



GUIDELINE

Environmental and Social Risk Management Review Guideline



CONTROL SHEET

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Guideline Owner:	Director, Environmental and Social Risk Management
Guideline Monitor:	Director, Environmental and Social Risk Management
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REVISION HISTORY

Version	Approved / Reviewed / Revised / Rescinded	Date	Comments
1.0	Approved by ESRM Policy Owner	May 1 st , 2019	Inaugural
1.1	Reviewed, Revised and Approved by ESRM Policy Owner	August 1 st , 2021	Updated position and product titles - Clarified review processes – Modified exception process and review cycle

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1. PURPOSE AND SCOPE

1.1. PURPOSE

The purpose of this Guideline is to support the application of the Environmental and Social Risk Management Policy.

1.2. SCOPE AND APPLICATION

This Guideline applies to EDC and its global operations, including branches, regional offices and foreign representations, unless otherwise specified. This Guideline is not intended to restrict the ability of subsidiaries to adopt variations of this Guideline as may be required to accommodate requirements applicable specifically to them, either stemming from the regulatory environment, their governance regime or otherwise.

2. GUIDELINE REQUIREMENTS

Transactions will be subject to the applicable environmental and social risk management process as identified by the respective financial officer, in consultation with the ESRM team as required.

3. ROLES AND RESPONSIBILITIES

The following identifies additional roles and responsibilities not already captured in the Environmental and Social Risk Management Policy.

The **Environmental and Social Risk Management Review Guideline** is approved by the Policy Owner. **The Environmental and Social Risk Management** team is responsible for ensuring processes are put in place and applied in a consistent manner across EDC's business.

The Chief Corporate Sustainability Officer and Senior Vice-President, Sustainable Business & Enablement is the Policy Owner of the **Environmental and Social Risk Management Policy** and is responsible for the approval and implementation of the **Environmental and Social Risk Management Review Guideline**. The Director, Environmental and Social Risk Management shall be the Guideline Owner. The Guideline Owner is responsible for the development, execution and maintenance of the Guideline. The Guideline Owner may delegate their responsibilities to an alternative and credible person, who will become the Guideline Monitor.

4. PROCESS

4.1. NEW TRANSACTIONS

Screenings	Exporter Declarations	Environmental and Social Risk Reviews (where EDC support is ≥ 5 million USD)	Environmental and Social Review Directive (ESRD)
<ul style="list-style-type: none">• Financing• Political Risk Insurance (PRI)• Investments• International Trade Guarantee (ITG)• Credit Insurance (CI)	<ul style="list-style-type: none">• CI• ITG	<ul style="list-style-type: none">• Financing• PRI• Investments	<ul style="list-style-type: none">• Financing• PRI• Investments

EDC's decision-making process includes consideration of environmental and social risk, alongside other risk considerations, such as credit, political, economic, technical and business integrity risk. Financial officers within EDC's business teams are responsible for the collection of information and for facilitating the initial screening of relevant transactions in accordance with this Guideline. The Environmental and Social Risk Management (ESRM) team is primarily responsible for implementing this Guideline.

EDC has a suite of review processes that fall under the Environmental and Social Risk Management Review Guideline. These processes range along a spectrum, depending on the nature of the transaction. They include:

- Screenings of individual counterparties:** EDC's financing, insurance, international trade guarantee, and investment counterparties are screened by EDC for environmental and social risks. If risks are identified, further due diligence by EDC's Environmental and Social Risk Management team may be required, the outcome of which could influence EDC's decision to support the transaction. In some cases, this due diligence could include an Environmental and Social Risk Review as outlined in section c) below.
- Exporter Declarations:** For credit insurance and international trade guarantee transactions, EDC requests a declaration from clients stating that the client is not aware of any significant environmental, social or human rights risks associated with the business EDC is being asked to support.
- Environmental and Social Risk Reviews:** EDC's Environmental and Social Risk Management team undertakes an **Environmental and Social Risk Review (ESRR)** when the transaction is not related to a project AND certain risk indicators are present. Transactions are assessed using a systematic and consistent approach, based on recognized methodologies and standards, to provide an opinion on the degree of associated environmental and social risk. EDC's review and analysis considers that transactions could pose a variety of risks pertaining to the nature of the transaction, such as the industry or geographic locations in which the company operates, the track record(s) of relevant counterparties, as well as the relevant counterparty's environmental and social risk management capacity, including their environmental and social policies and procedures.

EDC may also take into account commitments its customers have made in accordance with corporate sustainability and responsibility initiatives, standards and guidelines. An illustrative list of corporate sustainability and responsibility initiatives, standards, and guidelines is provided in Annex 1.

