



Introduction

[What is due diligence?](#)

[Who is responsible for undertaking due diligence?](#)

[What is the purpose of the due diligence framework and why do I need to do it?](#)

[When should I carry out my due diligence assessment?](#)

[Once my due diligence assessment is complete is that it?](#)

[How long is a due diligence assessment valid for?](#)

[Exceptions to due diligence](#)

[What resources are available to help me?](#)

[Sharing assessments](#)

[Further advice](#)

Approach

[Key principles](#)

[Risk based approach](#)

[Risk of terrorist financing](#)

[Due diligence process](#)

[Improvement plans](#)

[Due diligence flowchart](#)

[Overview of the due diligence pillars](#)

Four Pillars

[Pillar 1: Governance and internal control](#)

[Pillar 2: Ability to deliver](#)

[Pillar 3: Financial stability](#)

[Pillar 4: Downstream activity](#)

Additional guidance when conducting Due Diligence on:

[Multilateral organisations](#)

[Private sector organisations](#)

[Start-up organisations](#)

[Humanitarian responses](#)

Introduction

What is due diligence?

Due diligence is one of the key tools in DFID's overall risk management framework which we use to help identify and manage risks that could threaten the effective use of our funds. Due diligence is designed to obtain a level of assurance of a potential delivery partner's capacity and capability to deliver DFID programmes prior to entering into a formal agreement. It allows us to identify and understand potential risks faced in working with a partner on a specific programme and location and ascertain if these can be mitigated and managed to ensure the programme is successfully delivered and our funds are properly accounted for.

Who is responsible for undertaking due diligence?

Smart Rule 17 states:

"The Head of Department or delegate must ensure that either (a) a fiduciary risk assessment has been completed before providing financial aid to a government; or (b) a due diligence assessment has been completed before funding is disbursed. For rapid onset humanitarian emergencies (a different process applies for other humanitarian work) a formal DDA can be completed after disbursing the first funds but the SRO for the programme should have satisfied themselves that any risks are proportionate to the programme outcome."

The responsibility for undertaking due diligence assessments rests with spending teams. The SRO is responsible for deciding the scope/level of assurance they require, which will allow them to make an informed decision about whether or not to proceed with the partner.

Where necessary due diligence assessments can be supported by external contractors.

What is the purpose of the due diligence framework and why do I need to do it?

This framework provides guidance on how to assess a partner's capacity, capability, systems, policies and processes. It sets out a consistent approach for conducting due diligence using an agreed set of guiding principles and assessment activities. These should be applied proportionately taking into account the nature of the partner, the value of the programme, assessed risks of the planned intervention and any previous assurance DFID may hold.

A good due diligence assessment will:

- be proportionate to the intervention
- be risk based
- provide a better understanding of the partner
- identify pre-funding risks/control weaknesses
- enable the programme team to identify controls to mitigate risks
- provide an assessment on the partner as a basis for future funding considerations
- support the SRO in their decision making

When should I carry out my due diligence assessment?

With the exception of rapid onset emergencies, the assessment must be completed before the first funds are disbursed. If strategic choices have already been made before you start drafting your Business Case which means that you know who your implementing partners are likely to be, then you might consider starting your assessment while the Business Case is being drafted or while it is waiting for possible approval. The important thing is to build enough time into your overall programme planning process to avoid any delays to disbursement of funds. You should think about what skills are needed to complete your assessment (see “who” question above).

Once my due diligence assessment is complete is that it?

Once complete, the due diligence assessment will provide you with a clear understanding of the partners strengths and weaknesses in their ability to successfully deliver the programme we are funding. If weaknesses have been identified then it's important to create an improvement plan, which will allow you to track the progress of any remedial action agreed with the partner and associated timeframes. We suggest including the improvement plan within the programme delivery plan. Further details on improvement plans can be found below. The risk section of the Annual Review template asks you to describe outstanding actions from a due diligence assessment.

How long is a due diligence assessment valid for?

Due diligence assessments will remain valid for three years unless material changes have taken place within that timeframe e.g. loss of experienced staff; fraud; poor reputation of programme management/delivery etc. Programmes longer than three years should refresh their due diligence assessment(s) proportionately. This will assess the continuing capacity and capability of the partner and identify if any material changes have taken place which would have an adverse effect on our relationship or programme implementation.

