**OECD Roundtable on Corporate Responsibility**
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**Statement of Motoko Aizawa, Sustainability Advisor, IFC**

IFC would like to congratulate OECD for completing its update of the MNE Guidelines on time after a long process of consultation. The MNE Guidelines constitute the most comprehensive expression of the multifaceted nature of responsible business operating in a global economy. As such it is very important that the document is up to date and reflects the fast-changing challenges that enterprises face today. The Guidelines address many of these challenges. It is particularly noteworthy that the Guidelines have a fuller expression of human rights, consistent with the Ruggie framework. This is a major achievement of this particular update.

I am pleased to be participating in this discussion on OECD's proactive agenda for the Guidelines so shortly after the completion of the update. Among the topics for the proactive agenda are guidance to the financial sector, and guidance to SMEs on the application of the Guidelines. This development is very welcome and timely for the following reasons:

Many of you are aware that IFC also completed its two and a half year process of updating the Performance Standards. The updated Standards, including new provisions related to climate change, business and human rights, supply chains, and free, prior, and informed consent, among other topics, were unanimously approved by 182 IFC member countries on May 12. We will start to implement the new Standards from January 1, 2012. It is coincidental that we also made commitments to provide guidance notes on the topic of financial intermediaries and SMEs. So the two institutions have a very clear reason for collaboration in the coming months. We look forward to ongoing exchange of ideas in these areas.

For the time being, I would like to share my observations on the Guidelines and their relevance to the financial sector. The updated Guidelines are intended to apply to the financial sector, but how they are to be implemented by the sector is not evident. In order to avoid creating confusion at the National Contact Point level, guidance should be available as soon as possible. I would like to pose a series of questions to illustrate this need.

**1. Would the Guidelines benefit from clarifying what is meant by the financial sector?**

The financial sector contains many players with different functions. Among those who provide debt finance include commercial banks, non-bank financial institutions, and even microfinance institutions. Among those who provide equity are institutional investors, public sector pension funds, and private equity. There are insurers and reinsurers. Beyond these are service providers who serve the sector, such as rating agencies. These entities could be state-owned, publicly held, privately held, or public-sector funded. Do all or some of them come under the scope of the Guidelines?

**2. Would it be helpful to distinguish between the direct actions of the financial sector vs. actions that contribute to others'?**

Financial institutions must manage their own business in a responsible manner. They must pay taxes, not engage in corrupt behaviors, and consider the environmental impacts of their direct operations, like accounting for their direct carbon footprint from their buildings and staff, just like anyone else. They also play the role of enabler and contributor by providing funds, and in the process may end up financing businesses that are not operated in a responsible manner. Do the Guidelines also apply to these indirect roles?

**3. If the Guidelines apply to the indirect aspects of financial sector operations, is the concept of "use of proceeds" a useful one to draw a line?**

The Equator Principles draw their line around project finance because in project finance the use of proceeds is known. This means that the financing proceeds can be traced to specific business activities and the underlying physical assets (this in turn would allow impact assessments with respect to such assets to be conducted). At IFC, our due diligence methodology is different depending on whether the use of IFC financing proceeds is known or not. This is a well-established concept in sustainable finance.

**4. For the indirect activities, can the financial sector's responsibility under the Guidelines be discharged through good quality due diligence? What constitutes good due diligence? When does the financial sector bear responsibility for the borrower/investee's lack of responsibility despite good due diligence?**

If use of proceeds is known and appropriate due diligence is carried out in relation to the proposed business activity to be financed, has the financial institution properly discharged its duty? Under what method should the financial institution carry out its due diligence? Will due diligence under the Equator Principles or the IFC Performance Standards (which the OECD Export Credit Agencies refer to when they are involved in private sector limited recourse projects via the OECD Common Approaches) be adequate as far as environmental and social due diligence is concerned? Should financial institutions carry out separate due diligence under the MNE Guidelines? In the event that the project or business activity financed is unsuccessful from an environmental or social sustainability perspective, should the financial institution be held accountable for those outcomes despite adequate due diligence?[1] What should trigger such linkage?

**5. How should the financial sector demonstrate its due diligence, when the sector is constrained by a legal obligation to keep client information confidential?**

The best way to demonstrate quality due diligence is disclosure. But banks are bound by rules of client confidentiality. How should they address this dilemma? With its new Sustainability Policy and Access to Information Policy, IFC will be putting out even more sustainability-related information in the public domain. But there are limits with this approach when it comes to client information. How can the financial sector as a whole move toward greater transparency?

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These questions are important because the financial sector should be clear about its expected conduct and responsibility under the Guidelines; in addition, the questions are relevant for NCPs when they address complaints brought under the Guidelines. Should a NCP always look into the responsibility of the financial institution backing an enterprise, when a complaint against the enterprise is filed? Should this link up happen only sometimes?

It is assumed here that the financial sector would be interested in these questions. However, it is also possible that the answers to these questions may be difficult to provide, or a consensus cannot be reached, in which case it may be preferable to leave the matter open and let the NCP exercise its discretion on a case-by-case basis. Either way, I think the financial sector deserves to be consulted on these matters.

As already stated, as we both move forward with implementation, we will have many issues in common. It would be beneficial for us to work together and exchange information. It would be particularly important that there is clarity between the MNE Guidelines and the Common Approaches that bind the OECD export credit agencies. These ECAs are in close contact with the Equator banks, as they also undergo their process of updating the Equator Principles. Although there are many moving pieces, this is an opportune moment to think about providing clarity and policy coherence for the financial sector. We look forward to an ongoing productive relationship with OECD.

[1] Commentary to Principle 17 of the Guiding Principles on Business and Human Rights notes: However, business enterprises conducting such due diligence should not assume that, by itself, this will automatically and fully absolve them from liability for causing or contributing to human rights abuses.