Due Diligence Guide
Justification

The Fund for Environmental Action and Childhood (Fondo Acción) is a legal entity of common utility, non-profit, with a private regime and full capacity to exercise rights and contract obligations that develop its corporate purpose.

Fondo Acción was created in 2000 within the framework of the Bilateral Agreement of Initiative for the Americas, signed by the governments of the Republic of Colombia and the United States of America.

The mission object of Fondo Acción is to generate significant and sustainable changes in Colombian society in two thematic areas: (1) the conservation of biological diversity, the promotion of sustainable and equitable development, and the protection of ecosystem services and, (2) the protection and development of childhood, with emphasis on early childhood.

The highest governance body of the Fondo Acción is the Board of Directors and Administrative Council of the Initiative for the Americas (CAIA). The Council / CAIA is composed of:

- Five representatives of civil society, from the sectors of academia and science, environment, childhood, community development and the private sector;
- The National Planning Department, on behalf of the Government of Colombia;
- The Ministry of Environment and Sustainable Development of the Government of Colombia;
- The Agency for International Development Cooperation USAID, representing the Government of the United States of America.

Fondo Acción receives donations and funds in administration and is empowered to enter into contracts and agreements with different natural and legal persons and to create special accounts for this purpose. In this sense, direct clients of the Fondo Acción are all the natural and legal persons that entrust the administration of their resources to the Fund.

Fondo Acción has adopted the following Organizational Values:

- **We are transparent:** We disclose, apply and respect the game rules and we render account for our management.
- **We are efficient:** We operate rationally, making the most of available resources.
- **We are effective:** We work in high performance teams, guided by certified processes and achieve impact results.
- **We are supportive:** We are committed to the common interest and social benefit, within the framework of public policies.
- **We learn**: Through accompaniment, monitoring and evaluation, we stimulate learning, innovation and organizational development and contribute to the dialogue on public policies in the two missionary thematic areas.

As can be seen, one of the corporate values of Fondo Acción is transparency, understood as an attribute, a practice and a guarantee that implies acting with respect and integrity towards natural and legal persons interested in contractually relating to the organization.

For Fondo Acción, this value is externalized, among other things, when disclosures, applies, promotes and respects the rules of conduct in the different processes and procedures carried out within the framework of its missionary activity and when it reports on its management.

The reputation of the organization and the positioning of the "Fondo Acción" brand are strategic *immaterial assets* for the Fund as they add value to clients and contribute to the management of resources. In turn, reputation and brand are directly linked to the corporate value of transparency.

For all that, it is required to have a **client due diligence** practice in order to protect the interests and intangible assets of reputation and brand of the Fondo Acción, of other clients and donors, as well as of other interested parties in the management of the fund.
Objective of the Due Diligence Guide

The Due Diligence Guide is applied for the purpose of determining the convenience of establishing a contractual relationship with third parties (potential customers), considering the immaterial assets of reputation and brand.

The Due Diligence Guide has been designed as a practical tool to have important information about the potential clients of Fondo Acción. The review and analysis of this information allows to have elements of decision that must be considered during the process of resource management.

Due Diligence Guide allows:

1. To obtain, systematize and analyze relevant information about natural and legal persons with whom the Fondo Acción intends to contractually relate in order to managing and / or executing resources, including the identification of risks that may arise from a relationship with third parties.

2. To make a recommendation based on the convenience or otherwise of a relationship with third parties and socialize this result within the Fondo Acción and especially with the Board of Directors / CAIA.

It is important to note that the due diligence applicable to contractors, suppliers, executors and operators of resources managed by Fondo Acción is contemplated in different processes and procedures of the Quality Management System of the organization.