Exceptions to due diligence

Due diligence must be conducted prior to disbursing funding to a delivery partner. The only exceptions to this are when:

- a due diligence assessment has been conducted in the last three years on the partner in the same country where the proposed new programme will be delivered with many of the same programme staff and provides the SRO with sufficient assurance about the partner's capacity and capability to manage our programme and funds
- the proposed intervention is a continuation of an existing programme and there has been no significant changes or concerns raised about the partner
- a partner is bidding for a contract as part of a competitive tender, which has been subject to Procurement and Commercial Department's Pre-Qualification questionnaire and Invitation to Tender process
- we provide financial aid to a partner Government, where assurance is provided through a Fiduciary Risk Assessment
- entering into a joint agreement with another aid agency (e.g. SIDA etc.) who will be managing or delivering the programme. We would still expect sight of the assurance the lead donor received prior to disbursing our funds
- providing funds to another UK government department or Non-Departmental Public Body to deliver or manage a programme
- funding the European Union, of which we are a member state

Sharing assessments

Our delivery partners are increasingly being subject to a number of due diligence assessments by other agencies which can be quite burdensome. Where possible you should ask the delivery partner if a due diligence exercise has recently been undertaken and if you can have a copy of the report. It is up to the SRO (consulting upwards as they see fit) to decide if another agency's review provides sufficient assurance, or whether you need to carry out an additional review.

DFID may be asked by a donor/delivery partner to share one of our assessments. You should discuss this request with your SRO and refer to the Freedom of Information Act. You must obtain permission from the delivery partner who was subject to the assessment prior to releasing the report. Further advice and guidance can be obtained from The Information Rights and Public Enquiry Team who provide a central point of expertise on data protection matters.

Further advice

If you have any questions concerning this framework then you should first discuss this with your programme team or SRO. If additional advice or guidance is required then you should contact the specific institutional lead your enquiry relates to e.g. finance manager; governance advisor, humanitarian advisor etc. If these first two methods are unable to address your enquiry then please post your question on the Better Programme Delivery Yammer Group (if it is to share ideas or ask for ideas from others) or Service Anywhere (specific questions about the application of the rules or guidance), which contains due diligence frequently asked questions and published articles.

Approach

Key principles

The due diligence framework is built upon the following seven key design principles:

Proportionality	The scope and depth of the assessment is proportionate to the risk and value of the programme and any previous working relationship with the partner. Assessments should be designed on a case by case basis with scrutiny and energy focused towards the pillars where risks are deemed the greatest.
Consistency of approach	The due diligence framework provides staff with a consistent approach when undertaking assessments on potential delivery partners, using an agreed set of guiding principles and assessment activities.
Evidence based	Due diligence assessments will be based on the most current and verifiable information available when assessing a partner's capacity and capability to deliver our programme.
Responsibility	The SRO is responsible for agreeing the scope and depth of the assessment, which will enable them to make an informed decision on whether to enter into an agreement with the potential delivery partner.
Accountability	The HoD or delegate must ensure that a due diligence assessment has been completed before funding is disbursed.
Policy ownership	The Better Delivery Department is responsible for the due diligence framework.
Knowledge sharing and co-ordination	Spending departments are responsible for uploading their complete assessments on to the due diligence central library.

Risk based approach

We recognise that a common approach is difficult to achieve with the environments we operate in and the diverse range of delivery partners we use. The framework encourages a risk based approach, enabling SROs to assess risk factors at various steps in the process.

SROs should consider the following when agreeing the scope of the due diligence assessment:

- the value, duration and complexity of the intervention
- whether DFID has previously worked with this partner? If yes, how successful was this intervention and did DFID have any concerns regarding them?
- what level of scrutiny is required to obtain sufficient comfort on the partner's capacity and capability? What particular elements require closer scrutiny?
- whether there have been any reports of fraud, bribery, corruption or terrorist financing concerning the partner
- if working with a multilateral, has the multilateral been subject to a Central Assurance Assessment which you can take a level of comfort from, reducing the scope of the local level due diligence assessment?

Risk of Terrorist Financing

Due to the environments we operate in, it may sometimes be necessary to undertake a more detailed assessment of a DFID partner. This is particularly the case if DFID partners work in areas where terrorist groups are known to operate and there are concerns that funds may be diverted to support terrorist organisations or activities.

By proactively managing the risk of terrorist financing, we minimise the potential for contravening UK and international law. We also minimise the risk of UK taxpayers' funds being diverted and potentially having an adverse effect on DFID's reputation.

If staff have any belief or suspicion that DFID funds are being diverted to terrorist organisations or activities, this must be reported immediately to the Head of Internal Audit or the Counter Fraud Section (CFS). Spending departments must maintain a record of evidence, detailing all discussions, and meetings. Only DFID staff working with the programme in question should be alerted to the issue. This will be on a need to know basis and could include the programme manager, SRO and the Head of Office/Department.

