



Private Infrastructure
Development Group
Pioneering infrastructure changing lives

Due diligence operation policy

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1. Introduction

This document sets out PIDG's Due Diligence Operating Policy ("Policy") and provides guidance on how to assess the integrity, capacity, capability, systems, policies and processes in respect of a proposed recipient of PIDG funding.

A recipient of PIDG funding ("PIDG Recipient") refers to persons and entities which receive funding either directly or indirectly from a PIDG company and/or the PIDG Trust (be that grant, loan, guarantee, project development or any other form of funding). It aims to set out a consistent approach for conducting due diligence using an agreed set of guiding principles and assessment activities.

Due to the fact that PIDG's funding will vary in terms of the type of financial support and the developmental stage of the project when PIDG provides its support, the principles and assessment activities set out in this document may not all be relevant in all cases. These should, therefore, be applied proportionately taking into account the nature of the PIDG Recipient, the type and value of PIDG's involvement, the assessed risks (in particular potential reputational risk) and any previous assurance PIDG may hold.

Due diligence in respect of procurement of goods and services by PIDG companies shall be carried out during each procurement process in accordance with the PIDG Procurement Operating Policy.

2. Policy Scope

This Policy applies to all due diligence activities undertaken by, or on behalf of, the PIDG Trust and PIDG companies.

This Policy applies to all:

- employees, contractors, agency workers, consultants, executives, committee members and non-executive directors of the PIDG companies ("Employees"); and
- third-party service providers responsible for delivering the core activities of a PIDG company ("Third Parties").

3. Policy & Principles

3.1 Policy

The overarching objective of this Policy is to ensure that before working with any partner or investing in a project, PIDG has reasonable certainty that PIDG funds will be correctly applied to achieve the desired outcomes in accordance with PIDG's strategy and such funds will not be misused.

It is PIDG's policy to require a due diligence assessment in respect of each potential opportunity to enable PIDG to make fully informed decisions about investments and projects. This Policy is designed to obtain assurance of a potential delivery partner's capacity and capability to deliver a project prior to entering into a formal agreement. It enables PIDG to identify and understand potential risks faced in working with a partner on a specific project in a particular location. It also enables PIDG to ascertain if these risks can be mitigated or managed to ensure the project is successfully delivered and PIDG funds are properly accounted for.

A risk-based approach to due diligence shall be followed which enables PIDG to assess risk factors at various steps in the process. This due diligence assessment should be updated throughout the duration of the business relationship.

3.2 Key principles

This Policy is built upon the following key principles:

3.1.1 Proportionality

The scope and depth of the due diligence assessment is proportionate to the risk and value of the project and any previous working relationship with the PIDG Recipient. Assessments should be designed on a case by case basis with scrutiny and energy focused towards aspects where risks are deemed the greatest.

3.1.2 Consistency of approach

A consistent approach will be adopted when undertaking assessments of PIDG Recipients and potential partners, using an agreed set of guiding principles and standards.

3.1.3 Evidence based

Due diligence assessments of a PIDG Recipient or partner will be based on the most current and verifiable information available.

3.1.4 Responsibility & Accountability

In respect of each proposal under consideration, a named individual will have responsibility for the overall due diligence process with input from relevant governance forum. The named individual will be responsible for agreeing the scope and depth of the due diligence assessment, as well as ensuring that this has been completed before entering into a legal/contractual agreement and before funding is disbursed.

4. Scope of due diligence

The precise scope of the due diligence assessment will vary depending on a range of factors, including the nature of the PIDG intervention, the type, size, location and maturity of the PIDG Recipient or partner.

However, the following are likely to be relevant, albeit to differing degrees and manner:

4.1 Strategic Fit

Careful evaluation should be undertaken to assess how well the investment opportunity fits in with PIDG's Strategy, Business Plan, Investment Policy and Risk Appetite.

4.2 Development Impact and Additionality

PIDG makes investments in infrastructure projects which are designed to deliver development impact by providing new or improved access to infrastructure for households and businesses, by creating income-generating opportunities and multiplier effects in the economy and/or by changing the financial system and demonstrating 'proof of concept' to enable an increased flow of capital to create more of these opportunities in the future.

PIDG investments should demonstrate financial additionality, attracting private finance in projects that would not otherwise happen or not at the same pace, and/or non-financial additionality, deepening and expanding the positive impact of the project on people and the planet.

