

# Instructions for using the Charter for Change Due Diligence Passporting Tool

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# Background

The Charter for Change (C4C) coalition is committed to advocating for more deliberate action in implementing global commitments on localization. Led by local, national, and international NGOs, the initiative aims to bring about concrete changes in the functioning of the humanitarian system to enable locally-led responses. Through annual dialogue discussions and the Charter for Change meeting in December 2021, local and national actors expressed the need for harmonized approaches and improved coordination among international non-governmental organizations (INGOs) to enhance administrative processes' efficiency and streamline operations.

C4C believes that current approaches to due diligence by institutional donors, INGOs, UN agencies, and national NGOs present several obstacles to achieving quality partnerships and supporting a transformative approach to localization. One challenge is the duplication or inconsistency of due diligence approaches, which forces national/local NGOs to undergo multiple assessment processes, answering similar questions in different formats for various agencies and their respective donors. Another challenge is the complexity and risk management systems involved in donor, UN, and INGO due diligence approaches, which were designed for larger international agencies and may not be suitable for smaller national or local NGOs. This trend of risk aversion and top-down approaches among donors and INGOs has been criticized for creating a humanitarian bubble, limiting access to funding for smaller actors that struggle to meet ever-increasing compliance and due diligence requirements.

Discussions on due diligence and localization have raised key issues of diversity, complementarity, and proportionality. Diversity is relevant because current due diligence approaches often exclude national and local actors, especially smaller groups and civil society organizations that do not conform to the organizational type and administrative structure scale of international agencies. Complementarity is important as local actors bring unique value by being deeply rooted in communities and possessing a deep understanding of local contexts, which may differ from the strengths of international agencies, such as report writing and technical aspects of aid management. Proportionality is also crucial as humanitarian agencies tend to lack proportionate approaches to due diligence based on funding levels or types of partners.

Several efforts are underway in the sector to address these issues. These include initiatives by the Core Humanitarian Standard (CHS) and Humanitarian Quality Assurance Initiative (HQAI) to promote discussions on due diligence passporting, the Start Network's experiments with tiered approaches to due diligence, collaboration between INGOs on harmonized due diligence approaches through NGO consortia at global and context-specific levels, and the Grand Bargain's focus on reducing duplication and management costs through a harmonized reporting approach using the 8+3 Reporting Format. Start Network's analysis has shown that 35% of its due diligence questions are covered by CHS audit reports, and they aim to align their due diligence practices with CHS/HQAI by Spring or early Summer 2022. Start Network is also developing a decentralized due diligence service model involving local providers and a modular due diligence framework that will create country-level due diligence modules,



with pilots planned for Bangladesh, Nepal, and Pakistan. Donors, including the Foreign, Commonwealth & Development Office (FCDO) and the European Civil Protection and Humanitarian Aid Operations (ECHO), have shown interest in exploring options for due diligence passporting. Within the Charter for Change coalition, both INGO signatories and national NGO endorsers have identified due diligence as a significant barrier to improving partnership quality and localization, as highlighted in the C4C Global Annual Meeting 2021 and the Humanitarian Directors session at the meeting.

In late 2022, C4C commissioned Humentum to map the approach that a group of seven C4C members take to due diligence and develop a Passporting Tool that could be used in passporting pilots in 2023. Humentum took an approach which involved co-creating the new Passporting Tool with the participating members based on their existing practice as well as their desire to simplify and reduce the burden of due diligence. Humentum also interviewed existing partners of the participating C4C members and noted the key aspects that these partners found most problematic and burdensome.

The tool design process was informed by regular meetings with a Steering Group of the C4C members involved. One key issue that was agreed during these Steering Group meetings was that the tool should be designed primarily for passporting rather than as a means to harmonize the different approaches being taken to due diligence by different C4C members. This differentiates the Passporting Tool and process from several previous attempts to create harmonization. See the Appendix for more details on the relative implications of passporting vs harmonization of due diligence.


