Social accountability and the finance sector: the case of Equator Principles (EP) institutionalisation
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“Civil society is increasingly questioning financial sector accountability and responsibility, and challenging FIs’ [financial institutions’] social license to operate.” (The Collevecchio Declaration, 2003, p.1)

“Industry members can take matters into their own hands and repair shared problems by forging a new institution.” (Barnett and King, 2008, p.1166)

6.1 Introduction

This chapter analyses why and how the EP emerged. It discusses how international NGO financial sector campaigns against four EP “innovator” or “leader” organisations, acted as a catalyst for them to come together to develop the EP at institutional/organisational field level. The beginning of the “de-institutionalisation” of existing project finance “criteria” and “practice” and the slow institutionalisation of the new EP related criteria and practice is thus highlighted. In addition, the manner in which the EP were originally developed and structured is critically analysed. Here, particular attention is paid to the accountability debates surrounding the EP when launched in June, 2003, debates that were set to accelerate, greatly influence, and be influenced by, the EP institutionalisation process moving forward.

Throughout this chapter EP “innovators/leaders” are recognised as the four commercial banks that initiated the development of the EP, as well as the six banks that joined them to launch the EP, as a group of ten, on June 4th, 2003. This research incorporates the views of three of the four original banks and one of the additional six. Using the terms innovator/leaders interchangeably in this chapter distinguishes these four EPFI interviewees from those interviewees referred to as: (1) EP “early adopters” i.e. that adopted between late-June and October 2003; and (2) EP “later adopters” i.e. that adopted between November 2005 and September 2007, in Chapters Seven and Eight respectively.53

53 In Chapter Eight onwards the term “leader” is also used more broadly to denote not only the EP “innovators”, but also active and engaged EPFI adoptees driving the EP process forward.
6.2 Challenging Financial Institution Legitimacy: NGO Campaigning

Since the early 1990’s, market reforms in developing countries have led to widespread privatisation of traditionally public sector industries, as well as the harmonisation of tax regimes and lower restrictions on foreign capital. Between 1991 and 1997, this manifested in a near 40% decline in long-term official capital flows to developing countries, along with the World Bank’s almost entire withdrawal from large-scale public infrastructure (including power plants, roads, ports and telecommunications) lending (Wright, 2009). As a result, between 1990 and 1997, commercial bank\textsuperscript{54} financing for infrastructure in developing countries is said to have increased nine-fold, while the annual volume of project finance deals in general dramatically increased from less than $5 billion to over $50 billion. In addition, multilateral and bilateral financing to private entities in the developing world is said to have tripled from $9 to $25 billion over the same period (Wright, 2009). As a result, it became more common for a mixture of private banks, multilateral development banks (e.g. IFC) and Export Credit Agencies (ECAs) to finance large projects in developing and emerging economies through loan syndications (Missbach, 2004), as opposed to the predominantly public financing of the past.

Due to the huge increase in commercial bank\textsuperscript{55} financing of developing world and emerging economy projects (especially large dams, oil and gas pipelines), NGOs became increasingly aware of the need for E&S issues to be integrated into commercial bank lending and investment decisions. For example, many NGOs were concerned that these new “power players” (FoE US interviewee) in the field of development finance were operating without any poverty alleviation or so-called “sustainability” mandate:

“They were just out to make money, and not only was it changing the dynamics of what kinds of projects were bankrolled in the developing countries, but it had huge implications for the entire development trajectories of countries.” (FoE US)\textsuperscript{56}

Of most concern to the NGOs were situations where the private sector institutions stepped in to finance projects that had been turned down by multilateral financial institutions on the

\textsuperscript{54} Largely OECD based: France, Germany, Japan, Netherlands, UK and US.
\textsuperscript{55} As a reminder, the terms commercial bank, financial institutions (FIs) and Equator Principles Financial Institutions (EPFIs), will be used interchangeably throughout the case findings chapters.
\textsuperscript{56} All NGO interviewee acronyms are explained in Table 2, Chapter Four.
basis of E&S concerns, such as the Three Gorges Dam in China\(^{57}\) (Missbach, 2004). There was also a growing realisation that “private [sector] banks had been able to operate in relative anonymity” (RAN interviewee) and now held the real power over “unsustainable” projects or companies. Hence, NGOs felt that commercial banks had the ability to influence more sustainable socio-economic activities through their lending and investment streams.

“There was a sort of common denominator [which was] the capital investment necessary for the oil and gas industry and the logging and the mining industry, all of which were contributing …to the multitude of [environmental] threats facing us. [So] by affecting policy change in the financial institutions, we were essentially getting at all of those sectors at once.” (RAN)

In turn, NGOs believed that these commercial banks should be more responsible and accountable for the E&S impacts of their financial operations. Therefore, as NGOs had done with the World Bank previously, they set about demanding moral legitimacy of the private banks in question. Consequently, the level of NGO activism dramatically increased (Bayon, 2000), involving both direct, hard-line advocacy campaigns and more strategic shareholder activism or “market campaigns” (Waygood, 2006).

Some early examples of NGO advocacy campaigns involved Friends of the Earth (FOE) US’ 1995 campaign against Merrill Lynch and Morgan Stanley regarding financial links with the Three Gorges Dam (Ethical Corporation, 2006); and FoE Netherlands’ led campaign against ABN Amro’s financing of the Freeport McMoRan/Rio Tinto gold and copper mining project, in West Papua, Indonesia launched in 1997\(^{58}\) (Steen, 2008).

These campaigns began to mobilise international NGO interest in “sustainable finance” campaigns, and led to what was known as the Quantum Leap project, organised by Friends of the Earth (FOE) US and the US National Wildlife Federation (NWF) in 1997. The aim of the project was to provide a capacity building, and later skill-sharing, function to

\(^{57}\) Spanning 600km across the Yangtze river, causing inter alia: 1) extensive environmental damage, including e.g. pollution of the river’s tributaries and dam reservoir due to the submergence of hundreds of mines, factories and waste dumps; and 2) the displacement of 1.3 million people (International Rivers, formerly IRN; International Rivers Network, 2009).

\(^{58}\) Which centred on the Grasberg open-pit mining project, whose ecological impacts inter alia involved severe pollution of indigenous water sources due to the direct dumping of tailings (approximately 200,000 tons daily) into the local river; compounded by the contamination of substantial areas of fertile land during flooding. The project was also marred by human rights abuses by the Indonesian government and army, and the company in question, concerning a lack of consultation with local communities prior to commencement of activities and brute force to quell any local opposition to the project (FoE Netherlands: Milieudefensie, 1998).
international NGOs as they embarked on a series of individual and coordinated campaigns against some of the world’s leading FIs (FoE US interviewee; Wright, 2006a).

Subsequently, one of the most documented and successful advocacy campaigns was the Rainforest Action Network’s (RAN) four-year attack on Citigroup. This began in 2000 and concerned Citigroup’s funding and support for destructive extractive and fossil-based industries globally, which threatened the extinction of the world’s remaining old growth forests and the acceleration of climate change. These, inter alia, included the Camisea gas pipeline in Peru59 and the Chad-Cameroon oil pipeline60 (RAN, 2005; Spitzeck, 2007; Wright, 2009). When RAN commenced its campaign, Citigroup was the world’s leading lender to the coal industry and global fossil-fuel pipelines, as well as the top underwriter of stocks and bonds across the energy sector (Lobe, 2003). RAN launched customer boycotts against Citigroup in the US, comprised of, for example, media campaigns targeted at Citigroup customers involving high profile celebrities cutting up Citigroup credit cards, personal name and shame campaigns involving, then, Citigroup CEO Sandy Weill and a series of civil disobedience protests including office “blockouts” at branches in the US. In April 2003, hours before planned RAN protests at a Citigroup shareholder meeting, Citigroup called for a “cease-fire of campaign activities and a period of negotiations towards a permanent policy on environmental standards” (RAN, 2005).

