FMO
Entrepreneurial
Development
Bank

GUIDANCE ON External GRIEVANCE MECHANISMS

– JANUARY 2022

SUPPORT AND GUIDANCE

For Financial Institutions

ABOUT THIS GUIDANCE NOTE

This document provides guidance to Financial Institutions (FI), in identifying, assessing, and managing risks relating to the grievance mechanism for external stakeholders of FIs.

01 INTRODUCTION

"Why is your organisation financing this project that has grabbed my land?"

"My neighbours and I are threatened by the security personnel of your client."

"As a responsible micro-finance institution, you should not lend to this company as it exploits children."

These are all examples of external 'grievances' that a FI can receive, and may include noise and nuisance complaints, land disputes, security issues, etc. that are raised by an individual, communities or NGOs.

WHETHER THEY ARE....

- minor or significant issues, inputs, concerns, problems or claims;
- perceived or real; and/or
- related to the FI itself, or to its clients.

....there needs to be access to effective remedy where there is a legitimate grievance. This is achieved by establishing an avenue for these grievances to be received and processed in due time so that they do not violate human rights, lead to non-compliance with exclusion list, escalate to strikes, create community dissatisfaction, regulator attention and action, and/or reputational impact. The benefits of having a grievance mechanism are that it can act as an "early warning system", build trust as people feel their complaints are "heard" and prevent the escalation of issues.

To manage grievances, a grievance mechanism shall be established to provide channels for stakeholders to contact an FI – openly, confidentially, or anonymously – with their inquiries, concerns or formal complaints.

IN THIS GUIDANCE NOTE

We focus on the external grievances at the FI-level. We will use the terms of "grievance mechanism", although other terms are widely used such as "grievance redressal mechanism". Providing and enabling access to effective remedy is increasingly an expectation under "soft law"[1], and increasingly being incorporated in hard law.

There is no "one size fits all" for grievance mechanisms. It should be tailored to match with needs of the FI based on the country culture, sector, and scale of the E&S risks and their potential adverse impacts.

[1] The term soft law is used to denote agreements, principles and declarations that are not legally binding. Soft law instruments are predominantly found in the international sphere.

02 WHY DO WE NEED TO ADDRESS GRIEVANCES?

CONSIDER THE FOLLOWING EXAMPLES OF GRIEVANCES FROM PROJECTS/ ACTIVITIES FUNDED BY AN FI:

1. **Contractors working in a construction project** in a small town frequently leave eateries without paying their meals. Local communities then decided to block the project's access roads;
2. **Project vehicles creating a significant increase in traffic** in a rural area generating nuisance dust, accidentally hit their livestock who normally roam the roads, and endangering the children who usually play on the roads; and
3. **Villagers undergoing resettlement** that repeatedly raise complaints with a company, ranging from eligibility criteria and rates of compensation to the location of resettlement areas and quality of services at those areas. The company struggles to find a way to deal with the increasing number of disputes in the face of the growing negative impacts of resettlement.

An access to remedy through a grievance mechanism allows stakeholders in the communities to voice their concerns/ issues and be heard in a certain, transparent, and credible process. The grievance mechanism is also a means of stakeholder engagement to build trust and contribute to positive relations with communities.

The mechanism is also a way to mitigate, manage, and resolve potential, or realised, negative impacts with the aim of understanding issues (including if there are human rights issues) and obtaining outcomes that are seen as fair, effective, and lasting. Without which, there can be an escalation of issues or a build-up of resentment.

Protests, road and bridge blockages, violence, suspension of operations, and business closures are several examples of how the unsatisfactory handling of community grievances can directly affect an FI client and potentially the FI. Unresolved grievances may escalate to courts and other formal tribunals that are lengthy, costly, and may not necessarily deliver satisfactorily results for the FI client, the FI and the affected communities.

The FI may also face negative publicity that causes even greater longer-lasting damage. With the adoption of a grievance mechanism, if managed well, the concerns/ issues can be addressed at the FI client/ affected peoples/ community level.

> **FMO ITSELF MAINTAINS AN INDEPENDENT COMPLAINTS MECHANISM WHICH ALLOWS ETERNAL PARTIES TO FILE A COMPLAINT CONCERNING PROJECTS FINANCED BY FMO, THAT IS AVAILABLE HERE.**

03 WHAT IS A GRIEVANCE MECHANISM?

A GRIEVANCE MECHANISM IS SIMPLY A DOCUMENTED AND CLEAR WAY FOR ACCEPTING, ASSESSING, RECORDING AND RESPONDING (IF DEEMED NECESSARY) TO VIEWS, REQUESTS, OPINIONS, GRIEVANCES AND CONCERNS (REAL OR PERCEIVED).

