

Information Note

Due diligence for suppliers

July 2015

1. Introduction

The Global Fund is committed to support countries to achieve greatest impact in the fight against AIDS, tuberculosis and malaria and to provide care and treatment to the greatest number of people affected by the three diseases, including strengthening of health systems. The Global Fund supports the efforts of a wide range of partners, including national, bilateral, multi-lateral and civil society organizations to ensure transparent and accountable use of domestic and external financial resources and to achieve maximum impact, deploying all available resources to serve country's objectives.

The Global Fund Secretariat and the Office of Inspector General have developed this information note to share learnings from implemented programs and to assist implementers in their due diligence work on suppliers.

This note includes guiding principles, practical information and advice for implementers to develop and implement a supplier due diligence process. This information note may be used to guide and build capacities of implementers in the assessment of suppliers' legitimacy, ownership, financial security and capacity.

2. Common risk areas related to suppliers' selection

Substantial amount of funds are invested in procurement and supply management activities for health and non-health products. This area has been identified as particularly vulnerable to inefficiencies and problematic practices. A well-managed suppliers' due diligence process is critical to maintain proper oversight; identify and prevent any improprieties or corrupt practices, and ensure the selection and delivery of quality health and non-health products to beneficiaries.

Below is a non-exhaustive list of red flags related to suppliers' selection that may indicate fraud or misconduct in procurement.

Due Diligence Reviews - Potential red flags ¹related to suppliers

Contact Information

- Companies with P.O. Box addresses and mobile phone numbers (might be shell companies)
- Incorrect, incomplete or non-existent address or phone number; multiple addresses
- A bidder or supplier is not listed on the internet or in business or telephone directories
- A contractor's or supplier's address is a residence or a non-business location
- Two or more companies share address, telephone numbers, fax numbers, owners, directors, managers and other key staff
- Business site(s) cannot be verified; or sites appear to be inappropriate for the activities proposed by a company

Relationships

- Complaints that a project or government official owns or is otherwise linked to a supplier or contractor
- A project or government official is linked to a contractor or supplier through company registration information, family relationships, or reports in the market place
- Supplier has a complex ownership structure or reluctance to discuss its owners
- Sudden or unexplained change in Supplier's shareholders, auditors, accountants, lawyers
- Principal Recipient has been asked or directed by someone to use a specific supplier
- Supplier has been asked by people associated with the transaction to make political or charitable contributions
- Supplier shows reluctance to discuss integrity or corruption issues

Business activities and track record

- A contractor or supplier provides a wide variety of disparate goods and services at high prices²
- Complaints from other bidders that a winner is non-existent or shell company
- Offer from a company without relevant past experience (e.g. during last 2-3 years) in provision of goods or services in question
- Company is a known poor performer
- Sudden or unexplained withdrawal of large, foreign companies, or donor-funded entities from transactions with supplier; termination or suspense by a major donor funded project implementer of a contract with a supplier
- Supplier is reluctant to provide references
- Reference checks conducted, outcomes recorded, and include Derogatory Information Indicator/"red flags"
- Company tries to misprint facts about its financial and technical capacity (e.g. exaggerated financial resources or technical capacity of a bidder: audit reports are not signed or are altered, audit company does not exist or has poor reputation, documentation in support to bidders technical capacity appears to be falsified, end-user references/certificates are not signed/dated, certificates are issued by non-existent end-users, etc.)
- Recently registered/established company that appears to have no or limited financial activity in the past few months
- Supplier wants to work without a contract or with a vague contract
- Supplier is not willing to engage in a transparent manner or is expecting an exclusive relationship, i.e. barring competitors)

¹ A "red flag" is an indicator of possible fraud, corruption, financial abuse or other misuse of funds. Existence of a red flag in a procurement process usually indicates that closer scrutiny and further review is needed

² Fraud and Corruption Awareness Handbook, The World Bank Group, p.16

- Two or more companies submit bids and letters in identical wording and format, with identical typographic errors, similar handwriting or mathematical errors
- Bid or proposal that is incomplete (from winning or competing bidders)
- Company was already contracted in the past to supply goods of significantly different nature than is included in a company's offer
- Invoice has an unusual or unprofessional appearance (incl. handwritten or homemade); invoices that are not original (photocopies)
- Invoiced goods or services cannot be located or verified
- Lack of documentation for shipping or transportation of goods (where applicable)
- Requirements of cash payments
- Payment to a supplier of unusually large advance payments (e.g. 100% of the total contract price)
- Payment to a supplier of unauthorized advance payments without guarantee (or against the submission of forged advance payment guarantee)
- Keen interest by contracting employee in invoices submitted by a particular vendor
- Company is included in World Bank's Listing of Ineligible Firms and Individuals or World Bank's Corporate Procurement Listing of Non-Responsible Vendors³, or in a "UN Ineligibility List" or is declared as ineligible by other international donor organization (www.crossdebarment.org)
- Misappropriation, fraud or corrupt practices against companies or their owners or stakeholders

In the cases where any of these issues have been identified for a supplier, further verification will need to be conducted to detect and prevent potential misconduct in a procurement process.