Similarly, in 2000-2001, FoE Netherlands (Milieudefensie) led a highly visible NGO campaign against Dutch banks involved in destructive palm oil plantations in Indonesia in the 1990s. This involved the production of a report by Greenpeace Netherlands detailing the types of E&S problems associated with the palm oil industry in Indonesia and the nature of Dutch banks’ involvement with various plantation companies operating there between 1994 and 1999. The report led to increased media coverage and a letter writing/post card campaign attacking these banks, which many believe directly influenced ABN Amro and four other Dutch Banks (FMO, Fortis, ING and Rabobank) to develop forestry policies for

59 Running 175km from the Amazon region of Peru to the Pacific coast; posing environmental threats to the rainforest and endangered species, as well as health and livelihood changes to indigenous communities living along the gas exploration and pipeline sites (Gelinas, 2003).

60 Involving the development of 300 oil wells in Chad and a 1070km pipeline to the Atlantic coast of Cameroon. Controversy surrounded the lack of: comprehensive E&S impact assessments of the project, proper consultation with affected communities, failure of reinvestment of profits into these countries and support for a politically unstable region with poor human rights records (CED/FoE Cameroon, Milieudefensie, FoEI, 2001).
clients active in these sectors (FoE Netherlands/Europe interviewee; FoE Netherlands, 2006). Likewise, there was FoE England, Wales and Northern Ireland’s (EWNI) 2002 exposure of Barclays’ financing of Asian Pulp and Paper’s (APP) destruction of Indonesian rainforests since the 1990s (FoE EWNI, 2002); and German Urgewald’s campaigns against West LBs’ financing of the Oleoducto de Crudos Pesado (OCP) Pipeline in Ecuador, which violated World Bank E&S safeguard policies (The Rainforest Information Centre, 2002; Van Gelder, 2003).

NGO campaigning was therefore successfully challenging the moral legitimacy of many FIs’ activities by disputing whether they were doing the “right thing” (Suchman, 1995). Hence, in 2002, in order to provide some structure to their campaigns and to present a more concise set of demands to the financial sector as a whole, a global coalition of NGOs – including CRBM, FoE Netherlands, FoE US, The Berne Declaration, RAN and WWF-UK, met in Collevecchio, Italy, where the idea of an NGO ‘declaration’ was born. Subsequently, in January 2003, at a World Economic Forum counter event in Davos, Switzerland, the Collevecchio Declaration was launched to coordinate NGO financial sector campaigning.

The Declaration outlined six commitments for the incorporation of E&S concerns into all financial operations, including commitments to: sustainability, “do no harm”, responsibility, accountability, transparency, sustainable markets and governance. It called upon FIs to embrace these commitments and to “take immediate steps to implement them as a way for financial institutions to retain their social license to operate” (Collevecchio Declaration, 2003). The Declaration essentially proposed the adoption of policies and procedures that would extend FIs’ risk management practices to better consider E&S issues (BankTrack, 2004b; Collevecchio Declaration, 2003):

“I think there was the need for us [NGOs] at the time … to get out ahead of the banks in terms of what our vision of “just” finance was, so that we could then begin to cross the road there. You know there’s always a risk in plotting the road by walking it because then we’re adhering our own vision to what the banks think is possible. And actually, I think the Collevecchio Declaration has been instrumental in setting the goalposts.” (RAN)

Therefore, through the Collevecchio Declaration, NGOs were not only “formally” calling on FIs to legitimize their activities, but were also proposing an alternative, moral “logic” to be applied to existing financial sector economic rationale. Furthermore, the moral or
ideological nature of NGO concerns also appeared to legitimise their own campaigns (Waygood, 2006) for greater financial sector E&S accountability. And, as the RAN interviewee reflected, grassroots organisations such as her own had, at the time, the “arrogance to think that we could affect…gigantic institutions…[because it was] the right thing to do and not because we [thought] we [could] achieve it” (emphasis added).

Hence, the sustained intensity of NGO campaigns and the continuous risk of tarnished reputations for FIs (Crofts, 2003; Sevastopulos, 2003b) meant that NGOs had emerged as a key “relevant public” for commercial banks. Damaged reputations, the danger of retail customer boycotts, potential litigation due to the E&S misconduct of their clients and the emergence of new forms of shareholder activism, meant that many commercial banks were recognising the need to respond to these challenges to their legitimacy in a coherent fashion (Amalric, 2005; Freshfields, 2005; Waygood, 2006; Wright, 2006a; Wright and Rwabizamburga, 2006).

6.3 A Financial Institution Response

“Pressures for de-institutionalisation, whether they are primarily functional, political, or social in nature, will not automatically lead to a breakdown in institutional norms. These pressures are interpreted, given meaning, and responded to by actors within organisations.” (Dacin, et al., 2002, p.48)

In October 2002, at a meeting convened by ABN Amro and the IFC in London (Wright 2006a), four international commercial banks, ABN Amro, Barclays, Citigroup and WestLB, began discussions on the need for a common approach to what they saw as new challenges to their risk management frameworks, namely in relation to their project finance activities at the time. Each bank had previously been the target of NGO campaigns regarding inter alia their financing of controversial mining, palm oil and oil and gas pipeline projects in developing countries. These EPFI leaders would later admit, in various public domains and through these research interviews, that these campaigns played a very influential role in bringing public E&S concerns to their attention. Their early attempts to address this saw the development of their own E&S policies across a range of sensitive industry sectors, for example mining, forestry and oil & gas, and would subsequently manifest itself through the production of the EP.
“[There were] a couple [of reasons for the consideration of E&S issues]. One definitely was Friends of the Earth criticising [Name of interviewee organisation] for lending money to the Freeport mining project in Indonesia. And that was back in ’98 I believe it. And [when; Name of colleague] moved over to be global head of risk management, one of the first things that hit his table was this campaign or this complaint against [Name of interviewee organisation] for financing this project. So …he suddenly realised 1) yes there is a reputational risk, but 2), more importantly, we’re not being good risk managers if we’re not taking these issues into account. Because these do have a bearing on how successful this project is going to be.” (Dutch EPFI 1, Interviewee 1)

“I think they [NGOs] were [influential], and we would acknowledge that as well…I mean certainly … it was that that prompted Equator to a large degree…. I mean people talk about your license to operate, your social license to operate. And I think it is a driver, I think you can overemphasise it at times, but clearly when you get it wrong the situation can turn very quickly and … I don’t think the man on the street wants to see his trusted bank engaging in areas of business that he finds ethically or morally deplorable…So I think a social license to operate is important.”

(Dutch EPFI 1, Interviewee 2)

However, despite the fact that EPFI leaders and early adopters will admit that NGO campaigns played a major role in their development of fledgling E&S policies and procedures, and later the EP, they stressed that this was just one contributing factor and that it should not be overplayed.

“I do not think that we should go down the route of saying that the FI’s were bullied into anything.”(UK EPFI 3)

“I mean the NGO campaigns would certainly have [had] a part to play, but they wouldn’t be the only part. I mean it’s still the same today, even though we do talk to and listen to the NGOs, we also talk to and listen to many others.” (UK EPFI 2)

Instead, these interviewees outlined how their main objective in considering E&S issues was based on risk management factors as opposed to any overt need to “legitimate” their activities for their NGO stakeholders. According to one interviewee, the latter would have required a more “sophisticated” level of knowledge of the issues at stake at the time.