When external stakeholders present their grievances, they expect one or more of the following:

- Acknowledgment of their problem;
- A response to questions about company activities;
- An apology;
- Compensation;
- Modification of the behaviour that caused the grievance; and/or
- Some other fair remedy.

Therefore, the mechanism should provide a process that is widely understood, includes timelines, involves the right people with a focus on the outcomes. The principles of an effective grievance mechanism are summarised in *Box 1* and the typical steps in a grievance mechanism as a flow chart is presented in *Figure 1.*

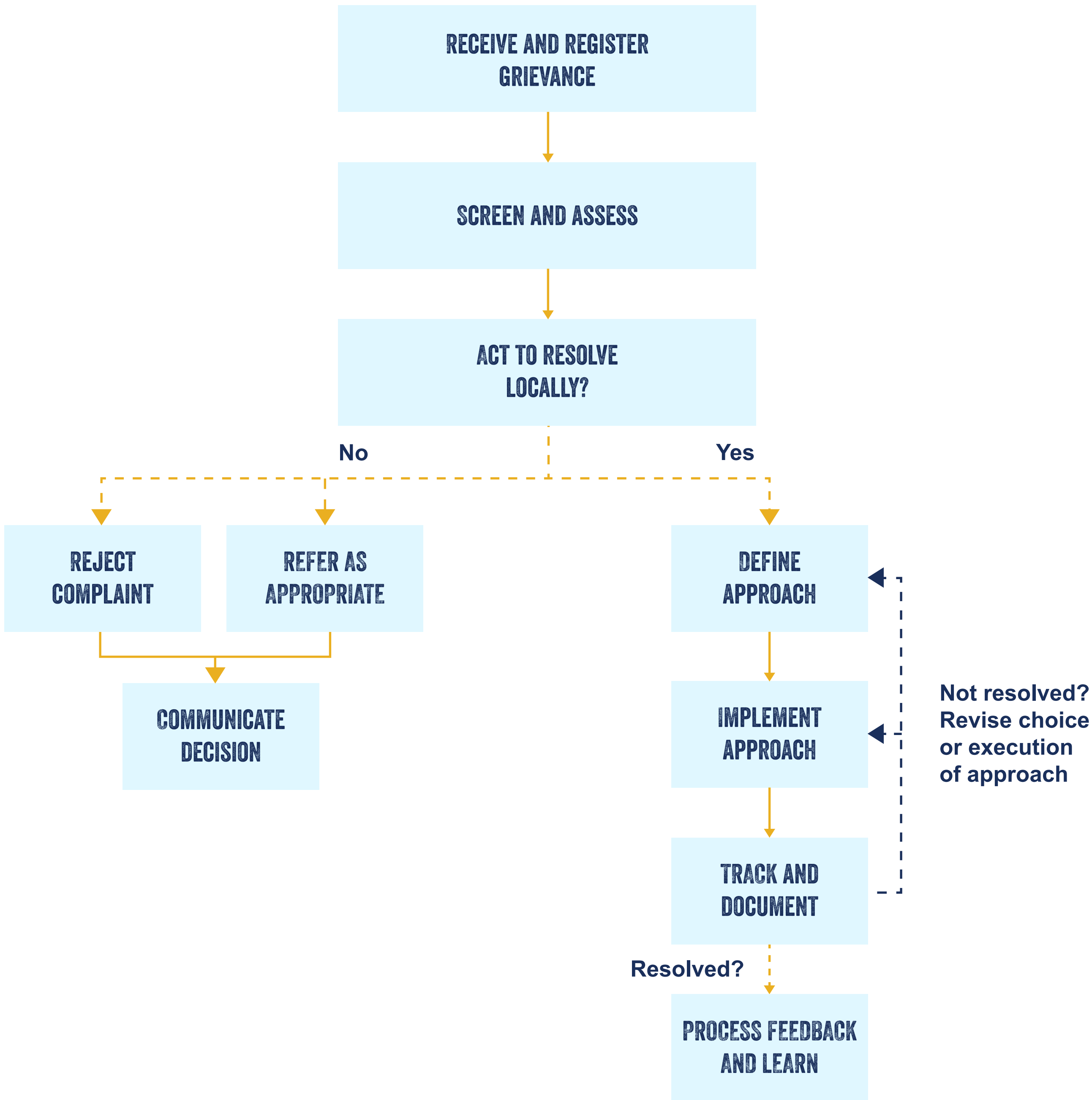
Box 1: Principles of Effective External Grievance Mechanism

