

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 guides FinDev Canada's approach to ensuring that clients have appropriate management systems in place to address 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	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 the Policy.	X			Screening occurs early in the transaction lifecycle, where information then-available is used to assess risk and identify which E&S Performance Benchmarks ¹ are likely to be applicable.
	Conduct due diligence on all transactions against applicable E&S Performance Benchmarks.	X			Due diligence occurs after screening, before the transaction is presented to the Investment Committee.
	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).	X			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.

E&S POLICY IMPLEMENTATION REPORT 2022

Policy Area	Policy Commitments	In place	2022	2023	Additional Notes
1. E&S review of transactions to prevent, manage and mitigate potential adverse impacts	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 the Policy to the FinDev Canada Board of Directors as part of the financing and investment 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 2021.
	Assign risk classification during due diligence and determine if changes to classification are necessary during asset monitoring.	X			In 2021, FinDev Canada developed and piloted a dynamic risk classification approach to facilitate regular assessments on E&S risks, throughout the transaction life cycle. This has been implemented as part of annual asset monitoring reviews in addition to the risk categorization processes that always occur at time of financial commitment ² .
	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. This E&S Review Procedure, directed at internal staff, was revised in 2021 to reflect the Policy and will continue to be updated as necessary to ensure full compliance with the Policy and alignment with best practice.
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 are active members of peer working groups on specific E&S topics, and attend webinars, trainings and conferences to build and share knowledge.

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 E&S action plan (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.

E&S POLICY IMPLEMENTATION REPORT 2022

Policy Area	Policy Commitments	In place	2022	2023	Additional Notes
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			E&S related triggers and processes to facilitate the implementation of management of change have been included in the FinDev Canada requirements for managing, overseeing, and reporting on clients. These protocols are integrated into institutional documents as part of our Enterprise Risk Management Framework as well as within E&S procedures.
	Support client identification and mitigation of gender risks, where appropriate.	X			FinDev Canada has leveraged work by peer lenders and investors, as well as by our parent company, to support the identification and mitigation of gender risks, both for our own due diligence and asset management activities, and to support client's efforts to align with best practices in this area.
	Support client implementation of climate mitigation and adaptation measures, where appropriate.			X	FinDev Canada launched our inaugural Climate Change Strategy in 2021, which includes commitments to improve client capacity to identify, assess and manage climate related risks as well as to deepen FinDev Canada's own climate risk management approach to financing and investing. Draft tools are in the pilot stage of implementation, and the team plans to continue working with peers to develop internal and client facing resources to achieve these objectives.
	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 indigenous peoples and women and girls. We have integrated risk based guidance into our E&S Review Procedure to trigger use of complimentary E&S Performance Benchmarks, where appropriate, to identify clients that would benefit from additional support in these areas.

Annex Data on 2021 Implementation of the E&S Policy

AS OF 31 DECEMBER 2021

Number of investments reviewed	Common risks identified	Aggregated E&S performance of the portfolio	Number of complaints ³ received
<p>22 potential transactions were reviewed in 2021, including 100% of transactions presented to the Investment Committee.</p>	<p>Most transactions entered into in 2021 were with financial intermediaries or funds. The risks of these transactions generally rest 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 but often include risks to workers, including ensuring equal opportunity and non-discrimination in the office as well as addressing occupational health and safety concerns, from construction sites to Covid-19. Other E&S risks commonly identified include potential negative impacts on local communities, pollution and biodiversity resulting from business activities in green growth sectors, such as sustainable forestry, agriculture, and renewable energy projects. Potential client protection risks such as a lack of transparency and over-indebtedness were also identified in transactions where FinDev Canada proceeds are used for on-lending to microenterprises and other low-income clients.</p> <p>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. Where appropriate, thirdparty certification standards and other E&S Performance Benchmarks are applied to ensure adequate management of direct and indirect E&S risks. For clients who are not in full compliance with applicable E&S Performance Benchmarks at the time of investment, environmental and social action plans (ESAPs) are developed to build client capacity and ensure alignment with E&S requirements related to risk mitigation.</p>	<p>Overall, in 2021, the E&S performance of the FinDev Canada portfolio was satisfactory. FinDev Canada's clients have worked to fulfill their E&S commitments during 2021, including the delivery of ESAP items, reporting material E&S incidents, and regular ESG performance reporting as required in transactional documents. In some cases, changes to client E&S deadlines, revisions to or reminders of requirements were necessary in light of operational and resourcing challenges due to the ongoing Covid-19 pandemic and other competing priorities. These changes were enacted in line with FinDev Canada's Enterprise Risk Management Framework and approved at the appropriate management levels.</p>	<p>No E&S complaints have been submitted through our grievance mechanism nor through existing stakeholder communication and public engagement channels.</p>

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.