3. Due diligence process

Implementers may consider developing and implementing a due diligence process for suppliers, which may include the following steps:

1. Planning

The due diligence process needs to be planned properly and completed before the expected date of contract award to a supplier so that delays in the contract award can be avoided.

It is important to clearly designate who is responsible for conducting due diligence of suppliers, e.g. procurement staff in the Principal Recipient/sub-recipient/sub-sub-recipient organization.

Further, a standard process and tools need to be in place to conduct supplier due diligence. For instance, the implementers may consider the use of a standard set of questions to conduct supplier due diligence.

2. Data collection and record keeping

During the data collection stage, the following steps are recommended:

- Check internet, local news, yellow pages, industry directories, portals, etc.; if possible, also use articles and sources in the local language
- High value/volume of a contract may justify verification of information on a supplier at specialized portals (e.g. D&B, Lexis-Nexis or Factiva) or national business reference sources
- Check existence of a company in a list of debarred and ineligible suppliers (e.g. i) "World Bank Listing of Ineligible Firms & Individuals", ii) "UN Ineligibility List", iii) or World Bank's Corporate Procurement Listing of Non-Responsible Vendors, iv) Entities cross Debarred by

³World Bank's Corporate Procurement Listing of Non-Responsible Vendors is available at <http://go.worldbank.org/C3YIALVBF0>

Multilateral Development Banks – www.crossdebarred.org) and other relevant lists (including at national level).

- For high value contracts (e.g. more than US\$ 100,000): Obtain feedback from company's previous and/or existing clients as well other companies in the same industry

All information obtained during the supplier due diligence needs to be documented and kept with the procurement records that will include the supplier's profile, standard questionnaire used, results of the due diligence process, and relevant decisions made.

3. Data analysis and reporting

For data collection purposes, implementers may develop a standard questionnaire. A sample questionnaire is provided in Annex 1 to this note. The aim of the sample questions is to help responsible staff ensure that all the key areas of due diligence of suppliers related to suppliers' legitimacy, ownership, financial security and capacity are adequately reviewed and addressed.

It is not necessary to answer each/all questions; the questions may be selected for each case individually and tailored to the specific needs.

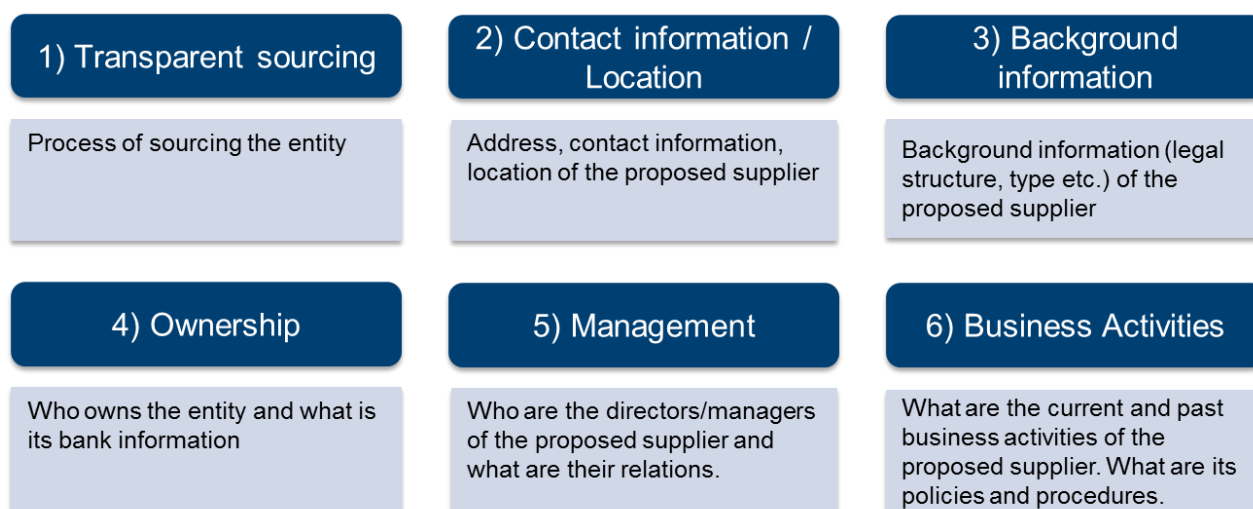
It is recommended that the staff who conducts the due diligence check prepare a formal memo outlining the findings and results of the process. For high value contracts (with total contract value more than US\$ 100,000), implementers may need to seek Global Fund guidance prior to making a final decision on a supplier's acceptance or rejection.

