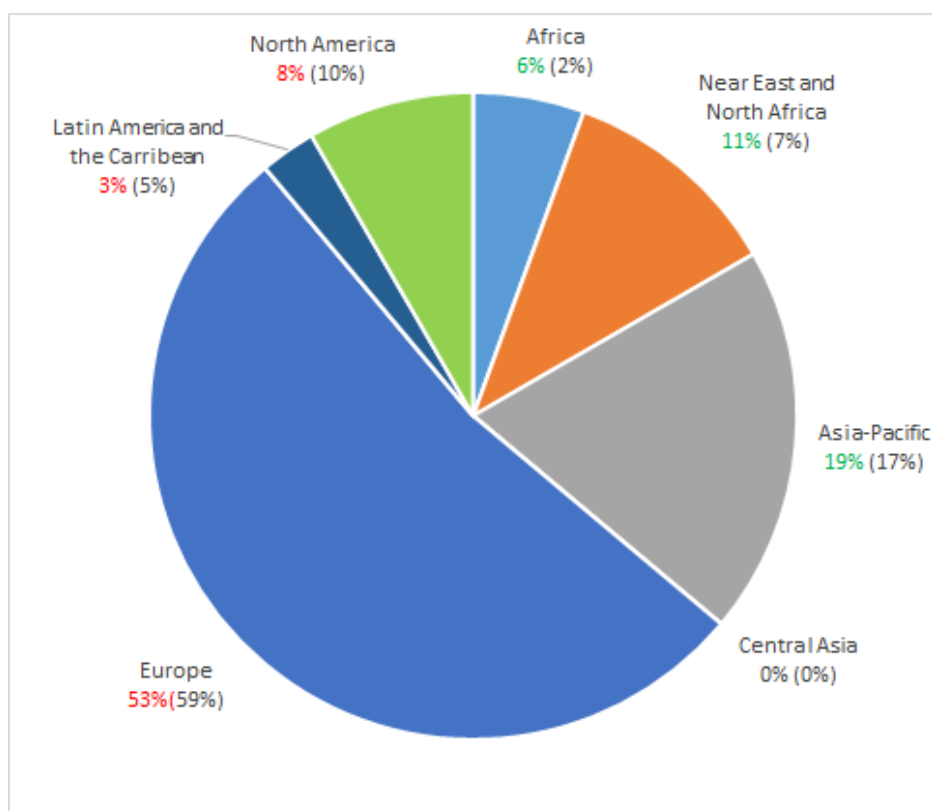
<sup>1</sup> [CL 165/REP paragraph 12.](#)

<sup>2</sup> [CL 165/4 Inf. Note 2.](#)

<sup>3</sup> Post-CL 165/4 Rev.2.

America and the Caribbean, Near East and North Africa and North America-based private sector entities jointly represent the remaining 47 percent.

**Chart 1.** Existing engagements per region (percentage)<sup>4</sup>

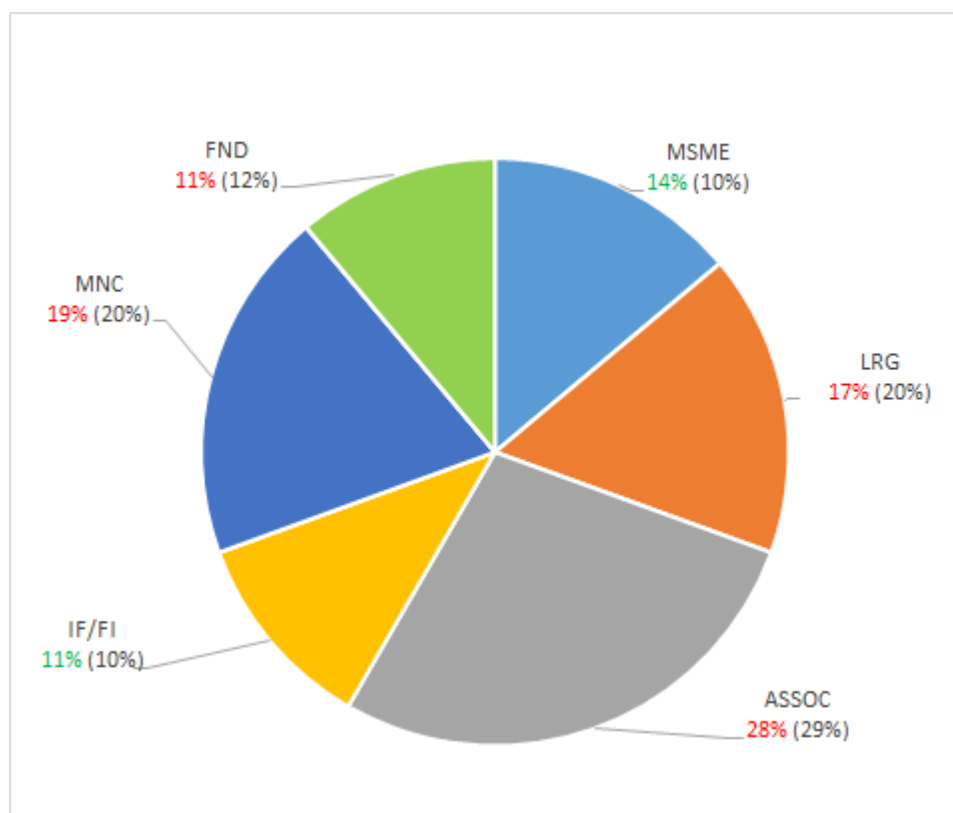


10. However, in comparison to the analysis undertaken in November 2020, there has been some rebalancing of the portfolio in the last ten months: the share of the Europe-based private sector entities decreased by six percentage points, while the share of Africa-based private sector entities increased by four percentage points.

11. With regard to the **distribution of the private sector entities based on the type of the entity** (Chart 2), the most notable change was the increase in the share of Micro, Small and Medium Enterprises (MSMEs) by four percentage points. The remaining distribution is largely the same. Private sector associations, multinationals and large companies continue accounting for a large majority of all private sector engagements, while 28 percent of all engagements are with private sector associations.

12. It is worth noting that since March 2021, there has been a **significant increase in the submission of proposed formal engagement requests for review from the Decentralized Offices (Regional, Subregional and country offices)**, which are also varied in terms of type of private sector entity. This demonstrates FAO's commitment to address the recommendations of Members for a more diversified and balanced portfolio expressed throughout the consultation process for the development of the Strategy.

<sup>4</sup> Numbers in red or green indicate the percentages as of 1 September 2021. The colour indicates an increase (green) or decrease (red) in comparison to the percentage as of 30 November 2020, which is indicated in parentheses.

