



ESRM POLICY FRAMEWORK REVIEW

STAKEHOLDER RESPONSE PAPER

MARCH 2023

Canada

 **EDC**
TAKE ON **THE WORLD**

CONTENTS

3 INTRODUCTION TO OUR POLICY FRAMEWORK

4 POLICY REVIEW PROCESS AND STAKEHOLDER PARTICIPATION

5 KEY THEMES AND EDC RESPONSE

Environmental and Social Risk Management Policy	5
Environmental and Social Review Directive	6
Climate Change Policy	7
Human Rights Policy	8
Transparency & Disclosure Policy	10

11 ACKNOWLEDGEMENT

INTRODUCTION

EDC conducts a regular review of its Environmental and Social Risk Management (ESRM) Framework policies to ensure our policies are relevant, rigorous and reflect industry best practice.

These reviews enable EDC to identify opportunities to better align the policies with our environmental, social and governance (ESG) practices, business activities, customer needs, and emerging best practices. They also help us reflect key developments in international standards and obligations to which our policies are aligned, including the [OECD Common Approaches](#) and the [Equator Principles](#). In addition, reviews allow EDC to solicit feedback and better understand the expectations of our diverse range of stakeholders.

During the review process, we invited stakeholders from across the Canadian trade and business ecosystems, including civil society and our international peers, to offer input and constructive feedback on the following policies under our ESRM Policy Framework:

- Environmental and Social Risk Management Policy
- Climate Change Policy
- Environmental and Social Review Directive
- Human Rights Policy
- Transparency and Disclosure Policy



POLICY REVIEW PROCESS AND STAKEHOLDER PARTICIPATION

The stakeholder engagement process began on Jan. 24, 2022, with an invitation to stakeholders from across the Canadian trade ecosystem, including government, customers, industry and trade associations and civil society organizations (CSOs), to offer input on all areas of the policies under review.

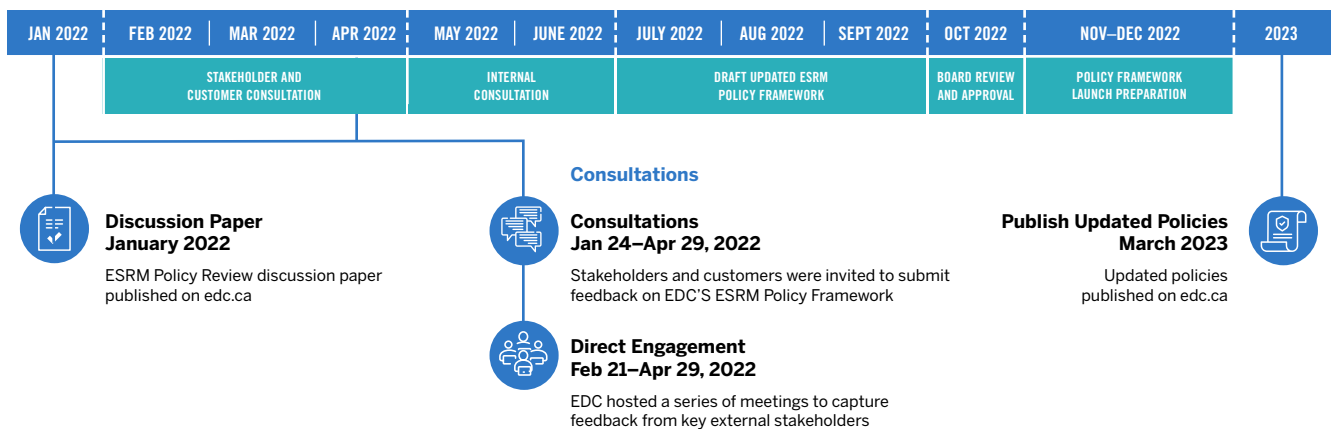
Over the course of the 96-day comment period, EDC met with a total of 39 internal and external stakeholders (i.e., eight industry associations, 13 customers and 18 civil society organizations) through virtual one-on-one meetings and multi-stakeholder roundtables. In addition, we received 10 written submissions. Relevant materials (including a Discussion Paper) were made available on EDC’s website with an open invitation to submit comments until April 29, 2022.

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 (ECAs) and Financial Institutions (FIs) to better understand how our peers are approaching these important issues. This exercise generated lessons learned that will help EDC continue to evolve its approach in this area.

A summary of stakeholder feedback on the policies under review is available on edc.ca. The policies discussed in this paper have been updated and were approved by EDC’s Board of Directors on Oct. 13, 2022 with changes taking effect the same day.