4. On-going due diligence

The due diligence process does not necessarily end with the signing of a contract. An updated due diligence is recommended any time an agreement / contract with a supplier is amended or renewed. It is also advisable that the supplier's profile is updated on an annual basis.

4. Due diligence sample questionnaire

Annex 1 includes a sample questionnaire, which can be used as a tool by Principal Recipients and other implementers to ensure due diligence review process of suppliers, i.e. to determine a supplier's legitimacy, ownership, financial security and capacity. It can help the Principal Recipient identify any potential red flags related to suppliers and make further checks as required. The questionnaire is separated into six areas as follows:



5. Other useful resources

Implementers can consult a wide range of additional reference sources in developing and applying due diligence reviews of suppliers' legitimacy, ownership, financial security and capacity. The list below is not exhaustive.

- **Global Fund Code of Conduct for Suppliers:**
http://www.theglobalfund.org/documents/corporate/Corporate_CodeOfConductForSuppliers_Policy_en/
- The World Bank Group: "Fraud and corruption awareness handbook":
http://siteresources.worldbank.org/INTDOII/Resources/INT_inside_fraud_text_090909.pdf
- World Bank Listing of Ineligible Firms & Individuals: www.worldbank.org/debarr
- World Bank's Corporate Procurement Listing of Non-Responsible Vendors:
<http://go.worldbank.org/J7DGC3TIWo>
- Entities debarred by Multilateral Development Banks – www.crossdebarment.org
- United Nations Convention Against Corruption (UNCAC) (New York, 2004):
http://www.unodc.org/documents/treaties/UNCAC/Publications/Convention/08-50026_E.pdf
- UN Global Compact: www.unglobalcompact.org/
- Transparency International:
 - o Corruption Perception Index: <http://www.transparency.org/research/cpi/overview>
 - o The Anti-Corruption Plain Language Guide (2009):
http://files.transparency.org/content/download/84/335/file/2009_TIPainLanguageGuide_EN.pdf
 - o Guide: Using UNCAC to advance anti-corruption efforts (2013):
http://files.transparency.org/content/download/1321/10269/file/2013_Guide_UNCACandAnticorruptionEfforts_EN.pdf
- International Chamber of Commerce: Anti-Corruption.
www.iccwbo.org/policy/anticorruption/

Annex 1– Supplier’ Due Diligence Review - *Sample Questionnaire*

Red flags		
YES	NO	
1) Transparent Sourcing		
<input type="checkbox"/>	<input type="checkbox"/>	1. How is the entity sourced? Is the entity selected in accordance with procedures outlined in applicable procurement manual/procurement guidelines and in line with requirements outlined in the grant agreement?
<input type="checkbox"/>	<input type="checkbox"/>	2. Why is the entity needed?
<input type="checkbox"/>	<input type="checkbox"/>	3. Entity references?
<u>Summary red flags:</u>		
<u>Additional comments/observations:</u>		
2) Contact information / location		
<input type="checkbox"/>	<input type="checkbox"/>	1. Key contact person name?
<input type="checkbox"/>	<input type="checkbox"/>	2. Email?
<input type="checkbox"/>	<input type="checkbox"/>	3. Telephone?
<input type="checkbox"/>	<input type="checkbox"/>	4. Mail?
<input type="checkbox"/>	<input type="checkbox"/>	5. Physical address of principal place of business?
<input type="checkbox"/>	<input type="checkbox"/>	6. Was the company’s business site verified?
<u>Summary red flags:</u>		
<u>Additional comments/observations:</u>		

3) Background information

- | | | |
|--------------------------|--------------------------|--|
| <input type="checkbox"/> | <input type="checkbox"/> | 1. Entity trade/working name? |
| <input type="checkbox"/> | <input type="checkbox"/> | 2. Entity principal place of business? |
| <input type="checkbox"/> | <input type="checkbox"/> | 3. Entity legal structure? Check Box: LLC, Sole Proprietorship, Partnership, Incorporated Co., Government? |
| <input type="checkbox"/> | <input type="checkbox"/> | 4. If corporation, entity incorporation date? Place? |
| <input type="checkbox"/> | <input type="checkbox"/> | 5. If partnership, entity founding date? Place? |
| <input type="checkbox"/> | <input type="checkbox"/> | 6. Is entity registered with a register of commerce or similar business entity? If yes, then registration number? |
| <input type="checkbox"/> | <input type="checkbox"/> | 7. Is entity included in any of the following lists? <ul style="list-style-type: none">• UN ineligibility lists (UNDP, UNOPS)• World Bank Listing of Ineligible Firms & Individuals• World Bank's Corporate Procurement Listing of Non-Responsible Vendors• Entities cross Debarred by Multilateral Development Banks |

