



MAY 2019

EDC PUBLIC RESPONSE PAPER

Environmental and Social Risk Management Policy, Environmental
and Social Review Directive and Human Rights Policy

INTRODUCTION

EDC conducts reviews of its environmental and social risk management framework policies to ensure their relevance and rigour as well as to ensure that they continue to reflect industry best practice.

These reviews are conducted in response to stakeholder expectations, to continuously improve our policies, to ensure consistency with our current practices, as well as to reflect changes to EDC's international obligations such as those under the [Organization for Economic Cooperation and Development's \(OECD\) Common Approaches](#) and the [Equator Principles](#).

The policies considered in our most recent review were the following:

1. Environmental and Social Risk Management Policy
2. Climate Change Policy
3. Environmental and Social Review Directive
4. Human Rights Statement
5. Disclosure Policy

[EDC's Climate Change Policy](#) was approved by the Board of Directors and came into effect on January 28, 2019.

The focus of this paper is on the Environmental and Social Risk Management Policy, the Environmental and Social Review Directive and the Human Rights Policy. The Disclosure Policy and corresponding Response Paper will be issued separately once updated and approved.

EDC believes in and values a constructive dialogue with a variety of stakeholders. The perspectives you provide help us understand your expectations and help us continue to evolve our policies in accordance to industry best practice. We thank you for taking the time to share your feedback and we look forward to continuing our work together.

POLICY REVIEW PROCESS & STAKEHOLDER PARTICIPATION

The stakeholder engagement process began on May 14, 2018 with an invitation to stakeholders from across the Canadian trade ecosystems, including government, industry and civil society, to offer input on all areas of the policies under review. All stakeholders wishing to provide feedback were encouraged to do so via EDC's website or through ESRMPolicyReview@edc.ca. The deadline for submissions was September 7, 2018.

During this time, EDC also consulted with representatives from the Government of Canada, EDC's Board of Directors, EDC's CSR Advisory Council – prominent experts who advise on and guide our Corporate Sustainability and Responsibility (CSR) practices – as well as our customers. Consultations with employees from across the organization were central to the process, including several discussions with senior management and our Board of Directors. Targeted meetings with employees from all levels of the organization, as well as customers and civil society representatives, were held in Halifax, Toronto, Calgary, Montreal and Ottawa.

All submissions were summarized and reviewed by EDC's Executive Team and Board of Directors.

To foster transparency (and where consent was given) stakeholder submissions were posted on edc.ca.

The policy review process also included extensive benchmarking against other export credit agencies and financial institutions to better understand how our peers are approaching these important issues. This exercise generated learning from the best practices of others and helped EDC continue to evolve its approaches in this area.

A summary of stakeholder feedback on the policies under review is available on edc.ca.

The three documents being discussed in this paper – the Environmental and Social Risk Management Policy, the Environmental and Social Review Directive and the Human Rights Policy – have been approved by EDC's Board of Directors.

They take effect on May 1, 2019.

KEY THEMES AND EDC RESPONSE:

Below is a summary of the feedback we received respective to each of the three policies. As there was overlap in themes, feedback is addressed in accordance to the most applicable policy.

ENVIRONMENTAL AND SOCIAL RISK MANAGEMENT POLICY

EDC's Environmental and Social Risk Management (ESRM) Policy is the overarching policy document of EDC's ESRM Policy Framework. It outlines EDC's general commitments and approach to environmental and social risk management, and articulates the relationship between this Policy and the other elements of the Framework.

STAKEHOLDER COMMENTS:

Feedback from stakeholders on EDC's ESRM Policy focused on enhancing the clarity of our transaction due-diligence processes, specifically in relation to how EDC manages environmental and social risks. Stakeholders suggested that EDC could benefit from greater transparency with respect to the due-diligence processes and the decision-making criteria that factor into transaction reviews.

EDC RESPONSE:

In reviewing and benchmarking the 2010 policies and speaking to our stakeholders, EDC decided that the most pressing and substantive change required for the ESRM Policy was the transfer of detailed policy commitments on climate change and human rights to separate stand-alone policies. This change recognizes the significant evolution these issues have undergone in recent years, as well as the importance of both climate change and human rights to EDC's focus on sustainable and responsible business. Further, by making this change, we hope to provide additional clarity and insight to our internal and external stakeholders about EDC's approach to these issues. As noted above, EDC's first stand-alone Climate Change Policy was issued on January 28, 2019.

The other significant change was the alignment of the ESRM Policy with EDC's overarching Enterprise Risk Management Framework, which required the transfer of the more procedure-oriented elements of the 2010 ESRM Policy to a separate Guideline on Environmental and Social Risk Review. This Guideline – available to EDC's customers and stakeholders – articulates specific details and processes that EDC follows to manage and mitigate environmental and social risks for different product and transaction types. Importantly, by issuing a separate Guideline, EDC has greater flexibility to undertake and disclose updates to its processes and procedures.

Our relationship with customers, including how we use our leverage to influence their actions to prevent and mitigate adverse impacts, is further explored under the Human Rights Policy section in this paper.

