

Due Diligence Operating Policy

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1. Purpose

The purpose of this policy is to ensure that before engagement with any partner or Third Party, or before investing in a project, PIDG has reasonable certainty that its funds will be appropriately applied, and such funds will not be misused. PIDG is committed to achieving the desired outcomes in line with PIDG's strategy. It enables PIDG to identify and understand potential risks faced by a project and/or 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.

2. 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:

- PIDG Companies;
- PIDG People; and
- Third Parties.

3. Roles and Responsibilities

The PIDG Board is responsible for approving this policy following recommendation from the Risk Committee and is accountable to the PIDG Owners for the oversight and management of conflicts of interest.

The Risk Committee is responsible for reviewing this policy, to ensure the adequacy of PIDG's arrangements to manage conflicts of interest.

The PIDG CRO is responsible for implementing this Policy and associated standards and guidance as appropriate. The PIDG CRO shall periodically report to the Risk Committee on the adequacy and effectiveness of PIDG's arrangements for ensuring compliance with this policy.

Each PIDG Company shall:

- (i) be responsible for ensuring its compliance with this Policy and associated standards and guidance as issued by PIDG Ltd from time to time; and
- (ii) take reasonable steps to ensure that equivalent arrangements are implemented for each Service Provider and PIDG Recipient (where appropriate) to ensure their compliance with this Policy or another policy consistent with the principles of this Policy.

4. Policy

4.1. Definition

Due diligence is defined as the process of gathering and examining relevant and reliable information to assess the risk of a business associate (such as a service provider, partner or potential investment) before engaging in transactions with the business associate. The due diligence process requires the exercise of reasonable care and caution.

4.2. Key principles

This Policy is built upon the following key principles:

4.2.1. 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 on aspects where risks are deemed the greatest.

4.2.2. 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.

4.2.3. Evidence-based

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

4.2.4. Responsibility and 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 forums. 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.

4.3. Scope of due diligence

The precise scope of due diligence 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:

4.3.1. 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.

4.3.2. Impact

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, planet, wider economy and market transformation.

SDI due diligence assessments should be completed in accordance with the established PIDG SDI review and endorsement process. For each investment there must be a clear articulation of how that

investment is additional and expected to create impact, together with suggested ways in which progress might be tracked.

PIDG makes investments in infrastructure projects which are designed to deliver sustainable development impact on:

- People: from improved access to sustainable and resilient infrastructure, particularly for low-income groups and women, and from the creation of jobs in the infrastructure projects and associated supply chains.
- Planet: through lower carbon intensity and improved climate resilience of new infrastructure, avoided greenhouse gas emissions, and exploring the viability of innovative nature proof solutions.
- Wider economy: through local contracts awarded in the infrastructure projects, forward linkages in the wider economy, developing technologically innovative economic sectors and increasing fiscal revenues.
- Market transformation: through expected replication of innovative infrastructure solutions and unlocking new flows of finance from international and local private investors with a focus on local currency solutions.

A dual climate and gender lens should be applied to the sustainable development impact assessment. Contribution to sustainable development goals, development impact risks, and climate change risks should also be systematically assessed.

4.3.3. Legal

Legal due diligence enables PIDG to assess a prospective PIDG Recipient's or partner's legal risk profile ahead of proceeding with the opportunity. The assessment should reveal all matters that PIDG may need to be aware of before making an investment. 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 licenses, validity and enforceability of contracts, procurement process undertaken in line with local laws, etc.

4.3.4. Financial

Financial due diligence enables PIDG to assess whether 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 an account for funds that PIDG provides as well as its financial health and should also consider related parties (e.g. co-financiers or Tier 1 suppliers). 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.

4.3.5. 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.

Tax due diligence must be completed in accordance the PIDG Tax Management Policy. 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.

4.3.6. HR/Employees

HR due diligence will help to assess whether the PIDG Recipient can deliver, or be able to successfully deliver in the future, based on whether employees have sufficient 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.

HR due diligence should ensure that the rights of individuals are protected through the recruitment process, contractual arrangement, equality and diversity policies, and remuneration practice.

4.3.7. HSES

PIDG recognises that to meet its values and be able to deliver the responsible investment that it believes in, PIDG Companies must seek to ensure that the projects that PIDG supports (either directly or indirectly) have strong HSES governance in place and that they will seek to align with the PIDG HSES policies. PIDG HSES policies include alignment with the requirements of 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.

HSES due diligence shall be completed in accordance with the PIDG HSES risk management framework as part of the SDI review and endorsement process which will ensure PIDG values are implemented in all PIDG projects.

4.3.8. Technical Assessment

Technical assessments 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.

4.3.9. 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. Due diligence should be carried out during each procurement process in accordance with the PIDG Procurement Operating Policy.

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.

4.3.10. Supply Chains

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.

4.3.11. 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.

4.3.12. Conflicts of Interest

A conflict of interest is a situation in which an accountable individual has a competing professional or personal interest (which can include financial interests, related-party business undertakings, personal relationships, non-financial personal interests and affiliations with for-profit or non-profit organisations, or with political or professional organisations). Such competing interests can make it difficult to fulfil an individual's responsibilities impartially.

Such a conflict of interest may be an actual conflict, a potential conflict where personal and professional interests could conflict, or where it appears or could be perceived that personal interests may improperly influence professional duties.

4.3.13. KYC

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 with the PIDG Anti-Corruption and Integrity Operating Policy and related policies.

4.3.14. IDD

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, terrorism 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.

4.4. Record keeping

PIDG Companies and Third Parties must ensure that they maintain complete and up-to-date records for each project. Records must be retained in compliance with applicable laws.

4.5. Record sharing

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 concerning 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.

5. Further Information

If you require any further information relating to this policy, you should speak to your line manager in the first instance or PIDG Compliance at Compliance@pidg.org