Summary red flags:

Additional comments/observations:

4) Ownership

- | | | |
|--------------------------|--------------------------|--|
| <input type="checkbox"/> | <input type="checkbox"/> | 1. Names of all persons, companies, or entities having 10% or more ownership in entity? |
| <input type="checkbox"/> | <input type="checkbox"/> | 2. Are any owners or their relatives government officials? If so, names. |
| <input type="checkbox"/> | <input type="checkbox"/> | 3. Are any owners the subject of sanctions or have a criminal background? |
| <input type="checkbox"/> | <input type="checkbox"/> | 4. To the best of the reviewer's knowledge, are any owners involved in litigation or investigation related to bribery or corruption in the past 5 years? |

where possible, the information is be verified at the respective country's National Criminal Record Bureau's and National Financial Regulatory Bodies or other relevant agencies

5. Entity bank account holder?

6. Entity bank name?

7. Entity bank country?

Summary red flags:

Additional comments/observations:

5) Management

1. Names of all senior officers/directors/management?

2. Are any of them government officials? If so, names, government entity (agency, branch, committee) within which they are affiliated, titles, dates of service, brief description of roles and responsibilities?

3. Do any of them have familial relationship to government officials?

4. Are any of them subject of sanctions?

5. During the past 5 years, has anyone at the entity or anyone working on behalf of the entity offered or paid a bribe or been accused of offering, or paying a bribe or any improper payment in exchange for a business advantage?

- | | | |
|--------------------------|--------------------------|--|
| <input type="checkbox"/> | <input type="checkbox"/> | 6. During the past 5 years, has anyone at the entity or anyone working on behalf of the entity been the subject of legal proceedings related to improper payments, bribes, misuse or misappropriation of public property, accounting fraud, or regulatory enforcement? |
|--------------------------|--------------------------|--|

Summary red flags:

Additional comments/observations:

6) Business Activities

- | | | |
|--------------------------|--------------------------|--|
| <input type="checkbox"/> | <input type="checkbox"/> | 1. Business start date? |
| <input type="checkbox"/> | <input type="checkbox"/> | 2. Past business activities (including operations and facilities relevant to propose agreement)? Company brochure or other publication |
| <input type="checkbox"/> | <input type="checkbox"/> | 3. Past business references? |
| <input type="checkbox"/> | <input type="checkbox"/> | 4. Current business activities |
| <input type="checkbox"/> | <input type="checkbox"/> | 5. Current business references? |
| <input type="checkbox"/> | <input type="checkbox"/> | 6. Does the entity offer goods services that it never supplied in the past? |
| <input type="checkbox"/> | <input type="checkbox"/> | 7. Is the company a newly registered entity, with no prior commercial activities? |
| <input type="checkbox"/> | <input type="checkbox"/> | 8. Activities/relationships with entity's competitors? (Possible collusion) |
| <input type="checkbox"/> | <input type="checkbox"/> | 9. Does entity have financial statements? |
| <input type="checkbox"/> | <input type="checkbox"/> | 10. Audits? |

- | | | |
|--------------------------|--------------------------|--|
| <input type="checkbox"/> | <input type="checkbox"/> | 11. Is the entity, its affiliates or its key representatives the subject of any lawsuits or investigations? (ask for past 5 years)? |
| <input type="checkbox"/> | <input type="checkbox"/> | 12. Is the entity known to be engaged in fraudulent and/or corrupt activities? |
| <input type="checkbox"/> | <input type="checkbox"/> | 13. Any major political affiliations or contributions? |
| <input type="checkbox"/> | <input type="checkbox"/> | 14. Does an information submitted by the entity appear to be falsified/forged? |
| <input type="checkbox"/> | <input type="checkbox"/> | 15. Has the entity read and acknowledged the TGF Code of Conduct for Suppliers? |
| <input type="checkbox"/> | <input type="checkbox"/> | 16. Does entity have in place a code of conduct/good governance, anti-corruption policies or procedures? |
| <input type="checkbox"/> | <input type="checkbox"/> | 17. What Whistleblower reporting channels are in place and are working properly? |
| <input type="checkbox"/> | <input type="checkbox"/> | 18. What steps, if any, do you take to monitor and ensure compliance with Global anti-corruption laws (any anti-bribery law, including but not limited to the Foreign Corrupt Practices Act, the United Kingdom Anti-Bribery Act)? |

Summary red flags:

Additional comments/observations:

CONCLUSION / SUMMARY DUE DILIGENCE SUPPLIER REVIEW

Red flags:

Comments/observations:

Decision: