

Interim Environmental and Social Assessment Policy

Effective Date: January 22, 2018

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Authority Signatures

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| Approved by: DFI Board of Directors | Date |
| Endorsed by: DFI Executive Steering Committee | Date |
| Recommended by: SVP & Chief Corporate Advisor | Date |

Control Sheet

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INTERIM ENVIRONMENTAL AND SOCIAL ASSESSMENT POLICY

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1. PURPOSE OF THE POLICY

Development finance aims to provide financial lending and investments to businesses in developing countries to create positive impacts for the economies and communities where those businesses operate. Canada's development finance institution, Development Finance Institute Canada (DFIC) Inc. or *Institut de financement du développement Canada (IFDC) Inc.* (hereafter referred to as "DFI Canada"), will undertake to finance and invest in a variety of businesses in developing country markets. In addition to economic impacts such as job creation, it is important that we fully understand the environmental and social¹ (E&S) risks and opportunities presented by the operations of these businesses. This policy outlines the approach DFI Canada will take to mitigate negative E&S risks and potentially improve baseline E&S conditions at the businesses supported by DFI Canada.

2. PRINCIPLES

DFI Canada is committed to assess E&S risk in the transaction decision-making process, to advocate best practices with its counterparts, and to strive for high standards of mitigation and monitoring of projects it supports.

As part of these commitments, DFI Canada:

- monitors changes to World Bank Group and other internationally accepted E&S risk management and disclosure practices with other DFIs, and updates its procedures accordingly; and
- advocates the adoption of international best practices by other international financial institutions, and DFIs.

Also as part of these commitments, DFI Canada will:

- integrate internationally accepted E&S risk management practices into decision-making processes with respect to transactions;
- ensure that, at a minimum, transactions comply with host country laws and regulations;

¹ *In the context of this Policy, social risk refers solely to risks defined within the IFC Performance Standards as: labour and working conditions, community health, safety and security, land acquisition and involuntary resettlement, indigenous peoples, and cultural heritage. The IFC Performance Standards also refer to an approach to human rights which will be applied by DFI Canada.*

- take into account relevant multilateral environmental agreements signed by Canada; and
- disclose relevant information to ensure public accountability while respecting client confidentiality.

DFI Canada has also defined other commitments which complement this Policy, namely its Development Impact Framework and Gender Strategy. Furthermore, DFI Canada has committed to not support business activities, production or trade in certain activities as listed in Annex A (Exclusions List).

3. ENVIRONMENTAL AND SOCIAL ASSESSMENT

The process requires an assessment of all transactions, whether projects, equity investments or general corporate lending, against the IFC *Performance Standards*. The assessment will determine the extent to which potential clients comply with the Standards in their management of E&S risks, deemed to be relevant for the transaction. A variety of risks may be identified in its analysis, which in turn, may involve reviewing relevant information such as an environmental and social impact assessment, corporate policies, *et cetera*. E&S Action Plans (ESAPs) may be required from clients to address any gaps identified between their processes and the more stringent requirements of the host country or the *Performance Standards*, as appropriate for the project or their business size and type. ESAPs should describe and prioritise the mitigation measures, corrective actions and monitoring activities necessary to manage impacts and risks in a manner consistent with good international industry practice.

Financial intermediaries

DFI Canada will assess the processes of financial intermediaries such as other financial institutions and investment funds to determine their E&S compliance practices used for their own clients. Commitments clients have made in accordance with E&S initiatives, standards and guidelines will be taken into account. An illustrative list of those initiatives, standards and guidelines is provided in Annex B.

