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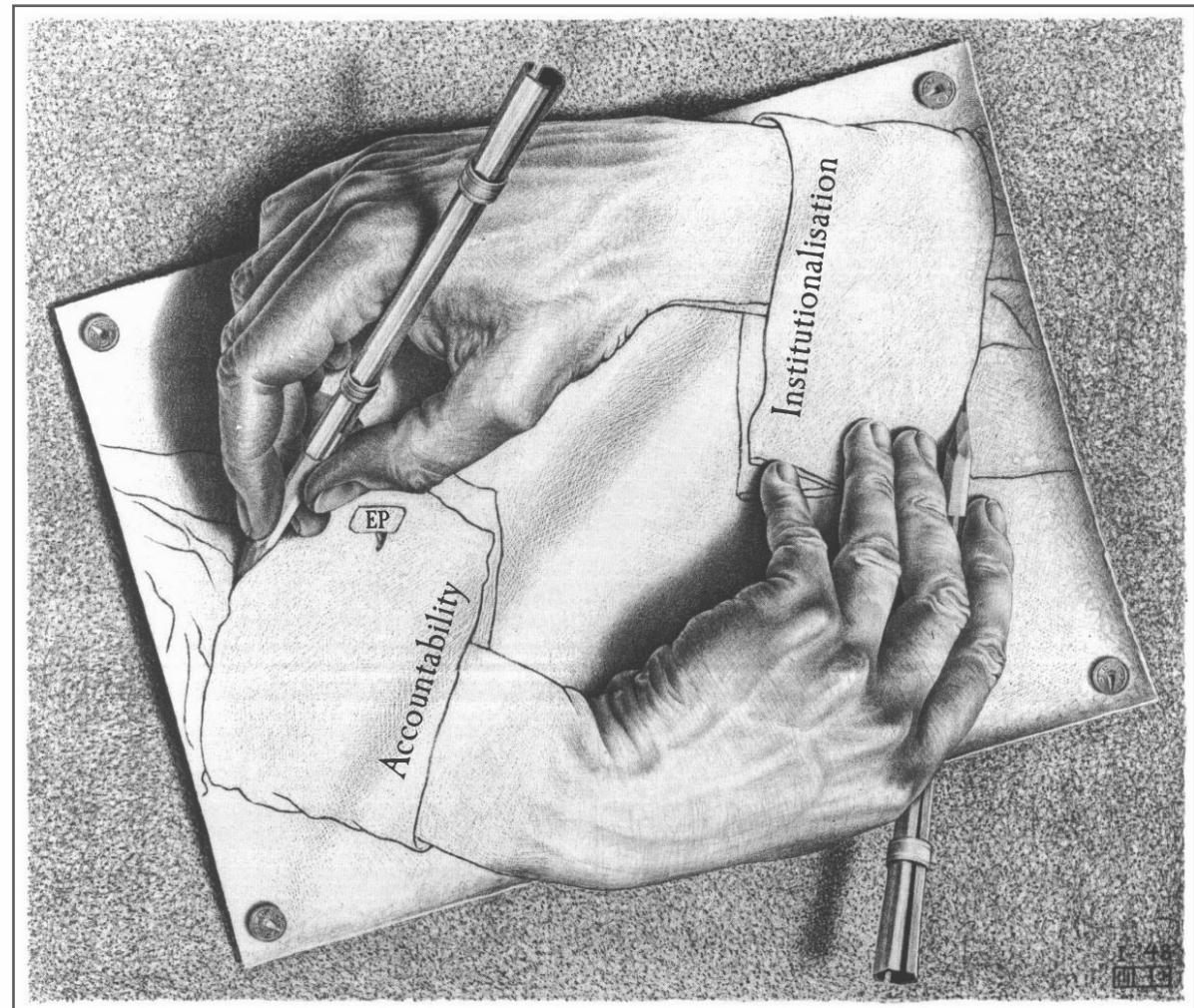
In June 2003, the Equator Principles (EP) were launched by ten international commercial banks. The EP were designed as a set of voluntary environmental and social risk management guidelines for project finance. Whilst lauded as a “revolutionary” initiative by the financial sector, the Principles were not as optimistically received by some non-governmental organisations (NGOs), largely due to what they perceived as the inability of the EP to adequately address all of their financial sector accountability demands. By June 2008, there were 60 adopting Equator Principles Financial Institutions (EPFIs) and the EP had become the “standard” for more responsible project finance. To active EPFIs, the EP were now an accepted (institutionalised) aspect of their daily operations, changing the manner in which they financed and managed project finance arrangements. Yet, to NGOs, the need for more “concrete” evidence of the positive impacts of EP implementation persisted.

This research seeks to evidence, understand and explain this EP institutionalisation process between 2003 and 2008 and its effects on EPFI social accountability over this period. Through interviews with 31 key EP stakeholders in the field, participant observation and extensive documentary analysis, it investigates why and how the EP emerged and evolved to become an institutionalised aspect of EPFI project finance activities; and reveals how this process enabled, rather than constrained, EPFI social accountability.

Social Accountability and the Finance Sector

Niamh A. O’ Sullivan 2010

Social Accountability and the Finance Sector: The Case of Equator Principles (EP) Institutionalisation



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The Case of Equator Principles (EP) Institutionalisation

Niamh A. O'Sullivan

**Social Accountability and the Finance Sector:
The Case of Equator Principles (EP) Institutionalisation**

ACADEMISCH PROEFSCHRIFT

ter verkrijging van de graad van doctor
aan de Universiteit van Amsterdam
op gezag van de Rector Magnificus
prof. dr. D.C. van den Boom
ten overstaan van een door het college voor promoties ingestelde
commissie, in het openbaar te verdedigen in de Aula der Universiteit
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door

Niamh Anne O' Sullivan

geboren te Cork, Ierland.

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“One person’s constraint is another’s enabling.” (Giddens, 1984, p.176)

Preface

My passion for environmental issues was awakened at the age of 12 when images of burning rainforests in the Amazon basin occupied our TV screens. These images would stay with me and at the age of 15, I found myself writing about the first Earth Summit held in Rio de Janeiro, in 1992, in an important English examination. Little did I know then that this passion would continue to grow and lead me to, amongst other things, co-organise an event at the second Earth Summit, the World Summit for Sustainable Development (WSSD), in Johannesburg, South Africa, ten years later in 2002.

Working with the United Nations Environment Programme Finance Initiative (UNEP FI)¹, in Geneva, Switzerland between 2001 and 2005 was what brought me to WSSD, and exposed me to the then emerging field of sustainable finance. It was also here at UNEP FI that my interest in the Equator Principles (EP) arose, following their launch in 2003. Over the course of 2003 to 2005 I began to keep track of the development of the Principles and was fortunate enough to discuss this with a variety of financial institution (FI) representatives and non-governmental organisation (NGO) representatives. These personal experiences prompted my desire to understand how and why the EP were affecting the internal operations of adopting FIs and proved highly influential to my PhD research on EP institutionalisation and accountability processes later between 2005 and 2009. It is for this reason that I would firstly like to thank Paul Clements-Hunt, Head of UNEP FI, for providing me with the opportunity to gain such invaluable experiences; and also Ken Maguire, UNEP FI Administration, for selecting my UNEP internship application in the first place in 2000.

In my search for, and effort to secure, a suitable PhD position between 2004 and 2005, some of the contacts I made at UNEP FI were also extremely helpful; namely Chris Bray, Barclays, Martin Hancock, Westpac and Sean Gilbert, GRI. Thank you all for your wonderful assistance and support in those initial stages as well as the entire PhD research process.

Following correspondence with Prof. Ans Kolk in University of Amsterdam Business School (UvABS) in 2004, I received an email from a new Irish professor to the UvABS in

¹ A global partnership between UNEP and the financial services sector.

early 2005. Prof. Kolk had kindly passed on my correspondence to him as he had a vacant PhD position and he asked me where I thought I could “fit in”? As a geographer the prospect of trying to “fit” into an accounting department was somewhat daunting, but the fact that this professor was working on social accountability, and Irish, sparked my interest (had I known you came from Offaly at the time Brendan I might have reconsidered). From that early correspondence, to securing the PhD position, through to the final draft of the PhD thesis, Professor Brendan O’ Dwyer was an unwavering pillar of support and source of encouragement and inspiration. As a PhD student I could not have wished for a more like-minded, committed, determined and understanding supervisor. In short, you allowed my PhD to happen Brendan, and I am deeply indebted to you for this.

The secure academic foundation for my PhD in UvABS was reinforced by the (broad) social accounting network internationally over the course of my research. I would particularly like to thank Prof. Chris Humphrey, Prof. Jesse Dillard, Prof. David Owen, Prof. Jeffrey Unerman and Prof. Ans Kolk for their very useful comments, suggestions and support along the way. In addition, a special note of thanks must be extended to the KPMG Netherlands Wetenschapscommissie for recognising the potential of my research and generously supporting it since 2007. I am very grateful to you for all of your assistance.

Furthermore, any qualitative piece of research would not be possible without the “subjects” of that research. I would therefore like to warmly acknowledge the outstanding cooperation, participation and patience of all of the FI interviewees, NGO interviewees, two mining company interviewees and the EP lawyer and environmental consultant that partook in my research. Unfortunately, our confidentiality agreements do not allow me to mention you all by name, but I would like to extend my heartfelt appreciation to you all for welcoming me into your organisations, giving me your time and providing me with extremely rich empirical data to use in this thesis.

In the course of my research I also needed some assistance gaining access to some of these interviewees. I would particularly like to thank Andre Abadie and Carey Bohjanen Sustainable Finance Ltd./PWC, for acting as very helpful gatekeepers to a number of FI interviewees, as well as providing practical insights into my research. Similarly, I would

like to thank Johan Frijns and Michelle Chan-Fishel, at BankTrack, for acting as equally accommodating gatekeepers to NGO interviewees.

When the interviews were complete, there was a lot of time spent trying “to make sense” of it all at my desk. It was at these times that the support of those in my immediate surroundings was most important. I would therefore like to acknowledge and thank all of my colleagues in the UvABS accounting section for “putting up” with my passion for qualitative research and for teaching me that accountants can actually have fun. A special note of thanks goes to Igor Goncharov, George Georgakopoulos and Roel Boomsma for making my time as an “accountant” a pleasurable one. I would also like to thank my broader UvABS colleagues, and now good friends, Joris Ebbers, Gabor Kismihok, Stefan Mol and Jonatan Pinkse for all of those extra-curricular activities that made the PhD process all the more enjoyable.

Doing a PhD is no easy task and doing it in another country can sometimes make it harder. That is why the ongoing loyalty and patience of my friends in the Netherlands and internationally was of great importance to me during the PhD. Alyson, Tamara, Marthe, Thomas, Barbara, Mareike, Irena and Jon, you all helped me in various ways and at various stages throughout my time in Amsterdam. I am very grateful to you for this. Internationally, there are too many close friends to name in person, however, three of them cannot go without specific mention. Lisa, Anna and Shelley, despite the fact that we were all in different time zones for most of the PhD, I always felt that you were right there with me through what was at times a very lonely process. Thank you all very much for, amongst many other things, your firm faith in my ability to “pull this off”. Lisa, I now also have the pleasure of thanking you individually for being one of my paronymsphs.

Finally, and most importantly, I would like to thank my family for all of their unconditional love and support throughout not only this PhD, but always. Michael, thank you for being someone to look up to and for being one of my paronymsphs. Liam, thank you for your understanding and advice about the PhD. Pat, thank you for always seeing the bright side of life. Breda, thank you for your kindness. Dad, thank you for making me strong. And, not least of all, Mam, no words can express how thankful I am for everything you have ever done for me and for who you are.

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LIST OF ACRONYMS

AP	Action Plan
CSR	Corporate Social Responsibility
CRBM	Campagna per la Riforma della Banca Mondiale
ECA	Export Credit Agency
EP	Equator Principles
EPFI	Equator Principles Financial Institution
E&S	Environmental and Social
EHS	Environmental, Health and Safety
EMS	Environmental Management System
ESIA	Environmental and Social Impact Assessment
FI	Financial Institution
FOE	Friends of the Earth
GRI	Global Reporting Initiative
GRI FSSS	Global Reporting Initiative Financial Services Sector Supplement
IFC	International Finance Corporation
IOL	Intra-Organisational Level
IRN	International Rivers Network
NGO	Non-Governmental Organisation
NIE	New Institutional Economics
NIS	New Institutional Sociology
OECD	Organisation for Economic Cooperation and Development
OF	Organisational Field

OIE	Old Institutional Economics
OL	Organisational Level
RAN	Rainforest Action Network
SEP	Socio-Economic and Political
SPE	Special Purpose Entity
SRI	Socially Responsible Investment/Investor
UNEP FI	United Nations Environment Programme Finance Initiative
WWF	World Wildlife Fund

ABSTRACT

In June 2003, the Equator Principles (EP) were launched by ten international commercial banks. The EP were designed as a set of voluntary environmental and social (E&S) risk management guidelines for project finance. Whilst lauded as a “revolutionary” initiative by the financial sector, the Principles were not *as* optimistically received by some non-governmental organisations (NGOs), largely due to what they perceived as the inability of the EP to adequately address all of their financial sector accountability demands. By June 2008, there were 60 adopting Equator Principles Financial Institutions (EPFIs) and the EP had become the “standard” for more responsible project finance. To *active* EPFIs, the EP were now an “accepted” aspect of their daily operations, changing the manner in which they financed and managed project finance arrangements. Yet, to NGOs, the need for more “concrete” evidence of the positive impacts of EP implementation persisted.

This research seeks to evidence, understand and explain this EP institutionalisation process between 2003 and 2008 and its effects on EPFI social accountability over this period. It investigates *why and how* the EP emerged and evolved to become a “taken-for-granted” (institutionalised) aspect of EPFI (commercial bank) project finance activities, and whether this enabled and/or constrained their social accountability between 2003 and 2008. A qualitative methodological approach is adopted, incorporating a case study involving (participant) observation, extensive documentary analysis and 29 semi-structured interviews with 31 key EP stakeholders in the field. The case material is interpreted and theoretically framed through the use of the concepts of accountability and legitimacy, and the application of the Dillard et al. (2004) framework on institutionalisation. This results in a highly detailed narrative that “illuminates” the EP institutionalisation process and shows how it enabled, rather than constrained, EPFI social accountability between 2003 and 2008. Consequently, unique theoretical and empirical contributions are made to the extant literature.

CHAPTER 1: INTRODUCTION

“Why did they do it? It was the right time...and should it have been done earlier? Probably yes...but as I said, it’s like evolution. Things don’t evolve naturally. You normally need a huge shock to the system and then things will adapt and change and that’s how evolution takes place. And the Equator Principles is part of that evolution which says; banks, financial institutions, have reached the stage now where, from a project finance perspective in this case, we need to be more responsible, end of story, get on and do it.”
(Australian EPFI)²

1.1 Introduction

On June 4th, 2003, ten commercial banks: ABN Amro, Barclays, Citigroup, Crédit Lyonnais³, Credit Suisse First Boston⁴, HVB⁵, Rabobank, Royal Bank of Scotland, WestLB and Westpac, launched the Equator Principles (EP) in Washington D.C. The EP were designed as a set of voluntary, environmental and social (E&S) risk management guidelines for financial institution (FI) project finance activities.⁶ Project finance, though a small part of FI operations, has traditionally represented the most visible and tangible E&S impact of the financial sector. This is because it is associated with the financing of large, environmentally sensitive projects such as dams, mines, and oil and gas pipelines, largely in the developing world and emerging economies. In addition, these projects had attracted the attention of international non-governmental organisations’ (NGOs) financial sector campaigns since the late 1990’s.

² One of the Equator Principle Financial Institution (EPFI) interviewees included in this research.

³ Which later became Calyon and was renamed Credit Agricole Corporate and Investment Bank in 2010.

⁴ Now the investment banking division of Credit Suisse, as rebranded in 2006.

⁵ Which merged with the UniCredit Group in 2005 and is now known as UniCredit Bank AG.

⁶ Project finance is a method of funding in which the lender looks primarily to the revenues generated by a single project, both as the source of repayment and as security for the exposure to default. This type of financing is usually used for large, complex and expensive installations such as power plants, mines, transportation and telecommunications infrastructure. Project finance may take the form of financing of the construction of a new capital installation, or refinancing of an existing installation, with or without improvements. The borrower is usually a Special Purpose Entity (SPE) which is not permitted to perform any function other than developing, owning and operating the installation. As a consequence the repayment depends primarily on the project’s cash flow and on the collateral value of the project’s assets (Equator Principles II, 2006).

In adopting the EP, Equator Principle Financial Institutions (EPFIs) were, *voluntarily*, committing themselves to the application of E&S principles to their design, execution and management of project finance loans, and pledging not to engage or provide finance to clients that would not comply with EP requirements. Whilst the development of the EP was deemed “revolutionary” by the financial sector, in terms of how the Principles could advance their E&S risk management procedures (for project finance), they also received widespread criticism from NGO stakeholders. This was because the *original* structure of the EP made no provision for EPFI reporting on their implementation of the Principles at organisational level, nor was there any form of accountability mechanism designed for institutional level governance amongst the EPFI “network”. Hence, from the beginning, the EP “phenomena” was subject to social accountability debates, which have continued throughout the relatively short history of the Principles.

In this research, accountability is recognised as “identifying what one is responsible for and then providing information about that responsibility to those who have rights to that information” (Gray, 2001, p.11). In addition, “social accountability” is used to denote environmental and social accountability collectively.

1.2 Research Objectives and Questions

The aim of this research is to evidence, understand and explain the EP institutionalisation process between 2003 and 2008 and its effects on EPFI social accountability over this period. Therefore, this thesis conducts an in-depth examination of *why and how* the EP became a “taken-for-granted” (institutionalised) aspect of adopting commercial bank project finance activities, and whether this enabled and/or constrained their social accountability between 2003 and 2008. Hence, this study seeks to answer the following research questions:

1. Why and how did the EP institutionalisation process emerge?
2. Why and how did this process evolve between 2003 and 2008?
3. What effect did this process have on EPFI social accountability (i.e. related to their project finance and/or broader activities) over the period 2003 to 2008?

These research questions are answered by tracing this EP institutionalisation *process* from:

1. The initial “shock” or “jolts” that “induced” this process i.e. NGO campaigns for more accountable and sustainable finance prior to 2003, to;
2. The financial sector response and launch of the EP in 2003, and thus the initiation of EP institutionalisation, through to;
3. The implementation, modification and evolution of the EP between 2003 and 2008, hence capturing the *how* of the institutionalisation process.⁷

In doing so, the effect of this EP institutionalisation process on EPFI social accountability, and vice versa, between 2003 and 2008 is critically analysed and discussed.

1.3 Theory

This research broadly combines two theoretical approaches. Firstly, the concepts of accountability and legitimacy are utilised in order to understand and explain: 1) *why* NGO financial sector campaigns led to the initiation of the EP; 2) *why* NGO/societal debates would continue to influence, and be influenced by, EP institutionalisation between 2003 and 2008; and 3) *how* EP institutionalisation affected EPFIs.

Secondly, this research uses the Dillard et al. (2004) framework on institutionalisation⁸ as a conceptual guide to illuminate the complex, political and “multi-level” nature of the EP institutionalisation process from 2003 to 2008. Dillard et al. view institutionalisation as a *structuration process* (Giddens, 1976, 1979, 1984) occurring over societal, organisational field (institutional) and organisational levels. That is, they perceive a reciprocal and recursive (ongoing) relationship to exist between the “structures” that underpin a specific “institution” (i.e. the norm/value/standard being institutionalised), and the knowledgeable and reflexive “agents” that interact with these structures. Here, “structures” refers to the legitimisation (rationale), signification (meaning) and domination (power) properties associated with/underpinning the institution in question. Dillard et al. view this iterative relationship between structures and agency as *mobilised* through daily interaction between (societal, organisational field and organisational) “criteria” and “practice”, and *manifested* in the emergence, evolution and “acceptance” of an institution over time. This research

⁷ Whilst 2003 to 2008 is the period under investigation in this research, this researcher is keen to point out that she views the EP institutionalisation process as an *ongoing* process, that will (and has) continue(d) to evolve post-2008.

⁸ Which won the Mary Parker Follett Outstanding Paper Award in *Accounting, Auditing & Accountability Journal* for 2004.

views the EP as an institution (standard) and uses the Dillard et al. framework to understand and explain *how* the EP emerged in 2003 and evolved to become *the accepted* (institutionalised) standard for more sustainable/accountable project finance by 2008.

1.4 Research Method

This research interprets, and represents, the EP institutionalisation process from the perspective of some of the most prominent actors associated with the EP phenomena i.e. EPFIs and NGOs and, to a lesser extent, some broader EP stakeholders. The research adopts a qualitative methodological approach and applies qualitative research methods to capture the views of these actors within the broad EP field or “domain”. This involves a case study incorporating 29 semi-structured interviews,⁹ (participant) observation and extensive documentary analysis. The in-depth theorisation and interpretation of this case material produces “rich”, context-specific (interviewee-informed) insights into *the case of* EP institutionalisation between 2003 and 2008.

While there is a range of FIs adopting the EP, it is commercial banks¹⁰ that will be the specific focus of this research. This is primarily because it was commercial banks that developed and launched the EP, and secondly because of this researcher’s ease-of-access to some of these banks. In addition, the terms EPFIs and commercial banks will be used interchangeably throughout this research.

1.5 Research Contributions

A number of theoretical and empirical contributions arise from this research. Firstly, no prior work *specifically* focused on the EP, the accountability dynamics surrounding them or their institutionalisation, has been conducted within the accounting discipline to date. Secondly, no specific work on EP institutionalisation has been conducted within the very small number of existing studies on the EP in the broader corporate social responsibility (CSR)/sustainable finance literature. This research makes unique empirical contributions to both of these bodies of literature, as it privileges qualitative analysis of the EP institutionalisation process, from the perspective of key EP actors. Furthermore, this

⁹ Involving 31 individual interviewees and representing 25 different organisations i.e. ten NGO, ten EPFI and five broader EP stakeholder organisations (one law firm, one environmental consultancy, two mining companies and one mining industry association).

¹⁰ Most of the commercial banks in this research also have active retail, investment or asset management arms.

research makes substantial theoretical contributions to this literature as is outlined here. With regard to the social accountability literature, this research mobilises the concepts of accountability and legitimacy in the unique context of an institutionalisation process, and also considers how parallel processes of accountability and institutionalisation can influence one another. In addition, few studies have focused on NGOs as exerting “institutional pressure” on organisations or examined how that pressure may “induce” and influence an institutionalisation process (but see Lounsbury et al., 2003; Den Hond and De Bakker, 2007). Accordingly, this research, which focuses on NGO accountability/legitimacy demands as influencing the emergence and evolution of the EP institutionalisation process, addresses these gaps in the extant literature.

In terms of institutional theory, this research directly addresses some of the recent critiques and calls for the expansion of institutional theory research in the literature (e.g. Lounsbury, 2008; Scott, 2008). It does so in a number of ways. Firstly, it focuses on institutionalisation as a *process*, as opposed to an outcome, and adopts a qualitative, longitudinal and multi-level approach to study this process. Secondly, it recognises the powerful role and influence of agents in institutional processes (Di Maggio 1988; 1991) and how “embedded agents” (Seo and Creed, 2002) can actually be enabled, as opposed to constrained, by their positions in order to affect organisational and institutional change (Greenwood and Suddaby, 2006; Reay et al., 2006). Thirdly, it evidences heterogeneity, as opposed to homogeneity, across organisational perceptions of, and reactions to, institutional pressures and norms, and highlights how “followers” in organisational fields do not always engage in “mindless imitation” (Lounsbury, 2008) of “innovators” in the field. In doing so, it also illustrates that the dichotomy between the pressure to “conform” *or* “perform” regarding institutional demands does not always exist (Heugens and Lander, 2009); and that the former can actually enhance the latter. More broadly, this research considers the potential relationship between institutional theory and notion of accountability in general, and highlights the possible need to theorise the relationship between an institutionalisation process and the *accountability* of the agents involved therein.

Finally, this research provides a unique “contextual” setting for the application of the Dillard et al. (2004) framework. It also offers useful suggestions for the extension and development of the model through more in-depth consideration of its: (1) notions of criteria

and practice; (2) interpretation of an organisational field; and (3) need to conceptualise institutional dynamics at *intra*-organisational level. In short, this research prioritises theoretical and empirical concepts, approaches and perspectives that are largely absent from the existing literature.

In addition, this study offers some practical implications for a wide range of EP stakeholders in that it acts as a highly informative “introduction” to the evolution of the EP since 2003, which, to the best of this author’s knowledge, has not been completed to date.¹¹ Furthermore, this research offers two key recommendations to EPFIs in order to help them *further* improve their EP accountability: 1) greater transparency is needed surrounding EP governance at organisational field level i.e. regarding the manner in which the current EP management structure operates; and 2) there is a need for greater transparency and clarity surrounding the internal auditing of the *process* by which the EP are applied to project financing arrangements *within* EPFIs, as well as the external assurance of the same.

1.6 Thesis Structure

This thesis is structured into ten more chapters as follows.

Chapter Two, the literature review, is divided into two parts. Firstly, it provides an overview of some of the existing literature within the broad “sustainable” finance field, as well as extant studies on the EP *per se*. Part two conducts a review of what will be termed the “theoretical” literature and is further divided into two sections. The first section is concerned with the interpretation and application of the concepts of accountability and legitimacy in this research, while the second provides an overview of institutional theory and its evolution and critique in the literature. The latter acts as the foundation for a more in-depth consideration of institutionalisation processes and the explanation of the Dillard et al. (2004) framework on institutionalisation in Chapter Three.

Chapter Three, the main theory chapter, is divided into two parts. Firstly, it analyses how the notions of an “institution” and “institutionalisation” have been defined and understood in the literature and how they will be interpreted in the context of this research. Secondly, it introduces the Dillard et al. (2004) framework on institutionalisation and provides an in-

¹¹ Freshfields Bruckhaus Deringer (2005) and Watchman et al. (2007) have been used in a similar vein in the past but are not academic texts.

depth explanation of its constituent parts. This encompasses an explanation of Giddens' (1976, 1979, 1984) structuration theory and outlines how it is used by Dillard et al. to conceptualise the *process* of institutionalisation within their model. The chapter concludes with an overview of how the Dillard et al. model is interpreted and mobilised within this research.

Chapter Four focuses on the research methodology and methods adopted in this study and is broadly divided into three sections. Firstly, it discusses the differences between quantitative and qualitative methodological research and explains how this researcher adopts a qualitative, interpretive approach to this research. Secondly, it discusses qualitative research methods, outlines how they are incorporated into case study research, and explains how and why a case study approach has been adopted in this research. Finally, this chapter provides an in-depth explanation of how this case study on EP institutionalisation was designed, executed, theorised and written into a case narrative.

The aim of Chapter Five is twofold. Firstly, it aims to introduce some “contextual” information about the EP case study “site” or domain i.e. where the EP phenomena “plays out”. This includes a discussion on the nature of project finance and the EP initiative. The objective is to “set the scene” for the case narrative on the EP institutionalisation process in the following chapters. Secondly, this chapter aims to briefly introduce the manner in which the case narrative will be structured, in order to provide a “roadmap” for the discussion of the research findings.

The case study narrative is then structured over Chapters Six to Nine as follows. Chapter Six analyses why and how the EP emerged and introduces the beginning of the EP institutionalisation process (research question 1). Chapter Seven focuses on the incremental progression of the EP institutionalisation process between 2003 and 2007 and is divided into three sections (research question 2). The first section (7.2) analyses 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. The second section (7.3) focuses on the revision of EP I, broadly between 2005 and 2006, and the launch of EP II (Equator Principles 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. Chapter Eight then turns to the critical analysis of the evolution of the EP institutionalisation process, towards better governance of the EP initiative, between 2007 and 2008 (research question 2).

Having discussed the evolution of EP institutionalisation over societal, organisational field and organisational levels between 2003 and 2008 in Chapters Six to Eight, Chapter Nine conducts an in-depth analysis of EP institutionalisation at EPFI *intra*-organisational level through the *actual* project finance process (research question 2). The objective is to evidence the EP as a fully “accepted” or institutionalised facet of project financing for EPFIs. In doing so, this chapter also attempts to extend the Dillard et al. (2004) framework to intra-organisational level. In addition, the effects of the EP institutionalisation process on EPFI social accountability between 2003 and 2008 will be discussed throughout Chapters Six to Nine. This highlights how EP accountability processes affected, and were affected by, EP institutionalisation over this period, and how EP institutionalisation acted to enable, rather than constrain, better EPFI social accountability overall (research question 3).

Chapter Ten conducts an in-depth discussion of this research and is divided into two sections. The first section reintroduces the three research questions framing this case study and, through the application of the Dillard et al. (2004) framework, explains how the case narrative answered these research questions. The second section discusses some theoretical implications of this thesis and is further divided into two parts. The first part critically discusses the Dillard et al. (2004) framework, offering some suggestions as to how this framework might be advanced. The second part discusses the possible need for deeper consideration and theorisation of the relationship between an institutionalisation process and the *accountability* of the agents involved in that process.

The thesis then moves to a conclusion in Chapter Eleven and offers some suggestions for future research. This thesis now turns to the literature review in Chapter Two.

CHAPTER 2: LITERATURE REVIEW

“Banks have an important role to play in financing economic activity yet have received comparatively little attention in the social accounting literature to date.” (Thompson and Cowton, 2004, p.216)

2.1 Introduction

This chapter is divided into two parts. Firstly, it provides a brief overview of some of the existing literature within the broad “sustainable” finance field, highlighting the key topics that have been addressed within this literature. This is done in order to portray the context within which this particular research is placed, and in doing so highlights the unique contributions that it aims to make to this literature. It then continues by introducing some of the extant literature on the Equator Principles (EP) *per se*, from a wide range of academic disciplines, in order to provide an overview of how the Principles have already been studied, and how this research will contribute to and advance this body of literature.

Secondly, part two of this chapter conducts a review of, what will be termed, the “theoretical” literature. This is further divided into two parts. The first section is concerned with the concepts of accountability and legitimacy. It begins with an explanation of how accountability is defined, understood and used in the existing literature; and how it is interpreted in this research. This is important as one of the main aims of this research is to investigate whether the EP institutionalisation process affected the social accountability of adopting Equator Principles Financial Institutions (EPFIs) between 2003 and 2008 (see Section 1.2). It then explores the interconnection between the notions of accountability and legitimacy, and briefly introduces how they are interrelated with institutional theory in this research. This is relevant as part of this research examines why and how NGO demands for financial sector accountability/legitimacy played an instrumental role in the initiation and development of the EP institutionalisation process. The second section then provides an overview of institutional theory and its evolution and critique in the literature. This acts as the foundation for a more in-depth consideration of institutionalisation processes, and the explanation of the Dillard et al. (2004) framework on institutionalisation, in Chapter Three.

2.2 PART 1: Sustainable Finance Literature in Review

Research in the broad field of “sustainable” (environmental and social) finance/ corporate social responsibility (CSR) and the finance sector (UNEP FI, 1997; Bouma et al., 2001) focuses on a wide range of topics related to both credit (debt) and investment (equity) activities.

Firstly on the credit side, the majority of work has tended to centre around the notion of risk. Here, much work has been done on the integration and analysis of environmental risks (and “sustainability” criteria) into commercial bank credit risk management policies and processes (e.g. Coulson and Dixon, 1995; Weber et al., 2008; Weber et al., 2010). In addition, lender fear of reputational risk due to, for example, an association with polluters, has also been explored (Coulson and Monks, 1999).

Coulson (2001) provides further in-depth analysis of these risks and sustainable finance through a case study of Lloyds TSB Group. She focuses on the development and use of environmental assessment techniques within the bank’s commercial and business lending function, and observes how environmental risk assessment was becoming part of the day-to-day reality for the bank’s lending officers and borrowers. In doing so she stresses how lending officers should not be considered environmental experts, yet also outlines how their perceptions of environmental risk could potentially influence the level of financial support made available for both economic development and environmental protection. In general, Coulson (2001) emphasises that sharing lending experiences and developing lending frameworks based on industry, customer and regional expertise, can greatly contribute to improved levels of corporate environmental risk assessment.

In terms of a broader focus on risk, Thompson (1998) examines a sample of UK bank environmental lending policies, and concludes that, at the time, while banks were focusing on environmental risk management regarding corporate lending, there was little evidence of them harnessing the opportunities related to the “greening” of industry. In addition, Soppe (2004) compares the concept of sustainable corporate finance with traditional and behavioural finance, and concludes that finance as a discipline needs a multifaceted approach instead of the extant one-dimensional risk and return focus.

Some scholars have considered what role banks could play in encouraging the protection of the natural environment, beyond their direct, in-house impacts (Lundgren and Catasus, 2000), and how the financial sector can act as a driver for CSR overall (Scholtens, 2006). In doing so, Scholtens (2006) mentions the EP as one medium in which banks may influence the environmental and social (E&S) behaviour and performance of borrowers and their projects. Broader still, Simpson and Kohers (2002) analyse the relationship between corporate social performance and financial performance in the banking sector and find a positive link between both.

Other scholars have studied the banking sector and reporting/accountability issues, investigating the environmental information used or desired by banks when making lending decisions (Thompson and Cowton, 2004; Coulson, 2007), and conducting an analysis of E&S reporting in web-based financial and corporate social reports of five UK Banks (Coupland, 2006). Also, a number of regional studies have been undertaken, including an analysis of the social performance of the main financial companies in Spain (Cuesta-Gonzalez et al., 2006), and the examination of consumer awareness and understanding of Australian banking sector CSR activities (Pomering and Dolnicar, 2009).

In addition, a range of “benchmarking” or status reports on the variety of sustainability activities of banks and financial service organisations have been produced (Weber, 2005; Coulson, 2007). Scholtens (2009) extends this by developing a framework to assess CSR within international banks, finding differences amongst banks, countries and regions as well as a significant increase in banks’ CSR between 2000 and 2005.

Secondly, with regard to the investment side of financial activities, a wide variety of studies have also been published. These have ranged from an examination of shareholder activism for CSR (O’Rourke, 2003), to an exploration of socially responsible investment (SRI) funds and their ability to achieve their desired E&S outcomes (Haigh and Hazelton, 2004), to the study of public pension funds’ need to invest in socially responsible companies (Sethi, 2005). These have also included an examination of the methods in which mutual funds select and apply social considerations in their investment activities (Haigh, 2006a), an analysis of the financial and social performance of SRI in the Netherlands (Scholtens, 2007),

and SRI-screened corporate pension plans in Spain (Albareda Vivo and Balaguer Franch, 2009).

Additionally, more specific accountability issues have also emerged within this body of literature, concerned with, for example: the interrelationship between E&S disclosure, investment decisions and market performance (Murray et al., 2006); the importance and fusion of public and private sustainability disclosure between investee companies and institutional investors (Solomon and Solomon, 2006); plus mandatory reporting requirements for institutional investors regarding the extent to which social considerations are employed in their portfolio construction (Haigh, 2006 b).