ESRM POLICY TIMELINE



KEY THEMES AND EDC RESPONSE

Below is a summary of the stakeholder feedback received, as well as an overview of EDC's response.

ENVIRONMENTAL AND SOCIAL RISK MANAGEMENT POLICY

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

Summary overview

Stakeholder feedback uncovered contrasting views on broadening policy scope and adopting sector-specific positions. In general, customers and CSOs supported the inclusion of biodiversity and nature-related risks.

The update to the ESRM Policy included:

- A preamble that weaves the policies together within a single framework, explicitly referencing the frameworks, standards and commitments that the ESRM Policy Framework is informed by and aligns with.
- Updated policy language to articulate our commitment to embed ESG principles into everything we do, in line with our 2030 corporate strategy.
- Addition of common guiding principles across the ESRM, climate change and human rights policies for better alignment.
- Updated commitments to add clarity about EDC's environmental and social (E&S) due diligence practices, respond to stakeholder feedback and align with emerging practices in the ESG space.

Stakeholder Comments and EDC Responses

Support for broader scope: Overall, feedback from stakeholder groups indicated support for broadening the scope of the ESRM Policy beyond risk management to reflect EDC's commitment to ESG and to show how the various policies fit together. However, some stakeholders shared that they found the focus on risk management to be helpful.

EDC response: In response to stakeholder feedback, the language in the policy was updated to articulate EDC's commitment to embed ESG principles across our business and operations, while maintaining customer focus. The new language builds on EDC's risk management-based approach, highlighting the strategic advantage of ESG practices for both EDC and our customers. A preamble and common guiding principles were added to increase clarity around how the policies relate to one another and reflect ESG principles across the ESRM, climate change and human rights policies.

Support for adding biodiversity: During consultations, we heard that stakeholders support incorporating language on biodiversity and nature-related risk into the ESRM Policy. Stakeholders noted that disclosing an approach to biodiversity would make EDC a leader in the financial sector on this topic.

EDC response: Given its recognition as a topic of increasing importance, EDC explicitly acknowledged the significance of biodiversity risk and ecosystem service loss in the updated policy. We also recognized the role of biodiversity in achieving global climate and human rights objectives and this language was incorporated into the ESRM Policy and the Human Rights Policy. EDC is committed to continuously and actively engaging with stakeholders and peers to advance dialogue and action around this topic.

Cautioned support for the publication of sector positions: Several stakeholders expressed support for EDC to establish sector-specific positions and exclusions. Others, however, cautioned that sector-specific positions can be overly rigid and may put Canadian exporters at a disadvantage if EDC goes too far compared to other ECAs. They noted that if EDC is to adopt further exclusions, we should ensure alignment with industry norms.

EDC response: EDC has addressed this issue through its Transparency and Disclosure Policy. We recognize work needs to be done in advance of the disclosure of sector positions and exclusions and have updated the policy's language to reflect a commitment to disclose information about risk management processes in some sectors, as seen on page 8.

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.

Summary overview

Consultations revealed that many internal and external stakeholders are seeking a clearer, more streamlined application of the ESRD and the project review process.

The update of the ESRD included:

- Formal integration of the Office of the Auditor General's 2019 recommendations regarding the criteria to screen and categorize transactions and the involvement of independent consultants for monitoring and reporting.
- Explicit recognition that the ESRD was developed in alignment with the OECD Common Approaches and the Equator Principles.

- Addition of sections to reflect a newly developed approach for multi-project transactions, providing greater clarity and consistency to address evolving business needs.
- Updated exception section to address interpretation ambiguities, namely Canada Account transactions located in Canada with a directive from the Government of Canada, and certain transactions under EDC's Trade Expansion Lending Program (TELP).
- Improved overall readability of the document—streamlining information where possible.

Stakeholder Comments and EDC Responses

Streamlined customer experience: Stakeholders (namely customers) would like to see more clarity from the beginning of the process regarding what project-related disclosures will be required of them. They would also like to see EDC leverage other third-party certifications where possible.

EDC response: In speaking with our stakeholders, we learned that their concerns were rooted in a lack of process clarity which can cause uncertainty. For instance, we are able to leverage third-party certifications to support the assessment of project-related risks when these are available. As these represent gaps in knowledge and understanding, they were not addressed through edits to the ESRD itself. EDC commits to exploring opportunities for enhancing process clarity and dissemination. We envision this could take the form of new communications materials such as ESRD fact sheets, FAQs and/or presentations. We welcome additional views on resources that would be of value.