**Chart 2.<sup>5</sup> Existing engagements per type of entity (percentage)<sup>6</sup>**

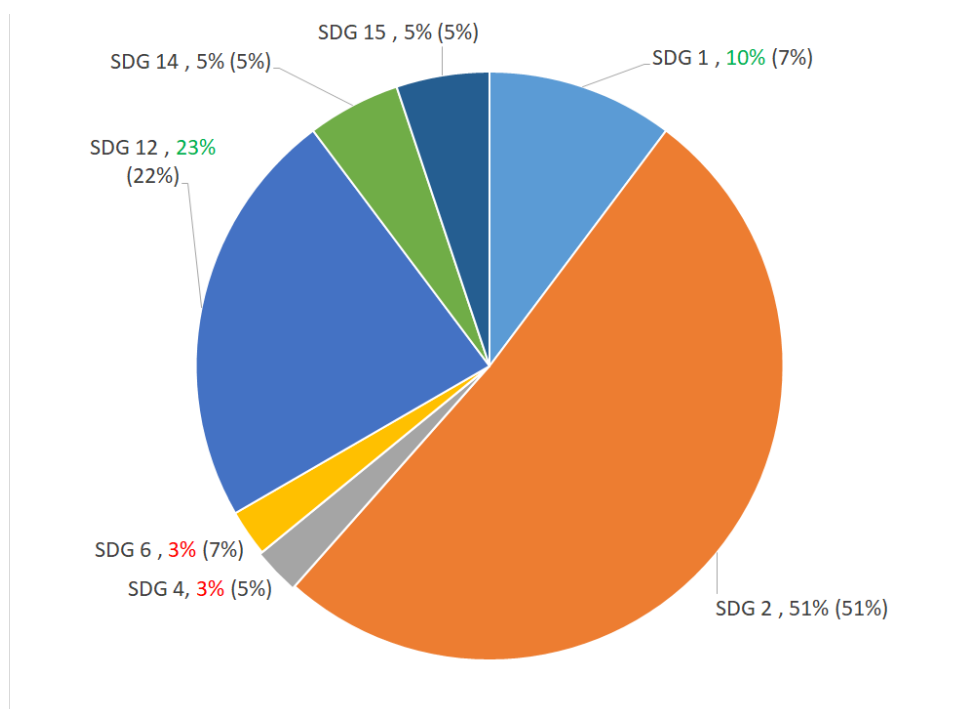
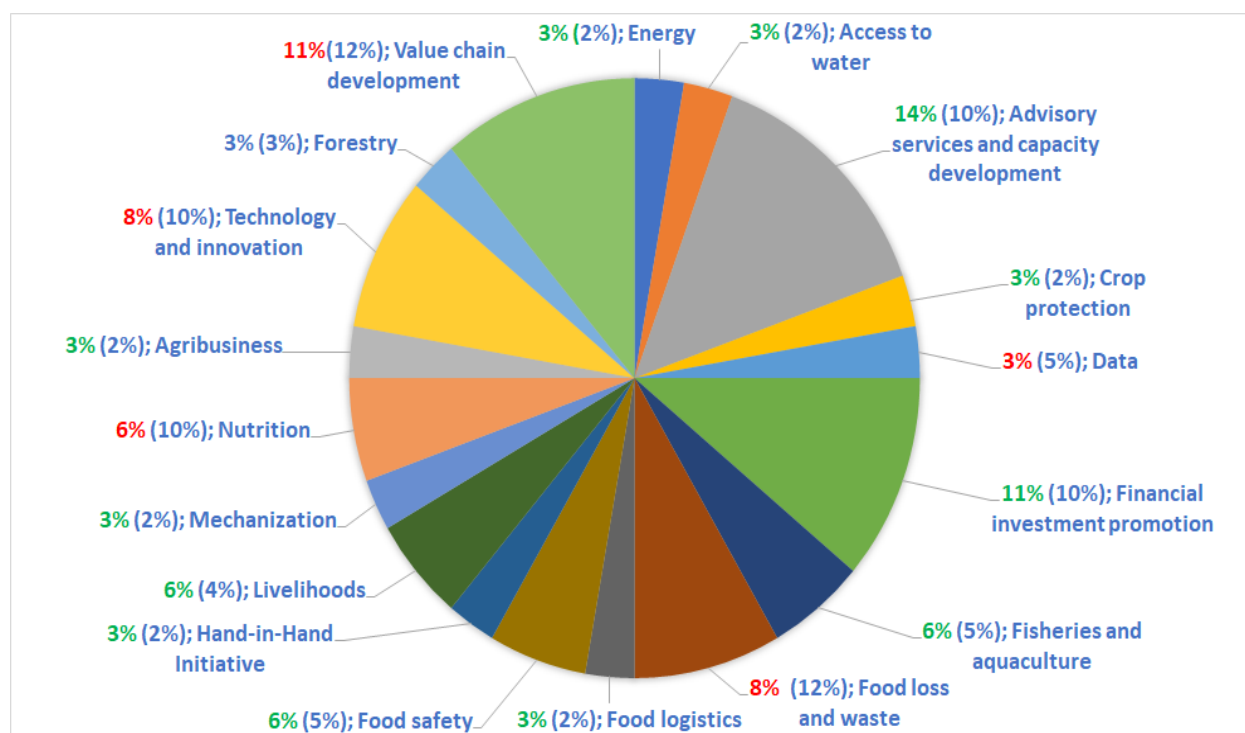
13. All existing engagements with private sector entities contribute to **at least one SDG** (Chart 3)<sup>7</sup>. The majority continue to primarily contribute to SDG 2 - Zero Hunger, while a significant portion contributes to SDG 12 - Responsible Consumption and Production. Fewer engagements contribute to rural poverty reduction (SDG 1; 10 percent), as primary SDG. Fourteen percent of these engagements also contribute to SDG 10 as other (not primary) SDG. There is no substantial change with respect to the initial gap analysis undertaken in November 2020.

14. **Sectors of engagement continue to be quite varied** (Chart 4). Advisory service and capacity development is the most represented sector in the current partnership portfolio, with similar shares related to value chain development and food loss and waste. Regarding new areas of engagements, 11 percent relate to financial investment promotion, 8 percent are in technology and innovation, 3 percent in data, while 3 percent are connected to the Hand-in-Hand (HiH) Initiative.

<sup>5</sup> Associations (ASSOC); foundations (FND); micro, small and medium-sized enterprises (MSMEs); large companies (LRG); multinational companies (MNC); and financial institutions (IF/FI).

<sup>6</sup> Numbers in red or green indicate the percentages as of 1 September 2021. The colour indicates an increase (green) or decrease (red) in comparison to the percentage as of 30 November 2020, which is indicated in parentheses.

<sup>7</sup> All engagements contribute to a number of SDGs. The primary SDG is the main SDG to which the engagement is contributing.

**Chart 3. Existing engagements – contributions to the SDGs<sup>8</sup>****Chart 4. Existing engagements – thematic sector share (percentage)<sup>9</sup>**

15. It is evident from the updated analysis that **FAO should continue to work on a selected portfolio of dynamic, strategic and transformative partnerships, which are more balanced in**

<sup>8</sup> Numbers in red or green indicate the percentages as of 1 September 2021. The colour indicates an increase (green) or decrease (red) in comparison to the percentage as of 30 November 2020, which is indicated in parentheses.

<sup>9</sup> Numbers in red or green indicate the percentages as of 1 September 2021. The colour indicates an increase (green) or decrease (red) in comparison to the percentage as of 30 November 2020, which is indicated in parentheses.

**terms of geographical coverage and types of private sector entities.** Continued enhanced focus on engagements with the private sector in Small Island Developing States (SIDS) and HiH Initiative countries is also necessary, as well as the need that partnerships clearly contribute to priority areas of FAO's mandate and the Strategic Framework 2022-31 in line with the SDGs, in particular SDG 1, 2 and 10. This is all aligned with the spirit of the Strategy, as well as with the guidance from Members. Progress should be measured via the key performance indicators (KPIs). A preliminary capacity development indicator has been included in the Adjustments to the Programme of Work and Budget 2022-23, and future KPIs that reflect geographical, typological and sectorial distribution of engagements, are under development.