Finally, in terms of the relationship between non-governmental organisation (NGO) stakeholders and sustainable finance, while the literature has supported many studies related to the influence of, and relationship between, stakeholders and corporate organisations regarding their sustainability activities and/or accountability (e.g. Tilt, 1994; Lounsbury et al., 2003; Delmas and Toffel, 2004; Deegan and Blomquist, 2006), there has been very little academic work *specifically* focused on the influence of NGO stakeholders on *financial sector* sustainability or social accountability.

It might be argued that Coulson (2009) *indirectly* contributes to this niche, through the consideration of what commercial banks' role could be in the governance of the environment. She explores the notion of such governance beginning from a position of "precaution", whereby a bank's interpretation of precautionary *action* in environmentally challenging projects may be opposed to NGO notions of the precautionary *veto* of, for example, lending or investing in such harmful projects. As a result, she argues that a contested understanding of what constitutes "harmful", between both parties, and how a bank may thus contribute to the governance of the environment, arises. Coulson acknowledges however, that the dichotomy between "action" or "veto" is not so straightforward due to the variety and complexity of both bank and NGO positions and practices regarding this. Furthermore, she highlights how a bank's power to govern the environment is both enabled and constrained by their economic position. They are enabled in that they have the capacity to influence the types of projects that are financed through their lending policies or investment streams, and constrained due to anti-monopoly and

competition regulation; limiting their ability to respond collectively to environmental challenges. Despite this however, she suggests that “banks are being forced to act in unison to find solutions on environmental governance and defend their market position” (Coulson, 2009, p.155) and refers to the EP as an example of this. She concludes by reiterating that a major barrier to environmental governance is incorrectly generalising bank behaviour; and that it is more important to recognise banks’ interpretation of a “precautionary approach” as a useful starting point from which to progress the environmental governance agenda.

However, of what little academic work has been published in this NGO-financial sector domain, Waygood (2006) has, arguably, produced the most comprehensive account to date of the impact of NGO “capital market campaigns” on corporate companies, shareholders and reputational risk. Waygood documents the history of these (predominantly UK) NGO campaigns, analyses the evolving effectiveness of NGO strategies and tactics, examines their implications for company risk management and shareholder value, and provides an overview of some “best practice” responses by companies and investors to such campaigns. In doing so, Waygood *inter alia* refers to the EP and states that “not only was capital market campaigning one reason why the original ten banks created the Equator Principles in the first place, but also the ongoing threat of being targeted by campaigners has been a major incentive for other banks to subsequently sign up” (p. 5).

In a similar vein, Spitzer’s (2007) working paper focuses on the public discourses that captured the “contentious” relationship between Citigroup and the Rainforest Action Network (RAN), between 2000 and 2004. Here, Spitzer argues that RAN’s criticism of the banks’ irresponsible behaviour triggered E&S innovation by Citigroup; of which involvement in the development of the EP was *one* example. Spitzer suggests that RANs campaigns forced Citigroup to consider the moral nature of their operations and criticisms against them; and to learn how to integrate this into their decision-making structures in an attempt to become a responsible organisation. In general, Spitzer posits that: companies which understand the underlying moral nature of doing business will experience fewer “legitimacy” struggles with stakeholders, and position themselves as more “authentic” corporate citizens.

A review of the extant literature on the EP is now conducted in the following section.

2.2.1 The Equator Principles (EP)

While there is a lot of NGO (e.g. BankTrack, 2003; 2004b; 2005b; 2006a; Missbach, 2004); media (e.g. Phillips and Pacelle, 2003; Financial Times, 2006; Sevastopulo, 2006a; 2006b; Scott, 2007; Ethical Corporation, 2008); financial sector popular press (e.g. Nelthorpe, 2003; Thomas, 2004; Deri, 2005; Monahan, 2005; The Banker, 2006; Gaskin, 2007); as well as legal (e.g. Freshfields Bruckhaus Deringer, 2005; Allens Arthur Robinson, 2006; Watchman and Baines, 2007; Watchman et al., 2007); consultancy (e.g. Bailey et al., 2006; Lawrence, 2009; Siddy, 2007) and rating agency (e.g. EIRIS, 2006) work on the EP; there has been little academic work on the Principles to date. Furthermore, while the EP have been referred to in some social accounting publications (see Coulson, 2007), no prior work *specifically* focused on the Principles, the accountability debates surrounding them or their institutionalisation, has been conducted within the accounting discipline to date.

Nevertheless, the wide-ranging CSR and sustainable finance literature currently displays a variety of ways in which the EP have been researched. Firstly, within the broad CSR literature, the EP are often mentioned as *examples* of voluntary corporate initiatives which “pressurise” companies to be more responsible (e.g. Waddock, 2008). The EP have also been cited as examples of how industry self-regulation has moved from national to global levels, and how tough accountability mechanisms and transparency policies need to be adopted by participating organisations if industry self-regulation is to be an effective alternative to transnational governmental regulation (Hemphill, 2004). Secondly, there is an emerging array of research *directly* focused on the EP, and the following is a chronological overview of the diversity of these studies and publications.

Amalric (2005) presents a preliminary economic analysis of the EP and proposes some potential impacts and routes of evolution of the Principles. He questions: (1) why banks are interested in participating in such self-regulation if their overarching aim is to maximise firm value; and (2) what the consequences of this could be on social welfare. He hypothesises that companies that promote and/or adopt the Principles do so because they believe it will enhance firm value, and that the EP can bring banks one step closer to aligning their interests with that of sustainability. However, he also states that if projects are successfully screened against E&S risks that this does not necessarily mean they will

positively contribute to sustainable development. He argues that the EP can only develop into an effective sustainable development device through closer cooperation between EP banks¹² and NGOs.

Richardson (2005) evaluates the EP from a legal perspective. He explains what the Principles demand of lenders, assess their implementation and examines their adequacy for the promotion of environmentally sustainable finance. He believes that the EP are a step in the right direction but that in their original form (Equator Principles I, 2003), are not adequate for nurturing a commitment to environmentally sustainable development. He suggests that while the EP may change the way project financing decisions are made, publicly accountable and transparent decision-making is needed to engender meaningful change; and greater due diligence by project sponsors is also necessary. He believes this is important if the EP, as a voluntary mechanism, are to be an adequate tool for promoting “sustainable” finance in the future, as opposed to enabling mere “window-dressing”.

Hansen (2006),¹³ also writing from a legal perspective, investigates the potential avenues for legal action against EPFIs. He suggests that, in applying the Principles, EPFIs may increase their lender liability with regard to: (1) environmental damage caused by the projects they finance; and (2) violations of the social and economic rights of project affected communities. He therefore warns that it is in the best interest of EPFIs to take responsible E&S practices seriously as this can mitigate potential liability risk.

One of the most widely cited academic papers on the EP is Wright and Rwabizambuga (2006). Wright and Rwabizambuga focus on the EP as a voluntary code of conduct and explore how institutional pressures and the maintenance of firm reputation act as catalysts to EP adoption. In general, they observe that EP adoption is greater in geographical regions where large commercial banks are headquartered and more “exposed” to NGO campaigns (i.e. Europe and North America). As this study has some *broad* parallels with aspects of this research it will be discussed further in Chapter Three, Section 3.2.1a.

¹² Prior to 2006 EP adoptees were generally referred to as EP banks. The term Equator Principles Financial Institutions (EPFIs) was then adopted to more accurately represent the range of financial institution adoptees.

¹³ This is an unpublished Masters thesis.

Later, Wright (2009) also examines the role of the International Finance Corporation (IFC) in the development of the EP. He considers how the IFC influenced the drafting of the EP and why its standards were chosen by commercial banks as a blueprint for the Principles. Wright argues that the IFC's convening power in the run up to the development of the EP played an instrumental role in bringing competing banks together to draft the Principles. He also contends that the participation of the IFC in the drafting stages of the EP convinced the banks that the IFC's (then) Safeguard Policies were the most effective blueprint for mitigating the E&S risks associated with project finance. Wright suggests that widespread support for the EP has made the IFC a "de facto standard-setter" in the global project finance market. However, he also states that the IFC's influence in the development of the EP should not be overestimated, and without the voluntary commitment and endorsement of the banks involved (spurred on by the reputational risks of NGO campaigns), the EP would not have materialised. In closing he states that to instil public confidence in the voluntary Principles, banks, notwithstanding commercial and legal constraints, need to disclose how the EP are applied to controversial projects.

Bertens (2006)¹⁴ investigates whether, three years after their inception, the EP have met their objective of achieving: a common industry standard, improved E&S risk management and continuous engagement with locally affected communities. Based on her research of five Dutch EPFIs, she deduces that at an organisation level, the implementation of the EP has been "fairly effective", with banks integrating the EP into their credit policies and procedures, staff training and public reporting. However, at an industry and project level she believes many challenges remain regarding EP governance and social expertise.

Hadfield-Hill (2007), writing from a geographical perspective, explores the links between banks and their E&S responsibilities. She questions whether "Equator banks" can contribute to sustainability and argues that when *conforming* to the Principles, banks can make, and have made, responsible E&S lending decisions. Yet, she also highlights the need for consistent EP compliance, transparency and accountability by Equator banks, and suggests that further collaboration, compromise and trust between banks and NGOs is needed if responsible lending and sustainable development are to be achieved.

¹⁴ This is an unpublished Masters thesis.

Schaper (2007) investigates the power dynamics and relationships surrounding the EP. He focuses on a range of financial institutions (FIs), including export credit agencies (ECAs), that have adopted the Principles. He observes that FIs build upon their structural (economic) power to “green” clients’ projects, and highlights how both state and civil society actors have leveraged this power to encourage businesses to implement environmental policies and procedures. As a result he argues this has transformed NGOs’ relatively weak discursive power base into a more instrumental form of power.

Scholtens and Dam (2007) analyse the performance of banks that have adopted the EP. They investigate whether these behave in a significantly different manner with regard to their environmental, social and ethical policies than non-adopters, and whether financial markets assess them differently. They find the policies of adopting banks (mainly large FIs) differ significantly from non-adopters. They also find that reputation is a major concern for larger banks with the more responsible ones signalling their responsibility by adopting the EP. Their analysis shows that shareholders do not respond in a significant manner to banks’ announcement of EP adoption, implying that shareholders feel adhering to the EP does not affect shareholder value. Scholtens and Dam find no evidence to support the view that the adoption of the EP is just “window dressing”, as “there is at least some costs involved and there are many project finance banks that do not adopt the Principles” (p.1308). They posit that the benefits of EP adoption, i.e. reduced risk, outweigh any costs involved.

2.2.2 Summary

Sections 2.2 and 2.2.1 have provided an overview of the broad sustainable finance and EP literature. In general, this focused on the integration of E&S issues into the lending and investment policies, procedures and reporting of the financial services industry; and how the EP are playing a role in the same. This discussion highlighted the existing gaps in the literature with regard to: 1) more *in-depth* research into EP social accountability debates; 2) stakeholder perspectives on the development and evolution of the EP; and 3) EP institutionalisation processes. The next section now turns to a review of relevant theoretical literature for this research.

2.3 PART 2: A Review of the Theoretical Literature

2.3.1 Accountability

“Accountability will be enhanced by recognizing the multiple ways in which accountability is experienced.” (Sinclair, 1995, p.216)

As this thesis is concerned with social accountability and the finance sector, it is necessary to consider what the concept of accountability entails and how (aspects of) it will be applied to this study. The following discussion thus considers some of the ways in which accountability, as well as the relationship between accountability and legitimacy, are conceptualised within the literature and why this is of importance to this research.

The literature repeatedly reminds us that accountability is a rather elusive, multi-faceted and even “murky” term, lacking precise definition (Sinclair, 1995; Shearer, 2002; Cooper and Owen, 2007). As Cooper and Owen (2007, p.651) point out “not only does it have discipline specific meanings, but even within the accounting domain there is a distinct lack of consensus as to what being held accountable actually entails”. However, despite the fact that the notion of accountability may thus be recognised as “subjectively constructed and changing with context” (Sinclair, 1995, p.219), there still appears to be *some* general consensus regarding its basic attributes. For example, the extent to which some of the following definitions have been (re)used throughout the social accounting literature is testament to this.

We have been told that the concept of accountability “in its broadest sense simply refers to the giving and demanding of reasons of conduct” (Roberts and Scapens, 1985, p.447). More specifically, accountability is said to entail “identifying what one is responsible for and then providing information about that responsibility to those who have rights to that information” (Gray, 2001, p.11). Accordingly, accountability is seen as dependent upon “the free flow of appropriate information and on effective forums for discussion and cross-examination” (Mulgan, 2000, p.8). Being called to account for one’s actions “requires one to explain and justify what was done” (Ibid, p.9), while “the question of whom to hold to account for what raises immediate issues of personal responsibility and internal values” (Ibid, p.10). Thus, according to Roberts (1991, p.365) “at the heart of accountability is a

social acknowledgement and insistence that one's actions make a difference both to self and others". It is this "intersubjectivity" (Shearer, 2002), or interdependence, between self and others that leads some authors to consider accountability "as a moral phenomenon that both can and should be subject to ethical reflection" (Shearer, 2002, p.545; Schweiker, 1993). Hence, they claim that it is the notion of "moral responsibility that grounds the accountability of the entity with respect to [a] community" (Shearer, 2002, p.543).

While the literature often refers to responsibility and accountability collectively as "accountability" (e.g. Roberts 1991), some authors distinguish between them. For example, Lindkvist and Llewellyn (2003, p.252) argue "accountability tends to connote instrumentality and external controls, whereas responsibility to a greater extent connotes morality and inner controls". Similarly, Ebrahim (2003, p.194) views accountability as "the means through which individuals and organisations are held externally to account for their actions and [...] take internal responsibility for continuously shaping and scrutinising organisational mission, goals and performance". While Fry (1995) states "an individual can only be accountable for that which he or she publicly promises to do for or with another" (p.189); hence actors are said to "feel" responsible for what they promise to be accountable for.

Notions of responsibility and accountability raise some conceptual challenges for how organisations are perceived and "whom" exactly is being held responsible and to account. In other words is the organisation recognised as an "entity" or a "collective of individuals"? Shearer (2002), suggests that "since economic entities are not individuals and do not possess a consciousness, any attempt to ascribe moral responsibility to collectivities must locate the source of this moral agency elsewhere than in the self-realizing 'soul' of the individual subject" (p.543). Instead, she believes that "economic entities become members of a moral community by virtue of the *accounts* that such entities render of themselves" (Ibid, emphasis added). Hence, the act of "accounting for" their moral (E&S) responsibilities is arguably a means by which organisations, as *entities*, may represent the collective "soul" or voice of individual actors therein.

Furthermore, as Ahrens (1996, p.168) suggests "a defining feature of organisational processes of accountability is the alignment of organisational rhetoric and practice with

wider public discourses”. Accordingly, the social accounting literature is dominated by research on why and how organisations attempt to “evidence” their accountability, and at the same time gain societal *legitimacy*, through the production of E&S, or sustainability, reports (O’Donovan, 2002; O’Dwyer, 2002; Deegan and Gordon, 1996; Deegan, 2002; Deegan et al., 2002; Deegan, 2007; Gray et al., 1995; Hogner, 1982; Milne and Patten, 2002; Patten, 1992). This interrelationship between accountability and legitimacy will be discussed further in the following section.

In terms of this research, accountability is interpreted as “identifying what one is responsible for and then providing information about that responsibility to those who have rights to that information” (Gray, 2001, p.11). Hence, responsibility (for one’s self, one’s actions, and to others) is recognised as a fundamental aspect of accountability, even if “accountability” may, in the majority of cases, be used as the collective term to denote both responsibility and accountability throughout this thesis. In addition, “social accountability” is used in this study to refer collectively to environmental and social accountability.

In this research, the relevant publics/stakeholders “holding to account” are largely campaigning NGOs, while those being “held accountable” are commercial banks/EPFIs that developed and adopted the EP. Furthermore, the demarcation between organisations as entities or collectives of individuals is quite “fluid” in this research. This is because, as the ensuing case narrative (Chapters Six to Nine) will illustrate, NGOs target EPFI organisations as “entities” while seeking to influence the “moral” conscience of the individuals therein.

The next section will now discuss how accountability and legitimacy are interrelated and introduce why this is of relevance to this research.

2.3.1a Accountability and Legitimacy

From an organisational perspective, the concept of accountability is aligned with that of legitimacy as both concepts are concerned with societal values and expectations of organisations. With regard to organisational legitimacy, Dowling and Pfeffer (1975, p. 122) note that organisations aim to establish equivalence between the social values associated with or implied by their operations and the social norms of acceptable behaviour in the

larger social system or environment they inhabit. Consequently, the extent to which these two value systems are congruent determines organisational legitimacy.

Organisational legitimacy is not seen as “an abstract measure of the ‘rightness’ of the [organisation] but rather a measure of the societal perceptions of the adequacy of [organisational] behaviour” (Deegan, 2007, p. 128). It is recognised as a social construct, conferred upon organisations by “relevant publics” (Buhr, 1998; Neu et al., 1998), and changing over time and place depending on these societal perceptions, desires or demands (Deegan, 2007). Thus, in many respects it is based on the concept of a “social contract” (Gray et al., 1988) or “social licence to operate” between organisations and broader society. Organisations are therefore said to adopt legitimisation strategies focused on repairing, maintaining or gaining legitimacy (Suchman, 1995) in order to conform with, or endeavour to change social perceptions, expectations or values (Lindblom, 1994; Gray et al., 1995). Here, Ashforth and Gibbs (1990) contrast symbolic and substantive organisational approaches to legitimisation. A symbolic approach portrays corporate behaviour as “appear[ing] consistent with social values and expectations” (p.180), whereas a substantive approach is reflective of “real, material change in organisational goals, structures and processes or socially institutional practices” (p.178). In addition, Deephouse (1996) argues that organisational legitimacy can be conceptualised as both a process and a state. A process of legitimisation (Ashforth and Gibbs, 1990; Suchman, 1995) may be undertaken by organisations that have experienced a “legitimacy gap” (Sethi, 1979) between their operations and societal perceptions of the same, in order to achieve a state of organisational legitimacy once more (Breton and Cote, 2006; Gray et al., 1995).

Suchman (1995) identifies three forms of legitimacy: moral, pragmatic and cognitive. Moral legitimacy “rests on judgements not about whether a given activity benefits the evaluator, but rather on judgements about whether the activity is ‘the right thing to do’” (Suchman, 1995, p.579). These judgements reflect beliefs about whether an “activity effectively promotes societal welfare, as defined by the audience’s socially constructed value system” (p.576). Pragmatic legitimacy “rests on the self-interested calculations of an organisation’s most immediate audiences” (p.578). These “audiences” are likely to become “constituencies, scrutinising organisational behaviour to determine the practical consequences, for them, of any given line of activity” (Ibid). In contrast, cognitive

legitimacy is based more on “comprehensibility” and “taken-for-grantedness” rather than “interest or evaluation” as in the other two forms (p.582). Here, legitimacy stems from “plausible explanations for the organisation and its endeavours” (*Ibid*), as well as a sense that “for things to be otherwise is literally unthinkable” (p.583).¹⁵ However, all three forms are said to co-exist in real world settings.

It would appear that concerns about *moral* legitimacy predominate the social accounting literature. Here, many claim that “the disclosure of information to relevant publics is essential for influencing legitimacy” (Deegan, 2007, p.139), and that “organisations that lack acceptable legitimised accounts of their activities are more vulnerable to claims that they are negligent, irrational or unnecessary” (Meyer and Rowan, 1991, p. 50, cited in Suchman, 1995, p.575). In other words, to be deemed legitimate by relevant publics, organisations have to be – or at least be perceived to be – accountable. This is important as:

“[I]legitimacy itself can be threatened even when an organisation’s performance is *not* deviating from society’s expectations of appropriate performance. This might be because the organisation has *failed to make disclosures* that show it is complying with society’s expectations, which in themselves might be changing across time.” (Deegan, 2007, p. 135, emphasis added).

In general, the relationship between accountability and legitimacy is relevant for this research as one aim of this study is to illustrate how NGO campaigns for financial sector social accountability are recognised as *simultaneous* demands for financial sector legitimisation, which in turn catalysed or “induced” (and continued to influence) the EP institutionalisation process. In so doing this will advance aspects of Lounsbury et al.’s (2003) examination of how social movements contribute to institutional change, but more specifically Den Hond and De Bakker’s (2007) study on how social activists’ demands for moral and pragmatic legitimacy influence institutionalisation processes.

In referring to the EP institutionalisation process however, it is first necessary to discuss institutional theory, from which concepts of institutionalisation derive. The next section therefore turns to an exploration of the institutional theory literature.

¹⁵ This is the form of legitimacy normally referred to in institutional theory. See Section 2.3.2.

2.3.2 Institutional Theory

“In general, the early development of neoinstitutional theory was extremely self-limiting.” (Lounsbury, 2008, p.352)

As this research focuses on the EP institutionalisation process, it is important to consider the evolution of institutional theory within the literature. The following sections therefore provide an overview of past and current critiques of institutional theory, and act as a foundation for more in-depth consideration and explanation of institutionalisation processes, especially the Dillard et al. (2004) framework on institutionalisation, in Chapter Three.

2.3.2a Types of Institutional Theory

Various types of institutional theory have been used in the literature in order to gain insights into organisational change. These include: new institutional economics (NIE), new institutional sociology (NIS) and old institutional economics (OIE). NIE is concerned with “the structures used to govern economic transactions” (Scapens, 2006, p.11). It adopts a traditional economics approach and uses the assumptions of economic rationality and markets to examine the governance of organisations. NIS is concerned with institutional (social and cultural) pressures and processes that shape organisations. In contrast to NIE and NIS, which (traditionally) focus on the impact of the *external* environment on organisations, OIE is “concerned with the institutions that shape the actions and thoughts of individual human agents” (*Ibid*) *within* the organisation. In so doing, it rejects the neo-classical economic approach and aims to explain the behaviour of economic agents with regard to their rules and routines (Scapens, 2006). This research uses a NIS/neo-institutional, hereafter referred to as institutional theory, perspective.

2.3.3 The Evolution of (Neo) Institutional Theory

2.3.3a The Foundation

Institutional theory is concerned with how the pressures and processes of the institutional environment influence organisational structures and practices (Scott, 1995). Early institutionalists (e.g. Meyer and Rowan, 1977) distinguished between technical (“rational”)

and institutional (“non-rational”) environments and claimed that both inflicted different pressures on organisations (Scott, 2008). Technical pressures relate to the need to ensure the economic/market efficiency of organisations, while institutional pressures refer to the need to meet social rules, norms and expectations (Burns and Scapens, 2000; Scapens, 2006). This dichotomy would later be challenged by the recognition of the *inter-related* nature of organisational behaviour to meet the economic *and* socio-cultural demands of their environments (Scott and Meyer, 1983; Scott and Meyer, 1991; Powell, 1991; Greenwood and Hinnings, 1996; Scapens 2006).

The starting point for neo-institutional enquiry was, traditionally, the question of why organisations appeared to be similar (Scapens, 2006). In response, Di Maggio and Powell (1983) developed the notions of coercive, mimetic and normative isomorphisms to describe the manner in which organisations conform to the expectations of their broader environment, and may appear “similar” as a result. Coercive isomorphism results from “both formal and informal pressures exerted on an organization by another party upon which it is dependent, and by expectations of the society within which it operates” (Dillard et al., 2004, p.509; Di Maggio and Powell, 1983). Mimetic isomorphism takes place “when an organization attempts to imitate a more successful referent organisation” (*Ibid*), and normative isomorphism stems from “professionalisation i.e. the collective struggle of members of an occupation to define the conditions and methods of work” (*Ibid*). These concepts were used to explain the “diffusion” (dispersal) of common values, norms and rules, or *institutions*, across organisations. Organisations had to comply with these institutions to be deemed “legitimate” in the eyes of their stakeholders and peers and to secure the “resources” necessary for survival (Di Maggio and Powell, 1983; Scapens, 2006). Organisations were often said to respond to institutional pressures through “ceremonial conformity”, a form of superficial adoption of institutions that were then “decoupled” from *actual* organisational practices (Meyer and Rowan, 1977; Scott, 2008). Hence, early studies emphasised the “homogeneous” nature of both institutional requirements and organisational responses to this, suggesting a form of “passive” reaction from organisations to their institutional obligations (Scott, 2008; Lounsbury, 2008).

These dynamics were seen to occur within an organisational field, which Di Maggio and Powell (1983) defined as: “those organizations that, in the aggregate, constitute a

recognised area of institutional life: key suppliers, resource and product consumers, regulatory agencies, and other organizations that produce similar services or products” (Di Maggio and Powell, 1983, p.143). This definition, as well as some other early interpretations of it (Scott and Meyer, 1983; Scott and Meyer, 1991; Scott, 1995), highlighted the “relational” (causal) and structural dimension of a field. This was elaborated and extended in future work incorporating for example: the symbolic (interpretation/meaning) and cultural elements of fields (e.g. Scott et al., 2000), the existence of conflict amongst contending factions (Di Maggio, 1991), and the formation of fields around issues as opposed to common products or markets (Hoffman, 1999). In general, the notion of an organisational field as well as “institutions” would become, and remain to be, a highly debated issue amongst institutionalists in the literature (this discussion will be expanded in Chapter Three).

Scott (2008) notes that: “although the founding works were seminal in calling attention to the reality and influence of the institutional environment on organizations, their initial formulations overstated the unity, coherence and independence of these frameworks” (p.431). Subsequently, a number of re-evaluations and critiques of this pioneering work emerged. The following section discusses these critiques as they are of relevance to this research and the Dillard et al. (2004) framework on institutionalisation applied therein.

2.3.3b The Re-Evaluation

One of the first re-evaluations of institutional theory involved the realisation that many organisational fields are “fragmented or conflicted, containing competing requirements and prescriptions” (Scott, 2008, p.430). Studies began to examine the effects of such field complexity and ambiguity on organisational forms and processes (Scott, 2008), as well as the broader societal context (e.g. economy, state, religion, kinship), influencing field difference, conflict and change (Friedland and Alford, 1991). Heterogeneity as opposed to homogeneity of organisational field requirements *and* organisational responses to this became an emerging focus of enquiry. There was the realisation that the type, extent, and effects of “conformity” to institutional demands could vary across organisations. Hence, decoupling between “symbolic” conformance to institutional obligations and “substantive” organisational performance was no longer accepted as a “given”. For example, Scott (2008) states there has been emerging evidence that perceived “superficial” adoption of

institutional requirements could become more significant over time. While, Heugens and Lander (2009) suggest that organisations are likely to favour institutional “templates” that allow them “to reap substantive benefits in addition to social condonement” (p.61); and that conformity to such institutional norms “simultaneously improves the substantive performance of organizations” (p.77). All of this has drawn critical attention to the “traditional” depiction of “late adopters”- in a “two-dimensional diffusion process” of institutional practices - as engaging in “passive” mimicry or “mindless imitation” of early adoptors’ actions (Lounsbury, 2008).

With this new focus on heterogeneity, research on the issue of “agency” also developed. Di Maggio (1988; 1991) initiated a re-examination of the role of agency in institutional theory, drawing attention to the “need to study power and the *entrepreneurs* who actually create institutions” (Lounsbury, 2008, p.352, emphasis added). In doing so he proposed a change of focus from *extant* institutions to that of the *process* of institutionalisation, as he believed studying the latter would show that:

“Institutionalization is a product of the political efforts of actors to accomplish their ends and that the success of an institutionalization project and the form that the resulting institutions takes depends on the relative power of the actors who support, oppose, or otherwise strive to influence it.”
(Di Maggio, 1988, p.13; Scott, 2008, p.431)

Di Maggio felt that such agency-affected processes were most visible during the *construction* of new fields, but other institutionalists, influenced by Giddens’ (1976, 1979, 1984) structuration theory, believed this construction process to be *continuous*, through the on-going interaction between social structures and actors over time (e.g. Barley and Tolbert, 1997; Dillard et al., 2004).

This reconsideration of actors within institutional arguments meant that the notion of institutional “rationality” (legitimation of behaviour) was also considered more broadly. In contrast to the “institutional” (or collective) form of rationality associated with *organisational* responses to institutional demands in early studies (Meyer and Rowan, 1977; Di Maggio and Powell, 1983), new forms of “instrumental/strategic” rationality (Lounsbury, 2008) emerged i.e. influencing purposive *managerial* action or responses to institutional pressures. For example, Oliver (1991) illustrates that, while conformity to institutional

pressures may be the most probable response by organisational actors, other responses, such as “compromise, avoidance, defiance, manipulation” (Scott, 2008, p.431) were also possible. Similarly, Delmas and Toffel (2004) focus on how organisations within the same organisational field pursue different strategies, despite experiencing the same “isomorphic” pressures from stakeholders (for environmental protection). They suggest it is managers’ perception of and reaction to these pressures that causes heterogeneity rather than homogeneity (of environmental strategies and practices) within an industry. In addition, Lounsbury (2008) advocates a more intent focus on actors and institutional rationality, in the form of multiple, competing logics,¹⁶ in order to move neoinstitutional research away from the study of isomorphism towards an understanding of organisational heterogeneity and *practice variation*.

Relatedly, greater consideration of institutional “change” as opposed to “stability” or inertia also emerged in the literature. As the notion of institutions (norms, rules) *tends* to denote stability, early studies paid attention to convergent as opposed to divergent forms of change. Di Maggio’s (1991) study however was the first to investigate conflicting or contentious interactions that can lead to institutional change and field definition. In addition, early studies emphasised exogenous or external “jolts” (Meyer, 1982) that catalyse institutional change such as “social upheaval, technological disruptions, competitive discontinuities and regulatory change” (Greenwood and Suddaby, 2006, p.28). Yet, some later studies have focused on “endogenous” and deliberate sources of change, initiated by actors or “institutional entrepreneurs” (Di Maggio, 1988; Dacin et al., 2002; Greenwood and Suddaby, 2006; Reay et al., 2006). The concept of “embedded agency” or rather the “paradox of embedded agency” (Seo and Creed, 2002; Greenwood and Suddaby, 2006), has been central to these discussions. This notion suggests that if actors are “embedded” in institutional environments i.e. if their behaviour is shaped by “taken-for-granted” institutions, then “how can they envision and enact changes to the contexts in which they are embedded?” (Greenwood and Suddaby, 2006, p.27). Greenwood and Suddaby (2006) and Reay et al. (2006) demonstrate how embeddedness can actually provide agents with the foundation and opportunity for change as well as the legitimisation of a new institution. They view key entrepreneurs/actors “not as embedded defenders of the status quo [...] but as

¹⁶ With logics defined here as “cultural beliefs and rules that structure cognition and guide decision making in a field” (Lounsbury, 2008, p.350).

motivated agents of institutional change *enabled, not constrained*, by their structural position” (Greenwood and Suddaby, 2006, p.44, emphasis added).

In general, Scott (2008) suggests that early institutional work “carried with it some unfortunate intellectual baggage that has been difficult to discard [and] it has taken a good many years to reformulate some of the arguments and [...] assumptions embedded in the founding studies” (p.428). Scott advocates renewed attention to change as well as longitudinal studies of organisations, organisational populations and organisational fields to assist in this “reformulation” process. Similarly, Lounsbury (2008) suggests the explanatory potential of institutional theory can be expanded through further exploration of the dynamic “between actor micro-processes and institutions” (p.351) at organisational and intra-organisational levels. He believes that a complete approach to such “multi-level” research on practice “requires attention to the broader cultural frameworks that are created and changed by field-level actors, as well as the lower-level activities of organizations and other actors that articulate with those frameworks” (Lounsbury, 2008, p.356). He feels that the “power” of more comprehensive approaches like this becomes evident “when probing the question of where new practices come from – an important, yet relatively unexplored question”(Ibid). The Dillard et al. (2004) model of institutionalisation applied to this study recognises such complex, political and “mutli-layered” dynamics of institutionalisation processes, as occurring over socio-economic and political, organisational field and organisational levels. Some more recent studies have also advocated and adopted a multi-level (and structuration-based) approach to the study of institutional processes. For example, Purdy and Gray (2009) examine the evolution of a new population of organisations (state offices of dispute resolution in the US) in an emerging institutional as opposed to a mature field. Here, they focus on how entrepreneurial action interacts recursively with structural influences at multiple levels (organisational, population and field) to enable numerous logics, as opposed to one dominant logic, to diffuse and shape the process of institutionalisation in emerging fields.

The recent literature therefore appears to call for more research on the *intricacies* of institutional processes. And, as Heugens and Lander (2009) note:

“The processual dimension of isomorphism – how organizations experience isomorphic pressures, interpret them, and learn to manage them over time –

is rarely explored. Here qualitative process work...could make a profound contribution to scholars' present understanding of institutional processes. Further opportunities exist at the field level. Researchers have only barely begun to understand the field-level mechanisms through which isomorphic pressures accelerate and coordinate collective organizational action." (p.76)

This research which: adopts a qualitative approach and probes the "whys" and "hows" of the EP institutionalisation process, focuses on its complex, multi-level dynamics, and examines the variant levels of change it affected between 2003 and 2008, will address many of these recent demands in the institutional literature.

2.4 Chapter Summary

This chapter was divided into two parts. Firstly, it provided an overview of the broad sustainable finance and Equator Principles (EP) literature. This was done in order to portray the context within which this research is placed and to highlight the unique contributions that it aims to make to this literature.

Secondly, a review of the "theoretical" literature was undertaken and was further divided into two broad sections. The first section explained how the concepts of accountability and legitimacy are defined and understood in the literature, are interrelated, and are interpreted in this research. This is of relevance as part of this research examines why and how NGO demands for financial sector accountability/legitimacy played an instrumental role in the EP institutionalisation process, and how EP institutionalisation affected EPFI social accountability between 2003 and 2008. The second section conducted a review of institutional theory and its evolution and critique in the literature. This section provided the foundation for a more in-depth consideration of institutions, institutionalisation processes and the explanation of the Dillard et al. (2004) framework on institutionalisation, in the following chapter.

CHAPTER 3: THEORY

“Instead of theorizing a world in which institutions are completely taken-for-granted and actors are incapable of independent action, scholars should theorize agency and institutional context as independent but intertwined.”
(Reay, et al., 2006, p. 978)

3.1 Introduction

This chapter conducts a more in-depth examination of some of the key theoretical concepts applied in this research on the Equator Principles (EP) institutionalisation process. The chapter is divided into two parts.

Firstly, it analyses how the notions of “institution” and “institutionalisation” have been defined and understood in the literature and how they will be interpreted in the context of this research. Secondly, it introduces the Dillard et al. (2004) framework on institutionalisation and provides an in-depth explanation of its constituent parts. This encompasses an explanation of Giddens’ structuration theory and outlines how it is used by Dillard et al. to conceptualise the *process* of institutionalisation within their framework. The chapter concludes with an overview of how the Dillard et al. model is interpreted and mobilised within this research.