Strategy Statement for due diligence

- The Fondo Acción manages resources transparently, effectively and efficiently; the administration is entrusted to the Fund by national and international natural or juridical persons, public and private;
- The resources contributed by clients and administered by Fondo Acción are channeled to finance, co-finance and / or execute programs and projects in two priority thematic areas: (1) conservation and sustainable development and (2) childhood, with emphasis on the first childhood;
- Transparency in resource management decisions by Fondo Acción adds value to clients, the organization and other interested parties as it is associated with the consolidation of key intangibles such as reputation and brand.
Principles

Due Diligence Guide is focused under the following principles:

- **Transparency.** Through which the Fondo Acción guarantees impartiality in the different processes that it carries out. This principle implies the definition, socialization and compliance with clear and stable game rules.
- **Good faith.** It enforces the Fondo Acción and the individuals or legal entities with which it has a relationship to consider the ethical requirements that arise from the mutual trust in the process of conclusion, execution and liquidation of contracts and agreements for the administration of resources.
- **Equality.** Through this principle, the Fondo Acción guarantees the possibility that opportunities will be evaluated in accordance with criteria applied in an objective and equitable manner.

Due Diligence Content and Stages

**Stage 1: Preparation**

**Due Diligence Verification Team (EVDD).** The initial stage of the Due Diligence involves forming a verification team with the participation of representatives of the different areas of the Fund (Technical, Administrative and Financial, and Legal), as required. In each case, the verification team will be formed by the Executive Directorate of the Action Fund and will have a Coordinator.

The Verification Team has the following functions:

- Request related information to the potential client and / or look for it directly.
- Collect the complementary information that is necessary.
- Verify and qualify (FULFILL / NOT COMPLY) the scope of the information and documentation (when it has been presented by the client at the Fund's request) and request clarifications, if necessary.
- Diligence the risk rating matrix.
- Record grades, evaluations and recommendations in a final report and present it to the Executive Directorate.

**Stage 2: Basic documentation of the case**

In stage 2, the EVDD will document the case by searching or formally requesting information about the potential client. The EVDD Coordinator may make exceptions to the pertinence or necessity
of any of these documents when considers it appropriate and adequate, he will register these exceptions in the final report.

Following is the basic information:

- **Existence and Legal Representation**
  - **Natural Persons.** Natural persons will accredit this requirement by providing a photocopy of their citizenship, immigration or passport card, as the case may be.
  - **Legal Entities.** Legal persons, national and foreign, must provide the certificate of existence and legal representation of the organization, or document that legally acts, valid for no longer than 90 days, which evidences: Company purpose, duration of the legal entity, and identification of the Legal Representative or attorney duly empowered to act on behalf of the legal entity. Additionally, in the case of legal entities, a photocopy of the citizenship, immigration or passport of the legal representative must be provided.

- **Compliance with the rules of Prevention and Control of Money Laundering and Terrorist Financing, and Verification in the following databases:** Specially Designated Narcotics Traffickers list (SDNT), UN-Organization of the United Nations list of terrorism and financing of terrorism, Office of Foreign Assets Control (OFAC) and National Police. The Fondo Acción will request authorization to verify in existing databases the reports related to the financing of terrorism and money laundering (SDNT, UN, OFAC, National Police).

- **Disciplinary and fiscal background of the General Procuracy of the Nation, Comptroller General of the Republic of the client and the legal representative.** The Fondo Acción will request authorization to verify the fiscal and disciplinary background reports in existing databases.

- **Habeas Data Authorization.** In order to give an adequate treatment to the information requested in the terms indicated by the law, an authorization must be provided for the processing and use of personal data.

- **Manifestation of inabilities, incompatibilities and conflict of interests.** Individuals and legal entities will accredit this requirement by making an express statement indicating whether they are involved in any cause of disability, incompatibility or conflict of interest established in the Colombian regulations and in the Code of Ethics of the Fondo Acción, which prevent proceed to make an agreement or contract of administration of resources with the Action Fund.

- **Source of funding.** Each potential client will be asked to indicate the sources of the resources that would be administered by the Fondo Acción.

**Stage 3: Identification and assessment of Risks and Measures Adopted to Mitigate them**
For the identification and assessment of the potential reputational risk, the EVDD will use the following matrix:

