



DUE DILIGENCE FRAMEWORK: HUMAN RIGHTS



FRAMEWORK CONTROL SHEET

CONTROL SHEET

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APPROVAL, REVIEW AND REVISION HISTORY

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1.0	Approved by SVP, Sustainable Business & Enablement	January 2020	Inaugural
2.0	Approved by Director, Environmental and Social Risk Management	January 2021	Added Sections 2.2 and 2.3 and Appendix A, B, and C and minor updates made throughout the document

1. INTRODUCTION, PURPOSE AND SCOPE

1.1. INTRODUCTION

As Canada's export credit agency, EDC's mandate is to support and develop Canada's export trade and Canadian capacity to engage in that trade and to respond to international business opportunities.

EDC recognizes our responsibility to respect the internationally recognized human rights covered within the International Bill of Human Rights in the undertaking of our role as Canada's export credit agency. EDC's due diligence process has incorporated human rights risks for a number of years and EDC's practices are overall aligned with the corporate responsibility expectations of the [United Nations Guiding Principles on Business and Human Rights](#) (UNGPs).

This framework represents EDC's first step in disclosing our due diligence approach for identifying and addressing human rights-related risks and impacts associated with the business we support. We expect this framework to continue to evolve as our business, the business of our customers, as well as industry best practice, evolves.

1.2. PURPOSE

This framework establishes parameters for the integration of human rights considerations into EDC's environmental and social risk assessment processes, to identify and address severe risks to people connected to EDC's business activities of our clients or third parties connected to our clients' business activities. This framework articulates EDC's approach to prioritization, customer assessment, leverage, monitoring and enabling remediation, per the commitments undertaken in EDC's [Human Rights Policy](#).

1.3. SCOPE

This framework applies to EDC's customer relationships, as well as project-related and non-project transactions that are reviewed by EDC. A project is defined in paragraph 5 of EDC's [Environmental and Social Review Directive](#) (ESRD). Non-project transactions refer to those transactions undertaken by EDC that fall into various EDC product categories, such as general corporate purpose financing (where the majority of funds are not directed at financing a project), as well as diverse insurance and guarantee products.

2. FRAMEWORK

2.1. EDC'S OVERALL DUE DILIGENCE APPROACH FOR HUMAN RIGHTS

For customer relationships, non-project and project-related transactions, EDC considers human rights risks as part of our environmental and social due diligence process. In alignment with EDC's [Environmental and Social Risk Management Policy](#) and the due diligence processes outlined in our [supporting guideline](#), EDC takes a risk-based approach by prioritizing certain transactions across our portfolio and certain risks or impacts within each transaction for further due diligence. Further details on how EDC conducts due diligence in certain higher risk contexts are provided in the Appendices. This includes our approach for the **apparel, footwear, and textile industries** (Appendix A), **telecom and software industries** (Appendix B), as well as our approach for reviewing and managing **gender risks and impacts** for project-related transactions (Appendix C).

EDC's environmental and social due diligence process consists of four phases: pre-screening, screening, assessment and engagement, and monitoring. Human rights considerations are integrated at each phase of this process to identify and address potential and/or actual severe human rights impacts that could be connected to the products EDC offers to our customers (see Figure 1).

2.2. ADDITIONAL DUE DILIGENCE CONSIDERATIONS FOR PROJECT-RELATED TRANSACTIONS

In general, project-related transactions¹ follow the same approach as outlined in section 2.1. However, there are some specifics that pertain directly to projects. As articulated by EDC's [Environmental and Social Risk Management Review Guideline](#), project reviews are done in accordance with EDC's [Environmental and Social Review Directive \(ESRD\)](#), which aligns with the Equator Principles (EP) and Organization for Economic Co-operation and Development (OECD) Common Approaches on Environmental and Social Due Diligence. Both of these frameworks rely on the [International Finance Corporation's \(IFC\) Environmental and Social Performance Standards](#) as the international benchmark standards.

The screening phase for a project-related transaction will inform the focus of EDC's assessment, including human rights-related analysis if human rights risks are identified, as well as the project categorization (Category A, B or C).

As part of EDC's environmental and social risk assessment for projects, EDC will:

- evaluate whether the human rights issues have been addressed in an Environmental and Social Impact Assessment (ESIA) or other impact assessment documentation; and
- confirm if the human rights-related findings and recommendations of the ESIA will be/have been addressed in the project's management plans, policies and systems.

