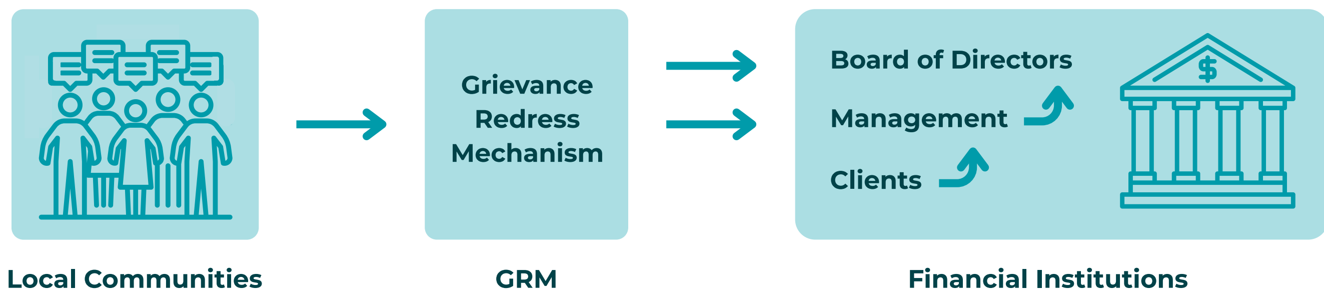
The Case for a Grievance Redress Mechanism for Financial Institutions

A **Grievance Redress Mechanism (GRM)** is a process used by institutions to receive grievances or complaints from communities concerning environmental and social harms they experienced from the institutions' or their clients' operations and facilitate their resolution and remedy.



The benefits of GRMs

Good governance for investment portfolios

Chinese financial institutions have a substantial and growing portfolio of overseas assets in infrastructure, energy and mining sectors. Many such assets are in conflict environments with heightened political and security risks. They also often involve significant environmental and social impacts on local communities and can carry significant reputational and financial risks for the investors. For example, hydropower projects can displace a large number of communities without adequate compensation and threaten local biodiversity; mining projects for transition minerals such as cobalt and nickel can involve unsafe labour conditions and cause permanent environmental damage during and after mine operations. Safeguarding these assets requires that investors receive timely information about issues on the ground. GRMs are essential tools by which banks can be apprised of and respond to local community concerns on the ground and ensure good governance for their investment portfolio. They act as an "early warning system" that allows unintended environmental and social harms to be brought to the project implementers and investors before any significant reputational and financial risks materialize or disputes escalate to litigation and arbitration in courts and tribunals. It is an essential risk management tool to uncover hidden issues – including gaps in client self-reporting and monitoring – and safeguard investments.