Humentum Associates Tim Boyes-Watson and Mohamed Khlass used all this input and feedback to develop the attached Passporting Tool. The Humentum Associates would like to acknowledge the input from a wide variety of C4C staff members and their partners in this co-creation process. The tool is now ready for piloting and further iterative development.

## Key Benefits of Passporting Due Diligence

Passporting due diligence in the international development and humanitarian sector can offer several benefits. Here are some potential advantages:

**Efficient and Streamlined Processes:** Passporting due diligence allows for the transfer of due diligence assessments or certifications across different organizations or projects. This streamlines the process of vetting and verifying partners (and possibly in future other suppliers and contractors). It reduces duplication of efforts, saves time, and improves overall efficiency.

**Time and Cost Savings:** By using passported due diligence, organizations can save time and costs associated with conducting multiple separate due diligence assessments. The organizations being assessed will not be subject to multiple assessments from potential grantors. And grantors can avoid duplicating the effort and expenses of conducting their own evaluations, as they can rely on recognized and accepted due diligence assessments conducted by reputable entities. This can lead to significant



cost savings for all organizations operating in the international development and humanitarian sector: donors, INGOs who are often grant recipients and grant-makers and the ultimate grantees.

**Enhanced Collaboration and more Equitable Partnership:** Passporting due diligence facilitates collaboration and more equitable partnership among organizations. It enables organizations to leverage existing due diligence assessments or certifications to establish partnerships more quickly and efficiently. By reducing the burden of due diligence requirements, it encourages collaboration and allows organizations to focus on their core mission and objectives. As due diligence is usually conducted by the grantor on the grantee, it inevitably comes with a power dynamic which makes equitable partnership more difficult to achieve. Reducing the number of occasions that such due diligence is applied to grantees may reduce that power dynamic. Passporting will allow grantees to show prospective grantors that they meet all essential requirements, which means that these relationships will start on a more equitable basis.

**Improved Risk Management:** Passporting due diligence helps in mitigating risks associated with partnering or contracting with various entities. By relying on recognized due diligence assessments, organizations can make more informed decisions and minimize risks in partnerships. It provides a consistent framework for evaluating potential risks, ensuring greater transparency, accountability, and compliance.

**Standardization and Quality Assurance:** Passporting due diligence promotes the use of standardized due diligence criteria and methodologies. This helps in ensuring consistent evaluation processes and quality assurance across different organizations and projects. It establishes common benchmarks and standards, enhancing transparency and trust within the sector.

**Reputation and Credibility:** Using passported due diligence assessments can enhance an organization's reputation and credibility. It demonstrates a commitment to due diligence practices and ethical conduct, which is particularly important in the international development and humanitarian sector. Being able to showcase recognized due diligence certifications can instill confidence in donors, stakeholders, and partners, thereby strengthening an organization's credibility.

**Compliance with Regulatory Requirements:** Many organizations in the international development and humanitarian sectors are subject to regulatory obligations and compliance requirements. Passporting due diligence can help organizations meet these obligations efficiently and effectively. By relying on recognized assessments, organizations can demonstrate their compliance with due diligence requirements, reducing the administrative burden associated with individual compliance assessments.