Enhance efficiency of application: Certain stakeholders would like to see a focus on efficiency when it comes to ESRD processes, noting that some requirements are outside of industry norms and drive limited value.

EDC response: EDC is committed to adhering to leading international standards and best practices in its approach to environmental and social due diligence for project-related transactions. Our due diligence approach is aligned with the OECD Common Approaches and the Equator Principles. Additionally, the IFC Performance Standards are applied in cases where gaps to international standards are identified. In response to stakeholder feedback, the updated version of the ESRD provides greater clarity regarding our alignment to these international standards and commitments. Our commitments result in the need for a multi-faceted approach, with the ESRD reflecting various international standards and commitments in one singular directive.

Influence and uphold best practice: Customers indicate that, although onerous, they appreciate EDC's project-related due diligence processes, citing that it encourages them to improve their practices and disclosures.

EDC response: At EDC, our customers' success is our success. We recognize that project-related due diligence can be thorough and intensive. However, as we continuously seek to align ourselves with international standards and best practices, we are encouraged to hear that, despite the amount of effort involved, our customers derive long-term value from the process.

CLIMATE CHANGE POLICY

In 2010, EDC instituted its first Climate Change Policy as part of the Environmental and Social Risk Management Policy. A standalone policy was adopted in 2019 to provide the strategic foundation of our commitments to address climate-related risks and opportunities, both for ourselves and our customers. Today, our Climate Change Policy aims to prioritize managing our own climate-related risk and operational footprint, while also supporting our customers to align with a low carbon transition.

Summary overview

Consultations revealed that stakeholders would appreciate clarity on sector-level positions, customer expectations, and EDC's definition of cleantech.

The update of the Climate Change Policy included:

- Updated commitments—in line with [EDC's 2021 net zero announcement](#) and [2022 update](#)—to disclose financed emissions associated with our lending portfolio, and to set science-based targets for priority sectors and products.
- A new commitment to address the intersection of environmental and social issues and to reflect EDC's evolving engagement focus (from risk to impact).
- Language on our operational footprint commitments in line with EDC's net zero strategy.
- Updated language on our thermal coal position to clarify our commitment regarding this sector.

Stakeholder Comments and EDC Responses

Cautious sector-level positions: Some stakeholders would like to see specific positions on lending to carbon intensive sectors for greater clarity. However, others caution that EDC should balance this against the "big picture" of climate transition. They note that energy transition is nuanced, and energy security remains a key concern. Given these considerations, imposing exclusions could impact the ability to leave room for a transition pathway.

EDC response: We recognize the challenges of climate transition are complex and cross-cutting. Given the mixed feedback received, as best practices evolve around climate transition, we will continue to consider sector-level positions as an additional tool. To date, we have published our positions on lending to some sectors, including thermal coal. We will also continue to rely on our due diligence processes to consider the differentiated risks among sectors and geographies to ensure appropriate risk management and progress towards our net zero goals.

Enhanced customer expectations: Some stakeholders feel that EDC should require customers to adopt more advanced climate practices (e.g., net zero commitments, emissions reporting). Customers want EDC’s requirements to align with industry frameworks, such as Task Force on Climate-Related Financial Disclosures (TCFD), as much as possible.

EDC response: We strongly believe the transition to a low-carbon economy will be achieved in collaboration with our customers and we will continue to encourage practices that align with net zero emissions by 2050. While it may not be expressly stated in the policy, EDC may, in some cases, require customers to disclose information in alignment with the TCFD—the framework to which we align our own disclosures.

The TCFD will continue to be a key reference for EDC in evaluating appropriate management of climate-related risk. This is captured in our revised Climate Change Policy under the commitment to encourage customers to “disclose climate-related information and, where appropriate, work toward full implementation of the recommendations of the Task Force on Climate-Related Financial Disclosures.” We note that EDC has been monitoring and tracking the developments from the International Sustainability Standards Board (ISSB).

As a driver for this transition, our expectations of how customers manage their climate risk will continue to change. We are committed to being transparent with our customers as these evolving expectations will impact them directly.

Clarify key definitions: Customers and civil society stakeholders indicate they would appreciate a clearer view on EDC’s plans and processes related to our cleantech transactions and sustainable financing.

EDC response: We have maintained the commitment in our policy to increase EDC’s business focused on clean and low carbon technology. In parallel with our policy review, we have increased transparency in relation to our sustainable finance objectives and cleantech target through our [net zero disclosures](#). Details on our progress will be released annually in our integrated annual report and standalone climate disclosure.

EDC also made a commitment through its Transparency and Disclosure Policy to identify individual signed financing transactions that are categorized as cleantech, and they will be available on our website.

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.

Summary overview

Stakeholders would like to see a deliberate commitment to upholding the rights of certain vulnerable groups. There were mixed views with respect to EDC’s position on a grievance mechanism and policy scope.

The update of the Human Rights Policy included:

- A reframed “purpose” section to be more values-driven and aligned with EDC’s responsibility to respect human rights to help our customers better understand what drives our approach.
- A new section on EDC’s decision-making process for managing customer relationships to provide greater clarity and visibility.
- Replaced the term “vulnerable peoples” with “groups at heightened risk of vulnerability or marginalization” to better align with the United Nations Guiding Principles.
- Added language on the notion of exiting transactions/relationships in a responsible manner.
- Modification of the scope (i.e., the scope of application was updated to include the onboarding process, in addition to transactions, in line with current practices).
- Added language in the guiding principles to address the intersection of environmental and social issues and to reflect EDC’s evolving engagement focus (from risk to impact).

Stakeholder Comments and EDC Responses

Stronger focus on vulnerable groups: Stakeholders would like to see the Human Rights Policy reflect a stronger focus on certain vulnerable groups and supply-chain related risks. Some recommended integrating gender and Indigenous peoples across all ESRM policies.

EDC response: In the policy, we now identify specific groups that are at heightened risk of vulnerability or marginalization (i.e., women and girls, children, persons with disabilities, religious or ethnic minorities and Indigenous peoples, human rights defenders, 2SLGBTQ+ persons, migrant workers and artisanal miners). We acknowledge that supply chain workers from these groups may face disproportionate risk of adverse human rights impacts.

In an appendix, we added further details such as on the international standards that guide EDC's approach to Indigenous peoples' rights (e.g., the United Nations Declaration on the Rights of Indigenous Peoples and Free, Prior, and Informed Consent (FPIC)). We also highlighted the need for gender-based analysis and pointed to the standards reflected in documents, such as Canada's Feminist International Assistance Policy and the Convention on the Elimination of All Forms of Discrimination against Women, which EDC looks to, as it strengthens its gender equality approach. These changes were made to give additional visibility to these groups and greater clarity about our commitments to them.

In response to stakeholder feedback, we also adjusted the term "Vulnerable Peoples" to "groups at heightened risk of vulnerability or marginalization," which is aligned with the United Nations Guiding Principles. Further, we included common language across the ESRM, human rights and climate change policies that recognizes EDC's role in advancing responsible business practices, including by championing human rights, particularly the rights of Indigenous peoples, and advancing gender equality, diversity and inclusivity.

Grievance mechanism concern: Some stakeholders voiced concerns that EDC does not have its own grievance mechanism. However, most stakeholders

acknowledged existing mechanisms such as the [National Contract Point \(NCP\)](#), which can review and help contribute to the resolution of complaints made against multinational enterprises operating in or from Canada, in any economic sector and [Canadian Ombudsperson for Responsible Enterprise \(CORE\)](#), which is mandated to review complaints and offer informal mediation related to alleged human rights abuses arising from a Canadian company's operations outside of Canada in the garment, mining, and oil and gas sectors. Affected stakeholders can access these mechanisms to raise concerns.

EDC response: Given that most stakeholders reinforced the value of existing initiatives/mechanisms (e.g., NCP and CORE), when being asked about a potential grievance mechanism at EDC, we did not make any material changes to the policy at this time. Through EDC's environmental and social due diligence, we will continue to assess our customers' management systems to ensure operational level grievance mechanisms are in place and in line with best practice, so affected stakeholders can voice their concerns appropriately and effectively.

Mixed support for broadening scope: Some stakeholders would like to see EDC broaden the scope of the policy beyond customer relationships to reflect EDC's role as an employer and procurer of goods and services. However, most appreciate the existing focused scope or did not express an opinion.

EDC response: In our experience, the greatest risk of being connected to severe human rights impacts is via transactions that support our customer relationships. Recognizing this and, with most stakeholders expressing support, we decided to maintain the scope of the original policy. We did, however, expand the scope of application of our human rights due diligence to include the initial onboarding process of customers, beyond specific transactions. Although we maintain a focus on customer relationships, the updated policy does have an added reference to our commitments to inclusion, diversity and equity in the context of the rights of our employees. We also include links to EDC's Supplier Code of Conduct and Procurement Policy that indicate how we apply respect for human rights in this area.

