

## **April 7, 2022, Philippines - Rizal Commercial Banking Corporation (RCBC) - IFC Management Report and Management Action Plan in Response to CAO Investigation Report**

The U.S. takes note of the findings of the CAO's compliance investigation on IFC's investments in Rizal Banking Corporation (RCBC) and welcomes IFC's proposed Management Action Plan (MAP) to address non-compliance with IFC's Sustainability Framework. The U.S. welcomes the strong CAO and IFC collaboration on this case thus far, the first under CAO's new policy, where IFC's MAP will be submitted for Board review and approval. The U.S. hopes IFC will learn from this experience and will take into account useful takeaways going forward.

IFC's proposed MAP provides a basis to address the E&S shortcomings identified by the CAO. However, effective implementation of the MAP will depend largely on the voluntary cooperation of the sub-project borrowers (the power plant operators) in these investments. The U.S. supports the CAO's suggestion for a phased approach to MAP implementation to address this challenge. The U.S. asks IFC to return to the Board no later than nine months from this initial Board discussion, or sooner if there are important developments, to provide an update on the status of cooperation by the power plant operators and discuss any adjustments to the MAP needed to enable remedy.

The U.S. asks IFC to clarify some aspects of its approach to MAP implementation for the record at this Board meeting. For example, in addition to confirming its process and timeline for updating the Board on implementation, IFC should clarify the measures it will take to support stakeholder engagement in a manner consistent with IFC's Performance Standards. IFC's proposed MAP relies on the power plant operators to arrange consultations with the affected communities, despite credible concerns regarding threats and reprisals in some of these communities. It is critical that IFC support RCBC's work with the complainants to develop a robust Stakeholder Engagement Plan before beginning consultations. This should include separate meetings between the relevant parties when needed and the use of a neutral third-party facilitator as appropriate. The U.S. also expects IFC and RCBC to consult with the complainants and the CAO on the recruitment of third-party consultants for planned E&S assessments. IFC could explore engaging with the relevant Philippine authorities at both the sector and local government level to coordinate any existing monitoring or compliance activities in the affected areas.

The U.S. supports IFC's proposed actions to address climate-related risks and impacts, including IFC's commitments to support RCBC to conduct GHG emissions reduction audits, develop a framework to measure and disclose GHG emissions from its borrowers, and prepare a guidance note to help FIs quantify, manage, and report on GHG emissions. The U.S. urges IFC to

continue to improve climate-related disclosures in its FI portfolio and anticipate strong progress in this area. The U.S. looks forward to IFC implementing a process to guide FI clients towards adopting overarching commitments to align their operations with the goals of the Paris Agreement. Likewise, the U.S. supports existing efforts to address other systemic issues raised by the CAO regarding the management of E&S risks in FI investments and encourage further progress through the relevant workstreams, including the CAO's External Review process.

Finally, this case illustrates a number of useful takeaways for IFC's broader approach to remedy: (1) the need for the overall framing of the approach to recognize that the costs of poor implementation by IFC or its clients should not fall on the affected people; (2) the need to increase leverage, including through contractual provisions to enable remedy; (3) the need for further consideration of when and how to include FIs, which represent approximately half of IFC's portfolio, in IFC's proposed approach to remedy; and (4) the need for a clear understanding of the scope of IFC's leverage when it invests in FIs.

In conclusion, the U.S. supports IFC's proposed MAP and hopes that its collaborative approach to this case can be replicated and further strengthened for future cases.