Elements of assessment processes

Elements of the transaction assessment process include:

- *Categorization*: where the transaction involves a project, projects are screened for their potential adverse environmental and social effects and are categorized as A, B, or C. Information requirements and the extent of the assessment are linked to the project's category. Potential clients are required to submit environmental and social assessment documentation for review by DFI Canada. The assessment will be relevant and appropriate to the risks and impacts of the project.
- *Project assessments*: The proposed project will be assessed against the IFC *Performance Standards*, or any other internationally recognized standards considered by DFI Canada to meet or exceed the more stringent of requirements of the host country or the IFC *Performance Standards*. Project assessments involve a detailed review and comparison of the project's design and environmental and social assessment and management plans against host country or international standards (whichever is more stringent). Independent external experts may be engaged to support the review, particularly for project financing transactions, and may conduct a site visit.
- *Corporate assessments*: Businesses seeking corporate investments or lending are assessed against the IFC *Performance Standards* for the environmental and social risks associated with the operations of the company to determine whether the company is positioned to effectively manage these risks.
- *Financial Institutions*: Proposed lending to financial institutions for onlending to local enterprises will be assessed against best practices for such financial arrangements; this will entail reviewing the

institution's practices for assessing the environmental and social management commitments and processes of its borrowers.

DFI Canada expects transactions to meet requirements of the more stringent of host country or the IFC *Performance Standards* within a reasonable period of time. A project sponsor may be required to devise an ESAP to describe and prioritise the mitigation measures, corrective actions and monitoring activities necessary to manage impacts and risks in a manner consistent with good international industry practice.

As stated in the *Performance Standards*, for Category A projects and, as determined appropriate for Category B projects, DFI Canada expects project sponsors to undertake stakeholder engagement with affected stakeholders, if any, in a structured and culturally appropriate manner in accordance with the requirements of the IFC *Performance Standards*, or other applicable benchmark standard. Stakeholder engagement may include disclosure, consultation and grievance mechanism activities to be undertaken by the project sponsor scaled to the risks and impacts of the project.

Monitoring: Monitoring is an integral part of DFI Canada's E&S risk management process. Through loan or investment documentation, DFI Canada expects, at a minimum, compliance with host country laws and regulations, including the environmental standards of the host country. DFI Canada may employ other mechanisms to ensure projects are constructed and operated as designed. These include provisions in the loan documentation that may require, for example:

- compliance with action plans;
- timely reporting of incidents and accidents;
- submission of monitoring reports on an appropriate frequency; and
- access to the project site and related documentation.

E&S monitoring typically involves reviewing monitoring reports prepared and submitted by a borrower on a scheduled basis, as well as other project information such as updated management plans. Site visits are undertaken as required. Where non-compliance with a loan requirement occurs, DFI Canada first seeks to resolve the issue with the relevant counterparty so that the project is brought back into compliance. If compliance is not re-established, DFI Canada may exercise such remedies as provided in the relevant loan documentation, including demanding repayment of a loan.

This suite of review processes is complemented by DFI Canada's Disclosure Policy, which articulates its commitment to transparency, subject to commercial and statutory confidentiality limitations.

In all of the above processes, DFI Canada's clients are responsible for managing the environmental and social risks of the business that DFI Canada is asked to support, and for the provision of relevant documentation as required.

4. CLIMATE CHANGE

DFI Canada operates in a manner consistent with the Canadian government's climate change policies and initiatives. DFI Canada's activities are guided by sound financial and environmental and social risk management principles. DFI Canada will continue to rely on these principles while staying abreast of emerging due diligence practices, GHG emissions reduction technologies and carbon markets.

Action by multiple players including governments, companies and the financial sector is required to mitigate the effects of climate change. As such, DFI Canada will consider various ways that balance cost and technical feasibility when approaching this issue including:

- engaging with clients to understand and assess the carbon and climate risks and opportunities associated with their business.
- evaluating climate change risks to ensure that projects are designed to incorporate technically and financially feasible and cost-effective options for mitigation and adaptation to climate change.
- expecting proponents of Category A and B projects to provide estimates of greenhouse gas emissions using established methodologies such as the Greenhouse Gas Protocol and consistent with IFC Performance Standards.

5. ROLES AND RESPONSIBILITIES

DFI Canada's Managing Director is accountable for implementing the above noted E&S assessment processes and procedures. DFI Canada will assess and identify risks and mitigation measures, where appropriate, related to transactions, participate in risk management training and engage DFI Canada's stakeholders, and support business development objectives. The Managing Director will make an annual report to DFI Canada's Board of Directors on the implementation of the Policy.