“I think looking back I wouldn’t say it [developing E&S policies] was legitimising it [bank activity]; I think banks were caught unawares. Banks were not sophisticated enough [in the 1990’s], first of all to understand that we needed to start taking environmental and social issues into account, but then secondly how do you deal with this frontal assault coming at you from NGOs? I think … when you get to the stage where you’re actually legitimising, you’re probably becoming a little bit more sophisticated in understanding these relationships.” (Dutch EPFI 1, Interviewee 1)
Rather, EPFI leaders emphasised how there was a very strong “business case” for their drive for a more efficient approach to the integration of E&S concerns into their project finance activities, and hence the creation of the EP.

“The primary driver for the banks even say in accepting an invitation to fly to London [October meeting 2002] and discuss these issues, was that there was common recognition of the fact that banks were financing projects where there were significant environmental and social issues. And they were not doing enough due diligence and truly understanding the risks. And Peter Woicke of the IFC was there, the IFC’s environmental and social department was there, and they explained to the banks what their procedures were…And that struck a chord. The banks said, ‘oh well, we should be doing the same thing, we should be categorising projects, we should be asking clients to provide us with the information that they have about the environmental and social impacts. We should be factoring that into account when making decisions on these projects’… There was a definite business case.” (Dutch EPFI 1, Interviewee 1)

Furthermore, as has already been alluded to, most of the EP leader organisations and early adopters were already considering E&S issues in some capacity\(^{61}\) prior to their creation of the EP. In addition to the development of sector specific policies some FIs were also applying World Bank environmental guidelines to project finance deals. Yet, despite this, some EP “leader” interviewees pointed out that they were adopting a different approach to the application of these standards from deal to deal and ended up reinventing the wheel regarding the risk assessments of each project as a result. In an effort to improve the efficiency of the process for individual banks and project finance syndicates, the idea of a common, standardised framework to address the E&S impacts of project finance transactions was thus quite appealing.

“I think we had got to a stage where we saw these issues coming up on a regular basis and I think we wanted to see whether there was a more systematic way in which we could manage the risks that we were facing in the project finance business…And I saw the great benefit of having a transparent framework because we were re-inventing the wheel every time we did due diligence [on a project]. And people used to talk glibly about ‘does it meet World Bank standards?’ without really knowing what World Bank standards were. Or we sometimes even saw a covenant of a lender agreement [stating] that ‘the borrowed complies to meet World Bank standards’ without actually articulating what they were. So you know, people weren’t really getting their heads around the issues. So we needed a much more transparent approach. And I think … yeah, for all of its flaws I think Equator delivered that early on.” (Dutch EPFI 1, Interviewee 2)

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\(^{61}\) It should be noted that many of the EPFI leaders and early adopters were also signatories to the United Nations Environment Programme Finance Initiative (UNEP FI), prior to 2002-3.
Another EPFI leader outlined how a common approach could lead to a ‘levelling of the playing field’ in the project finance market, in terms of the acceptance of and approach to E&S issues. He felt that this could also assist in the legitimation of his environmental risk management mandate within his own organisation, which some of his colleagues were having difficulty with at the time.

“I mean we’d had a very similar project finance policy in place since ’97 … and internally you know, I was facing some challenges because some of our project teams would come back saying: to comply with group policy on this we are having to ask more awkward questions, more challenging questions, that aren’t always fully appreciated by the client and it’s starting to be seen as something of a marketing hurdle. Now when we then sort of [saw] some consistency coming into the marketplace where something that’s very similar to what we already had was actually then going to be seen as a, albeit voluntary, but nevertheless some sort of framework that others could use. Then I thought well okay, now we start to see a levelling of the playing field, which was good news.” (UK EPFI 1, Interviewee 1)

Nevertheless, a standardised approach also appeared to have the added benefit of addressing NGO concerns in a more coherent fashion than the “case specific ad-hoc defence against NGO criticism” (Dutch EPFI 1, Interviewee 1) that had been conducted previously.

“I mean Citi had a very torrid time with Rainforest Action Network. West LB had been under particular scrutiny for a deal … OCP, yeah. And I think it culminated in some Greenpeace activists abseiling down their building during the state elections, and it’s a state owned bank so it didn’t go down very well. Anyway, I think for different reasons … the first meeting [London, 2002] was a bit of a confessional really in the sense that people said well look, these are the issues that are coming up, and … four of us went away, four institutions went away and started to think about well what could it mean in terms of a [common] approach. And the Equator Principles were developed out of that.” (Dutch EPFI 1, Interviewee 2, emphasis added)

6.4 The Proposed Principles: Initial NGO Reaction

“Legitimacy providers are observers who have status to assess the conformity of firm behaviour to specifically socially constructed standards.” (Barreto and Baden-Fuller, 2006, p.1561)

For their part, NGOs felt that the production of the EP was a direct response to their campaigns. Many NGO interviewees believed that those banks that had suffered sustained
NGO attack were acutely aware that they now had to address civil society concerns in a more structured manner:

“[This was] the first time there had been … a substantive industry response to the sustainability agenda that was laid out by the NGOs.” (FoE US)

“I think for Citigroup in particular, but also for ABN and a few others, it was part of a corporate strategy… so the corporate strategy was to say ‘well at least on paper we have to deliver on something and we need to anticipate a higher or harsher criticism.” (CRBM)

While NGOs welcomed the development of the EP, they also appeared cynical about the actual motivation of the banks to produce the Principles, perceiving it to be a more “symbolic legitimation” exercise as opposed to a substantive response to their E&S accountability demands. In other words, NGOs perceived the creation of the EP to be highly influenced by competitive market forces as opposed to any genuine commitment to E&S concerns:

“If you think of the four initiators of the Equator Principles, they were those mainly under attack from market campaigns, so if you read it that way it’s pretty interesting because… these banks that were competing were the major players in project finance, so they recognised that project finance is a battle ground and they had to move on their ground.” (CRBM)

Given their large presence in the project finance market – with all four innovators arranging more than $15 billion in project finance, or 17.5% of the market occupied by the 20 largest arrangers (Sevastopulos, 2003b) - many NGO interviewees believed that these FIs did not want to move in isolation to adopt the EP. They felt banks’ feared that this may have placed them at a competitive disadvantage to competitors who would not demand such standards of project sponsors (Sevastopulos, 2003a).

One of the hypotheses that Amalric (2005) proposes, which the FoE US interviewee agreed with, was that the EP were part of a strategy devised by more “exposed” banks (especially those with a strong retail banking presence), to “deflect NGO criticisms” (p.6) and restore a level playing field with their less exposed competitors. The main purpose was thus to set the “standard” and to impose it on all industry members. These views were supported by
several other NGO interviewees, and subsequently seemed to create the perception that this action by the banks was aimed at fending off potential FI regulation.