As of July 1, 2020², in addition to the above, EDC will expect that:

- ESIA's or other Environmental and Social Assessment documentation for all Category A and, as appropriate, Category B projects include consideration of human rights risks and impacts; and
- IFC Performance Standard 7 Indigenous Peoples will be the prevailing standard for projects in all countries where indigenous peoples are potentially impacted.

¹ A project is defined in paragraph 5 of EDC's [Environmental and Social Review Directive](#) (ESRD).

² Projects considered by EDC on or after July 1, 2020 will be expected to align with the requirements of Equator Principles 4.

FIGURE 1: EDC'S OVERALL DUE DILIGENCE APPROACH FOR HUMAN RIGHTS
For customer relationships and non-project and project-related transactions

Transactions and
Customer Relationships



PHASE I: PRE-SCREENING

EDC undertakes pre-screening to identify any potential/actual human rights risks.

Criteria used:

- Country of operations
- Industry sector
- Track record of relevant transaction counterparties



PHASE II: SCREENING

EDC assesses contextual risk factors to determine the likelihood of potential/actual severe human rights impacts associated with a transaction or customer, and whether or how EDC could be connected to those impacts by providing support.

Contextual risk factors:

- Country context such as the presence of severe conflict, state violence and human rights violations
- Track record indicating human rights incidents, legal actions, deteriorating performance, or credible third-party criticism
- Business activities, such as sector-related risks, context of business operations, or nature of exports/end-users/end-uses
- Presence of vulnerable peoples and their likelihood of being impacted



Decision Point:

Based on findings, EDC will decide whether or not to move forward with a transaction or customer relationship.



PHASE III: ASSESSMENT & ENGAGEMENT

EDC assesses the severity of identified human rights impacts and the management thereof, that are connected to EDC's business support.

As part of EDC's assessment, an emphasis will be placed on:

- The most severe and likely human rights-related impacts
- The customer's capacity to avoid, prevent and mitigate these human rights impacts as well as the effectiveness of the customer's stakeholder engagement program and grievance mechanisms where relevant
- EDC's ability to build and use leverage to manage risks effectively
- The customer's willingness to engage with EDC on human rights-related matters

If EDC's analysis determines that there are gaps in how the company manages its most likely and severe human rights-related impacts, EDC's practice is to use its leverage and engage with the customer to:

- discuss the identified gaps;
- seek an agreement on potential actions to be undertaken to address the gaps (e.g. development of an action plan); and
- ensure there are mechanisms to provide access to remedy for impacts that have already occurred or may occur.

This information will influence EDC's evaluation of the overall environmental and social risk associated with a transaction or a customer relationship.



Decision Point:

Based on findings, EDC will decide whether or not to proceed with a transaction or customer relationship and whether there is a need to monitor the customer's performance.



PHASE IV: MONITORING

EDC is committed to maintaining ongoing relationships with its customers as well as ensuring on-going compliance with EDC's standards for transactions with higher human rights risks. EDC does not monitor all transactions. Whether a transaction is monitored, as well as the frequency and scope of any monitoring, depends on the nature of the issues and whether an action plan or recommendations have been established.

Tools used to monitor transactions:

- EDC's awareness of incident through notification of incidents by customers, EDC's customer annual review for certain EDC products, adverse media coverage, or credible third-party criticism
- Customer's progress reports on time-bound commitments, recommendations, or overall performance
- EDC's direct engagement with customers



2.3. INFORMATION SOURCES

As part of Phase II and Phase III EDC uses widely available and credible sources focused on country-related human rights issues and themes to inform and complement our due diligence process and understanding of the context in which a customer operates or transaction takes place. This includes but is not limited to: the [US State Department Country Reports on Human Rights Practices](#), [Human Rights Watch](#) and [Amnesty International](#) reports. In some cases, EDC may consult with relevant parties at Canadian government offices abroad for information on the human rights situation.

Also, EDC may use third party consultants in two different scenarios: 1) when EDC needs clarify the particular context of a transaction; and 2) to gain an independent view on project compliance with E&S standards from an Independent Environmental and Social Consultant (IESC) for all Category A projects and as required for Category B projects. This requirement is codified in the Equator Principles and independent review is referenced in the ESRD.

This information complements the information EDC receives directly from our customers, stakeholder engagement, and during site visits, as well as the knowledge acquired about the countries in which our customers operate.