IMPARTIAL	Grievances are processed in an independent manner, minimising potential biases and preferences therefore, enabling trust from the stakeholder groups for whose use it is intended, and being accountable for the fair conduct of grievance processes;
ACCESSIBLE	The grievance mechanism is accessible to public/external stakeholders at no cost as grievance mechanisms will only work if they present no (or low) barriers to access by stakeholders and sufficient information is available. As such, the procedure should consider how grievances can be lodged for example by access to conventional communication infrastructure (e.g. phone, mail, internet) and other “touch points” for stakeholders such as FI offices, taking into account general literacy and education levels of the population, local language(s) and any other cultural factors;
TRANSPARENT PROCESS	Stakeholders are aware of the existence of a grievance process, the channels through which grievances can be raised, the process and the timescales for responses/ resolution outcome. The FI may consider good practices such as, proactively disclosing information about the process and the grievance resolution results and ensure that stakeholders’ feedback is captured. Noting that there should be a focus on dialogue as the means to address and resolve grievances. Outcomes and remedies should be in line with internationally recognised human rights (also see the section below on Further Resources and Tools);

PROPORTIONALITY	The grievance mechanism is scaled to risks and impacts of the FI's operations e.g. microfinance operations are much less likely to give rise to significant grievances, however, long-term commercial or project finance in resource intensive industries such a mining, oil & gas, construction, and commercial agriculture have a very different E&S risk profile, as such are more likely to have grievances at the project-level that could escalate to the FI-level. This awareness helps to determine the required complexity of the grievance mechanism and the potential nature and scale of the resources required for successful implementation including whether it should be all in-house or an independent third party is appointed to manage the process;
CULTURAL APPROPRIATENESS	It is designed to take into account culturally appropriate ways of handling stakeholder concerns. Thus, the development should seek inputs on culturally acceptable ways to address grievances from different groups, including indigenous peoples and vulnerable groups. The grievance mechanism may also consider cultural attributes and sensitivities, and country context such as customs and traditions that may influence the ability to express grievances, including differences in the roles and responsibilities of subgroups (particularly women);
PROVISION OF INFORMATION	The grievance procedure/ process is communicated in a clear and understandable manner (including relevant languages). For example, an FI in rural Indonesia shared their grievance mechanism during a stakeholder engagement event. Other than in Bahasa Indonesia the grievance mechanism was also available in local dialects with paper copies available at local branches;
REGULAR UPDATE	The grievance mechanism is reviewed regularly to reflect the performance of the grievance mechanism and lessons learnt during implementation or stakeholder engagement, e.g. reference new legislation related to the grievance mechanism, update in channels or contact points to lodge grievances, updates based on feedback on the grievance mechanism itself. The frequency of the updates should be scaled to the number of grievances received and any feedback on the grievance mechanism (both internal and external);
CONFIDENTIALITY	The grievance process allows anonymous complaints to be submitted and resolved. For example, submitting grievance shall not require personal information or physical presence. Responses to grievances should then be made available for related stakeholders.
NON-RETRIBUTION	The mechanism should assure that stakeholders raising a grievance will not be subject to retaliation or reprisal.
REASONABLE TIMESCALES	Addressing grievances early is best. The mechanism should allow sufficient time for full investigation yet aims for prompt resolutions/ outcomes and an indication of timelines should be provided.
RIGHT TO BE ACCOMPANIED	Stakeholders are provided options for a companion during meeting or hearings (e.g. head of the village, tribal leader);

RECORDING	Grievances should be recorded in written format and kept at all stages, e.g., initial complaints, responses, meetings records, findings; and
NOT LIMIT LEGAL RECOURSE	The grievance mechanism shouldn't impede access to legal remedies, such as the judicial and administrative channels for dispute resolution available in the country of operation.

Figure 1: Typical Steps of a Grievance Mechanism



TO SUPPORT TRANSPARENCY IN THE PROCESS AND IMPARTIALITY, THE GRIEVANCE MECHANISM IN A FI SHOULD BE MANAGED BY A PERSON/TEAM THAT ARE NOT PART OF THE FRONT OFFICE OR THE MANAGEMENT TEAM.

As an example, the external grievance mechanism could be handled by those nominated for E&S roles, or those who have a compliance or risk function. However, should an Account/ Client Relationship Manager receive grievances during their visits to clients, they should be able to fill out a Grievance Form and submit the form into the Grievance Log/ Database. If an FI has a call centre or other channel for general client and customer contact, then the personnel who are involved should also be trained on the grievance management process (including completing forms and logging these).