Due diligence process

Before undertaking a due diligence assessment, the programme team should:

- check the due diligence library for any previous assessments (see section above on 'what resources are available to help me?')
- approach the partner to find out if another aid agency has recently conducted an assessment on them (if DFID does not hold any previous assessments). If so, request a copy from the delivery partner which you may be able to draw some assurance from

- review existing material which will inform the SRO's decision on the scope of assessment required (see above)

When undertaking a due diligence assessment:

- assessments will usually begin with a desk based review of publicly available information about the organisation (e.g. annual reports; financial accounts; policy statements) and information you have requested from the organisation. The SRO may decide to follow up the initial review with site visits and interviews with key representatives of the potential partner to gather further information
- risk and/or control weaknesses identified during the assessment should be clearly documented within the report using the Minor/Moderate/Major/Severe risk ratings. The due diligence report template can be accessed via Smart Rules templates
- when the assessment is completed it should be shared with the partner to ensure no factual errors and also once the report has been agreed

Reviewing policies

A policy is a statement of intent by the organisation, which documents systems, procedures and principles to guide staff in their duties and decision-making. Simply having policies in place only shows an organisation has at some stage compiled them. You should assess their quality as well as how they are communicated and adhered to by staff.

The SRO is responsible for:

- reviewing the content and quality of the assessment and deciding whether it provides them with sufficient information to make an informed decision on the suitability of the partner to successfully deliver our programme and manage our funds
- deciding on whether or not to proceed with the proposed funding
- ensuring control weaknesses have been identified, and captured in an improvement plan with agreed timeframes for completing the actions (see below)

Once the SRO signs off the assessment, the programme team should upload the final version to the due diligence central library¹.

Improvement plans

There is no set template for an improvement plan, it is more important that it contains the right information that works for the programme team including:

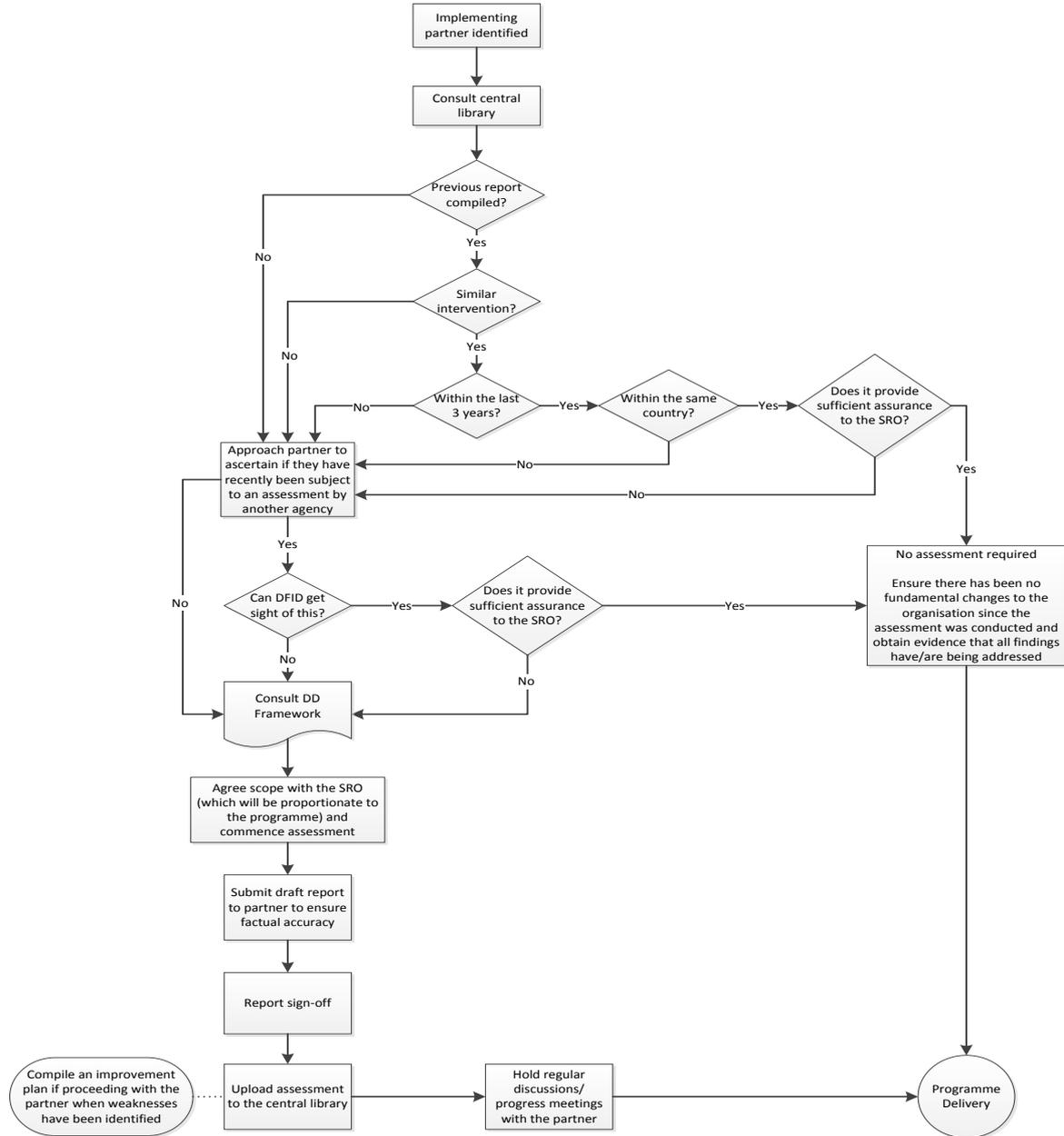
- details of the initial control weakness
- mitigating action

