Social accountability and the finance sector: the case of Equator Principles (EP) institutionalisation
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CHAPTER 7: THE EVOLUTION OF EP INSTITUTIONALISATION
2003-2007

“I would say generally in any sort of coalition you get the sort of lowest common denominator dictating things through. So it’s a balance between getting collective action and not having a totally watered down approach which is useless. And I think it’s taken quite a while to be clear whether the Equator Principles is one or the other, and I’m still not convinced.” (WWF UK)

“Equator is about risk management, it’s about making sure you’re making the right decisions. You’re not doing it because you want to be the poster boy for sustainability, you’re doing it because you know that it has a relevant impact for your decision-making and for the risk that the bank is taking.” (Dutch EPFI 1, Interviewee 1)

7.1 Introduction

This chapter focuses on the incremental progression of the EP institutionalisation process between 2003 and 2007. The chapter is broadly divided into three sections. The first section (7.2) conducts an in-depth analysis of the “early” adoption of the EP, the emergence of the EP organisational field and EPFI organisational level adaptation to the EP between 2003 and 2005. The second section (7.3) focuses on the revision of EP I, mainly between 2005 and 2006, and the launch of EP II in July 2006. Finally, the third section (7.4) critically analyses the nature of the late(r) adoption of the EP between late 2005 and 2007, and highlights how the EP were, by late 2007, recognised as the standard (institution) for more sustainable project finance. Throughout chapter seven (namely sections 7.2 and 7.3), the complexity of the accountability issues surrounding the EP phenomena will be discussed, highlighting how these debates shaped, and were shaped by, the EP institutionalisation process as it progressed.

The three “early adoptee” interviewees in this research adopted the EP within a 4-month period after their launch in June 2003. The reasons for this varied. For example, a delay in receiving final internal authorisation for EP adoption prevented one bank from adopting with the original group of ten, despite the fact that it had been involved in the initial drafting meetings of the EP. Another of the banks was in the process of establishing a project finance department at the time of the launch and thus felt it was not ready to adopt the Principles at that stage.

Despite these slight differences in adoption rates, the attraction of the EP for these early adoptees seemed to be a general recognition that this was a practical business move for them, reinforced by the fact that some of the top project financiers in the world were involved in the EP. In addition, all of these early adopters had begun to address E&S issues pre EP-launch and adoption, albeit in a nascent fashion. This ranged from: references to World Bank Guidelines and IFC standards in project finance documentation; fledgling E&S statements, policies and reports from corporate communications departments; to emerging sector specific policies on for example, forestry. Like the leaders, these interviewees explained they recognised the benefit of approaching E&S risks in a more standardised manner:

“The philosophy was already in the bank, so we already had by that stage an environmental and social risk policy, saying that everything we did went through a review from an environmental and social risk side of things. And therefore project finance would have had to follow the same route, and therefore what was the most appropriate way for it to achieve that aim? The best way was to use an international standard that was out there to be used…What you’re saying when you’re looking at these things is what’s good for us internally, and what will help us internally to do a better job, and we felt that these [EP] would.” (UK EPFI 3)

It is therefore not surprising that those individuals driving EP adoption forward within these banks were also from either the credit risk management or from the “front facing”, business/commercial departments (where project finance mainly sits). The initial drive in

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69 “In 2001, ABN Amro, Barclays, Citibank and WestLB arranged more than $15bn in project finance, or 17.5% of the market occupied by the largest arrangers, according to data from consultancy Dealogic” (Sevastopuloos, 2003b).
one of the adoptee banks was from the commercial department, which in some EP banks was often more reluctant to accept and implement the EP originally, as it often made its relationships with the clients more “challenging”. However, this early drive from this commercial department is perhaps indicative of a broader recognition of an evolving movement towards EP conditioned loans for clients in the project finance market at the time. This, coupled with the fact that formerly competing FIs were voluntarily coming together to develop the EP, signalled that this was a serious initiative that would be shaping the project finance deals to come. Hence, both coercive and mimetic isomorphic forces, as well as the FIs’ economic “rationale”, can be observed once more in the push factors or legitimation of some of these interviewees’ early adoption of the EP.

“It was driven by the front office, so the Commercial Department…especially because we used to include references to the IFC and World Bank Guidelines already before the Equator Principles, but it was not as structured as the EP process. But since we already acknowledged the risks involved [with projects] like all the other banks; that made us sit together and decide on adopting or at least drafting something that would manage these risks. So that’s why [Name of interviewee organisation], especially from the business [unit] itself, joined the initiative but also [because] there were a large number of banks interested in the pre–launch meetings [which] was very much driven by commercial teams.” (Dutch EPFI 2)

However, in general, there did not appear to be a “trade-off” between the pressure to “conform or perform” (Barreto and Baden-Fuller, 2006), for these early adoptees. In other words, the impact of EP adoption on their risk management “performance” was just as important as simply “conforming” to pressure to adopt the EP in order to gain legitimacy in the project finance market. In fact, conforming to the EP seemed to complement, and act to enhance, their desired E&S risk management “performance” (see also Section 7.4).

7.2.1 Accountability: “New Kids on the Block”

At the same time, despite the fact that these early adopters may have felt that the EP “innovators” E&S/EP activities were “better” than their own, and were compelled to emulate them, there was also some evidence emerging from the interviews to suggest that not everyone may have been extremely happy about the structure or requirements of the EP at the time.

“I mean clearly we weren’t part of putting the thing together, so we had to adopt what was there…They [EP] weren’t necessarily as far as we wanted to go, and
maybe in some cases they were further than we wanted to go in the initial stages of
the development, but they were the best track to follow. There was no other track
to follow effectively, unless you set up your own.” (UK EPFI 3)

When questioned about whether the lack of formal accountability provisions in the EP at
the time was an issue of concern, the same interviewee mentioned how he did query the
governance of the initiative, but not the lack of provision for reporting per se:

“The reporting side, no, was not an issue. Because we were still finding our way
around the reporting anyway in a lot of our group, and the reporting tended to be
environment focused. The governance side of it was something that I raised … I
guess it was raised for a couple of reasons, one positive and one negative. On the
positive side you weren’t going to have a Big Brother hanging over your neck all
the time while you were trying to feel your way through all of this [EP]. On the
negative side was clearly that there’d be more opportunity for anyone to say, ‘I’ve
adopted the Equator Principles’ and no-one’s going to be there to make sure that
they follow the group, apart from NGOs picking them up on it.” (UK EPFI 3)

However, despite this early adopter’s “active” consideration or reflection of the Principles
in the run up to and following his organisations’ adoption of the EP, he also stated that even
if he did feel that there were potential defects in the EP structure that:

“[We] were the new guys on the block and it was difficult to go in and start saying
to the gang of ten or whatever they were, ‘guys, you’ve missed a beat here’ or
whatever the case might be. I mean I know a lot of them personally, so obviously
through that process you can sit down and talk and therefore I got some insight into
some of the debates that had gone on.” (UK EPFI 3)

Such discussions made this interviewee cognisant of the practicalities of the situation at the
time and he echoed what the “leaders” mentioned earlier:

“Let’s face it, the tighter it [EP] had been made, the less likelihood of getting a
gang of ten signing up to adopt it, let alone the other 20-odd that came in
afterwards. So there had to be some pragmatism around the whole thing.” (UK
EPFI 3)

What the above perhaps demonstrates is that this early adopter was not “blindly” following
“isomorphic” trends regarding EP adoption, without some logical consideration of the
structural requirements of the Principles first. Yet, it also displays how the EP leader
“coalition’s” original legitimation of the structural development and projection of the EP
dominated at the time. Therefore, despite the fact that there may have been some EP
“follower” doubts about aspects of the Principles originally, the collective majority voice or
rationale appeared to ring through.
7.2.2 The Emergence of the EP Organisational Field

By the end of 2003/early 2004 an organisational field was emerging around the issue (Hoffman, 1999) of the EP. This was originally populated by an increasing number of EP adoptees and NGOs and, perhaps to a lesser extent, the IFC. For their part, the NGOs involved in sustainable finance campaigns, mainly those behind the Collevecchio Declaration, organised themselves into a more formal NGO network in October 2003. This was launched as “BankTrack” in January 2004 and coordinated out of the Netherlands. This was essentially a remodelling of an earlier merger in 2003 between the US “Quantum Leap” project mentioned above, and the Dutch-based “Focus on Finance” NGO project (which had been led by the AIDEnvironment consultancy). The emerging EP field was thus predominantly evident in the “increased level of interaction” (Di Maggio & Powell, 1983) amongst EP banks and also the debates, largely about EP accountability issues, between the banks and the BankTrack coalition. The formation of the EP organisational field would continue to increase further over the following years due to the ongoing growth in EPFI adoptees, the presence of bank clients/project sponsors, E&S consultants and lawyers. This would simultaneously reinforce “the emergence of sharply defined interorganisational structures of domination and patterns of coalition [amongst the banks and NGOs alike]; an increase in the information load with which organisations [had to] contend, and the development of a mutual awareness among participants in [this] set of organisations that [were] involved in [the EP] common enterprise” (adapted from Di Maggio & Powell, 1983, p.148).