2.4. DUE DILIGENCE QUESTIONS

EDC's due diligence process is dynamic. EDC first asks a series of standardized questions to contextualize the overall corporate management capacity of a company (e.g. human rights-related policy commitments, due diligence processes, management plans, effectiveness of stakeholder engagement program and grievance mechanism, reporting, monitoring and auditing practice, etc.). In addition to this, questions are developed as risks and specific issues are identified or prioritized (e.g. working conditions of supply-chain workers, the use of private and/or public security companies, impacts on indigenous peoples or gender, community opposition, protection of human rights defender, land acquisition and resettlement, and health and safety, etc.).

For project-related transactions, EDC develops due diligence questions based on host country requirements and the IFC performance standards when relevant.

3. ROLES AND RESPONSIBILITIES

This framework is administered by EDC's Environmental and Social Risk Management team.

4. REVIEWS AND REVISIONS

This framework will be reviewed or revised as EDC continuously updates and evolves our Human Rights Policy and due diligence processes.

5. OTHER RELATED DOCUMENTS

The following documents relate to framework:

- [Human Rights Policy](#)
- [EDC Environmental and Social Risk Management Policy](#)
- [Environmental and Social Risk Management Review Guideline](#)
- [EDC Environmental and Social Review Directive](#)
- [EDC Transparency & Disclosure Policy](#)
- Equator Principles ([Version 4](#))
- [International Finance Corporation \(IFC\) Performance Standards](#) (January 2012)
- [Organization for Economic Co-operation and Development \(OECD\) Common Approaches](#) (April 2016)
- [UN Guiding Principles on Business and Human Rights](#)

6. KEY TERMS

Terminology	Definition
Category A project	A project that is likely to have significant adverse environmental and social effects that are sensitive, diverse, or unprecedented. These effects may affect an area broader than the sites or facilities subject to the physical works, and may be irreversible.
Category B project	A project that is likely to have less adverse potential environmental and social effects than those of Category A projects. Environmental and social effects associated with Category B projects are usually site-specific; few if any are irreversible; and in most cases mitigation measures can be designed more readily than for Category A projects.
Category C project	A project that is likely to have minimal or no adverse environmental and social effects.
Environmental and Social Impact Assessment (ESIA)	The process of assessing the environmental and social effects of a project in order to evaluate their significance, and may include identifying measures to prevent, minimize, mitigate or compensate for adverse environmental and social effects. Environmental and social assessment is the responsibility of the project sponsor.
Equator Principles	A risk management framework, adopted by financial institutions, for determining, assessing and managing environmental and social risk in project finance. It is primarily intended to provide a minimum standard for due diligence to support responsible risk decision-making.
Human Rights	Fundamental rights and freedoms of all human beings, regardless of their nationality, location, language, religion, ethnic origin or any other status, which are enshrined in the International Bill of Human Rights. The International Bill of Human Rights covers the 48 human rights extracted from the two main United Nations binding conventions on human rights: 1) the International Covenant on Economic, Social and Cultural Rights and 2) the International Covenant on Civil and Political Rights.
Human Rights Due Diligence	An ongoing risk-management process that a reasonable and prudent company needs to follow in order to identify, prevent, mitigate and account for how it

	addresses its adverse human rights impacts. It includes four key steps: assessing actual and potential human rights impacts; integrating and acting on the findings; tracking responses; and communicating about how impacts are addressed.
IFC Environmental and Social Performance Standards	An international benchmark for identifying and managing environmental and social risk that many organizations have adopted as a key component of their environmental and social risk management.
Leverage	The ability to effect change in or influence the practices of another party – its customers - that is causing or contributing to an adverse human rights impact.
Likelihood of an impact	Refers to how likely the occurrence of an impact is.
Mitigation	Refers to actions taken to reduce its extent, with any residual impact then requiring remediation. The mitigation of human rights risks refers to actions taken to reduce the likelihood of a certain adverse impact occurring.
OECD Common Approaches on Environmental and Social Due Diligence	Agreement among OECD members relating to measures that members should take in order to address the potential environmental and social impacts of projects for which official export credit support is requested.
Remediation & Remedy	Refers to both the process of providing remedy for an adverse human rights impact and the substantive outcomes that can counteract, or make good, the adverse impact. These outcomes may take a range of forms such as apologies, restitution, rehabilitation, financial or non-financial compensation, and punitive sanctions (whether criminal or administrative, such as fines), as well as the prevention of harm through, for example, injunctions or guarantees of non-repetition.
Severe Human Rights Impacts	Those that are particularly grave in nature (e.g. threats to life, child/forced labor and human trafficking), widespread in scope (e.g. large-scale resettlement and working conditions across a sector) or cannot be remediated (e.g. torture, loss of health and destruction of indigenous peoples' lands).
Stakeholder & Affected Stakeholder	Refers to any individual who may affect or be affected by an organization's activities. An affected stakeholder refers here specifically to an individual whose human rights have been affected by an enterprise's operations, products or services. It may include internal stakeholders (e.g., employees and contract workers), as well as external stakeholders (e.g., supply chain workers, communities, consumers and end users of products).
Track Record	Assesses whether 1) a company has faced serious incidents, credible third-party criticism or legal action on environmental, social and human rights issues and 2) trends indicate continued or worsening of a company performance or a lack of remedy by the responsible company.
Vulnerable Peoples	Those peoples who are entitled to specific protection under international laws including for example women, children, religious or ethnic minorities and indigenous peoples as well as those peoples we have recognized in practice as being more likely to suffer severe impacts in certain contexts such as human rights defenders, LGBTQ2+, migrant workers or artisanal miners.