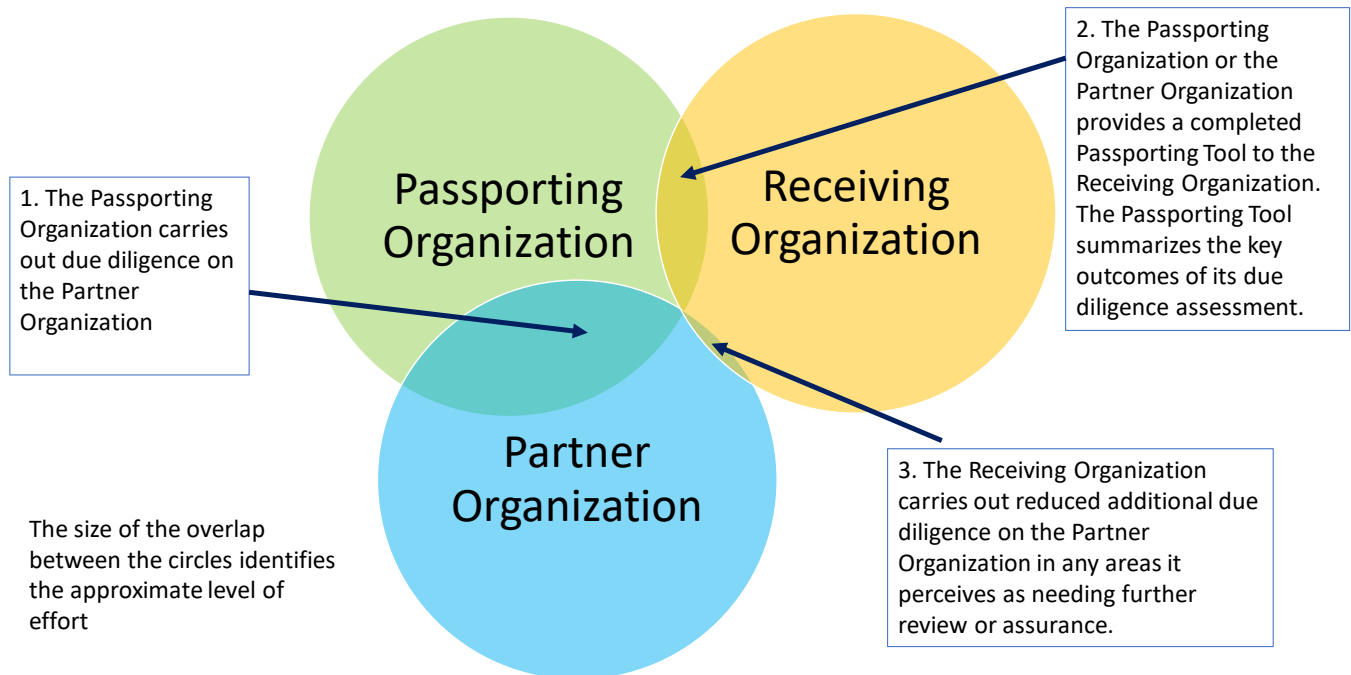
The benefits of passporting due diligence may vary depending on the specific context and implementation. Organizations should carefully assess the suitability and applicability of passporting arrangements based on their unique requirements, risk profiles, and sector-specific considerations.

# The Passporting Tool and Process

The Passporting Tool is designed to be used between three parties:

1. **The Partner Organization**, which has undergone a due diligence assessment conducted by:
  2. **The Passporting Organization**, which is working with and funding the Partner Organization and is providing the Passporting Tool to:
  3. **The Receiving Organization**: which is interested in working with and funding the Partner Organization, without having to conduct a further full due diligence assessment itself.
- The Passporting Tool should be completed by the Passporting Organization, and not the Partner Organization. The Passporting Tool has been designed to provide reasonable assurance to the Receiving Organization that the Passporting Organization has conducted a satisfactory due diligence assessment of the Partner Organization, so that the Receiving Organization can start working with that Partner Organization with the minimum level of additional work required.

**This diagram shows the 3 key steps and level of effort envisaged in the Passporting Process**



## **Principles of the Passporting Process: mutual transparency, consent, and good faith**

The Passporting Process is based on principles of mutual transparency, consent, and good faith. The Partner Organization should have full sight of the completed Passporting Tool and should sign off on the tool to confirm they have received the assessment and that they give their consent for it to be shared with potential Receiving Organisations. Whether the Passporting Tool is provided to the Receiving Organization by the Passporting Organization or the Partner Organization, both parties should provide consent for the completed Passporting Tool and the associated supporting documents to be shared with the Receiving Organization. Both the Partner Organization and Passporting Organization are expected to approach the passporting process in good faith and have a duty to flag any concerns they have that the Passporting Tool might provide an inaccurate or misleading view of the capacity of the Partner Organization.