3.2 PART 1: Institutions and Institutionalisation

3.2.1 Institutions in Focus

“Institutions are to social action as grammars are to speech.”
(Barley and Tolbert, 1997, p. 96)

Throughout an institutionalisation process it is generally accepted that a certain “institution” is being “institutionalised”. Yet, how are institutions themselves understood and defined?

The literature suggests that institutions are “the central conceptual pillar in a new-institutionalist framework” (Prakash, 1999, p.322). They are recognised as the “shared rules

and typifications that identify categories of social actors and their appropriate activities or relationships” (Barley and Tolbert, 1997, p.96). Put more simply, institutions may be regarded as the “rules, norms and beliefs that describe reality for the organization, explaining what is and what is not, what can be acted upon and what cannot” (Hoffman, 1999, p.351).

Barley and Tolbert (1997) argue “institutions are socially constructed templates for action, generated and maintained through ongoing interactions” (p.94). Institutions are therefore seen as “a way of thought or action of some prevalence and permanence, which is embedded in the habits of a group or the customs of people” (Scapens, 2006, p.14; Burns and Scapens, 2000). Hence, institutions are affected by the routine behaviour of “individuals, groups, organisations or even higher collectives” (Barley and Tolbert, 1997, p. 97). Actors are said to “create institutions through a history of negotiations that lead to [...] generalized expectations and interpretations of behaviour” (Barley and Tolbert, 1997, p.94). Over time, “the patterned relations and actions that emerge from this *gradually* acquire the moral and ontological status of *taken-for-granted facts* [and] in turn, shape future interactions and negotiations” (Ibid, emphasis added). Institutions are thus recognised as “an established order comprising rule-bound and *standardized* social practices” (Dillard et al. 2004, p. 508, emphasis added). The creation, transformation and diffusion of institutions requires (cognitive) legitimacy, which is recognised as “a condition whereby other alternatives are seen as less appropriate, desirable, or viable” (Dacin, et al., 2002, p.47). Such legitimacy is gained through an institutionalisation process, and once fully institutionalised, particular norms, rules or “ideas” are said to “strive across generations, uncritically accepted as the definitive way of behaving” (Greenwood et al., 2002, p.61).

The “founding” works (Meyer and Rowan, 1977; Di Maggio and Powell, 1983) emphasised the *constraining* nature of institutions on organisational behaviour, views which have remained prevalent throughout the literature today. For example, a widely cited definition is North’s (1990) view of institutions as the “humanly devised *constraints* that structure political, economic and social interaction” (p. 97, emphasis added). North distinguishes between institutions that operate through formal constraints, for example rules, laws, and constitutions; and informal constraints, for example, norms of behaviour, conventions, and self-imposed codes of conduct (North, 1990; Barnett and King, 2008). Ingram and Clay

(2000) advance North's typology and focus on the need to restrict or sanction behaviour as a means of distinguishing one type of institution from the other. They classify institutions into: (1) public or private; and (2) centralised or decentralised. Public institutions are largely compulsory and run by the state, while private institutions (run by organisations or individuals) are seen as voluntary in nature, as actors' involvement is at their own discretion. In centralised institutions a central authority is said to set rules, incentives and sanctions for noncompliance. While, decentralised institutions do not have powerful central authorities and rely on the action of "numerous independent actors to encourage compliance with institutional rules" (Barnett and King , 2008, p.1151).

However, with the advent of a deeper appreciation of agency, rationality and change in the literature, the possible *enabling* nature of institutions and institutional processes emerged. New attention was paid to actors' ability to discard, create and empower institutions to "enable" their desired institutional change (Di Maggio, 1988; Dacin, et al., 2002). Thus, there was growing recognition that "through *choice* and action, individuals and organizations can *deliberately* modify, and even eliminate institutions" (Barley and Tolbert, 1997, p.94, emphasis added). In addition, some institutionalists were influenced by Giddens' (1976, 1979, 1984) notion of societal structures' ability to enable *and* constrain action and began to view institutions likewise. For example, Scott (1995) conceptualised three "pillars" or elements, underlying institutions: regulative (legal); normative (social), and cognitive (cultural). Regulative elements focus on rule-setting, monitoring and sanctioning behaviour/activities; normative elements focus on prescriptive, evaluative and obligatory aspects of social life; whilst cognitive elements focus on shared meaning systems about the nature of social reality (Scott, 1995; 2008). Scott (2008) suggests that:

"Although [these] institutional elements are themselves symbolic, they are of interest insofar as they provide cognitive schema, normative guidance and rules that *constrain and empower* social behaviour. Rules, norms and meanings arise in interaction, and they are preserved and modified by *the behaviour of social actors.*" (Scott, 2008, p.429, emphasis added)

Hence, the notion of a more dynamic interchange between institutions and actors (and organisations), which both enables and constrains action, influences heterogeneity across organisations and may lead to the transformation of institutions themselves, has provided

new insights into how institutions can be understood and defined. As Dacin et al. (2002) remarked:

“[I]nstitutions change over time are not *uniformly* taken-for-granted, have effects that are particularistic, and are challenged as well as hotly contested. Thus, we acknowledge that although institutions serve both to powerfully drive change and to shape the nature of change across levels and contexts, they also themselves change in character and potency over time.” (Dacin et al., 2002, p.45, emphasis added)

Prior to outlining how an institution will be interpreted in this study, it is worth briefly considering how institutions have been understood and used in relation to environmental and social (sustainability) issues within the literature. This will assist in the conceptualisation of the Equator Principles as an “institution” within this research.

3.2.1a Institutions and Sustainability

A number of environmental management, or broader sustainability, studies have adopted a neoinstitutional perspective to explain for example a firm’s adoption of environmental management systems, practices and standards (e.g. Jennings and Zandbergen, 1995; Prakash, 1999; King and Lenox, 2000; Delmas, 2002; Jiang and Bansel, 2003); a firm’s response to environmental pressures (e.g. Milstein et al., 2002 cited in Pinkse, 2006); sustainability reporting trends and, more recently, the exploration of how various institutional and organisational factors combine to initiate and institutionalise sustainability reporting practice (Kolk, 2005; Larrinaga-Gonzalez, 2007; Bebbington et al., 2009). Throughout this literature, environmental codes of conduct/standards i.e. ISO 14001 environmental management system (EMS) and the chemical industry’s Responsible Care Program, have been recognised and examined as “institutions” (e.g. Prakash, 1999; King and Lenox, 2000; Jiang and Bansel, 2003). The voluntary nature of these environmental initiatives has labelled them “self-regulatory institutions” (Barnett and King, 2008; Lenox, 2006) or “private, decentralized”, self-regulatory institutions (Barnett and King, 2008).

In their study of the Responsible Care Programme, Barnett and King (2008) highlight how “a sudden worsening of a commons problem [...] is often the catalyst that brings actors together to form a self-regulatory institution” (p.1154). The “commons” referred to here is a “reputation commons” (King et al., 2002; Barnett and King, 2008) as opposed to a physical

commons (Ostrom, 1990). Here, a firm's reputation is based on the judgements of its observers, with firms in a particular industry experiencing a common "fate" due to "collective stakeholder sanctions or rewards" (p.1152). Barnett and King (2008) hypothesise that "an industry self-regulatory institution created following a major crisis reduces the degree to which an error at one firm harms other firms in the industry" (Barnett and King, 2008, p.1154). Yet, they also outline how self-regulatory programmes have been shown not to measurably improve firm performance (e.g. King and Lenox, 2000), and that member compliance through "self-reporting", coupled with limited or non-existent punishment for misbehaviour, has brought their viability into question. However, Barnett and King believe these views "may be based on an incorrect assumption about the institutions' function" (p.1165) to improve firm performance, rather than viewing them as a way of coordinating a unified "non-market strategy" among industry firms to "directly reduce the probability of stakeholder sanctions" (Ibid). Furthermore, Barnett and King suggest "firms can voluntarily come together to protect an intangible industry commons, despite the risk of free riding" (Ibid) and provide benefit to the industry as a whole at the same time.

In terms of the EP, Wright and Rwabizambuga (2006), while not *explicitly* referring to the EP as an "institution", focus on them as a "voluntary code of conduct". Similar to Barnett and King (2008), they argue that codes of conduct act as signalling devices for organisations to display positive credentials, and as tools for maintaining or enhancing corporate reputation and organisational legitimacy in institutional environments in which they are threatened. They suggest that the EP are such a tool for EP banks, especially those working transnationally on high-risk project finance deals, which are heavily "exposed" to stakeholders. Wright and Rwabizambuga (2006) also state that: "while having adopted a code of conduct may indicate a strong environmental and social record, or even a commitment to these issues, it is false to assume that this is always the case" (p.90). They believe this applies to the EP as, in the absence of a formal mechanism to monitor EP banks; "all Equator banks gain some reputational benefits irrespective of their actual practices" (p. 91). They also suggest that "firm-specific characteristics may influence the way in which different firms interpret and react to similar institutional pressures" (p.110), and feel that more empirical research is needed to "identify the factors that discourage or encourage

firms to adopt codes of conduct, and ultimately integrate environmental and societal concerns into their business practices” (Ibid).

The next section outlines how an institution is interpreted in this research.

3.2.1b Interpretation of an Institution

“Scholars have long suggested that understanding of decentralized institutions such as norms, codes of conduct, and industry standards could be advanced by greater consideration of the varying strategic motives of the agents that might interact with these institutions.” (King et al., 2005, p.1091)

This research seeks to interpret the EP as an “institution”. It therefore views the Principles as a “template for action” or *standard*, representing norms/values/beliefs for more responsible project finance. Here, the EP are recognised as being created, modified and maintained by EPFI actors, assisted by their interaction with broader stakeholders (i.e. NGOs and to a lesser extent project finance clients, consultants and lawyers), and gradually becoming “taken-for-granted” (institutionalised) by them over the course of 2003 to 2008. It therefore views actors as *active* participants in EP institutionalisation.

If to use the Ingram and Clay (2000) classifications, the EP could be referred to as a “private, decentralised, self-regulatory institution” (Ingram and Clay, 2000), due to their development by commercial banks, their voluntary nature and their lack of central authority. Yet, in contrast to the afore-mentioned studies, especially Wright and Rwabizambuga (2006), this research privileges the examination of *how* the EP, as an environmental and social “institution” for project finance, became institutionalised. It therefore focuses on an EP institutionalisation *process* between 2003 and 2008. In other words it explores the conditions before the EP were developed, why and how they were created, and their evolution, modification and impact over the course of 2003 to 2008.

The next section will now discuss institutionalisation in more detail.

3.2.2 Institutionalisation

“Institutionalization is usually conceived as both the process and the outcome of a process, by which a social practice/behaviour becomes usual, desirable and/or taken for granted in organizations.” (Larrinaga-Gonzalez, 2007, p.151)

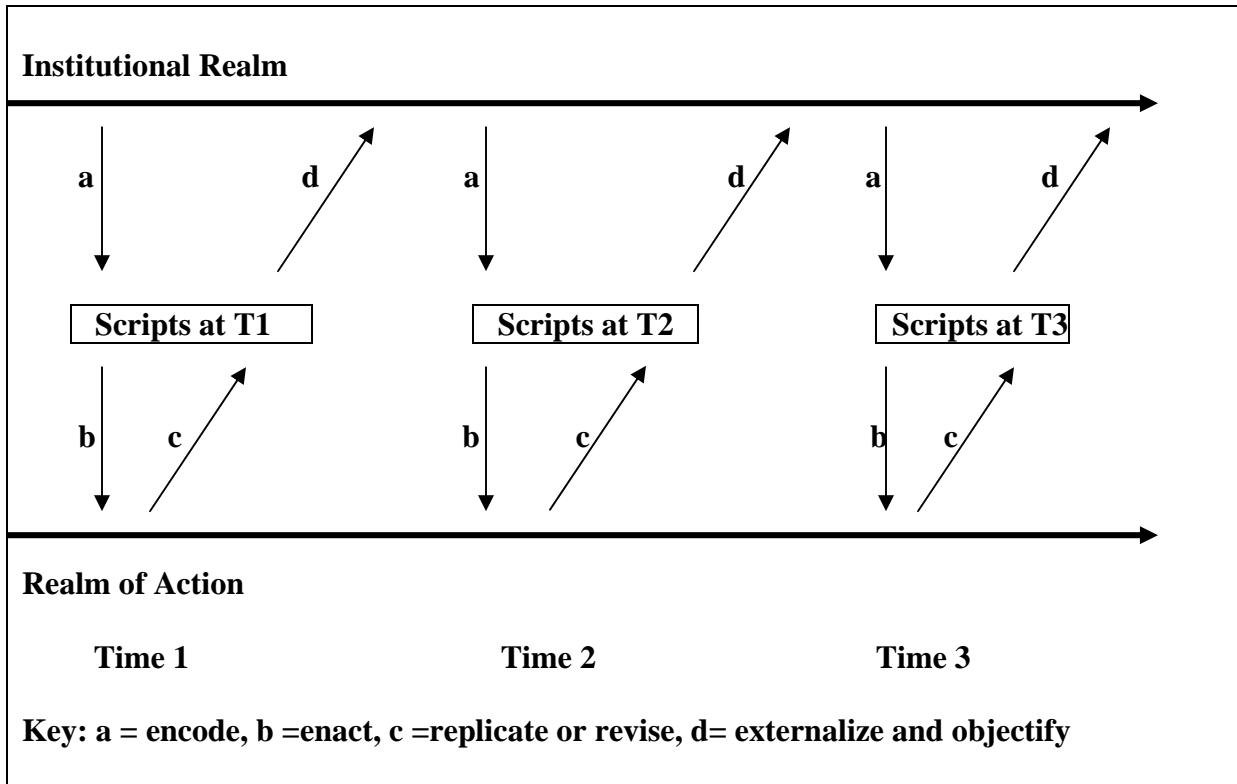
The literature has “traditionally” placed most emphasis on the outcome of institutionalisation i.e. isomorphism, as opposed to the actual *process* by which institutionalisation takes place. Hence, scholars have largely tended to focus on the “end product” of institutionalisation and “assume” the process (Heugens and Lander, 2009).

In response, a number of “processual”/staged models of institutionalisation have been developed in an attempt to understand and explain *how* institutionalisation processes may transpire. One of the first of these was the Barley and Tolbert (1997) model. Barley and Tolbert (1997) felt institutionalists had pursued an empirical agenda that “largely ignored how institutions are created, altered and reproduced” (p.93), and set about the development of a model to address this conceptually and empirically. To do this they merged institutional theory (NIS) and structuration theory (Giddens, 1976, 1979, 1984) to develop “a model of institutionalization as a structuration process” (Barley and Tolbert, 1997, p.93).

Barley and Tolbert (1997) believed that “institutionalization is best understood as a *dynamic, ongoing process*” (p.93, emphasis added), within which institutions and actions are inextricably linked. They felt that structuration theory, which emphasises the recursive interaction between structures and actors in the (re)production of social systems, was thus a useful conceptual guide to understand and explain the underlying dynamics of an institutionalisation process. The model they produced focused on four “movements” or stages of an institutionalisation process. This centred around Barley and Tolbert’s substitution of “scripts”, described as actors’ “observable, recurrent activities and patterns of interaction [in] a particular setting” (p.98), for Giddens’ notion of “modalities” or *mode* of interaction between structure and agency (see Section 3.3.2c for further explanation). The authors argued that “scripts” were more empirically identifiable than Giddens more abstract concept of modalities. Barley and Tolbert’s institutionalisation process hence involved: (1) the “encoding” (internalisation) of institutional “principles”, or ideas, into

scripts; (2) the “enactment” of these scripts; (3) the “replication or revision” of these scripts; and (4) “objectification and externalization” of the script as the new activities become accepted and “taken-for-granted” (institutionalised) by the actors involved (Barley and Tolbert, 1997; see Figure 1). They believed that it was the *continuous* interchange between these four (institutional) phases and the actors involved that drove an institutionalisation process. Therefore, they perceived actors as active agents in the institutionalisation process.

Figure 1: Barley and Tolbert (1997): A Sequential Model of Institutionalisation

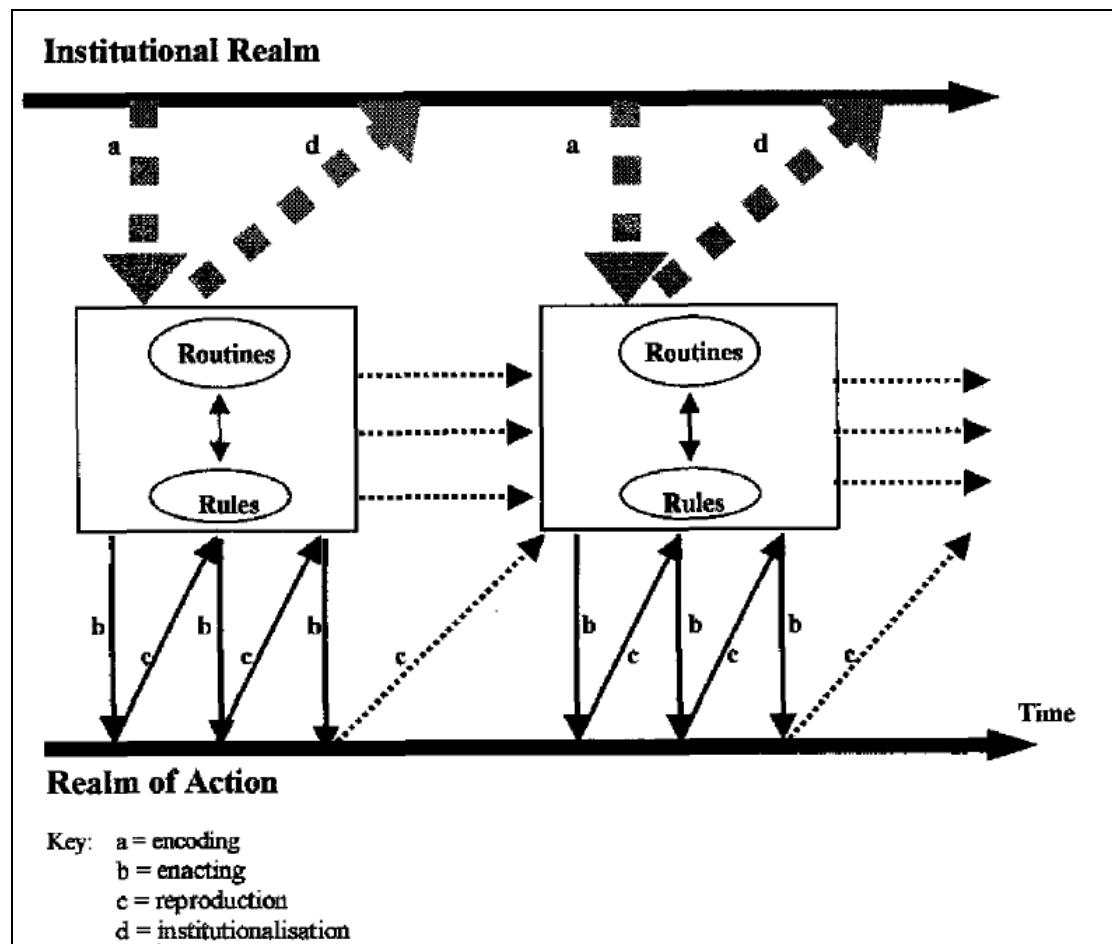


(Barley and Tolbert, 1997, p. 101)

Burns and Scapens (2000) extended the Barley and Tolbert model by adopting an old institutional economics (OIE) perspective and focusing on micro-processes at an organisational level (primarily with regard to the study of management accounting change). Here they substituted Barley and Tolbert’s notion of scripts for “rules and routines”, whereby rules represented the “formally recognised ways in which things should be done [...] while routines are the way in which things are actually done” (Burns and Scapens, 2000, p.6). The authors’ view these rules and routines as reciprocally and recursively interrelated, and as acting as the medium and outcome (Giddens, 1984) between institutions and human action. Put more simply, they view the rules and routines as the means through

which institutions are transferred into day-to-day activities in an organisation, and in turn how those actions may lead to changes in the rules and routines, and thus, institutions over time. Hence, they regard this interaction between institutions, rules and routines, and human action, as fuelling organisational change processes (see Figure 2).

Figure 2: Burns and Scapens (2000): Process of Institutionalisation

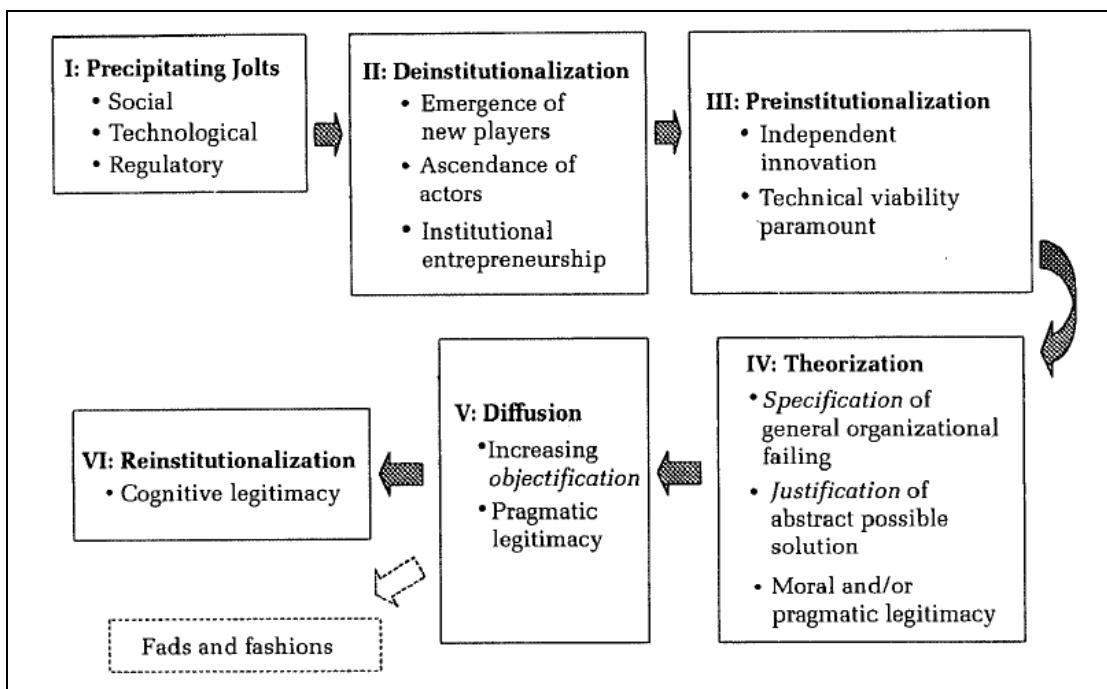


(Burns and Scapens, 2000, p. 9)

Greenwood et al. (2002), while not incorporating Giddens' structuration theory, developed another processual model of institutional change that is useful for the conceptualisation of an institutionalisation process. They propose six phases in their staged model of institutional change (see Figure 3). This commences with an external “jolt” (e.g. social, technological, regulatory) to catalyse institutional change, and is then advanced with the “de-institutionalization” of existing institutional “ideas” (institutions) and the “pre-institutionalization” of the new “innovations”, as assisted by institutional entrepreneurship.

The newly proposed ideas and practices then enter a phase of “theorization” where they are *legitimised* (moral and/or pragmatic legitimacy) as the best alternative to the old ideas. This is then followed by a phase of “diffusion” in which the new ideas and practices gain more widespread acceptance (pragmatic legitimacy). Finally, in the sixth “re-institutionalization” phase, these new “ideas” become institutionalised (i.e. become an institution) and “taken-for-granted” (cognitive legitimacy), or, fail to become fully institutionalised and are conceived of as a “fad or fashion” (Greenwood et al., 2002, pp.60-61). Once more actors are portrayed as having an important role in this processual model of institutionalisation.

Figure 3: Greenwood et al. (2002): Stages of Institutional Change



(Greenwood et al., 2002, p. 60)

Despite these developments, scholars have still felt that “little is known of *how and why* institutionalized practices within a field atrophy or change” (Greenwood et al., 2002, p.58, emphasis added), and that there is “little understanding of *how* new ideas and practices, once emerged, spread to the point of legitimacy” (Reay, et al., 2006, p. 979, emphasis added). Furthermore, Purdy and Gray (2009) reflect on the question of “how long a practice needs to persist to be considered institutionalized as opposed to a fad” (p.376), and feel that their *longitudinal* study supports the view that “institutionalization may be constantly in flux” (*Ibid*). They believe that this is particularly the case in *emerging* fields where “the

degree of institutionalization may vary more widely in both density and continuity than when change occurs in mature fields” (Ibid).

In this research, the Dillard et al. (2004) framework of institutionalisation will be the primary theoretical lens applied to understand and explain the EP institutionalisation process. This model will *begin* to address some of the above queries related to how and why institutionalisation processes take place. The Dillard et al. framework will now be discussed in-depth in the following sections.

3.3 PART 2: Institutionalisation and the Dillard et al. (2004) Framework

3.3.1 Background

In developing their framework Dillard et al. (2004) sought to address what they felt was a gap in the theoretical considerations of the “*processes* whereby institutional practices are established, transposed and decomposed, or the socio-economic and political *context* that constitutes the framework for these organizational processes” (p.507, emphasis added). Consequently, they combine Weber’s notions of capitalistic institutions (1958, 1961, 1968,) with Giddens’ structuration theory (1976, 1979, 1984) to address the “*context*” and “*process*” of institutionalisation respectively. In doing so they believe that their framework “outlines a dynamic social context within which the processes of institutionalization, transposition and de-institutionalization take place and within which radical as well as incremental change can be addressed” (Dillard et al., 2004, p.507).

Dillard et al., like Barley and Tolbert (1997), recognised the limitations of focusing on institutionalisation as an outcome, as opposed to a process. Similar to some of the critiques of institutional theory discussed earlier, they felt that by focusing on organisational practices as outcomes and examining them at a given point of time, emphasis is placed on “the constraining and limiting nature of institutionalized beliefs and values, and not on the dynamics of change or the role of human agency” within that change (Dillard et al., 2004, p.507). Quite importantly, they felt that institutional theory had neglected the role of power, special interests and the political nature of organisations within institutionalisation processes. Thus, they felt that focusing on institutionalisation as an outcome inferred that

“expectations of acceptable practices exist in a given environment and organizations must *passively* conform to them to maintain legitimacy and increase survival prospects” (p.510, emphasis added).

In contrast, Dillard et al. (2004), in extending the work of Barley and Tolbert (1997) and Burns and Scapens (2000), view institutionalisation as “the process whereby the practices expected in various social settings are developed and learned” (Dillard et al., 2004, p.508). Here, they support Di Maggio’s (1988) assertion that “the success of an institutionalization project and the form that the resulting institution takes depends on “the relative power of the actors who support, oppose, or otherwise strive to influence it” (Di Maggio, 1988, p.13 in Dillard et al., 2004, p.510). Their framework therefore seeks to recognise institutionalisation as a “political” process “reflecting the relative power of organised interests and the actors who mobilise around them” (p.510), and they use structuration theory to theorise the influence of actors’ knowledge, skills and awareness in this institutionalisation process.

In general, Dillard et al. (2004) believe that “when incorporated into institutional theory, structuration theory, offers significant advantages in overcoming the inherent inertia and isomorphic forces built into institutional theory” (p. 519), and that structuration theory essentially “specifies the ‘*hows*’ of the institutionalization process” (p.521, emphasis added). Hence, as structuration theory played a fundamental role in the formation of the Dillard et al. framework, it is necessary to provide an explanation of structuration theory now, prior to a more in-depth discussion of the Dillard et al. framework per se.

3.3.2 Structuration Theory

“Agency and structure are, paradoxically, independent but related.”
(Macintosh and Scapens, 1991, p.137)

In response to the longstanding dichotomy in social theory between structuralism and functionalism on the one hand and hermeneutics and “interpretive sociology” on the other, Anthony Giddens developed his structuration theory.

Functionalism¹⁷ and structuralism¹⁸ “regard the individual as produced (determined) by society, whilst interpretative work presents a view of the individual as the producer of social reality” (Roberts and Scapens, 1985, p.445). In an effort to bridge this “dualism” between subject and object, and the “individual” and “society”, Giddens’ structuration theory proposes a “duality of structure” in social systems. Giddens (1984) defines a social system as “the patterning of social relations across time-space, understood as reproduced practices” (p. 377). Some examples of social systems could be “a society, a profession, an organisation or professional service firm” (Yuthas et al., 2004, p. 231). Giddens views social systems as consisting of structures (or more accurately structural properties) which are both the medium and outcome of actors’ practices within those systems. He believes that it is the *continuous* interplay between structures and agency over time and space that causes the production and reproduction of social systems. He refers to this ongoing, dynamic process as the duality of structure (Giddens, 1984).

3.3.2a Structure

Giddens defines “structure” in a more cognitive sense than the conventional notion of it in physical terms. He refers to structures as “rules and resources”, but further distinguishes between normative and interpretive rules as well as allocative and authoritative resources (Giddens, 1984; Yuthas, et al., 2004).

Normative rules represent *legitimation* structures, which “identify legitimate or moral conduct within a social system” (Yuthas, et al., 2004, p.231). In other words, legitimisation structures embody the norms and values for appropriate and acceptable social behaviour. They are translated and “verbalised” by social agents as particular rights and obligations, and may also be “codified as policy, rule, or law, accompanied by sanctions and/or rewards” (Yuthas, et al., 2004, p.231).

Interpretive rules on the other hand represent *signification* structures, which create “meaningful symbolic systems that provide ways for actors to perceive and interpret events” (Yuthas, et al., 2004, p.231). Signification structures are seen to consist of shared knowledge and organising rules (e.g. codified policies or laws) that guide social interaction.

¹⁷ Where society is viewed as a single system of interrelated elements, with each element serving a specific function (Ryan et al., 2002).

¹⁸ Which views society as shaped by social structures (Ryan et al., 2002).

They therefore allow the norms and values (laid out by legitimation structures) to be interpreted and understood. The reflexive interaction of the interpretive schemes and stocks of knowledge underpinning signification structures results in communication among social agents (Giddens, 1984; Yuthas et al., 2004). Signification structures thus “influence the manner in which actors understand themselves and attach meaning to their surroundings” (Yuthas et al., 2004, p.231).

In terms of resources, Giddens believes that “*domination* structures determine who has access to resources” (Yuthas et al., 2004, p.231, emphasis added), and views these as providing “the means or facilities for realising specific social goals and objectives” (Ibid). That is domination structures “relate to power as it concerns the ability to control and mobilize resources” (Dillard et. al., 2004, p. 519). If broken down further, “allocative resources” relate to material or economic resources and the power gained from their control (e.g. of machines, weapons or intelligence networks) (Macintosh and Scapens, 1991). While “authoritative resources” represent “non-material” resources such as human beings, and result from the domination of some actors over/by others (Giddens, 1984; Yuthas et al., 2004).

It is important to note however that, according to Giddens (1984), power, as embodied in domination structures is “never merely a constraint but is at the very origin of the capabilities of agents to bring about intended outcomes of action” (p.173). In other words, “the power to do” (Roberts and Scapens, 1985, p.449), or *enable* is just as pertinent as the “power over” or ability to constrain in domination structures. As Giddens (1984) highlighted: “power is the means of getting things done, very definitely enablement as well as constraint” (p.175).

3.3.2b Agency

Structuration theory regards agency as the ability of human actors to be active, purposeful, knowledgeable and reflexive (Giddens, 1984; Sarason et al., 2006). Giddens (1984) proposes that both “awareness of social rules” and “reflexive monitoring” are core characteristics of agency.

Giddens (1984) believes that through an “awareness of social rules” (normative and interpretive) actors gain “knowledgeability” which is mainly expressed through “practical” as opposed to discursive or theoretical consciousness. Put more simply, Giddens views all social actors, and thus all human beings, as “learned”, with vast “stocks” of practical knowledge which they draw upon in the production and reproduction of day-to-day social encounters, for example, in their organisational life (Giddens, 1984).

In terms of “reflexive monitoring”, reflexivity refers to “the capacity of humans to routinely observe and understand what they are doing while they are doing it” (Sarason et al., 2006, p.291), thereby allowing agents “a theoretical understanding of themselves and others” (Ibid). Hence, agents are knowledgeable about the conditions and consequences of their daily activities and may self-examine, ‘rationalise’ and modify those activities on a continuous basis to meet changing social conditions and obligations (Sarason et al., 2006). Consequently, agents are said to be able to “monitor their monitoring” (Sarason et al., 2006, p.291) of both themselves and others.

Furthermore, Sarason et al. (2006) suggest the term “agent” itself signifies “purpose and power” (p.291). In that, being an agent implies “the ability to intervene in the world, or to refrain from intervention, and presumes that the agent is able to deploy a range of causal power, including that of influencing others” (Ibid; Giddens, 1984). Hence, Giddens (1984) believes “action” depends on the ability of “the individual to ‘make a difference’ to a pre-existing state of affairs or course of events” (p.14), and that an “agent” ceases to be such if this capability to exercise some form of power is lost. It is also important to note that Giddens (1984) believes that agents’ flow of action, and execution of power, may produce consequences that are “unintended” and that “these unintended consequences also may form acknowledged conditions of action in a feedback fashion” (p.27). Hence, uniform or “intended” action on the part of agents may not always be the case and any unintended action can in turn influence the “conditions” for action (i.e. the structural properties guiding action) and lead to change over time.

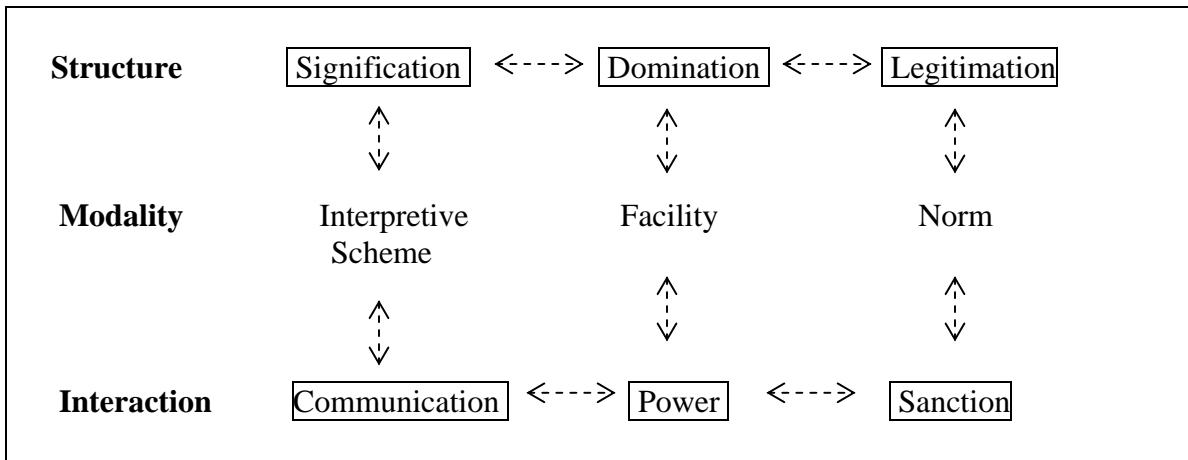
3.3.2c Duality of Structure

Giddens (1984) views structures as existing only as “memory traces” in human knowledge. In other words he believes that “structure has no existence independent of the knowledge

that agents have about what they do in their day-to-day activity” (Giddens, 1984, p.26). Likewise, he believes that “social agents cannot be understood independently from their enacted social structures” (Yuthas, et al., 2004, p.231).