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<th>Risk</th>
<th>Score</th>
<th>Criterion</th>
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| High | Add three points for each positive response | ▪ The eventual administration of resources from this client represents a high reputational risk for Fondo Acción.  
▪ The possible association between Fondo Acción and this client can be perceived as very negative by other current clients of Fondo Acción.  
▪ The direct execution of these resources by the Fondo Acción or the realization of subgrants to third parties charged to these resources involves a high probability of negative effects on the reputation and brand of the Fondo Acción and / or of third parties associated with the fund.  
▪ The management or mitigation of this risk is very unlikely and / or would result in costly actions in terms of effort and money. |
| Medium | Add two points for each positive response | ▪ The eventual administration of resources from this client represents a medium reputational risk for Fondo Acción.  
▪ The possible association between Fondo Acción and this client can be perceived as manageable by other current clients of Fondo Acción.  
▪ The direct execution of these resources by the Fondo Acción or the realization of subgrants to third parties charged to these resources involves a medium probability of negative effects on the reputation and brand of the Fondo Acción and / or of third parties associated with the fund.  
▪ The management or mitigation of this risk is feasible but demanding in terms of effort and / or budget. |
| Low | Add a point for each positive response | ▪ The eventual administration of resources from this client represents a low reputational risk for Fondo Acción.  
▪ The possible association between the Fondo Acción and this client can be perceived as neutral by other current clients of Fondo Acción.  
▪ The direct execution of these resources by the Fondo Acción or the realization of subgrants to third parties charged to these resources involves a low probability of negative effects on the reputation and brand of the Fondo Acción and / or of third parties associated with the fund. |
The management or mitigation of this risk is feasible and can be done with minimal effort and low or no investment.

The points assigned to each answer must be added. The general level of risk is established as follows:

- **High Risk**: Between 9 and 12 points
- **Medium Risk**: Between 5 and 8 points
- **Low Risk**: Less than 5 points

When the potential client / donor is a private, national or international company, due diligence should help not only to assess the risk but also to understand how this relationship will help deepen the mission object of the Action Fund. If the result of due diligence is positive and progress is recommended, the conclusions derived from the analysis of the answers to these questions will also be useful for designing the relations strategy with the private company and will allow the Fund to prepare itself to communicate to other donors, clients and stakeholders about the activities that will be done with the resources of these corporate clients.

The following questions are useful for the analysis of the level of risk in the case of potential corporate clients:

1. **Is the company or has it been an ally of the Fund?** For this, check the database of alliances and check with the Technical, Legal and Financial Department.
2. **Do a search on the Web.** Visit the company's website as well as others that you consider relevant in the search. Note that there may be sites called "boycott X company" where negative information about companies is recorded.
3. **Conduct a search for recent news**, including coverage of other alliances or initiatives of the company in the environmental or childhood field.
4. **Know the composition of the Board of Directors of the company.** Look for connections between the Fund (members of the Board of Directors / CAIA) and the Board of Directors of the company. Contacts can be decisive when approaching the company. Also check if the company works or has worked with other allies of the Fund in the specific thematic area.
5. **Investigate the collaboration record of the company.** Identify alliances and collaborative initiatives of the company with other Funds, Foundations and organizations like Fondo Acción.
6. **Does the operation of the company have direct or indirect impacts on geographical and thematic areas of priority for the Action Fund? How?**
7. Does the company have operations in other countries? If yes, where? Are there other Environmental Funds from the Environmental Funds Network of Latin America and the Caribbean (RedLAC) that can give references on the operations of the company?
8. Is there evidence of a genuine commitment by the company to solve environmental and/or social problems (particularly associated with children) critical for the company, especially at the management level?
9. Are the business practices of the company coherent with its environmental and social commitments (particularly associated with childhood)?
10. Is corporate communication about its environmental and social performance credible and transparent?
11. Does the company participate in any internationally recognized initiative associated with codes of conduct or corporate social responsibility (such as CERES, Global Reporting Initiative (GRI) or ISO14000 Standards)?
12. Does the company recognize and measure its environmental footprint?
13. Is any operation of the company associated with significant and controversial environmental threats and impacts? Are these threats and impacts well documented?
14. Is the company the focus of external campaigns associated with environmental performance, labor rights, child labor, safety?
15. If the Fondo Acción is associated with this company, would there be significant public criticism from national stakeholders? International?
16. Does the company have the financial capacity to support initiatives for the conservation and sustainable development and/or development of children?
17. Does the company have the capacity to exercise positive influence over other agents (suppliers, farmers, local governments, etc.) that have negative practices and impacts on the missionary themes of the Fondo Acción?
18. Is the company a recognized leader in the industry (in terms of financial performance and management, for example)?