## **Limitation of Liability and Period of Validity**

The Passporting Organization accepts no formal or legal liability for any negative consequences that might arise from the Receiving Organization's reliance on the Passporting Tool, provided it acted in good faith in providing all the information that was available to the Passporting Organization about the Partner Organization when it completed the Passporting Tool.

The Passporting Tool records the date on which the Passporting Organization last conducted a due diligence assessment, or significant work updating a previous due diligence assessment and the date the Passporting Tool itself was completed. It is up to the Receiving Organization to make its own determination as to the length of time that the findings communicated in the Passporting Tool are valid for its use as a form of assurance. The reason no absolute period of validity has been used is because many factors can affect the likely period of validity. Validity may be affected by the following factors, which the Receiving Organization may wish to seek information about from the Partner Organization:

- Major changes in the governance, management and key staff at the Partner Organization
- Major changes in the financial situation at the Partner Organization
- Major changes in the operating capacity of the Partner Organization
- Major changes in the operating environment or external context for the Partner Organization
- Major changes in the risks affecting the Partner Organization

As part of piloting the Passporting Tool, it may be useful to trial using some form of declaration around material changes from the Partner Organization as part of the Passporting Process.

# Structure of the Passporting Tool

The Passporting Tool can be used by the Passporting Organization to conduct the due diligence assessment on the Partner Organization, or it can be completed by the Passporting Organization based on alternative assessment tools it used to conduct due diligence. The Passporting Tool is designed to communicate and provide assurance about the extent to which the Partner Organization satisfactorily meets the criteria identified in the Passporting Tool.

The Passporting Tool is organized as a table with the following column headings.

Column Heading	Contents of Cells in that Column
Capacity Area	The form splits the criteria into seven categories: <b>General</b> (Question/Criteria 1 – 5) <b>Governance</b> (Question/Criteria 6 – 8) <b>Strategy</b> (Question/Criteria 9 – 10) <b>Accountability</b> (Question/Criteria 11– 13) <b>HR, Safeguarding and Security</b> (Question/Criteria 14 – 18) <b>Financial and Asset Management</b> (Question/Criteria 19 – 25) <b>Data and IT</b> (Question/Criteria 26) <b>Additional</b> (Question/Criteria 27+) – the Passporting and/or Partner Organization may agree to add more criteria if necessary
Question/Criteria	These set out a key capacity question or criteria usually in the form of a question, for example “Does the Partner Organization have effective security protocols for staff, project participants and communities, including a security plan?”. Sometimes there are related questions or sub-criteria to consider.
Partner Organization documents required, if available	If available and with the permission of the Partner Organization, the following documents should be provided to accompany the Passporting Tool: <ul style="list-style-type: none"> <li>- Constitution and/or any other document that describes the board appointment and related processes</li> <li>- Strategic Plan</li> <li>- Complaints policy and guidance</li> <li>- Sample of an agreement with a downstream partner</li> <li>- HR Policy</li> <li>- Code of Conduct</li> <li>- Safeguarding Policy</li> <li>- Latest available audited financial statements, related audit report and management letter</li> <li>- Finance policies or manual</li> <li>- ICT and Data Protection Policy</li> </ul>