¹ Once VAULT is launched, due diligence assessments will be saved within AMP and the current due diligence library will be moved to VAULT. Further details will follow in due course.

- assigned owner
- timeframe

We suggest including the improvement plan within the programme delivery plan and reporting upon it as part of the regular risk and programme management process e.g. Annual Reviews.

Due diligence flowchart²³



² The Humanitarian response section of this Smart Guide provides guidance when conducting due diligence in a humanitarian response

³ The HoD or delegate must ensure that a due diligence assessment has been completed before funding is disbursed.

Overview of the due diligence pillars

The framework consists of four pillars which are the key areas when assessing an organisation's capacity and capability to deliver our programmes and manage our funds. Each pillar consists of key topics which the SRO and programme team may wish to consider when agreeing the scope of the assessment.

Governance and Internal Control



Ability to Deliver



Financial Stability



Downstream Activity



Four Pillars

Pillar 1 - Governance and Internal Control

There is no 'one size fits all' governance model and structures and practices should meet the needs of the organisation. Governance is about how the organisation is controlled, structured and the processes implemented by senior management for making and implementing decisions. These decisions inevitably play a vital role in the direction, daily activities and reputation of the organisation. Poor governance and controls weaken an organisation's potential future existence and reputation and at worst can pave the way for financial difficulties and even potential fraud.

Good governance and controls play a vital role in underpinning the integrity and efficiency of the organisation and the wider community in which it operates. The [UK Corporate Governance Code](#) provides standards of good practice in relation to broad leadership and effectiveness, remuneration, accountability and relations with shareholders.

What does good look like?

- the organisation is legally incorporated with a clear purpose. There is a clear structure and division of responsibilities with effective independent assurance through internal audit and external audit
- there is an effective senior management team demonstrating good leadership. Decision making is open and transparent and decisions are consistent with the purpose of the organisation and operate within the legislative framework
- policies and strategies are regularly updated and communicated to staff
- Internal control arrangements (HR, payroll, debtors, assets etc.) including approved levels of delegation are documented and regularly reviewed
- there is a clear approach to managing risks. Risks are documented, regularly discussed and escalated appropriately including the risk of harm (safeguards)
- there is a robust approach to Counter Fraud, Bribery, Corruption and Money Laundering with up to date policies, clear reporting procedures, regular communication and training on staff responsibilities. Whistleblowing process is operational

To be aware

If the organisation works with children (up to 18 years old) or vulnerable adults, it should have in place controls, policies and procedures focused on keeping them safe.

What should I look out for?