### III. Progress in the implementation of the Strategy

#### A. System and process

16. In line with requests for transparency received from Members, FAO designed and launched the **CONNECT portal**, a one-stop shop for all information related to FAO's private sector engagements. As such, FAO is and remains committed to full transparency towards Members.

17. The first level of the CONNECT portal was launched in April 2021, on the occasion of FAO Council. The CONNECT portal is comprised of a public web-based interface, which includes information on the rationale for FAO-private sector partnerships, results delivered, success stories, and means to engage alongside a searchable database of information on FAO's private sector partners. The portal is regularly updated with refreshed content and additional elements are under development.

18. The second level, already available to FAO Members and personnel (password protected) to access the complete database of partnership agreements and other legal agreements in force, will be complemented by the staff capacity development package tools and materials. The third level, accessible to FAO staff responsible for managing private sector partnerships will host a new 'client' management system (CRM) by the end of 2021, and will ensure regular updates and full transparency to Members. The CONNECT portal's use and effectiveness will be closely monitored, via key user data that will feed into KPIs.

19. The process of developing a **cost-benefit analysis (CBA)**, requested by Members, is underway, and the relevant Terms of Reference are being set, with CBA methodology being adapted to the specific context of the exercise. Once the analysis is completed, the results will be reported in the annual progress report of the Strategy.

#### B. Institutional set-up, capacity development and training

20. FAO developed draft Terms of Reference of the **informal PSAG**, and presented the proposal at an Informal Consultation with Members, held on 27 August 2021.

21. Following consideration by the Joint Meeting of the 129th Session of the Programme Committee and the 183rd Session of the Finance Committee<sup>10</sup>, FAO will initiate the informal PSAG as a forum to enhance FAO's collaboration and engagements across the private sector. FAO paid particular attention to Members requests to ensure a balanced, broad and geographically diverse range of private sector actors. FAO ensured that the group's composition reflects the following aspects: diversity (geographical, and enterprise structure/size), relevance, impact, innovation, availability and commitment to the mandate of FAO, as well as balance among partners already known to FAO and potential new partners.

22. FAO is requesting Chairpersons of the Regional Groups to nominate one Member from each Region established for Council election purposes, to act as Observers at PSAG meetings.

23. FAO has contracted a vendor to facilitate the design and implementation of a **staff capacity development programme**. This will include an interactive guide, e-learning, videos and webinars open to all FAO personnel. Rollout will commence towards the end of 2021. Learning materials will

<sup>10</sup> [CL165/9](#)

be made available on FAO's learning platform you@fao and accessible to FAO personnel through the CONNECT portal.

24. In order for FAO to successfully implement the Strategy, partnerships with the private sector need to be fully integrated into the work of the Organization at all levels (country, regional and headquarters), and across all work Streams, Divisions and Units. To this end, FAO established a **Private Sector Interdepartmental Working Group (IDWG)**, composed of FAO personnel from both headquarters and Decentralized Offices, as a mechanism to regularly discuss matters and share knowledge and experiences relating to engagements with the private sector, thus ensuring a coherent approach in the implementation of the Strategy.

### C. Operational policies and guidelines

25. **Due diligence and risk assessment.** During its 165th Session (30 November – 4 December 2020), FAO Council *emphasized the importance of due diligence mechanisms and risk management to avoid potential conflicts of interest, specifically in, but not limited to, FAO's work on policies, norms and standard-setting; requested full alignment of the Strategy with the UN Global Compact; and requested the due diligence mechanisms and rules to be updated and annexed to the Strategy.*<sup>11</sup>

26. The Strategy provides a set of *guiding principles for engagement* that have been adhered to in the development of FAO's new framework for due diligence, referred to as FRAME. The principles focus on established UN values including neutrality, integrity and independence, avoid conflict of interest, transparency, etc.<sup>12</sup>

27. Further, the Strategy calls for a “fit-for-purpose” due diligence approach in assessing and managing risk, a “proactive” approach to due diligence (facilitating the formulation and implementation of partnerships, going beyond a “defensive” approach while safeguarding the integrity, impartiality and independence of FAO and managing risks, in line with the UN Joint Inspection Unit report of 2017 and aligned with the UN Global Compact). The Strategy also highlights the importance of conducting the due diligence screening and risk assessment at an early stage, before engaging with any prospective private sector partner, and that risk mitigation and safeguards measures are put in place, and with clear segregation of duties.<sup>13</sup>

28. FAO has implemented the Council's guidance reported above by operationalizing the principles and elements set out in the Strategy through the development of FRAME.

29. The Strategy has been, therefore, the guide for developing FAO's new due diligence approach to assessing and managing risks. In only a few months, FAO has been able to review the approaches, legacy set up and workflow, as well as current challenges of the due diligence functions in other UN organizations, including in the context of the UN development system repositioning and the UN Sustainable Development Group (UNSDG) Common Approach, then develop the new FRAME and a new streamlined workflow for FAO. The update of the due diligence mechanisms started in January 2021, followed by consultations with UN agencies for benchmarking between mid-February and March 2021, and internal consultations with relevant stakeholders between March and June 2021.

30. FAO's internal due diligence mechanisms and rules were updated during July and August 2021. The new FRAME was presented at an informal consultation with Members on 27 August 2021.

31. The FRAME:

- i. defines clear roles and responsibilities. The Core Leadership or Heads of Regional Offices [(Assistant Directors-General (ADGs)/Regional Representatives] are responsible for ascertaining strategic relevance and potential impact of any prospective engagement; the Partnership Officers in Resource Mobilization and Private Sector Partnerships Division (PSR) and Partnerships and UN Collaboration Division (PSU) support the formulator in the process and ensure potential for impact and alignment to FAO Strategy for Private Sector

<sup>11</sup> [CL 165/REP, paragraph 11 d\).](#)

<sup>12</sup> [FAO's Strategy for Private Sector Engagements 2021-2025, paragraph 19.](#)

<sup>13</sup> [FAO's Strategy for Private Sector Engagements 2021-2025, paragraphs 14, 48, 49, 54, 55 and 59.](#)



- Engagement 2021-2025 and the Strategy for Partnerships with Civil Society Organizations, respectively; formulators/business owners are responsible for the development of the proposal, clarity of scope and quality of the proposed engagement;
- ii. ensures segregation of duties. To avoid potential conflicts of interest, the Project Support Division (PSS) has assumed due diligence and risk assessment responsibility for private sector and other non-state actors partnerships, thus ensuring segregation of duties with Partnerships development (PSR/ PSU); and a new decision-making committee has been established (see point 4 below);
  - iii. supports the Organization in its shift from a risk averse to a risk-conscious approach to partnerships, with a colour-coded risk tier approach defined. The proposed engagements that score as medium or high risk encompass a risk management approach that requires the formulator to address the risks identified by proposing a set of risk mitigating and management measures, with the newly introduced Impact Benefits and Risk Mitigation Plan (IBRMP); and
  - iv. provides a robust review and decision-making process, based on evidence and a solid approach to assessing and managing risks. All prospective engagements assessed as medium and high-risk, and low risk for an interim period, are reviewed by the newly-established Engagements and Partnerships Committee (EPC) at Core Leadership level.
32. The due diligence screenings and risk assessment are conducted by relating the proposed entity and engagement to specific sets of criteria, against which prospect entities are checked and assessed in the context of the proposed engagement. These are: i) the Exclusionary Criteria, which refer to business categories and/or practices considered inherently incompatible with the values of the UN; ii) the corporate high-risk sectors; iii) the UN Global Compact Principles; and iv) the environmental, social and governance (ESG) reputational risk elements.
33. The new elements of FRAME have resulted in a streamlined process and workflow, with the screenings carried out at a very early stage of formulation to ensure an early identification of the risks, benefits and risk mitigation and management measures and the clear criteria, workflow and decision-making process. This has contributed to a significant reduction in the turn-around time for review and consideration of screenings.
34. The new FRAME is in line with the UN Global Compact and its common principles<sup>14</sup>, following FAO active consultations with the UN Global Compact, and the UNSDG Partnerships Task Team. This has allowed FAO to align its new approach to the UN system, and identify good practices, such as for the adoption of colour-coded risk tier. The overall approach design takes into consideration the UN Joint Inspection Unit report of 2017.
35. In conclusion, FRAME adheres to and operationalizes the principles outlined in the Strategy for Private Sector Engagement 2021-2025, and adequately addresses the requests from Governing Bodies. It is presented in this document as Annex II and proposed to be Annexed to the Strategy.