TRANSPARENCY & DISCLOSURE POLICY

EDC's Transparency and Disclosure Policy was first established in 2001, setting a framework to enable the proactive disclosure of information related to our business. This policy aims to balance both our commitment to provide Canadians and our stakeholders with the information they want to hear from us with our obligation as a financial institution and pursuant to the Export Development Act to uphold customer confidentiality.

Summary overview

Stakeholders suggested several ways in which EDC can enhance transparency and disclosure efforts, including improved transparency on cleantech-related reporting, ESG risk management processes and enhanced accessibility of existing disclosures.

The update of the Transparency & Disclosure Policy included:

- A new commitment to identify individually disclosed transactions (loans, guarantees and equity) that fall under EDC's cleantech business support.
- Updated commitment to disclose information guiding risk management processes in some sectors. We anticipate sector information to be published gradually and likely in a high-level case study format.
- A new commitment to post all previously disclosed individual transactions on our website since the policy came into effect in 2001 versus the past three years at a given time.
- Addition of a multi-project disclosure process to ensure disclosure requirements are aligned with EDC's environmental and social review process for those transactions.
- A new commitment to disclose sovereign lending transactions on the Government of Canada's website, in addition to EDC's disclosures.
- Removal of the commitment to track prospective customers that did not proceed due in whole or in part to ESG-related risks at EDC's onboarding stage to focus our efforts on tracking turndowns at the transaction level.

- A list of disclosure frameworks we report on, along with links for more information.
- A section to disclose Canada Account transactions (in line with current practice).

Stakeholder Comments and EDC Responses

Continuous improvement in reporting priorities: Stakeholders are aligned with expanding the priorities addressed by the Transparency and Disclosure Policy, recommending following best practices and/or aligning with leading frameworks for material ESG issues (e.g., environment and inclusion, diversity and equity). They also raised that new metrics should be communicated consistently, and EDC should highlight areas where performance is strong as well as areas for improvement.

EDC response: EDC reports on inclusion, diversity and equity within EDC's workforce and how we are supporting diverse Canadian companies to foster inclusive trade. We will continue to seek feedback on how to broaden the information related to our efforts. As stakeholders were satisfied with this information being available in our integrated annual report (IAR), it will continue to be the primary source for this information. With the addition of the ESG scorecard published in the IAR, we will continue to showcase metrics that will assess our performance over time.

Enhancing transparency on transaction reporting: Stakeholders expressed they are generally satisfied with EDC's reporting approach on individual signed transactions and project financing-level disclosures following improvements made in the last update of the policy in 2020. However, stakeholders requested that EDC identify in its individual transaction reporting which transactions are categorized as cleantech as a means of providing greater transparency and to improve EDC's climate reporting.

EDC response: In line with our commitments to enhance climate-related reporting, we will start identifying financing transactions categorized as cleantech as part of our individual transaction disclosures on a go-forward basis. We will leverage the existing [transaction disclosure page](#) to report on this information and will specify cleantech transactions for loans, guarantees and equity transactions.

Consistent with EDC's disclosure practices for insurance and bonding transactions, EDC's cleantech business support for these products will continue to be reported in aggregate.

During the stakeholder consultations, we also explored the option of introducing new disclosure on bonding transactions. However, this was not deemed a priority to stakeholders and commercial sensitivities were flagged. As a result, EDC chose to deprioritize this initiative in order to prioritize cleantech reporting.

Ensuring accessibility: Stakeholders identified accessibility of information as a key area for improvement, citing that all historical data regarding our signed individual transactions should be readily available on EDC's website, ideally in a machine-readable format. Additionally, stakeholders requested that key ESG policies and frameworks be linked in the policy and should be easier to locate on EDC's website.

EDC response: To align with best practices in transparency and disclosure, EDC will now post all previously disclosed individual signed financing transactions since the policy came into effect in 2001 on our website. EDC will work towards making the data available in a machine-readable format on a go-forward basis; however, this will require technology and website infrastructure improvements and may take time to implement. The policy now includes links to relevant ESG disclosure frameworks housed on EDC's updated ESG section of its website as a centralized page for policies and frameworks.

ACKNOWLEDGEMENT

We believe in and value constructive dialogue with all our stakeholders. The perspectives you provide help us understand your expectations and continue to evolve our policies in accordance with industry best practice. We thank you for taking the time to share your feedback and look forward to continuing our work together.



ABOUT EXPORT DEVELOPMENT CANADA

Who are we?

Export Development Canada (EDC) is Canada's export credit agency. Our job is to support and develop Canada's export trade by helping Canadian companies respond to international business opportunities. We're a self-financing Crown Corporation that operates at arm's length from the Government of Canada.

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