“They basically set up the Equator Principles as a sort of ‘gentleman’s agreement’, as a sort of bottom-line for being fair … beyond which you [the FIs] could not compete.” (CRBM)

“By developing the Equator Principles… they’re off the hook for five years or longer from the side of policymakers.” (FoE Netherlands)

Therefore, from the NGOs’ perspective, such “joint damage control” (CRBM) represented an attempt to “prevent or forestall potential challenges to [the] legitimacy [of commercial bank operations]” (Ashforth and Gibbs, 1990, p.183), as opposed to substantively addressing their E&S responsibilities:

“I think the reason the banks took it on, including the people at the top, would have largely been a precautionary mechanism to say ‘ok, well we can sign up to the Equator Principles and we’ll be sustainable to some extent…and that will get people off our backs.” (Platform)

Instead, NGOs had been attempting to appeal to the moral conscience of not only commercial banks as entities but also as collectives of powerful individuals, in order for them to take a more substantive approach to E&S issues:

“I don’t think we’re the only group but RAN certainly makes it a priority to not address the corporations as much as [the individuals]… I mean we do, in some of our campaigns for example with Citigroup, JP Morgan Chase. But in equally as many cases you’ll see our members or activists or advertising, saying ‘Sandy Weill’ [a former Citigroup CEO] or ‘Bill Harrison’ [former Chairman of JP Morgan Chase], what do you want to do? What do you want to leave on this earth?’ And by the appearance of a person and not the corporation it’s making that distinction, it’s appealing to the common humanity. And holding that individual accountable for the disproportionate amount of decision-making power they hold.” (RAN)

Hence, when FIs did not always respond in the manner in which the NGOs would have desired, it highlighted the fundamental ideological differences between NGO expectations of how FIs should rationalise and act upon their E&S responsibilities and accountability, and how FIs could or did actually approach this. This disparity did not only influence NGOs’ willingness to legitimate the EP at this time, but would also form the basis of the often contentious relationship between NGOs and FIs over the course of 2003 and 2008.
“The banks don’t have an interest ultimately in being sustainable, unless it’s good for business. I mean…there’s no reason why they should; their business is to make money and they don’t have any duty to do otherwise. So where sustainable practices fit with either making more profit, such as investing in wind farms, or avoiding risks, then they might be interested in doing that. But it’s always useful to make the claim that they are going that way, even if they aren’t.” (Platform)

6.5 Summary

The above sections (6.2-6.4) have revealed both NGO and FI perspectives on the reasons why the EP were first developed by four international commercial banks. It has outlined how initial occurrences at the socio-economic and political (SEP) level, through NGO campaigns in the late 1990’s, alerted these banks to the E&S challenges connected to their project finance portfolio. Individual NGO campaigns experienced at organisational level by these four banks had in some cases lead to a “crisis” situation in which each of the banks had been forced to consider why and how they should integrate E&S concerns into their activities for the first time. This led to an emerging shift towards a deeper appreciation of the interconnection between E&S issues and core risk management procedures within the commercial banking community in general. The realisation that FI businesses and reputation could potentially be threatened by E&S concerns not only held great significance for the commercial bank actors in question, but also acted to legitimise the very consideration of E&S issues as valid risks for their operations amongst their peers. At organisational level some of the leading banks therefore began to allocate resources to the development of sector specific policies and environmental risk management procedures in an effort to address this “crisis situation”, mainly affecting their project finance activities.

Thus, NGO campaigns can be seen to have acted as a catalyst to the “de-institutionalisation” of existing project finance and broader risk management criteria and practices. Yet, from the “outside”, the EPFI leaders’ joint efforts to establish the criteria by which E&S issues could be integrated into project finance practice, and hence “institutionalised” over time, was often perceived negatively by NGOs. This was especially the case regarding banks’ commercial motivations to develop the EP, the manner in which the EP were drafted and the overall non-stringent, and “loose” self-regulatory structure they adopted. The next Sections (6.6-6.10) will therefore discuss how the EP came to be drafted and launched, paying particular attention to the role of key purposeful and reflexive actors.
within the four “innovator”/leader banks in this process. In doing so, this discussion will also highlight the dominant role of the “powerful” FI “coalition” at the SEP level, in terms of establishing their own “acceptable/legitimate” criteria for sustainable project finance over the “alternative” criteria proposed by NGOs in the newly established and expanding EP organisational field.

6.6 Purposeful Agents

“Embeddedness should be considered as both an opportunity and a constraint.” (Reay, et al., 2006, p. 979)

There were a number of key individuals in each of the innovator banks that were influential in driving EP development. These individuals largely came from project finance and/or risk management divisions/departments of each of these banks, as opposed to coming from a corporate communications/PR or even environmental/sustainability departments (many of which would develop in the aftermath of the launch of the EP). Perhaps one of the most well known EP “champions” is Herman Mulder, largely recognised as the “Godfather” of the Principles, who in 2003 was Head of Risk Management, and previously Head of Structured Finance, in one of the leader organisations interviewed.

“It was driven by risk. In fact Herman Mulder, who is basically the godfather of the Equator Principles, was one of the co-heads of group risk management across the bank, at the wholesale level, so it was very much investment banking, merchant banking area…And it was within his oversight that he said we need to focus on environmental and social risk management; so very much a risk driven approach.” (Dutch EPFI 1, Interviewee 1)

The emergence of the “notion” of something like the EP was thus largely based upon informal discussions between these key “embedded” agents within the EPFI leader organisations and the IFC.

“So Herman at that stage called up Peter Woicke; Peter was Head of the IFC at the time… and said ‘look, I think it behoves us to get round the table with a number of the leading project finance banks, because it is the project finance part of our business that seems to attract the most interest’, certainly in …mining, oil and gas, probably those two primarily. That is where the potential Achilles heel, or soft spot, was that NGOs had pounced upon … So long story short, Herman and Peter

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62 In the US EPFI interviewed, it was a joint initiative between the Heads of their Environmental Affairs and Corporate Citizenship Unit and the Project Finance Unit.

63 Within which project finance can be conducted.
decided let’s have a meeting so [Name of interviewee organisation] hosted a meeting with I think ten to twelve other project finance banks in October 2002, in London.” (Dutch EPFI 1, Interviewee 1)

The internal positioning and calibre of the individual “innovators” involved appeared to add credibility to the initiative, and this, along with the global stature of their institutions was one of the early attractions of the EP for some of the additional six commercial banks involved in their launch. There seemed to be a certain belief amongst the additional six that if the “big boys” were involved then this was a serious initiative that should not be missed. In addition, the then small world of environmental/sustainable finance also meant that “word-of-mouth” influenced the recruitment of the additional six banks for the launch. As one of the interviewees from this additional group outlined:

“So I just started making enquiries as to what that [EP] was because somebody told me that Barclays and ABN were behind it, so knowing my main contacts being [contact’s Name] at Barclays and [contact’s Name] at ABN, I organised a meeting with them to try and find out what it was all about because at that time there was just the four banks pulling it together… So I expressed an interest in it, they debriefed me on what it was and that there was a launch going to take place… And it sounded like that was the sort of initiative that [Name of interviewee organisation] should be involved in, basically because it was ground-breaking work in terms of incorporating ES and G [governance] probably into the banking sector…I mean I guess maybe subconsciously the fact that Barclays and ABN were behind it [meant] ‘wow you know, if the big boys are in there, the big global banks, then obviously …this is serious’…it’s not being driven from the NGO level, it’s being actually run by some of the big market leaders in project finance, so you know, this was going to be big.” (Australian EPFI)

The above was indicative of an emerging “mimetic” isomorphism amongst the commercial banking community regarding involvement in the EP. However, it appeared just as important for the four EP leaders to secure the support of additional “big names” in the project finance market in order for the EP to be recognised as a worthwhile and credible initiative on their part and in the marketplace in general.