Column Heading	Contents of Cells in that Column
Guidance for completing the Assessment Comments	These cells provide guidance and instruction for how the Passporting Organization should complete the Assessment Comments Section
<b>Assessment comments</b> , which should be used to describe the work carried out as part of the due diligence assessment, including what information was collected and what documents were reviewed.	These cells are intentionally left blank for the Passporting Organization to complete
Rating	<p>The Passporting Organization is required to give a rating between 1 and 4 indicating their judgement of the extent to which the Partner Organization meets each question/criteria. The rating scale is:</p> <ol style="list-style-type: none"> <li>1. Criteria not met therefore high risk</li> <li>2. Some criteria met but significant risks remain</li> <li>3. Criteria largely met and risk is acceptable to the Passporting Organization</li> <li>4. Criteria all met or exceeded with low risk</li> </ol>
When rating, the Passporting Organization should consider the criteria in each of the cells below. In general, the more criteria that are satisfied then the higher the score is expected to be, but it is understood that judgement is required and not all criteria have equal weighting. The Passporting Organization is welcome to use additional or substitute criteria if these are more relevant to the Partner Organization and its context - in which case it should describe the criteria used and the assessment against these criteria in Column I.	These cells provide additional guidance and suggested criteria for the Passporting Organization on how to rate and comment on each question/criteria based on relevant good practice.
<b>Rating comments</b> , which should be used to identify which criteria were met and note any reflections that affected the rating given.	These cells are for the Passporting Organization to communicate the key reasons explaining each rating.
Any relevant areas of organizational strengthening that have been agreed between the Passporting Organization and the Partner Organization as a condition of funding	These cells are to transparently communicate any areas that were mutually agreed as requiring organizational strengthening as a condition of funding. It should be of benefit to the Partner Organization to have these clearly communicated, so that the Receiving Organization can add to any support provided to the Partner Organization by the Passporting Organization.



Column Heading	Contents of Cells in that Column
Cross reference to Passporting Organization's own due diligence criteria (if different)	This column is only of use to the Passporting Organization, in the event they use a different assessment tool than the Passporting Tool. This Column would allow them to cross-reference rows in the Passporting Tool to criteria in their internal assessment tool.

The final completed Passporting Tool should be signed by both the Partner Organization and Passporting Organization to confirm that both parties agree that this is the final completed version and to give their consent for either party to share this with potential Receiving Organizations.

The wording that the Partner Organization signs against is as follows:

As the Partner Organization, we confirm that we acted in good faith in responding to the Passporting Organization's requests for information and assistance in order for it to complete this Passporting Tool but we do not accept any formal or legal liability for any negative consequences that might arise from any use of or reliance on it by any other organization.

The wording that the Passporting Organization signs against is as follows:

As the Passporting Organization, we confirm that we acted in good faith in completing this Passporting Tool, but we do not accept any formal or legal liability for any negative consequences that might arise from any use of or reliance on it by any other organization.

# Appendix

## Passporting Compared to Harmonization

The aim of this project was to develop a tool that can be used for passporting, without making it a requirement that participating INGOs replace their existing due diligence tools and processes with the Passporting Tool. If the passporting scheme is successful it might lead to more harmonization and alignment over time – but that is not a condition of participating in the passporting scheme. This design decision was deliberate and means that the Passporting Scheme should add value and not cut across or undermine other initiatives that have sought to harmonize approaches such as: the START Network’s Tiered model, the Core Humanitarian Standard and the Good Financial Grant Practice Standard.

The following table brings out some of the different implications of these two approaches:

<b>Implications</b>	<b>Alignment</b>	<b>Passporting</b>
Impact on each INGOs existing due diligence process and documentation	Participating INGOs need to align their own due diligence process to ensure they address and document their answers to the common core of due diligence questions.	Participating INGOs need to review their existing due diligence process to ensure this gathers information relevant to answering the common core of due diligence questions. However, they do not have to replace their existing due diligence assessment tools and process to participate in the passporting process.
Potential sharing of information between participating INGOs	INGOs would then provide a copy of their completed due diligence assessments to other INGOs who are considering working with the same partner organization.	INGOs would complete the due diligence passporting tool and provide this to other INGOs who are considering working with the same partner organization.
Workload Implications	This may require more work up-front adapting existing internal processes, but less in creating additional analysis for external sharing.	This requires additional work summarizing the outcome of existing internal processes for external sharing. However, INGOs may wish to reduce the additional workload by adapting their existing due diligence to follow the structure required in the Passporting Tool.
Risk implications	Some INGOs may feel there is more perceived risk providing their original work-papers to other INGOs.	Some INGOs may feel more comfortable sharing a more summarized template.