Giddens believes all three structures: legitimization, signification and domination, have the ability to both enable and constrain action. Moreover, he views all three as “inextricably intertwined in practice and only separable analytically” (Macintosh and Scapens, 1991, p.141). Structures are thus drawn upon as an *integrated* “set” by agents and in doing so they shape and pattern (i.e. structure) interaction (Roberts and Scapens, 1985). The *mode/act of* “drawing upon” these structures i.e. actors’ use of their “knowledgeable capabilities” to interpret, validate and facilitate interaction with the structures, is known as the modality of structuration/modalities of structure. These are essentially the “points of intersection” between structure and agent. It is then through actors *actual* interaction with the structures, for example, through communication, use of power and sanction/reward, that the structures themselves are produced and reproduced. This is the “duality of structure” which allows structures to be understood as both the medium and outcome of interaction (Giddens, 1984; Roberts and Scapens, 1985; Barley and Tolbert, 1997) as depicted in Figure 4.

Figure 4: Dimensions of the Duality of Structure



(Giddens, 1984, p.29)

Therefore, in the “duality of structure” action and structure are seen to “presuppose one another” (Macintosh and Scapens, 1991, p.137), so that neither structure or agent are able to survive without the other (Giddens, 1984). Hence, structuration theory “offers a conceptual

scheme that allows one to understand how actors are at the same time the creators of social systems, yet created by them” (Sarason et al., 2006, p.290).

When considering institutionalisation, Giddens (1984) regards structures as being “recursively involved in institutions” (p.24), or to put it another way, institutions may be seen as “chronically reproduced rules and resources [structures]” (p.375). That is, structures (structural properties) can be recognised as the “institutionalised features” (Giddens, 1984) of social systems, and likewise, institutions can be recognised as the “manifestations” (Dillard et al., 2004) of these structures.

The Dillard et al. framework will now be discussed in more detail in the following sections. This will offer further explanation of the relevance and use of Giddens’ structuration theory to this framework.

3.3.3 A Closer Look at the Dillard et al. (2004) Framework

The Dillard et al. (2004) framework seeks to address what the authors recognise as a lack of consideration of institutionalisation as a process and the socio-economic and political context in which this takes place. In response, they produce a “general institutional model of organizational change” (pp.510-515) which views an institutionalisation process as occurring over three levels of social systems:

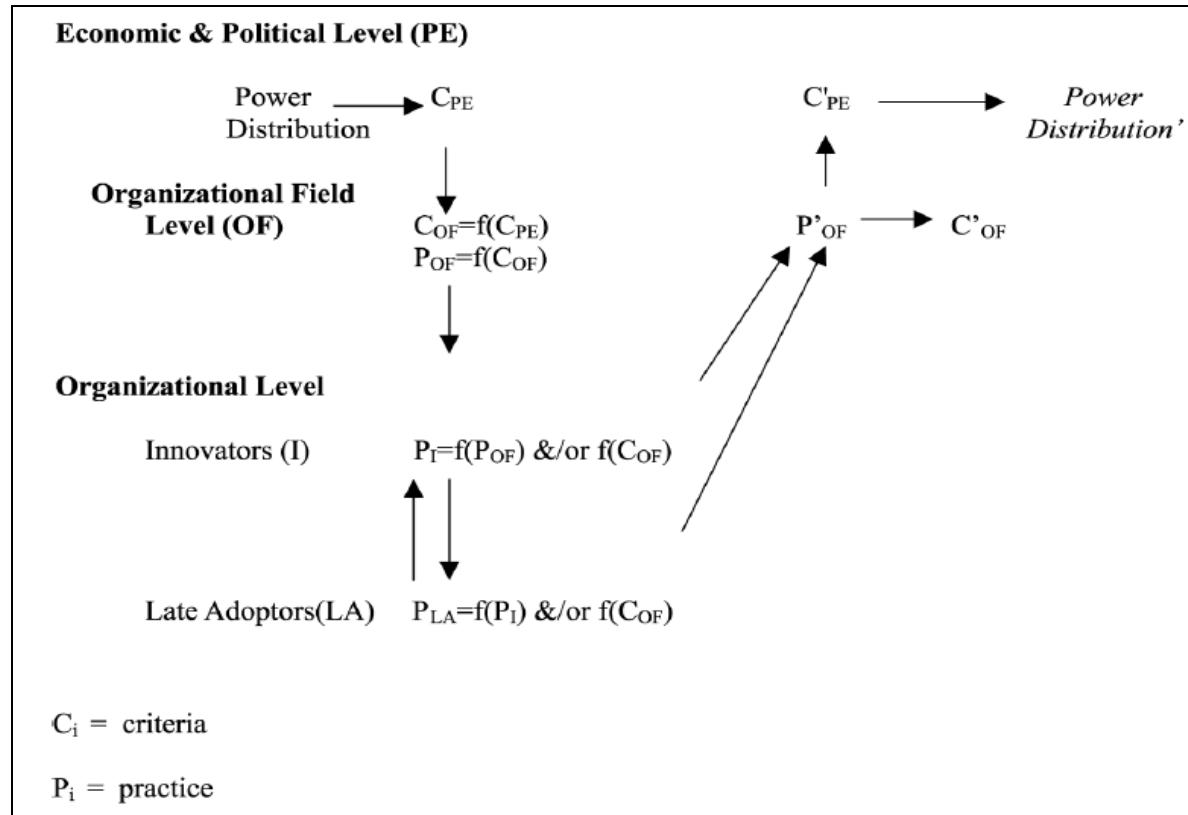
1. An overarching societal level of social, economic and political systems, the (SEP) level,¹⁹ where “norms and values are established and disseminated to members of the society” (p.512);
2. A secondary organisational field (OF) level including “socio-economic configurations such as industry groups, professional institutes, geographical collectives and so forth” (*Ibid*); and
3. A tertiary organisational level (OL) inhabited by individual organisations.

¹⁹ Although Dillard et al. (2004) introduce this first level as the “overarching societal level of political, economic and social systems” (p.512), they continue to refer to it in their written and diagrammatic explanation of their framework as the “Economic and Political level (PE)”, and later in their application of the framework as the “Political and economic domain (society)” (p.524). Therefore, in an effort to more explicitly capture the societal dimension of this level of the framework, it will be referred to as the social, economic and political level (SEP) throughout the research narrative; apart from where the Dillard et al. framework per se is being explained and presented in this section.

Hence, as outlined in Figure 5, Dillard et al. (2004) envisage an institutionalisation process as proceeding in a “recursively cascading manner” over three-levels of “socio-historical relationships” (p.512). They argue that social, economic and political level “criteria” (C_{PE}) for acceptable societal behaviour influences organisational field (OF) level criteria (C_{OF}), and provides the “legitimising and regulative base” (p.513) for OF operating practices (P_{OF}). In turn they argue that this influences practice at organisational level (OL). Here at OL, they distinguish between “Innovators (I)” and “Late Adopters (LA)”, whereby they see innovators as developing new organisational practices (P_I) within the boundaries of organisational field (OF) practices, which are then adopted by late adopters (P_{LA}). They outline how “the practices of the late adopters are legitimised by both the success of the innovator’s practices and the organizational field practices and criteria” (p.514). It is here that the authors also feel that “decoupling” *may* occur between late adopter adoption of innovator practices and the actual integration of those practices into their organisational or operating processes. Rendering “the implementation of an institutional practice [as] symbolic, or decoupled, if it is not integrated into the management and organization processes” (p. 518). They also note that the designations “innovator” and “late adopter” could be viewed as two points on a continuum.

Dillard et al. then consider the “duality of structure” within their framework through what they refer to as an “inverting of the cascade” (p.514). In other words, they view the actions taken by “knowledgeable, reflexive agents within the organizations” (Ibid) as simultaneously rising up through the three levels and affecting change to varying degrees in the process. They believe that what happens at OL impacts upon and may modify OF practices and criteria by “reinforcing, revising or eliminating” (Ibid) existing practices. Changes to legitimate and accepted OF practices (P'_{OF}) and criteria (C'_{OF}) may be evolutionary (incremental) or revolutionary (radical) and could contribute to a new contextual environment. In addition, as the late adopters implement the new practices, their effects are seen to be further reinforced at the organisational field level, encouraging more late adopters. Subsequently, the new OF practices (P'_{OF}) and criteria (C'_{OF}) can affect changes to the social, economic and political level criteria (C'_{PE}) “either supporting the norms and practices articulated by the powerful interest groups, modifying them, or eliminating them and thereby affecting the resource allocation process within a society and the recognised social order” (Ibid).

Figure 5: A General Institutional Model of Organisational Change: Institutional Relational Dynamics (Dillard et al., 2004)



(Dillard et al., 2004, p. 512)

Additional Key for the Dillard et al. (2004) Framework:

C_{PE} : Criteria at (Socio) Economic and Political Level

C_{OF} : Criteria at Organisational Field Level

P_{OF} : Practice at Organisational Field Level

P_I : Innovators' Practice (at organisational level)

P_{LA} : Late Adopters' Practice (at organisational level)

f: Function of

P'_{OF} : Reinforced/Revised/New Practice at Organisational Field Level

C'_{OF} : Reinforced/Revised/New Criteria at Organisational Field Level

C'_{PE} : Reinforced/Revised/New Criteria at (Socio) Economic and Political Level

Finally, the process is inverted once more and moves downwards through the three levels as the (newly) legitimate and acceptable practices for organisations unfold over time and space. Dillard et al. thus feel that “recursivity is the key to understand change in the institutionalization process since taken-for-granted norms, values, beliefs and assumptions may be continually revised at all three levels of the model” (p.514). Hence, throughout this process, and consistent with structuration theory, Dillard et al. “recognise the possibility of

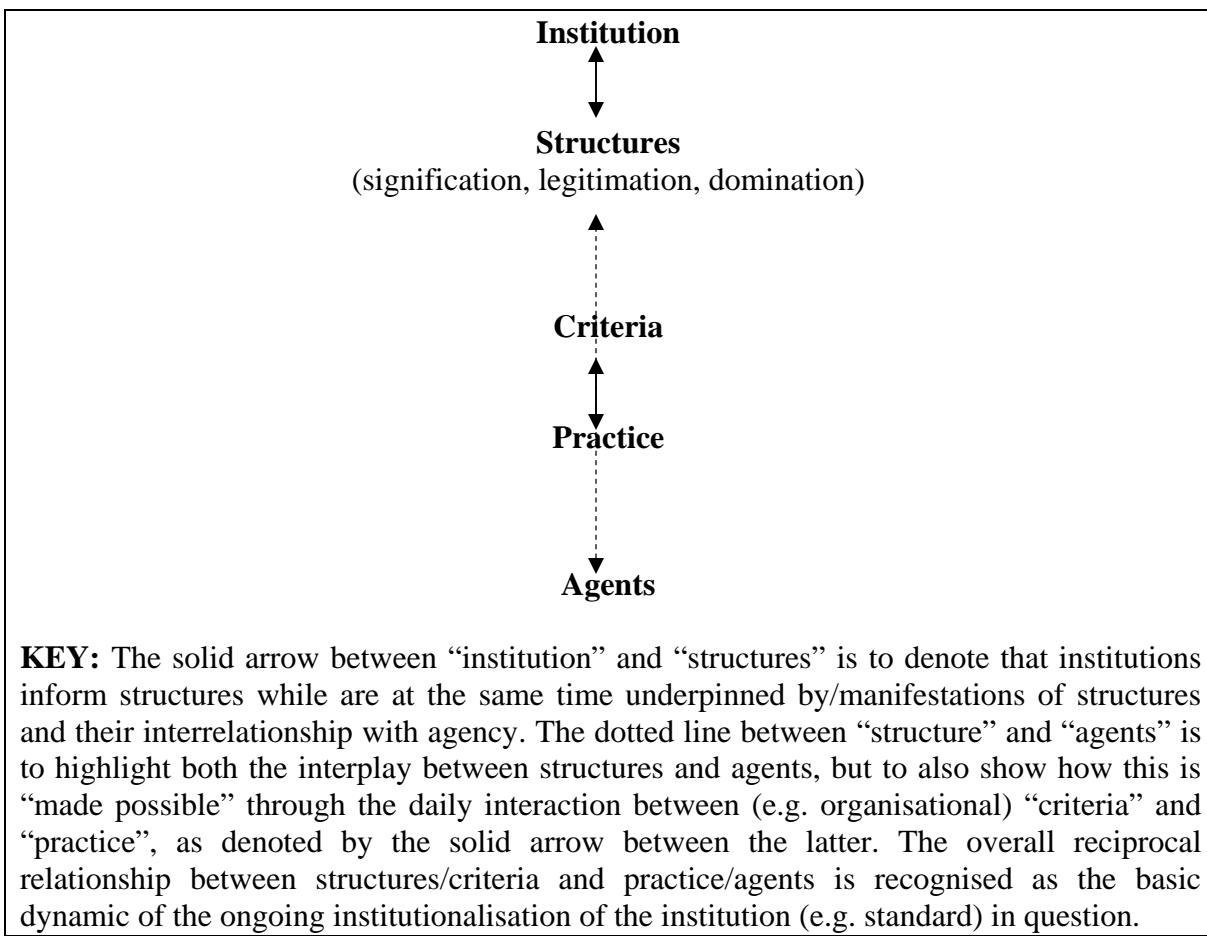
institutions being created and modified through actions of individuals and/or groups of individuals” (p.513) over the three levels. Yet, they also state that there is an implicit “hierarchy of institutional influence” (*Ibid*) present in their framework, where the SEP level provides “the foundations for organizational field level institutions, and the organizational field provides the context for the institutions confronted by and embedded in organizations” (*Ibid*).

Subsequently, the socio-historical context (SEP) is recognised as reflected in societal “criteria” i.e. norms, values, beliefs (legitimation structures) and “sense making” schemes (signification structures), for individual and collective “practice”. In turn, resources are allocated and controlled (domination structures) based on the prevailing criteria, which through agent enactment/practice at organisational field (OF) and organisational level (OL) create and recreate the extant criteria, and thus the institutions which they support, on an ongoing basis. As a result of this iterative process between criteria and practice, Dillard et al. believe that a significant degree of structural stability is created which both enables and constrains action. At the same time, the notion of change is incorporated into the process in that the possibility of “unintended” outcomes or consequences from agents’ practices/interaction with the “expected” criteria is also recognised. This whole process is also viewed as “both value driven, in that the institutionalized, taken-for-granted shared values and beliefs infuse all actions and practices, and history dependent [in that] current actions are grounded in extant values, beliefs and practices” (p.513).

Therefore, in general, Dillard et al. view institutional features (structures) and knowledgeable, purposive and reflexive human action (agency) as reciprocally related in the production and reproduction of institutions, and thus institutionalisation processes. In turn, Dillard et al. view institutions as “manifestations” of the social structures that underpin them. Furthermore, Dillard et al. focus on the interaction between socially accepted “criteria” for legitimate behaviour and actors’ response to this in their day-to-day “practices”, as the interactive basis of an institutionalisation process. Hence, one *might* interpret “criteria and practice” as the “modalities of structure”, or *means* by which structures and agents interact in order to produce, reinforce, eliminate or change institutions over time. This would be akin to Burns and Scapens (2000) notion of “rules and routines”, or, Barley and Tolbert’s (1997), notion of “scripts”. However, it must be stressed that

Dillard et al. do not explicitly state that the latter is the case, nor do they provide *any specific* definition for criteria or practice throughout their paper. In this sense, this researcher therefore *broadly* interprets “structures” (and their expectations/rules i.e. “what *should* be done”) and “criteria” as *loosely* interrelated; and human agency (and daily action/routine i.e. “what *is* done”), and “practice” as being likewise. This proposed relationship is captured in Figure 6 below.

Figure 6: Interpretation of the Relationship Between Institutions, Structure and Agency and Criteria and Practice



In addition, Dillard et al. view *active* actors or groups as influencing the power dynamics or power distribution associated with recursive institutionalisation processes. They state that different actor sets may be in a more influential position, and therefore more powerful, at different levels of their framework. For example, they mention that at the SEP level, it may be governmental officials or regulators; at the OF level it may be industry leaders, labour

unions or external consultants; and at the OL it may be managers and workers that are the primary actors. However, they also state that “the ability of any individual to contribute to the institutionalization process is dependent upon a myriad of factors” (p. 513). Furthermore, the authors note that while there is normally a “dominant coalition of interests” (p.515) at societal level, that there may also be “competing coalitions setting forth alternative social, economic and political criteria as legitimating” (*Ibid*). Here, they believe that these competing interests and their different criteria “set the boundaries of recognised actions of resistance by providing some degree of legitimacy to them” (*Ibid*). They suggest that Greenpeace’s destruction of another organisation’s property for environmental protection purposes could be an example of the latter. Furthermore, they state that these alternative social, economic and political criteria (perhaps indicative of Lounsbury’s (2008) “multiple logics”) can themselves undergo “permutations”, due to the recursive nature of the institutionalisation process in which all values, norms and beliefs held at societal level evolve and change over time.

Similarly, Dillard et al. note that differences can develop between the accepted beliefs, values and norms of broader society and those of particular fields, so that not all organisational fields accept the same beliefs, values and norms. They also state that this is true for different organisations within an organisational field, and that “it is at these points of friction and conflict that change is most likely to be initiated” (p.514). The authors argue that such “conflicting criteria” acts as a motivating force for change while the institutionalisation process maintains continuity overall.

Furthermore, the authors distinguish between routine and crisis change situations as influencing institutionalisation processes. Routine situations refer to “situations where change is not initiated by circumstances that threaten the existence of the entity, organizational field or society” and are generally “motivated by, or reflected in, evolutionary improvements in the organizational routines, organizational field characteristics and/or societal characteristics” (p. 521). In contrast, crisis situations refer to situations which “threaten the entity, organizational field or society’s continued existence” (*Ibid*), and are generally seen to result in “the implementation of new organizational routines, new organizational field perspectives and/or new societal arrangements reflecting, for example, significantly different administrative and/or scientific technology” (*Ibid*).

However, Dillard et al. also state that “crisis situations” can range in their severity and immediacy.

Therefore, by way of brief summary, the Dillard et al. (2004) framework views institutionalisation as a structuration process running all the way up and down the three levels of their model. The existence and continuity of the reciprocal relationship between structure and agency, as “activated” or “mobilised” through the interplay between criteria and practice, is regarded as the underlying dynamic of an institutionalisation process. Here, Dillard et al. emphasise agency, and the power associated with this, as the ultimate means of change. As a result, the authors feel that a more explicit recognition of the “political nature of institutional change” and a “more complete understanding of the dynamics involved in such a change” is achieved (p. 507). Hence, the authors believe they developed a framework with a more complex and theoretically grounded appreciation of the context and processes associated with creating, adopting and discarding institutional practices. The following sections will now discuss each of the three levels of the Dillard et al. framework in more detail.

3.3.3a The Social, Economic and Political (SEP) Level

As mentioned earlier, Dillard et al. (2004) feel there is a need to consider the background socio-economic and political (SEP) context within which institutionalisation processes take place, especially in the Western world. They believe this is important because when one considers institutional theory, organisations are seen as “suspended in a web of values, norms, rules, beliefs and *taken-for-granted assumptions*” (Barley and Tolbert, 1997, p.93, emphasis added) of how they should act in social, economic and political terms. They therefore seek to highlight and understand where these societal factors, or criteria, emerge from, how they “translate down to the organizations therein” (p.511), and how an institutionalisation process may be contextualised by them as a result. Hence, to Dillard et al., the SEP level is not considered as separate from the organisational field (OF) level or organisational level (OL), but rather as an inherent, contextual component and contributor to the institutional and organisational environments and processes overall.

Dillard et al. view the societal level as being where “political and economic systems (PE) use symbolic sense-making criteria (C_{PE}) in articulating and instituting legitimate norms

and practices” (p.513). For example, according to the authors “the dominant political and economic context faced by most organizations in industrialised western societies is market capitalism [with the] primary legitimating characteristic within this system being economic efficiency” (p.508). Therefore, one of the implicit objectives of creating this framework appears to be the authors’ need to make explicit the assumption that global market capitalism represents the (rational) grounds from which organisational behaviour emerges.

Dillard et al. draw on Max Weber’s (1958, 1961, 1968) notions of “capitalistic institutions” (p.507): representation, rationality and power, to contextualise the SEP level and the basis for institutional processes. Representation concerns “the way reality is framed or symbolically described” (Dillard et al., 2004, p.517). Here, Weber focuses on the role ideas, interpretations and meanings play in legitimating social action, and recognises the importance of these symbolic representations in creating the context for social action (Dillard et al., 2004). He further distinguishes between substantive representations, which are seen as socially constructed, and objective representations, which are presumed to be logical and analytical.

Weber then questions the role of these ideas, interpretations and meanings in “motivating legitimate and illegitimate actions within these societies” (Dillard et al., 2004, p.517). The social context is hence seen as providing the basis by which ideas and practices can be considered appropriate (legitimate), and according to Weber, rationality is the primary contextual factor to address this. Thus, rationality is seen as providing “the legitimating conditions for evaluating criteria and practices” (Ibid). Weber also distinguishes between “formal rationality”, which is calculation oriented, for example, economic efficiency, and “substantive rationality”, which is values oriented, for example, environmental protection. Subsequently, the actions of entities within a society are justified either by formal or substantive rationality or both.

Finally, Weber conceptualises power as “the means and degree of control over human and material resources” (Dillard et al., 2004, p.518). He believes that at the societal level, as well as at the organisational level “control is imposed through mechanisms that follow from a dominant ideology” (Ibid). For example, Weber believes that at an organisational level control can be gained through: 1) the implementation of hierarchical structures, where the

logic of structure and the duty to obey provides the context for action; or 2) through social consensus, where the logic of personal choice and ongoing social interaction provides the logic for action (Dillard et al., 2004).

Therefore, Dillard et al. argue that these three constructs, or “axes of tension” (p.517): representation, rationality and power, allow them to conceptualise the context within which the meaning, justification and control associated with certain norms and behaviour at societal level emerges. However, they also argue that Weber’s three “axes” or constructs overlap with Giddens’ structural types (signification, legitimisation and domination), whereby they see “the legitimisation structures as representing the rationality axis; the signification structures as analogous to the representational axis; and the domination structures as representing the power axis” (Dillard, et al., 2004, pp.519-520).

Due to the fact that Dillard et al. recognise strong similarities between Webers’ and Giddens’ social constructs, and because structuration theory is used by the authors to conceptualise institutionalisation processes at organisational field and organisational levels, this research will predominantly use Giddens’ concepts/terminology in its application of the Dillard et al. framework. This is done in the interest of simplicity and the desire to maintain a consistent conceptual focus throughout the pending narrative. The organisational field (OF) level will now be discussed in more detail below.

3.3.3b The Organisational Field (OF) level

Dillard et al. outline how organisational fields represent the “interorganizational context” in which “organizations are institutionally embedded” (p.509) and involve “socio-economic configurations such as industry groups, professional institutes, geographical collectives and so forth” (p. 512). They believe that the organisational field is “an interactive part of a larger social system that must be considered when examining the establishment, embedding and de-institutionalization of criteria and practices” (p.515). In turn, they feel that the motivation for “innovation” or change associated with such criteria and practice can come from a number of sources. They believe that this is largely influenced by the socio-economic and political (SEP) criteria from the societal level, but also from a range of responses and “innovator” or competitor type actions taking place at the organisational level. Therefore, they view the organisational field as a form of conduit between the SEP

level and organisational level activity and developments, but also as a hub of activity in its own right through the facilitation of inter-industry dynamics.

However, apart from mentioning that “industry leaders, labour unions or external consultants”(p.513) may be influential at this level, Dillard et al. do not provide a more detailed explanation of what or who determines or influences organisational field components or characteristics. As a result, a more detailed definition or explanation of what and who constitutes an organisational field, and thus how it could be applied in the context of this study, was needed. In order to address this both Di Maggio and Powell’s (1983) definition of organisational fields and Hoffman’s (1999) conceptualisation of an organisational field are drawn upon to expand the Dillard et al. explanation above.

When defining organisational fields, DiMaggio and Powell (1983) state that:

“Fields only exist to the extent that they are institutionally defined. The process of institutional definition, or ‘structuration’, consists of four parts: an increase in the extent of interaction among organizations in the field; the emergence of sharply defined interorganizational structures of domination and patterns of coalition; an increase in the information load with which organizations must contend, and the development of a mutual awareness among participants in a set of organizations that are involved in a common enterprise.” (p.148)

While the above definition may be useful to conceptualise the dynamics between industry players i.e. EPFIs, in, what this research will term, the Equator Principles (EP) organisational field, there are also non-financial actors, for example NGOs, with a different EP “enterprise” in mind, that play a major role in the emergence and evolution of this field. Therefore, in order to capture a broader and more “holistic” interpretation of how an organisational field can *emerge* and develop, and who or what it constitutes, Hoffman’s (1999) conceptualisation of an organisational field is used.

Hoffman also recognises the value of using DiMaggio and Powell’s (1983) definition of an organisational field as a starting point to indicate that “the presence of a field structure should be analytically detected not through observing the emergence of a tangible pattern of organizational coalitions” (Hoffman, 1999, p. 352), but through such increases in inter-organisational activity, information exchange and mutual awareness as proposed by Di Maggio and Powell (*Ibid*). He then expands this by proposing that “a field is not formed

around common technologies or common industries, but around *issues* that bring together *various* field constituents with *disparate purposes*" (Ibid, emphasis added). He therefore suggests that a field is "formed around the issues that become important to the interests and objectives of a specific collective of organizations" (Ibid), and uses the example of the protection of the natural environment as such an issue.

Hoffman elaborates upon this by stating that "issues define what the field is, making links that may not have previously been present. Organisations can make claims about being part or not part of the field, but their membership is defined through social interaction patterns" (p.352). Subsequently, "if an organization or population chooses to disregard an emerging issue, others may crystallize the field formation processes for them" (Ibid). For example, NGOs may force some banks to consider E&S issues for the first time and/or the need to adopt the EP. Therefore, if an organisational field is conceptualised around an issue rather than networks "greater *complexity* in field formation and evolution" is revealed (Ibid, emphasis added).

Hoffman believes that "more than just a collection of influential organizations a field is the center of common channels of dialogue and discussion" (p.352), where "competing interests negotiate over issue interpretation" (p. 351). However, he also claims: "not all constituents may realise an impact on the resulting debate, but they are *often armed with opposing perspectives* rather than with common rhetorics" (p.352, emphasis added). The resulting process may thus "resemble institutional war than isomorphic dialogue" (Ibid). Hence, Hoffman states "it is important to distinguish between an organizational field and *individual populations within it*, or classes of organizations that are relatively homogenous in terms of environmental vulnerability" (Ibid, emphasis added). He provides an example of environmentalists and chemical manufacturers occupying a common organisational field, but highlights that, even though they might influence one another; "it would be incorrect to assume that they share the same beliefs and attitudes toward the environment" (Ibid).

Finally, he also states that "field formation is not a static process; new forms of debate emerge in the wake of triggering events that cause a reconfiguration of field membership and/or interaction patterns" (p. 351). Hence, he claims that field membership "may also be for a finite time period, coinciding with an issue's emergence, growth, and decline" (p.352).

Therefore, both the DiMaggio and Powell (1983) and Hoffman (1999) conceptualisations of how an organisational field may be developed and perceived, as well as what and who it may constitute, expand and develop the Dillard et al. (2004) frameworks brief overview of the OF level. Consequently, in the context of this research, a deeper understanding of how the OF level constructs and constituents may influence, and in turn be influenced by, an institutional process as a whole is facilitated. The next section will now focus on the organisational level of the Dillard et al. framework in more detail.

3.3.3c The Organisational level (OL)

In general, institutional theory posits that “organizational activities are motivated from the imperative of legitimacy-seeking behaviour” (Dillard et al., 2004, p.508), and that a greater degree of conformity (isomorphism) develops as the “level of institutionalization and the related need for greater legitimacy among constituencies increases” (p.515).

Dillard et al., however, believe that in highly institutionalised environments organisational responses to such pressures to “conform” may not be uniform and may “vary widely based upon the multiplicity of institutional pressures both within and external to an organization” (p. 515). Subsequently, they outline how the literature suggests that while organisations may be “constrained” by the institutional environment, there may be “different expectations for different types of organizations” (*Ibid*), and that diverse organisational responses to internal and external forces in the organisational field can be seen as symbolic (decoupled) or substantive. Furthermore, they highlight that some organisations may simply resist the institutionalisation process, while others may actively wish to shape their institutional environment. Dillard et al. also feel that there may be a variety of ways in which an organisation experiences change within an institutionalisation process. For example, they outline how change could “arise from the institutional environment, inter-organizational ties, other organizations, as well as from within an organization” (p.515). The author’s multilevel representation of the dynamics associated with the institutionalisation process (Figure 5) thus attempts to provide some insights into how these influences can be brought to bear on an organisation. Hence, Dillard et al. emphasise how a *variety* of responses and experiences by different organisations within an organisational field is possible.

More specifically, as mentioned earlier, Dillard et al. anticipate innovative organisational practices as originating at the organisational level through the activities of reflexive, purposeful and knowledgeable agents, that are “enabled and constrained by the higher level parameters” (p.515) i.e. SEP and OF criteria. Therefore, they view innovative changes in organisational practices as arising “from those who develop new ideas and different ways of doing things that prove to be more efficient” (*Ibid*). Hence, organisations “developing new organizational practices within the boundaries of the organizational field practices” (p.514) are termed “innovators”. Subsequently, “late adopters” are viewed as those organisations that “adopt the practices of innovator organizations” (p. 514). As a result, the authors feel that “perceived ‘better practices’ are implemented by other organizations within the organizational field and become expected practices (institutionalized)” (p.515).

However, Dillard et al. only include “practice” (as informed by OF level criteria and practice) at OL in their framework (see Figure 5), as opposed to recognising the possibility of “criteria” also existing at organisational level. This highlights the need for Dillard et al. to consider the possible dynamics between criteria and practice at organisational and/or *intra*-organisational level and its influence on institutionalisation processes. The authors *allude* to the fact that the Burns and Scapens (2000) framework, which focuses on institutional processes *within* organisations, may be applicable to this level of their framework, yet they do not elaborate or illustrate how this may be the case.

This appears to have been one of the reasons why the Dillard et al. model was extended at the (intra)organisational level by Hopper and Major (2007), which, to the best of this author’s knowledge, is the only published paper that directly applies the Dillard et al. (2004) framework. Here, Hopper and Major (2007) focus on the adoption of activity-based costing (ABC) in a private telecommunications company in Portugal, and extend the Dillard et al. framework by drawing on the labour process approach and actor network theory (ANT). They relabel Dillard et al.’s organisational level as “intraorganisational” in order to capture the dynamics associated with “multiple, competing rationalities, power and material issues” (p.90) which led to ABC being institutionalised differently *within* this telecommunications company. Their aim is to show how organisations are “functionally and hierarchically differentiated [and] are not unitary”(p.85). They therefore split the intra-organisational level into functionally and hierarchically differentiated “communities” within the organisation

representing for example, different departments, production workers and senior management, in order to recognise the importance of their different responses to ABC.

Hopper and Major (2007) highlight how after ABC was “translated” and “enacted” within the company, this led to divergent “consciousness” about the merits of ABC amongst these different actors, and thus its “resistance” (by production workers) or “institutionalisation” (by commercial managers). In addition, Hopper and Major also extend the model at OF and SEP level, through their recognition of particular “epistemic” or “boundary-spanning” communities i.e. consultants within their study. Here, they believe that external consultants had the capacity to transcend all three levels of the model and influence the ABC institutionalisation process as a whole.

However, in extending the Dillard et al. framework to intra-organisational level, Hopper and Major tend to “override” Dillard et al.’s consideration of *inter*-organisational dynamics at OL (i.e. between “innovators” and “late adopters”). It could therefore be argued that Hopper and Major’s extension may only be useful for the application of the Dillard et al. model to a case study of a *single* organisation, as opposed to one incorporating more than one organisation. Therefore, in the context of this study, which *inter alia* focuses on various *inter and intra* organisational dynamics of EPFIs at organisational level, Hopper and Major’s (2007) extension will not be applied. Rather, the same theoretical focus on institutionalisation as a structuration process, between relevant EP criteria/structures and human action/practice, will be maintained and used to explicate the intra-organisational dynamics of EP institutionalisation at intra-organisational level.

The following section will now provide further explanation of how and why the Dillard et al. framework is interpreted and applied to this research.

3.3.4 Interpretation and Application of the Dillard et al. (2004) Framework

“NIS [new-institutional sociology] researchers increasingly recognise that institutionalisation may be contingent, unstable and only revealed through grounded study of complex, longitudinal processes.”

(Hopper and Major, 2007, p.87)

The Dillard et al. (2004) paper addresses many of the critiques of institutional theory outlined in Chapter Two and offers a comprehensive conceptual framework that can be used to inform the exploration of institutionalisation as a dynamic, political, multi-level and recursive process. It is for these reasons that it has been chosen to frame this study of the EP institutionalisation process.

More specifically, the SEP level helps conceptualise the influence of various socio-economic and political factors and actors on the EP institutionalisation process leading up to and between 2003 and 2008. It draws attention to the main societal system under consideration i.e. the financial system, its economic “rationale” and commercial bank dominance therein. It facilitates the exploration of how other “powerful competing coalitions” at this societal level i.e. NGOs, challenged this dominance by questioning the legitimacy and accountability of these commercial banks. In doing so, it initiates an analysis of why and how the EP were developed, as well as the political dynamics that continued to influence their evolution over the course of 2003 to 2008. The general *significance* of the EP within their broad socio-economic and political environment is therefore also brought into consideration. In short, the SEP level allows for the conceptualisation of the societal context within which the EP insitutionalisation process emerged, evolved and became embedded prior to and between 2003 and 2008.

Secondly, Dillard et al.’s portrayal of the organisational field level (OF) as an interactive part of the broader social system, helps to conceptualise the EP organisational field as a conduit between SEP level and organisational level dynamics, as well as being a hub of activity itself. This study expands this however, through the consideration of DiMaggio and Powell’s (1983) definition of an organisational field and the application of Hoffman’s (1999) conceptualisation of a field emerging and developing around an “issue”. This is done, firstly, to draw attention to how the EP field can be recognised through an increase in

inter-organisational activity, information exchange and mutual awareness (as per the Di Maggio and Powell, 1983) between commercial banks/EPFIs. Yet, secondly, and most importantly, it is done to demonstrate that the EP field emerged around the “issue” (Hoffman, 1999) of more “sustainable” (project) finance and the EP *per se*, bringing together a variety of field constituents with disparate purposes.