#### *D. Communication and outreach*

36. FAO is taking a more proactive and targeted approach to seeking, cultivating and scaling up new private sector engagements, which requires strategic outreach to the prospective private sector entities based on FAO's priorities identified under the Strategic Framework 2022-31, in particular the set of Priority Programme Areas (PPAs). The CONNECT portal now offers content in all six official languages of the Organization, replacing the old Private Sector webpage. The "Opportunities" section will be developed in close collaboration with IDWG members to offer a wide variety of opportunities for formal and informal private sector engagements, at global, regional and country level, firmly rooted in the Strategic Framework and PPAs.
37. Concerted outreach by senior management will be intensified in the form of media activity, as well as active promotion of formalized agreements concluded in line with the direction of the Strategy.

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<sup>14</sup> UNGC Guidelines on a Principle-based Approach to the Cooperation between the United Nations and the Business Sector

An outreach action plan is being designed to promote the Strategy and related tools with specific private sector entities. The plan will provide action points to increase both visibility of FAO's work within the private sector community and awareness among FAO personnel.

#### **IV. Next steps**

38. Since the endorsement of the Strategy by the 165th Session of the Council, its implementation is well underway, and FAO has accelerated its efforts to create an enabling environment for FAO personnel to embrace new ways of engaging with the private sector. The continued development of the CONNECT portal, including the CRM system, and capacity development package including the FRAME, as described, continues to be of highest priority throughout 2021.

39. FAO will continue monitoring the regional, typological and thematic distribution of the private sector partnerships portfolio to ensure better alignment with the Strategy, as well as with the Strategic Framework, and is in the process of developing KPIs to measure the progress.

40. Attached to the Update, Management is presenting the two proposed Annexes – updated FRAME and the Terms of Reference of the informal PSAG.

41. Continuing to adhere to the principles of transparency, Management plans to pursue maintaining dialogue with Members through informal briefings related to key aspects of private sector engagement and milestones of the Strategy implementation and monitoring and reporting in 2022. Finally, the first annual report of the progress and achievement of the Strategy implementation will be presented at the 133rd Session of the Programme Committee in 2022.

## **Annex 1. Informal Private Sector Advisory Group (PSAG) Terms of Reference**

### **A. Background**

1. FAO recognizes the private sector as a key ally for the fight against hunger and malnutrition, the unique role of the private sector in innovation, trade, finance and investment, and its ability to impact on agri-food systems transformation at scale. FAO's Strategy for Private Sector Engagement 2021-2025 was endorsed by FAO Council at its 165th Session, and is now being fully operationalized. The Strategy articulates FAO's expanded and enhanced engagement with the private sector as an indispensable element to support countries in achieving the SDGs.

2. Building on the experience of international institutions, such as the Global Environment Facility (GEF) and others, FAO has proposed the establishment of an informal Private Sector Advisory Group (PSAG) to serve as a consultative forum to enhance FAO's collaboration and engagements across the private sector. The FAO PSAG will be a voluntary group of advisers from a diverse geographical and typological range of private sector entities, established to enhance FAO's collaboration and engagement with the private sector. Through regularly scheduled meetings, comments and reactions will feed into FAO's proposed areas and methods of engagement and the implementation of the New Strategy as it is deployed across FAO.

### **B. Objectives and role of the PSAG**

3. The PSAG serves as an independent expert Advisory Group to collect and take into consideration the views and suggestions of a wide and diverse range of private sector actors to support the implementation of FAO's Strategy for Private Sector Engagement. Members are independent from FAO and the Director-General. The PSAG will provide technical advice on expanding and deepening strategic partnerships with the private sector and on improving FAO's outreach. While the PSAG may exchange information with the CFS Private Sector Mechanism, its primary goal remains focused on supporting the achievement of the 2030 Agenda for Sustainable Development and FAO's Strategic Framework 2022-31.

4. The PSAG will have a strictly advisory role. It may make recommendations, but all decisions regarding the implementation of the Strategy rest with FAO Director-General and those to whom he has delegated authority in accordance with the Basic Texts.

### **C. Tasks of the PSAG**

5. The PSAG may be consulted for informal advice and feedback, and may make recommendations, on:

- i. tailoring engagement formats to different types of private sector entity and proposing alternatives to traditional partnership configurations to ensure a wider spectrum of collaborations and allow for greater agility, including at country level;
- ii. mechanisms to accelerate the implementation of engagements with trusted and like-minded enterprises identified through joint platforms or previous collaborations;
- iii. proposed areas and methods of engagement, and to seek additional data and knowledge on a given topic from a private sector perspective;
- iv. developing approaches for engagement with the private sector for issue-based coalitions;
- v. developing specific approaches for engagement with MSMEs;
- vi. approaches to engagement impact monitoring and assessment;
- vii. contributions to populate a shared calendar of key events relevant to both FAO and the private sector, and other opportunities for presentations and outreach;
- viii. prototype testing of the one-stop CONNECT portal, designed for transparency and to increase opportunities for engagement and collaboration with the private sector, including systems improvements, tools and resources; and
- ix. FAO communications products targeted at the private sector.

### **D. Chair of PSAG**

6. The PSAG will be chaired and convened by the Deputy Director-General Beth Bechdol, supported by the Director of the Resource Mobilization and Private Sector Partnerships Division (PSR).

### **E. PSAG Membership**

7. The PSAG will include 20 members, who will be appointed to serve for a single two-year non-renewable term. FAO will work to ensure a broad, balanced and geographically diverse range of private sector actors, with representation from different private sector typologies including MSMEs, producer associations, foundations, private sector financial institutions, as well as large and multinational companies.

8. PSAG members will be selected by the Director-General from a shortlist prepared by the Deputy Director-General Beth Bechdol drawing upon recommendations compiled by FAO Regional Offices and FAO's Partnerships and Outreach Stream at headquarters.

9. FAO Regional Offices will engage closely with FAO Members to identify, each of them, up to five potential PSAG members per Region for inclusion in the shortlist, while the Partnerships and Outreach Stream will also propose up to five potential members.

10. The Deputy Director-General Beth Bechdol may invite FAO technical personnel to attend as resource persons, as required, in order to provide information on specific topics.

