

Accountability Mechanisms: Benefits and Best Practices for International Financial Institutions

There is growing recognition among international financial institutions (IFIs) of the need to engage in responsible development practices in order to ensure the long-term success of their investments. More than ever, they realize that this success depends on avoiding negative social and environmental impacts and accounting for harm to communities caused by their development projects. Accountability mechanisms play an important role in ensuring a responsible approach to development by providing a way for IFIs to reduce the risk of harm and mitigate adverse impacts that can threaten the sustainability of their investments and the projects they implement.

What are accountability mechanisms?

An accountability mechanism is an independent process for addressing complaints and resolving disputes about the negative social and environmental impacts of a project. Accountability mechanisms serve as a means to formally collect, evaluate, and resolve community complaints related to an IFI's investments and projects. They consist of a set of well-known, established procedures to resolve grievances, review compliance with internal social and environmental rules, and provide remedy when investments and projects cause harm.

Although the structure and approach vary, accountability mechanisms often take the form of a formal complaint office within an IFI or government agency and outside the judicial system. The office has specialized personnel who independently administer the functions of the mechanism and provide a culturally appropriate, neutral forum for communities to raise grievances and seek remedy. Most major IFIs and several national development finance institutions rely on accountability mechanisms as a tool to identify and respond to adverse project impacts, foster respect for the institution's rules, and ensure the successful completion of projects without unnecessary costs and delays.¹

What are the benefits of accountability mechanisms?

Accountability mechanisms can bring value and lasting benefits to IFIs in a variety of ways. For example, accountability mechanisms provide an opportunity to efficiently address complaints and settle disputes at an early stage in a project's life cycle. Through accountability mechanisms, IFIs can resolve relatively small disputes before they escalate into widespread grievances that require expensive, time-consuming remediation measures.

In addition, accountability mechanisms are sources of knowledge and learning that translate into better projects, cost savings, and sustainable investments. Through the complaint process, IFIs

¹ For example, accountability mechanisms are common among the following IFIs, export finance and development agencies, and international organizations: the African Development Bank, Asian Development Bank, Australian Export Finance and Insurance Corporation, Brazilian Development Bank, Canadian Office of the Extractive Sector, Dutch Entrepreneurial Development Bank, European Bank for Reconstruction and Development, Export Development Canada, German Investment and Development Corporation, Inter-American Development Bank, International Finance Corporation, Japan Bank for International Cooperation, Japan International Cooperation Agency, Nippon Export and Investment Insurance, Organisation for Economic Cooperation and Development, UN Development Programme, U.S. Overseas Private Investment Corporation, and World Bank.

can detect problems in a project's design, implementation, or viability, correct them at the outset, and prevent them from occurring in future projects. They also help the IFI to diagnose weaknesses in its operations, management, or systems and determine how to improve them.

Accountability mechanisms enhance the ability of IFIs to address concerns about a project in a just and fair manner. Given that many large-scale investments and development projects bring substantial risk and change to communities, accountability mechanisms give communities a neutral forum through which they can express their concerns without fear of retaliation or reprisal and seek remedy for harm that the project has caused. Through a complaint process that reduces power imbalances between the parties, IFIs can demonstrate their interest in the wellbeing of the community and build trust and respect with its members. When IFIs engage with communities to develop solutions, they foster dialogue and more cooperative relationships that ultimately increase project success and reduce the risk of community discontent and broader instability.

Furthermore, accountability mechanisms provide a more accessible, flexible, and collaborative approach to dispute resolution than formal court proceedings. They are less costly for all parties and have the potential to deliver more timely resolutions to community grievances that may otherwise lead to litigation or further harm. Accountability mechanisms offer a reliable, alternative venue that can achieve impartial and transparent outcomes.

In addition, by resolving complaints through accountability mechanisms, IFIs can also avoid high-profile allegations of abuses that lead to severe reputational damage. Because of their role in promoting responsible development practices and providing remedy for adverse impacts, accountability mechanisms enhance the reputation and legitimacy of IFIs that use them. They demonstrate that the IFI is committed to sustainable project outcomes for shareholders as well as for the communities that are affected by their development projects.

What are the best practices for accountability mechanisms?