“Once banks became more sophisticated and started taking a much better look at environmental and social issues and recognising that this was something that was relevant for core business, then I think there was a far more founded relationship between NGOs and banks around this issue.” (Dutch EPFI 1, Interviewee 1, emphasis added)

“Once the Equator Principles were launched, then more dialogue then started you know, the institutions talked to each other, we learned through each other. There was a huge amount of sharing of information: ‘this is what we’re doing, what are you doing?’ Meetings with the NGOs; two-day meetings talking about reporting and transparency…We’d obviously got BankTrack [there] with all their own aspirations. And you know, we’d sit down and we had good honest debates with the NGOs. So yeah, the Equator Principles themselves evolved in that initial period,

70 For example, Sustainable Finance Ltd. (acquired by PWC in January 2009) developed the first EP Toolkit for EPFIs in 2003.
that 12/18 month period after they were launched, and then obviously coming up to you know, EP II [2006], and with the new IFC standards.” (Australian EPFI, emphasis added)

The EP organisational field members, their debates and mutual understanding for each other would also evolve or mature between 2003 and 2008. However, these early debates between EPFIs and NGOs between 2003 and 2005 were not always as “positive” as some EPFI interviewees have portrayed above, and in some of the initial meetings may have resembled more “institutional war” (Hoffman, 1999) than constructive dialogue:

“I still can remember our first meeting with NGOs and that was really terrible; they were so angry. [It was] a year after the Equator Principles [were launched], so it was some time in 2004. At that time, it was also very much [due to] not understanding each other.” (Dutch EPFI 2)

The next section will examine in more detail why such NGO sentiment may have arisen.

7.2.3 NGO Perspectives from the EP Organisational Field

Despite their obvious flaws, the EP, to NGOs, signified the first real opportunity for progress towards more accountable finance. Many NGOs viewed the EP, as a starting point from which they could influence further substantive action within the sector. This was the main reason they entered into “hopeful” dialogue with the EPFIs, in an effort to improve the EP and hence EPFI social accountability efforts. As a result, BankTrack produced reports with EP disclosure recommendations (BankTrack, 2003; BankTrack 2004c). They also proposed structural options for an “independent accountability mechanism (IAM)”, similar to those used by the World Bank Group and other multilateral development institutions, to address EP compliance by FIs and clients, an Ombudsman function with avenues for redress for project-affected communities and EP continuous improvement (BankTrack, 2003; BankTrack, 2004a; 2004b). Furthermore, despite the fact that the NGOs felt that “commercial confidentiality should not be used as an excuse to deny stakeholders information” (BankTrack, 2004a, p. 13), many NGOs acknowledged such challenges for EPFIs in their attempts to implement the EP. They were also encouraged by some positive signs of EPFI leader application of “the spirit” of the Principles beyond the project finance remit. For example, Citigroup’s and Bank of America’s policies on forest production, climate change and indigenous rights were praised:
“[T]he decision of these leading institutions to move so quickly beyond Equator represents a momentum in the sector that provides some reason for optimism …[this report] should be seen as an invitation to Equator banks to enter into transparent and open dialogue with BankTrack on how to move forward with the EPs.” (BankTrack, 2004b, p. 9)

However, the general slow pace and inconsistency of EP implementation amongst EPFIs, the ongoing lack of transparency and disclosure regarding this and the continued financing of questionable projects over 2003 to 2005, frustrated NGOs. This was exacerbated by the increasing number of EP adoptees, which, in the absence of institutional, organisational and project level mechanisms to hold EPFIs to account, fuelled NGO disquiet.

For example, in February 2004, several EPFIs announced their participation in the $3.6 billion Baku-Tablisi-Ceyhan (BTC) oil pipeline, despite NGO claims of numerous violations of IFC and EP standards.71 This was exacerbated by the controversial decisions of some of the leading EPFIs to act as financial advisors and potential financiers of the world’s largest integrated oil and gas pipeline development, Sakhalin II, in Eastern Russia, from 2004 onwards. A report, produced in 2004, by one of the BankTrack members, Platform (supported by other BankTrack members and international NGOs), highlighted several problems with the project and contained a detailed analysis of the breaches of the EP. The project became hugely controversial due to problems surrounding whale and marine biodiversity, geologic hazards, effects on local fishing communities, failures in the environmental impact assessments and breaches of Russian environmental legislation (Ostrovsky, 2006; Platform, 2004).72

In general, NGO interviewees claimed to have encountered much secrecy surrounding the EP implementation process for example clarity surrounding the ensuing EP “group” structure and its governance appeared far from forthcoming:

“I mean it was quite chaotic, it wasn’t very well organised. So a lot of it was sort of conversations with the various people. It took a while – and they were quite secretive too you know – before they started to collect into an obvious group with

71 The pipeline runs from the Caspian Sea in Azerbaijan to the Mediterranean in Turkey, and was the centre of political unrest, human rights problems and environmental concerns (BankTrack, 2004b).
72 Also sourced from BankTrack ‘BTInfo’ email circulars: “Six banks still bidding to finance Sakhalin II amidst controversy and violations of Russian law” (20 September, 2006) and “Sakhalin II: Environmental Groups Tell Banks of new Environmental Violations” (27 June, 2007).
someone leading…and that was really under pressure from the NGOs for the banks to get a bit more transparent and to sort out their governance.” (WWF UK)

Furthermore, NGOs felt that some new EPFI adopters were exploiting this lack of provision for accountability within the EP structure. To them, these adopters seemed more interested in the reputational benefits associated with the EP “brand”, rather than the substantive internalisation of the EP within their organisations. NGOs felt that this jeopardised the credibility of the initiative overall:

“The fact, for instance, that any bank who wants to can sign on to the Equator Principles without having to fulfil any requirements does not add to the credibility [of the EP] because we’ve seen a lot of banks who’ve signed on to it and who obviously only mainly use it as a kind of PR tool.” (FoE Netherlands)

“I mean some banks clearly are free riding and that’s what the [other] banks themselves complain about. Some are just here purely for the ride.” (Platform)

The “self-regulatory” nature of the EP, particularly the absence of monitoring and compliance mechanisms to ensure a “standardised” approach to implementation, was thus leading to a situation where EPFI leaders were unable to control the numbers of adopting organisations and their levels of implementation.

“In practice they had a concrete problem which was implementation… they know that – they won’t probably admit [this] openly outside - but they know that in particular when you have more and more banks signing on to it [the EP], the way you manage it and check it is very much a problem. I mean, not all of the EPFIs [even] go regularly to their own meetings.” (CRBM)

7.2.4 EPFI Perspectives from the EP Organisational Field

The EPFIs themselves, especially some of the leaders, were also beginning to recognise the emerging challenges associated with the EP from late 2003 onwards. It would appear that when the initial hype of the EP launch had subsided the original “lightness” of the Principles started to pose some demanding questions for the EPFIs. Despite the fact that some EP leaders felt that they “went into this with their eyes open”, they still appeared to have underestimated the level of popularity and attention the EP would command in both the financial world and public domain/media circles, as well as the level of scrutiny the NGOs would apply to their EP implementation efforts. Through one EP leader’s own admission, there had been a certain “lack of awareness that this was going to command
such a profile” (UK EPFI 1, Interviewee 1), while one early adoptee felt EPFIs had been their “own worst enemy” (UK EPFI 3).

“You know, we struggled to get ten banks for the launch. We were surprised then to get 16 by the year-end [2003], because that was seven months since launch. And by that stage it was starting to command something of a profile. It then did start to pose questions in terms of well how do we manage this going forward?” (UK EPFI 1, Interviewee 1)

Subsequently, over the course of 2004 to 2005 there were slow movements at institutional level, amongst the EPFIs, towards a form of “floating” EP secretariat run by one EPFI via the fledgling EP website, the initiation of annual meetings with NGOs, commitments to small Working Groups with NGOs on such issues as disclosure and the eventual emergence of a rotating EPFI Chair position to be held by a different EPFI on a semi-annual basis.73 This does show some reflexivity, at least on the part of the active EPFI agents involved, regarding the manner in which the EP network was evolving and the projection of the EP into the future. Yet, all of these developments occurred on a very informal basis amongst EPFIs. Despite NGO criticism of the lack of formal coordination of the growing EPFI network or management of EPFI accountability, FIs maintained the position that they were not a formal association or society. They argued that the EP was a set of guidelines voluntarily adopted by individual organisations, which, by default, did not grant any one EPFI the right to dictate specific terms or criteria to another.