- d) **Project-related Environmental and Social Risk Reviews:** The Environmental and Social Review Directive (ESRD) articulates the process through which EDC manages environmental and social risks as it pertains to project-related reviews, as required by Section 10.1 of the Export Development Act. As Canada's Export Credit Agency, EDC is committed to following the process for ECAs to evaluate the environmental and social impacts of the Projects they support known as the [OECD Common Approaches](#). EDC has also adopted the [Equator Principles](#) which aim to ensure Projects supported by its members are developed in a manner that is environmentally and socially responsible. Both frameworks utilize the [IFC Performance Standards](#) as the key international benchmark standard. The ESRD has been designed to align with both the OECD Common Approaches and the Equator Principles. In the event a transaction falls within the scope of either the OECD Common Approaches or the Equator Principles, EDC will review the Project in accordance with the ESRD. EDC's project-related due diligence will be informed by the type, scale, and location of the project and the appropriate standards. The ESRD establishes grounds upon which EDC is justified in entering into a transaction related to a project where that project, despite the implementation of mitigation measures, is likely to have adverse environmental and/or social effects. Depending on the nature of risks and the potential issues identified during the course of due diligence, EDC may work alongside other transaction parties to develop an Environmental and Social Action Plan (ESAP). The ESAP will describe and prioritize time-bound commitments to complete any measures that EDC has deemed necessary to ensure that the Project will be in full compliance with host country standards and, where applicable, the IFC Performance Standards. This ESAP forms part of the loan documentation for the Project.

EDC is also working to develop an approach to onboarding new customer relationships for our financing products. This new approach will include, inter alia, consideration of the customer's policies and procedures pertaining to their management of environmental and social risks. Further, the approach will be aligned to EDC's Corporate Environmental and Social Risk Reviews described in (c) above and is being designed to be implemented in advance and independent of any individual transaction.

Further, with the establishment of EDC's stand-alone Climate Change Policy and Human Rights Policy, EDC has developed [Climate Change](#) and [Human Rights](#) Due Diligence Frameworks that provide additional information regarding EDC's consideration of climate change and human rights-related risks as part of the processes identified here.

4.2. MONITORING

For Project-related Environmental and Social Risk Reviews reviewed under EDC's ESRD, EDC may continue to monitor the asset after the loan agreement is signed, depending on the nature of the Project's environmental and social risks and potential impacts. This monitoring occurs during construction, as well as the during the operational phase of a Project. The exact nature of the monitoring requirements (e.g., timeline, conditions, frequency of and responsibility for reporting) will be established during the negotiation of the loan agreement and are referred to as

environmental and social covenants. Where monitoring requirements are established, EDC will receive and review monitoring reports detailing a Project’s compliance with any agreed ESAP, the host country requirements and, where applicable, the IFC Performance Standards. EDC views non-compliance with the environmental and social covenants with the same degree of concern as repayment issues, with potential implications for disbursement if EDC is not satisfied that the terms of the agreement are being met. EDC may undertake periodic site visits to ensure a Project’s ongoing compliance with environmental and social covenants. Once established, monitoring is undertaken for the duration of the loan.

In some limited cases, as required, EDC may also undertake monitoring as a result of the due diligence findings of corporate Environmental and Social Risk Reviews. The details of this monitoring will depend on the nature of the risks identified and whether an ESAP has been established, either as part of the loan agreement or other documentation, to address identified risk areas.

5. REVIEWS AND REVISIONS

The **Environmental and Social Risk Management Review Guideline** shall be reviewed and recommended for approval concurrently with EDC’s *Environmental and Social Risk Management Policy*, or more frequently should circumstances require. Any revisions to, or rescinding of, this **Environmental and Social Risk Management Review Guideline** shall be accompanied by supporting detail on the material changes and associated rationale. Any minor off-cycle adjustments to this **Environmental and Social Risk Management Review Guideline** may be made in adherence with and as set out in EDC’s **Policy of Policies**.

Table 1: Reviews and Revisions

Document	Review & Recommend for Approval, Revision (or Rescinding)	Approval	Approval Cycle
Environmental and Social Risk Management Review Guideline	Director, Environmental and Social Risk Management	Chief Corporate Sustainability Officer, and Senior Vice-President Sustainable Business & Enablement	Every three years concurrently with the <i>Environmental and Social Risk Management Policy</i>

6. ESCALATION AND EXCEPTIONS

All exceptions or instances of non-compliance to this **Environmental and Social Risk Management Guideline** shall be assessed by the Guideline Owner and escalated to the Policy Owner for resolution or approval.

