World Benchmarking Alliance
Rhijnspoorplein 10-38
1018 TX Amsterdam
The Netherlands

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Re: Financial System Transformation Benchmarks present an opportunity to assess the availability and effectiveness of accountability mechanisms at keystone financial institutions.

To the World Benchmarking Alliance:

On behalf of Accountability Counsel, a non-profit organization that amplifies the voices of people harmed by the adverse impacts of internationally financed projects, thank you for the opportunity to comment on the Financial System Transformation Scoping Report. Our experience working with communities impacted by international financial flows has illustrated that financiers can safeguard against environmental, social, and financial risk by having an effective accountability process in place. By providing a process for direct community feedback related to on-the-ground impacts of investments, accountability mechanisms have proven to be effective tools for ensuring compliance with operational standards, as well as preventing, mitigating, and redressing unintended environmental and social impacts at odds with an institution's mission or mandate. As a part of our work, we maintain a database called the Accountability Console,[1] which includes all publicly available data from every complaint filed to independent accountability mechanisms at major development finance institutions and compares policies across these grievance mechanisms to show how they can be best designed to ensure accountability for environmental and social harm.

Preliminarily, we applaud the progress made thus far towards Financial Systems Benchmarks that can be used to motivate systems transformation toward greater human rights and environmental due diligence, including by enabling remedy for social and environmental harm. The following response to questions presented in the scoping report are to highlight the opportunity for the Benchmarks to include community voices as a part of its metrics.

Questions: *We currently categorise key levers of impact as organisational practices; market signalling; and capital allocation and financial products and services. Would a particular focus on any one of these areas help accelerate the transformation needed? Is a particular spotlight needed within any one of the three areas?*

Response: *The World Benchmarking Alliance should measure whether financial institutions hear from and address issues raised by impacted communities. In particular, benchmarks should: (1) identify*

[1] Available at www.accountabilityconsole.com.

whether financial institutions have accountability mechanisms; (2) assess the effectiveness of those mechanisms; and (3) otherwise assess how financial institutions measure unintended impact.

A particular spotlight on governance, accountability, and transparency across financial institutions' organisational practices is needed to assess the robustness of sustainability commitments. To that end, there must be some evaluation of whether finance institutions utilize effective grievance redress mechanisms (GRMs) or independent accountability mechanisms (IAMs), collectively "accountability mechanisms," to respond directly to the concerns of stakeholders in order to prevent, mitigate, and remediate environmental or social harm. We therefore recommend that Benchmarks track and monitor how financial institutions measure unintended impacts and whether they have effective institutional-level accountability mechanisms in place.

I. The case for evaluating financial institution accountability mechanisms.

The Scoping Report acknowledges that "the further citizens are from having an active stake in the financial system, the less their voice is heard," and "those who have the least voice are disproportionately more affected by the aggregate actions of the system."[2] A benchmark that assesses the availability and effectiveness of accountability mechanisms is an opportunity to impress the importance of integrating community voices into financial institution decision making, inasmuch as direct stakeholder engagement through accountability mechanisms is essential to ascertain and remedy harmful environmental and social risks and impacts, optimize intended impact, and provide critical data for more robust risk management.

Identifying and Preventing Unintended Impact

By providing a direct communication link between communities and investors, institutional-level accountability mechanisms are critical to effectively measure unintended or indirect impacts on people and the planet. In addition to the benefits of enabling more accurate assessments of impacts, institution-level grievance mechanisms benefit sustainability outcomes by providing platforms for early reconsideration and resolution of project risks. Take for example investments for a hydroelectric facility sited in Oaxaca, Mexico:[3]

> According to a private equity firm that provided substantial funding for the project, the intended impact of the facility was to produce and export energy to areas north of Oaxaca; however, communities near the construction site had legitimate concerns of potential harm to their environment, livelihoods, health, and physical safety. The communities relied on the IAM of the primary investor, the U.S. Overseas Private Investment Corporation (OPIC), to relay their concerns related to illegal land acquisition,

[2] World Benchmarking Alliance, Financial System Transformation Scoping Report, p. 9 (Jan. 2021).
[3] Oaxaca case study available at https://www.accountabilitycounsel.org/client-case/mexico-oaxaca-hydroelectric/#case-story.