- individuals with unfettered powers of decision or dominant individuals maintaining control
- senior management make decisions without considering the impact on the organisation and might not understand the risks facing the organisation
- lack of documentation (e.g. meeting minutes) recording discussions and subsequent decisions, which evidence open, honest and transparent processes
- staff are unaware of their roles, responsibilities, policies and procedures and/or documents are out of date or not available
- connections (if any) between senior members of the organisation and the Government or Politically Exposed Persons?⁴
- lifestyle of senior members of the organisation does not reflect salaries
- Issues linked to the organisation which might be particularly controversial or pose reputational risks for DFID
- known terrorist organisations or known affiliates operate in the country
- lack of training and staff awareness concerning diversion of funds
- no systems and procedures in place to help the organisation identify links to terrorist organisations and diversion of funds

Transparency

Transparency is a Ministerial priority which underpins development effectiveness. It enables British citizens to see whether DFID is achieving value for every pound of UK taxpayers' money, while citizens in developing countries are able to see what should be delivered on the ground so that governments and development agencies can be held to account. Transparency also allows donors and partner governments to better plan and coordinate their use of development resources and so effectively tackle global poverty. Does DFID currently have any transparency requirements in place for the organisation? This may include requiring the organisation to publish a [minimum set of data](#) on funds received from DFID to the [International Aid Transparency Initiative](#) (IATI) open data standard and to pass these requirements on to downstream partners.

Typical sources of evidence:

- the organisation's certificate of incorporation
- minutes of meetings and action points taken forward
- organisation organogram highlighting the senior management structure and reporting lines
- clear policies and procedures which may focus on segregation of duties;

⁴ Politically Exposed Persons are individuals who are or have been entrusted with prominent public functions, for example Heads of State or of government, senior politicians, senior government, judicial or military officials, senior executives of state owned corporations, important political party officials. The definition of PEPs is not intended to cover middle ranking or more junior individuals in the foregoing categories. Financial Action Task Force, *International Standards on Combating Money Laundering and the Financing of Terrorism and Proliferation*, February 2012.

- delegated authority; fraud, bribery, corruption and money laundering; conflicts of interest; risk management; code of ethics etc.
- structured induction training programme for staff
- risk registers; owners and escalation procedures
- publicly available materials which may comment on the organisations e.g. senior management; staff; programmes etc.

Pillar 2: Ability to Deliver

‘Ability to Deliver’ considers whether the partner can successfully deliver a programme based on its processes, past experience and whether they have the sufficient staff capacity and capability available.

What does good look like?

- the organisation has successfully worked on similar programmes with positive independent reports available as evidence. This may have been with DFID or another partner. Lessons learned are shared within the organisation and help shape future decisions
- there are sufficient resources (staff, equipment etc.) with appropriate skills and experience to manage and deliver our programme as well as the organisation’s own portfolio of work
- poor performance is dealt with promptly and effectively. Systems are in place to enable regular monitoring, reporting and evaluation

What should I look out for?

If a partner is unable to demonstrate they can successfully deliver the programme then this will raise concerns about their suitability. However due to the challenging environments in which DFID operates in, the identified organisation may be the only option available to proceed with if those approving the programme believe the risks are worth taking and can be appropriately managed. Areas to be aware of which could present future challenges or question the ability and integrity of the organisation include:

- insufficient staffing numbers and experience to deliver and manage the programme with staff gaps having been identified but never filled
- no formal training and development opportunities for staff
- high staff turnover within key positions of the organisation
- lack of succession planning
- lack of operational planning demonstrating how it will deliver this specific programme
- history of poor performance or financial mismanagement and concerns raised via other donors or publicly available reports e.g. the media

Typical Sources of evidence:

- if we have worked with this organisation in the past, access Annual Reviews and Project Completion Reviews. You may also be able to speak to the SROs for past programmes to discuss performance
- a list of referees from previous programmes completed by the organisation
- experience and qualifications of the programme team
- organogram of the programme team to determine if there are any capacity or capability gaps
- publicly available information which may comment on past/current programmes undertaken by the organisation
- programme operational plans clearly demonstrating how this will be delivered
- programme risk assessments identifying current and potential threats to the programme and ongoing monitoring plans

Pillar 3: Financial Stability

Financial stability considers the organisation's ability to correctly manage and account for aid monies as well as its financial health. It takes account of the organisation's past performance, future commitments, expenditure and forecasting ability.

What does good look like?

- the organisation is financially viable and sustainable as a going concern with sound financial management systems operating within a clear finance strategy which includes plans for generating future income
- it makes effective and efficient use of resources and can demonstrate value for money
- it maintains up to date policies and financial procedures including on budgeting, spending/commitments, liquidity, asset management, VAT, foreign exchange etc.
- an up-to-date finance manual which sets out financial procedures, including budget preparation and execution
- experienced and qualified staff with clear segregation of duties
- appropriate controls in place such as monthly reconciliations to identify erroneous payments
- a Business Continuity Plan is in operation, updated, regularly tested and disseminated to staff

What concerns should I look out for?