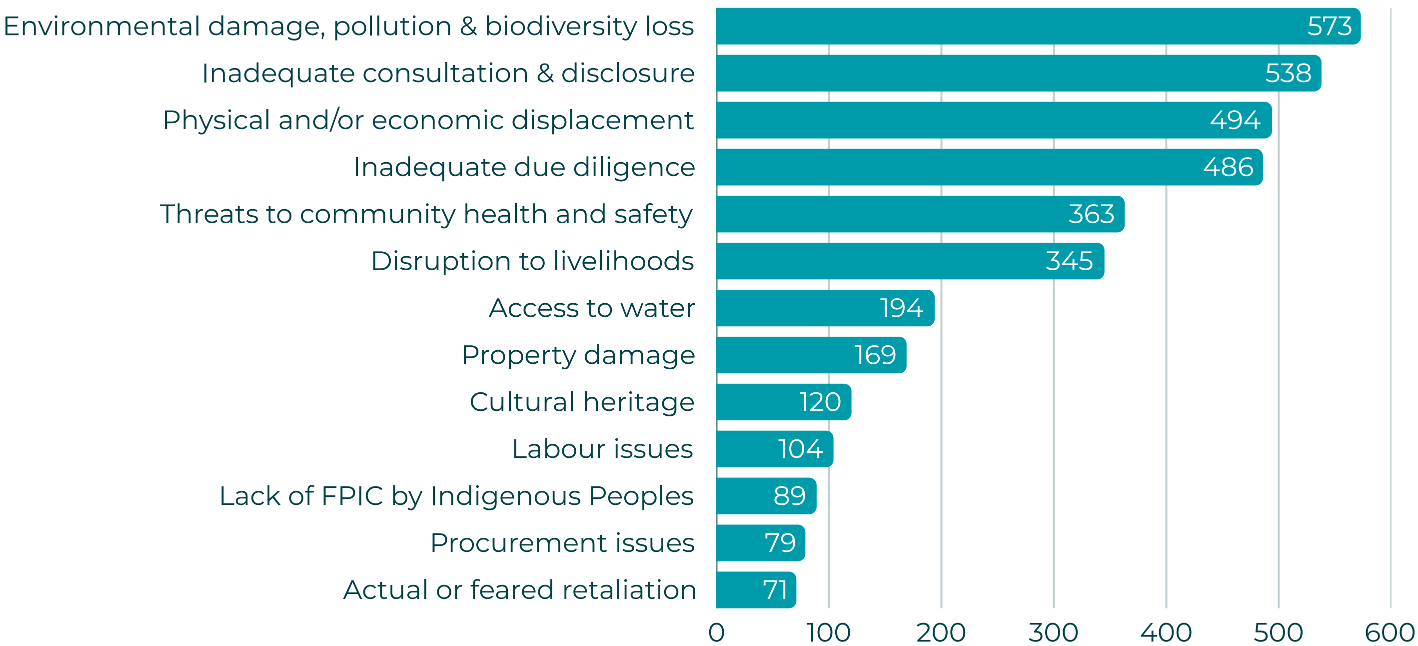
Fulfill regulatory requirements

Article 28 of the Green Finance Guidelines for Banking and Insurance Sectors issued in June 2022 by the Chinese Banking & Insurance Regulatory Commission (now National Financial Regulatory Administration) requires the establishment of "stakeholder complaint channels" by Chinese banks and insurers. Multilateral development banks (e.g. AIIB) and development funds (e.g. Green Climate Fund) require a functional GRM as a funding or accreditation requirement to access development and climate finance capital. The new sustainability reporting guidelines issued by the 3 main Chinese stock exchanges require listed companies, which include many commercial banks, to disclose climate governance, strategy and risk management process and procedures, including communication channels with stakeholders. Various international investment standards, such as the OECD-UNDP Impact Standards for Financing Sustainable Development, require investors to establish GRMs.

Meet climate ambitions and achieve a just transition

Chinese commercial banks will play an instrumental role in leveraging climate finance to help China and other Global South countries meet climate goals and achieve a just transition. A fast transition to a low-carbon economy is only possible if the mining of mining of transition minerals and scaling of solar, wind, hydro and other energy projects occur without harm to local environments, biodiversity, and livelihood of local communities because such harm fundamentally undermines the "just transition" and the people it ultimately serves. GRMs ensure that banks' green investments meet their mark and maximize their intended impact, and that climate goals are met.

Types of issues that could be raised through GRMs



The numbers shown for each issue are out of 2,011 complaints filed at the independent accountability mechanisms of international financial institutions and recorded on the Accountability Console database

GRM myths debunked

A GRM would open the floodgate of frivolous claims from complainants seeking perceived gains.

GRMs are a last resort for project-affected communities, who face risks of reprisal and must devote significant amounts of time and resources to navigate complaint processes. Evidence suggests that the vast majority of projects financed by MDBs have not resulted in complaints to GRMs. There have been fewer than 230 complaints in the 25 years of existence of the International Finance Corporation's mechanism. The African Development Bank's mechanism found that for every 100 projects approved there have been only 1.1 complaints.

A GRM would serve the same function as institutions' internal compliance or evaluation unit.

GRMs complement good compliance regimes. Even when institutions have clear rules in place and try to comply with them, mistakes can happen. The GRM independently safeguards policy compliance upon receipt of a complaint from communities and/or resolve disputes between communities and project implementors as a neutral third party. It enables institutional and sector-wide learning by highlighting gaps in existing policies and practices and lessons for future investments. It is not normally involved in program review.

A GRM would be a financial drain on the institution without much benefit.

From a risk management perspective, the human and financial capital invested in developing a robust grievance redress process could serve as a backstop to insufficient stakeholder engagement and environmental and social due diligence and minimise the likely multifold costs if disputes are not resolved, including of lost sales due to production delays, long running litigation and arbitration, termination of projects after the deployment of funds and reputational damage. Research suggests a double-digit value erosion of annual profits due to failure to preemptively manage non-technical environmental and social risks through stakeholder engagement tools such as GRMs.

Examples of existing GRMs

The Accountability Mechanism at the **Asian Development Bank (ADB)** was established in 2003. It has received around 450 complaints to date in relation to environmental and social impact of projects financed by ADB. The mechanism consists of a Special Project Facilitator which facilitates dispute resolution and a Compliance Review Panel which investigates compliance with bank policies.

The **Japan Center for Engagement and Remedy on Business and Human Rights (JaCER)** is an independent stakeholder engagement and grievance redress platform established in 2022 which corporations and financial institutions could join. It counts all three of Japan's biggest commercial banks – Mizuho, Mutsubishi UFJ and Sumitomo Mitsui – as members.

The **Australia and New Zealand Banking Group Ltd. (ANZ)**, a commercial bank, established its own GRM in 2021 with the help of an external multi-stakeholder working group comprising of private sector, civil society, unions and academics. The move followed an investigation of allegations of environmental, social and labour issues relating to a Cambodian sugar plantation it provided financing to by the Australian National Contact Point for Responsible Business Conduct. It received its first case in 2023 in relation to an Australian client in the extractives industry.

Ready to learn more?

Accountability Counsel has over 15 years of experience advising on the creation and policy reform of independent GRMs at most major multilateral development banks and many other international financial institutions. Please reach out to us at info[at]accountabilitycounsel[dot]org for bespoke advice, or find us through the channels below.

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