> depletion of village water supplies, and the safety of an adjacent dam curtain. The complaint resulted in a professionally- mediated dialogue process that included participation from the communities, the Mexican operating company, the private equity firm, and the mechanism staff. Through the dialogue process, investors realized that the risks of harm outweighed the projected benefits of the project and halted project construction. It took hearing from those communities through international financial institution accountability office processes to understand the catastrophic economic, human, and environmental risk.

Optimizing Intended Impact

Not only are financial institution accountability mechanisms important to prevent and mitigate harm, but active engagement and response to complaints received through the mechanisms is essential to optimize sustainability outcomes. For example, the "Ridge to Reef" conservation project in the Tanintharyi region of Myanmar,[4] financed in part by the United Nations Development Program (UNDP), now stands to be vastly improved from a sustainability lens thanks to the utility of an accountability mechanism for project-impacted communities.

> The intended impact of the conservation project was to protect land from development, but because the top-down project design did not draw on the knowledge of Indigenous and traditional peoples stewarding the land, it risked not meeting its objectives. Moreover, it risked social and economic upheaval by conflicting with terms of reserved rights set forth in a nationwide ceasefire agreement. Utilizing the UNDP's compliance review and stakeholder response mechanisms, Indigenous Karen communities were able to relay consultation shortcomings that resulted in serious project concerns. Engaging with the UNDP's IAMs created the space to consider an alternative Indigenous-led conservation plan that both protects the rich biodiversity in the region, and respects traditional peoples' knowledge. The promising progress demonstrates that without platforms to facilitate dialogue between investors and the communities where they invest, financial institutions risk undermining their own sustainability goals.

Bridging Investor-Investee Information Gaps

Further, a direct communication link between communities and financial institutions through accountability mechanisms also serves to circumvent the potential problem of investees or clients hiding issues that threaten sustainability performance, or in very unfortunate situations threatening or retaliating against whistleblowers and stakeholders to discourage future complaints that might compromise the trust of a financial institution. Far too often investors attempt to push governance obligations onto investees,

[4] Myanmar case study available at https://www.accountabilitycounsel.org/client-case/myanmar-ridge-to-reef-conservation-project/.

with disastrous results. This was the experience of communities in Liberia[5] who were adversely impacted by a biomass project financed by OPIC.

> From 2008 to 2011, OPIC approved three loans totaling USD $216.7 million to Buchanan Renewables for a biomass project in Liberia. Buchanan Renewables intended to rejuvenate smallholder rubber farms and develop much needed energy infrastructure in Liberia by converting old rubber trees into biofuel to be used in a Buchanan Renewables-constructed power plant. Instead, inadequate due diligence, lack of community consultation, and poor project execution manifested in serious harm. The power plant was never constructed, and the wood chips from the rubber trees were either exported to Europe or the chemically-treated wood chips were dumped back onto family farms, contaminating water and soil. Moreover, the project was designed in a way that prevented previously self-sustaining farmers and charcoal producers from providing for their own welfare once the project began. Smallholder farmers who had subsisted previously on income from their rubber trees were struggling to satisfy basic needs. Charcoal producers lost access to rubber trees they needed to maintain their livelihoods, and Buchanan Renewables employees demanded bribes - including sex from women - to access wood the company had promised to give them for free. Additionally, Buchanan Renewables workers suffered from rampant labor rights violations, including intimidation, dangerous working conditions, and sexual abuse.
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> Efforts to engage with Buchanan Renewables itself on the negative impacts initially showed some promise. However, in early 2013, Buchanan Renewables abruptly closed the project, withdrew from the project area, and repaid its OPIC loans. The project's closure left communities with little option for redress at the investee level. Communities then implored OPIC's institutional-level accountability mechanism to investigate the project. The mechanism independently reviewed the project, and its resulting report confirmed the harm caused by the project and revealed institutional gaps in tracking impact, identifying vulnerable groups, and safeguarding those groups.