If a partner is unable to demonstrate they are able to successfully manage and account for our funds then this should raise concerns about their suitability. Areas to be aware of include:

- lack of financial planning and forecasting, overspending, poorly managed

cash flow

- unable to ensure separate funding sources can be correctly managed and reported on
- unable to pay suppliers on time and incurring late payment fees
- an over-reliance on DFID funds
- qualified accounts by external audit
- key financial roles not held by qualified accountants
- a financially vulnerable new 'start-up' organisation which has no previous history in delivering programmes. Additional guidance on assessing start-up organisations can be found on page 20

Typical sources of evidence:

- external and internal audits will prove a useful resource when assessing the health of the organisation, as will published and up-to-date finance procedures and manuals
- annual audited financial statements
- variance reports comparing forecasted expenditure to actual expenditure
- current and future financial commitments from other donors
- organisation bank statements
- reconciliation reports

Pillar 4: Downstream Activity

Assessing the organisation's downstream activity will focus on their capacity and capability to properly monitor and control their implementing partners. Often the highest risks to DFID funds will be in the supply chain right down to the end beneficiary. The purpose of this assessment is to seek assurance

that our partner has proper and sufficient systems and controls in place to ensure that aid monies are correctly managed by their agents.

Delivery chain mapping

You should map out the delivery chain to clearly show how and where our funds will be spent. This exercise could be done in collaboration with the delivery partner.

What does good look like?

Good downstream partner scrutiny, monitoring and management play a vital role in obtaining assurance that our programme and funds are being managed and accounted for effectively. It also helps to minimise potential reputational risks when assessing the capacity and capability of downstream partner management. Areas to be aware of include:

- robust due diligence process in place to assess implementing agents
- clear supply chain of delivery partners describing the flow of DFID funds right through to the beneficiaries
- regular spot checks and site visits
- risks are identified with escalation and reporting mechanisms in place
- formal processes and agreements with delivery agents to ensure they are aware of their responsibilities

What concerns should I look out for?

If an organisation is unable to demonstrate that they are able to successfully manage their implementing partners and obtain a sufficient level of oversight on the programme then this raises concerns of their suitability. Areas to be aware of include:

- lack of communication between the organisation and its delivery partner(s)
- insufficient detail provided in progress reports
- unable to trace DFID funds to the beneficiary
- poor financial management
- publicly available information detailing allegations against the partner i.e. fraud, bribery, corruption or money laundering
- insufficient programme monitoring
- poor controls and reporting mechanisms implemented by partners when assessing the credibility of downstream partners and any links to terrorist organisations/individuals
- weak agreements with implementing partners

Typical sources of evidence:

- documented procedures for assessing and engaging with downstream partners
- clear delivery chain mapped out highlighting all delivery partners involved in the programme and associated risks
- discussions with other aid agencies on their experience with delivery

- partners
- publicly available information which may comment on past/current programmes undertaken by the organisations
- robust agreements/contracts with partners which clearly document responsibilities and monitoring arrangements

Additional Guidance When Conducting Due Diligence on:

Multilateral organisations

Why is due diligence different for multilaterals?

Multilateral organisations generally combine a headquarters function with offices operating in a large number of countries. It is inefficient for both the multilateral organisation and DFID to conduct a full review for each programme when so much of the material to be covered will be consistent across the organisation. As a result, DFID has devised a specific approach when undertaking due diligence of multilaterals, consisting of Central Assurance Assessments and project (local level) due diligence assessments. Due diligence assessments are required for each aid intervention (including trust funds).

Approach to conducting due diligence on multilateral organisations

A **Central Assurance Assessment (CAA)** is an assessment on the multilateral organisation's headquarters, which aims to provide a better understanding of the organisation's corporate policies and systems as well as an understanding of the process and controls through which the central corporate function monitors performance and ensures compliance with those systems. This assessment will inform staff when providing core funding or undertaking a local level due diligence assessment.

The CAA will draw on existing reports, assessments and reviews i.e. MOPAN, MAR etc. and combine desk-based research and discussions with representatives of the multilateral organisation. The time spent and scope of your assessment should be proportionate to the value of DFID's investment in the organisation, the volume/value of multi-bi⁵ delivered by country offices, previous delivery record and the level of risk. If not already completed, you should consider commissioning a Commercial Expertise Review (CER), which will cover the procurement aspects of due diligence. Talk to your Commercial Advisor in the first instance if you want to consider this option.

⁵ Bilateral funds delivered via multilateral agencies. The level of detail contained within your CAA should be proportionate to the level of likely use by country offices. Country offices will draw from the CAA to inform their local DDA for any bilateral work through that multilateral agency.