“So we got a broad enough cross-section of the leading project finance institutions, plus we wanted a critical mass in terms of the actual project finance underwriting that these banks represent. And you had the Royal Bank of Scotland and Citigroup who were two of the top three I think at that stage in project finance underwriting. So you had the right people at the table. You know, if this was something where the top ten league table banks weren’t round the table, you could probably question whether this was an initiative worth taking. So there needed to be that critical mass, that common baseline or benchmark approach that all of us were taking at the same time and that’s what we achieved.” (Dutch EPFI 1, Interviewee 1)
In addition, securing a geographical spread of financial intuitions was also an important issue for the EP leaders, but the final number of ten for an EP launch appeared not to be so significant, as one interviewee pointed out:

“There wasn’t an exact science to it, to be honest. We broadly said we wanted ten institutions, I think the number just struck a chord and it sounded like it was a fairly substantive initiative. We wanted representation from Europe clearly, from North America and preferably from elsewhere. And we got that.” (Dutch EPFI 1, Interviewee 1)

6.7 Securing “Critical Mass”

As perceived by NGOs, a key concern for the EPFI leaders was the competitive risks associated with the development and launch of the Principles. The leaders feared the potential loss of new projects through the production of a set of new loan provisions such as the EP, which may cause clients to turn to non EP-banks for finance instead. They therefore needed to secure “critical mass” to endorse and launch the Principles. It was felt that the nature of the project finance syndicate market would assist this:

“We wanted critical mass. I mean I was Global Head of Project Finance at the time, so you know, we were concerned about the competitive element as well. I mean it’s all very well, as somebody said, being on the leading edge but don’t stand in front of the blades…and we felt that if you could get the right banks involved, because of the nature of the syndication market for these deals, it would help to position Equator as an industry standard.” (Dutch EPFI 1, Interviewee 2)

The interviewee continued by agreeing that this would place implicit pressure on non-EP banks in a project syndicate to become adopters, again highlighting the emerging coercive isomorphic nature of the nascent EP organisational field:

“Absolutely, absolutely. It would mean that every deal that they [non EP banks] did with an Equator bank leading it would be Equator compliant. It would make it more difficult for them to actually arrange and structure a transaction unless they made it Equator compliant.” (Dutch EPFI 1, Interviewee 2)

This would later be considered one of the main reasons why the EP became so popular so quickly and why there was a large increase in the number of adopters over the course of 2003 and 2008. Hence, the existing informal “institutional” nature of the project finance deals would allow a new and more “formal” organisational field to be built up around the EP at a remarkably quick rate, in comparison to the adoption of other E&S initiatives in the
financial sector prior to this. This organisational field would therefore play a fundamental role in the EP institutionalisation process between 2003 and 2008. In addition, one interviewee highlighted how this could also have the added advantage of identifying any potential EP “free-riders”. However, as will be discussed later, the relative success of this would be greatly debated by NGOs over time:

“Now if the financial institution was going to come and free-ride, then they’d stick out like a sore thumb at the end of the day and because these were ‘club’ deals, then by definition in fact you couldn’t free-ride because, unless they [‘free-riders’] did a bilateral with a non-EP bank, then they were automatically drawn in. I mean that was the beauty of the Equator Principles because a lot of project finance is syndicated.” (Australian EPFI)

However, EPFI leaders were ever aware of the market risks and uncertainty associated with producing something like the EP. Hence, EPFI leader interviewees explained how in their initial drafting of the Principles, they were mainly interested in developing E&S guidelines for project finance that would be agreeable to a wide number of FIs; maintain their competitive edge and not jeopardise future deals; and act as a baseline from which to make future improvements. A key component in doing this was not making the Principles too stringent on specific requirements from the beginning, amongst them reporting and accountability issues. There was general consensus that if the Principles were too stringent then they would have deterred other FIs from getting involved and the EPs would never have been launched:

“The reason it moved so quickly was because it was a loose association, it was very informal and it was voluntary. If we’d been looking at building something that was a rigid …structure with formal governance, legal obligations and some sort of accreditation. Then you know, we’d still have been debating it I’m sure; it’d never have been launched. And also more banks would have been cautious about adopting it.” (UK EPFI 1, Interviewee 1)

The following section will therefore outline in more detail how there was a deliberate effort on the part of the EPFI leaders to adopt a “vigilant” approach to the structure of the Principles in order to ensure their acceptance amongst the financial community, and thus their legitimisation as a “plausible” sustainable finance initiative.
6.8 Structuring the Principles

With regard to the initial structural development of the Principles, as a starting point the four EP innovators looked to the then IFC E&S safeguard policies for guidance on the types of issues and approach that should be taken in the creation of the Principles. In addition, one of these EPFIs’ mining policies was also used as an additional reference point for the development of the Principles.

“In terms of which policies to apply, we were guided by the IFC on that. The IFC at that stage had a framework of different policies, and in fact still does. And what we said to them is ‘what is most relevant when you’re doing an assessment of a project?; and that was the Safeguard Policies. And beyond that, [was] the World Bank Group Pollution Prevention and Abatement Handbook and the IFC’s Environmental Health and Safety Sector Guidelines. Those were the two component pieces that we saw as relevant from the Equator Principles perspective…The IFC also has a disclosure policy [but] that is to a large degree driven by their own [development] mandate…and wouldn’t correlate directly with what the commercial banks were financing…[Also] our [Interviewee organisation] mining policy was basically the forbearer of what the Equator Principles was, certainly for our approach, because the mining policy focused only on project financing.” (Dutch EPFI 1, Interviewee 1, emphasis added)

While two of the interviewees seemed to take the lead in developing discussions with the IFC and lawyers about various aspects of the EP, the third innovator interviewed mentioned how he contributed to early discussions about the potential practical application of the Principles. He outlined how he provided an overview of his institutions’ existing environmental risk management procedures at the first meeting as possible reassurance that this approach was actually possible from a business standpoint.

“At the original meeting that led to the four banks sort of agreeing to collaborate, presentations were made by ABN Amro and by CitiBank and by West LB and by Barclays. The other three banks all talked about transactions, projects they’d been involved in where they had incurred the wrath of civil society briefs. I had been invited to present on what we already had in place in terms of a [environmental risk] policy; process…maybe just providing reassurance that well we’ve tried this and it does work …all I was doing was sharing with people how we already implemented something that looked a bit like Equator.” (UK EPFI 1, Interviewee 1)

There was general consensus amongst the EPFI leaders that the Principles should be structured for project finance activities. Project finance deals had been the focus of most of

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64 Which later became Performance Standards in 2006.
the prior NGO campaigns, but beyond that the size and structured nature of these deals made it easier for FIs to identify the E&S risks associated with particular projects and to adjust their credit risk assessment procedures and loan documentation accordingly. This is because in project finance the use of proceeds is known, and the projects’ expected revenue streams are regarded as remuneration for the loan, hence any potential E&S risks that could hamper the successful construction and operationalisation of the project, and thus potentially place the client in default of the loan, ought to be taken into consideration from the beginning. In short, project finance is “the one product where banks have the unique combination of exposure to risk and ability to influence” (Dutch EPFI 1, Interviewee 1). Cognisant of this, the greater integration of E&S issues into project finance activities made sense to the EP leaders: it legitimated or rationalised it from the beginning. Project finance therefore made E&S issues more “tangible” and easily approachable then for example a normal commercial loan to a client where the use of proceeds may not always be known and where FIs may have less leverage to call in a loan on E&S grounds alone.