Requests for Guideline exceptions or instances of non-compliance must:

- Identify the applicable section(s) of the Guideline to which the exception applies;
- Assess the risk(s) that arises from the proposed exception(s);
- If applicable, outline the appropriate controls to mitigate these risks; and,
- Specify the review or effective period of the Guideline exception.

A process shall be established by the Guideline Owner to identify, record and report on exceptions or instances of non-compliance with this Guideline.

7. OTHER RELATED DOCUMENTS

The following documents relate to the **Environmental and Social Risk Management Review Guideline**:

- Environmental and Social Risk Management Policy
- Environmental and Social Review Directive
- Climate Change Policy
- Due Diligence Framework: Climate Change
- Human Rights Policy
- Due Diligence Framework: Human Rights
- Disclosure Policy
- Policy of Policies
- IFC Performance Standards on Environmental and Social Sustainability
- Revised Council Recommendation on Common Approaches on Environment and Officially Supported Export Credits (the “OECD Common Approaches”)
- Equator Principles

8. EFFECTIVE DATE

This version of the **Environmental and Social Risk Management Review Guideline** shall take effect on August 1, 2021.

9. DEFINITIONS

In this Guideline, the names of EDC teams and groups are capitalized, and refer to the teams/groups as set out in EDC’s corporate directory.

Capitalized terms other than name of EDC teams or groups are defined terms, as set out below.

Table 2: Definitions

Terminology	Definition
Board of Directors	EDC’s Board of Directors.
Equator Principles	A risk management framework, adopted by financial institutions, for determining, assessing and managing environmental and social risk in projects and is primarily intended to provide a minimum standard for due diligence and monitoring to support responsible risk decision-making.
Executive	The cadre of managers that provides the most senior level of review, guidance and decision-making.
First Line of Defence	Teams or individuals who assume, own, and manage risk.
Guideline	A document which sets out the parameters within which EDC employees should act and the standards which should be defined to achieve expected outcomes and Policy requirements. This includes mandatory controls, or alternatively guidance, recommendations or best practices.
Guideline Monitor	The authority responsible for monitoring, ensuring and attesting to compliance with the Guideline, delegated by the Guideline Owner.
Guideline Owner	The authority responsible for the development, execution and maintenance of the Guideline.
Independent Assurance	The process for assuring the Board and Senior Management that the Policy and its related Guidelines (or Standards), Procedures and Frameworks are effectively designed and functioning as intended.
IFC Performance Standards	The International Finance Corporation’s Performance Standards on Social and Environmental Sustainability as amended from time to time.
OECD Common Approaches	This agreement sets common approaches for undertaking environmental and social due diligence to identify, consider and address the potential environmental and social impacts and risks relating to applications for officially supported export credits, as an integral part of decision-making and risk management systems.

Policy	A document which sets out the principles or protocols to guide decisions and achieve expected outcomes. Policies are derived from EDC’s mandate, missions, strategic objectives and Risk Appetite.
Policy Owner	The senior Executive responsible for the matters addressed by the Policy. This includes responsibility for ensuring the Policy’s development, implementation and maintenance.
Procedures	Step-by-step instructions (including process maps where available, and job aids) to complete a task to implement Policies and Guidelines (or Standards). These documents should describe a series of actions on how to perform an activity to achieve expected outcomes.
Standards	Requirements that are mandatory, prescriptive and intended to be binding on EDC’s employees.
Third Line of Defence	EDC’s Internal Audit, which is responsible for providing Independent Assurance to the Board of Directors in accordance with EDC’s Internal Audit Charter.
Three Lines of Defence Model	A governance model that distinguishes organizational roles and responsibilities via three lines of management: First Line of Defence, Second Line of Defence and Third Line of Defence.

APPENDIX A: ILLUSTRATIVE CORPORATE SUSTAINABILITY AND RESPONSIBILITY INITIATIVES, GUIDELINES AND STANDARDS

- Carbon Disclosure Project
- Environmental management system certification standards (e.g. ISO 14000 series)
- Extractive Industries Transparency Initiative
- Forest Stewardship Council certification standards
- Global Reporting Initiative
- Greenhouse Gas Protocol
- International Cyanide Management Code
- International Finance Corporation's Performance Standards on Social and Environmental Sustainability
- Occupational safety and health management system certification standards (e.g. ISO 45001)
- OECD Guidelines for Multinational Enterprises
- Responsible Care
- Task Force on Climate-Related Financial Disclosures
- Towards Sustainable Mining
- United Nations Global Compact
- United Nations Guiding Principles on Business and Human Rights
- Voluntary Principles on Security and Human Rights
- World Bank Group's Environmental, Health & Safety Guidelines