“[C]learly as banks that have adopted the Equator; we are all individuals. Because we don’t belong to a society, etc, theoretically we cannot speak with one voice, so we can’t say, “we the Equator banks …”, we can say ‘we as an adopter of the Equator Principles.” (UK EPFI 3)

Nevertheless, even if this EPFI position dominated organisational field dynamics at the time, EPFIs still faced the dilemma of how the EP would continue to be coordinated moving ever forward. Yet, as the following sections (7.2.5-7.2.6) will outline, this was no easy task, given the differences between EP banks, their level of experience with E&S issues and their capacity to address EP implementation.

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73 Though it was never made clear on the EP website which EPFI this was, nor was any indication given of how the rotating Chairs were chosen, how long they would hold this position and what their role was to be.
7.2.5 EP Significance: Emerging EPFI Differences

The translation of societal demands for greater EP accountability into formal or specific EP criteria and practice, at organisational field and organisational level, was a complex prospect for EPFIs. One of the main reasons for this was the disparity among EPFI levels of E&S experience and activities. As EPFI interviewees outlined, some EPFIs, especially the leaders, were far more advanced in their E&S thinking and procedures than some of the less experienced EPFI adoptees. This made the likelihood of a more stringent set of organisational field level criteria for EP practice at organisational level more difficult to contemplate. Therefore, the maintenance of the EP as a set of general guidelines for individual adoptee interpretation appeared to be the most likely approach for EPFIs. This allowed less experienced FIs the opportunity to rationalise the EP internally and to allocate the necessary levels of resources to EP implementation, in their own time, in order to “catch-up” with the EP leaders. Hence, there would be an incremental movement toward the “levelling of the playing field” at institutional or organisational field level.

“There are always going to be varying degrees of implementation because of the sophistication of the organisations that are doing it; always. And you have to allow the others to play catch-up. Some may call it free-riding, some may call it education, capacity building, call it what you will. Now in a couple of years’ time you can look back and see how those other institutions have come up. But I would suggest that most of them will come up to the bar.” (Australian EPFI)

Consequently, the significance of the EP at organisational level tended to differ from bank to bank. With perhaps the exception of one EP leader interviewee, the majority of the EP leaders interviewed tended to view the EP as a component or continuation of the work they were already doing on E&S risk management policies and procedures as opposed to a catalyst to their E&S activities per se. For example, some of the leaders essentially came to view the EP as a standalone policy for project finance in a broader set of extant and emerging E&S risk policy(ies), which in some cases became embedded in core credit risk policy(ies). While interview material has provided evidence to suggest that the EP have influenced organisational change towards, for example, more formalised sustainability or E&S risk departments, policies, procedures, modes of communication and training of staff for project finance and “beyond”, in both EP leader and adoptee organisations; the
perceived significance of the EP’s influence on this change varied amongst EP leader and adoptee organisations.

“[Our work] actually pre-dated it [EP]. I mean there was a forestry policy, metals and mining policy, defence policy started, tobacco policy, nuclear policy. So we had four or five policies in place, and then Equator came in...If you go into [Name of interviewee organisation] instruction manual, you go to the section that has sustainable development and all the policies; it’s [EP] a standalone policy. But [did] Equator at [Name of interviewee organisation] act as a catalyst for anything else? [Just] for the dams policy. For the rest? No.” (Dutch EPFI 1, Interviewee 1)

“I think that they [EP] were more a symptom of things that were going on already, or a product of things that were going on. And I think that we were already looking at how we would report in terms of sustainability. We already had an environmental and social risk management unit when we started off thinking about Equator, so for us it was part of the process and a product, and a logical extension of what we were already doing. Whereas I think for some others it was hugely fundamental in terms of putting sustainability on the radar screen in their organisations.” (Dutch EPFI 1, Interviewee 2)

“I mean the upside [of the EP] was significant in terms of that levelling of the playing field. The downside was negligible because we were already there or thereabouts. When I went to speak to the various project teams saying ‘this is coming along, it’s going to be more in the public domain than internal policy; what are the issues in terms of fulfilling the obligations here?’, and this is not intended to sound dismissive, but there was almost a sort of email equivalent of a shrug of the shoulders saying ‘we’re already doing this, no problem at all. We can do this, we are doing it.” (UK EPFI 1, Interviewee 1)

In contrast, one of the EP leaders and two of the early adoptees outlined how the EP did come to be recognised as a catalyst to organisational level change within their institutions. They outlined how the EP had played an instrumental role in the development of core E&S risk management policies, departments and procedures, and the expansion of their E&S responsibilities “beyond project finance”:

“They’re [EP] fully integrated into this broader [E&S risk management policy]. I would say that they’re the backbone or the core of the policy. I mean Equator was the catalyst [to this policy]. Essentially when the Equator Principles were launched, it was as you know, for project finance. And people inside the bank said automatically ‘Well we have other deals or other transactions or product types where you’re going to have the same issues; why should we just limit this to project financing?’ So there was an immediate recognition that we should kind of expand the approach to other transactions with known use of proceeds such as corporate loans and bond underwritings.” (US EPFI, emphasis added)
“I started at [Name of interviewee organisation] four years ago, to start up the Environmental and Social Risk Department, in particular because [Name of interviewee organisation] decided to adopt the Equator Principles. There was an increased need to have governance around it [EP] and also a team with specialists that understand the environmental and social issues… and now after four years, there is a team of four people, because we’ve expanded well both the Equator Principles, but also have developed more environmental and social policies… Within risk management, there was already some sort of policy framework on environmental and social risk appetite statements [pre-EP adoption], but they were just statements…they weren’t really implemented; there wasn’t really a proper model…and the Equator Principles triggered that people knew ‘okay, this is a method [on] how [to] approach these environmental and social risks.’” (Dutch EPFI 2)

“Well we didn’t exist as a department [E&S risk] five years ago [2002, pre EP], for example. They [credit risk] would take into account environmental issues in their analysis of a project, but only alongside all sorts of other risks that might be there. And we didn’t have a consistent framework, either internally in [Name of interviewee organisation] or with the other banks that might be looking at finance for the same projects. So it [EP] has increased that [a standardised approach] enormously…Yeah, undoubtedly the Equator Principles have [also] had spin-offs [internally]. I mean they really informed us on some of the high-risk sectors that we then decided to produce a separate policy for.” (UK EPFI 2)

Arguably, EPFI leaders tended to view the EP as being more significant in terms of the level of change the Principles were influencing at organisational field level, as opposed to within their own organisations. The EP represented the first standardised framework for E&S risk management in project finance deals, which was starting to fundamentally change the face of the market worldwide. London-based Dealogic calculated in 2004 that 23 of the 25 adopting banks at the time, arranged $55.1 billion of project loans in 2003, representing 75% of the $73.5 billion project loan market volume in 2003 (EP Website Announcement, 2004b). From an EPFI perspective, the EP were therefore living up to one of the main objectives of their creation i.e. more coordinated efforts amongst project finance syndicates regarding a common E&S risk management enterprise.

“[I’m] ‘extremely pleased that, one year on, so many of our peers, both private and public institutions, have adopted these landmark principles. It is our fundamental belief that the Equator Principles are appropriately becoming the reference standard for financial institutions to ensure that the principles of responsible environmental stewardship and socially responsible development are embedded within our project finance activities. Moreover, the Equator Principles are an excellent example how our financial sector is able to self-regulate on high value issues.” (Herman Mulder,

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74 Which analyses the project finance market.
“[Y]ou’ve got a set of guidelines there that are well in the public knowledge. They might not be the perfect set and they never will be the perfect set, but they are a set. So that helps to put some framework around things…So if Barclays or HSBC or whoever engage in a project and [Name of interviewee organisation] is brought into it as well, we know that we’re all working to a common set of principles around those issues…so it makes it easier to co-ordinate and work together, and I think that’s what we’re aiming for.” (UK EPFI 3)

However, the above complexity, or, subtleties, of what the EP meant to different EPFIs and their subsequent organisational and organisational field level dynamics, appeared to sometimes have been lost on some societal level observers of the EP process, especially in the early years of the EPs’ existence. NGOs tended to group EPFIs together in their discussion, analysis and critique of the EP. They expected a consistent approach to EP implementation, transparency and disclosure across all EP banks as well as a coordinated movement to address E&S impacts beyond project finance. External media/broader stakeholder coverage often lauded the EP as the sustainable finance initiative, not always specifying that the EP were only designed for project finance, or that some EPFIs had already or were beginning to do additional E&S risk management outside of project finance. Consequently, confusion arose amongst EP organisational field and broader societal observers (e.g. media), regarding what the EP were originally designed to signify or address, and how and where they were actually being applied. While NGOs would become more aware of the diversity of EPFI levels of E&S experience and the practicalities of EP implementation over time, general perceptions of what the EP signified in terms of sustainable finance initiatives would continue to cause confusion at societal, organisational field and organisational level over the course of the research period.

“In one year's time, Equator has proven more successful than anyone could have imagined. That confirms what we and the initial Equator Banks have argued all along: it is far better to have a level playing field where the rules are transparent than the so-called race to the bottom. We believe Equator should continue to expand to other areas of the financial sector.”
(Peter Woicke, then Executive Vice President of IFC, EP First Anniversary Press Release, 2004, emphasis added)

“Banks who do not do project financing should not be applying Equator. Equator is unique to project financing. You should not apply it beyond project financing, and here comes the caveat; unless what you’re financing, for all intents and purposes looks like, smells like and has the same impacts as a project does…The
Equator Principles were designed as a risk management framework for project financing. If a bank recognised ‘hold on a second, all I’m doing is looking at my projects, shouldn’t I also be looking at other parts of my business?’ [Then] Yes, maybe they want to have a [separate] policy, maybe they want to do something else. Equator may be the catalyst or may be the trigger that made them understand environmental and social risks more, but I wouldn’t say that Equator has [addressed those issues]… it’s terminology, that’s the main thing…A lot of people say ‘[Name of interviewee organisation]…you talk about all this stuff but why aren’t you applying Equator beyond project financing?’ [Well it’s] because we’ve got all this other stuff which is doing a much better job, because it’s tailored for what the [specific] risk is.” (Dutch EPFI 1, Interviewee 1, emphasis added)

Hence, the differences in what the EP actually signified for EPFIs, as well as EP stakeholders in general, would influence the manner in which EP criteria and practice would develop at organisational field and organisational levels, and thus the projection of the EP institutionalisation process moving forward. In turn, the internal “controls” or allocation of resources to EP implementation at organisational level would be just as important to this process, as is discussed in the following section.

7.2.6 EPFI Allocation of Resources: Internal Challenges

EP leaders, and some early adoptees, may have already had some understanding of and experience with the incorporation of E&S issues into their activities prior to or during EP adoption, but this did not mean that they did not have to allocate a substantial amount of resources, both temporal and financial, to EP implementation internally. In some cases the EP “agents” within the EPFIs, may have been “internal champions” of the EP cause, but the vast majority of their colleagues in the business/project finance departments, credit risk management and beyond, needed to be made aware of what the EP were, what they would signify for their daily operations, the rationale behind their importance, and how they were going to be executed, complied with and monitored. Hence, EPFI interviewees embarked upon a process of internal policy changes, extensive training courses for staff (conducted by the IFC or specialised consultants) and often accompanied with the introduction of an EP implementation toolkit for bankers (as designed by an external consultancy) along with internal auditing procedural changes to ensure policy compliance. As global organisations, there was also the need to ensure that training was extended not only to “head office” staff, but to relevant staff worldwide. Many interviewees outlined how this has been quite challenging for them and such training sessions on EP structural implications were
therefore seen as an ongoing process that did not end after one training session. Some interviewees have tried to continuously monitor and modify these training courses to reflect not only the lessons they have learnt from EP implementation to date, but in some cases to extend it to include training on their broader E&S sectoral or issue specific policies apart from project finance. Thus, such iterative interplay between EP structures of signification, legitimation and domination and EP actors, throughout EP training, may be seen as assisting the EP institutionalisation process at organisational level.

“It’s been great [having responsibility for EP implementation], but also very difficult especially because it’s not a tangible subject. People here, especially within Risk Management, are very much focused on models, figures, numbers… everything that can be counted. That’s what they look at and so an almost moral judgement or issue that might lead to a risk, that can’t be measured, that’s the thing people struggle with. So you really have to get people’s buy in, you really need to show them examples of how things go wrong if you don’t manage things; start implementing and applying the Equator Principles and then later on show them how it has worked within [Name of interviewee organisation] and that it isn’t so bad. It’s just difficult to explain. People, I mean they understand but they find it hard to translate it into their daily business…[So] last year, we had a very extensive training programme. We held twenty five sessions I think at almost twenty locations and so we have really trained all over the world, full day sessions to really get people on board for not only Equator Principles, but the whole set of policies.” (Dutch EPFI 2)

“We went through a pretty robust training system. We put together a daylong training for all of our project finance staff, for our legal specialists, for our credit and risk management specialists. These training sessions were held in New York, London, and Hong Kong in order to ensure that all of the relevant people in affected businesses were well-trained on our new policy standards …[but] it’s been a huge challenge…we go out every year and conduct these training sessions, and we try and refresh our training in order to learn from our implementation.” (US EPFI)

7.2.7 EPFI “Resistance” to Group Accountability

Heterogeneity across EPFIs and their implementation of the EP was something that the NGOs had difficulty accepting, especially in these early years, as evidenced in their expectation of a consistent and coordinated approach to EP implementation and disclosure amongst all EP banks.
For example, at a meeting hosted by Credit Suisse in Zurich, in February 2005, the EPFIs’ reluctance to move in unison to address NGOs’ accountability demands became ever more obvious to NGOs:

“After a year and a half we came to them and said “it’s not working, we have some banks that have gone beyond project finance or whatever…and we have other banks that aren’t even internalising whatever procedures [are necessary] for implementation or keep financing rubbish, so what the hell is going on?” So if you want to protect the bottom line, to be coherent, you need to put up a sort of multi-transparent accountability mechanism. And they said “no, forget it” … And I still see that this is the dividing argument between us and them. I mean beyond whatever policies that you adopt, the fundamental issue is …how you are being held accountable in achieving this by those that are affected by your operations.” (CRBM)

Hence, following this meeting, and in an attempt to distinguish the leaders from the laggards, NGO emphasis moved towards monitoring, comparing and contrasting individual EPFI efforts. For example, in early 2006 WWF UK, in association with BankTrack, produced a report comparing and rating 39 international commercial banks’ E&S policies against international standards, and assessed whether these were being translated into practice. Somewhat later, BankTrack began to produce a list of so-called “dodgy deals” on their website, highlighting various EPFI participation in controversial projects. All of this was targeted at the competitive nature of EPFIs, in order to entice some collective movement towards more substantive accountability in the sector as a whole.

Yet, over 2005 to 2006, despite the concerted efforts of some EPFIs to report on their EP implementation – largely within their “sustainability”/corporate social responsibility (CSR) reports – for many NGOs the quality of transparency remained inadequate. Moreover, it continued to only be a minority of EPFIs that were making any attempts to be accountable:

“I know that of the thirty plus Equator banks [as of early June 2006], there are only a dozen or so that feel as though they have to report regularly to civil society groups about their progress. Well we could circumvent that by having mandatory accountability standards for all Equator banks [. . .] and in doing so, we would actually force the free-riders to either step up or not drag down the whole process.” (RAN)

NGOs claimed that information on EP implementation such as project assessment and decision-making procedures, as well as monitoring and independent evaluations of client compliance were still not being made available.
“Well they always say that they don’t want to disclose a lot because of confidentiality policies; they have to protect their clients. But, this is an excuse because we don’t want them to disclose the client but we want them to disclose the result of the [EP] implementation. How many projects they analysed under the Equator or how many projects they refused and for what reasons they refused to grant the loan. And how many projects they classified as A and they classified as B, what they demand from their clients [like] action plans to minimise the social and environmental impacts; something like that.” (FoE Amazonia)

In addition, the lack of redress or accountability mechanism for project-affected communities remained a persistent concern. Furthermore, in 2006, a perceived sense of EPFI complacency emerged due to certain public utterances which inferred that the NGOs had effectively taken on the accountability role absent in the EP, and that this was central to legitimising banks’ EP related activities. Some NGOs feared that EPFIs were relying on this as a convenient alternative to developing more effective EP accountability mechanisms. This was reflected in views expressed in, for example, The Ethical Corporation magazine:

“The reason that the EP has been so successful in generating legitimacy for its participants despite lacking an explicit accountability mechanism is that that role has been left implicitly to the NGOs.” (Newton, 2006, p. 15)

The article above continued by quoting the then Head of Environmental Risk Policy at Barclays, a leading EPFI, stating that EP banks were “already regulated by the fact that they operate in the glare of NGO scrutiny”. It also cited the Director of Environmental and Social Development at IFC indicating – during an online Financial Times (FT) debate in June (Financial Times, 2006) – that “you [BankTrack] and others will play your part in holding us all to account”. One NGO interviewee was clearly annoyed with this view:

“That’s what’s frustrating in the FT sustainable [banking] supplement and it was actually [name of Director of Environmental and Social Development at IFC] talking about IFC stuff, not about the Equator Principles [directly], and there was this online debate, where Johan [BankTrack Coordinator] asked a question . . . And she said “well now it’s up to you, the NGOs to keep the pressure on, to make sure things are implemented”. And actually I don’t want it to be up to me, I want the banks to hold themselves accountable and I’ll go do something else, they shouldn’t really rely on us. Because ultimately then we’re being free consultants and . . . that’s not our job.” (Platform)

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75 This interview was conducted in July 2006, prior to the launch of EP II, where some provision was made for these transparency requirements (see Section 7.3).
As a result, all of the above NGO accountability concerns would form the basis of BankTracks’ recommendations for EP improvements during the EP revision process, which is discussed in Section 7.3.

7.2.8 Summary and Interpretation

One could consider Section 7.2 as follows. EPFI “leaders” may have viewed the creation of the EP as a “revolutionary” (radical) event in response to a “crisis” situation at organisational level. However, EP implementation and development thereafter was viewed more as an “evolutionary” (incremental) event, becoming part of a “routine” change process associated with E&S activities both within and “beyond” project finance. In contrast, for some EP adoptees, the EP often marked the beginning of their “departure” into the world of more responsible and sustainable finance, which in itself may have felt quite revolutionary. In turn, as interview material would suggest, over time the EP would also become part of “routine” project finance activities within EP adoptee organisations. Therefore, this researcher suggests that there was an emerging “continuum of organisational change” towards more “accountable” project finance. This continuum ranged from “revolutionary” to “evolutionary” change (left to right progression from former to latter), with each EPFI’s position on this continuum influenced by their levels of E&S expertise and the significance of the EP to their organisations overall. These positions were therefore transient over time and would come to influence the EP institutionalisation process as a whole.

In other words, the original criteria regarding EP implementation and practice proposed by EP leaders at organisational field (OF) level had influenced EP practice at organisational level (OL), while EPFI experiences with EP implementation at OL would in turn assist in “reinforcing, revising or eliminating” (Dillard et al., 2004, p. 514) accepted EP criteria at OF level between 2003 and 2008. This process would, as demonstrated above, also be influenced by broader socio-economic and political (SEP) level opinion and debate on the EP, namely in the form of NGO accountability critiques, over the course of the research period. These “debates” would highlight the centrality of accountability to EP legitimacy (from a societal perspective), as well as EPFI dominance over the manner and rate at which the EP accountability would evolve over time. In general, these dynamics over the OF, OL
and SEP levels would contribute to iterative and incremental changes that would shape the “contextual environment” (Dillard et al, 2004) of the EP institutionalisation process.

Furthermore, in viewing the EP as a budding “institution” (standard) at this stage, the case for the enabling as opposed to constraining nature of the EP institution can also be made. To some observers the EP may have represented a framework to constrain FI and project sponsor activity, and in certain instances they were in terms of the need for these actors to be more responsible for the E&S impacts and consequences of project financing. However, one can also view this as an enabling mechanism. For example, the EP provided the first standardised approach to E&S risk management for project finance, that was not only allowing FIs to begin to address their E&S responsibilities more effectively, but also to ensure that this could be done without putting them at a competitive disadvantage. The EP were thus enabling E&S criteria and practice to infiltrate EPFI activities in a “non-threatening” and “legitimate” manner, albeit one that would have to be developed over time. In addition, E&S issues appeared to gain (or maintain) a more significant position internally in EPFI interviewee organisations following the EP launch and adoption. Consequently, this led to a greater allocation of resources toward EP and broader E&S credit risk policies and procedures. In short, what the emerging EP institutionalisation process was doing was enabling EPFIs to begin to address the social accountability of their project finance activities in a more coordinated manner than hitherto achieved. This does not neglect the fact that serious accountability flaws existed in the structure of the Principles, prior to the launch of EP II in 2006, or the fact that some EPFIs still needed to more fully embrace the accountability of EP implementation. Rather, it serves to highlight the growing interconnectivity of the EP institutionalisation and accountability processes at this stage; a relationship, which, as the following sections will display, was set to continue and increase over time.
SECTION 7.3: EP Revision

“It has long been recognised that information in organisations is not neutral, but is itself an important power resource.” (Roberts and Scapens, 1985, p.449)

“In order for outside stakeholders to be confident that the banking sector’s policy pronouncements are more than just rhetoric, banks should urgently adopt a reporting framework that shows – rather than merely suggests – that they are implementing their policies in ways that make a meaningful difference to people and planet.” (WWF and BankTrack, 2006, p. 76)


7.3.1 The EP Revision Process

In late 2004, the IFC initiated a revision process of its IFC safeguard policies, which would culminate in the launch of new E&S performance standards on February 21st, 2006 (see Appendix 4, Exhibit III). As the EP were based upon the then IFC safeguard policies, over the course of late 2004 to 2006 EPFIs reviewed the potential implications of this for the EP. In preparation and response to the IFC public consultation on this revision process, active EPFIs organised themselves into small informal Working Groups to consider each of the proposed new performance standards and what they would mean for the EP. They also conducted meetings with project sponsors, industry associations and NGOs to hear their views on the IFC revision process and the potential implications of this for all parties involved. This highlighted the increased level of interaction amongst these participants in the broad EP organisational field at the time.

“LONDON, 29 October 2004 — Financial institutions met with project sponsors from the oil and gas, mining and metals, and power industries in London on 28 October 2004 to discuss the proposed changes to the IFC policies on which the Equator Principles are based. Also attending the meeting were representatives of the International Petroleum Industry Environmental Conservation Association (IPIECA), the International Association of Oil & Gas Producers (OGP), and the International Council on Mining & Metals (ICMM). The financial institutions were interested in learning industry views of the proposed IFC Performance Standards,
which extend the policies currently addressed by IFC's Safeguard Policies.” (EP Website Announcement, 2004d)

“[T]hat came from the meeting in Zurich that we had in February 2005 I think, when we found ourselves with different ideas but with the same interest in influencing the revision of the IFC Safeguard Policies. So we then decided to share notes and to adapt discussions along the particular safeguard policies. And then we had a string of meetings [and] conference calls on individual safeguard policies and how they would be turned into performance standards and how they would fit into the needs of banks. And they were very interesting actually, there was like seven or eight two hour conference calls, very, very intensive meetings on the phone, with people going into very detailed discussions on every line [of the proposed performance standards].” (BankTrack Coordinator)

The IFC revision process placed more emphasis on social concerns in project assessments and management systems and also in disclosure practices. Directly following the launch of the new performance standards, in an effort to align the EP with these changes, as well as to reflect implementation experiences in the previous two and a half years, EPFIs set about their own consultation process on the revision of the EP. Having learnt from the EP I experience, this process was more transparent and inclusive, especially of NGOs. The relationship between NGOs and FIs was now maturing to a level where each group recognised the mutual benefit of constructive dialogue with the other. However, even though EPFI interviewees outlined how they valued NGO opinions, they also highlighted again how NGOs were but one stakeholder group that they had to take into consideration.

“I wasn’t involved in the original [EP] negotiations, so I’m not quite sure whether the NGOs made their points about transparency before or not. But certainly on EP II, which I was very much involved in, we invited the NGOs in and they could make all their points and we would discuss what we can do and what we can’t. So we do take their views into account. But we’ve got lots of stakeholders … So you know, we don’t necessarily give the NGOs everything they want in one go, or the clients, or obviously all the other stakeholders; the SRIs [socially responsible investors] or whatever. So there’s going to be a balance at the end of the day I think.” (UK EPFI 2)

Furthermore, almost three years after the launch of the EP, many EPFIs felt that they were now more prepared to address the need to create a principle on reporting within the new EP II structure. NGO demands for greater EP transparency and disclosure may indeed have influenced this. However, EPFI interviewees tended to suggest that any movements towards a principle on EP reporting was due to the learning curve they had experienced through their EP implementation efforts. They felt that a substantial amount of time had been spent
on managing this and viewed disclosure as simply the next step in the process. As mentioned earlier in Section 7.2.7, some EPFIs had already begun to report on their EP work in their sustainability/CSR reports, albeit in diverse ways, and there was a growing recognition of the need to develop some form of baseline “standard”/principle on reporting as a benchmark for EPFI disclosure. However, a number of issues surrounded the degree to which EPFIs could be transparent about both their internal policies and procedures and the nature of the project finance deals subjected to the EP. Chief among these was the issue of commercial confidentiality, which had come to dominate EPFI-NGO disclosure debates thus far. In addition, extensive disclosure of internal risk management procedures to competing banks was also not looked on too favourably. Cognisant of this, as well as the fact that each EP bank was organised differently with variant levels of EP experience and disclosure, a minimum standard for reporting appeared to be the easiest option at the time.

“In terms of reporting and transparency, was that the first thing that came to mind in terms of EP I? No, probably not. The whole idea was these are the standards, let’s get them baked in, let’s make sure as of now that every project complies with EP I. So reporting and transparency, while it’s important, is not part of the first phase as far as I’m concerned. It’s part of the implementation and the training. So it was right that it would take longer to develop. And there are issues with commercial confidentiality, there are issues in terms of, not only with your customers, but also in terms of your competitors and everything else. You know, like how much are you going to disclose, how much do you want to disclose, how much is really relevant, how much is just nice to know rather than need to know information? …I personally led that Working Group on reporting and transparency…And yeah it’s a contentious point but I go back to …not just project finance, it’s lots of other types of issues [as well], in terms of how much do you actually divulge at the end of the day?”(Australian EPFI)

EPFIs organised a three-month consultation period between March and May 2006, involving NGOs, clients and some official agencies (EP Website Announcement, 2006). BankTrack welcomed the opportunity to improve the perceived flaws of the EP structure, and produced an extensive critique of the proposed new Principles, suggesting inter alia specific amendments to EPFI transparency and disclosure.76

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76 Banktrack made a number of EP II critiques and recommendations, yet in terms of transparency and disclosure they specifically requested that: “the Equator Principles be revised to: 1) require EPFIs to report annually on the categorization for each project screened, the number of projects rejected on environmental and social concerns, an explanation of any deviations from standards, information about loans suspended or called in due to non-compliance with environmental and social requirements, a breakdown of core business activities by sector and region, and an assessment of implementation of environmental and social policies and management systems; 2) clarify what and when the client is required to publicly disclose concisely in one paragraph. This should include: (a) the full Social and Environmental Assessment (SEA) and any non
Following the consultation process, Equator Principles II (EP II) were launched on July 6th, 2006. Amongst the new revisions to the EP, as previously outlined in Section 5.3, a reporting Principle, “Principle 10”, was established. The principle requested each adopting EPFI to commit “to report publicly at least annually about its Equator Principles implementation processes and experience, taking into account appropriate confidentiality considerations” (EP II, 2006, p.5). This was accompanied by a footnote, which stipulated that:

“Such reporting should at a minimum include the number of transactions screened by each EPFI, including the categorisation accorded to transactions (and may include a breakdown by sector or region), and information regarding implementation.” (EP II, 2006, p.5)

Banktrack found Principle 10 vague in its requirements, with no practical guidance on how it should be addressed. In general they felt that it was an insufficient response to the transparency and disclosure recommendations they had made. When interviewed, the Banktrack Coordinator also felt that had it not been for NGO reporting recommendations at the time, the above footnote in EP II might not have even existed:

“I think the one thing that we can point out in the Equator Principles II as our work is the footnote, the ‘famous’ footnote on the reporting requirements and what that means. That’s there because we said, ‘It’s good that you actually have that paragraph stating a need for reporting, but you need to be more concrete.’ And that footnote was nowhere near what we wanted it to be…I don’t think it would have been there, or like the need for requiring proper reporting, wouldn’t have been in there without us discussing it with them.” (BankTrack Coordinator)

While NGOs did recognise and welcome some improvements in the EP II structure overall, they felt that the “lowest common denominator” approach taken by EPFIs was wholly inadequate. Most importantly, they felt that the continued failure to address EPFI governance and internal and external accountability mechanisms in any substantial manner was particularly serious:

confidential project related information, including information on the purpose, nature and scale of project and any risks to and potential impacts on communities; (b) timely disclosure of supplementary documents that are part of the SEA or SEA process but developed in parallel to or supplemental to the SEA (e.g. oil spill response plans; emergency response plans; resettlement plans; environmental and social consultants’ reports that the banks generate or require clients to generate); (c) both draft and final Action Plans; (d) compliance monitoring and auditing reports ;and (e) draft and final decommissioning plans” (BankTrack, 2006b, p.10-11).
“Some of BankTrack’s feedback, such as the suggestion to regularly review the Principles with an eye toward continuous improvement, was taken on board in the revision and is very much welcome. However, the EPs most fundamental governance and accountability problems still have yet to be adequately addressed… BankTrack is disappointed that the EP banks have not taken the opportunity provided by the EP revision to provide for …an accountability mechanism… Today, EP banks are still involved in environmentally and socially harmful projects…This invites legitimate allegations of “greenwash” which illustrates the urgent need for EP implementation, compliance and accountability systems.” (BankTrack, 2006b, p.1)

In addition, there was a suspicion with EP II that EPFIs “were taking up some issues, but that they wanted to put all of the responsibility on the project sponsors” (Berne Declaration). Hence, for NGOs, the EP had thus far “fail[ed] to live up to their potential” (BankTrack, 2006b, p.1) to deliver substantive change within the financial sector.

7.3.2 A Practical Approach

On the other hand, EPFIs, especially active leaders and adoptees, appeared to view the revision process, and especially the inclusion of a provision for reporting, as another important step in the progression of the EP initiative. As already mentioned, there was a number of disclosure related “challenges” that had to be considered and thus the inclusion of some baseline “standard” for reporting was perceived as the most practical option during this period. This did not mean however that active EPFIs did not value the importance of all EPFIs reporting, or that they felt that reporting practice would not be improved upon further in future. In fact, some interviewees also believed that this new provision for reporting was aimed at addressing the emerging free-rider problem.

“Well on reporting structures first of all it was a means of … [this is a] personal perspective; to try and address the challenge that some banks weren’t implementing. I mean the NGOs would have wanted, in an ideal world, us to name all the clients, give details of the transactions, and were actually looking for us also to say ‘can you tell us about the deals you turn away?’ Well actually; not in a million years, not until they change the law. But the other point then is that you know, it will identify the ones who are perceived as free-riders, because now if they can’t report ‘well we have looked at this number of transactions and categorised them’ and so forth, then it actually starts to be a little bit more obvious which ones aren’t implementing anything and maybe they’re not playing in the project finance world at all. So you know, there are two aspects there. We went as far as we could [it was] a move towards greater transparency, whilst nevertheless respecting the fact that we can’t give too much detail away about our clients.” (UK EPFI 1, Interviewee 1)
In addition, EPFI interviewees also felt that individual EPFI implementation efforts and reporting, especially that of leading and active EPFIs, would continue to “raise the bar” (Australian EPFI), encouraging less active or late adoptees to follow or emulate such “best practice” trends. Furthermore, as each EPFI was structured differently, and considering the number of adoptees had risen to 40 at the launch of EP II (EP II Press Release, 2006), there was the belief that diversity in approach to transparency and disclosure could also drive best practice.

“We report on declines of transactions as well, which is slightly unusual. Some of the EPFIs, report on sectors and geographies and everybody sort of does Cat[egory] A, B and C and we put the numbers in for what’s being lent and numbers of declines … so everybody has a slightly different angle. And I think that drives best practice as well…And still some banks will report more than others, but again it drives things forward. So for example this year we’ve had an independent audit of our Equator Principles which nobody’s done before, so that will maybe encourage the others to look into that…I think it’s great for the competition to push standards further forward.” (UK EPFI 2, emphasis added)

7.3.3 Summary and Interpretation

This section (7.3) demonstrates that occurrences at the EP organisational field level over 2004 to 2006, prompted by the IFC revision process but also influenced by ongoing NGO accountability debates, forced EPFIs to initiate the revision of the EP. The development of a new set of EP “criteria” therefore involved reflexive EPFI agents’ consideration of their experience with EP implementation at organisational level since 2003, an awareness of their institutional environment and its inherent challenges, and knowledge of broader societal stakeholder concerns and demands. It required purposeful EPFI decision-making about legitimate or acceptable EP “standards” at organisational field level and how they could be feasibly translated into organisational level practice. In turn, there was confidence amongst EPFIs that their own EP II implementation practices at organisational level would further stimulate and influence EP “criteria” at organisational field level in the future. Thus, this highlights another important stage in the EP institutionalisation process overall.

Furthermore, what the above also draws attention to is the sustained dominance of the EPFI coalition’s beliefs and norms about the Principles over the alternative views of the NGO coalition BankTrack at organisational field level. To NGOs, the EP revision process had signified an opportunity for substantial EP reform. But now, due to what they perceived as
the EPFIs’ continued inability to more fully address EP accountability flaws, the EP initiative was in serious threat of being rendered “illegitimate” in their eyes. As a result BankTrack reasserted their views on sustainable banking in a new report (BankTrack, 2006c); and some NGO interviewees also seemed to favour a resurgence of their former “radical” advocacy campaigns to try to stimulate more substantive financial institution change:

“I don’t think that either EP I or EP II has fundamentally changed the setting of the stage or the debate. Actually there have been dramatic changes at [some of] the individual banks . . . [but we cannot] sit down and look at the banks and say, “well, we did what we wanted to achieve . . . so we can stop working on banks, goodbye” . . . I don’t think that it will ever get to this point so . . . it means that it needs the possibility to go back to confrontational challenges and attacking.” (Berne Declaration)

“My prediction is that probably NGOs will radicalise more, because there are sort of litmus tests coming up in terms of projects, and I’m pretty sure that some banks will be involved. So my prediction is that some groups will go back to more . . . I’m not saying they won’t engage any longer, but I think they will try to strengthen again the confrontational side.” (CRBM)

Yet, to EPFIs, the EP continued to signify the positive progression towards more coordinated organisational field level activity, an understanding of E&S risk management processes, as well as greater organisational level responsibility and oversight for project finance operations. In short, EPFIs, arguably, viewed the EP as enabling their evolution towards greater accountability in project finance.