At organisational level (OL), Dillard et al.’s distinction between Innovators (I) and Late Adopters (LA) assists in understanding and explaining the different levels of EP adoption and activity of variant commercial banks over the course of 2003 to 2008; and how this influenced, and was influenced by, the EP institutionalisation process. However, the term “later” as opposed to “late” adopter will predominantly be used in the pending narrative to more accurately represent some EPFI interviewees within this study, arguing that *late* adopter has somewhat negative connotations, *almost* suggesting “passive” or “symbolic” EP adoption (and/or “decoupling”) from “substantive” EP implementation.

Furthermore, in order to conceptualise and explain both inter and *intra*-organisational activity and heterogeneity in more depth *in this study*, an organisational and intra-organisational level are incorporated. The organisational level facilitates the exploration of *different* commercial banks’ cultures, experiences/capacity to deal with E&S issues and rates of EP adoption. The EP “criteria” at this level is seen as E&S risk management/EP policies and/or manuals/guidelines. The “practice” is the development of those policies as well as EP implementation procedures, for example, EP training, coordination of the EP internally and (external) EP reporting. The intra-organisational level then allows for a *deeper* exploration of the interplay between *specific* EP “criteria” i.e. EP policies and/or the Equator Principles *per se*, and *actual* “practice” within the project finance process; as managed by project financiers in consultation with (E&S) risk managers. Here, the organisational and intra-organisational levels are recognised as *highly* interdependent, with a “fluid” demarcation between both.

In general, Dillard et al.’s representation of institutionalisation as an iterative and recursive process, between structures/criteria and agency/practice, over societal, organisational field and organisational levels, provided this researcher with a very useful interpretive *guide* to

capture the complex nature of the EP institutionalisation process over 2003 to 2008. This is discussed in detail in the case narrative (Chapters Six to Nine).

3.4 Chapter Summary

This chapter conducted a more in-depth examination of some of the key theoretical concepts applied in this research on the EP institutionalisation process. The chapter was divided into two parts. Firstly, it analysed how the notions of “institution” and “institutionalisation” have been defined and understood in the literature. It then outlined how this research interprets the EP as an institution, or standard, representing the norms/values/beliefs for more responsible project finance. It explained how the EP are recognised as being created, modified and maintained by EPFI actors, assisted by their interaction with broader stakeholders; and gradually becoming “taken for granted” (institutionalised) by them over the course of 2003 to 2008. This research therefore views actors as active participants in EP institutionalisation.

Secondly, it introduced the Dillard et al. framework on institutionalisation and provided an in-depth explanation of its constituent parts. This encompassed an explanation of Giddens’ structuration theory as well as how Dillard et al. view institutionalisation as a structuration process occurring over socio-economic and political, organisational field and organisational levels. Here, the existence and continuity of the reciprocal relationship between structure and agency, as “activated” through the interplay between criteria and practice, is regarded as the underlying dynamic of an institutionalisation process. This section highlighted how Dillard et al. emphasise agency, and the power associated with this, as the ultimate means of change. The chapter concluded with an overview of how the Dillard et al. model is interpreted and mobilised within this research: to evidence, understand and explain the EP institutionalisation process. The next chapter will now address the methodological approach and research methods applied within this study.

CHAPTER 4: RESEARCH METHODOLOGY AND METHOD

“The demands of a case study on a person’s intellect, ego and emotions are far greater than those of any other research strategy.”

(Yin, 1989, p.62)

4.1 Introduction

This chapter focuses on the research methodology and methods applied in this study and is broadly divided into three sections. Firstly, it begins with an overview of the differences between quantitative and qualitative methodological research and outlines how this researcher is adopting a qualitative, interpretive approach to this research. It continues by discussing the merits of qualitative research as well as the use of theory and the rigour applied therein. Secondly, it examines the research methods or techniques used by qualitative researchers, focusing on semi-structured interviews, documentary analysis and observation as the basis of most qualitative field or case studies. The discussion progresses with the consideration of a more “holistic” interpretation of case study research and explains how and why that has been adopted in this case study of the EP institutionalisation process. Finally, this chapter provides an in-depth explanation of how this EP case study was designed, executed, theorised, and written into the narrative of case findings presented in the proceeding chapters.

4.2 Philosophy of Research

Research methodology is recognised as having both ontological and epistemological dimensions (Ryan et al., 2002). Ontology refers to a researcher’s “view” of reality or the nature of a particular phenomenon’s reality, while epistemology refers to “knowledge” about reality or particular phenomena. Hence, the researcher’s “ontological assumptions” or “world view” about the nature of reality will influence the manner in which knowledge is gained about that reality or phenomena (epistemology), which in turn influences the way research is conducted (Ryan et al., 2002). In other words, each researcher’s selection of a research methodology, and the methods (techniques) to undertake his/her research, is heavily intertwined with his/her ontological and epistemological assumptions. The literature broadly divides research methodology into two main camps: quantitative (numbers based) and qualitative (word based), with each “camp” representative of their own ontological and

epistemological underpinnings. If to imagine a continuum between “objective” and “subjective” notions of reality and approaches to knowledge, quantitative research is normally situated at the objective end, while qualitative is located at the subjective end (Ryan et al., 2002; Gephart, 2004).

Quantitative researchers view the world as “external” and taken-for-granted, where objective “facts” can be discovered and defined through an appropriate set of variables, and brought together by general laws (Ryan et al., 2002). Here, knowledge is gained about reality through “positivist” (based on “verification”), or “post-positivist” (based on “falsification”) research (Ryan et al., 2002; Gephart, 2004). If to focus on positivist research, it generally seeks to identify relationships between variables in the “external” world; it is reductionist in that it isolates specific relationships, or sets of relationships and constructs explanations by combining these relationships into general theories (Ryan et al., 2002). Such theories deal with “aggregates”, as opposed to “specifics”, aimed at *simplifying* our understanding of empirical observations (Ryan et al., 2002). Positivist research methods (e.g. statistical regressions, questionnaires and experiments) that “code, count and quantify phenomena” (Gephart, 2004) are thus aimed at producing statistical generalisations to explain empirical observations. Through the application of research questions such as “how much” or “what” (Cooper and Morgan, 2008), these methods do not explain in the “interpretive” sense (see below); but rather apply a “scientific” mode of explanation that relies on a process of “deduction”.²⁰ In addition, theory and data are normally considered separately in positivist studies, where theory is used to produce hypotheses which are then tested to find or “prove” a particular “truth” about external phenomena or one “true” reality (Gephart, 2004). Finally, the literature outlines that “as positivism is addicted to measurement and quantification, it does not pay attention to establishing the *meanings* actors construct for their experiences” in empirical settings (Berry and Otley, 2004, p.248, emphasis added).

Qualitative methodology on the other hand is mainly characterised by its belief in a socially constructed or “subjective” reality (ontology), and an interpretive approach to knowledge building about that reality (epistemology). An interpretivist position puts people “centre

²⁰ Where a particular occurrence or a relation is explained by deducing it from one or more general laws or theories (Ryan et al., 2002).

stage” and stresses “the understanding of the social world through an examination of the *interpretation* of that world by its participants” (Bryman, 2008, p.366, emphasis added). As Berry and Otley (2004, p.244), note interpretation is “the giving of new meanings by interpreting events and data through (or perhaps into) a theoretical frame, which provides insight to the actors in the field as well as to the researchers”. In this sense, theory and data are not regarded separately, but rather as highly interrelated in that theory is used to contextualise, understand and explain social actors’ perceptions of, and actions surrounding/within, a particular phenomena. In turn, empirical data may “build” (Eisenhardt, 1989), develop and expand theory about this specific, or broader, social phenomena (Ryan et al. 2002; Ahrens & Chapman, 2006). Through their application of “why” and “how” based research questions (Yin, 1989), qualitative research methods, for example, interviews and participant observation, are seen to provide a “deeper understanding of social phenomena than would be obtained from purely quantitative data” (Silverman, 2000, p.8). In doing so, emphasis is not placed on collecting data from “large samples” (groupings) in order to arrive at generalisations about social phenomena, but rather on smaller “samples” in order to explain, and gain an *in-depth* understanding of, *specific* phenomena within their particular *context* or natural setting. Hence, the possibility of “multiple” realities (Ryan et al., 2002), as opposed to one general or “true” reality, is illuminated and often “sought out” by the interpretivist researcher (Patton, 2002).

Table 1: Some Contrasts Between Quantitative and Qualitative Research

Quantitative	Qualitative
Numbers	Words
Point of view of researcher	Points of view of participants
Researcher distant	Researcher close
Theory testing	Theory contextual and/or emergent
Static	Process
Structured	“Unstructured”
Generalisation	Contextual understanding
Hard, “reliable” data	Rich, deep data
Macro	Micro
Behaviour	Meaning
Artificial settings	Natural settings

(Adapted from Bryman, 2008)

It is important to note however, that as much as the literature distinguishes between quantitative and qualitative methodological approaches, it also stresses that neither one should be considered as “better” than the other, but simply *different*, and should be chosen by researchers depending on the specific phenomena and research questions under investigation (e.g. Silverman, 2000; Berry and Otley, 2004). Accordingly, there is an ongoing debate within the literature about the need to recognise, and “bridge”, the often “artificial” divide between subjective and objective senses of reality and approaches to research (e.g. Laughlin, 1995; Kakkuri-Knuutila, Lukka and Kuorikoski, 2008; Ahrens, 2008).²¹

As this research adopts a qualitative/interpretivist approach, this will now be discussed in more detail in the following sections.

²¹ It should also be noted that whilst positivist and interpretivist research are discussed here, a third approach or “perspective” (Chua, 1986), termed “critical” research also exists; certainly within the accounting discipline (Ryan et al., 2002). Critical research adopts a “radical” perspective as it critiques the nature of social order, especially within capitalist countries.

4.2.1 A Closer Look at Qualitative Research

“Doing qualitative field studies is not simply empirical but a profoundly theoretical activity.” (Ahrens and Chapman, 2006, p.820)

According to Bryman (2008), naturalism appears to be the most frequently applied “orientation” within the qualitative research tradition,²² and is also of most relevance to this research. Through naturalism, researchers “seek to understand social reality in its own terms; ‘as it really is’” (Bryman, 2008, p.367); and provide “rich descriptions of people and interaction in natural settings” (Ibid). Hence, qualitative research emphasises “the *processes* and meanings that occur naturally” (Gephart, 2004, p.455, emphasis added) in social settings. Here, social actors’ meanings/interpretation of social phenomena, as well as the “interactions”/practices that help them to “make sense of” these phenomena, are seen as continuously (re)constructed in the “domain”/field (Berry and Otley, 2004). Qualitative researchers develop “thick”, or heavily detailed, descriptions (Bryman, 2008) of “who said what to whom as well as how, when and why” (Gephart, 2004, p.455). This allows them to provide *in-depth* explanations of social processes unfolding over time. Subsequently, qualitative evidence often conveys “a strong sense of change and flux” (Bryman, 2008, p.388). In general, as social systems are socially constructed and can change due to the activities of individuals in a particular setting, qualitative studies emphasise the particular *context* within which these social dynamics transpire (Ryan et al., 2002).

In qualitative research, theory, recognised as “a set of explanatory concepts” (Ahrens and Chapman, 2006, p.821), is widely used to help understand and explain social phenomena and their specific context. Despite widespread misconceptions regarding the “lack” of theory in qualitative research, theory is in fact regarded as a major aspect of the research process and agenda (Cooper and Morgan, 2008). A dynamic and iterative relationship is recognised between research questions, theory, method and data, with each component continuously informing the other throughout the whole research process (Ahrens and Chapman, 2006). In addition, the process of *theorising* observations or data about social phenomena is considered just as important as the actual *theory* that may have informed the research questions and/or methods applied. In turn, theory may be “refined, modified or

²² Ethnomethodology, emotionalism and postmodernism are recognised as others.

even rejected” (Ryan et al., 2002) due to such (theorised) observations. Therefore, the “doing” of qualitative research is recognised as “not simply empirical but a profoundly theoretical activity” (Ahrens and Chapman, 2006, p.820).

One of the most widely recognised and used “forms” of theory in qualitative research is what is known as the “Grounded Theory” approach (Glaser and Strauss, 1967; Eisenhardt, 1989). Here, theory is allowed to emerge and be “built” from the (“ground”up) analysis of social observations gained for example, through case studies. The aim is to “generate” a theory on particular social phenomena in their specific contexts (Eisenhardt, 1989; Eisenhardt and Graebner, 2007; Bryman, 2008). However, this research does not adopt a grounded theory approach, but rather chooses to maintain the stance that theory “is first and foremost a vehicle for understanding and communication” (Ahrens and Chapman, 2006, p.836), relevant throughout the *whole* research process, and not just emergent at the end. In doing so, this researcher also identifies with Laughlin’s (1995) observation that theory may be recognised as a “skeletal” frame guiding research; that requires empirical “flesh”, in order to be “meaningful and complete” (p.83). Therefore, in general, a more “fluid and flexible view of theory” (Humphrey and Scapens, 1996, p.96) is adopted in this research.

Similar to the misconceptions about the use of theory in qualitative research, there are additional misconceptions about the level of rigour applied therein. This is in part due to the subjective and context-specific nature of qualitative research which, by default, makes it difficult to apply *general* “rules” or evaluative “criteria” to the research process or findings (Ahrens and Chapman, 2006; Bryman, 2008). Nevertheless, there is growing agreement that: “doing ‘qualitative’ research should offer no protection from the rigorous, critical standards that should be applied to any enterprise concerned to sort ‘fact’ from ‘fancy’”(Silverman, 2000, p.12). Ongoing debate remains however about the *exact* form evaluative “protocols” for qualitative research should take (Ryan et al., 2002; Berry and Otley, 2004; Bryman, 2008). Some authors advocate variants of the criteria used in (post)positivist-quantitative research i.e. internal and external *reliability*²³ and *validity*.²⁴ An example is Ryan et al.’s

²³ Internal reliability refers to whether, when there is more than one researcher involved in a study, there will be agreement amongst the researchers about what they have all observed; while external reliability is concerned with the degree to which the study may be replicated (Bryman, 2008).

²⁴ Internal validity refers to whether there are adequate controls in place in a study and if a good match is achieved between the researcher’s observations and the theoretical ideas they develop. External validity is

(2002) notions of *procedural reliability* and *contextual validity*. While others have proposed similar criteria with “non-positivistic” terminology to more “accurately” describe protocols for qualitative research. For example, Lincoln and Guba (1985) and Guba and Lincoln (1994) propose the alternative notions of *trustworthiness* and *authenticity* for assessing qualitative studies. As the latter are applied in this research they are discussed briefly here.

Firstly, trustworthiness is comprised of: dependability, credibility, transferability and confirmability (Bryman, 2008). *Dependability* is recognised as a parallel to reliability and is concerned with the establishment of a rigorously conducted, documented and analysed “audit trail” of research procedures. *Credibility* is recognised as a parallel to internal validity and is concerned with “good” research practice and the credibility of the research findings. It advocates sending research findings to the actors involved in order to gain their confirmation or “respondent validation” (Bryman, 2008, p.377) of the findings. *Transferability* is used in place of external validation or the generalisation of research findings. Here, emphasis is placed on the contextual uniqueness, significance and description of the social phenomena being studied, allowing other researchers to judge whether they could transfer these findings to other millieux. Finally, *confirmability* is proposed as a parallel to objectivity. It is concerned with how a researcher, whilst never totally objective in qualitative research, can show that he/she have acted in “good faith”, in that “she has not overtly allowed personal values or theoretical inclinations manifestly [...] sway the conduct of the research and findings deriving from it” (Bryman, 2008, p.379). This could be achieved through “a recognition of, and an explicit search for, the types of evidence which would *contradict* the researcher’s theory” (Scapens, 2004, p.274, emphasis added) and findings.

Secondly, authenticity incorporates five main criteria: fairness, ontological authenticity, educative authenticity, catalytic authenticity and tactical authenticity (Bryman, 2008). *Fairness* relates to whether the research fairly represents the different views of the members/actors of the social setting in question. *Ontological authenticity* refers to whether the research can assist these actors to gain a better understanding of their social milieu. *Educative authenticity* is concerned with whether the research can help these actors to better

concerned with the degree to which the findings can be generalised across social settings (Ryan et al., 2002; Bryman, 2008).

appreciate the perspectives of the other members in the social setting. While *catalytic authenticity* relates to whether the research has acted as a stimulus for actors to change their circumstances. Finally, *tactical authenticity* refers to whether the research empowered actors to engage in action (Bryman, 2008).

In conducting qualitative research, the researcher may adopt a number of roles, for example: interviewer, observer, visitor, participant and evaluator, or a variety of the same (Berry and Otley, 2004; Scapens, 2004). In each case, it is the researcher's responsibility to be aware of his/her "impact" on the research "site", and to be mindful of the "protocols" outlined above in order to ensure the credibility of the study and its findings. Hence, as a subjective process, the overall trustworthiness of qualitative research procedures and findings is highly dependent upon the researcher's knowledge, instinct, rigour, professionalism and integrity (Berry and Otley, 2004; Patton, 2002).

The various methods used in qualitative research, and this particular study, will now be discussed in the following section.

4.3 Qualitative Research Methods

"The strength of case based methods is that they ground theoretical speculation in the empirical observation of real-world phenomena." (Berry and Otley, 2004, p.249)

Qualitative data is generated through three main methods or techniques: *interviews*, *observations* and *documentary analysis*. These methods are normally applied individually, or in combination with one another, through fieldwork, also referred to as "field studies" or "case studies" (Patton, 2002; Cooper and Morgan, 2008). This research adopts a case study approach and incorporates (semi-structured) interviews, (participant) observation and extensive documentary analysis as its research techniques. The following sections will therefore discuss these techniques in more detail. The discussion will then proceed with an explanation of the case study approach, and why and how a case study has been undertaken in this research.

4.3.1 Interviews

Qualitative interviewing, according to Patton (2002) begins with the assumption that the perspective of those being studied is “meaningful, knowable and able to be made explicit” (p.341). We interview to seek to know what is on and in the mind of interviewees and to “gather their stories” (Ibid). In case study research, three main forms of interviews exist: structured, semi-structured and unstructured. As semi-structured interviews are used in this research they are discussed here.

Semi-structured interviews are those used by researchers with a broad framework or “plan” for questioning, mainly involving “open-ended” questions. This is in contrast to: 1) structured interviews, where the researcher has a clear idea of the information needed and where “closed” questions, requiring “yes” or “no” answers are employed; and 2) unstructured interviews which have no set “plan” (Patton, 2002; Scapens, 2004). In semi-structured interviews, similar issues can be asked of different interviewees, but “there remains sufficient flexibility to explore the issues in depth, and to follow up the responses that are given by the interviewee” (Scapens, 2004, p.267). These interviews are suitable for researchers that begin their empirical investigation with a clear focus, as opposed to just a general idea, about a research topic, allowing specific topics to be addressed within the interview (Bryman, 2008).

Open-ended data gathering or interviewing allows social phenomena to be explored in considerable depth (Hartley, 1999). This is possible as open-ended questions, that have not encouraged “predetermined” responses from interviewees, allow researchers to explore, “probe”, capture and understand “the world as seen by respondents” (Patton, 2002, p.21). This is of utmost importance to qualitative researchers in a “quest for meaning” (Ahrens and Chapman, 2006) about particular social phenomena in their *specific context*. In addition, as Bryman (2008) notes, an understanding of *process* can also be “achieved through semi-structured and unstructured interviewing, by asking participants to reflect on the processes leading up to or following on from an event” (Ibid).

The production of an “interview guide” prior to interviews is regarded as a useful way to “focus” semi-structured interviews. An interview guide outlines “topics or subject areas within which the interviewer is free to explore, probe and ask questions that will elucidate and illuminate [the] particular subject” (Patton, 2002, p.343). The guide can act as a basic checklist for the interviewer during the interview, and generally allows them to take a more systematic approach to the key issues under examination, pursue the same lines of enquiry with different interviewees, and maximise the often limited time available for the interview (Patton, 2002). Subsequently, the main data generated from qualitative interviews are interviewee quotations, which as Patton (2002) notes, reveal the “respondent’s depth of emotion, the ways they have organised their world, their thoughts about what is happening, their experiences, and their basic perceptions” (p.21).

4.3.2 Observation and Documentary Analysis

Observation in qualitative research is often regarded as a mutually reinforcing research technique when combined with qualitative interviewing (Patton, 2002). Observation can take various forms, but perhaps the most well known is that of *participant observation*. This can entail direct participant observation where the researcher engages personally in the activities under examination, for example, in an ethnographic study²⁵ (Bryman, 2008). It can also involve broader “social interaction in the field with subjects, direct observation of relevant events, formal and informal interviewing, some counting, collection of documents, and flexibility in the direction the study takes” (Gephart, 2004, p.458). Here, participant observers gather a lot of information through informal, naturally occurring conversations, and “the observer’s notes become the eyes, ears, and perceptual senses for the reader” (Patton, 2002, p.23). Subsequently, the purpose of observational analysis is “to take the reader into the setting that was observed” (*Ibid*). Researchers draw on their various experiences with the “observed” phenomena and then try to make sense of them (Humphrey and Scapens, 1996), normally with the use of theory, through the production of a descriptive narrative.

²⁵ An ethnographic study is one in which the researcher is “immersed” in a social setting, for example, a community or organisation, for a considerable period of time; in order to gain an in-depth understanding of that social setting (Bryman, 2008).

Documentary analysis can further extend and reinforce data gathered through interviews and observation and hence assist the triangulation of empirical data. Data triangulation refers to the comparison of one set of data on a particular phenomena with other kinds of data/evidence on the same phenomena (Ryan et al., 2002). Documentary analysis can assist triangulation as it involves the content analysis of a wide range of hard and web-based documents and texts to ensure an in-depth analysis of the social phenomena in question. Patton (2002, p.4) notes that such documents may be “written materials and other documents from organisational, clinical, or programs records; memoranda and correspondence; official publications and reports; personal diaries, letters, artistic works, photographs, and memorabilia; and written responses to open-ended surveys”.

A more detailed discussion of the case study approach, which incorporates these qualitative research methods, will now be conducted in the next section.

4.4 The Case Study Approach

“A case study approach is not a method as such but rather a research strategy.” (Hartley, 1999, p.209)

A case study “strategy” or approach can involve quantitative or qualitative research methods or a combination of both. In turn, different types of case studies exist to “suit” the ontological and epistemological position of the researcher and their research questions (Hartley, 1999; Cooper and Morgan, 2008). Ryan et al. (2002) identify five different types of case studies: descriptive, illustrative, experimental, exploratory and explanatory. The explanatory case study approach is most popular with qualitative-interpretive researchers and is also relevant for this research. Explanatory case studies seek to explain social phenomena associated with specific cases/contexts. For *some* researchers, theory “building” about the phenomena is often the objective of these case studies (Ryan et al., 2002).

Yet, how can explanatory case studies be defined in more detail? A number of definitions exist in the literature, but, as a starting point, a useful interpretation for *this* research is that of Cooper and Morgan (2008) who, drawing on the work of Stake (2000), state that:

“Case studies focus on bounded and particular organizations, events, or phenomena, and scrutinize the activities and experiences of those involved as well as the context in which these activities and experiences occur.”
(Cooper and Morgan, 2008, p.160)

Cooper and Morgan’s interpretation of a case study is relevant for this research for a number of reasons. Firstly, the particular “phenomena” in question encompasses the Equator Principles (EP), the EP institutionalisation process, and the socially accountable (project) finance activities influenced by this between 2003 and 2008. This involves “particular organisations” i.e. Equator Principles Financial Institutions (EPFIs), along with additional organisational and individual actors in the *broad* EP field i.e. NGOs, consultants, lawyers and clients.²⁶ In addition, this study pays specific attention to a series of “events” that influenced, and were influenced by, the EP and their institutionalisation process. In doing so, it “scrutinises the activities and experiences” of the key actors involved and the “context(s)” within which all of this took place.

Furthermore, Cooper and Morgan suggest that a case study approach is helpful for researchers that are investigating:

1. Complex and dynamic phenomena where many “variables” are involved, especially those that are not quantifiable;
2. Actual practices, including “the details of significant activities that may be ordinary, unusual or infrequent” (p.160); and
3. “[P]henomena in which the context is crucial because the context affects the phenomena being studied (and where the phenomena may also interact with and influence its context)” (*Ibid*).

All of the above insights are also relevant for this research. This is because this study focuses on the “complex and dynamic” EP phenomena, whose associated range of activities and practices are observed as progressing from “unusual” to “ordinary” as the EP institutionalisation process evolved over the course of 2003 to 2008. Quite importantly, this research conducts an in-depth analysis of the EP phenomena over socio-economic and political, organisational field and organisational levels, emphasising the interrelated nature of the societal and organisational “contexts” within which EP institutionalisation takes place. Subsequently, the manner in which the EP phenomena come to influence these

²⁶ That is in this particular research. It should be noted here that socially responsible investors (SRIs), while not included in this research, are also considered an important stakeholder group for EPFIs/the EP.

contexts over time is also highlighted. In short, this research is concerned with the in-depth understanding and explanation of the *case of EP institutionalisation*, and its effects on EPFI social accountability, between 2003 and 2008. Therefore, this research takes a more *holistic* view of what a case study is or can be, as opposed to for example: (1) viewing a case study as just applicable to *a particular organisation*; or (2) conducting a *multiple* case study.²⁷ This research considers the *EP case*, and all its constituent parts, as *one broad* interconnected set of circumstances, interpretations and practices for in-depth investigation and theorisation. This researcher is thus seeking to interpret, understand and explain the various “patterns” (Ryan et al., 2002) associated with the EP institutionalisation process, and its inherent context, overall.

In addition, Cooper and Morgan (2008) suggest “case studies are frequently selected to learn from jolts that disrupt routines; expose differences among apparently similar actors, systems, and organizations; and activate processes that seek to restore equilibrium” (p.162). In a similar vein, Hartley (1999), states that case studies allow researchers to “track change *over time*, as a response both to historical forces, contextual pressures and the dynamics of various stakeholder groups in proposing or opposing change” (p.211, emphasis added). Hence, events in the field or “domain” i.e. the “space in which data is collected” (Ahrens and Chapman, 2006, p.821) are recognised as influenced by “the values, interests and power of the people involved” (Cooper and Morgan, 2008, p.164). Accordingly, case studies are regarded as “particularly useful in examining the applications of values and power in complex and messy situations” (*Ibid*), and are “tailor-made for exploring new processes or behaviours or ones which are little understood” Hartley (1999, p.213). The relevance of all of these insights for this case research will become evident in Chapters Six to Nine.

Good case research is said to begin with a careful research design, which includes identifying “the study’s questions (how and why), unit of analysis (which cases will be examined), and criteria for interpreting the findings” (Cooper and Morgan, 2008, p.171; Yin, 1989). Of most importance here are the research questions which “drive the choice of what case to study, who to see, what to observe, and what to discuss as well as decisions

²⁷ Where each case is analysed separately and theory may be developed to encompass all of the cases (Ryan et al., 2002).

about time periods, locations and data sources” (p.171). Consequently, the shape of the research “field” is very much defined by “its usefulness for answering the research question[s]” (Ahrens and Chapman, 2006, p.824). In this instance *purposeful sampling* is normally applied in case research. This is where the researcher selects “information-rich cases strategically and purposefully” (Patton, 2002, p.243), as well as relevant people to interview, in order to “illuminate” the research questions (Patton, 2002; Bryman, 2008).²⁸ The specific design of this case research will be discussed below in Section 4.6.2.

4.5 Summary

In summary, this study adopts a qualitative, interpretive approach to research. More specifically it conducts a case study of the EP institutionalisation process, incorporating semi-structured interviews, participant observation and documentary analysis within the *broad* EP field. In doing so, theory is used to understand and explain the dynamics of the EP institutionalisation process within its specific contexts.

The manner in which this case study was designed and conducted will now be explained in more detail in the following section.

²⁸ This is in contrast to the *random sampling* applied in quantitative research, which is seen to, inter alia, “control” for selection bias (Patton, 2002).

4.6 The Equator Principles (EP) Case Study: A Personal Journey

“Systematic and rigorous observation involves far more than just being present and looking around. Skilful interviewing involves much more than just asking questions. Content analysis requires considerably more than just reading to see what’s there. Generating useful and credible qualitative findings through observation, interviewing and content analysis requires discipline, knowledge, training, practice, creativity, and hard work.” (Patton, 2002, p.5)

4.6.1 Background (2001-2005)

My interest in the EP arose while working with the United Nations Environment Programme Finance Initiative (UNEP FI),²⁹ in Geneva, Switzerland, between 2001 and 2005. Following the launch of the Principles in 2003, I began to keep track of developments surrounding the Principles, in terms of, for example, the media hype, financial sector enthusiasm and NGO accountability concerns surrounding them. Over the course of 2003-2005, I had the opportunity to meet, interact with and (informally) discuss the EP with a variety of financial institution (FI) representatives, NGO representatives and consultants. It was here that my “observations” of some of the key EP stakeholders within the broad EP field began. I was able to gain first-hand insights into, for example, the “phyche” of both FIs and NGOs and how they interacted, disagreed, understood, compromised and worked with each other through general sustainable finance programmes. This would greatly assist my interpretation and understanding of their interrelationships surrounding the EP *per se* later. Hence, these personal experiences would prove highly influential and invaluable to my methodological approach (e.g. worldview), case design (e.g. ease of access to interviewees) and the theorisation and interpretation of case findings thereafter.

4.6.2 EP Case Design (2006-2008)

“[A] good case study’s design and data collection are less haphazard than some may believe.” (Cooper and Morgan, 2008, p. 171)

When I successfully secured a PhD position I had a burning desire to understand how the EP were affecting the internal operations of adopting FIs and whether this was influencing

²⁹ A global partnership between UNEP and the finance sector on sustainable finance.

their social accountability. In order to do this I initially had to consider the questions of “why and how” the EP were developed and “why and how” EPFIs were implementing them. Thus, my original set of research questions were:

1. Why and how were the Equator Principles (EP) developed?
2. How are/have the EP been implemented within adopting banks?
3. Why and how did the EP evolve over time?
4. What effect has EP implementation had on adopting banks’ social accountability?

These questions helped shape the design and projection of my research over the study period (2005-2009), as discussed in Sections 4.6.2a – 4.6.2c below. Over the course of this research the first three questions would form the basis of the examination of what I came to term *the EP institutionalisation process*, while the fourth would come to focus on the effects of this process on EPFI social accountability between 2003 and 2008. Hence, the “refined” research questions that emerged as this case study progressed were (see Section 1.2):

1. Why and how did the EP institutionalisation process emerge?
2. Why and how did this process evolve between 2003 and 2008?
3. What effect did this process have on EPFI social accountability (i.e. related to their project finance and/or broader activities) over the period 2003 to 2008?

4.6.2a Phase 1: NGO Interviews (June – December 2006 & January 2008)

The first research question, *why and how were the EP developed?*, determined the structure of the first phase of my research and which interviewees would be selected. This involved the *purposeful sampling* of a selection of members of the NGO coalition “BankTrack”, whose insights were deemed valuable to “illuminate” this research question. BankTrack was formed following the launch of the EP and, *inter alia*, act as a “monitor” of the EP and EPFIs. To organise NGO interviews I drew upon one of my NGO contacts (and member of BankTrack) as well as the BankTrack Coordinator. The BankTrack Coordinator acted as a gatekeeper to the BankTrack member organisations, providing me with their contacts details and suggesting a practical time to organise face-to-face interviews surrounding a BankTrack strategy meeting in Sussex, England in June 2006. Therefore, *snowball*

sampling formed part of the purposeful selection of NGO interviewees, in that I “knew people who knew people” who would prove to be good interview participants (Patton, 2002).

Nine senior individuals from the then 14 members³⁰ of BankTrack were purposefully selected and interviewed from June to December 2006. Six members were selected due to their historical and first-hand knowledge of NGO financial sector campaigns and the drafting of the Collevecchio Declaration, an NGO initiative aimed, *inter alia*, at co-ordinating campaigning for greater financial institution environmental and social (E&S) responsibility (see Chapter Six). Three senior individuals from NGOs that joined BankTrack subsequent to the initial six interviewees were also interviewed to gain some alternative insights into the progression of the EP following their launch. In addition, the BankTrack Coordinator was interviewed later in January 2008, in order to gain some “up to date” NGO views on the manner in which the EP had progressed since the first NGO interviews in 2006. These views were sought in order to capture the *processual* nature of the EP phenomena, as well as NGO opinions about this, over the course of 2003 to 2008 (thus incorporating the original research question 3). Hence, a *total* of ten NGO representatives were interviewed in this case study (see Table 2).

In preparation for the interviews I developed a (semi-structured) interview guide comprising questions that represented the core research themes or constructs informing the study (Eisenhardt, 1989; Patton, 2002). These included: “background and development of EP I”; “concept of accountability”; “institutional and organisational change”; “evolution of EP/ EP II”³¹ and “NGO role and identities” for the first nine interviews in 2006. These were then extended with: “post EP II/current EPFI proposals”; “EPFI progress: governance and accountability”; “institutionalisation”, “EPFI clients” and “EP future” for the BankTrack Coordinator interview in 2008. Each question category included individual questions along with a series of “probes” and prompts (King, 1999), aimed at gaining more (in-depth) information on particular issues during the interview. The *master* NGO interview guide is provided in Appendix 1.

³⁰ There are 16 members and 13 partner organisations as of April 2010 (see http://www.banktrack.org/show/pages/about_banktrack).

³¹ Equator Principles II: the revised set of principles launched in July, 2006.

From ten, eight of the interviews were conducted in person, while the remaining two were conducted by telephone. The latter was due to the inability of these interviewees to partake in face-to-face interviews when they were scheduled to take place. All interviews, lasting on average one hour, were recorded following the consent of the interviewees, and were then transcribed for analysis purposes (see Section 4.6.3). Permission to use both the interviewees' names and that of their organisation was also requested and agreed to, and specific interviewee confidentiality requests regarding certain information obtained throughout the interviews was also granted and respected. More specific details about the NGO interviews can be found in Table 2 below, where the interviewees are listed in order of *when* they were interviewed.

