Public Stakeholder Discussion Paper

Review of Environmental and Social Risk Management Policy: Stakeholder Discussion Paper

Background

FinDev Canada is Canada's development finance institution (DFI) that supports development through the private sector by providing financing, investment, and blended finance solutions, as well as technical assistance and knowledge, to support sustainable and inclusive growth in emerging markets and developing economies (EMDEs) aligned with the Sustainable Development Goals (SDGs) and Paris Agreement commitments. FinDev Canada is a Crown Corporation and a subsidiary of Export Development Canada (EDC).

FinDev Canada's environmental and social commitments are set out in an Environmental and Social (E&S) Policy that was approved in March 2020, following stakeholder consultations. FinDev Canada reports annually on the implementation of its E&S Policy, including progress against commitments and data collected during the year. Further, the corporation reports on E&S assessments conducted and related risk mitigation measures identified for each transaction (published on the Transparency Policy and Approach page, under Disclosure of Transactions).

Consistent with best practice, FinDev Canada has committed to conducting periodic reviews to guide the ongoing evolution of our E&S Policy to:

- Identify opportunities to better align the policies with our E&S practices, business activities, client needs, and emerging environmental and social risk management best practice.
- Reflect key developments to the international standards and obligations to which our policies are aligned, including the International Finance Corporation (IFC) Performance Standards on Environmental and Social Sustainability, the United Nations Guiding Principles on Business and Human Rights (UNGPs) and the Organisation for Economic Co-operation and Development (OECD) Guidelines on Multinational Enterprises.
- Solicit stakeholder feedback and better understand the expectations of our diverse range of stakeholders.

Ultimately, the aim of the review process for our E&S Policy is to ensure that FinDev Canada continues to deliver on our commitment to identify relevant risks and

ensure that clients have appropriate management systems in place to address potential adverse environmental and social (E&S), including human rights, impacts.

In support of this review, FinDev Canada is soliciting input from our stakeholders, including: our clients, civil society organizations, financial sector peers (e.g., other DFIs, Multi-lateral Development Banks (MDBs) and a range of impact investors, and members of the Canadian public. This will allow us to continue to align with our stakeholder expectations and reflect a broad range of perspectives and experiences in our policy commitments.

We invite stakeholders to review the existing E&S policy and this discussion paper and provide us with feedback by email to ESPolicy@findevcanada.ca before November 10, 2023.

Human Rights Considerations

Since the publication of FinDev Canada's E&S Policy in 2020, few changes to the E&S risk landscape have been identified by FinDev Canada's E&S Risk team and the external experts engaged to support this policy review process. The principal E&S Performance Benchmark referenced in the policy, the IFC Performance Standards, has not been materially updated, nor have peer financial institutions, including other DFIs and MDBs, substantially changed their own policies.

However, the Human Rights landscape has continued to evolve, including emerging risks and changes to the operational and legislative context:

- As FinDev Canada adopted the relevant standards contained in its parent company's, Export Development Canada (EDC), previous Human Rights Policy, the update of EDC's Human Rights Policy in 2022 and the publication of Principles on Leverage and Remedy in 2020, require FinDev Canada to clarify its approach.
- As FinDev Canada cites the OECD Guidelines for Multinational Enterprises as an example of Good International Practice in its E&S Policy, the 2023 update requires FinDev Canada to evaluate its policies and practices for alignment.
- As a Canadian Crown Corporation, FinDev Canada also has legal compliance obligations, including under Bill S-211: Fighting Against Forced Labour and Child Labour in Supply Chains Act and to amend the Customs Tariff, which will impose reporting obligations on government institutions with the goal of preventing and reducing the risk of forced labour and child labour in supply chains. The new legislation received royal assent on May 11, 2023, and comes into force on January 1, 2024, requiring a review of policies to ensure compliance.

- Updated information and stakeholder interest in emerging risks and trends on the human rights spectrum require further evaluation, including for example forced labour and child labour, supply chain risks, gender risks, climate risks ("Just Transition").