“The EPFIs are proud of the progress the Equator Principles have made in the past three years. The development and application of the Equator Principles have been a huge step forward for the industry, in terms of having a common framework and language for environmental and social issues in the project finance industry. The Equator Principles have enabled the financial institutions to better assess, mitigate, document and monitor the potentially adverse social and environmental risks associated with financing projects. Participating financial institutions commit to financing only those projects that comply with the Equator Principles, and commit to implementing the revised Equator Principles into business and risk management processes in a manner consistent with its organizational structure.” (EP II Press Release, 2006, emphasis added)
SECTION 7.4: Late(r) Adoption

“Some scholars argue that the choice between conformance-and performance-enhancing templates for organising is a false dichotomy and that managers are unlikely to select templates merely on account of their social acceptability. As some scholars have put it: “Organisations are not slavish copies of the surrounding institutional system” (Donaldson, 1995, p.126), and managers are not ‘sociological dopes’. Performance scholars point out that it is a key managerial task to select organisational structures and strategies that simultaneously enhance symbolic and substantive performance, thus striking a balance between competitive and institutional demands.” (Heugens and Lander, 2009, p.64)

While Section 7.3 analysed the revision of the EP in-depth, this section addresses the late(r) adoption of the EP between late 2005 and 2007.

7.4.1 EP Significance and Legitimation: Isomorphic trends

While the EP revision process at organisational field level was taking place, some late(r) EP adoptees were considering the significance of EP adoption at organisational level. Two of the three late adopters interviewed in this study adopted the EP during 2005 and 2006, over the four months prior to the EP revision process, while the third did so in late 2007, over a year after the launch of EP II.

Instead of “blindly” following isomorphic trends laid out by EP leaders, interview material has provided evidence to suggest that these later EP adoptees, similar to some early adoptees, took a more “measured”, reflexive and “active” approach to their adoption of the EP and their participation in the EP organisational field thereafter. These later adoptee interviewees outlined how they had paid a substantial amount of time evaluating what the EP would mean for their organisations and their E&S performance, and whether they were in a suitable position to adopt or not. All of them highlighted how one of the main reasons why they adopted at a late(r) stage was that they had taken time to assess EP requirements and to secure internal buy-in and structural support for their implementation prior to adoption. Therefore, these interviewees had not just passively adopted the EP, or emulated EP leader activity, without some considered attention to the potential significance of this internally or externally. Rather, they chose to adopt when the time was right for them:
“I think we went through quite an in-depth process just to make sure that the existing procedures and standards that we had in place would meet the necessary [EP] requirements, [so] that we felt comfortable and that there was credibility in us publicly adopting the Equator Principles. Just to you know, get that level of comfort that our internal process was stringent enough.” (South African EPFI)

“We are a part of the business [section in the Department of Strategy, Communication and Business, of Merchant Banking] and this unit [Environmental and Social] was created because of adopting the Equator Principles… When we started having a look at the Equator Principles it was already quite late but I mean… the business [unit] was requested [by the CSR Central Department] to make an action plan, to identify the issues and the impact it could have on our business…Then there was the decision to do it [adopt the EP] and also to put it in place in a way that we could make sure that we were compliant with [it]. So that’s why we decided to have a fully dedicated unit [E&S unit] for compliance with the Equator Principles in 2006. And this was done before the adoption, so we tried to have it in place before adopting.” (Dutch/Belgian EPFI, Interviewee 1)

The notion of these adoptees reflexively considering the significance of EP adoption is especially interesting when one considers the case of the interviewee that adopted in late 2007. As one of the biggest project financiers internationally, their absence from the EPFI network had caused some consternation amongst NGOs and EPFIs alike since 2003. However, what some EP organisational field participants did not realise at the time, was that this particular FI had established a Working Group internally since 2004 to closely monitor the development of the EP initiative and its implications for their own organisation.

“So in [Name of interviewee organisation] there was some thought and a Working Group about environmental and social impacts of project finance for about two or three years I would say. It started in 2004 right after the first Equator Principles were issued with some internal debate about whether [Name of interviewee organisation] should adopt them or not. And at that time, so in 2004, it was decided not to adopt but rather to launch this Working Group and to try to have as many people as possible to discuss [EP adoption] and to see whether they wanted to do it or not and how to do it.” (French EPFI, Interviewee 1)

However, even if these late adoptees did not succumb to isomorphic pressure from their institutional environment to “conform” to the EP straight away, the nature of market trends from late 2005 onwards meant that it was becoming increasingly difficult to enter into project finance syndication without being an EP adoptee. In addition, although these

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77 EPFIs were being widely quoted at the time as arranging over 70% of project finance deals.
interviewee organisations also had varying levels of E&S experience, ranging from fledgling CSR departments to general environmental policies prior to EP adoption, the most salient push toward final adoption for them appeared to be such institutional market forces.

“When basically the idea in the end was that we had all the structures, all the tools to be in line with the Equator Principles, so why not adopt them? And on the other hand there were some, of course, broader connections [between] the top management and IFC, and with other banks, [who were] saying ’you should join now because it could be very good for you and the Equator Principles’, because [Name of interviewee organisation] is such a big institution for project finance…[And] I think what also was an incentive to join was that when we asked the business line what they thought about it they said ‘well we already asked to [adopt it] actually because the market is asking for it’. Nowadays when you are either an advisor or the arranger for project finance you have to think about the principles if you want to syndicate the loan.” (French EPFI, Interviewee 1)

Such trends were also important for second-tier project finance banks (see Section 5.2) and even more so for those in emerging economies, as was the case for one of the late adoptee interviewees. For them, maintaining access to international markets was key and adopting the EP and positioning themselves as a regional EP “partner bank” represented one means by which that could be secured.

“The Equator Principles have clearly affected the manner in which project finance is taking place in emerging markets. We believe we are now in a strong position to be the partner bank of choice for the other Equator banks in African deals, and to share skills and knowledge in this interaction.” (EP Website Announcement, 2005)

“[W]e also I think saw it as an opportunity to differentiate ourselves, both within the African spectrum and also as a potential partner bank for other international banks and multinational development organisations…we might be a third world country as such but I don’t think we’re a third world financial sector. So part of the way we operate is we need to benchmark ourselves against European, Australian, North American and also I would say Latin American organisations and banks.”(South African EPFI)

When this interviewee was asked whether being an EP adoptee had influenced their involvement in any new projects, or their overall performance to date (by interview date in December 2007), the interviewee commented that there had been some emerging evidence of this at the time:

“I think we’ve always wondered whether it [EP adoption] would potentially lose us transactions and whether it might be a competitive disadvantage; that’s been a question that’s come up a few times. But it hasn’t seemed to have done that. So I
can’t say that there’s been an obvious down side at this stage… We’ve seen a couple of transactions where you know, the Equator banks like Standard Chartered, Fortis, etc., have engaged our involvement in particular transactions. But it’s sometimes hard to tell whether that’s you know, a particular part of us being an Equator bank or not. Where we have definitely seen it though is we, during the course of this year [2007], finalised a 2 billion Rand credit line with the IFC and with the African Development Bank, and that was very much based on our sustainability credentials and strategy, they were very clear about that - with our CEO and Chief Financial Officer – that this was a very big part of why they wanted to work with [Name of interviewee organisation]. This was the first time they’d done this credit line with any African organisation or bank.” (South African EPFI)

In a similar vein, another later adoptee mentioned how the EP were seen as a positive influence on their overall performance:

“I think the most positive effect [of the EP] for [Name of interviewee organisation] is to have increased also at a higher level the feeling that we need to implement a lot of things and to go further, and that is good for the business and good for our stakeholders and our ratings, our whatever. I mean, there is no single area where we can say we have to suffer because of doing it [EP]. Okay, you need the resources and the people, but you can do it and people are feeling better knowing that the project is done in the proper way.” (Dutch/Belgian EPFI, Interviewee 1, emphasis added)

In summary, what this section illustrates is the EP’s growing stature as the recognised standard or “institution” by which more responsible project finance deals were to be conducted. What this also displays is that institutional trends in the project finance market were arguably moving from a coercive and/or mimetic state to one of more “normative” (expected) isomorphism, where a certain level of “homogeneity” was occurring in project finance deals and thus causing non-EP banks to conform, adopt the EP, and receive “cognitive” (accepted/ “taken-for-granted”) legitimacy from their peers. In addition, given that these late interviewees tended to feel in general that “the market was more important than the NGOs” (French EPFI, Interviewee 1) in their reasoning for adoption, one may also consider this as indicative of a certain evolution from “crisis” to “routine” change situations within the EPFI institutional environment. However, as has been highlighted again by these late adoptees, conforming to the EP appeared to complement, and act to enhance, their desired (E&S) risk management “performance” overall. In short, the growing significance of the EP, ongoing EP organisational field developments and EPFI dominance within this field, had legitimated these interviewees’ final movement toward EP adoption.
7.4.2 Allocation of Resources: Evolving Organisational Field Support