Table 2: NGO Interview Details

NGO Interviewees	Position	Location	Date	Duration
International Rivers Network (IRN)	Policy Analyst	Sussex, U.K.	11/06/2006	60 minutes
Friends of the Earth (FoE), US	Program Manager, Green Investments Project	Sussex, U.K.	11/06/2006	65 minutes
Rainforest Action Network (RAN)*	Former Director, Global Finance Campaign	Sussex, U.K	11/06/2006	60 minutes
Friends of the Earth (FoE), Amazonia*	Former Manager, Eco-Finance Project	London	12/06/2006	60 minutes
Platform	Researcher	London	13/06/2006	75 minutes
Berne Declaration	Head, Private Finance Programme	Zurich	12/07/2006	90 minutes
Campagna per la Riforma della Banca Mondiale (CRBM)	Co-ordinator	Amsterdam	03/10/2006	60 minutes
WWF – UK*	Former Global Policy Advisor	Telephone interview	09/10/2006	60 minutes
FoE Europe/International (former FoE Netherlands/Milieudefensie)**	Coordinator, Corporate Campaign FoE International and FoE Europe	Telephone interview	04/12/2006	60 minutes
BankTrack	Coordinator	Utrecht, Netherlands	11/01/2008	103 minutes

KEY: *These interviewees moved to new organisations following their interviews/being approached for interviews, but agreed that the views expressed are representative of their experiences with the BankTrack member organisations in question.

** Head, International Campaign on Globalisation and Environmental Issues at FoE Netherlands (Milieudefensie), and was involved in the drafting of the Collevecchio Declaration. FoE Netherlands currently hold BankTrack membership through another representative.

4.6.2b Phase 2: EPFI Interviews (May 2007 – April 2008)

The first and second research questions, *why and how were the EP developed and how are/have the EP been implemented within adopting banks?*, where the first questions to influence the structure of phase 2 of my research. This determined which EPFI interviewees would be selected to further “illuminate” these research questions. These EPFI perspectives were also sought to ensure a *balanced* view of the EP phenomena so as not to rely solely on the NGO “side of the story”. Hence, from the beginning I was actively seeking alternative or *contradictory* views on the EP in order to capture a “credible” depiction of the EP phenomena overall.

In purposefully selecting EPFI interviewees, I sought to interview a range of commercial bank EP adoptees including some involved in the development and launch of the EP, some early adoptees and some later adoptees. To a lesser extent I sought a geographical spread of EPFI interviewees in order to gain a variety of regional perspectives. The overall aim was to gain a cross section of EPFI opinions on the creation, implementation and progression of the EP between 2003 and 2008, and whether this had effected EPFI social accountability. Hence, the (original) third research question, *why and how did the EP evolve over time?*, as well as the fourth, *what effect has EP implementation had on adopting banks' social accountability?*, would also play an important role in shaping this phase of the case research. The focus of these research questions would later shift from *just* EPFI organisational level activities to also encompass societal and institutional dimensions of the *EP institutionalisation process* as the case study analysis and theorisation developed.

To select EPFI interviewees, I once more used “snowball sampling” as I drew on: (1) some of my existing FI contacts to be interviewees and/or to act as gatekeepers to other EPFI interviewees; and (2) some consultancy contacts as additional gatekeepers. Furthermore, “observations” of representatives of one Dutch EPFI, at the GRI G3 (Third Generation Reporting) Guidelines Conference in Amsterdam in October 2006, also influenced my selection process. The final group of ten EPFI organisations interviewed in this research included:

- 1) Four EP “innovator”/leader organisations i.e. that developed the EP and adopted them when launched on June 4th, 2003. This includes one Australian EPFI, one Dutch EPFI, one UK EPFI and one US EPFI;
- 2) Three EP “early adopter” organisations i.e. that adopted the EP between June and October 2003. This includes one (other) Dutch EPFI and two (other) UK EPFIs; and
- 3) Three EP “later adopter” organisations i.e. that adopted the EP between November 2005 and September 2007. This includes one French EPFI, one Dutch/Belgian EPFI and one South African EPFI.

In terms of the number of *individual* EPFI interviewees, in some cases more than one interviewee from each organisation was included (as depicted in Table 3 below). Firstly, four interviewees from one Dutch EPFI were included, as I had originally considered doing a case study of their organisation when I began Phase 2 of this research.³² Secondly, two interviewees from the Dutch/Belgian EPFI as well as two from the French EPFI were interviewed. Both of these EPFI organisations simply suggested two representatives from each company would take part in the interviews. Thirdly, two interviewees from one UK EPFI were also included. Here, due to a good working relationship with the first interviewee, I enquired whether I could also interview someone *directly* working on project finance within this organisation. I did so as I was, in general, seeking some specific, *technical* explanations of the project financing process and integration of the EP therein. I sought this information in order to complement the information gained about the EP-project financing process from other EPFIs interviewees (largely with senior E&S risk management positions) and to “validate” my own understanding of project financing per se.

Therefore, while the total number of EPFI organisations included in this case study was ten, the total number of *individual* interviewees was 16. Table 3 displays information about the EPFI interviewees, their prominent positions within their banks, as well as the specific details of the interviews. Here, interviewees are once more listed in order of *when* they were interviewed.

³² In the middle of phase 2, this Dutch organisation was taken over by a consortium of international banks and it was no longer possible to pursue the original case study idea.

Table 3: EPFI Interview Details

EPFI Interviewee	Position	Location of Interview	Date	Duration
Dutch EPFI 1* Interviewee 1	Former Head of Sustainable Risk Management**	Amsterdam	22/05/2007	105 minutes
Australian EPFI	Chief Operating Officer	London	29/05/2007	75 minutes
Dutch EPFI 1 Interviewee 2	Head of Sustainability Worldwide	London	29/05/2007	64 minutes
		Follow up phone call	07/09/2007	64 minutes
UK EPFI 3	Head of Group Policy & Risk Reporting	London	30/05/2007	78 minutes
UK EPFI 2	Senior Manager, Sustainability Risk Management	London	17/09/2007	82 minutes
UK EPFI 1 Interviewee 1	Head, Environmental Risk Management	London	19/09/2007	98 minutes
		Follow up phone call	19/06/2009	60 minutes
Dutch EPFI 1 Interviewee 3		Amsterdam	25/09/2007	92 minutes
Dutch EPFI 1 Interviewee 4	Head, Sustainable Risk Management	Amsterdam	28/09/2007	51 minutes
South African EPFI	Head, Governance & Sustainability	Telephone Interview	11/12/2007	57 minutes
US EPFI	Director, Environmental & Social Risk Management	Telephone Interview	19/12/2007	42 minutes
French EPFI Interviewee 1	Head, Environmental Team, Capital Raising & Financing	Paris	15/01/2008	52 minutes
French EPFI Interviewee 2	Secretariat, Sustainable Development Group			
Dutch/Belgian EPFI Interviewee 1	Head, Environmental & Social Unit, Business Development Section	Rotterdam	18/01/2008	61 minutes
Dutch/Belgian EPFI Interviewee 2	Senior Risk Analyst, Environmental & Social Unit			

EPFI Interviewee	Position	Location of Interview	Date	Duration
Dutch EPFI 2	Advisor, Environmental & Social Risk Management Policy	Amsterdam	13/02/2008	61 minutes
UK EPFI 1 Interviewee 2	Associate Director, Investment Banking Division: Mining & Metals Team	London	28/04/2008	76 minutes
		Follow up phone calls	25/11/2008 26/11/2008	60 minutes 38 minutes

Key: * Numbers within EPFI organisational names (e.g. UK EPFI 1, 2, 3) are associated with the EP adoption date of these interviewees and *not* the sequence in which they were interviewed. ** When this interviewee was interviewed he had recently moved into EP consultancy. However, he was interviewed due to his active involvement in the original drafting and revision of the EP while working at this Dutch EPFI. His opinions are thus recorded as that of an EPFI representative.

Similar to phase 1, an interview guide was developed for the EPFI interviews. Firstly, I prepared a “master” interview guide, which included questions based on the core research themes or constructs informing the study. These included “EP background/development and adoption”; “EP structure”; “risk management/EP implementation and organisational change”; “EP II”; “EP institutionalisation” (later); “NGO relationships”; “clients” and “EP future”; with the themes “accountability” and “governance” running throughout these categories. Each of these question categories included individual questions along with a series of probes and prompts (in the form of sub-questions) aimed at gaining more in-depth information about particular issues during the interview. The *master* EPFI interview guide is provided in Appendix 2³³.

In addition to the “master” guide, *specific* questions about the particular organisations being interviewed, relating to, for example, their approach to EP implementation and track record with the Principles and/or “scandalous” projects, were included as extra questions for each interview. In order to do so, I had to become more familiar with *each* EPFI interviewee organisation prior to the interviews. Therefore, extensive documentary analysis

³³ The NGO and EPFI master interview guides are included in the appendices as *examples* of the interview guides used in this research, rather than including all interview guides in the appendices.

of each organisations' websites, relevant online documentation, available hard copy documentation and press releases etc., was conducted prior to the interviews. In addition, relevant NGO and broader media reports and e-mail circulars/news about the organisations were also analysed. Where possible, additional observations of these interviewees/representatives of their organisations (at e.g. international conferences attended by this researcher) were also incorporated into these preparations. Hence, the "triangulation" of data was incorporated into this case study from the design stage. This was in order to prepare a *thorough* interview guide for each EPFI interview, especially given that I had known six of the 16 EPFI interviewees (and three of those well) previously, and wished to minimise any overt "empathy" with their viewpoints.

Furthermore, a more "project finance" based interview guide was prepared for the interview with Interviewee 2 from UK EPFI 1; seeking information about the specific stages of the project finance process and how the EP were being integrated and managed throughout this process.

The EPFI interviews lasted between 42 and 105 minutes, were recorded following the consent of the interviewees and were then transcribed for analysis purposes. Fourteen of the 16 interviews were conducted face-to-face and the interviews with the South African and US EPFIs were conducted over the telephone due to geographical distance issues. The majority of EPFI interviewees preferred that their own name and that of their organisation would remain anonymous, and specific interviewee confidentiality requests regarding certain information obtained throughout the interviews (and/or later used in case findings) was also granted and respected.

4.6.2c Phase 3: Broader EPFI Stakeholder Interviews (April 2008-January 2009)

When I began the case research I was also interested in obtaining the views of some EPFI clients. This became especially relevant during the course of the EPFI interviews, when interviewees discussed how their clients were "coping" with EP compliance requirements. In addition, throughout the course of phase 1 and 2 of this research it also became clear that it would be worth talking to an EP consultant and EP lawyer, due to the fact that both parties were heavily involved in both internal EPFI and external EPFI client EP training, implementation, compliance and assessments. In general I sought as many EP stakeholder

views as possible (subject to interviewee access constraints and research time remaining), in order to capture the *broad* dynamics of what was now (2008-2009) materialising as the EP institutionalisation process. Hence, the “refined” focus of the original four research questions to more “collectively” focus on the “why and how” of the EP institutionalisation process (and the effects thereof) predominantly shaped the design of phase 3 of this case study. In seeking broader EP stakeholder perspectives however, I still viewed the NGO and EPFI interviews as providing the *core* empirical data that would support the case narrative. Any additional stakeholder perspectives³⁴ would act as “bonus” material for the “cross” analysis or triangulation of this, especially regarding the project financing-EP process (see Chapter Nine).

With regard to EPFI clients, a personal interest in the mining sector, along with the “historical” experiences the industry had faced regarding E&S challenges (some of which had prompted the development of the EP originally), fuelled my quest to find some mining interviewees. I therefore enquired with some EPFI interviewees, consultancy contacts and an international mining association as to whether they could act as gatekeepers to mining interviewees. I also conducted an interview with a representative of the mining association in April 2008, to gain more insights into what the EP meant for the mining industry. What I learnt in the process is that I had to “purposefully select” small mining companies that would require project financing³⁵ and have some experience with the EP. This was very challenging to achieve. However, through Interviewee 2 from UK EPFI 1, two suitable companies, not directly related to this EPFI, agreed to participate in this research. Hence, snowball sampling was once more applied. One company was a South African operating subsidiary of a Canadian platinum mining firm, involved in platinum mining projects in South Africa and in the process of negotiating project finance terms with a local commercial bank (non-EPFI) and UK commercial bank (an EPFI and *coincidentally* one of

³⁴ It should be reiterated that socially responsible investors (SRIs) were also mentioned in some EPFI interviews as another important EPFI/EP stakeholder group (and listed as a stakeholder by the EP Stakeholder Working Group; see Appendix 5). However, I did not gather SRI perspectives as I felt this may have “overloaded” the amount of data I had to manage and analyse, and I thought the SRI -EPFI dynamics might be interesting for a future study in itself.

³⁵ This is because large mining companies are big enough to (have a credit rating and) go to the international capital markets themselves to raise money for projects. Hence, they do not require project finance per se from banks, unless in certain cases where they were in a joint venture with another mining company (see Section 5.2 on the nature of project finance).

my interviewees). The second was an Australian gold mining company that was involved in projects in Africa and South East Asia and had complied with EP requirements regarding a project in South East Asia.

Prior to both interviews, interview guides were again prepared to assist the interview process. Here, documentary analysis of industry and NGO reports and online information about the mining industry and the environment and/or the EP was conducted in order to produce these guides. Quite importantly, each of the companies' websites and annual reports, and particularly any E&S information available therein, were also reviewed in-depth in order to familiarise myself with their activities and to "engage" them in conversation. The interview guides for both companies thus included question categories that covered "particular E&S/EP experiences", "project financing/ EPFI relationships", "EP implementation and management", "consultants", "NGO relations" and "EP significance".

As the interviewees were located near Johannesburg and in Perth, telephone interviews were conducted with both of them. The South African interview lasted for 46 minutes (with a 20-minute follow-up call) and the Australian interview lasted 30 minutes (due to time constraints on the part of the interviewee). Both interviewees were recorded following the consent of the interviewees and were transcribed for analysis purposes. Both interviewees preferred that their own name and that of their organisation would remain anonymous. In addition, specific interviewee confidentiality requests regarding certain information obtained throughout the interviews was also granted and respected. The specific details of these interviews are provided in Table 4 below.

In terms of the EP lawyer and consultant interviewees, I had "observed" and informally engaged with both of them while participating in an EP workshop held prior to an Ethical Corporation Sustainable Finance Event in London in September 2007 (which I also attended). The EP lawyer interviewee led the workshop in question and the EP consultant interviewee was from an international environmental consultancy that was involved in organising the event. Telephone interviews were conducted with both interviewees following a number of failed attempts to do face-to-face interviews while in London, where both are based, in 2008.

The preparation of interview guides for both of these interviews once more required becoming more familiar with their line of work, through their respective company websites and EP related activities. Both interview guides focused on gaining these interviewee perspectives on the nature of the EP, their impacts to date and interviewee experiences with EPFIs and clients. Hence, examples of the question categories employed here were “EP structure”, “EPFI and client relationships”, “NGOs”, “EPFI network developments” and “EP future”, with questions on accountability running throughout. In addition, the consultant questions focused on specific structural requirements of the EP for example public consultations, action plans, grievance mechanisms and independent reviews (see Section 5.2 on the EP). The lawyer questions focused more on the legal aspects of project finance deals: loan covenants, client breaches and host country legal requirements.

The consultant interview lasted 42 minutes, while the interview with the lawyer lasted 47 minutes. These interviews were also transcribed for analysis purposes, following the permission of the interviewees. Both interviewees also preferred that their own name and that of their organisation would remain anonymous, and once more specific interviewee confidentiality requests regarding certain information obtained throughout the interviews was also granted and respected. Hence, a total of five additional EP “stakeholders” were interviewed in this research.³⁶

Therefore, the *total* number of interviews conducted in this case study was 29, involving 31 individual interviewees, representing 25 different organisations. The case analysis, theorisation and write-up will now be discussed in the following sections.

³⁶ However, it should be noted that the mining association interview was predominantly a “scoping” interview for phase 3 and was not directly incorporated into the written analysis.

Table 4: Broader EP Stakeholder Interview Details

Interviewees	Position	Form of Interview	Date	Duration
International Mining Assoication	Program Director, Community & Social Development/ Sustainable Development Framework	Face-to-face, London	25/04/2008	62 minutes
Consultant, International Environmental Consultancy	Principal Consultant, Strategic Services	Telephone Interview	26/06/2008	42 minutes
Lawyer, International Law Firm	Partner, Environment and Climate Change	Telephone Interview	29/10/2008	47 minutes
South African Platinum Mining Company	Chief Operations Officer	Telephone Interview Follow-up call	03/11/2008 09/01/2009	46 minutes 20 minutes
Australian Gold Mining Company	General Manager, Business Development	Telephone Interview	05/12/2008	30 minutes

4.6.3 Case Analysis and Write Up (2006-2009)

“The social world must be interpreted from the perspective of the people being studied, rather than as though those subjects were incapable of their own reflections on the social world.” (Bryman, 2004, p.385)

4.6.3a Preliminary Interview Analysis

Directly after each interview, I recorded memories, thoughts and impressions of the interviews, to ensure detailed research notes were taken while the information was still “fresh” in my mind. In the process, some issues in need of clarification or additional questioning were noted for follow-up with interviewees. I was therefore building up detailed research notes, or an “audit-trail”, to enhance the dependability of the research procedures. This would continue throughout the *entire* research process.

The recorded interviews were then sent for transcription to an external transcription service to maximise the time for the analysis of the interviews thereafter. In all phases of the case research, the interview transcripts³⁷ were carefully scrutinised while listening to the recorded interviews, in an effort to identify and correct any errors that may have arisen during transcription. I then developed a set of codes (Fereday and Muir-Cochrane, 2006; O’Dwyer, 2004) based on the main question constructs and sub-questions contained in the interviews. According to Fereday and Muir-Cochrane (2006), the coding process involves recognising an “important moment [or issue] in the transcripts and encoding it (seeing it as something) prior to the process of interpretation” (p.4).

I derived a mixture of data-driven and theory-driven codes (Fereday and Muir-Cochrane, 2006) reflective of the key topics covered in the interviews. These consisted of: 1) *core codes* representing the main issues under investigation; 2) *sub-codes* related to issues captured within these main codes; and 3) emergent or *advanced codes*, largely reflective of the theoretical constructs/lens I adopted to assist the interpretation of interview data as my analysis “matured” and progressed. The advanced codes also allowed for the “merger” or

³⁷ Ranging in length from 14 pages for the shortest (30 minute) interview to 45 for the longest (105 minute interview); and an average of 25/26 pages for a 60-minute interview.

collapse of some of the original codes within them in later stages of the case interpretation and theorisation. Examples of these codes are provided in Appendix 3.

I then re-read the transcripts (in some cases several times, often re-listening to the interviews at the same time) and “coded” them as I went along. This involved placing a code in the margins next to interviewee responses that related to the issues captured by the code. In the process I also identified any additional issues or codes that may not have arisen during the initial review of transcripts. As I did all of this I simultaneously took notes. These notes allowed for the recognition and identification of key patterns or “themes” emerging from the transcript data, thus forming the basis of the *preliminary* analysis of the interview material. These themes were deemed “important to the description of the [EP] phenomenon” (Fereday and Muir-Cochrane, 2006, p.4), and essentially became the “categories for analysis” (*Ibid*). Hence, this coding and thematic analysis ultimately acted as data management tools (Fereday and Muir-Cochrane, 2006) prior to more in-depth analysis i.e. interpretation and theorisation, of the data later.

I then sent the transcripts (minus the code analysis) to the interviewees via email for review and approval. I highlighted specific areas of clarification or expansion for interviewee attention, and in many cases prepared some post-interview questions that may have come to mind following the interviews or during the reading of the transcripts. Almost all of the interviewees responded very willingly and sufficiently to this post-interview correspondence, although some had to be reminded to do so through follow-up emails or telephone calls.³⁸ In some cases, interviewees went to great length to edit and expand upon their particular interview transcript. In addition, some EPFI interviewees engaged in telephone calls as a means of addressing some of the follow-up questions directed at them (see Table 4 for details). These calls were also recorded and transcribed. I also took this opportunity to ask interviewees to (re)confirm any anonymity requests and to highlight any new confidentiality concerns emerging from the transcripts.

³⁸ Only one NGO interviewee failed to adequately address the follow-up questions posed to her after the interview, and changing jobs was attributed as the reason for this (though she did approve the interview transcript). Two EPFI interviewees (from the same EPFI) failed to respond to (continued) requests for their approval of the interview transcript and some follow-up questions. Finally, one of the broader stakeholder interviewees also failed to respond to similar (numerous) requests.

Dependent on the interviewee responses, the newly edited transcripts were used in the further identification, or confirmation, of the key themes emerging in the interviews. In general, seeking *respondent validation* of the interview transcripts was in order to enhance the credibility of the interview data and thus the dependability of the research process moving forward.

4.6.3b Data Interpretation and Theorisation

Once key themes had been identified from the interview data I set about the in-depth interpretation of these themes through the use of a number of theories.

In phase 1 of this research, due to the nature of the mainly accountability debates surrounding the EP, accountability and legitimacy theories were deemed the most useful theoretical guides to understand and explain the EP phenomena from NGO perspectives. In-depth analysis, that involved the iterative back-and-forth movement between data and theory, led to the production of a “thick”, written description of NGO perspectives on “why and how” the EP had been developed, implemented and evolved and were affecting EPFI social accountability. This written analysis was then sent to NGO interviewees for review and comment. The majority of NGO interviewees responded, and did so positively, to this document. Following this “respondent validation”, the document was finalised and later integrated into further case analysis and the development of the case findings narrative as depicted in Chapters Six to Nine.

Following the completion of phase 1, and during the early stages of EPFI interview analysis in phase 2, it became clear that there was a lot more associated with the EP phenomena than just occurrences at EPFI *organisational* levels. Dynamic patterns of interaction between a range of EP related actors over societal, institutional and organisational levels were emerging and so much so that I felt theories of accountability, legitimacy and/or organisational change, alone could not “capture” this in its entirety. Institutional theory, and in particular institutionalisation processes, thus proved beneficial for the conceptualisation of these dynamics. More specifically Dillard et al.’s (2004) conceptualisation of institutionalisation as a structuration process, as influenced by Barley and Tolbert (1997), became a very useful theoretical “lens” through which I could examine and seek to understand and explain, the “messiness” (O’ Dwyer, 2004) or complexity of the emerging

body of interview data. Despite the fact that I was critical of certain aspects of the Dillard et al. framework, I chose it because it closely reflected what was emerging from my initial analysis of the interviews. It thus allowed me to conceptualise and “illuminate” the EP phenomena as an *institutionalisation process*.

In writing-up the analysis of EPFI perspectives on, what I was now referring to as, the EP institutionalisation process, I iteratively and reflexively (O’Dwyer, 2004; Fereday and Muir-Cochrane, 2006) moved between my data and the Dillard et al. framework on a continuous basis. I also sought to triangulate the EPFI data with NGO interviewee perspectives, broader documentary evidence and observations made at, for example, the GRI event in 2006 and the Ethical Corporation event in 2007. This iterative and reflexive process would continue throughout successive stages of the written analysis of case findings.

In addition, I prepared a separate document capturing my “technical” understanding of the project financing process and the integration of the EP therein. In doing so I drew upon EPFI perspectives, especially those of Interviewee 2 from UK EPFI 1, which would be expanded later with broader EP stakeholder views. I prepared this document separately as I wanted to make sure that I had captured the project financing process as correctly as possible (given my lack of prior knowledge of the same), before I integrated this data into the overall case findings. I then (firstly) sent this document to Interviewee 2 from UK EPFI 1 for his review and validation, the latter was conducted over two telephone calls (that were also recorded and transcribed; see Table 3).

Subsequently, when the first draft of the main EPFI analysis was complete, I sent it, along with the project financing-EP document, to all EPFI interviewees for approval. Seven of the ten EPFI organisations interviewed (including nine³⁹ of the 16 individual interviewees) responded. Five of those seven read and commented on the document *in-depth*, which inter alia included a 60-minute call with one respondent (that was also recorded; see Table 3). All of these interviewee responses were very positive and highly supportive of the emerging case findings, suggesting the possibility of *ontological* and *educational authenticity* (Bryman, 2008) arising from this research. Any edits, comments or confidentiality requests

³⁹ This, plus the feedback from UK EPFI 1, Interviewee 2, meant the *total* number of individual EPFI interviewee responses was 10 (out of 16).

made by these interviewees at this stage were also noted and respected. This EPFI interviewee “validation” ensured the *ongoing* dependability of the research process and credibility of the case findings.

The next step was to integrate the written analysis of NGO perspectives completed after phase 1, written analysis of EPFI perspectives completed after phase 2, and the written analysis of project financing incorporating EPFI and broader stakeholder perspectives *finalised* at the end of phase 3. In doing so, I again moved iteratively between the interview data and the Dillard et al. framework, merging, refining, expanding and striving to go ever “deeper” into the case analysis. This was in order to provide a “robust” representation of the EP institutionalisation process *as a whole*. Subsequently, the Dillard et al. model provided a useful “frame” to structure the “story” of EP institutionalisation as involving: (1) the NGO/societal “kicks” that initiated the process and influenced it over time; (2) why and how EP institutionalisation evolved as a structuration process over 2003 to 2008; and (3) the effects of this process on EPFI social accountability over the same period.

In the earlier stages of analysis, I tried to avoid the “fabrication of evidence” i.e. the “unintentional, unconscious ‘seeing’ of data that researchers expect to find” (Fereday and Muir-Cochrane, 2006, p.7), but I am probably guilty of this in part. Therefore, as much as possible in the written analysis, I tried to “counterbalance” this, by repeatedly “seeking out” unexpected and contradictory evidence or opinions in the empirical data, for example, both *amongst* NGOs and EPFIs as much as *between* them. I therefore “embraced” the complexity of the case and strove to capture this as *fairly* (Bryman, 2008) as possible in the thick, explanatory descriptions of the case findings in the proceeding chapters (e.g. in the “back-and-forth” structure of the text between NGO and EPFI viewpoints). In doing so, I was continuously trying to enhance the credibility of the research findings. This was further enhanced through the “liberal use of quotes” (O’Dwyer, 2004, p.403) in order to “allow the reader to hear the interviewees’ voices” (*Ibid*) throughout. In the process, minor grammatical errors in speech, as well as pauses etc. were often left in quotes, especially in those of non-English speakers,⁴⁰ in order to capture the general “authenticity” (Scapens, 2004) of the empirical data.

⁴⁰ Although some of these did have to be corrected to assist the general “flow” of the text.

Finally, once the first draft of the “combined” case narrative was complete I sent it to four of the remaining broader stakeholder interviewees for comment,⁴¹ specifically highlighting their contributions in Chapter Nine for review. I waited until this stage to send them written analysis of my work⁴² as I felt it would provide them with a “comprehensive” insight into my research, which some of them had not been familiar with up until then. Of the four, three replied positively, and any minor edits of theirs were incorporated into the relevant text.

4.7 Chapter Summary

“Case study research is a complex interactive process that cannot be characterised by a simple linear model.” (Ryan et al., 2002, p.153)

This chapter discussed the research methodology and methods applied in this study and was broadly divided into three sections. Firstly, it began with an overview of the differences between quantitative and qualitative research and outlined how this researcher has adopted a qualitative, interpretive approach in this study. Secondly, it discussed the research methods used by qualitative researchers and explained how a case study of the EP institutionalisation process, incorporating semi-structured interviews, participant observation and documentary analysis, is conducted within this research.

Finally, this chapter provided an in-depth explanation of how this EP case study was designed, executed, theorised and developed into a detailed description of the EP institutionalisation process. This highlighted the use of the Dillard et al. (2004) framework to understand and explain the dynamics of this process within its specific contexts. In addition, this researcher’s reflexive attempts to ensure the dependability, credibility and confirmability of the research process and case findings was emphasised throughout. In doing so, it is hoped that the trustworthiness and authenticity of the EP case study has been evidenced, and that the foundation for a plausible and critical narrative of the case findings in the following chapters has been achieved.

⁴¹ I did not send it to the international mining association interviewee as his interview was predominantly a “scooping” interview for phase 3.

⁴² As previously noted they had also been sent the interview transcripts earlier.

CHAPTER 5: INTRODUCTION TO CASE FINDINGS

5.1 Introduction

The aim of this chapter is twofold. Firstly, it aims to introduce some “contextual” information about the Equator Principles (EP) case study “site” or domain i.e. where the EP phenomena “plays out”. This includes a discussion about the nature of project finance and the EP initiative. The objective is to “set the scene” for the case narrative on the EP institutionalisation process in the following chapters. Secondly, this chapter aims to briefly introduce the manner in which the case narrative chapters will be structured, in order to provide a “roadmap” for the discussion of the research findings.

5.2 An Introduction to Project Finance

There are many definitions for project finance, but the one that has been adopted by EPFIs, and will thus be the basis of further discussions below, is the following:

“Project finance is a method of funding in which the lender looks primarily to the revenues generated by a single project, both as the source of repayment and as security for the exposure. This type of financing is usually for large, complex and expensive installations that might include, for example, power plants, chemical processing plants, mines, transportation infrastructure, environment, and telecommunications infrastructure. Project finance may take the form of financing of the construction of a new capital installation, or refinancing of an existing installation, with or without improvements. In such transactions, the lender is usually paid solely or almost exclusively out of the money generated by the contracts for the facility’s output, such as the electricity sold by a power plant. The borrower is usually an SPE (Special Purpose Entity) that is not permitted to perform any function other than developing, owning, and operating the installation. The consequence is that repayment depends primarily on the project’s cash flow and on the collateral value of the project’s assets.” (Equator Principles II, 2006, p.1)⁴³

Project finance deals are financed by both debt and equity, with an average ratio of 70% debt to 30% equity. Depending on the project, more than one type of debt provider may be involved, for example, a bank syndicate, multilateral agencies (e.g. World Bank, International Finance Corporation and regional development banks), bilateral agencies

⁴³ This is the definition for project finance found in the Basel II Capital Accord (2005).

(development agencies and export-import financing agencies) and/or Export Credit Agencies (ECAs). Equity for projects is normally provided by the project sponsor(s)⁴⁴ and may be supplemented by equity raised in national and international capital markets (Hoffman, 2008; Esty and Sesia, 2005). However, this research specifically focuses on the nature and process of commercial bank lending to project finance deals through bank syndication.

In contrast to other loan transactions, a project finance loan is non (or limited) recourse to the project sponsor. This means there is “no potential liability to the project sponsor for the debts or liabilities of an individual project. It would be *non-recourse*” (Hoffman, 2008, p.5). Here, the lender “receives as collateral, a security interest in all of the assets of the project company⁴⁵” (Hoffman, 2008, p.78). However, in the case of project failure/loan default, the lender has no recourse to the project sponsors’ possible portfolio of assets, as may occur in normal commercial loans.

Hence, banks normally base their credit appraisals on the projected revenues from the operation of the facility (project), rather than the general assets or the credit of the sponsor of the facility. Any unexpected events that could lead to greater expense or less revenue than anticipated by the bank, for example, unforeseen E&S risks, could result in project failure. Therefore, project financing is designed to minimise such risks, as reflected in the loan covenants for the borrower. Usually a “special purpose entity (SPE)” is formed to “own” the project and to segregate it from the project sponsors’ other assets and non-project related risks (Hoffman, 2008), thus making the SPE a “legally independent entity” (Esty and Sesia, 2005, p.3). Project finance therefore represents a form of “off-balance sheet” finance, meaning “project assets and liabilities do not appear on the sponsor’s balance sheet” (Ibid).

Syndication is a typical financing structure for project finance as it spreads out the potential risks associated with a project. An average project finance deal may have 10-15 banks

⁴⁴ “The project sponsor is the entity, or group of entities, interested in the development of the project and that will benefit, economically or otherwise, from the overall development, construction, and operation of the project. It is sometimes called the developer. The project sponsor can be one company or a group of companies” (Hoffman, 2008, p.71).

⁴⁵ “The project company is the special-purpose entity that will own, develop, construct, operate and maintain the project” (Hoffman, 2008, p.71). The project company is often called the “borrowing entity” (Ibid).

involved in the syndicate, including the “lead arranger”. The lead arranger agrees with the client to underwrite the loan,⁴⁶ that is to retain a portion of it on its own books and to sell the remaining amount to other FIs, with the guarantee to the borrower that it will retain the entire loan if it cannot find buyers. This creates a syndication of banks that purchase the loan and thus provide debt financing for the project. “Second tier banks”, for example, smaller project financiers or emerging market banks, normally make up the majority of this syndicate of lenders (UK EPFI 1, Interviewee 2).

Within the syndicate there are a number of roles the banks may adopt. For example, the lead arranger may also act as the “Technical Agent” (UK EPFI 1, Interviewee 2), or “Engineering Bank”, which is responsible for “compliance with technical performance covenants and progress [and] coordinates with technical consultants and project engineers and reports this information to the bank group” (Hoffman, 2008, p.72). In addition, there is the “Facility Agent” or “Documentation Agent” (UK EPFI 1, Interviewee 2). This bank is “responsible for administration of the credit and the collateral. It coordinates loan draw-downs, monitors covenant compliance by the borrower, issues and receives notices to and from the borrower [and] polls the bank group [syndicate] members in situations in which a vote is required such as whether to declare a default” (Hoffman, 2008, p.72). Finally, there is also a “Security Agent” which is responsible for “holding security interests as an agent for the project lenders” (Hoffman, 2008, p.72). The lead arranger usually decides which bank adopts which role, and if there are two lead arrangers one normally becomes the technical agent and one the documentation agent.

A more detailed discussion about the project financing process (and the integration of the EP within this) is undertaken in Chapter Nine. The following section will now provide an overview of the EP.

5.3 The Equator Principles (EP)

The EP were launched by ten international commercial banks: ABN Amro, Barclays, Citigroup, Crédit Lyonnais (now Calyon), Credit Suisse First Boston, HVB, Rabobank,

⁴⁶ If there is more than one lead arranger, for example in very large or risky projects, they often agree to underwrite equal amounts (UK EPFI 1, Interviewee 2).

Royal Bank of Scotland, WestLB and Westpac, on June 4th, 2003, at the International Finance Corporation (IFC) headquarters in Washington, D.C. (EP Press Release, 2003). The Principles were designed as a set of voluntary environmental and social (E&S) risk management guidelines for project finance activities. Based on the then IFC safeguard policies,⁴⁷ the original set of nine principles requested adopting FIs to apply them in their execution and management of project finance deals of \$50 million dollars and upwards. Adopting FIs were to categorise projects as either “A” (high risk), “B” (moderate risk) or “C” (low risk) as per IFC classifications (See Appendix 4, Exhibit I) when financing a project. The original principles made no provision for EPFI reporting on their EP implementation (See Table 5).

On July 6th 2006, a revised version of the principles, Equator Principles II (EP II), was launched largely to mirror the new IFC performance standards launched earlier that year. The revised set of principles reduced the project threshold from \$50 to \$10 million and was now applicable to both advisory and direct financing of projects. The new principles also streamlined EP application for countries with existing high E&S standards, as well as making a new provision for their application to the expansion or upgrade of *existing* projects with significant E&S effects. In addition, social, as well as environmental, dimensions were now also to be included in project assessments, action plans and management systems. Furthermore, a new condition for the establishment of a project level grievance mechanism for project-affected communities and a legal compliance covenant were also incorporated (see Appendix 4 and Table 5). Finally, a new reporting principle, “Principle 10”, was established. This requested each adopting EPFI to report publicly, at least annually, on their EP implementation procedures and experiences, whilst taking client confidentiality into consideration (EP II, 2006; see Appendix 4). The differences between EP I and II are outlined in Table 5 below.

