

Export Development Canada's Advisory Council on Corporate Social Responsibility

18th Meeting

Thursday November 18, 2010

8:30 a.m. – 1:30 p.m., Ottawa

Medium-Term Direction Setting in CSR

1. President's Update and Farewell Message

Eric Siegel, President and CEO

The President and CEO, along with Jim McArdle, Senior Vice-President, Legal Services & Secretary, provided an overview of business results, managerial issues and developments in CSR at EDC.

Business Results – Business started out slowly in 2010 and gathered momentum mid-year. Business volume is expected to be \$85 billion, on par with 2009 (total business volume represents the sum of transactions supported throughout all of EDC's business lines, including financing, guarantees, insurance, bonding and others). Again, there was a resurgence of business in emerging markets reflecting diversification of Canadian exports and investment activity abroad to reach a target of \$21 billion in emerging markets, representing approximately 25% of total business volume.

Performance measure - EDC uses a common industry standard, 'Net Promoter Score' (NPS), to measure how valuable a customer finds EDC by asking "would you recommend EDC?". EDC has always scored above 80% and improved its score in 2010, in part because of implementation of the *lean* management methodology.

New management approach - While unusual in the financial services sector where transactions often have long lead times with unique characteristics, EDC is applying *lean* along its value chain resulting in dramatic improvements in productivity. The process forces inter-disciplinary collaborating resulting in process efficiencies, and dislodges information not previously shared.

Such management approaches are a prerequisite to being in a competitive marketplace. It ensures the flow of energy and resources to the right problems at the right time. In addition, EDC has introduced a new vision: The EDC Way (knowledgeable, connected and committed).

New building - EDC's new lease premises will be a LEED gold standard and ready for occupancy in May 2011. The move will include a transition to e-records management which aligns well with a renewed emphasis on reducing EDC's operational footprint.

Domestic Financing – EDC’s mandate was expanded during the economic crisis to facilitate more domestic financing. Discussions are ongoing with the Government of Canada for a permanent revision of EDC’s regulations to continue such support, for example when there are exports within a company’s supply chain in the domestic market.

Early stage exporters did not previously seek EDC support. With access to greater domestic financing capacity, this will change. Opportunities also exist in infrastructure development, particularly at the construction phase where there are financing gaps.

Growth in emerging markets – EDC now has 16 foreign representatives abroad for a total of approximately 25 employees abroad, including local support staff. EDC is celebrating ten years in Mexico and Brazil and 5 years in India. New representations were opened in 2010 in Panama and Dusseldorf, the latter office is intended to position EDC closer to large corporate supply chains that are headquartered in Europe. EDC will open an office in Turkey in 2011, then take a pause on expansion into additional foreign markets.

CSR and emerging markets – There is significant economic growth in India and Southeast Asia. EDC is valued in these markets, both for being on the ground and is looked to for advice and financial facilitation. EDC’s physical presence in the region reflects a sound business strategy. In India, it is not just about being present locally, but developing relationships with Indian corporations that are now investing in Canada.

EDC’s presence in foreign markets presents an important opportunity to influence its partners and help elevate the topic of CSR around the world. Jim McArdle added that EDC will be looking at India and Indonesia and how to meet its CSR requirements in certain sectors in those markets. EDC has not yet supported any projects there.

Community Investment – EDC raised \$285,000 and represented 1% of the entire campaign. EDC’s also organized a separate donations-matching campaign in support of Haiti.

Policy Changes - EDC’s recently revised Environmental Policy and related documents (Disclosure Policy and Environmental Review Directive) provided a significant opportunity for a dialogue with EDC’s Board of Directors on CSR. They eventually supported the proposed policy revisions.

Another discussion with the Board was held at a subsequent meeting on non-financial CSR risks using a number of case studies of actual EDC transactions. This provided an opportunity to raise awareness of current issues with the Board and build their level of comfort and understanding of EDC’s CSR due diligence. The Board has asked to continue this dialogue and engage in another discussion once the International Finance Corporation’s *Performance Standards on Social and Environmental Sustainability* are amended.