ENVIRONMENTAL AND SOCIAL REVIEW DIRECTIVE

EDC's Environmental and Social Review Directive (ESRD) – a requirement of the [Export Development Act](#) – sets out how EDC determines which type of transaction is considered to be related to a project and, if it is a project-related transaction, the nature of and approach for the environmental and social review.

STAKEHOLDER COMMENTS:

The primary feedback EDC received on the ESRD from various stakeholders was the importance of providing clarity about what EDC considers to be a "project-related" transaction.

EDC RESPONSE:

EDC recognizes the challenges with respect to the previous ESRD scope, which was subject to differing interpretations as to when the ESRD should be applied, and did not capture the full range of project-related transactions for which EDC conducted project-related due diligence. In Section 5 of the ESRD, EDC has simplified the scope to ensure greater clarity and consistency in the application of the ESRD for both internal and external stakeholders, in particular as it pertains to project-related corporate loans. Further, the changes made allow EDC to further align with the updated versions of the OECD Common Approaches (2016) and the Equator Principles (2013), which had themselves undergone updates since the last time EDC reviewed the ESRD.

STAKEHOLDER COMMENTS:

We also heard from stakeholders that the provisions in the previous ESRD related to G7 countries (Canada, US, UK, France, Italy, Germany and Japan) implied a differentiated level of project due diligence. As such, stakeholders were seeking clarity on EDC's approach to environmental and social review in those countries.

EDC RESPONSE:

For many years, EDC has applied a consistent approach to our environmental and social due diligence for project-related transactions across our full project portfolio. In speaking with our stakeholders, we recognized that the language around G7 countries may have unintentionally implied that there was less rigour and accountability around projects in those countries. As EDC conducts equivalent due diligence regardless of where a project is located, this perception was cause for concern. In response to the feedback, the updated version of the ESRD no longer includes particular provisions for G7 countries. The removal of these provisions means that project-related transactions in these countries, including Canada, are subject to the same accountability as project-related transactions in any other country, and require sign-off from EDC's CEO. This change will result in a slight increase in project reviews seen and approved by the CEO on an annual basis. In making these adjustments, we are not only responding to the feedback we received, but we are also ensuring that the ESRD reflects the evolving international dialogue in recent years around project-related due diligence.

HUMAN RIGHTS POLICY

EDC's Human Rights Policy provides the principles and commitments that guide our approach to respecting human rights, as well as our internal decision making in connection with the transactions we support. This is a new stand-alone policy for EDC and replaces EDC's Human Rights Statement that was issued in 2008.

STAKEHOLDER COMMENTS:

A dominant theme identified from stakeholder feedback was the need for EDC to align its policy to the United Nations Guiding Principles on Business and Human Rights (UNGPs), which outline the respective duties of states and responsibilities of businesses to prevent and address their human rights impacts.

EDC RESPONSE:

EDC's first Human Rights Statement (2008) expressed our commitment to respect internationally recognized human rights across our operations. Since then, we have continued to evolve our environmental and social risk review processes to better align with evolving international policy and practice, including the expectations of the UNGPs.

Today, the UNGPs have emerged as the authoritative international standard on business and human rights, and as such, have become a common reference point for stakeholders. For several years, we have been implementing and developing a body of experience around the key concepts of the UNGPs and have worked to align our practice with the corporate responsibility expectations of the UNGPs. As a result, EDC's updated Human Rights Policy articulates our alignment to the UNGPs. The new Policy recognizes EDC's responsibility in respecting human rights (Purpose and Scope section) and acknowledges our commitment to the UNGPs (Section 2.1). The core of the Human Rights Policy (Section 2.2) explains our human rights due-diligence process, which is informed by the UNGPs, among other international frameworks.

Furthermore, to ensure that we were considering and applying the key concepts of the UNGPs to our business appropriately, EDC enlisted the guidance and advice of Shift, a non-profit organization that is the leading centre of expertise on the UNGPs, in addition to our stakeholder consultation process outlined earlier. Our engagement with Shift included direct interaction with EDC's senior leadership, in the form of one-on-one meetings, orientation sessions and workshops. The conclusion from this engagement was that EDC is doing a number of things well including that we conduct due diligence across all of our insurance and financial products and we have integrated factors that can give rise to high-risk circumstances for human rights to prioritize our due diligence. Shift also identified some key areas for improvement including being more consistent and creative with our approach to using our leverage and more transparent in general with respect to our due diligence and decision-making processes. The new stand-alone Human Rights Policy is an outcome of this valuable process.

STAKEHOLDER COMMENTS:

Stakeholders across the spectrum told us that EDC could benefit from greater transparency with respect to the due-diligence processes and the decision-making criteria that factor into the identification and assessment of human rights risks and impacts in our transaction review. External stakeholders, including the Government of Canada, civil society organizations and customers, told us they wanted to better understand our decision-making criteria and expectations.