11. In making the selection of PSAG members, FAO will be particularly attentive to the need to avoid potential conflict of interest issues with FAO private sector partners acting as members of the PSAG.

12. FAO will consider the following aspects when selecting members of the PSAG:

- i. diversity (both geographical and of company type) – entities that could represent the diverse views of private sector actors, ranging from multinational companies and MSMEs including start-ups, as well as farmers' organizations, industry associations, consortia representing private sector interests, financial institutions, philanthropic foundations, etc., as defined by the Strategy;
- ii. relevance – entities representing different sectors relevant to FAO's mandate and scope of work across agri-food systems;
- iii. impact – entities that present high potential for scaled-up impact;
- iv. innovation – entities that can bring the perspective of innovation; and
- v. commitment to the mandate of FAO – representatives should be available to contribute two to three times a year on a voluntary basis.

### **F. PSAG meetings**

13. The PSAG will be convened for at least two meetings per annum, with additional *ad hoc* meetings as required. Meetings will be held virtually, and PSAG members will not receive any form of compensation or cost reimbursement for attendance.

14. FAO Members may observe PSAG meetings, with one Observer nominated by each of the Regional Groups established for Council election purposes.

### **G. Amendment**

15. These Terms of Reference may be amended by the Director-General.

## Annex 2. Framework for Due Diligence and Risk Assessment/Management for Engagements (FRAME) with Private Sector and other Non-State Actors

### I. INTRODUCTION

1. According to FAO's Strategic Framework 2022-31 (the "Strategic Framework"),<sup>15</sup> partnerships are central to reaching the goals of the 2030 Agenda for Sustainable Development, since today's challenges require cooperation, not only across borders, but across the whole society, including with the private sector<sup>16</sup>.
2. The Organization-wide *Strategy on Partnerships*<sup>17</sup>, the *Strategy for Private Sector Engagement 2021-2025*, and *FAO's Strategy for Partnerships with Civil Society Organizations* (2013) collectively provide the framework for engagements with non-State actors<sup>18</sup> (NSAs), by emphasizing the importance of working as equal partners with civil society and the private sector in achieving the Sustainable Development Goals (SDGs).<sup>19</sup> This is consistent with the emphasis placed by the Joint Inspection Unit of the United Nations System (UNJIU)<sup>20</sup> on making the UN system more effective in its cooperation with the private sector to support the 2030 Agenda and to foster sustainability in their business models.
3. FAO's Due Diligence Framework for Risk Assessment and Management for engaging with private sector and other NSAs (FRAME) is the updated framework that aims at balancing the benefits with potential risks arising from prospective engagements, while preserving FAO's integrity, independence and impartiality.
4. During its 165th Session (30 November - 4 December 2020), FAO Council approved the FAO's Strategy for Private Sector Engagement 2021-25 (the "Strategy"). The Council *requested full alignment of the Strategy with the UN Global Compact; and requested the due diligence mechanisms and rules to be updated and annexed to the Strategy*.<sup>21</sup>
5. FRAME is in line with the Strategy and addresses Council recommendations of ensuring full alignment with the UN Global Compact (UNGC) and updating the due diligence mechanisms and rules.

### II. GUIDING PRINCIPLES AND ALIGNMENT WITH THE UN GLOBAL COMPACT

6. FRAME adopts the Strategy's core set of *guiding principles for engagement* with the private sector and other NSAs. The principles focus on established UN values, including: neutrality, integrity and independence, avoid conflict of interest, and transparency.

<sup>15</sup> C 2021/7.

<sup>16</sup> Partnerships are also highlighted as one of the "five Ps"<sup>16</sup> (People, Planet, Prosperity, Peace and Partnerships) for sustainable development and are encapsulated in SDG 17, which endorses the importance of partnerships to achieve the goals of the 2030 Agenda.

<sup>17</sup> FAO's Organization-wide Strategy on Partnerships, 2012.

<sup>18</sup> **Non-State actors** include private-sector entities, civil society, privately owned/funded academia and research institutions; **Civil society**: this category includes member-based organizations (MBOs), non-governmental organizations (NGOs), professional associations and social movements (SMs);

**Private sector**: for the purposes of the *Strategy for Private Sector Engagement 2021-2025*, FAO considers the private sector to encompass a broad array of entities, ranging from farmers, fishers, foresters, livestock herders, and MSMEs (including cooperatives, farmers/fishers/foresters/livestock producers' organizations and social enterprises) to large firms, both domestic and multinational companies, and philanthropic foundations. This Strategy also takes account of industry and trade associations and consortia that represent private sector interests. Any consortium, organization or foundation largely funded or governed by private entities will be considered private sector, as well as state-owned enterprises (SOEs). Academia and research institutions are not covered by this Strategy.

<sup>19</sup> *FAO's Strategy for Private Sector Engagement 2021-2025*, CL 165/4, paragraphs 16 to 18. FAO is the custodian United Nations agency for 21 SDG indicators under SDGs 2, 5, 6, 12, 14 and 15, and is a contributing agency to a further five indicators. In this capacity, FAO is supporting countries' efforts to monitor the 2030 Agenda.

<sup>20</sup> JIU/REP/2017/8.

<sup>21</sup> Report of the 165th session of the Council.

7. FRAME promotes the adherence to the UN system-wide framework and to the Ten Principles of UNGC, including the Guiding Principles on Business and Human Rights (United Nations, 2011). The Principles on Human Rights, Labour, Environment and Anti-Corruption are fundamental criteria in FAO's due diligence process for engaging with the private sector and other NSAs, and are aligned with the Guidelines on the Principle-Based Approach to the Cooperation between the United Nations and the Business Sector issued by the United Nations Secretary-General in 2015 (2015 UN Guidelines).

8. Accordingly, FAO's engagements with NSAs, including the private sector, should:

- i. *demonstrate a clear contribution to the attainment of the SDGs;*
- ii. *respect the values of FAO and the United Nations;*
- iii. *not compromise (or appear to compromise) FAO's neutrality, impartiality, integrity, independence, credibility or reputation;*
- iv. *be effectively managed and avoid any conflicts of interest or other risks for FAO;*
- v. *demonstrate a contribution to FAO's mandate, goals and mission, and the national development goals of its Members;*
- vi. *respect the intergovernmental nature of FAO and the decision-making authority of its Members, as set out in FAO's Constitution;*
- vii. *support and enhance, without compromise, the neutral and independent scientific- and evidence-based approach that underpins FAO's work;*
- viii. *protect FAO from any undue influence, especially on processes for setting and applying policies, norms and standards;*
- ix. *be conducted based on transparency, openness, inclusiveness, accountability, integrity and mutual respect;<sup>22</sup>*
- x. *maximize local-level development impact and beneficiaries, particularly the smallholder farmers and their associations, as well as youth and women, respecting the principles of "leave no one behind" and "do no harm".*

9. A non-exclusivity principle also guides FRAME. Accordingly, FAO does not grant exclusivity to any private-sector partner nor other NSA. Engagement with any NSA does not imply FAO's endorsement or preference of that private-sector or other NSA partner, its products or services. When considering engagements with private sector and other NSAs, FAO prefers engaging with entities which demonstrate their consistent commitments and efforts supporting FAO's mandate, the SDGs and alignment with international and sectoral standards, including UNGC Principles<sup>23</sup> and the UN Guiding Principles on Human Rights and Business.<sup>24</sup>