Jim McArdle outlined the 4 key changes to EDC's Environmental and Social Review Framework as: (a) identification of the IFC Performance Standards as the dominant standard to be used when reviewing large projects; (b) explicit inclusion of "social" in policy documents placing emphasis on the practice of reviewing social impacts; (c) integration of climate change into the policy in recognition of the importance of this issue; and (d) a commitment to greater transparency with the publication of a Project Review Summary for Category A projects, i.e. projects with the most significant environmental and social impacts.

Bill C-300 - Jim McArdle commented on the implications of the October defeat of the proposed Parliamentary legislation, *Corporate Accountability of Mining, Oil and Gas Corporations in Developing Countries Act* (known as Bill C-300). While EDC supports the overall objectives of the Bill, EDC made an effort to ensure parliamentarians understood its implications for business. The Government of Canada emphasized that the objectives of the Bill could be achieved through its own CSR Strategy. Legislation is not necessary if the momentum achieved during the debate of the Bill is continued.

EDC's CSR Report – EDC will proceed with integrating its Annual and CSR Reports. While there is limited experience on the part of other firms in integrated reporting, it is a trend. The CSR report will still meet Global Reporting Initiative (GRI) and other standard reporting requirements. EDC will also transition its Annual Report so it has a more strategic focus on future direction which offers the potential to give more profile to CSR issues.

Council Discussion

EDC provided support to Vale. The funds were provided in part to help Canadian companies export to Vale's operations in Brazil. An equal part of the financing will be directed to Vale's projects in Canada to help expand their export footprint, and upgrade and improve their operational footprint. EDC support was provided all on commercial terms.

While some stakeholder groups have criticized EDC's support of the acquisition, Vale has since announced a \$1 billion investment program in Canada, part of a \$45 billion total investment plan. EDC is able to influence the company toward Canadian procurement.

EDC can participate in foreign acquisitions, however its preferred role is in post-acquisition financing where EDC support is intended to help companies based in Canada continuing investing and growing. EDC is discriminating in its approach. Its support aims to help keep companies investing and growing in Canada.

The mining industry needs to improve its ability to communicate the positive impacts of the industry and its improved CSR performance. The industry has avoided legislative controls, but hopefully there is a realization that they need to continue to make changes. The challenge remains how to ensure positive impacts for local communities without replacing host country and local governments.

The decision to integrate the Annual and CSR Reports was supported, but caution was extended that doing so should not appear as EDC conducting ‘business as usual’, and EDC should not lose sight of its CSR objectives. EDC is confident that this will not be the case as it has reached a point where CSR is fully integrated into its business principles and practices. The online report offers an opportunity for more dynamic, real-time reporting. The Council further cautioned that the online CSR report should be robust and updated continuously in order to avoid criticism from stakeholders.

2. Tour de table

Council Members provided updates since the last Council meeting on emerging topics or observations on themes or marketplace developments which may be of interest to EDC.

- The People’s Republic of China has produced guidelines on CSR for state-owned enterprises and will examine a number of Chinese foreign multinational enterprises for CSR performance. A rapid uptake of CSR in China is anticipated as it realizes the potential benefits of a position on CSR and that it can become a problem in markets where it is heavily invested, e.g. Brazil. Other Council members question whether China’s embrace of CSR is credible because of the principal-agent dilemma in China. Admittedly, China’s promotion of CSR in its foreign enterprises is selective and evident only in certain markets. China’s CSR efforts represent a start and certainly a greater focus than 3-4 years ago, but CSR is not a standard business practice, not consistently implemented and not impacting small and medium-size enterprises.
- Preliminary results of a study on the competitive advantage of CSR for Canadian companies reveals that: (a) most large companies are at an intermediate level of integration of CSR where it is not core to their business, and implementation is patchy. Companies appear a bit naïve, particularly about the social and governance aspects of CSR. This contrasts greatly with the CSR performance of European companies. Simply put, most Canadian companies simply do not yet see CSR as a competitive advantage.
- At the World Petroleum Council regional meeting held in June 2010 in Cartagena, Colombia, much of the dialogue focused on CSR reflecting the advancement of the CSR discussion among industry CEOs, oil ministers, academics and NGOs. The next meeting is scheduled for Qatar in September 2011.
- There is a massive increase in interest in the export of Canadian education. Emerging markets like India are now looking to the outside world to help meet its post-secondary education needs. Indian legislation has been passed to allow foreign educational institutions to establish there. These changes present important opportunities for investment and education in CSR. Institutions will be welcome if they examine and act upon the social responsibility aspects of their investments.

