DUE DILIGENCE FRAMEWORK:
HUMAN RIGHTS
**FRAMEWORK CONTROL SHEET**

**CONTROL SHEET**

<table>
<thead>
<tr>
<th>Framework Name:</th>
<th>Due Diligence Framework: Human Rights</th>
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<tbody>
<tr>
<td>Framework Owner:</td>
<td>SVP, Sustainable Business &amp; Enablement</td>
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<tr>
<td>Policy reference:</td>
<td>Human Rights Policy</td>
</tr>
<tr>
<td>Recommended by:</td>
<td>Director, Environmental and Social Risk Management</td>
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<tr>
<td>Endorsed by (if applicable):</td>
<td>N/A</td>
</tr>
<tr>
<td>Approved by:</td>
<td>SVP, Sustainable Business &amp; Enablement</td>
</tr>
<tr>
<td>Effective date:</td>
<td>December 20th, 2019</td>
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**APPROVAL, REVIEW AND REVISION HISTORY**

<table>
<thead>
<tr>
<th>Version</th>
<th>Approved/Reviewed/Revised/Rescinded</th>
<th>Date</th>
<th>Comments</th>
</tr>
</thead>
<tbody>
<tr>
<td>1.0</td>
<td>Approved by SVP, Sustainable Business &amp; Enablement</td>
<td>January 2020</td>
<td>Inaugural</td>
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</table>
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 its responsibility to respect the internationally recognized human rights covered within the International Bill of Human Rights in the undertaking of its 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 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 higher human rights risks in the business EDC supports. 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 its environmental and social due diligence process. In alignment with EDC’s Environmental and Social Risk Management Policy and the due diligence processes outlined in its 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.

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 its customers (see Figure 1).
Transactions & Customer Relationships

**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.

**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

**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

**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 mechanisms are in place to provide access to remedy for impacts that have already occurred or if impacts should 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.

**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
2.2. ADDITIONAL DUE DILIGENCE CONSIDERATIONS

In general, project-related transactions\(^1\) 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, 2020\(^2\), in addition to the above, EDC will expect that:

- ESIAs 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.

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 at least as frequently as EDC’s Human Rights Policy, which is currently on a three-year basis (next review date: May 1st, 2022).

5. OTHER RELATED DOCUMENTS

The following documents relate to framework:

- Human Rights Policy
- EDC Environmental and Social Risk Management Policy

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\(^1\) 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.
- Environmental and Social Risk Management Review Guideline
- EDC Environmental and Social Review Directive
- EDC Disclosure Policy
- 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

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<tr>
<th>Terminology</th>
<th>Definition</th>
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<tr>
<td>Category A project</td>
<td>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.</td>
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<tr>
<td>Category B project</td>
<td>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.</td>
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<tr>
<td>Category C project</td>
<td>A project that is likely to have minimal or no adverse environmental and social effects.</td>
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<td>Environmental and Social Impact Assessment (ESIA)</td>
<td>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.</td>
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<td>Equator Principles</td>
<td>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.</td>
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<td>Human Rights</td>
<td>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.</td>
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<td>Human Rights Due Diligence</td>
<td>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.</td>
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<td><strong>IFC Environmental and Social Performance Standards</strong></td>
<td>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.</td>
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<td><strong>Leverage</strong></td>
<td>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.</td>
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<td><strong>Likelihood of an impact</strong></td>
<td>Refers to how likely the occurrence of an impact is.</td>
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<td><strong>Mitigation</strong></td>
<td>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.</td>
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<tr>
<td><strong>OECD Common Approaches on Environmental and Social Due Diligence</strong></td>
<td>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.</td>
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<td><strong>Remediation &amp; Remedy</strong></td>
<td>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.</td>
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<td><strong>Severe Human Rights Impacts</strong></td>
<td>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).</td>
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<td><strong>Stakeholder &amp; Affected Stakeholder</strong></td>
<td>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).</td>
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<td><strong>Track Record</strong></td>
<td>Indicates 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.</td>
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<td><strong>Vulnerable Peoples</strong></td>
<td>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.</td>
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