A GOOD PRACTICE IN A GRIEVANCE MECHANISM IS TO LOG ALL GRIEVANCES, EVEN RECURRING ONES, IN ADDITION TO GRIEVANCES THAT MAY EVENTUALLY BE DISMISSED AS FRIVOLOUS OR IRRELEVANT.

The screening and assessment step determines whether a complaint is eligible for further review. The criteria should be clearly identified in the grievance mechanism. Ineligible complaints may include those where the complaint is not related to activities under the scope of the grievance mechanism. If the complaint is rejected, the complainant shall be informed of the decision and the reasons for the rejection which should be clearly recorded. *Box 2* below provides typical documentation for tracking grievances.

Box 2: Grievance Database

1. The name and contact details of the complainant, if appropriate (complaints can be anonymous);
2. The date and nature of the complaint;
3. The name of the responsible person charged with addressing the complaint, if appropriate;
4. Any follow up actions taken;
5. The proposed resolution of the complaint;
6. How and when relevant grievance resolutions were communicated to the complainant;
7. Whether longer-term management actions and/or specific considerations have been taken to avoid the recurrence of similar grievances in the future, if applicable.

04 FURTHER RESOURCES AND TOOLS

ADDITIONAL RESOURCES INCLUDE:

THE WORLD BANK KNOWLEDGE INTO ACTION NOTES	Grievance Redress Mechanism. The practical guidance document provides characteristics of grievance redressal mechanisms based on research, list down good practice elements for investors, and share example of a grievance process. Website link is **here.**
THE CAO (OFFICE OF THE COMPLIANCE ADVISOR/ OMBUDSMAN)	A Guide to Designing and Implementing Grievance Mechanisms for Development Projects. The document provides knowledge and lessons regarding grievance resolution from various sources, including on-the ground experiences of the CAO, findings from studies on grievance resolution in the workplace and in environmental conflict resolution, and from practical experience in establishing peace accords and procedures in post conflict disputes over land and property. The link to the document is **here.**
GOOD PRACTICE NOTE	Addressing Grievances from Project-Affected Communities provides guidance for projects and companies when they are designing grievance mechanism. The Note clearly guides projects and companies about the principles of a good grievance mechanism, the process steps, and the resources needed to manage grievances. You may find the link **here.**
EBRD, GRIEVANCE MANAGEMENT	Guidance Note provides sample of grievance form and grievance database. The document can be downloaded **here.**
DOING BUSINESS WITH RESPECT FOR HUMAN RIGHTS	Remediation and Grievance Mechanism outlines six guidance points related remediation and grievance mechanism. The file can be accessed **here.**
BANKTRACK AND OXFAM	Developing Effective Grievance Mechanisms in the Banking Sector provides guidance on development of grievance mechanism specifically for banks, including private sector commercial banks. The guidance also has several frequently asked questions related to grievance mechanism in financial services. The document can be downloaded **here.**
WHAT MAKES FOR AN 'EFFECTIVE' GRIEVANCE MECHANISM	Eight criteria under soft law, Triponel Consulting, available **here.**

05 FRAMEWORK OF A GRIEVANCE MECHANISM PROCEDURE

THE FOLLOWING OFFERS A FRAMEWORK OF SECTIONS FOR THE DEVELOPMENT OF A GRIEVANCE MECHANISM PROCEDURE:

1. Introduction
2. Scope of the Grievances/ Complaints
3. Registering a Grievance/ Complaint
4. Assessment procedures (who conducts the assessment and how is the assessment conducted)
5. Procedures to identify appropriate people in the company to whom a specific concern should be forwarded
6. Procedures to determine the appropriate resolution process (in consultation with complainant)
7. Procedures for making decisions on proposed settlements
8. Appropriate time frames for each step in the grievance resolution process (including screening, assessment, and resolution)
9. Notification procedures to the complainant about eligibility, assessment results, proposed settlement, and the like.

06 EXAMPLE OF A GRIEVANCE REGISTRATION FORM

NAME	
ADDRESS	
TELEPHONE	
E-MAIL	
DESCRIPTION OF COMPLAINT: Who, what, where, when, how	
DATE AND/OR DURATION OF INCIDENT THAT LED TO THE COMPLAINT	
SUGGESTIONS FOR HOW THE COMPLAINT COULD BE RESOLVED	
SIGNATURE	
DATE	
REFERENCE NO. (for office use only)	