“If you look at project finance by definition, if you look at you know, like a category A type project or a category B type project65, if you’re going to do or potentially do harm to the environment or society you’re more likely to do it through a project finance type deal than you are through a normal corporate loan to a holding company that runs a brewery or whatever it is…[And] to actually incorporate covenants associated with EIAs [environmental impact assessments] into loan documentation, I mean that is revolutionary, absolutely revolutionary for a financial institution to do it of its own initiative. So I mean I think in terms of having an effect on E&S, project finance is the most visible, and therefore I think it’s the most appropriate area that needed to be concentrated on first. They are the most controversial. And they’re more identifiable you know, if you’re doing a normal corporate loan it’s much more difficult to identify exactly what you’re doing. Very rarely when you lend to a corporate do you lend for a specific activity, it’s usually for general purposes.” (Australian EPFI, emphasis added)

In addition, in the original drafting of, what were at the time being called the “Greenwich Principles” (Lazarus, 2004), more emphasis seemed to be placed on environmental rather than social issues in EP I (See Table 5). This was perhaps because the IFC safeguard policies at the time tended to pay more attention to environmental rather than social issues. Yet, it could also be reflective of the banks’ previous experience with environmental issues in project financing and the fact that for example, land, water, air, and biodiversity related impacts, were deemed more quantifiable, and therefore more easily approachable,

65 This refers to the categorisation of projects according to the IFC standards, which define Category A as high risk, Category B as moderate and Category C as low risk.
measurable and manageably by FIs than “less tangible” social issues. Later however there would be the obvious need to make equal provision for the social aspects of projects in Equator Principles II (EP II), due arguably to ongoing NGO concerns about the nature and scope of the EP, but perhaps more directly linked to the greater integration of social concerns into the revision of IFC Safeguard Policies into Performance Standards in 2006.

6.9 NGO Views on How the EP Were Developed

While NGOs evidently influenced the initiation of the EP, their impact on the Principles’ content and structure was limited as the EPFI leaders appeared hesitant about the extent of NGO involvement in the drafting process. For example, the NGOs behind the Collevecchio Declaration were not involved as a group in the specific drafting process, nor were they, in their opinion, substantively “engaged” with before the June 2003 launch of the Principles. However, limited meetings between EPFI leaders and these NGOs did occur in Washington and Amsterdam in March and April 2003, respectively:

“They did – with our real encouragement – some broader level stakeholder . . . I wouldn’t call it consultation because they just had a couple of meetings or so, before the Equator Principles were actually launched, for some general input.” (FoE US)

“They basically came to us and they didn’t share the draft, but we got the draft somehow... someone leaked it . . . so the whole discussion [with us] was quite philosophical in [regard to] what they should put in the preamble. However, it was not discussed in subsequent meetings.” (CRBM)

6.9.1 Limited Approach

Given that the Collevecchio Declaration was intended to apply to all financial sector operations, one of the concerns for NGOs at the time was the proposed focus of the EP on project finance activities alone. As mentioned earlier, project finance had been at the centre of NGO campaigning, however, the NGOs were aware that this represented less than 5% of commercial bank activities. Hence, NGOs felt that for leading FIs it represented the convenient “low-hanging fruit” available at the time, allowing them to address NGO concerns by attempting to legitimise this specific banking activity in order to deflect attention from other fundamental areas of concern:
“Well it [project finance] was the “low hanging fruit”, I mean, you know . . . usually if a project is concrete usually it’s massive infrastructure, usually it’s oil, gas, I mean that’s where the problems lie. I’m not saying it was easy but, I’m saying it was visible [and] tangible. It’s different from . . . other forms of financing. Think of the way the OCP oil pipeline was financed, or investment in the derivatives market whose composition people do not understand.” (CRBM)

“Well I mean it [project finance] was obviously the easiest thing to engage with, it was very discrete, [with] very obvious impacts and they have more influence on project finance deals than any other vehicle in finance. So it was the lowest hanging fruit if you like. It’s logical that they started with that but obviously we wanted to always keep it on their radar screen that that was a very small part of the overall impact of banks.” (WWF UK)

The EPFI leaders’ use of the IFC safeguard policies as the basis of the EP was also not surprising to some NGOs. As one interviewee commented, it was NGOs that first proposed the private banks’ use of these standards, which were already being applied by public FIs:

“In the years before Collevecchio, when we [Friends of the Earth] were trying to convince the US banks that there should be [environmental] financing policies; we...actually pulled out IFC and OPIC [US Overseas Private Investment Corporation] type policies for them to look at. Because at the time the only reference that we could give them was in the public financing sphere. And even though Friends of the Earth had never explicitly recommended adopt IFC as an end-all deal, what we did try to use at the time was public financial institutions as a model of how they literally did have a categorisation and screening process which has sorted out [for example] the difference between a massive dam with resettlement versus a German wind farm. So it wasn’t surprising that then other banks would essentially look to the public financial institutions as the model [to use] because all of our campaign came out of public financial institutions anyway.” (FoE US)

6.9.2 Accountability and Governance

In terms of the actual structure of the Principles, NGOs were highly critical of the lack of any clear accountability or governance commitments built into the EP from the beginning. Their fear was that EP aspirations would not transpire into practice due to the absence of such measures. For example, at the time, the Principles made no provision for a governance structure to ensure compliance at an industry level, or an implementation and reporting mechanism to guarantee bank adherence to the principles at an individual bank level. There was also no provision made for an external monitor or Ombudsman function, which might also act as a grievance mechanism for project-affected communities (BankTrack, 2004a, 2004b, 2004c, 2005a, 2005b,). As it would transpire, post EP launch in June 2003, the
“formal existence” of the EP would be limited to a public document available via a website (www.equatorprinciples.com) hosted by one of the adopting EPFIs. This, plus the fact that there was not even a secretariat to which the NGOs or other constituents could send their complaints to originally made the process all the more questionable for the NGOs. Furthermore, instead of formal mechanisms to ensure accountability, EPFIs were instead suggesting that they could “police themselves by observing in co-financing deals how lead banks implemented the due diligence, procedures, and standards required of the EP” (BankTrack, 2003, p. 9). However, as campaigning NGOs noted “mere observation is a wholly inadequate system of accountability” (BankTrack, 2003, p. 9). The NGOs had consistently highlighted these inherent flaws in the EP structure, even before their actual launch:

“The NGOs made some really, really fundamental critiques in the early stages, which just were not incorporated. So it’s hard to tell whether or not they [the FIs] were just doing it [seeking NGO comments] simply as a routine exercise or whether or not they were serious about incorporating them. And those critiques that we made…still identify the most salient weaknesses of the Equator Principles…the lack of governance, accountability, transparency, any minimum disclosure⁶⁶, any kind of accountability mechanism at all, and also a complete lack of an approach on implementation.” (FoE US)

To NGOs this lack of provision or apparent concern for EP transparency, disclosure and accountability mechanisms brought the FIs’ substantive or moral commitment to their E&S responsibilities into question. This led the NGOs to perceive the EP as merely signifying a symbolic means by which FIs could legitimise their project finance activities. This was reinforced by the NGOs’ belief that EPFI leaders “cherry picked” from the IFC standards by deliberately excluding IFC obligations on disclosure and transparency of decision-making and the Ombudsman function (Freshfields, 2005). Furthermore, the fact that the EP were geared towards discretionary adoption and implementation also did not assist:

“There’s all kinds of things I think that the initiative could have done to ensure that all the banks were being serious about implementing them [the EP]. And part of that would have been having a reporting guideline… the only accountability mechanism from the banks’ point of view, that they pointed to, was the fact that “well if there are going to be four Equator banks and they’re all involved in one deal, right, all of us will actually have to agree on how the deal is categorised. And that is our accountability because we’re going to have to sit down and say “do you

⁶⁶ This NGO interviewee was interviewed prior to the launch of EP II in 2006, when a new principle on minimal reporting (Principle 10) was introduced.
agree this is a B?” “Yes, it’s a B”, “okay, alright”. See now we’re all keeping each other accountable.” That was the extent to which they did accountability.” (FoE US)

The above also highlights the perceived dominance of the FIs’ logic in the development of the EP, overriding NGOs’ broader sustainable finance and accountability “criteria” as laid out in the Collevecchio Declaration. Hence, there was the sense among NGOs that these powerful FIs “[didn’t] want to be controlled, [that] they’d rather be in control” (WWF UK).