For each investment there must be a clear articulation of how that investment is expected to create impact and additionality, together with suggested ways in which progress might be tracked, in accordance with the Results Monitoring Framework. It should take account of the PIDG Recipient's past performance in respect of creating impact and additionality.

4.3 Governance

Good governance and controls play a vital role in underpinning the integrity and efficiency of an organisation and successful delivery of outcomes. Governance is about how the PIDG Recipient or partner is or will be structured and controlled, including the processes in place for making and implementing decisions.

Dependent on the nature and maturity of the PIDG Recipient or partner in question the evidence should demonstrate a structured and effective senior management team operating in a controlled, open and transparent manner.

4.4 Legal Information

Legal due diligence confirms the PIDG Recipient or partner (as applicable) is or will be legally incorporated (if applicable) with a clear purpose, structure and division of responsibilities in accordance with the requirements of good governance.

This includes identification of any legal risks affecting the rights and obligations of the proposed PIDG Recipient or partner, e.g. ownership of property, obtaining of licences, etc.

4.5 Financial

Financial due diligence will enable PIDG to assess that the proposed PIDG Recipient or partner (as applicable) is financially viable and sustainable as a going concern. It may include factors such as the availability of funds, the ability to fund into a jurisdiction, what reserve bank restrictions exist and the ability to access hard currency (where relevant) if primary sources of funding are in local currency.

The assessment should also enable PIDG to determine the PIDG Recipient's ability to correctly manage and account for funds that PIDG provides as well as its financial health and should also consider related parties. It should take account of the PIDG Recipient's past performance, future commitments, expenditure and forecasting ability, and ensure that financial statements are audited and filed with the local regulators, as relevant.

4.6 Taxes

Tax due diligence enables PIDG to examine the different types of taxes that may be imposed upon the proposed PIDG Recipient or partner (as applicable), as well as the tax jurisdictions in which it may be subject to such taxes.

It should include a reasonable review of relevant taxes the proposed PIDG Recipient or partner (as applicable) is required to pay and gain assurance there is no evidence of improper calculation, intention of under-reporting or evading taxes.

It should also verify the status of any tax-related case pending with the tax authorities.

4.7 Conflicts of Interest

Conflict of interest means a situation in which different parties have interests that conflict with each other. Such conflicts may arise between PIDG (including PIDG companies and Employees) and PIDG Recipients or partners; between PIDG Recipients or partners and suppliers; and between PIDG Recipients and partners.

A conflict of interest may arise when an individual who is in a position of responsibility has a competing professional or personal interest which can make it difficult to fulfil their responsibilities impartially.

Any such actual or perceived conflicts should be identified as part of the due diligence process to ensure appropriate steps are taken to manage the conflict.

4.8 Know Your Customer

Know Your Customer (KYC) due diligence is the process of identifying the proposed PIDG Recipient and other partners (as applicable) and verifying that they are who they say they are. KYC must be completed in accordance the PIDG Anti-Corruption and Integrity Operating Policy and related policies.

4.9 Integrity Due Diligence

Integrity Due Diligence (IDD) is the process of gathering and interrogating independent information to gain an understanding of the integrity and corruption risks associated with a proposed PIDG Recipient or partner, e.g. risks arising from bribery, corruption and fraud. IDD should provide PIDG with a means to identify these risks and demonstrate that the PIDG Recipient or partner has a robust approach to counter such risks.

IDD must be undertaken using a risk-based approach, in accordance with the PIDG Anti-Corruption and Integrity Operating Policy and related policies.

4.10 Human Resource/Employees

Human resources (HR) due diligence will help to assess whether the PIDG Recipient can deliver, or be able to successfully deliver in future, based on whether there is sufficient staff capacity and capability with the relevant skills and experience. HR due diligence should include pre-employment screening and on-going vetting of staff, as appropriate.

The HR due diligence should also help to ensure that the rights of individuals are protected through confirmation of the recruitment process, contractual arrangements and remuneration practices.

4.11 Health, Safety, Environmental and Social

PIDG recognises that to meet its values and be able to deliver the responsible investment that it believes in, PIDG companies must ensure that the projects that PIDG supports (either directly or indirectly) have strong Health, Safety, Environmental and Social (HSES) governance. PIDG uses the International Finance Corporation's Performance Standards on Social and Environmental Sustainability (IFC Performance Standards) and other relevant standards and best practice, including standards relating to climate change, as the basis of its HSES management system.