Global Funds and Partnerships will use the standard 4 pillar assessment model to undertake a CAA. As these types of development interventions do not have a “multi-bi” component, there should be no need to carry out country level due diligence. We recognise that as Global Funds generally deliver through other multilateral organisations such as the WB or UNOPS, it is for the institutional leads to ensure that each Global Fund has the mechanisms in place to assess their downstream partners.

Local level due diligence assessments (DDA’s) focus on the multilateral’s ability to deliver the programme within a specific country context. It’s important to draw any information from a CAA to avoid duplication. There may be limitations on what information you can request from multilateral organisations which have been subject to a CAA e.g. C.Vs will not be provided by UN organisations. Going over the same ground again will not add any value and will consume your resource and that of the multilateral organisation. The focus should be on how the overall policies and practises are implemented on the ground and the capacity and capability of the delivery partner in that specific country. If in doubt about the scope then discuss the issue with members of the programme team, SRO and institutional lead.

In the absence of a CAA, programme teams/ SROs should focus on the capacity, delivery and management of the programme by the local office.

Roles and Responsibilities

SROs are responsible for deciding the scope of the DDA and CAA. The CAA will be prepared by DFID’s institutional leads with support from the Better Delivery Department.

Spending Departments and Country Office staff will be responsible for delivering local level DDA. It is important you contact the relevant DFID institutional lead to discuss any planned assessments and formalising agreement negotiations. Please allow sufficient time for their input if required.

Private sector organisations

DFID’s Private Sector Department aim to accelerate development by strengthening markets, catalysing investments and partnering with the private sector to create more transformational growth, jobs, tax, goods and services. Undertaking due diligence assessments on private sector organisations can sometimes be complex due to the markets and investments they engage in. If DFID is not directly funding the organisation to deliver a programme, it’s important to recognise that other risks may exist i.e. reputational, even if we only share a platform with an organisation. As a result, these risks may require additional scrutiny being undertaken to provide sufficient assurance to the SRO. The level of scrutiny should be proportionate

to the level of assessed risk, but also take into account the ongoing monitoring and oversight that the SRO may have or may want to put in place.

What is Development Capital and What Are the Due Diligence Implications?

Development Capital Investment (DevCap) is when DFID funding for a programme creates a financial asset in DFID's Balance Sheet and where there is an expectation we will receive a financial return in addition to greater development impact. This new approach to programming ensures greater value for money to the UK taxpayer as returns from investments can be reinvested in the future. As a result, it is important there is early engagement with the Private Sector Department and Finance and Control.

CDC has been confirmed as DFID's primary delivery partner for DevCap, resulting in DFID's proposed DevCap investment platforms being transitioned over to CDC. This approach will result in CDC being responsible for undertaking due diligence on future investments it decides to make, in line with existing policies and procedures CDC has in this regard.

Roles and Responsibilities

Where DFID funded programmes create financial assets in an intermediary's Balance Sheet, which will typically be the case, then it is the DFID SRO that is responsible for due diligence. Smart Rule 11 is in place to safeguard against any inadvertent assets being created on DFID's Balance Sheet.

What resources are available to help me?

Corporate Engagement Risk Assessment (CERA)

In addition to the Due Diligence Smart Guide, an enhanced product is available from a company called RepRisk who are a leading provider of dynamic environmental, social and corporate governance (ESG) risks for companies and projects. The **Corporate Engagement Risk Assessment (CERA)** web-based tool is designed to identify and assess ESG issues which may present financial, reputational and ethical risks to DFID and could compromise the credibility of a for-profit organisation as an effective partner working to reduce poverty.

CERAs are an additional tool available to staff when assessing an organisation and **does not replicate or replace the due diligence framework.**

Start-up organisations

What is a 'Start-up' Organisation?

A Start-up Organisation can be defined as a business or undertaking that has recently begun operation. This means that DFID may have no previous working relationship with the organisation or that there may be little or no track record to assess their capacity and capability to successfully deliver our programme.

How Do I undertake Due Diligence on a Start-up Organisation?