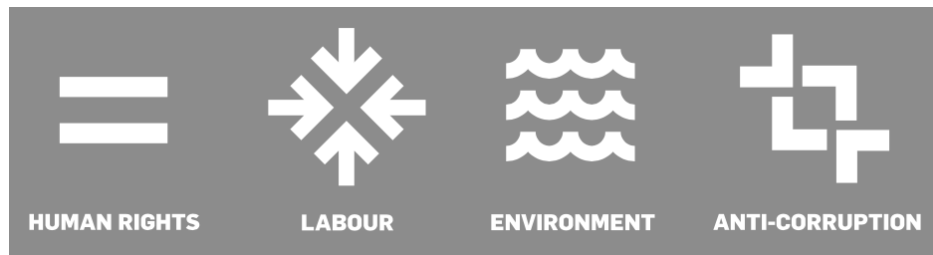
10. UNGC was founded to uphold, promote and embed the Ten Principles in business<sup>25</sup>, which define how an organization works and interacts with society, customers, employees, suppliers, and the environment. They are derived from the Universal Declaration on Human Rights, the International Labour Organization's Declaration on Fundamental Principles and Rights at Work, the Rio Declaration on Environment and Development, and the United Nations Convention Against Corruption, and cover:

<sup>22</sup> FAO's Strategy for Private Sector Engagement 2021-2025, CL 165/4, paragraph 19.

<sup>23</sup> UN Global Compact Principles: Human Rights (Principles 1; 2), Labour (Principles 3; 4; 5; 6), Environment (Principles 7; 8; 9), Anti-corruption (Principle 10).

<sup>24</sup> "Guiding Principles on Business and Human Rights – Implementing the United Nations Protect, Respect and Remedy Framework", UN Human Rights Office of the High Commissioner.

<sup>25</sup> Annex III.



11. FRAME operationalizes the above principles into the approach of the due diligence review and the risk assessment and management process, as described in the next section.

### III. UPDATED FAO'S DUE DILIGENCE MECHANISMS AND RULES - FRAME

12. FRAME is fundamentally based on and embeds the following core elements:
- i. risk management approach;
  - ii. clear roles and responsibilities, including independent due diligence and risk assessment/management function;
  - iii. updated and streamlined FAO's due diligence process; and
  - iv. robust review and decision-making.

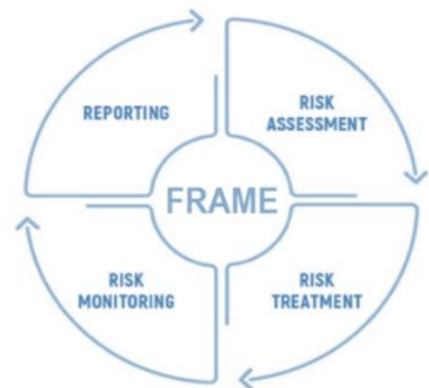
#### A. RISK MANAGEMENT APPROACH

13. FRAME supports “a proactive approach to due diligence” “going beyond a defensive approach”.<sup>26</sup> This results in an open approach to partnerships together with adequate mechanisms to identify, assess, mitigate and manage risks of engagements that might otherwise affect FAO's reputation, its intergovernmental character, as well as its independence and impartiality.

14. Risk management is an integral part of prospecting and decision-making. The new approach identifies and assesses the risks related to the proposed entity and engagement (through the due diligence screening and the risk assessment), while reducing the exposure to the identified risks (risk mitigation and management).

15. The relevant steps are:

- i. identifying the prospect partner and the scope and context of the proposed engagement;
- ii. conducting due diligence screening and risk assessment of the proposed entity and engagement at an early stage;
- iii. identifying risk mitigation measures and benefits of prospective engagements;
- iv. regular risk monitoring and management review;
- v. recording and reporting of risks mitigation measures implementation;
- vi. communication and consultation with key stakeholders (risk escalation).



16. To support the transition from a *risk averse* to a *risk-conscious* approach, all proposed engagements with entities determined as medium to high risk are considered together with potential impact/benefits, risk mitigation measures, and a proposed risk management plan.

17. FRAME risk management approach ensures a better response to uncertainty, and enhanced ability to meet the objectives and to deliver the benefits foreseen by the collaboration, ultimately minimizing risk while maximizing opportunity.

<sup>26</sup> FAO's Strategy for Private Sector Engagement 2021-2025, CL 165/4, paragraph 50.

## B. CLEAR ROLES AND RESPONSIBILITIES

18. Clear roles and responsibilities, including proper segregation of duties, are the cornerstone of FRAME:

- i. FAO's Project Support Division (**PSS**) performs due diligence and risk assessment for engagements with private sector and other NSA; is the business owner of FRAME<sup>27</sup>; and serves as Secretariat of the Engagements and Partnerships Committee (EPC).
- ii. The **formulator** is responsible for prospecting, proposing, developing and managing the implementation of the engagement with the private sector and other NSA. Formulators, according to the scope of the proposal, can be FAO Representatives (FAOR), Subregional Coordinators (SRC), Assistant Directors-General (ADGs), Assistant Directors-General/Regional Representatives (ADG/RR) or Heads of headquarters Technical Divisions and Offices.
- iii. The **Partnerships Officer** (PO) – in the Resource Mobilization and Private Sector Partnerships Division (PSR) for engagements with the private sector, and in the Partnerships and UN Collaboration Division (PSU) for engagements with other NSAs – is responsible for supporting and facilitating the formulation and risk management and finalization of the proposed engagements.
- i. The **EPC** is the final decision-making authority.

## C. UPDATED AND STREAMLINED DUE DILIGENCE PROCESS

19. FRAME clarifies the aim of due diligence, identifies the scope of the due diligence process, and sets out clear criteria for due diligence screening and assessment of risks and updates and streamlines the relevant mechanisms.

20. Due diligence refers to a set of criteria and parameters, and a suite of analytical practices used to appraise the type and level of risk, versus benefits that a UN organization could be exposed to through a potential interaction and association with NSAs. The due diligence risk assessments and recommendations are an integral part of partnership prospecting, decision-making and risk management systems.<sup>28</sup>

21. The aim of FRAME is to support organizational informed decision-making on engagements with private sector and other NSAs. The FRAME process foresees the:

- i. profiling of prospective partners to gain evidence that informs both potential partnership opportunities and risks, starting with the screening of entities against a set of defined criteria to assess risk level;
- ii. review of potential risks and benefits, to ensure that decision-making on if/how to engage with NSAs is based on adequate assessment of potential benefits and impact, and risks; and
- iii. identification of risk mitigation measures to avoid, minimize and/or manage risks to ensure informed decision-making and an appropriate risk management set up are in place.

22. **Due diligence scope:** The due diligence and risk assessment/management process (the due diligence process) is required for:

- i. all prospective engagements with the private sector and other NSAs;
- ii. any significant new commitment of/to an existing private sector or other NSA engagement;

<sup>27</sup> FAO's Strategy for Private-Sector Engagement 2021-2025, CL 165/4, paragraph 63 and Annex I.

<sup>28</sup> United Nations Sustainable Development Group (UNSDG) Common Approach to Prospect Research and Due Diligence for Business Sector Partnerships, 2020, paragraph 1.