APPENDIX A: DUE DILIGENCE IN APPAREL, FOOTWEAR, & TEXTILES INDUSTRIES

SALIENT HUMAN RIGHTS ISSUES

The apparel, footwear and textile industries employ approximately 75 million workers worldwide. While the sector is an important contributor to economic and social development, it can expose Canadian exporters to a range of human rights risks in their supply-chains. These risks include possible child or forced labour as well as violations of labour rights such as freedom of association or appropriate working hours, wages, and health and safety measures. Stakeholders are also at risk from environmental impacts, such as local water pollution from improper use and disposal of toxic chemicals. In addition, the majority of workers are women who may be more vulnerable to gender-based inequalities and risks.

Salient human rights issues in the apparel, footwear, and textile industries:



HIGH RISK FACTORS

EDC considers all contextual risk factors listed in [Figure 1](#) of the Due Diligence Framework: Human Rights to determine if further due diligence is appropriate. However, EDC understands that the risks related to the apparel, footwear and textiles industries can be found in any company's supply-chain and may be more prevalent in certain countries. Based on the countries of operations or suppliers EDC flags deals for further human rights risks screening.

RISK MANAGEMENT & CLIENT ENGAGEMENT

EDC has tailored its risk management approach for these industries based on the size and risk profile of EDC's customer.

- A) For **small and medium-sized enterprises (SMEs)** with supply-chains in higher risk markets, EDC provides [information](#) on the potential human rights risks in their supply chains as well as best practices and resources for identifying and mitigating these risks. By leveraging its own expertise and providing its customers with risk management tools and knowledge, EDC can help apparel, footwear and/or textile companies to build their capacity to conduct business in a responsible and sustainable way.
- B) For **large companies** exposed to severe potential and/or actual supply-chain risks, EDC engages with these exporters to gather detailed information and assess their specific issues and capacity to manage their risks. EDC may explore opportunities to manage the risk with these clients and, where necessary, develop an action plan with time-bound commitments. In the absence of (or unwillingness to put in place) such measures, EDC will consider the transaction to be higher risk and may choose to not engage with a company.

Examples of risk management practices for these industries include:

- Targeted policies and procedures to respect human rights (e.g. Business Code of Conduct or Responsible Supply Chain Management Policy)
- Due diligence processes to identify and address human rights risks
- Regular audits of suppliers and improving supply chain transparency
- Effective grievance mechanisms and policy commitment to provide access to remedy
- Participation in strategic partnerships to address systemic issues (e.g. multi-stakeholder initiatives)

APPENDIX B: DUE DILIGENCE FOR TELECOM AND SOFTWARE INDUSTRIES

SALIENT HUMAN RIGHTS ISSUES

While information and communication technologies (ICT) can serve a socially beneficial purpose, they can also present human rights risks depending on how they are deployed. Buyers of telecom and software products may use ICT technologies to block or filter online content, shutdown internet networks, or monitor users. Such uses of ICT technology can infringe or restrict human rights related to political freedoms and personal security of the general population or vulnerable peoples, as well as targeted groups or individuals.

Salient human rights issues in the telecom and software industries:



HIGH RISK FACTORS

EDC considers all contextual risk factors listed in [Figure 1](#) of the Due Diligence Framework: Human Rights to determine if further due diligence is appropriate, however EDC understands that certain aspects of the telecom and software industries may indicate heightened risks. EDC considers as high risk factors: the destination country, the type of end-user (i.e. government, military, paramilitary, network vendor or telecom operator), and the type of telecom & software technology or service and its potential misuse (i.e. content filtering, surveillance, targeted monitoring, or network shutdowns).