Therefore, due to the FIs’ approach to the development of the EP, the accountability-related flaws associated with their structure and the EPs’ sole focus on project finance, many NGO interviewees believed that - despite being a positive development in themselves - the Principles could only ever signify a potential springboard for further action by FIs:

“Project finance is an obvious starting point for a bank to improve the environmental and social sustainability of its portfolio. But it is only a starting point; sustainable financing ultimately requires attention to the environmental and social impacts of all financial operations . . . the scale of the impact, not the nature or size of the transaction, should indicate whether a policy response is appropriate. Moreover, from the banks perspective, other financial products may also entail significant financial, credit and reputational risks associated with environmental and social performance. Ultimately, then, banks should have environmental and social policies and management systems that are tailored to the imperatives and impacts of the full range of their operations.” (WWF and BankTrack, 2006, p. 74)

6.10 FI Perspectives on NGO EP Accountability Concerns

EPFI leader interviewees felt that the production of the EP may have actually caught the NGOs “off guard”:

“I mean when we started doing this, this was relatively radical thinking. And I actually think it caught a lot of the NGOs off guard to some degree.” (Dutch EPFI 1, Interviewee 2)

“Look, I mean I think it’s probably fair to say that the Equator Principles took the NGO community off guard because whilst they were sort of like maybe complaining against individual financial institutions and they had issues out there. The fact that the FIs actually took it upon themselves to say ‘yeah, there’s obviously an issue out there, let’s address it, let’s merge what we’ve got’, I think probably took the NGOs by surprise. [They were] probably a bit cheesed off, because it’s like oh my God, if an NGO had been doing his job correctly they should have come up and said you know, ‘you should have these things called the Equator Principles.” (Australian EPFI)
Perhaps NGOs were slightly surprised by what was occurring, but this may have been due to the fact that they claim that they were not directly engaged in any substantial manner in the original drafting of the Principles. However, EPFI leaders also questioned the need to have directly involved the NGOs in the drafting of the EP, when they themselves were not consulted by the NGOs in their development of the Collevecchio Declaration:

“The EPs weren’t a response to, or competitive with, the Collevecchio Declaration. They were a response from banks recognising that they were exposing themselves to risk through not addressing E&S issues properly in project finance…I mean Collevecchio you know, made some very interesting statements but I don’t think it ever got the degree of recognition in the finance sector because … well we weren’t really part of the [drafting] process.” (Dutch EPFI 1, Interviewee 2)

“The view, still held [regarding the Collevecchio Declaration], is that the NGOs claim moral higher ground on issues, but somehow forget that respect for process is just as important.” (Dutch EPFI 1, Interviewee 1)

When questioned about the accountability-related flaws of the original set of Principles, EPFI leaders reiterated how the key concern for them at the time was to focus on a baseline agreement that would garner the level of institutional support needed to launch the principles in the financial sphere. There was the feeling amongst EPFIs that they could address such issues as reporting and compliance later in the process post-launch.

“Now we could have waited another two years until we got all that infrastructure in place, the training programmes with the IFC, all these core consultancies etc… and then say ‘right, I think we’re now ready, we can stand up to scrutiny; the NGOs can come in, they can look through our books, and we’re doing it now’. That would have taken far too long. And I actually take my hat off to the banks for just saying, ‘right, let’s go with it now and we’ll learn through the process.’” (Australian EPFI, emphasis added)

The absence of for example, a basic principle on reporting may thus be seen as part of the EPFI leader’s deliberate “light-handed” approach to the composition of the Principles at the time. However, this was accentuated by an industry entrenched in a culture of secrecy, legal restrictions and commercial confidentiality constraints. Some EPFI leader interviewees stressed how the potential legal implications of a more stringent set of principles was deemed too risky by their legal advisors at the time, thus further restricting the content of the EP. These were all challenges that EPFIs would later state NGOs did not fully understand in their early critiques and demands of both the EP and EPFIs alike.
“Banks are not used to disclosing a lot...we’re very much in a culture of confidentiality and protecting information about our clients and so that means that the more we disclose, the more we need to think about if we’re allowed to do it, or if it will put someone in a difficult position.” (Dutch EPFI 2)

Legal and commercial confidentiality restrictions aside, critics might think that there was still a certain level of “myopia” on the part of the FI leaders regarding the future projection of the Principles or the potential accountability demands that may be associated with them over time. However, interviewees stressed the EP were a very new departure for the EPFI leaders at a time when very few FIs had active sustainability mandates or departments or were actually producing sustainability reports.

“You have to remember when we started doing this, few of the banks actually had sustainability reports ... I mean they weren’t doing that sort of reporting. And it was an interesting exercise, and yes ... it’s interesting how many of the Equator banks have subsequently established sustainable development functions and have started to develop policies on other products in other areas. Because project finance is a relatively small part of what we do.” (Dutch EPFI 1, Interviewee 2)

One interviewee outlined how despite the fact that a specific principle on transparency or reporting did not exist originally that he would not view this as a neglect for the consideration of accountability issues per se. Rather he believed the four leading banks, and early adopters, had a certain “gentleman’s agreement” to take their EP implementation and associated disclosures responsibly.

“I think for me, did we acknowledge that compliance would be an issue? Absolutely...the banks would not have adopted it if they didn’t intend to apply and comply and make sure that there was actually at least internal accountability; accountability to one another. Because the majority of project financing that goes on out there goes on amongst the Equator banks. So... we went in with our eyes open and ...I think this is almost an unspoken rule, almost a gentleman’s agreement; that if you’re going to adopt Equator, you damn well better do something about it...And I think certainly a lot of the leading banks appreciated that that [disclosure] was part and parcel of what this adoption meant.” (Dutch EPFI 1, Interviewee 1)

In addition, the leaders were in agreement that due to the voluntary nature of the Principles and the initiative overall that it would be up to each individual bank to be responsible for their own EP implementation and associated levels of disclosure. There was the general sense that no one bank had the authority or right to dictate to another the specific terms of their application of the EP. Furthermore, as each bank was structured differently it was felt that a “one size fits all” approach to EP implementation or disclosure would not have
worked. These are sentiments that would continue throughout the five-year research period in question, even with the establishment of a new reporting principle in EP II, subsequent EP reporting guidelines and EP reporting as an adoption requirement between 2006 and 2008.

“In terms of accountability for individual organisations, that was considered because you know…it was always going to be voluntary [and] I think individual banks should be judged by their own individual performance…You know, I’m not here to try and tell another bank how to run their business.” (UK EPFI 1, Interviewee 1)

“I think each bank was comfortable on its own standalone basis to allow that [reporting] to happen…What banks didn’t want to get into was having to report on a combined or collective basis, again because the view of the banks was ‘look, we’re all doing things differently internally; we may come up with different decisions on certain projects’…Across the 51 Equator adoptees67, let me guarantee you there are 51 different approaches. And this is what NGOs… I wouldn’t say gloss over, but I think they find that they still want a consolidated approach…And I think that is going to be very difficult to achieve.” (Dutch EPFI 1, Interviewee 1).