3. Global Export Forecast: “The Moment of Truth”, Fall 2010

Stuart Bergman, Director, Economic Analysis and Forecasting

Stuart Bergman provided an overview of developments in the Canadian economy, particularly as they impact exports.

The economy is still in the ‘middle zone’ between recession and recovery and faces three key risks: (a) global spending, particularly US consumer spending; (b) a credit retreat arising from recent crises in Mediterranean economies which could be destructive to the world’s growth path; and (c) a policy dilemma where public demand is up, tax revenues have fallen, government spending has increased, and government has hit a ceiling in their ability to raise revenues for spend further.

In the coming months, governments will have to deal with ballooning public deficits. The real concern now is that policy-makers not reduce spending too quickly and compromise the economic recovery. It is important that the stimulus continues.

The value of the Canadian dollar is determined by oil and gas prices, non-energy commodity prices, interest rate spreads and movement in the US dollar. Exports are expected to be volatile on a month-to-month basis with 10% growth in 2010 and 6% in 2011. The economic recovery could exhibit positive signs only to fall back.

Discussion

Economic forecasting should also consider the determinants of oil and gas prices which principally are speculation, the value of the US dollar, catastrophic events and geo-political events and issues. Oil prices can be very volatile as indicated by the recent price decline from \$147 to \$36 per barrel.

If the Euro is challenged, there will be a flight of capital to yen, the US dollar and gold. Canada is perceived to have been less hard hit by the economic downturn, but the numbers do not reflect unofficial unemployment, e.g. those who have stopped looking for work or should be working full rather than part-time. Also, there are unhealthy levels of debt in Canada rising to 150% of disposable income.

4. CSR Strategic Review: CSR Scorecard

Jim McArdle, SV-P, Legal Services & Secretary; Yolanda Banks, Senior Advisor, CSR

The Council was guided through a ‘voting’ exercise where it was asked to ‘score’ EDC on its CSR performance across various elements of CSR practice. EDC executives were looking to learn where the Council felt it could do more and areas it may have missed.

Discussion

Council members commented that maximum disclosure was important and could make an important difference for EDC. EDC does not disclose those projects it declined for support. Such disclosure might demonstrate that its internal procedures have ‘teeth’ and result in turndowns of, or at least serious modifications to, projects.

EDC realizes that the ‘trust me’ approach is not adequate. It is important to consider that sponsors of projects that would not meet EDC’s CSR requirements simply do not approach EDC. Consequently, a figure of declined projects would not necessarily accomplish the intended objective. While it is important that EDC be judged on how it improves transactions and projects, not just how many it declines, turndowns remain an important part of the equation.

EDC will never silence all of its critics, but there are a number of stakeholders in the middle ground who recognize, understand and appreciate solid analysis.

EDC has improved its communications with clients on reasons for declining support. Mitigating negative impacts is what EDC should strive to achieve. EDC uses every opportunity to educate its customers and typically projects involve significant, proactive engagement with the customer on CSR issues. EDC’s due diligence also includes an assessment of a company’s capacity to implement its project(s) according to international standards. EDC articulates when a situation is unacceptable and continues to improve in this area.