Each of the aforementioned cases demonstrate the objective value that accountability mechanisms have provided development finance institutions, insofar as they offer an opportunity to hear directly of on-the-ground impacts and adjust accordingly to manage risks compromising project sustainability. Just as the CSI-6 and CSI-8 Social Transformation Benchmarks operate to assess community engagement and the presence of grievance mechanisms at the corporate level, there should be similar assessments of feedback channels and accountability mechanisms at financial institutions, especially to the extent that financial institutions make environmental and social commitments and assurances tied to their lending and investment policies. Moreover, assessing merely whether a grievances mechanism exists is insufficient on its own. We encourage the Benchmark to include a qualitative assessment reflective of

[5] Liberia case study available at https://www.accountabilitycounsel.org/client-case/liberia-buchanan-renewable-energy/.

the effectiveness of grievance mechanisms, as described by Principle 31 of the UN Guiding Principles on Business and Human Rights (UNGPs).[6]

II. Momentum of reporting and disclosure requirements on accountability processes and outcomes.

There is an increasing movement towards including effective grievance mechanisms in impact measurement and reporting standards. For example, the UNDP's SDG Impact Standards for Private Equity Funds, Bonds, and Enterprises encourage fund-level managers to provide effective grievance redress mechanisms as a means of demonstrating appropriate governance controls. Similarly, the newly established World Economic Forum/International Business Council Stakeholder Capitalism Metrics have integrated the expectation for companies to build out accountability tools to capture grievances that may arise. The Global Reporting Initiative is also in the process of improving the quality and consistency of sustainability reporting by updating its Universal Standards to include disclosures on the availability and effectiveness of grievance and remediation mechanisms for ascertaining and addressing human rights impacts.

All of this momentum is rooted in the principle that accountability mechanisms are fundamental governance tools. As recognized by Principle 31 of the UNGPs, effective grievance mechanisms underpin institutional social responsibilities and commitments. The entirety of the UNGPs were recently embraced as good international industry practice in the International Financial Corporation's Operating Principles for Impact Management. The principle of accountability vis-a-vis effective grievance mechanisms is also echoed by the OECD Guidelines for Multinational Enterprises, and the ILO Tripartite Declaration of Principles concerning Multinational Enterprises and Social Policy.

III. Conclusion

The World Benchmarking Alliance should not miss the opportunity to build on and contribute to expectations for institutional-level accountability mechanisms. Benchmarks should include assessments evaluating whether financial institutions have established platforms where communities can share their concerns and raise any grievances relating to investment initiatives. We therefore recommend the following metrics/disclosures in benchmarking analyses:

(1) The availability of accountability mechanisms at financial institutions;

(2) The effectiveness of those mechanisms, as defined by the eight effectiveness criteria outlined by Principle 31 of the UNGPs;

[6] According to UN Guiding Principle 31, effective grievance mechanisms are legitimate, accessible, predictable, equitable, transparent, rights-compatible, and a source of continuous learning. In addition to these criteria, effective operational-level grievance mechanisms are also based on engagement and dialogue.

(3) Stakeholder engagement and feedback in the design and operation of accountability mechanisms;

(4) Quantitative information such as (a) the number and types of grievances filed during the reporting period, (b) the number of repeated or recurring grievances, (c) the percentage of grievances addressed and resolved through remediation, and (d) the percentage of grievances addressed and resolved through a compliance review;

(5) Qualitative information such as (a) the issues raised by grievances, (b) the projects of concern, and (c) the time dedicated to resolving issues; and

(6) Other means used by financial institutions to measure and/or remediate unintended impacts.

Thank you for considering these recommendations. Given the critical role that accountability mechanisms play in monitoring and remedying unintended adverse impacts, we sincerely hope that the World Benchmarking Alliance will embrace the opportunity to assess the existence and effectiveness of mechanisms available at financial institutions as part of the proposed Financial System Transformation Benchmarks. Accountability Counsel is here as a resource, and we would welcome an opportunity for further discussion.

Sincerely,

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