Similar to EP leaders and early adopters, these later adopter interviewees also had to allocate resources to the training of staff and internal policy and procedural developments to ensure that the EP began to be fully embedded within their organisational structures. For many of them it was a very new and/or ongoing process for the organisations and agents involved at the time of interviewing:

“Really, honestly it’s [EP implementation] still an ongoing process. …We’ve done training sessions ourselves for the [deal] teams, for the credit committees; provided documentation and checklists and so on…And we got Sustainable Finance [consultancy] both this year and last year to do a couple of day workshops just taking everybody through not just the Equator Principles process but I think the broader social and environmental reputation or political risks, etc. I think there’s a fairly good understanding of what the context is for all of it. And I’ve only really on one transaction kind of had a transactor that was a little bit negative about the whole process. Otherwise they have been fairly supportive…But there’s still been concerns that it hasn’t always been consistent; you know that not every transaction we’re involved with comes across my desk. And unless we’re 100% sure that every transaction is following it from start to finish, then I don’t think we’ve quite succeeded. What we’re doing at the moment though, we’ve got external auditors in as part of our sustainability report for this year [2007] auditing our implementation of the Principles. So they’re looking at a whole range of different transactions and looking at whether the processes are being followed correctly.” (South African EPFI)

Although EP implementation was also a testing process for these late adoptees, they had the advantage of being able to learn from and benchmark themselves against the perceived “best practice” of existing EPFIs. Interviewees commented on how the EP organisational field, particularly the EPFI “network” and growing body of EP consultants, was allowing for information exchange and capacity building around EP implementation, which interviewees found very beneficial for their activities at organisational level.

“I think we always thought that we would provide information in our sustainability report in terms of what our procedures were, and we had looked at a number of other banks and what they were reporting on publicly. So I think even if there was no benchmark within the Principles themselves at that stage [when EP adopted in 2005], we had a sure idea of what good practice was in the market…[Also] I think it [EP] has been a catalyst [to the development of their sector specific policies] and also just obviously seeing that many of our international competitors have done similar sector guidelines…I think the interaction with the various international banks has been very positive and quite open, and the EP meetings we’ve had as well where we’ve discussed particular projects, and some of the issues and risks,
have again been very useful. So it’s certainly been a very good learning process for
ourselves.” (South African EPFI)

“There is a structure around it [EP implementation advice]. There are several
consultancy companies which are offering services. It’s linked very much to the
IFC system and there’s quite a body of knowledge and body of practice which you
can draw on and there’s quite a collegial relationship between the various Equator
banks so that you can call on others in other banks to offer advice. We’ve [also]
had several banks come to us, certainly since I joined [Name of interviewee
organisation] a year ago asking us for our experience on project finance etc.”
(Dutch/Belgian EPFI, Interviewee 2)

Such organisational field level criteria and support for EP practice was set to increase
further, when following an EPFI meeting in Washington in May 2007, a brief guidance
document for EP implementation reporting was produced by EPFIs. This proposed
minimum requirements for reporting, suggestions on the extent of information to be
disclosed and formats for data presentation (EP, 2007). In addition, Working Groups on
such issues as EP documentation, governance, outreach and NGO engagement were also
either newly developed, or became more formalised.

Therefore, as the Principles themselves were maturing over the course of 2005 and 2007, so
too was the EP organisational field and the level of interaction amongst its participants.
Hence, the reciprocal relationship between evolving EP structures/criteria and
agents/practice across organisational field and organisational level was continuing to
stimulate the EP institutionalisation process as a whole.

7.4.3 Active “Followers”

“[T]he bank isn’t just joining with what the other banks are doing …we like
to be at the forefront rather than being seen at the tail end and being
dragged unwillingly towards better standards…I mean we’re not alone,
there’s other banks that want to have the same role in pushing standards
forward.” (UK EPFI 2, emphasis added)

Despite the fact that the three interviewees discussed in this chapter were later adoptees,
each of them indicated how they were active EP adoptees. This was due to either their
participation in the emerging EPFI Working Groups and/or their EP implementation efforts
at organisation and regional level. With respect to the latter, one interviewee also
highlighted how his organisation was recognised as a leader in their own right. All interviewees welcomed the opportunity to interact and learn from existing and experienced EPFIs, yet it became clear that they did not wish to be passive followers of the Principles from the beginning:

“We’ve been involved in the NGO Engagement group and a few others…[but] also, when we had our sustainable finance training session this year [2007] on the Equator Principles, it was the first time that the Sustainable Finance guys [consultants] had done a session where there was bank, NGO representation and client representation in the same room. So I think the emerging markets are doing interesting things with this process... [and] I think people see [Name of interviewee organisation] as being the leader [in South Africa].” (South African EPFI)

“When we announced [our adoption] …we asked to be as active as possible as a member. We just didn’t want to sit there and be a sleeping partner. And the structure was there with the different Working Groups and we chose [to become part of] what we thought was important from our own standpoint with the EPFIs as well as our internal efforts with the business lines. So we’re part of the Stakeholder Engagement group. We’re also in the Best Practice group78 because we think it’s very important that the bank knows what exactly could be the best ways of wording covenants and contracts etc.” (French EPFI, Interviewee 2, emphasis added).

Hence, this analysis highlights how not all “followers” in institutionalisation processes are submissive in their adoption of “innovative” criteria and practices established by “leaders” in their institutional environments. It suggests that some of them can be innovative in their own right and may actively use their institutional environments to work for/towards their own agendas, as opposed to just being “slaves” to isomorphic forces or the agenda of their institutional environment. Furthermore, the 2007 adoptee even suggested that experienced EPFIs or “leaders” might expect more of their organisation’s implementation efforts as they had taken such a long time to prepare for EP adoption.

“In a way I think we certainly can take advantage of their [existing EPFIs’] experience. In another way I think that they will be maybe a bit more watchful of the way we are doing things now because we took more time to adopt the principles…. And it’s something I noticed when we had the meeting in December [2007]. And so I think that since we have this message that we joined late because we wanted to be ready to do it, they could say ‘now you are ready, show us that you are, and that you can do it and can really implement it.”(French EPFI, Interviewee 1)

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78 This Working Group produced a guidance document for EPFIs on the incorporation of E&S considerations into loan documentation in August 2009 (EP, 2009). See Appendix 5 for an overview of the current EPFI Working Groups.
The above therefore draws attention to the *dynamics* of the relationships between innovators and followers within an institutionalisation process. In doing so it underscores how such relationships can be more complex than merely viewing them as a “product” of isomorphism within institutional environments.

### 7.5 Chapter Summary

This chapter focused on the incremental progression of the EP institutionalisation process between 2003 and 2007 and was divided into three sections.

The first section (7.2) undertook an in-depth analysis of the “early” adoption of the EP, the emergence of the EP organisational field and EPFI organisational level adaptation to the EP over the course of 2003 to 2005. It discussed why the early EP adopter interviewees adopted the EP and how EPFI coercive and mimetic pressures had a role to play in this. Yet, in doing so it highlighted how a “trade-off” between the pressure to “conform or perform” (Barreto and Baden-Fuller, 2006) was not an issue for these early adoptees. It continued by analysing the emergence of the EP organisational field around the “issue” (Hoffman, 1999) of the EP, outlining how EP accountability “disputes” between newly formed NGO and EPFI coalitions’ largely shaped organisational field dynamics at this stage. In addition, it emphasised the differences, or heterogeneity, regarding EP “significance” and implementation efforts across EPFIs at organisational and organisational field level.

The second section (7.3) focused on the revision of EP I between 2005 and 2006, and the launch of EP II in July 2006. It discussed how EPFI leaders’ reflexive consideration of their experience with EP implementation at organisational level, awareness of the constraints of their immediate institutional environment, and knowledge of broader societal accountability concerns, influenced this revision process and the structure of EP II. Finally, the third section (7.4) critically analysed the nature of the late(r) adoption of the EP between late 2005 and 2007, and evidenced how the later adoptees in this research did not “passively” conform to EP adoption, criteria and practices laid out by EP leaders. However, it also highlighted how the EP were, by late 2007, being recognised as *the* standard (institution) for more sustainable project finance, making it harder for non-EP banks to operate in the
project finance market. The latter displaying a certain movement from coercive to normative isomorphic pressure for EP adoption.

Throughout chapter seven (namely sections 7.2. and 7.3), the complexity of the accountability issues surrounding the EP phenomena were discussed, evidencing how these debates shaped, and were shaped by, the progression of the EP institutionalisation process. This will now be discussed further in the following chapter.