The DFI Canada's external Advisory Council comprised of prominent leaders from development finance, business, academia and civil society, provides advice to DFI Canada on matters related to evolving best-in-class development finance practices, including this Policy.

6. REPORTING AND ACCOUNTABILITY

DFI Canada's disclosure practices are guided by criteria established within its Disclosure Policy. Under the Disclosure Policy, all signed transactions are publicly disclosed within ninety calendar (90) days after signing. The Disclosure Policy sets out the conditions for the publication of information about transactions, as well as projects classified as Category A, including making some information available prior to signing the transaction and upon receipt of the appropriate consents. On an annual basis, DFI Canada also reports on its E&S performance through its reporting on development impacts.

DFI Canada includes an internal audit function to monitor and report on the effectiveness, adequacy and sustainability of its business processes, risk management and related internal controls used to achieve its objectives. DFI Canada will engage with stakeholders as an important component of this Policy.

7. REVIEW DATE

This interim **Environmental and Social Assessment Policy** shall take effect on January 22, 2018. This Policy shall undergo a revision in 2018 with a view to its finalization in the calendar year. Once finalized, this policy will be updated from time to time to incorporate any changes to disclosure practices of DFI Canada's parent company, where those changes exceed the transparency provisions herein.

ANNEX A
TO THE INTERIM ENVIRONMENTAL AND SOCIAL ASSESSMENT POLICY:
DFI Canada Exclusions List (2017)

The Exclusions List below defines the types of projects that DFI Canada **does not** finance.

Business activities, production or trade in:

1. products or activities not in compliance with Canada's sanctions regime.
2. products or activities deemed illegal under host country laws or regulations or international conventions and agreements, or subject to international bans, such as pharmaceuticals, pesticides/herbicides, ozone depleting substances, PCB's, wildlife or products regulated under the *Convention on Trade in International Endangered Species of Wild Fauna and Flora* (CITES).
3. weapons and munitions¹
4. alcoholic beverages¹
5. tobacco¹
6. gambling, casinos and equivalent enterprises¹
7. radioactive materials. This does not apply to the purchase of medical equipment, quality control (measurement) equipment and any equipment where the radioactive source to be trivial and/or adequately shielded
8. unbonded asbestos fibers. This does not apply to purchase and use of bonded asbestos cement sheeting where the asbestos content is less than 20%
9. drift net fishing in the marine environment using nets in excess of 2.5 km. in length
10. harmful or exploitative forms of forced labor²/harmful child labor³
11. pornography and/or prostitution
12. commercial logging operations for use in primary tropical moist forest
13. forestry products other than from sustainably managed forests
14. destruction of High Conservation Value areas⁴
15. hazardous chemicals, or commercial scale usage of hazardous chemicals, including storage or transportation, where such products are banned under international conventions
16. racist and/or anti-democratic media

17. cross-border trade in waste and waste products, unless compliant with the Basel Convention and the underlying regulations.

Footnotes

¹ This does not apply to project sponsors who are not substantially involved in these activities. "Not substantially involved" means that the activity concerned is ancillary to a project sponsor's primary operations.

² Forced labor means all work or service, not voluntarily performed, that is extracted from an individual under threat of force or penalty.

³ Harmful child labor means the employment of children that is economically exploitive, or is likely to be hazardous to, or to interfere with, the child's education, or to be harmful to the child's health, or physical, mental, spiritual, moral, or social development.

⁴ High Conservation Value (HCV) areas are defined as natural habitats where these values are considered to be of outstanding significance or critical importance (See <http://www.hcvnetwork.org>).

ANNEX B
TO THE INTERIM ENVIRONMENTAL AND SOCIAL ASSESSMENT POLICY:
ILLUSTRATIVE 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;
- 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. OHSAS 18001);
- OECD Guidelines for Multinational Enterprises;
- Program for the Endorsement of Forest Certification system;
- Responsible Care;
- United Nations Global Compact
- United Nations Principles for Responsible Investment (UN-PRI);
- Voluntary Principles on Security and Human Rights.