



# DUE DILIGENCE FRAMEWORK: HUMAN RIGHTS



## FRAMEWORK CONTROL SHEET

### CONTROL SHEET

<b>Framework Name:</b>	Due Diligence Framework: Human Rights
<b>Framework Owner:</b>	Director, ESG Policy
<b>Policy reference:</b>	Human Rights Policy
<b>Recommended by:</b>	Director, ESG Policy
<b>Endorsed by (if applicable):</b>	N/A
<b>Approved by:</b>	SVP, Sustainable Business & Enablement
<b>Effective date:</b>	Feb 29, 2024

### APPROVAL, REVIEW AND REVISION HISTORY

Version	Approved/Reviewed/Revised/Rescinded	Date	Comments
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
3.0	Approved by Director, ESG Policy	December 2021	Added Appendix D
4.0	Approved by Director, ESG Policy	May 2022	Added language on EDC's leverage and remedy approach
5.0	Approved by Director, ESG Policy	February 2024	Removed Appendices and updated hyperlinks

# 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 6 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.

For customer relationships or transactions associated with higher human rights risks impacts, EDC assesses, builds, and uses leverage to prevent and mitigate human rights impacts that might occur through our relationships, and to enables remedy if impacts occur. In scenarios where the likelihood of severe human rights impact is high regardless of proposed mitigation measures, EDC assesses a

company's preparedness for remedy and identifies specific actions we might propose to strengthen its practice on remedy.

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 transactions<sup>1</sup> 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<sup>2</sup>, 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.

---

<sup>1</sup> A project is defined in paragraph 6 of EDC's [Environmental and Social Review Directive](#) (ESRD).

<sup>2</sup> 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**

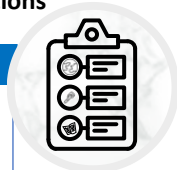
Customer Relationships and Transactions 

### 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 relationship or transaction, 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

In higher risk scenarios, EDC can conduct a high-level leverage screening to get a preliminary indication of the amount of leverage EDC could have to influence the company's practice and its effectiveness.



**Decision Point:**

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

### PHASE III: ASSESSMENT & ENGAGEMENT

EDC assesses the capacity of a company to manage the human rights impacts that are connected to EDC's support. In higher risks scenarios, EDC can conduct a more detailed leverage assessment to determine how much and what sources of leverage it might have with a company and to assess the company's preparedness for remedy.

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

- The most severe and likely human rights-related impacts
- The company's capacity to avoid, prevent and mitigate these human rights impacts as well as the effectiveness of the company's stakeholder engagement program and grievance mechanisms
- EDC's ability to build and use leverage to prevent and mitigate risks effectively
- The company's preparedness to provide remedy to affected stakeholders, should severe impacts occur

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 company 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).

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



**Decision Point:**

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

### PHASE IV: MONITORING & POST-IMPACT

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

For transactions where EDC is made aware that a severe human rights impact has occurred, and it is determined that EDC is connected to it through its support, EDC will use its leverage to encourage/support a customer to provide remedy.



## 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 ESG Advisory 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)
- Principles on [Leverage and Remedy](#)
- [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
Adverse Human Rights Impacts	Occurs when an action removes or reduces the ability of an individual to enjoy their human rights.
Affected Stakeholder	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).
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	The basic rights and freedoms that belong to every person in the world regardless of race, sex, nationality, ethnicity, location, language, religion, ethnic

	origin, or any other status, which are described 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	Actions taken to reduce the likelihood of a certain adverse impact occurring, with any residual impact then requiring remediation.
Prevention	The prevention of an adverse human rights impact refers to actions taken to ensure such impact does not occur.
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).
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.