The “formal” existence of the EP comprises a document (i.e. Appendix 4) located on the EP website (www.equator-principles.com). The principles were originally designed for

⁴⁷ In February 2006 the IFC launched a new set of E&S Performance Standards (see Appendix 4/Exhibit III) to replace the former IFC E&S Safeguard Policies. The Performance Standards define E&S roles and responsibilities for industries and are accompanied by a set of Guidance Notes for further interpretation (IFC 2008; EP II, 2006, p. 9). The IFC is currently undertaking a new review and update of the Performance Standards, following three years of their implementation. It is yet to be seen what affect this will have on the existing EP.

discretionary implementation by individual EPFIs, with no specific adoption or “membership”⁴⁸ requirements, and no formal internal or external accountability mechanisms to monitor compliance. Adoption was, and still is, primarily enabled through an official press release posted on the EP website.

While the application and implementation of the Principles is still discretionary, a new provision for EP reporting as the sole basis for continued EP membership was introduced in 2008. This means that the EP website now hosts a list of all EPFIs that have reported on their EP implementation as well as those that currently have not. The objective is to entice any “non-reporters” to produce a report in order to remain EPFIs. Failure to report would mean removal from the EPFI network.⁴⁹ The EP “Secretariat”,⁵⁰ whose identity is not revealed on the EP website, is responsible for this “monitoring” of EPFI reporters⁵¹ as well as general website management.

An EP Management Structure was established in early 2008 and comprises of: (1) an EPFI Chair; (2) a Steering Committee of 14 EPFIs; and 3) seven Working Groups led by, and including, various EPFIs. The most recent management structure (as of April 2010) is depicted in Appendix 5. As of April 2010, there are 68 EPFIs from 27 countries, which operate in over 100 countries. These FIs include commercial banks, investment banks, export credit agencies (ECAs), an insurance organisation, a development bank and a clean energy investment firm. All are collectively referred to as Equator Principles Financial Institutions (EPFIs) and a list of current EPFIs is provided in Appendix 6. Commercial banks⁵² are however the main focus of this research.

The case findings chapters will now be introduced in the following section.

⁴⁸ The EP initiative or the EPFI network is not a formal association; therefore the term “member” is used loosely by most EPFIs, as it is in this research.

⁴⁹ A one-year grace period for EP reporting is applicable to new adopters.

⁵⁰ An independent consultant employed by EPFIs, as confirmed by the EPFI Chair at the UNEP FI Global Roundtable in Cape Town, South Africa, October 2009, when questioned by this researcher.

⁵¹ The evaluation criteria for EP reporting are not made public on the EP website at present (presumably they are based on EP 10 and the EP Reporting Guidance Document, 2007).

⁵² Many of the commercial banks considered in this case research also have active retail, investment or asset management arms.

Table 5: The Differences Between EP I and EP II

Issue	Equator Principles I	Equator Principles II
Eligible Parties	Equator Banks	Equator Principles Financial Institutions (EPFIs)
Financial Threshold	\$50M US	\$10M US
Object of Assessment	Projects only	Projects plus expansions and upgrades of projects if the E&S impact of the expansion or upgrade is significant.
Scope of Activities	Lending	Lending plus advisory activities.
Scope of Assessment (For category A and B projects)	Environmental assessment (EA) only.	Environmental assessment plus social assessment (SEA).
Action Plan and Management System	Environmental Management Plan (EMP) for A and where appropriate B projects.	Action Plan (AP) and Management System for A and B projects.
Independent Expert Review	EA, EMP and consultation for category A projects.	SEA and AP compliance and consultation for category A and where appropriate category B.
Consultation (For category A and where appropriate category B projects).	In a structured and culturally appropriate way with project affected groups. Aim for broad community support for projects. EA and EMP to take account of consultations.	In a structured and culturally appropriate way with project affected communities. Prior informed consultation (not prior informed consent) for projects with significant adverse impacts. Consultation process and results to be documented in AP.
Grievance Procedures	No requirement.	New requirement for borrower to establish grievance procedure for project affected communities throughout the project life cycle
Annual Reporting Obligations	No requirement.	New requirement for at least annual reporting by EPFI
Legal Compliance Covenants	No requirement.	New requirement for borrower to comply with local, state and host country E&S laws, regulations and permits in all material respects.
Action Plan Compliance Covenant	Borrower to comply with EMP.	Borrower to comply with AP (where applicable) in all material respects.
Reporting Compliance Covenant	Borrower to provide regular reports on compliance with EMP.	Borrower to provide regular reports of compliance with AP and host country laws, regulations and permits.
Decommissioning Covenant	Borrower to decommission facilities in accordance with Decommissioning Plan, where applicable.	Same as EP I.
Remedial Steps to Remedy Covenant Breach	Lender to engage with borrower to remedy non-compliance with covenants if borrower in default.	EPFI reserves rights to exercise remedies for non-compliance or default; and discretion to work with borrower re covenant compliance.
Appointment of Independent Expert	Lender discretion to appoint independent environmental expert to provide additional monitoring and reporting services.	EPFI to require appointment of independent environmental and/or social expert, or borrower to retain qualified and experienced external experts to verify its monitoring information for EPFIs over life of loan.
Streamlining Assessment	No requirement.	Adopts a streamlined approach to assessment of E&S impacts to principally High-Income OECD countries, where high standards for assessing E&S impacts and IFC performance standards and EHS Guidelines exist.

(Adapted from Watchman et al., 2007; Equator Principles I, 2003; Equator Principles II, 2006)

5.4 Brief Introduction to Case Findings

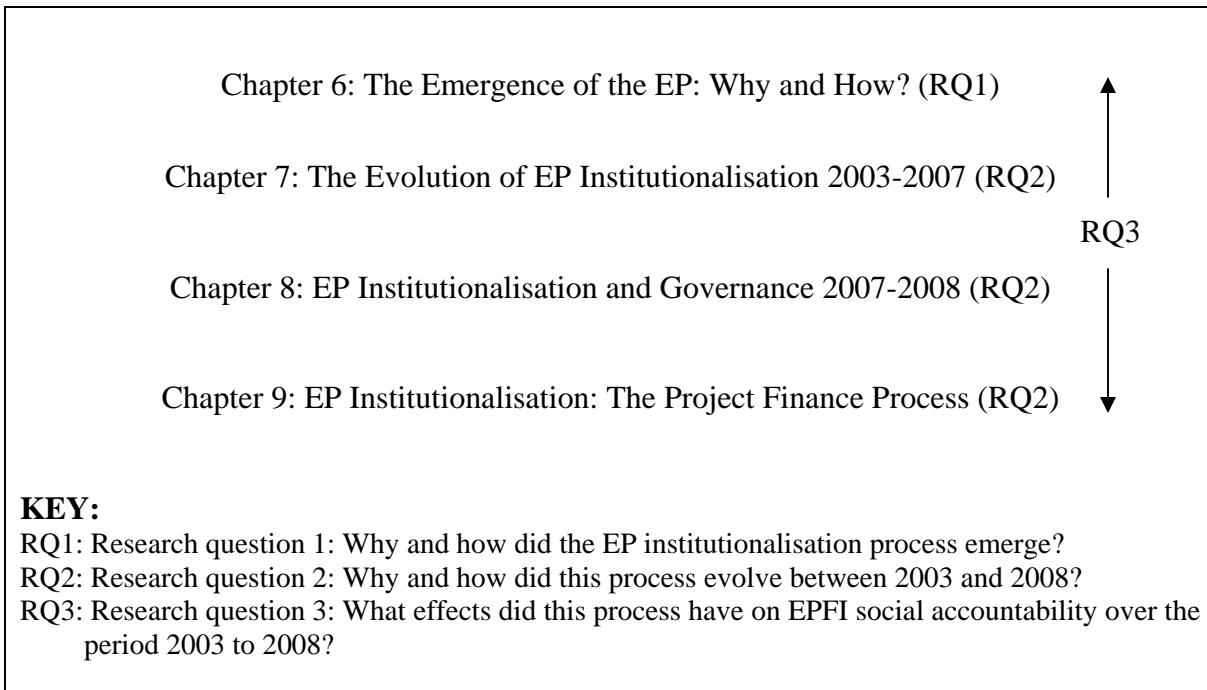
The case study narrative on the EP institutionalisation process is structured over the proceeding four chapters as follows.

Chapter Six analyses why and how the EP emerged and introduces the beginning of the EP institutionalisation process. Chapter Seven focuses on the incremental progression of the EP institutionalisation process between 2003 and 2007 and is divided into three sections. The first section analyses 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 focuses on the revision of EP I, broadly between 2005 and 2006, and the launch of EP II in July 2006. Finally, the third section 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. Chapter Eight turns to the critical analysis of the evolution of the EP institutionalisation process towards better governance of the EP initiative between 2007 and 2008.

Having discussed EP institutionalisation over societal, organisational field and organisational levels between 2003 and 2008 in Chapters Six to Eight, Chapter Nine conducts an in-depth analysis of EP institutionalisation at EPFI *intra*-organisational level i.e. through the *actual* project finance process. The objective is to evidence the EP as a fully “accepted” or institutionalised facet of project financing for EPFIs. In doing so this chapter also attempts to extend the Dillard et al. (2004) framework to intra-organisational level (see Figure 8 below). Throughout Chapters Six to Nine the effects of the EP institutionalisation process on EPFI social accountability will be discussed, highlighting how EP accountability processes affected, and were effected by, EP institutionalisation between 2003 and 2008.

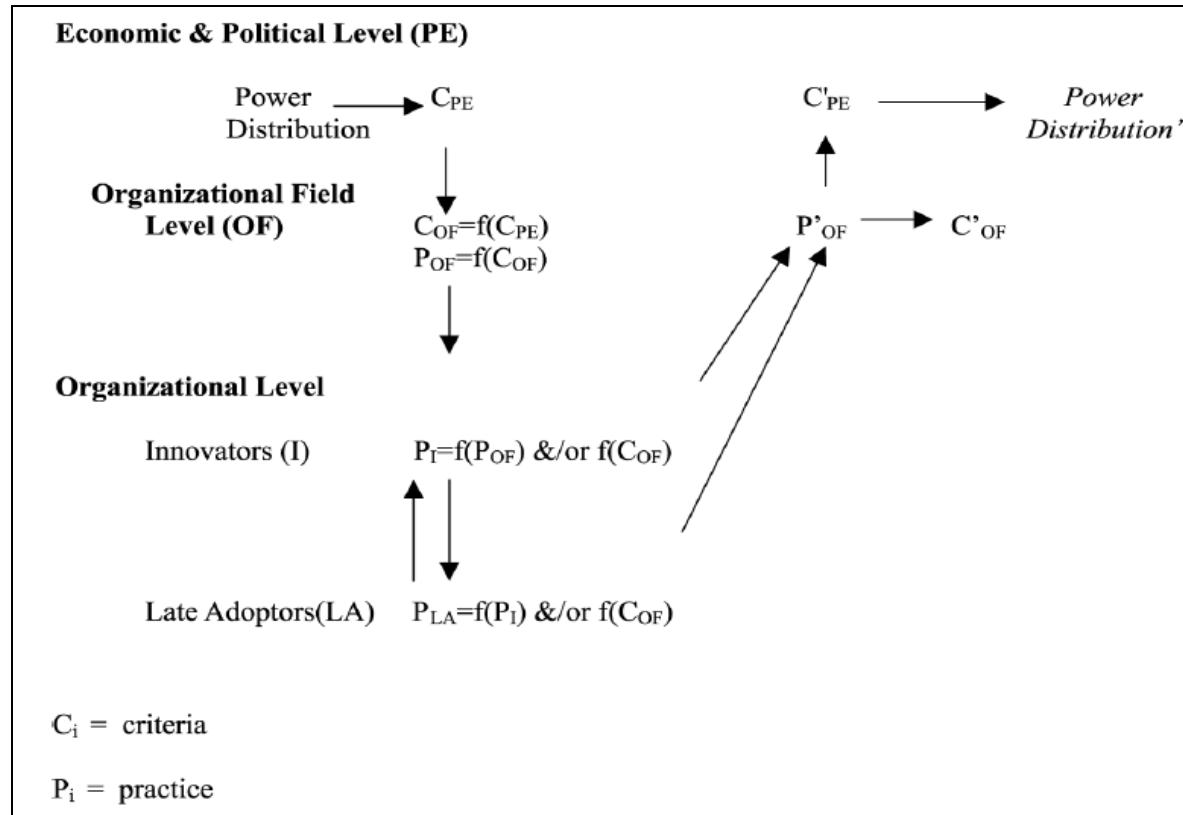
Figure 7 presents an overview of the case narrative in diagrammatic form.

Figure 7: Overview of Case Narrative



Throughout the case narrative EPFI and NGO interviewee perspectives are drawn upon to “illuminate” the complexity of the EP institutionalisation process, while broader EP stakeholder perspectives are also incorporated into Chapter Nine. In doing so, the Dillard et al. (2004) model is used, *and expanded upon*, as a conceptual guide to explain interviewee perspectives on the emergence and evolution of the EP institutionalisation process over socio-economic and political, organisational field, organisational and intra-organisational levels. Here, EP institutionalisation is portrayed as a structuration process through an in-depth discussion of the iterative and recursive dynamics between EP related structures (signification, domination and legitimization) and EP agents; as *mobilised* through the interaction between daily EP criteria and practice; and *manifested* in the emergence and “acceptance” of the EP as the institution/standard for more responsible project finance. To help guide this discussion, the Dillard et al. (2004) model is included once more in Figure 8.

Figure 8: A General Institutional Model of Organisational Change: Institutional Relational Dynamics (Dillard et al., 2004)



(Dillard et al., 2004, p. 512)

Additional Key for the Dillard et al. (2004) Framework:

C_{PE} : Criteria at (Socio) Economic and Political Level

C_{OF} : Criteria at Organisational Field Level

P_{OF} : Practice at Organisational Field Level

P_I : Innovators' Practice (at organisational level)

P_{LA} : Late Adopters' Practice (at organisational level)

f: Function of

P'_{OF} : Reinforced/Revised/New Practice at Organisational Field Level

C'_{OF} : Reinforced/Revised/New Criteria at Organisational Field Level

C'_{PE} : Reinforced/Revised/New Criteria at (Socio) Economic and Political Level

5.5 Chapter Summary

Firstly, this chapter introduced some “contextual” information on the EP case study “site” i.e. the nature of project finance and the EP, in order to “set the scene” for the case narrative on the EP institutionalisation process in the following chapters. Secondly, this chapter briefly introduced the manner in which the case narrative is structured in order to provide a “roadmap” for the discussion of the research findings.

CHAPTER 6: THE EMERGENCE OF THE EP: WHY AND HOW?

“Civil society is increasingly questioning financial sector accountability and responsibility, and challenging FIs’ [financial institutions’] social license to operate.” (The Collevecchio Declaration, 2003, p.1)

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

6.1 Introduction

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

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

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

6.2 Challenging Financial Institution Legitimacy: NGO Campaigning

Since the early 1990's, market reforms in developing countries have led to widespread privatisation of traditionally public sector industries, as well as the harmonisation of tax regimes and lower restrictions on foreign capital. Between 1991 and 1997, this manifested in a near 40% decline in long-term official capital flows to developing countries, along with the World Bank's almost entire withdrawal from large-scale public infrastructure (including power plants, roads, ports and telecommunications) lending (Wright, 2009). As a result, between 1990 and 1997, commercial bank⁵⁴ financing for infrastructure in developing countries is said to have increased nine-fold, while the annual volume of project finance deals in general dramatically increased from less than \$5 billion to over \$50 billion. In addition, multilateral and bilateral financing to private entities in the developing world is said to have tripled from \$9 to \$25 billion over the same period (Wright, 2009). As a result, it became more common for a mixture of private banks, multilateral development banks (e.g. IFC) and Export Credit Agencies (ECAs) to finance large projects in developing and emerging economies through loan syndications (Missbach, 2004), as opposed to the predominantly public financing of the past.

Due to the huge increase in commercial bank⁵⁵ financing of developing world and emerging economy projects (especially large dams, oil and gas pipelines), NGOs became increasingly aware of the need for E&S issues to be integrated into commercial bank lending and investment decisions. For example, many NGOs were concerned that these new “power players” (FoE US interviewee) in the field of development finance were operating without any poverty alleviation or so-called “sustainability” mandate:

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

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

⁵⁴ Largely OECD based: France, Germany, Japan, Netherlands, UK and US.

⁵⁵ As a reminder, the terms commercial bank, financial institutions (FIs) and Equator Principles Financial Institutions (EPFIs), will be used interchangeably throughout the case findings chapters.

⁵⁶ All NGO interviewee acronyms are explained in Table 2, Chapter Four.

basis of E&S concerns, such as the Three Gorges Dam in China⁵⁷ (Missbach, 2004). There was also a growing realisation that “private [sector] banks had been able to operate in relative anonymity” (RAN interviewee) and now held the real power over “unsustainable” projects or companies. Hence, NGOs felt that commercial banks had the ability to influence more sustainable socio-economic activities through their lending and investment streams.

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

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

Some early examples of NGO advocacy campaigns involved Friends of the Earth (FOE) US’ 1995 campaign against Merrill Lynch and Morgan Stanley regarding financial links with the Three Gorges Dam (Ethical Corporation, 2006); and FoE Netherlands’ led campaign against ABN Amro’s financing of the Freeport McMoRan/Rio Tinto gold and copper mining project, in West Papua, Indonesia launched in 1997⁵⁸ (Steen, 2008).

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

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

⁵⁸ Which centred on the Grasberg open-pit mining project, whose ecological impacts inter alia involved severe pollution of indigenous water sources due to the direct dumping of tailings (approximately 200,000 tons daily) into the local river; compounded by the contamination of substantial areas of fertile land during flooding. The project was also marred by human rights abuses by the Indonesian government and army, and the company in question, concerning a lack of consultation with local communities prior to commencement of activities and brute force to quell any local opposition to the project (FoE Netherlands: Milieudefensie, 1998).

international NGOs as they embarked on a series of individual and coordinated campaigns against some of the World's leading FIs (FoE US interviewee; Wright, 2006a).

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

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

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

⁶⁰ Involving the development of 300 oil wells in Chad and a 1070km pipeline to the Atlantic coast of Cameroon. Controversy surrounded the lack of: comprehensive E&S impact assessments of the project, proper consultation with affected communities, failure of reinvestment of profits into these countries and support for a politically unstable region with poor human rights records (CED/FoE Cameroon, Milieudefensie, FoEI, 2001).

clients active in these sectors (FoE Netherlands/Europe interviewee; FoE Netherlands, 2006). Likewise, there was FoE England, Wales and Northern Ireland's (EWNI) 2002 exposure of Barclays' financing of Asian Pulp and Paper's (APP) destruction of Indonesian rainforests since the 1990s (FoE EWNI, 2002); and German Urgewald's campaigns against West LBs' financing of the Oleoducto de Crudos Pesado (OCP) Pipeline in Ecuador, which violated World Bank E&S safeguard policies (The Rainforest Information Centre, 2002; Van Gelder, 2003).

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

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

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

Therefore, through the Collevecchio Declaration, NGOs were not only "formally" calling on FIs to legitimate their activities, but were also proposing an alternative, moral "logic" to be applied to existing financial sector economic rationale. Furthermore, the moral or

ideological nature of NGO concerns also appeared to legitimise their own campaigns (Waygood, 2006) for greater financial sector E&S accountability. And, as the RAN interviewee reflected, grassroots organisations such as her own had, at the time, the “arrogance to think that we could affect...gigantic institutions...[because it was] *the right thing to do* and not because we [thought] we [could] achieve it” (emphasis added).

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

6.3 A Financial Institution Response

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

In October 2002, at a meeting convened by ABN Amro and the IFC in London (Wright 2006a), four international commercial banks, ABN Amro, Barclays, Citigroup and WestLB, began discussions on the need for a common approach to what they saw as new challenges to their risk management frameworks, namely in relation to their project finance activities at the time. Each bank had previously been the target of NGO campaigns regarding inter alia their financing of controversial mining, palm oil and oil and gas pipeline projects in developing countries. These EPFI leaders would later admit, in various public domains and through these research interviews, that these campaigns played a very influential role in bringing public E&S concerns to their attention. Their early attempts to address this saw the development of their own E&S policies across a range of sensitive industry sectors, for example mining, forestry and oil & gas, and would subsequently manifest itself through the production of the EP.

“[There were] a couple [of reasons for the consideration of E&S issues]. One definitely was Friends of the Earth criticising [Name of interviewee organisation] for lending money to the Freeport mining project in Indonesia. And that was back in '98 I believe it. And [when; Name of colleague] moved over to be global head of risk management, one of the first things that hit his table was this campaign or this complaint against [Name of interviewee organisation] for financing this project. So ...he suddenly realised 1) yes there is a reputational risk, but 2), more importantly, we're not being good risk managers if we're not taking these issues into account. Because these do have a bearing on how successful this project is going to be.” (Dutch EPFI 1, Interviewee 1)

“I think they [NGOs] were [influential], and we would acknowledge that as well...I mean certainly ... it was that that prompted Equator to a large degree.... I mean people talk about your license to operate, your social license to operate. And I think it is a driver, I think you can overemphasise it at times, but clearly when you get it wrong the situation can turn very quickly and ... I don't think the man on the street wants to see his trusted bank engaging in areas of business that he finds ethically or morally deplorable...So I think a social license to operate is important.” (Dutch EPFI 1, Interviewee 2)

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

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

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

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

“I think looking back I wouldn't say it [developing E&S policies] was legitimising it [bank activity]; I think banks were caught unawares. Banks were not sophisticated enough [in the 1990's], first of all to understand that we needed to start taking environmental and social issues into account, but then secondly how do you deal with this frontal assault coming at you from NGOs? I think ... when you get to the stage where you're actually legitimising, you're probably becoming a little bit more sophisticated in understanding these relationships.” (Dutch EPFI 1, Interviewee 1)

Rather, EPFI leaders emphasised how there was a very strong “business case” for their drive for a more efficient approach to the integration of E&S concerns into their project finance activities, and hence the creation of the EP.

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

Furthermore, as has already been alluded to, most of the EP leader organisations and early adopters were already considering E&S issues in some capacity⁶¹ prior to their creation of the EP. In addition to the development of sector specific policies some FIs were also applying World Bank environmental guidelines to project finance deals. Yet, despite this, some EP “leader” interviewees pointed out that they were adopting a different approach to the application of these standards from deal to deal and ended up reinventing the wheel regarding the risk assessments of each project as a result. In an effort to improve the efficiency of the process for individual banks and project finance syndicates, the idea of a common, standardised framework to address the E&S impacts of project finance transactions was thus quite appealing.

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

⁶¹ It should be noted that many of the EPFI leaders and early adopters were also signatories to the United Nations Environment Programme Finance Initiative (UNEP FI), prior to 2002-3.

Another EPFI leader outlined how a common approach could lead to a ‘levelling of the playing field’ in the project finance market, in terms of the acceptance of and approach to E&S issues. He felt that this could also assist in the legitimisation of his environmental risk management mandate within his own organisation, which some of his colleagues were having difficulty with at the time.

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

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

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

6.4 The Proposed Principles: Initial NGO Reaction

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

For their part, NGOs felt that the production of the EP was a direct response to their campaigns. Many NGO interviewees believed that those banks that had suffered sustained

NGO attack were acutely aware that they now had to address civil society concerns in a more structured manner:

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

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

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

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

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

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

several other NGO interviewees, and subsequently seemed to create the perception that this action by the banks was aimed at fending off potential FI regulation.

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

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

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

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

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

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

Hence, when FIs did not always respond in the manner in which the NGOs would have desired, it highlighted the fundamental ideological differences between NGO expectations of how FIs *should* rationalise and act upon their E&S responsibilities and accountability, and how FIs could or did *actually* approach this. This disparity did not only influence NGOs’ willingness to legitimate the EP at this time, but would also form the basis of the often contentious relationship between NGOs and FIs over the course of 2003 and 2008.

“The banks don’t have an interest ultimately in being sustainable, unless it’s good for business. I mean...there’s no reason why they should; their business is to make money and they don’t have any duty to do otherwise. So where sustainable practices fit with either making more profit, such as investing in wind farms, or avoiding risks, then they might be interested in doing that. But it’s always useful to make the claim that they are going that way, even if they aren’t.” (Platform)

6.5 Summary

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

Thus, NGO campaigns can be seen to have acted as a catalyst to the “de-institutionalisation” of existing project finance and broader risk management *criteria* and *practices*. Yet, from the “outside”, the EPFI leaders’ joint efforts to establish the criteria by which E&S issues could be integrated into project finance practice, and hence “institutionalised” over time, was often perceived negatively by NGOs. This was especially the case regarding banks’ commercial motivations to develop the EP, the manner in which the EP were drafted and the overall non-stringent, and “loose” self-regulatory structure they adopted. The next Sections (6.6-6.10) will therefore discuss *how* the EP came to be drafted and launched, paying particular attention to the role of key purposeful and reflexive actors

within the four “innovator”/leader banks in this process. In doing so, this discussion will also highlight the dominant role of the “powerful” FI “coalition” at the SEP level, in terms of establishing their own “acceptable/legitimate” criteria for sustainable project finance over the “alternative” criteria proposed by NGOs in the newly established and expanding EP organisational field.

6.6 Purposeful Agents

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

There were a number of key individuals in each of the innovator banks that were influential in driving EP development. These individuals largely came from project finance and/or risk management divisions/departments of each of these banks,⁶² as opposed to coming from a corporate communications/PR or even environmental/sustainability departments (many of which would develop in the aftermath of the launch of the EP). Perhaps one of the most well known EP “champions” is Herman Mulder, largely recognised as the “Godfather” of the Principles, who in 2003 was Head of Risk Management, and previously Head of Structured Finance,⁶³ in one of the leader organisations interviewed.

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

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

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

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

⁶³ Within which project finance can be conducted.

decided let's have a meeting so [Name of interviewee organisation] hosted a meeting with I think ten to twelve other project finance banks in October 2002, in London." (Dutch EPFI 1, Interviewee 1)

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

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

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

"So we got a broad enough cross-section of the leading project finance institutions, plus we wanted a critical mass in terms of the actual project finance underwriting that these banks represent. And you had the Royal Bank of Scotland and Citigroup who were two of the top three I think at that stage in project finance underwriting. So you had the right people at the table. You know, if this was something where the top ten league table banks weren't round the table, you could probably question whether this was an initiative worth taking. So there needed to be that critical mass, that common baseline or benchmark approach that all of us were taking at the same time and that's what we achieved." (Dutch EPFI 1, Interviewee 1)

In addition, securing a geographical spread of financial intuitions was also an important issue for the EP leaders, but the final number of ten for an EP launch appeared not to be so significant, as one interviewee pointed out:

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

6.7 Securing “Critical Mass”

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

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

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

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

This would later be considered one of the main reasons why the EP became so popular so quickly and why there was a large increase in the number of adopters over the course of 2003 and 2008. Hence, the existing informal “institutional” nature of the project finance deals would allow a new and more “formal” organisational field to be built up around the EP at a remarkably quick rate, in comparison to the adoption of other E&S initiatives in the

financial sector prior to this. This organisational field would therefore play a fundamental role in the EP institutionalisation process between 2003 and 2008. In addition, one interviewee highlighted how this could also have the added advantage of identifying any potential EP “free-riders”. However, as will be discussed later, the relative success of this would be greatly debated by NGOs over time:

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

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

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

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

6.8 Structuring the Principles

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

"In terms of which policies to apply, we were guided by the IFC on that. The IFC at that stage had a framework of different policies, and in fact still does. And what we said to them is 'what is most relevant when you're doing an assessment of a project?; and that was the Safeguard Policies⁶⁴. And beyond that, [was] the World Bank Group Pollution Prevention and Abatement Handbook and the IFC's Environmental Health and Safety Sector Guidelines. Those were the two component pieces that we saw as relevant from the Equator Principles perspective...The IFC also has a disclosure policy [but] that is to a large degree driven by their own [development] mandate...and wouldn't correlate directly with what the commercial banks were financing...[Also] our [Interviewee organisation] mining policy was basically the forbearer of what the Equator Principles was, certainly for *our* approach, because the mining policy focused only on project financing." (Dutch EPFI 1, Interviewee 1, emphasis added)

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

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

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

⁶⁴ Which later became Performance Standards in 2006.

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

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

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

⁶⁵ This refers to the categorisation of projects according to the IFC standards, which define Category A as high risk, Category B as moderate and Category C as low risk.

measurable and manageable by FIs than “less tangible” social issues. Later however there would be the obvious need to make equal provision for the social aspects of projects in Equator Principles II (EP II), due arguably to ongoing NGO concerns about the nature and scope of the EP, but perhaps more directly linked to the greater integration of social concerns into the revision of IFC Safeguard Policies into Performance Standards in 2006.

6.9 NGO Views on How the EP Were Developed

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

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

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

6.9.1 Limited Approach

Given that the Collevecchio Declaration was intended to apply to all financial sector operations, one of the concerns for NGOs at the time was the proposed focus of the EP on project finance activities alone. As mentioned earlier, project finance had been at the centre of NGO campaigning, however, the NGOs were aware that this represented less than 5% of commercial bank activities. Hence, NGOs felt that for leading FIs it represented the convenient “low-hanging fruit” available at the time, allowing them to address NGO concerns by attempting to legitimise this specific banking activity in order to deflect attention from other fundamental areas of concern:

“Well it [project finance] was the “low hanging fruit”, I mean, you know . . . usually if a project is concrete usually it’s massive infrastructure, usually it’s oil, gas, I mean that’s where the problems lie. I’m not saying it was easy but, I’m saying it was visible [and] tangible. It’s different from . . . other forms of financing. Think of the way the OCP oil pipeline was financed, or investment in the derivatives market whose composition people do not understand.” (CRBM)

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

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

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

6.9.2 Accountability and Governance

In terms of the actual structure of the Principles, NGOs were highly critical of the lack of any clear accountability or governance commitments built into the EP from the beginning. Their fear was that EP aspirations would not transpire into practice due to the absence of such measures. For example, at the time, the Principles made no provision for a governance structure to ensure compliance at an industry level, or an implementation and reporting mechanism to guarantee bank adherence to the principles at an individual bank level. There was also no provision made for an external monitor or Ombudsman function, which might also act as a grievance mechanism for project-affected communities (BankTrack, 2004a, 2004b, 2004c, 2005a, 2005b.). As it would transpire, post EP launch in June 2003, the

“formal existence” of the EP would be limited to a public document available via a website (www.equatorprinciples.com) hosted by one of the adopting EPFIs. This, plus the fact that there was not even a secretariat to which the NGOs or other constituents could send their complaints to originally made the process all the more questionable for the NGOs. Furthermore, instead of formal mechanisms to ensure accountability, EPFIs were instead suggesting that they could “police themselves by observing in co-financing deals how lead banks implemented the due diligence, procedures, and standards required of the EP” (BankTrack, 2003, p. 9). However, as campaigning NGOs noted “mere observation is a wholly inadequate system of accountability” (BankTrack, 2003, p. 9). The NGOs had consistently highlighted these inherent flaws in the EP structure, even before their actual launch:

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

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

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

⁶⁶ This NGO interviewee was interviewed prior to the launch of EP II in 2006, when a new principle on minimal reporting (Principle 10) was introduced.

agree this is a B?” “Yes, it’s a B”, “okay, alright”. See now we’re all keeping each other accountable.” That was the extent to which they did accountability.” (FoE US)

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

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

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

6.10 FI Perspectives on NGO EP Accountability Concerns

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

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

“Look, I mean I think it’s probably fair to say that the Equator Principles took the NGO community off guard because whilst they were sort of like maybe complaining against individual financial institutions and they had issues out there. The fact that the FIs actually took it upon themselves to say ‘yeah, there’s obviously an issue out there, let’s address it, let’s merge what we’ve got’, I think probably took the NGOs by surprise. [They were] probably a bit cheesed off, because it’s like oh my God, if an NGO had been doing his job correctly they should have come up and said you know, ‘you should have these things called the Equator Principles.’” (Australian EPFI)

Perhaps NGOs were slightly surprised by what was occurring, but this may have been due to the fact that they claim that they were not directly engaged in any substantial manner in the original drafting of the Principles. However, EPFI leaders also questioned the need to have directly involved the NGOs in the drafting of the EP, when they themselves were not consulted by the NGOs in their development of the Collevecchio Declaration:

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

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

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

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

The absence of for example, a basic principle on reporting may thus be seen as part of the EPFI leader’s deliberate “light-handed” approach to the composition of the Principles at the time. However, this was accentuated by an industry entrenched in a culture of secrecy, legal restrictions and commercial confidentiality constraints. Some EPFI leader interviewees stressed how the potential legal implications of a more stringent set of principles was deemed too risky by their legal advisors at the time, thus further restricting the content of the EP. These were all challenges that EPFIs would later state NGOs did not fully understand in their early critiques and demands of both the EP and EPFIs alike.

“Banks are not used to disclosing a lot...we’re very much in a culture of confidentiality and protecting information about our clients and so that means that the more we disclose, the more we need to think about if we’re allowed to do it, or if it will put someone in a difficult position.” (Dutch EPFI 2)

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

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

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

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

In addition, the leaders were in agreement that due to the voluntary nature of the Principles and the initiative overall that it would be up to each individual bank to be responsible for their own EP implementation and associated levels of disclosure. There was the general sense that no one bank had the authority or right to dictate to another the specific terms of their application of the EP. Furthermore, as each bank was structured differently it was felt that a “one size fits all” approach to EP implementation or disclosure would not have

worked. These are sentiments that would continue throughout the five-year research period in question, even with the establishment of a new reporting principle in EP II, subsequent EP reporting guidelines and EP reporting as an adoption requirement between 2006 and 2008.

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

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

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

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

⁶⁷ Interview conducted in May 2007. The current number of EPFIs stands at 68 (as per April 2010).

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

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

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

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

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

Furthermore, as was also highlighted by some interviewees, it may have been easier for FIs to do nothing at the time and to just continue with “business as usual” rather than “expose”

themselves by creating and launching the Principles. Moreover, this was the first time that FIs, as competitive entities, had voluntarily come together to jointly develop a set of common guidelines for any part of the financial sector,⁶⁸ which in itself was viewed as being no easy task.

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

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

6.11 “Reflexive” Institutionalisation Begins

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

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

⁶⁸ The UNEP FI Statements on Finance and Sustainability were produced in 1992 (revised 1997) for financial institutions, and 1995 for the insurance industry; but these were generic statements (not focused on one particular financial activity) and were not driven solely by the financial sector itself.

consider both the *criteria* and *practice* that would *enable* the efficient implementation of the EP into existing or new project finance “institutions”.

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

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

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

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

6.12 Chapter Summary

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

of how these debates would accelerate and influence, and be influenced by, the EP institutionalisation process moving forward.

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

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.

SECTION 7.2: EP Legitimation: Early Adoption: Why & How?