As such, FinDev Canada is soliciting input and feedback from interested stakeholders to guide the development and sharing of our approach to Human Rights.

Key themes for review

Potential areas for consideration in the review of FinDev Canada's E&S Policy fall under the following themes: (i) Policy Scope, (ii) Further publication of E&S Information, (iii) Human Rights considerations, and (iv) Recognition of emerging risk areas.

Policy scope

Clearly defining the scope of FinDev Canada's E&S policy is important for understanding the policy's application vis-à-vis institutional ambitions and capabilities. In defining policy scope, there are opportunities to reflect international obligations and emerging trends, while demonstrating leadership with respect to the management of E&S risks in our portfolio. FinDev Canada is considering policy revisions including integrating other internationally recognised E&S and/or human rights standards, best practice references, or standards adopted by peer institutions, particularly in light of FinDev Canada's need to collaborate and co-invest with other DFIs and MDBs and desire to mobilize private capital.

Question 1: Which standards or references, beyond those currently included in the E&S policy, should inform the scope of a revised E&S policy and why? Are there standards which can or should be appropriated and implemented, particularly where risks are emerging, and regulatory gaps exist? Please explain the value and/or the risks of including additional standards.

Further publication of E&S information

FinDev Canada is committed to providing information about its E&S risk processes where appropriate. Through its Transparency and Disclosure Policy, FinDev Canada already commits to disclosing a range of information, including corporate policies / procedures as well as aggregated and individual transaction information. Reflecting these requirements in the E&S policy can reinforce and clarify these commitments. Given institutional commitments to transparency and disclosure, FinDev Canada is considering:

a) Publishing its list of excluded activities (e.g., as an annex to the E&S policy or a standalone document).

b) Publishing further information on E&S risk categories and categorisation process (including for financial institutions).

Question 2: What E&S related disclosures would be valuable, beyond the existing requirements of the Transparency and disclosure policy and why? Please explain the value and/or the risks of including additional disclosure requirements.

Human rights considerations

Developing and implementing robust human rights approaches is a continual process for DFIs and MDBs. While FinDev Canada was adopting the relevant standards contained in EDC's previous Human Rights Policy, it has scope to develop its own human rights approach tailored to its unique development finance mandate. Approaches and commitments to human rights already exist, including conducting human rights due diligence, mainstreaming gender equality and protecting vulnerable groups. However, given the cross-cutting nature of human rights, FinDev Canada is considering developing and disclosing more specific information on human rights approaches and positions, either as part of its E&S policy review or through complementary publications.

Question 3: How should E&S and human rights commitments recognise and address the implementation challenges faced by private sector entities in our target markets? What can realistically be reflected in standards versus other levers (e.g., guidance or capacity building and technical assistance)? Please explain your proposed approach by detailing how it would add value for FinDev Canada, our clients or other external stakeholders, or an explanation of any risks.

Recognition of emerging risk areas

Approaches to E&S risk management must keep pace with emerging risks stemming from the nature of new investments, novel business models, and shifting strategic priorities. Standards have had to keep apace with a range of developments, including greater awareness of risks related to forced labour and child labour, gender-based violence and harassment, and climate change, as well as the evolving risks associated with technology (including privacy, data protection, and platform-based / non-standard working relationships). These risks are not localised within investee operations but are increasingly linked through extended value chains. In recognition of these challenges, FinDev Canada is considering:

a) Specifically integrating in the policy key themes such as forced labour and child labour, gender-related risks, climate change, and technology / digitalisation.
b) Developing an approach to relevant supply chains or value chains in light of limitations to existing investor standards and increasing stakeholder interest.

Question 4: Are there E&S or human rights themes, issues or topics which would benefit from explicit policy references, e.g., because of gaps in investor standards?

Please note, the questions included in the document are for illustrative purposes to highlight where we would value feedback; however, your input is not limited to these areas.

We invite stakeholders to review the existing E&S policy and this discussion paper and provide us with written feedback by email to ESPolicy@findevcanada.ca before November 10, 2023.