- iii. any renewal of an expired engagement when the due diligence was not conducted or was conducted before FRAME;
- iv. any emerging issue regarding an ongoing engagement with private sector or other NSA that is brought to the attention of FAO; and
- v. FAO prospective operational partners under Manual Section 701 (MS701).<sup>29</sup>

23. **Due diligence screening:** The due diligence screening is carried out against the following set of criteria:

- i) **Exclusionary Criteria:** FAO adheres to a set of exclusionary criteria for engagements with NSAs. These criteria refer to business categories and/or practices considered inherently incompatible with the UN's values, treaties, or other international standards, as set out in **Appendix I**.

In principle, engagements with entities falling within the FAO exclusionary criteria will not be pursued, and existing partners should be disengaged if evidence of FAO exclusionary criteria arises during implementation. However, interactions may still be possible with some private sector or other NSAs assessed to present significant risks in exceptional cases (only after completion of the full due diligence process, including review and decision by the EPC), where there would be a substantial benefit to FAO's beneficiaries and stakeholders of a clearly defined engagement supporting delivery of FAO's mandate, and if mechanisms can be put in place to protect FAO's interests.<sup>30</sup>

- ii) **High-risk sectors:** Some sectors, by their nature or operational context, might have potential to negatively impact communities and the environment. All UN organizations have a high-risk sectors list. This categorization is very specific to each UN organization's mandate. FAO's 'high risk' list is largely consistent with those of several other UN agencies. The commitment of entities operating in high-risk sectors and their practices to reduce these risks will be crucial to achieving the SDGs, and so will be FAO readiness to interact and engage with appropriate risk assessment/management measures in place.

FAO considers that the high-risk sectors indicated in **Appendix II** require particular caution in the analysis and careful review. Proposed engagements relevant to FAO's mandate, with an entity operating within any high-risks sector will be considered, following a comprehensive due diligence screening and assessment of the associated benefits and risks, risk mitigation measures and risk management plan.

- iii) The entities' commitment to the **UN Global Compact Principles**: The due diligence screening is carried out against the Ten UN Global Compact Principles. The screening ensures that the entity operates in ways that, at a minimum, meet fundamental responsibilities in the areas of human rights, labour, environment and anti-corruption. The 10 principles are listed in **Appendix III**.
- iv) Any identified **Environmental, Social and Governance (ESG)** reputational risks: The proposed entities' behaviour is screened with the view to identify and ensure their alignment to the ESG criteria. The risk assessment takes into consideration any potential incident or breach related to the ESG components as follows:
  - **Environmental** criteria may include a company's energy use, waste, pollution, natural resource conservation, and treatment of animals. The criteria can also be used in evaluating any environmental risks a company might face and how the company is managing those risks.
  - **Social** criteria look at the company's business relationships, also in terms of working conditions, labour rights and diversity.

<sup>29</sup> Proposed engagements with operational implementing partners assessed as medium or high-risk do not go to the EPC for review, as these will follow the Risk Identification and Risk Management planning described in the FAO Handbook, including [section on risk identification and management of OPIM partners](#).

<sup>30</sup> FAO's *Strategy for Private Sector Engagement 2021-2025*, CL 165/4, paragraph 57.

- **Governance** relates to any malpractice involving bribery and corruption, tax, executive remuneration, shareholders' voting possibilities and internal control.

24. **Risk Assessment:** The due diligence screening identifies potential risks of the proposed engagement that could affect FAO's reputation, its intergovernmental character, its independence and impartiality.

25. The most frequently identified risks of proposed engagements against the set of criteria may relate, among other aspects, to:

- conflicts of interest;*
- undue or improper influence exercised by an entity on FAO's work, especially, but not limited to, policies, norms and standard-setting;*
- a negative impact on FAO's integrity, independence, credibility, reputation or mandate;*
- the engagement being primarily used to serve the interests of the entity, with limited or no benefit to FAO;*
- the engagement conferring an endorsement of, or an unfair advantage to, the private sector entity's name, brand, product, views or activity;*
- the blue-washing of a private sector entity's image through an engagement with FAO; and the failure of the partnership to provide the expected benefits.<sup>31</sup>*

26. At this point of the due diligence process, a colour-coded system is used to represent the overall assessed level of risk -- each colour corresponding to the level of risk of engagement with the prospective partner -- following the screening and analysis against the set of criteria indicated above.

27. The figure below describes how the screening and risk assessment are conducted and indicates the colour-coded risk tiers:



28. **The due diligence workflow:** The workflow includes a pre-screening phase which aims at ensuring that the proposed engagement has programmatic relevance, aligns to the Strategy, and has potential for impact. The confirmation of programmatic relevance is provided by the relevant Core Leader /Head of Office, the alignment to the Strategy and confirmation of potential for impact by the Partnership Officer (in PSR/PSU) before it is submitted for due diligence review.

<sup>31</sup> FAO's Strategy for Private Sector Engagement 2021-2025, CL 165/4, paragraph 52.

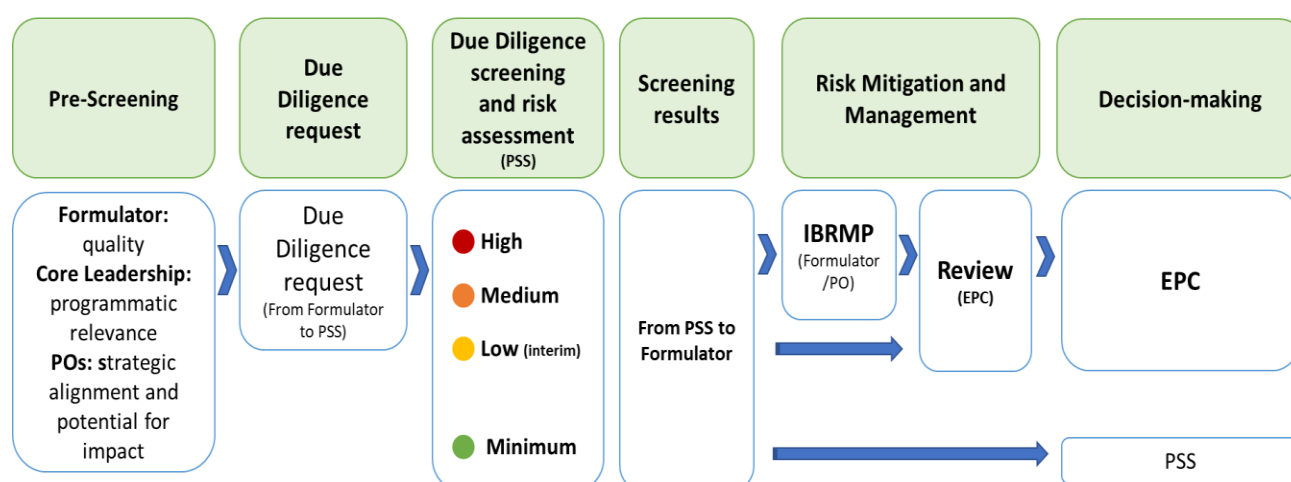
29. The proposed engagement with the identified private sector or other NSA entity is then submitted to PSS for **due diligence screening and risk assessment**. The screening and risk assessment are therefore conducted at a very early stage.

30. The level of risk assigned to the entity in the context of the proposed engagement determines the workflow. Minimum-risk cases are notified by PSS to the formulator directly. Cases assessed as low risk will be reviewed by the EPC on an interim arrangement, while cases assessed as medium and high risk require the elaboration of an **Impact/Benefit and Risk Mitigation/Management Plan (IBRMP)** that will be reviewed by the EPC together with the due diligence screening. This supports the Organization's transition from a risk-averse to a risk-conscious approach to partnerships through evidence based decision making.