To maximize the benefits that an accountability mechanism can provide, the IFI should ensure that the mechanism is based on best practices.² An accountability mechanism that is poorly designed or implemented not only diminishes its value to the IFI, but it also risks compounding grievances among affected people and overlooking project deficiencies.³ The UN Guiding Principles on Business and Human Rights set forth criteria for best practices among accountability mechanisms:

- **Legitimacy:** An accountability mechanism should have an independent governance structure to ensure that the process is fair and has the trust of the affected people. The mechanism should be able to function independently of political influence or pressure from the IFI's management, whose actions may be the source of grievances. The

² The International Finance Corporation's Compliance Advisor/Ombudsman is often cited as an accountability mechanism that has adopted a number of best practices.

³ UN Guiding Principles on Business and Human Rights, *Implementing the United Nations "Protect, Respect and Remedy" Framework*, Principle 31 Commentary.

mechanism should also have sufficient authority to handle grievances and make redress decisions objectively.

- **Accessibility:** In order to serve as a reliable forum for providing access to remedy, a mechanism should be well known to all potentially affected people and provide adequate assistance to help them overcome barriers to accessing it, including “language, literacy, costs, physical location and fears of reprisal.”⁴ The IFI should ensure that affected people have access to the mechanism, including a requirement that project management inform people of the existence of the mechanism and its functions. In addition, the mechanism should not impede access to remedy through other means, whether non-judicial or judicial, or require people to use the mechanism before pursuing other avenues for remedy.
- **Predictability:** The accountability mechanism should have clear and known procedures with timeframes for each stage of the process. The timeframes should be explicit and clearly communicated to potentially affected people, and the mechanism should have a way to monitor that the process and parties are respecting those timelines.
- **Equitability:** To ensure that people can engage in a process on fair and equitable terms, they must receive non-biased information and advice. Affected people are often not well informed of their rights or options for recourse, and may be severely disadvantaged in their access to resources and information compared to IFIs. In order to facilitate an equitable and fair process and maintain trust, the mechanism should provide information on the process and inform people of their right to consult with and be accompanied by counsel and/or advisors at any time during the process.

Transparency: Transparency can be key to building and maintaining confidence in the mechanism within affected communities, as well as with shareholders and the general public. This includes keeping parties to a complaint process informed about its progress and reporting to the public regarding the mechanism’s activities. The mechanism should maintain a publicly available case register, including an online version, in addition to any other culturally appropriate means of disseminating this information. The mechanism should not require parties to agree to a blanket confidentiality agreement as a prerequisite to participate in the complaint process. However, it should protect the identity of any party that requests confidentiality.

- **Rights-compatibility:** In order to be considered effective and legitimate, accountability mechanisms must provide outcomes and remedies that align with internationally recognized rights. Outcomes and remedies should respect applicable rights under national and international law. Any monitoring and evaluation efforts of the mechanism should also include a review of these outcomes and remedies for their rights compatibility.

⁴ UN Guiding Principles on Business and Human Rights, at Principle 31(b) and Commentary.

- **A source of continuous learning:** In addition to resolving individual grievances, effective accountability mechanisms can serve a valuable role by providing feedback for the project cycle and the IFI's operations in general. The IFI should incorporate a process for identifying lessons learned from the accountability mechanism, implementing improvements, and monitoring progress to avoid future harm and unsustainable projects. There should also be a monitoring and evaluation process of the mechanism itself to verify that it is fully carrying out best practices.
- **Based on engagement and dialogue:** The IFI should hold public consultations about the design, performance, and monitoring and evaluation of the accountability mechanism. This will ensure that it maximizes value to the IFI in the form of useful feedback and that it meets the needs of communities. The participation of potentially affected communities and the public is critical to the development of a culturally appropriate mechanism that can respond effectively to their concerns and address harm caused by a project.

Accountability mechanisms that incorporate best practices can serve as an effective tool for IFIs to engage in responsible development practices and improve the sustainability of their investments. Through accountability mechanisms, IFIs can ensure that they respect their internal social and environmental rules, prevent abuses and poor project outcomes, and appropriately respond to harm. They not only provide a way to bring value to the people affected by development projects, but they also contribute to the long-term success and legitimacy of the IFIs that adopt them.