Corruption in international business remains an issue that continues to be discussed. While safeguards are in place, EDC could go farther. As a non-deposit taking organization, EDC’s risk and exposure to money laundering is relatively low. International business transactions represent a long supply chain and through heavy, up-front due diligence, EDC makes every effort to ensure its transactions in that chain are corruption-free. Facilitation payments remain an area of vulnerability. Although allowed under the Canadian law, the definition is not clear.

5. Community Investment at EDC - Strategic Review

Rosemarie Boyle, Vice-President, Strategic Planning and Corporate Communications
Anne-Elisabeth Piché, Advisor, Community Investment

A presentation outlined the key pillars of EDC’s current Community Investments program. These are divided between domestic (United Way campaign,) and international (*Beyond Exports* partnership with CARE Canada) initiatives, as well as initiatives that support employee interests (the annual United Way campaign, emergency relief fund-raising, donations to support employee volunteerism), and those that reflect corporate interests (building trade education through EDC’s Youth Education Strategy, including its University of Waterloo Chair in Environmental Finance). EDC makes approximately \$1 – 1.5 million in direct community contributions, in addition to about 1400 employee days. This represents a significant investment in the community.

These initiatives reflect a disparate, wide-ranging series of activities. The Council’s views were sought on how EDC could develop a more strategic approach to Community Investment.

Discussion

As a Crown corporation, EDC does not face any restrictions on what it can contribute, but is aware of public and customer perspectives on its mandate and the appropriateness of its role in community investment.

The public expects that when a firm is more profitable, it contribute more. As EDC is a for-profit enterprise, it would be appropriate for it to commit a percentage of its profits for community investment.

The Council was supportive of EDC's attempt to develop a strategic Community Investment framework and encourages an emphasis on community *investment*, rather than corporate giving or philanthropy. Causes supported should reflect a corporation's mandate, and consequently, what it knows best. In EDC's case, this is leveraging its knowledge of international trade. As EDC's core strength is financing, an option to consider might be support for youth ventures.

Withdrawal from some programs, such as the United Way, in attempt to achieve a more strategic approach would not be well received. Also, it is important to continue to champion employee activity. EDC might consider seeking input on where its employees want to be involved with the community. EDC is aligned with its peers which typically match employees' volunteer efforts. Council members pointed out practices at other corporations which match employees' financial contributions to charities. EDC does so only in the context of its disaster relief campaigns.

In developing a Community Investment strategy, EDC could tier its objectives into two categories: corporate initiatives and employee engagement. Other Crown corporations have found scholarships an effective Community Investment tool, but only if scholarships have a significant dollar value, e.g. \$25,000.

EDC is considering support to the development of a trade and finance undergraduate curriculum at a leading university. Given EDC's expertise in CSR and the dearth of those who understand it, support in this area is another option that EDC could consider. This could contribute significantly to the advancement of an available talent pool in Canada to EDC and its customers.

6. Final Comments, Wrap-Up and Conclusions

Maureen O'Neil, CSR Advisory Council Chair

Council members continue to support a meeting frequency of twice per year in order to maintain a meaningful and ongoing knowledge-base of the Corporation and to preserve the Council's impact.

EDC should examine whether and what value it is extracting from the Council. EDC confirmed that it derives many benefits from the Council. The Council has served as a source of accountability for EDC's CSR practices. The advice the Council has provided has, without question, helped EDC improve its CSR practices, and keeps EDC moving

forward and dynamic in these practices. There is some indication that NGOs hold EDC in greater esteem than in the past and EDC has developed a reputation for fairness.

Going forward, EDC will take steps to ensure an impactful agenda for Council meetings. A new model for the Council could be considered. Members would welcome an annual roundtable discussion with experts on general CSR topic(s), not particularly focused on EDC. EDC could also invite peer institutions as speakers to discuss best practices in the area of environmental review, human rights, *et cetera*.

For EDC, the Council has ‘kept it green, and kept it growing’, and has been a wonderful and stimulating experience.