HSES due diligence should be completed in accordance with the PIDG HSES management system which will ensure PIDG values are implemented in all PIDG projects.

4.12 Technical Assessment

Technical assessment will enable PIDG to analyse and evaluate the project, resource, technology, and architecture together with plans and processes to build and implement a project prior to investment. Dependent on the investment stage the focus of the technical due diligence assessment may range from the potential of the proposal to scalability and adaptability.

4.13 Procurement

Procurement due diligence in respect of PIDG funded projects should provide assurance that the PIDG Recipient or partner has adequate procedures, systems and controls in place to procure goods and services through an open and competitive process that is fair, transparent, and seeks to obtain best value for money. Procurement due diligence should seek to establish that contracts for goods and services have not been awarded in any way that would result in a breach of PIDG's Anti-corruption and Integrity Operating Policy, PIDG's Procurement Operating Policy and PIDG's values or any applicable laws.

4.14 Third Party Suppliers

Often significant risks to PIDG funds may lie in a PIDG Recipient's supply chain. Assessing a PIDG Recipient's or partner's supply chain will focus on their capacity and capability to properly monitor and control their implementing partners.

The third-party supplier assessment will provide assurance that PIDG Recipients and partners (as applicable) have proper and sufficient systems and controls in place to ensure that PIDG funds are correctly managed and PIDG values are sustained.

5. Guidance

5.1 Due Diligence Procedures

An effective due diligence process should follow a defined model spanning from the initiation of the idea or identification of the investment opportunity, through completion of the deal, to post completion monitoring of the investment. PIDG companies and Third Parties will maintain detailed procedures, processes and checklists for completing due diligence at all relevant stages.

5.2 Approval Process

When considering a business proposal, it is important that the decision-making body is able to make the decision based on the complete facts. The recommendation to the decision making body will, therefore, set out a fair and accurate summary of the results of the investment appraisal and due diligence with sufficient breadth to incorporate a summary of all due diligence workstreams, as well as a conclusion to provide assurance and highlight issues, concerns and weaknesses identified.

If weaknesses have been identified a remedial action plan should be defined and documented.

5.3 Keeping due diligence up to date

Where there is a time delay between credit approval, signing of final agreement and/or disbursement of PIDG funds it is essential that the due diligence is regularly reviewed to ensure it remains up to date, takes account of any changes that occur during the intervening period and remains compliant with PIDG policies and applicable laws.

Any material changes to the information presented to the decision-making body should be brought to the attention of such body prior to entering into a contract or disbursing PIDG funds.

5.4 Post investment monitoring

Post-investment, PIDG companies and Third Parties must ensure that due diligence is updated periodically as relevant and appropriate, in accordance with a risk based and proportionate approach.

PIDG companies and Third Parties must have oversight of ongoing monitoring and ensure compliance with agreed standards throughout PIDG's involvement with the project.

Progress against the remedial action plan agreed during the due diligence process must be monitored, tracked and reported.

5.5 Record keeping

PIDG companies and Third Parties must ensure that they maintain complete and up-to-date files in relation to each opportunity which has been taken forward for completion. These files would, for example, include records of opportunity origination, all documentation of due diligence streams including any external due diligence reports, approval submission details, and completion documents in addition to any ongoing procedures undertaken during or post-transaction.

Records must be retained in compliance with relevant applicable laws, in particular laws relating to anti-money laundering and protection of personal data.

The PIDG companies and Third Parties should maintain Due Diligence Assessment Register of completed assessments in order to provide continuity for future reference.

5.6 Record sharing

The due diligence assessment, or part thereof as determined to be reasonable and not in conflict with other legal or contractual commitments or responsibilities, shall be made available to PIDG Ltd and other PIDG companies.

All due diligence reports (or equivalent) commissioned from third parties shall be procured on the basis that they can be shared with PIDG Ltd and, unless there is a conflict of interest in doing so, the other PIDG companies.

Any non-disclosure agreements that are entered into with third parties in relation to potential investments (of whatever kind) by a PIDG company or Third Party shall permit disclosure of confidential information to PIDG Ltd and, unless there is a conflict of interest in doing so, the other PIDG companies, subject to PIDG Ltd and the other PIDG companies agreeing to keep such information confidential.