Moreover, as one of EPFI leader explained, any standard that would be adopted and would affect internal policy or potentially become internal policy, like the EP, had to go through a lengthy approval process internally. Another interviewee indicated even the use of the term “policy” had to be approached with caution in their organisation. Hence, the actual development of the Principles, along with their internal and external policy and procedural implications, were not taken as lightly by the EPFI leaders as some NGOs may have felt in the initial stages of the EP process:

“When banks adopt or develop policy it literally becomes law, and it’s codified into the way in which that bank does business. So banks do not take lightly the development of policy on anything. Trust me, the oil and gas policy took a year and a half to develop and probably about three months of approval through four different committees…You do that because you know that this is going to have an impact on your business…And in drafting the Equator Principles, that was what all the banks were looking at, they were saying this is going to go into my investment guidelines, this is going to go into my credit guidelines, this is going to change the way in which I look at projects. I need to find ways in which this is built into whatever structures.” (Dutch EPFI 1, Interviewee 1)

67 Interview conducted in May 2007. The current number of EPFIs stands at 68 (as per April 2010).
To summarise, the above discussion outlines how the key actors from the four innovator banks and the additional six leaders (that made up the group of ten for the EP launch), were active and purposeful in their development of the Principles. They appeared to have considered, discussed and rationalised the structural and procedural aspects of the creation of the Principles in a more detailed fashion than some of the NGOs may have felt. While this alone does not serve to justify the absence of general accountability provisions within the original EP structure, EPFI interviewee material evidences the complexity of the issues influencing the FI response to accountability concerns at the time, which the NGOs, at least initially, may not have fully appreciated.

Yet, despite the above considerations and emerging E&S procedures in some individual leader banks, NGOs were generally concerned about the lack of specific guidelines or criteria built into the original EP structure to ensure that all EP adopters, especially new and less experienced EPFIs, applied the EP in an equally responsible and transparent manner. These were valid concerns and EPFI leaders and adopters alike will agree that the Principles were far from perfect at their launch.

“The general feeling [was] look, we know it’s not perfect from day one. Do we wait, until we’ve got the perfect Equator Principles with everything buttoned down …Or do we do it now and then go through consultation? And that’s effectively what happened…So it’s evolved, I don’t think anybody ever sat down initially and thought ‘this is it, it’s perfect, it’s not going to change’, on the contrary.” (Australian EPFI, emphasis added)

In retrospect even some EPFI leaders admit that they should have been more explicit about reporting requirements in the beginning, but explained once more that as commercial organisations many felt this was not within their remit of responsibility at the time.

“I think we should have been more explicit in the sort of disclosure standards that we expected banks to have to demonstrate that they were putting Equator into place within their organisation. But on the other hand, I mean we’re not the IFC, we’re not one organisation, we’re not a development agency, we don’t have a development mandate as such. And at times I think a lot of the NGOs sort of quite naively thought well if the IFC can do this why can’t you?” (Dutch EPFI 1, Interviewee 2)

Furthermore, as was also highlighted by some interviewees, it may have been easier for FIs to do nothing at the time and to just continue with “business as usual” rather than “expose”
themselves by creating and launching the Principles. Moreover, this was the first time that FIs, as competitive entities, had voluntarily come together to jointly develop a set of common guidelines for any part of the financial sector, which in itself was viewed as being no easy task.

“Well Equator’s an interesting sort of set up because you’ve got banks that are normally very competitive actually working together, which is an unusual situation.” (UK EPFI 2)

“It would be easier at times not to do any of this [E&S] stuff. Because if you don’t bother than you just get on with your business and you haven’t created a problem for yourself. Unfortunately that [E&S issues] is part and parcel of our responsibility, and we either have to take it on the chin or decide that we’re not going to do this sort of stuff any more. But it’s difficult.” (Dutch EPFI 1, Interviewee 2)

6.11 “Reflexive” Institutionalisation Begins

“[O]nly recently have scholars begun to examine the subtle ways in which organisations affect rules and policies through processes of perception, interpretation, negotiation and enactment.” (Dacin, et al., 2002, p.52)

The now named “Equator Principles”, were launched on June 4th, 2003, in IFC Headquarters in Washington, D.C. Following their launch, external “scrutiny” was not the only challenge facing the leading group of ten EPFIs. The internal implications of the adopted EP commitments for these EPFIs also needed to be addressed. EP adoptees had to begin to consider the significance of the EP to their project finance operations: what they would actually mean in terms of changes or modifications to their existing procedures and how they would be communicated/spoken about with staff, their clients and non-EP peers. They had to contemplate the legitimation of the EP further: through convincing internal staff and clients that the EP were a beneficial extension of, or new departure in, existing risk management procedures as opposed to an extra burden. They had to consider how the EP would be controlled internally: how resources, both financial and human, would be allocated to ensure effective “embedding” of the Principles through, for example, the training of staff and development of necessary policies and procedures. In short, the reflexive and knowledgeable actors driving the EP in their own organisations, had to

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68 The UNEP FI Statements on Finance and Sustainability were produced in 1992 (revised 1997) for financial institutions, and 1995 for the insurance industry; but these were generic statements (not focused on one particular financial activity) and were not driven solely by the financial sector itself.
consider both the criteria and practice that would enable the efficient implementation of the EP into existing or new project finance “institutions”.

“[D]id all banks immediately start applying Equator? No. I think each bank had to figure out how best to apply it. What the approaches were that they needed to take into account, and some banks may have adopted or brought in different types of criteria, different types of guidelines [to do so]…We [interviewee organisation] need[ed] to make sure that we did appropriate training internally with the right capacity building; that we actually start[ed] putting our money where our mouths are and doing these assessments…[So] if you’re adopting something you have to have procedures. That’s just the way banks work. And those procedures have to be auditable. And this is what our focus was; this is our focus in making sure that we’ve developed a set of guidelines, we need to make damn sure we can actually implement them, and what are the internal policies and internal steps that we’re actually going to codify so someone can see what it is we’re doing.” (Dutch EPFI 1, Interviewee 1)

“So [after] the huge, scurry, if you like, after everybody adopted…then it [was] like well what does it mean? How do you actually implement it, how do you train?” (Australian EPFI)

“Certainly on the ground we were more focused on: how do we work with this, how do we actually start assessing this, how can we start to incorporate it in our processes and how do we speak about it.” (Dutch EPFI 1, Interviewee 4)

As the following chapters will outline, all these challenges would also be faced by subsequent EP adopters over the course of 2003 and 2008.

6.12 Chapter Summary

This chapter analysed why and how the EP emerged, from both NGO and EPFI perspectives. It discussed how NGO campaigns for greater commercial bank social accountability, and hence moral legitimacy, “induced” the EP institutionalisation process. In turn, it analysed how “embedded”, purposeful agents within the four EP innovator organisations “rationalised” their initiation of the EP from a risk management standpoint. The beginning of the “de-institutionalisation” of existing project finance “criteria” and “practice” and the slow institutionalisation of the new EP related criteria and practice was thus highlighted. In addition, the manner in which the EP were originally developed and structured was critically analysed. Here, particular attention was paid to the accountability debates surrounding the EP at their launch, thus laying the foundation for the consideration
of how these debates would accelerate and influence, and be influenced by, the EP institutionalisation process moving forward.

The next chapter will now conduct an in-depth examination of the evolution of the EP institutionalisation process between 2003 and 2007.