It's recognised that when considering engaging with an organisation which has no i) governance structure (or in the early stages of development); ii) financial stability; or iii) track record, it will inevitably bring its own challenges and risks. That said, a key attribute of a start-up organisation is its ability to grow. Similar to an established business/organisation, your due diligence assessment will focus on 'how' the organisation and programme will be developing/implemented and by 'when' rather than any historical evidence. Key attributes to consider as part of your due diligence assessment when engaging with a start-up organisation are:

- governance
- a clear business plan on how the organisation will evolve
- delivery of our programme
- sources of funding
- cash flow forecasts
- how the organisation intends to source the expertise to successfully deliver our programme

Start-up organisations will inevitably require closer scrutiny throughout the duration of the programme and especially at the early stages of engagement. It's important that DFID has regular meetings/communication with the organisation to obtain assurance that the organisation and programme are developing as intended and discuss emerging risks which should be assessed. It also allows DFID to work with the organisation to advise on the standards, structures, policies and procedures expected to satisfy our requirements. It is always recommended when engaging with a new partner that we share our due diligence framework which will allow them to see the standards DFID would expect within implementing partners.

What Does a 'Good' organisational Structure Look Like?

It is important to recognise that all businesses/organisations are different in terms of size and overall objectives. A proportionate due diligence assessment must be undertaken to ensure recommendations are not counterproductive to the successful delivery of the programme and organisational development.

What Are the Risks & Benefits of Engaging with a Start-up Organisation?

A key attribute to any organisation's success is its ability to perform and be financially stable. It's important that once a business plan has been presented that the organisation can secure finance, create a business structure and initiate its operations. Potential risk areas include:

- insufficient cash flow
- other creditors with preferential status
- poor financial management
- lack of internal controls e.g. segregation of duties
- over ambition
- lack of experience/expertise

Humanitarian responses

What are the different types of humanitarian responses and what level of due diligence is required?

Rapid onset Crises – using pre-qualified partners

In rapid onset humanitarian emergencies, DFID normally provides funding to certain trusted partners to deliver a response. DFID's immediate funding is likely to be through multilateral organisations (e.g. in response to UN appeals) or to pre-qualified Rapid Response Facility (RRF) NGO partners. This pre-qualification assessment is focused on the central capability of partners to provide emergency support in core humanitarian sectors. The RRF can only be activated by the Secretary of State, and is managed by CHASE's Humanitarian Response Group. Once activated, partners are required to submit proposals setting out how they will deliver and manage our programme locally. This due diligence process should provide the SRO with sufficient assurance over the management of our programme and funds. Any weaknesses identified should be managed/addressed with the partner in the same way as non-rapid onset crisis.

Further details about the Rapid Response Facility can be found in the RRF Funding Guidelines, the Humanitarian Emergency Funding Smart Guide, or by contacting CHASE's Humanitarian Response Group.

Rapid onset Crisis – with partners who aren't pre-qualified

The usual mechanism for rapid onset funding in a humanitarian context is the RRF. The RRF however cannot be used to fund partners that have not been pre-qualified. Given the risks involved, the context in which funding is required, and the need for rapid disbursement of funds, it is not usually advisable to consider funding a partner outside the RRF.

If a potential partner has not been pre-qualified via the RRF process (which cannot be done at the point of emergency) and DFID are required to respond immediately, the SRO must make a judgement on proportionate due diligence requirements, depending on the severity of the crisis. This may include undertaking a rapid assessment in advance; with a more comprehensive assessment taking place after funding has been awarded. The due diligence framework should be used, with the SRO agreeing the scope of assessment, which should be proportionate to the value of funding provided and duration of the project.

Protracted crisis

When DFID is responding to a protracted or chronic crisis, there should be sufficient time to undertake the usual due diligence assessment prior to releasing funds. Staff should refer to the modules above for further guidance.

In Practice

A £40m annual contribution to an OCHA country based pooled fund for five years will provide staff with sufficient time to plan and undertake a due diligence assessment prior to disbursing funds.

Central Assurance Assessments for humanitarian organisations

CHASE's Humanitarian Policy and Partnerships Group (HPPG) maintain DFID's relationship with UN humanitarian organisations and the Red Cross Movement. DFID has conducted central Due Diligence assessments for UNHCR, UNICEF, WFP, ICRC and IFRC. DFID is currently using ECHO's verification assessments for OCHA, CERF. These assessments are the equivalent of DFID's due diligence approach, conducted by qualified auditors.

When conducting a country-level due diligence, SROs should refer to the above central assessments. Any gaps identified should be managed/addressed with the organisation.

Potential risks

Risks to consider when engaging with an organisation in response to a humanitarian emergency include:

- over ambitious objectives/expectations

- security implications
- lack of access to most vulnerable/in need
- corruption or fraud
- procurement delays result in poor value for money of response
- value for money wrongly weighted between time, cost, quality
- partner's staff are development focussed and not sufficiently experienced in humanitarian response
- monitoring and evaluation inadequate, leading to expected results not being verified
- weak UN/host Government leadership, poor cluster coordination, poor communications impacts on response