

Background

In addition to creating positive development impacts, FinDev Canada aims to identify and manage the environmental and social risks presented by the businesses it supports. Following a robust stakeholder engagement process, we released our E&S Policy (the "Policy") which articulates the principles and commitments that will guide FinDev Canada's approach to ensuring that clients have appropriate management systems in place to address any potential adverse environmental and social (E&S) impacts, including with respect to human rights.

Activities and Timeline

This implementation plan provides details on the many processes and controls that FinDev Canada has put in place to support us in delivering on our Policy commitments. It also outlines the key areas where we will focus our efforts to close any remaining gaps. The timeline below indicates when we envision the activities to be completed. We will report on our progress in the implementation of our Policy at least annually.

Policy Area	Policy Commitments	In place	2021	2022	2023	Additional Notes
1. E&S review of transactions to prevent, manage and mitigate potential adverse impacts	Screen all financing and investment operations against this policy.	×				Screening occurs early in the transaction lifecycle, where information then-available is used to assess risk and identify which E&S Performance Benchmarks are likely to be applicable.
	Conduct due diligence on all transactions against applicable E&S benchmarks.	×				Due diligence occurs after screening, before the transaction can be presented to the Investment Committee for a vote.
	For general corporate purpose facilities, assess the client's E&S management of its existing business activities; the quality of its E&S governance structures and management systems; and the extent of management commitment and technical capacity to implement applicable E&S Performance Benchmarks (once these have been determined).	×				These areas are assessed as part of FinDev Canada's E&S screening and due diligence review of all financial intermediaries, including general corporate purpose facilities.

¹ **E&S Performance Benchmarks:** Set of requirements that are selectively applied to clients, depending on the E&S risks identified. The International Finance Corporation (IFC) Performance Standards is our key benchmark, but clients may be subject to additional benchmarks beyond these, depending on their specific risk profile, sector or operating context.

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	Identify any potential human rights impacts and their potential severity (e.g., scale, scope, irremediability) and likelihood.	X				As part of FinDev Canada's E&S review of all transactions, client capacity to manage human rights impacts is assessed, including aspects related to effective stakeholder engagement processes and operational level grievance mechanisms.
	Communicate all exceptions to this policy to the FinDev Canada Board of Directors as part of the financing approval process.	X				A procedure is in place to ensure compliance with this requirement and annual reports to the board are submitted. No policy exceptions were recorded in 2020.
	Assign risk classification during due diligence and determine if changes are necessary during asset monitoring.			X		Currently relying on risk categorization at time of financial commitment, rather than classification. Will develop guidance to support a dynamic risk classification approach to facilitate more specific, dynamic and ongoing discussions on E&S risks, throughout transaction life cycle, in addition to maintaining transaction risk categorization. We will be conducting a pilot in 2021, with plans to integrate into the due diligence process by 2022.
	An E&S review procedure, informed by the Policy, will provide the detailed implementation framework.	X				An initial procedure was developed in February 2018 based on FinDev Canada's Interim E&S Assessment Policy and will be revised as necessary to ensure full Policy compliance.



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² **Risk categorization** is a static designation made at the time of financial commitment based on potential negative impacts associated with a business activity, using the IFC categories A, B, or C for projects and FI-1, FI-2 and FI-3 for financial institutions.

Risk classification is a dynamic risk rating assigned at the end of due diligence that can change over time based on factors like the transaction characteristics, client management capacity or unanticipated risks that appear after an investment has been made. Examples might include lower risk classification once a client ESAP has been completed or the construction phase of a large renewable project finished. Risk classifications might increase when a serious social or environmental complaint is made against the client or there is a loss of third-party certification.

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2. Build and share knowledge	Track and learn from good international practices] and collaborate with other development finance institutions and potential co-investors to build and share knowledge pertaining to E&S.	X				FinDev Canada has many partnerships and engagements and is a member of several international forums. Our employees attend webinars, training events and conferences to build and share knowledge.
3. Managing the asset and engaging with our clients, post signing	Monitor client E&S Performance Benchmark compliance.	X				All financings and investments are monitored in accordance with transactional documentation requirements and our E&S Policy, including regular Environmental, Social and Governance (ESG) performance reporting, E&S incident reporting and the delivery of required E&S action plan ("ESAP") items.
	Include management of change protocols in transactional documentation and develop processes for annual monitoring of financings and investments to support implementation of management of change protocols.			X		We will develop management of change protocols based on the risk classification guidance once it is finalized and integrated into the due diligence process (also planned for 2022).
	Support client identification and mitigation of gender risks, where appropriate.		X			Using a risk-based approach, develop comprehensive and standardized support for select clients to identify and mitigate risks related to gender as appropriate.
	Support client implementation of climate mitigation and adaptation measures, where appropriate.				X	We are currently developing FinDev Canada's Climate Change Strategy and plan to select clients for engagement on mitigation and adaptation support in 2022, using a risk-based approach.
	Support client engagement with any affected stakeholders, where appropriate.		X			We already assess client stakeholder engagement practices as part of the due diligence review against E&S Performance Benchmarks, including the IFC Performance Standards, which require specific consideration of vulnerable groups like women and girls. Using a risk-based approach, we will develop guidance to ensure this evaluation and client engagement is systematic.



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Annex Data on 2020 Implementation of the Environmental & Social (E&S) Policy

ANNEX DATA ON 2020 IMPLEMENTATION OF THE ENVIRONMENTAL & SOCIAL (E&S) POLICY,
AS OF 31 DECEMBER 2020

Number of investments reviewed	Common risks identified	Aggregated E&S performance of the portfolio	Number of complaints ³ received
<p>13 potential transactions were reviewed in 2020, including 100% of transactions presented to the Investment Committee.</p>	<p>Most transactions entered into in 2020 were with financial intermediaries or funds. The risks of these transactions generally lie with the projects, enterprises and individuals that ultimately receive the proceeds of FinDev Canada's financing or investment. These risks are diverse and difficult to determine pre-closing. The key mitigant for these risks in most cases is the implementation of an adequate environmental and social management system by our clients to ensure identification and management of E&S risks in their own financing and investment activities.</p>	<p>FinDev Canada's clients have fulfilled their E&S commitments during the 2020 year, including the delivery of ESAP items, reporting of material E&S incidents and regular ESG performance reports as required in transactional documents.</p>	<p>No E&S complaints have been submitted through our grievance mechanism nor through existing stakeholder communication and public engagement channels.</p>



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³ **E&S Complaints:** Formal reports to FinDev Canada on the implementation of our E&S Policy, including transaction screening, due diligence and monitoring as well as client engagement. Client E&S issues, including material incidents, evolving risks and non-compliance with transactional documentation requirements would not be captured by this metric.