31. The IBRMP is a short, structured document which clarifies and better defines the expected benefits and impact of the proposal while elaborating the appropriate risk mitigation measures for each main risk identified in the due diligence screening, with the proposed management set up to ensure proper management of risks during implementation. The IBRMP is a fundamental element of FRAME.

32. The EPC reviews expected impact/benefits versus risks together with related risk mitigation and management actions proposed to ensure benefits outweigh the mitigated risks.

33. The figure below outlines the main elements of the workflow:



## D. ROBUST DECISION MAKING

34. FRAME provides evidence and a solid approach to impact/benefits and assessing and managing related risks as the foundation for a robust review and decision-making process, based on assessed levels of risk and risk mitigation.

35. **The EPC**<sup>32</sup> is a decision-making committee composed of FAO's Core Leadership as members and other key staff as observers. It reviews all low (*ad interim*), medium and high-risk cases by assessing a prospective engagement's clarity of intent, its potential benefits, impact and risk mitigation plan vis-à-vis the risks identified and assessed in the due diligence report; and provides policy guidance.

36. The **EPC decisions** are adopted by consensus. The EPC may (i) endorse the proposed engagement; (ii) not endorse the proposed engagement; (iii) endorse the proposed engagement with *conditions* (for example that the relevant risk mitigation elements presented in the IBRMP, together with any additional condition/recommendation by the EPC, have to be integrated into the appropriate

<sup>32</sup> AC 2021/07, 27 Apr 2021.

legal instrument during the finalization and formalization of the engagement); (iv) refer the matter to the Director-General.

37. Only after successful completion of the due diligence process, with the clearance by the EPC of the low (*ad interim*), medium and high-risk proposals, the prospective partnership can be finalized, with relevant legal instruments, following existing procedures.<sup>33</sup>

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<sup>33</sup> DGB 2014/13.

## Appendix I. FAO's Exclusionary Criteria<sup>34</sup>

FAO adheres to a set of exclusionary criteria which are applicable to engagements between FAO and the private sector. These criteria refer to business categories and/or practices considered inherently incompatible with values of the UN, its treaties, or other international standards. FAO does not engage, in principle, with entities that:

- i. are directly engaged in activities inconsistent with the UN Security Council Sanctions, Resolutions, Conventions (for example, climate, biodiversity, or transnational organized crime, terrorist financing) or other similar measures, including the Anti-Money Laundering/Combating the Financing of Terrorism (AML/CFT) standards of the International Monetary Fund's Financial Action Task Force (FATF);
- ii. are complicit in human rights abuses, tolerate forced or compulsory labour or the use of child labour;
- iii. do not align with the UN Global Compact Exclusionary Criteria<sup>35</sup>;
- iv. are involved in the production and wholesale distribution of tobacco products, or whose revenues are derived from gambling (except lottery) or pornography;
- v. have systematically failed to demonstrate a commitment to meeting, or failed 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, the International Labour Organization Declaration on Fundamental Principles and Rights at Work, the United Nations Global Compact, the United Nations Guiding Principles on Business and Human Rights or the United Nations' system-wide zero tolerance policy on all forms of sexual exploitation and abuse.

<sup>34</sup> *FAO's Strategy for Private Sector Engagement 2021-2025*, CL 165/4, paragraph 54

<sup>35</sup> The UN Global Compact Exclusionary Criteria are as follows:

- *Subject to a UN sanction;*
- *Listed on the UN Ineligible Vendors List for ethical reasons;*
- *Derive revenue from the production, sale and/or transfer of antipersonnel landmines or cluster bombs;*
- *Derive revenue from the production and/or manufacture of tobacco.*

## Appendix II. High-Risk Sectors in an Operational Context

Entities operating in high-risk sectors should be treated with particular caution and require careful attention. The sectors considered as high risk by FAO are listed below:

<p><b>Oil and gas</b> Extraction of oil and gas (including oil sands); manufacture of refined petroleum products; transport via pipeline; associations or other entities representing or funded largely by any of the above, as well as industry lobbyists.</p>
<p><b>Metals and mining</b> Mining (including coal, diamonds and other precious and semiprecious stones, metals, uranium, etc.), manufacture of basic iron, steel, non-ferrous metals, precious metals; casting of metals; treatment and coating of metals; quarrying, associations or other entities representing or funded largely by any of the above, as well as industry lobbyists.</p>
<p><b>Utilities</b> Electric power generation from large dams, large solar and wind plants, nuclear power plants, fossil-fuel power plants (e.g. gas and coal-fired); electric power transmission and distribution; water collection, treatment and supply; sewerage; waste treatment and disposal; materials recovery (recycling); associations or other entities representing or funded largely by any of the above, as well as industry lobbyists.</p>
<p><b>Large infrastructure</b> Construction of buildings, roads, railways, civil engineering projects; construction or upgrading of large dams, nuclear power plants or pipelines, associations or other entities representing or funded largely by any of the above, as well as industry lobbyists.</p>
<p><b>Large-scale agriculture and fishing</b> Growing of crops, including palm oil or other large monocultures (e.g. energy crops for biofuels); livestock farming, seafood production; aquaculture; associations or other entities representing or funded largely by any of the above, as well as industry lobbyists.</p>
<p><b>Alcohol</b> Manufacturers of alcoholic beverages; wholesale distributors and importers that deal solely and exclusively in alcohol beverages or whose core business is the production of alcohol beverages; associations or other entities representing or funded largely by any of the above, as well as industry lobbyists.</p>
<p><b>Chemicals</b> Manufacturers of chemicals, such as pharmaceuticals, petrochemicals, agrochemicals (e.g. fertilizers, pesticides), seeds and other inputs; associations or other entities representing or funded largely by any of the above, as well as industry lobbyists.</p>
<p><b>Genetically Modified Organisms (GMOs)</b> Manufacturers of GMOs; wholesale distributors and importers that deal solely and exclusively in or whose core business is the production of GMOs; associations or other entities representing or funded largely by any of the above, as well as industry lobbyists.</p>
<p><b>Fast food and Sugar-Sweetened Beverages</b> Manufacturers of sugar-sweetened beverages and/or high in fat, sodium, and/or sugar foods; wholesale distributors and importers that deal solely and exclusively in sugar-sweetened beverages and/or high in fat, sodium, and/or sugar foods or whose core business is the production of such items; associations or other entities representing or funded largely by any of the above, as well as industry lobbyists.</p>

### Appendix III. The Ten UN Global Compact Principles

#### Human Rights

**Principle 1:** Businesses should support and respect the protection of internationally proclaimed human rights; and

**Principle 2:** make sure that they are not complicit in human rights abuses.

#### Labour

**Principle 3:** Businesses should uphold the freedom of association and the effective recognition of the right to collective bargaining;

**Principle 4:** the elimination of all forms of forced and compulsory labour;

**Principle 5:** the effective abolition of child labour; and

**Principle 6:** the elimination of discrimination in respect of employment and occupation.

#### Environment

**Principle 7:** Businesses should support a precautionary approach to environmental challenges;

**Principle 8:** undertake initiatives to promote greater environmental responsibility; and

**Principle 9:** encourage the development and diffusion of environmentally friendly technologies.

#### Anti-Corruption

**Principle 10:** Businesses should work against corruption in all its forms, including extortion and bribery.