RISK MANAGEMENT & CLIENT ENGAGEMENT

EDC has customised its risk management approach for these industries based on the type of technology and which risk factors are present:

- A) **Software and application providers**, if the export product or service, end-user, and destination country are all determined to be of high risk, EDC will consider the transaction to be higher risk.
- B) For **telecom companies** with diversified technology use/activity and/or diversified end-users, doing business with/in high risk destination countries, EDC will engage with the companies to gather detailed information and assess their specific risks and evidence of sufficient risk management. EDC may explore risk management opportunities and develop an action plan with time-bound commitments, such as those listed below. In the absence of [or unwillingness to put in place] such measures, EDC will consider the transaction to be of higher risk and may choose to not engage with a company.
- C) For **transactions involving other combinations of high risk factors**, EDC conducts dedicated due diligence as outlined in [Figure 1](#) of the Due Diligence Framework: Human Rights, with consideration of the salient issues, risk factors, and management practices specific to these industries.

Examples of risk management practices for these industries include:

- Policy commitments to respect human rights, covering relevant human rights such as freedom of expression and right to privacy.
- Due diligence processes to identify and address technology-related human rights risk.
- Effective grievance mechanism and policy commitment to provide access for remedy.
- Robust and specific actions to prevent and mitigate technology-related human rights risks such as
 - tailoring certain products to alert and enable to exporter to prevent misuse or modification;
 - implementing adequate policies and processes to respond to from the government for customer information, to block or filter content, or shut down the network
 - using contractual and procedural safeguards (e.g. to enable the exporter to maintain oversight of approved uses of technology and data or right to terminate access with suspected breach of contract).

APPENDIX C: APPLYING A GENDER LENS TO ESRD FOR PROJECTS

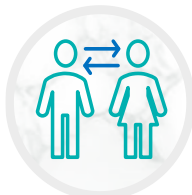
SALIENT HUMAN RIGHTS ISSUES

Gender equality is a fundamental human right. Discriminatory behaviours and gender-based violence persist, formed by longstanding institutional factors. By addressing the following four salient gender risks, EDC and its clients can play a critical role in reducing gender risks.

Salient gender risks considered during project due diligence



Womens' voices are not captured



Women do not have equal rights



Women uniquely impacted by project operations



Women vulnerable to gender based violence

HIGH RISK FACTORS

EDC uses a Gender Lens when conducting a project review to identify potential gender risks. While gender discrimination exists across all contexts, the nature and severity of gender risks can vary greatly from project to project. The following three risk factors indicate possible heightened gender risk:

- A) The country of project operations can present increased gender risk based on the social and legal contexts as well as intersections of poverty, Indigenous Peoples, and other potential vulnerabilities. These country-level social-institutional factors and situations are determinants of how well women's voices are included in decision-making, what protections they have against rights violations, how vulnerable they may be to gender based violence or dependence, and the level of equal access to resources and opportunity.
- B) Sector specific dynamics can present unique risks or exacerbate the impacts experienced by women. For instance, sectors with uneven gender distribution among workforce and management may lead to concentrations of women in lower-paid roles and pay gaps, exclusion of women from technical or managerial roles, or neglect of gender-specific occupational health and safety hazards.
- C) Project-specific factors presenting gender risk may include, but are not limited to, influx of workers, presence of private security, workers in remote or isolated areas, use or acquisition of land, or resettlement.

RISK MANAGEMENT & CLIENT ENGAGEMENT

When EDC identifies gender risk factors, EDC will assess IFC Performance Standards 1-8 with a gender lens where appropriate. As outlined in [Section 2.2](#) of the Due Diligence Framework: Human Rights, the IFC Performance Standards is the primary international benchmark EDC uses for project-related environmental and social due diligence. Applying a gender lens includes ensuring that gender risks are appropriately identified and managed in the Environmental and Social Management System (ESMS) of a project. If there are gaps in the customer's ESMS for managing gender risks, EDC will provide tailored recommendations to address these gaps in an Environmental and Social Action Plan (ESAP). For example, if capacity to manage gender risks is insufficient, EDC may recommend training as part of the ESAP and/or hiring gender expert in higher risk scenarios. During monitoring, EDC may require to report on material incidents, such as gender-based violence. Should an issue occur, EDC will look to use its leverage to encourage resolution of the situation and ensure that remedy is provided to the people that have been harmed.