EDC RESPONSE:

To identify and assess the human rights risks and impacts associated with our customers, EDC conducts due diligence in accordance with our Environmental and Social Risk Management Policy and the Environmental and Social Review Directive, which are informed by the OECD Common Approaches, the Equator Principles, the OECD Guidelines on Multinational Enterprises and the UNGPs.

In our updated Human Rights Policy, EDC has made a concerted effort to articulate in greater detail the elements that comprise our transactional due-diligence process, for the benefit of our customers and stakeholders. These elements include important UNGP concepts such as prioritization, leverage and remediation. It also includes the criteria that we use when deciding to invest or disinvest from a customer relationship, such as the severity of the impacts on peoples, our clients' capacity to address these impacts and the amount of leverage EDC has to influence the actions of our customers. In addition, EDC's new Human Rights Policy commits EDC to disclose more details on our human rights due diligence in the coming months.

Our approach on disclosure will be clarified with our updated Disclosure Policy to be released later in 2019.

STAKEHOLDER COMMENTS:

Stakeholders, namely our customers and employees, wanted EDC to provide greater clarity as to the expectations for our customers with respect to human rights.

EDC RESPONSE:

EDC expects our customers to live up to their responsibility to respect human rights.

We also recognize that EDC could play a more active role in working with and helping our customers to identify, assess and address human rights risks and impacts. To this end, we will explore opportunities to collaborate with and learn from our customers, especially small and medium-sized enterprises, with respect to managing human rights risks and impacts.

STAKEHOLDER COMMENTS:

Some stakeholders, including EDC's shareholder and a number of civil society organizations, told us they wanted us to include a stronger and clearer statement on our consideration for marginalized communities and individuals, including Indigenous Peoples, women, children and human rights defenders.

EDC RESPONSE:

We understand that certain groups of people can be more vulnerable to severe human rights impacts as a result of business activity. While EDC's Human Rights Policy does not reference specific groups, it does explicitly state our commitment to prioritizing Vulnerable Peoples as part of our due-diligence process. At EDC, we define Vulnerable Peoples as those peoples who are entitled to specific protection under international laws including, for example, women, children, religious or ethnic minorities and Indigenous Peoples. It includes groups we have recognized as being more likely to suffer severe impacts in certain contexts, such as human rights defenders, LGBTQ2+, migrant workers or artisanal miners.

We recognize the importance of these groups and understand that tailored due diligence is required. When Vulnerable Peoples are identified as being actually or potentially impacted by a transaction, we engage with our customers by asking specific questions to ensure that they have the appropriate management capacity to address their impacts on the identified vulnerable groups. The capacity of the company for managing such risks and impacts forms part of EDC's decision-making process.

EDC has taken this approach to ensure the enduring relevance of our policy and to avoid any value judgments about particular vulnerable groups, given that each context we encounter may present a unique set of circumstances and vulnerabilities that we will need to consider. We have taken great care, through consultation with Shift, to define Vulnerable Peoples with reference to recognized international standards and we plan to use this definition as our guide in assessing the specific circumstances and vulnerabilities connected to individual transactions or clients.

STAKEHOLDER COMMENTS:

Many stakeholders referenced the need for access to remediation mechanisms, as well as adherence to independent grievance mechanisms.

EDC RESPONSE:

EDC recognizes the importance of the role we can play in enabling remediation when severe human rights impacts occur in connection to the transactions we support. As the new Policy states, it is our view that EDC should play an appropriate role in enabling remedy for those who may have been harmed. Additionally, we recognize that in most cases this will mean we should use our leverage to influence the actions of our customers to provide appropriate forms of remedy. EDC uses a variety of mechanisms to promote remedy when an issue arises related to a project we have supported. EDC's project review process includes an evaluation of the customer's approach to actual impacts and proposed remedy. For our non-project-related business, EDC engages with our customers to understand their approach to remedy. Should a situation arise, we would use our leverage to encourage that remedy be provided. We are continuing to explore ways in which we can strengthen our approach to monitoring and enabling remediation.

For transactions associated with actual and/or potential higher human rights risks, EDC's approach is to encourage our customers, if they have not done so already, to develop effective stakeholder engagement processes and operational level grievance mechanisms, based on recognized international standards, including the UNGPs. We also recognize and support the existing mechanisms that already provide independent oversight to ensure responsible business conduct. These include [Canada's National Contact Point](#) and the [Canadian Ombudsperson for Responsible Business](#), to which EDC has stated our commitment and cooperation. In addition to taking steps to cooperate in these processes, we will also encourage our customers to do so.

STAKEHOLDER COMMENTS:

Stakeholders also told us that they would like to see EDC be more transparent in our tracking and reporting of human rights performance.

EDC RESPONSE:

In the pursuit of increased transparency on our human rights performance, our updated Policy includes a commitment to track and report externally on our progress in this area. Over the past few years, we have included reports on the number of human rights screenings in our annual CSR report, and have responded publicly to human rights issues facing our customers. With our new policy commitments, EDC will be reviewing and seeking guidance from experts regarding how we can improve our tracking and public reporting on our human rights performance, in a manner that is appropriate for our business.



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