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.⁶⁹ 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

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” (Sebastopolous, 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 legitimization 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 legitimisation 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 consultants⁷⁰ 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.

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 Dealogic⁷⁴ 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,

⁷⁴ Which analyses the project finance market.

then Senior Executive Vice President of ABN Amro, EP First Anniversary Press Release, 2004)

"[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, legitimisation 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)⁷⁵

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)

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 EPFIs' 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

“[I]t 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)

Following the in-depth discussion of the emergence and development of the EP between 2003 and 2005 in Section 7.2, this section is concerned with the revision of EP I, broadly between 2005 and 2006, before the launch of EP II in July 2006.

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

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 financers 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 adoptee⁷⁷. In addition, although these

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.

“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)

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.

CHAPTER 8: EP INSTITUTIONALISATION AND GOVERNANCE 2007-2008

“Field formation is not a static process; new forms of debate emerge in the wake of triggering events that cause a reconfiguration of field membership and/or interaction patterns.” (Hoffman, 1999, p. 351)

“You can wish as much as you want but you expand it and there’s a huge interest in it; then you have to control it.” (BankTrack Coordinator)

8.1 Introduction

This chapter is concerned with the evolution of the EP institutionalisation process towards better governance of the EP at organisational field level, as influenced by EP activities at organisational level and perceptions of the same at societal level. The chapter highlights how accountability issues associated with EP institutionalisation, and active EPFIs’ reflexive knowledge of the same, form the basis of this progression towards EP governance, largely between 2007 and 2008. Here, the need to “manage” the ever increasing number of EPFI adoptees, the possible “decoupling” between organisational field level EP criteria and organisational level practice, as well as the occurrence of “legitimacy gaps” between EPFI disclosures of EP implementation and NGO acknowledgement of the same, are critically discussed. In general, the incremental nature of the EP institutionalisation process is highlighted, through the analysis of the “maturing” of the EP organisational field and EPFI movements towards EP governance.

8.2 Decoupling?: The EP “Free-rider” Debate

Over the course of 2004 to 2007, while *some* banks were actively trying to implement the EP at organisational level, the issue of EP “free-riders” emerged within the EPFI network. This seemed to transpire on a number of fronts. Firstly, the most obvious free-rider candidates appeared to be those organisations that were not involved in project finance and had adopted the EP with no clear signs of implementation. Less obvious were those EPFIs that were project financiers but may not have been implementing the EP in any substantive manner or actively participating in EPFI conference calls, meetings or Working Group activities. As mentioned earlier, NGOs were the first to complain about the disparate level of EP implementation amongst EPFIs and had suggested that certain FIs were merely adopting the EP for the PR value, or as a “symbolic” rite of passage into the project finance

market. NGOs tended to base their evaluations on assessments of the project finance market, the limited information they could glean about EP implementation from EPFI sustainability/CSR reports, and monitoring of EPFI financing of often high profile and controversial projects. NGOs had a *certain* tendency to conclude that if an EPFI was not reporting about its EP implementation in any substantive manner, or if it was continuing to finance “dodgy deals”, that this was indicative of a lack of “embedding” of the Principles into EPFI “management and organisation”[al] processes (Dillard et al., 2004, p.18). One could therefore view this as an indicator of possible “decoupling” between organisational field level expectations of the EP and their *actual* implementation at organisational level; or NGOs’ perceived “symbolic legitimisation” of project finance activities by some EPFIs.

However, EPFI activity at individual bank level may not have been as black and white as some NGOs may have perceived. As also outlined earlier, different EP adoptees had different levels of E&S knowledge and expertise, and their “delayed” pace in EP implementation may have inadvertently branded them as a “free-riders” initially. As one EPFI interviewee pointed out, he felt that more attention should have been paid to non-adopters as opposed to those organisations that may have been doing their best to come to terms with EP implementation following adoption:

“I wouldn’t say a *free-rider*, I would say probably there were institutions that joined or adopted the Principles and were looking for guidance in terms of how to adopt it you know, because...probably they thought this is the right thing to do, but didn’t have the institutional capability to implement it either as quickly or as efficiently as some of the other organisations. My main concern when we first adopted was not with the free-rider issue, it was with the financial institutions that wouldn’t adopt. And I was more concerned with - when I talked to organisations like BankTrack - why they didn’t go and focus their attention on those FIs that were *not* adopting the Equator Principles rather than trying to criticise those that probably with the best will in the world are trying to get there; but at least they’ve adopted.” (Australian EPFI)

Nevertheless, active EPFIs were themselves aware of the fact that there was only a core group of approximately 10 to 15 EPFIs, driving the initiative forward from the beginning. These were mainly made up of some of the leading group of ten EP banks and active adoptees, whose efforts at organisational as well as organisational field level was distinguishing them from other EPFIs. For example, at organisational field level it was their continuous presence at EPFI meetings and conference calls, participation as EPFI Chairs, decision-making on EP revision and Working Group developments etc. that was

setting them apart. The ever increasing number of EPFIs was by 2007 forcing these “leaders”⁷⁹ to reflect upon EPFI dynamics more seriously and to begin to consider how this relationship between the EPFI “vanguard” and “tail” could be addressed and managed more formally. This appeared to come to the fore in the governance discussions at the May meeting of EPFIs in Washington in 2007⁸⁰, when it was agreed that a Working Group on governance should be created. The objective of this group was to examine how the EP process should proceed in terms of EPFI governance, and to consider measures to ensure that all adoptees would actively implement the Principles.

“There is ...what would be described as the vanguard of organisations [10-15] which remain committed and highly motivated on the whole in this arena. And actually have practical experience of doing these things ... but you know, if there is that vanguard there’s also a tail, and to what extent can decisions be made without having to bring that tail along with us? And so *we’re needing to understand* you know, what’s a sensible middle ground on this. I think some organisations might want a far more rigid formal structure you know, proper incorporation, membership fees and goodness knows what. Others won’t; others actually appreciate the fact that it’s been flexible, it’s moved quickly because it’s light on its feet. You know, we don’t want the dead hand of bureaucracy slowing everything down. And so there’s that balance to be struck there. *But there is a need for some improved coordination of the effort within activities.* Now the extent to which that needs to be formalised remains to be seen you know, the debate goes on. But at the moment [September 2007] ...there are still enough organisations that will step up to the plate to lead [EP Working Group] pieces of work, and then report back to the wider audience. Whether that goes wider you know, remains to be seen.” (UK EPFI 1, Interviewee 1 emphasis added)

Some interviewees were reluctant to openly refer to some inactive adoptees as “free-riders”, or, admit that they may have been frustrated with how their behaviour could have been undermining their own committed efforts or threatening the credibility of the initiative as a whole. Yet some others were a little more forthcoming:

“I think also it reflects badly on the entire Equator Principles fraternity, if I put it that way, if you know, one of the Equator banks gets involved with a particularly dodgy transaction. So I think they do need to understand what the implications are. It’s complicated by you know, not clearly having anti-competitive practices or collusion and all of these things as well....but I think it would tarnish the reputation of the Equator Principles as a whole.” (South African EPFI)

⁷⁹ Now collectively referring to the leading group of ten EPFIs *as well as* active EP adoptees.

⁸⁰ There were 26 out of (the then) 51 EPFIs in attendance at this meeting (EP Press Release, 2007).

“Initially maybe [frustration with inactive EPFIs], but I think the observers and the stakeholders and the opinion formers are now actually starting to understand that there are some organisations who have exploited the Equator Principles as some sort of environmental PR mechanism. But now those same observers are starting to ... if you’ll excuse the expression, they’re starting to lift up their skirts and see what lies underneath. And I think that you know, those organisations are starting to become a little bit more identifiable.” (UK EPFI 1, Interviewee 1)

Another potential incident influencing EPFI efforts to acknowledge the free-rider challenge, was the “embarrassing” moment when BankTrack issued a press release about two banks, Banco Galicia and Nordea, announcing they were EPFIs, when the “floating” EP Secretary or other EPFIs were not even aware of this at the time.

“The group of banks that are always leading the discussions are completely aware that if the Equator Principles are to really maintain their status and their standards, then they need to improve on their governance and on their credibility. So [for example] Banco Galicia and Nordea were suddenly calling themselves Equator Principles institutions, whereas the Secretary of the Equator Principles wasn’t even aware...and that sort of thing embarrassed them, [they said to us] ‘it is very bad that you put that out as a press release.’” (BankTrack Coordinator)

Although one EP leader stated “certainly we don’t have any sanctions to begin imposing on, shall we say, the *lesser* performing adopters of Equator” (UK EPFI 1, Interviewee 1), active EPFIs were still trying to develop a feasible way of addressing possible “decoupling” amongst EPFIs, as part of their new governance programme. To them reporting on EP implementation was the most practical first step in this process. As another interviewee commented, the development of an EP reporting guidance document by EPFIs, following the May meeting in 2007, was:

“[P]urely to address the issue of consistent applications and free-riders”
(Dutch EPFI 2)

The main reason EPFIs felt they could not develop more stringent sanctions for inactive EPFIs, apart from minimal reporting, reiterates what was mentioned earlier in Chapters Six and Seven i.e. as this was a voluntary initiative, EPFIs still felt that individually, they had no right, or legal authority, to determine how another EPFI should operate. However, active EPFIs in 2007 believed that some baseline criteria or parameters for EP adoption at least, had to be established at organisational field level, and EP reporting was proposed as this baseline provision.

“Well you know, who are we to pass judgments on a competitor, to try and stop them from doing a project? I mean there’ll be regulatory reasons and legal reasons why we just can’t do that.” (UK EPFI 2)

“[W]e have to be quite careful about those sorts of things because legally it will attract the attention of the regulators in terms of restrictive practices. And if it’s a voluntary initiative then you know, technically anybody can join. You know, we are looking at ways whereby from a reporting perspective those that perhaps don’t report [will be visible on] almost a sort of refresher list [on the EP website]…I mean we don’t have the means of expelling anybody or you know, black-balling in the gentlemen’s club way, but we can perhaps just make some [inactive EPFIs] more identifiable than others.” (UK EPFI 1, Interviewee 1)

Thus, this section (8.2) once more illustrates how reflexive, knowledgeable and purposeful EPFI agents were continuously monitoring and reevaluating EP criteria and practice, and in so doing shaping the ongoing EP institutionalisation process. It also underscores the importance of reporting and accountability in driving this EP process forward. However, as the following section highlights, to NGOs, this proposed approach still came nowhere near the accountability mechanisms they felt were necessary to ensure more efficient EPFI governance at the time.

8.3 Ongoing Accountability Debates in the EP Organisational Field

NGOs welcomed the efforts of the EPFIs to produce a guidance document on reporting in 2007, but its contents, for them, lacked substance, especially when they had been demanding much more since 2003.

“We had this conference call in May [2007], I think it was May, and then suddenly in the conference call they [EPFIs] said, ‘We are going to publish these guidelines because you’ve been criticising and complaining about the lack of transparency in the reporting, so here it is.’ That was during the call, so immediately afterwards we went to the [EP] website and there it was. And we didn’t see it coming so it was a surprise. And then we looked at the guidelines, and it’s mainly the footnote [from EP II] that’s basically now qualified as an obligation, plus suggestions. And the suggestions are just basically putting in writing what ABN Amro and a few other banks are doing already… It’s very nice and we do welcome every extension to the information [about] which OECD, and non-OECD country, and in which sector there are so many projects etc…but still we cannot have a sensible debate [about] project level [activities] based on that information, that’s what they will never do.” (BankTrack Coordinator)

On the other hand, EPFIs were remaining steadfast to their position on commercial confidentiality and their inability to disclose more details about the specific nature of projects and their relationship with clients. They also felt that it would be “unethical” to publicly announce that they were not entering into a deal, or pulling out of one, due to E&S risks associated with a project. They felt that this would reflect badly on the FIs that might be continuing with the project and make any future relationships with them or other FIs in project syndications more difficult. Furthermore, some FI interviewees explained that they might also decide not to become involved in a project even before it would enter into any formal credit risk review process - based on the type of project, local, client track record etc.- and thus would not even regard such, often personal, “desktop” decisions as a formal “rejection” of a project.

“Because it’s client confidentiality. And this again, this is probably the biggest reason why there will never be agreements between NGOs and banks on this. You cannot disclose ... I mean how would you like it if the bank said you know, ‘we decided not to extend a loan to you in your personal capacity because your credit rating was poor’, and they put that in their sustainability report? Banking is all about relationships. And if a bank decides not to finance a certain project, why would it want to, in the press or in writing, say ‘we decided not to finance this project because it was non-Equator Principles compliant’. You’re putting your client on the spot; you’re breaching client confidentiality as far as I’m concerned. And it’s not a witch-hunt. The reason banks apply these policies and approach is not to point fingers at the bad guys. The reason is to improve their overall portfolio, the reason is to assist them in understanding their client’s business, in making responsible decisions. And when you decide not to support a client, to finance a project, it doesn’t mean the end of the relationship - it may, and in certain instances it does - but why would you then want to put them in the spot and let someone throw tomatoes at the client, saying ‘you haven’t done X Y Z’? I just think ethically that’s not the right thing to do.” (Dutch EPFI 1, Interviewee 1)

“If a project is a ‘glimmer in the eye’, you start having a look at it and say well if we got involved in that would it be feasible blah-blah; your initial screening is at a desk, it hasn’t even gone forward to the management let alone going through the risk screen and all the rest of it, and if it’s kicked out of touch as not one you want to do, has it been turned down? No. You just haven’t got involved. And so it’s ‘how do you monitor those’? Well the relationship manager puts up a list of companies he’s going to probably target, so he starts having a look at those companies and he chuck ten out of the 12 out of the door. Are those turned down? No, they’re just not targeted.” (UK EPFI 3)

Some NGOs on the other hand would argue that the commercial confidentiality “excuse” was not sufficient at times, as it was often the case that information about particular projects EPFIs were involved in was available in project finance popular press for example, magazines like *Project Finance*, which required expensive subscription costs. NGOs

therefore could not understand for example how a list of bank clients, at least, could not be provided on their own websites if it was already in the public domain elsewhere.

“One thing you asked earlier: ‘what sort of things you would want to see regarding improved transparency?’ And we don’t understand why they cannot publish a list of clients. You don’t have to say anything else but if you say ‘this is our list of clients’, it can be in a separate section in their website, not linking it immediately with the Equator Principles or projects...that would save us loads of time and work to figure out who they are. Because it is [already] in the public domain. So there’s no argument that it cannot be done, that’s invalid. Because they boast about their deals in specialised magazines that are too expensive for us to routinely look at. But the key point is the client governance confidentiality thing doesn’t hold because there’s a lot of information out there but it’s also [about] making it accessible. And *transparency is not about an abstract way of disseminating information, but it’s about making an effort to communicate.*”
(BankTrack Coordinator, emphasis added)

Nevertheless, EPFIs appeared not to succumb to such demands. Instead they seemed to remain focused on various aspects of their proposed new governance programme. For example, EPFIs were also discussing the possible creation of some form of EP Secretariat as part of their new governance programme. One interviewee outlined the benefits of this when interviewed in 2007 when EPFIs were considering suitable external parties to possibly undertake the role of EP Secretariat.

“Well I think one of the [NGO] criticisms, I think quite fair in some respects, is that the sort of self-administration of the Equator banks was done on a very sort of ad-hoc amateurish basis, [And] I mean clearly we would hope that we would end up with an efficient, well-functioning physical secretariat. So you know, people would know who to talk to rather than sort of changing responsibility. Because you know, one bank did it for a while and then part of the website was being managed by another, and it was all a little confusing. And this will hopefully give us a sense of permanence, that an organisation will do it [be Secretariat] for a number of years. So that’s one thing. Two, I think ... having an external third party [as Secretariat] who has no vested interest in the Equator Principles themselves in terms of what they do, i.e. they’re not a project finance organisation; is quite a good discipline.”
(Dutch EPFI 1, Interviewee 2)

However, as another interviewee outlined, they did not envisage this would be a forum for monitoring EPFI compliance with the Principles at organisational or project level per se.

“Well I think the EPFIs have agreed to look at you know, what the role of a secretariat should play. So a secretariat could have a role looking at the administration; so arranging meetings, or circulating minutes of meetings or conference calls that go on...And then you’ve got some people that are external to Equator that say ‘well don’t you think a secretariat would be good because then

they could act as a compliance bureau'... [But] as I say, when we're looking at governance generally, we're looking at putting a framework around what we're doing at the moment rather than expanding Equator into all sorts of new areas such as checking up on compliance of our competitors." (UK EPFI 2)

Therefore, ongoing NGO demands for some form of internal EPFI network accountability mechanism and/or external Ombudsman function was not being considered by EPFIs at the time. As mentioned earlier, to them such demands continued to be impractical given the fact that they were not a formal association whose structure and activities could support an external accountability function. Instead, EPFIs, still felt that their own internal "self-policing" approach in project finance syndicates, along with NGOs' external watchdog role for EP compliance, was sufficient.

"The Ombudsman function is, we think, quite a difficult one. You can understand it in the context of being a sole lender like the IFC, where you know, they can in a sense have an Ombudsman activity that is responsible for their own involvement. It's much more difficult, we think, in the context of 53 different banks who come together in different formations, often involving banks who are non-Equator banks in transactions. I mean how you could have an Ombudsman sitting in a secretariat that opined on transactions where non-Equator banks were involved I don't really know." (Dutch EPFI 1, Interviewee 2)

"If it's a voluntary initiative ...[and] you become part of the Equator group, what sanction can be taken against an organisation that isn't seen to be adhering to these things as rigorously as they might? I don't have power to suspend another bank's banking license... it's up to individual bank stakeholders to hold them accountable. Not for other banks to hold them accountable. [It's not for an independent body either] ...first of all how independent, who's paying for it, and what sanctions do the independent body have, apart from to highlight what their stakeholders will already be doing? And you know, this is a risk management thing, and if it's voluntary and there's more of a downside because of this independent body [which] all of a sudden feel as though they have the credentials to opine. Then you know, you're going to actually start seeing some project finance banks say well there's actually no benefit [in being involved] because ... it's like painting a bulls-eye on your chest you know, what's the point? [They'll say] 'we can manage our own risks quite adequately without being part of that association.' (UK EPFI 1, Interviewee 1)

However, the NGOs were never comfortable being viewed as *the* external accountability mechanism for the EP or EPFIs. They felt that even if they had a "watchdog" role, that this did not mean that responsibility for EP transparency and overall accountability did not rest with the EPFIs.

"If they say 'well the NGOs hold us accountable so we can continue being secretive and not disclosing any information, because the NGOs will figure it out anyway', that passes the responsibility to us and we think that they have a responsibility to be accountable in a sense of disseminating information and being clear on things. So that's why we don't want to be part of their scheme without us deciding that." (BankTrack Coordinator)

However, when it came to EP responsibilities, EPFIs held strong beliefs about where specific levels of responsibility and accountability for EP implementation lay. For example, at project level, EPFIs felt that this was first and foremost the responsibility of the clients, as they were directly involved in the management of the project. They therefore felt that any project level transparency and disclosure or complaints by effected communities should be the responsibility of the sponsor. They believed these should be addressed through the consultation and disclosure and grievance mechanism provisions specified in EP II requirements (see Appendix 4), as opposed to creating an avenue for project level complaints to go directly to financier, as BankTrack had previously proposed (BankTrack, 2006a). Subsequently, they felt that their own responsibility lay with the implementation of the EP into internal project finance policies and procedures and being sufficiently transparent about this.

"[T]here are two levels of accountability on deals that we do. There's accountability of your clients and your project sponsors, right? [I.e.] that they are meeting the standards on the ground and whether they're being responsive to affected communities and stakeholders. And the new IFC performance standards require that the clients set up grievance mechanisms, that they're accessible, that local communities know that there are those systems there and that you know, the clients are being responsive. So that's one level of accountability. And then again, going up to the next step is at the banking level or the financing level, how accountable are we in implementing our policies and procedures in a robust way and you know, doing it both honestly and being open and transparent and talking to our stakeholders. So I think there are two levels there." (US EPFI)

In addition, as one EPFI leader outlined, the sanction for not meeting their EP responsibilities, in the absence of any formal accountability mechanisms, was their reputation. This was something they took very seriously and which also played a predominant role in the EP leaders' drive to create the EP originally.

"I think the sanction is the bank's reputation. If you put out there that you're going to meet a certain standard and you're going to do it in the right way and you're going to hold your clients to account, and also advise your clients on how to do this in the

right way, I think that is the sanction. If you're not able to do that, you're not able to put in appropriate policies and processes and hire the right people to advise both the bankers inside and your clients, then your reputation will be held to account." (US EPFI)

The above section once more draws attention to the dynamics of the accountability debates surrounding the EP institutionalisation process, and emphasises how both are inextricably linked. It highlights how the perceived significance, or meaning, of EP responsibilities and accountability to EPFIs, NGOs and clients alike act to legitimate their variant behaviour at organisational field, organisational and societal-project level. Furthermore, the continued dominance of EPFI values and beliefs regarding these issues, across all three levels, is also reiterated. The following section will provide further insight into the complexity of these accountability debates between EPFIs and NGOs.

8.3.1 Possible Legitimacy Gaps

Throughout the course of the EPFI interviews, a number of interviewees, especially the leaders, explained how they felt that the EP were now "part-and-parcel" of their project finance activities, and viewed them as a *norm* that was being *accepted* as "business-as-usual" (institutionalised). As a result, the majority of them felt that they were already being responsible for their EP related activities and did not feel the need to "advertise" the fact that they were doing so beyond their current level of EP reporting in their sustainability reports. Ironically, they felt that "shouting about it from the rafters" would make the whole issue more symbolic or "ceremonial" as opposed to being recognised as a genuine part of their operations.

"We've been criticised in the past when somebody's come along and said 'well what are you doing in this phase on environmental credit risk assessment?' and we go through it all. And they say 'well why aren't you more open about this? You're doing a great job and you're just dreadful at telling the story'. *Well to be honest we're here to manage the risk, we're not here to tell the story...* I would [also] argue that the reason for doing that [monitoring client compliance] is not because you want to be compliant with Equator, it's because you're managing the risk. *I mean if it's just ceremonial then you know, forget it.* I mean there has to be some reason for doing it." (UK EPFI 1, Interviewee 1 emphasis added)

Many interviewees questioned the need for the amount of information that NGOs wanted and highlighted the challenges they had in managing this process. This included the amount

of information to include on their websites, the length restrictions in their sustainability reports, the need to satisfy all stakeholder interests and disclosure demands and the simple use of paper at the end of the day:

“I remember having this discussion many times about how much do you disclose on the internet about policies. And we always said ‘look we’re happy to say what our approach is but are people really interested in the internal machinations of who does what at which time?...[M]y view is that a lot of NGOs will claim that there’s not enough accountability, not enough transparency. And from what I’ve seen, that is a fairly unique position that they have because if you ask all the other stakeholders of the institutions, if you ask clients, local governments, SRI investors, you will actually see that there is. [And] NGOs were invited to our SRI discussions, and the type of information that is disclosed to them is just what we shared with everyone else.” (Dutch EPFI 1, Interviewee 1)

“An organisation as big as [Name of interviewee organisation], could produce you know, a report that’s 1000 pages long and has all our internal systems [documented] ... but at the end of the day I don’t know whether that would be useful to people or not...we’re trying to think well who are we trying to communicate with and what are we trying to communicate? You know, do we want to say that we’re reducing paper [use] and then at the same time produce a 200-page report? Most of our stakeholders want something that’s quite short and summarises things.” (UK EPFI 2)

Furthermore, some interviewees felt if the EP were being audited as part of their internal and external audit procedures, and/or meeting the AA1000 assurance standard⁸¹ process, that this was sufficient in terms of their organisational level accountability for EP implementation.

“[Name of interviewee organisation] had its external auditors come in and audit its sustainability report, they pored over internal processes about how do you take your oil and gas policy, how do you take the Equator Principles [into account]; [asking us] ‘show me how this is translated into decision-making. Let me see the file on whatever transaction it was, I want to see your advice; I want to see the information you use in giving your advice.’ It’s a pretty thorough process. We went through it... three or four times in the time I was there.” (Dutch EPFI 1, Interviewee 1)

“I mean from a [Name of interviewee organisation] perspective, we sign up to the AA1000 assurance standard. Now that applies to the whole of our ES and G [governance] portfolio, and I can honestly say, having been on the end of it, that the Equator Principles was heavily tested. I mean I had our assurance provider sat in this office, sat where you are now, asking me questions about the Equator Principles, asking me what I did. Wanting to see my email trail, to actually see that

⁸¹ This is a leading international standard used to provide assurance on publicly available sustainability information e.g. sustainability/CSR reports.

I did confer with Sydney on these particular issues. When you're in Sydney, they will [also] do a test run in terms of looking at the works being done. Now what more can you ask for? ...If every bank or financial institution signs up to an assurance type standard, and the Equator Principles is actually part of that assurance process, then I just put my hand up and say you know, what more can I do? Because effectively I'm opening my books for scrutiny."(Australian EPFI)

The lack of *detailed* disclosure about the extent of these interviewees' project finance, and broader E&S policies/procedures, was what was fuelling NGO concerns and accountability demands. Yet NGOs, as some interviewees explained, were also not without some fault in these dynamics. For example, some EPFIs felt that certain NGOs were "very much explicitly campaigning and choosing information in a way which supports their campaign" (Dutch/Belgian EPFI, Interviewee 2). In addition, one interviewee outlined how privately some NGOs had expressed their appreciation for the fact that EPFI leaders were involved with some "testing" projects, while publicly they would not do this.

"I've discussed this with many friends in the NGO community, and their problem is one that privately they will say 'yes you're doing a great job and we're glad you're involved in that deal and holding that client's feet to the fire', but they won't say that publicly."(Dutch EPFI 1, Interviewee 2)

Moreover, another EP leader interviewee explained that some NGOs were invited into their organisation to review their internal E&S credit risk procedures, while NGOs were preparing a survey on bank policies. Despite the fact that NGOs seemed impressed with this interviewee's internal efforts, NGOs would not recognise this in their report, as the information was not available in the public domain. The EPFI in question explained how he had told the NGOs that it was not in the public domain as it was internal information and viewed their reaction to this as somewhat disingenuous overall.

"[A]n example would be one of the NGOs doing their survey of banks a couple of years ago. You know, [they said] 'you haven't got very much on your website'. [And we replied] 'Well you'd better come in and we'll tell you what we're doing'. 'Oh, okay'. So straightaway they have privileged access, internal papers opened up on screen you know, and [they said] 'oh right, oh gosh, that's good. *Well why don't you tell anybody about this?*' [and we replied] 'Well it's internal'. You know, 'which part of internal don't you understand?' At the end of it, then they wouldn't acknowledge it... because they said it has to be in the public domain to be valid. Well that's annoying because *no, it doesn't have to be in the public domain to be valid*, you know, it's a bit like saying just because you haven't seen a tree fall over doesn't mean it hasn't fallen over. When you see one lying on the ground, well how did it get there? So that's a frustration." (UK EPFI 1, Interviewee 1)

NGOs on the other hand would say that their reason for not acknowledging the existence of some EPFI internal/undisclosed information was a principled stance on their part.

“Barclays sent us a huge envelope with all their policies. And in the ‘Mind the Gap’ Report [BankTrack, 2007c] we mentioned that they said, ‘It’s available on request’, so we listed all the policies and [indicated that] they say: ‘It’s available upon request, go and ask.’ And I don’t know what they thought of that but that’s what they said to us so we put it in the report. But what I said before, transparency is not just an abstract way of throwing it on the web or something, or making it available upon request, because you know if you’re financing a mining project in Papua New Guinea, that particular village is not going to apply for access for a bank’s mining policy, so you have to make an effort. It’s a requirement to make an effort, as they say in the Equator Principles; literally like a tool to ‘communicate in a culturally appropriate way’. So then transparency is more. So we wanted to keep our approach uniform in the ‘Mind the Gap’ Report [i.e.] we would only judge policies that are publicly available. *Even while we knew that there are other policies and we might have seen them*, but we’re not going to rate them and we’re not going to judge them. And that was done, first because we think it’s not us who are the judges, we judge it but it should be everyone that should be able to judge it. So there’s a principled stance to make it public. But the other thing is by doing it like that we encourage them to make things public, and that’s actually happening because some banks now, ING, Fortis, and all that, they were really trying to get things public before the release of our report, and they couldn’t do it. They told us that unfortunately they cannot put it online before the release to be judged. But it’s an ongoing thing.”
(BankTrack Coordinator)

The term “legitimacy gaps” has been used to describe a situation where there seems to be “a lack of correspondence between how society believes an organisation *should* act and how it is *perceived* that the organisation has acted” (Deegan, 2007, p 8). Thus, arguably, the above dynamic between EPFIs and NGOs was creating “legitimacy gaps” in the ongoing EP institutionalisation process. At the same time however, there was also a general “evolution” of the relationships between EPFIs and NGOs, which, as the following section displays, would also shape the EP institutionalisation process moving forward.

8.4 Maturing of the EP Organisational Field

“There is a certain dynamic between us: the activities of BankTrack and of its members, and what the banks do. There is this direct conversation [and] a mediated debate over the public and the press and media. And that also shapes the Equator Principles and that’s the dynamics of the game.”
(BankTrack Coordinator)

Despite the fact that the relationship between the NGOs and EPFIs was somewhat antagonistic during 2003 and 2008, both party’s mutual tolerance, respect and understanding of each other did improve over the same period. There appeared to be a certain “maturing” of their relationship, which brought with it greater opportunities for cooperation and even partnership. The organisational field that had emerged around the issue of the EP had opened up greater avenues of dialogue and debate between these actors, even if they still did not always see eye-to-eye. As mentioned earlier, both groups recognised the benefits of a more cordial relationship as a means of advancing their own, and sometimes joint, agendas.

“Both sides used the opportunity to listen to each other. And that dialogue still continues. I also think the NGOs learned that there are some smart, committed people in banks who sometimes knew and cared as much, or more, about the issues. That helped as well.” (Dutch EPFI 1, Interviewee 1)

“I always remember the very first meeting we had with civil society [on the EP], and it literally was the FIs sat on one side here; BankTrack and all the others they were sat on the other side. And it really was like a sixth form dance as I would call it, the boys on one side, the girls on the other and nobody was going to put their handbags in the middle and dance. And it was ironic because [at] the last one we had, and ... actually I made the comment in the meeting; everyone sat down and the NGOs all intermingled with the FIs. Which is an indication of how far we had actually come. So there is a genuine desire to listen from the FIs. We don’t just bring the NGOs in just for the sake of it and whitewash it you know, if there are genuine legitimate concerns we will listen to them and we will try and incorporate them into the next version or into whatever work programme we’re doing.”
(Australian EPFI)

EPFI interviewees outlined how at organisational level they found NGO expertise and assistance in the development of their E&S policies and procedures, be that related to the EP or their broader E&S risk management framework, of great benefit. Furthermore, they highlighted how they felt that the NGOs in question appreciated this.

“So we will target NGOs that we feel have value to add to a particular process... if you use the NGOs properly I mean they can really add to your policy development for example, and that’s where we typically use them...And I mean these can often be very detailed issues, I mean I remember a debate on our mining policy around the use of cyanide bleaching for gold extraction. And you know, you get into quite a technical debate about okay, if you’re going to finance a gold mine which uses cyanide as part of its bleaching process, what sort of technology should you employ as a minimum standard? And you know, clearly there are NGOs out there who’ve got scientists who’ve got very clear views on what it should be and industry may have other views...So it’s those sorts of discussions.” (Dutch EPFI 1, Interviewee 2)

“When we [interviewee organisation] were developing our briefing notes on the ten sectors and the 50 activities, we did ask whether or not WWF would cast an eye over it, and they were happy to do so. And I think they were - you know, an NGO is never going to applaud a bank’s initiative - but I think they respect the fact that we did that. But, yes, it’s a case of which NGOs we’re engaging with. I think the more rational NGOs do understand that we’re doing a lot more than just project finance. I think some of them do try to understand why we can’t be more open and we’re not just going to sort of roll over and tell them everything, because we can’t. Some of them are genuinely trying to understand that.” (UK EPFI 1, Interviewee 1).

One early adoptee highlighted how they took NGO queries and concerns seriously and investigated them internally. He explained how engagement on these issues can often be challenging due to client confidentiality restrictions, but outlined how his organisation was trying to surmount such difficulties with NGOs. In turn the BankTrack Coordinator also mentioned that he felt that some EPFIs did indeed take their work seriously, even if all of their demands may not be addressed all the time.

“They’ll come and tell us about something terrible that’s going on and we’ll tell them ‘we can’t tell you whether we’re involved or not, but sit down and then you can tell us what the issue is’. And if we are involved we always pursue it and we go out to our customers or our managers or whoever’s managing it internally and we say ‘look, Greenpeace have said, or WWF have said, or BankTrack have said this, can you investigate it and find out what’s going on?’ And the NGOs, I think on the whole they believe that [Name of interviewee organisation] does investigate their claims, because they still come to us in that way and they tell us you know, what their fears are. I mean we give them a hypothetical example, we say ‘well if somebody did come to us with an example like that, this is what we’d do ...’ without telling them anything about client business. So I think you know, their influence is there but their influence and that of many others really. But, yeah, they’re very helpful to us.” (UK EPFI 2)

“I think they take very good notice of the things we write, but that doesn’t mean they will include everything we want. And also within the banking sector there are groups that are more keen on incorporating certain things than others.” (BankTrack Coordinator)

Hence, despite the remaining challenges, EPFI and NGO relationships within the EP organisational field had greatly improved over the course of 2003 to 2008.

8.4.1 EPFI-NGO “Cooperation”, December 2007

This movement toward greater cooperation between EPFIs and NGOs was also evident when they met for their annual meeting in December 2007 in Amsterdam. When interviewed in early 2008, the BankTrack Coordinator provided some examples of this closer collaboration between their members and the EPFIs. He explained that in preparation for the meeting, BankTrack had produced a list of items that they wanted to discuss at the meeting and that the EPFIs agreed to all of them, thereby allowing the NGOs to “define” the meeting. EPFIs just made one additional request i.e. that BankTrack would make a presentation about the governance of their own network of (now) 16 member, and 13 partner, organisations to assist governance discussions overall.

“We came up with a list of things we wanted to discuss, and that became the agenda, completely. We said, ‘This is what we want, and of course you might have other things’, but the only thing they came up with was a request for me to present our own governance structure....[T]here has never really been conflict about it [agendas for meetings] but we *defined* this meeting completely. And the other thing we said was, ‘we want to hear from you, we don’t want to just come up with our ideas on governance, we want to hear from you.’ So we requested presentations from the banks ...[and] that’s what they did.” (BankTrack Coordinator)

However, the sustained differences of opinion on EPFI accountability also emerged throughout the course of the presentation and discussion of the EPFIs’ proposed plans for a new governance structure as the BankTrack Coordinator, outlines below.

“So from the discussions [from 2003] on the need for transparency came a paragraph in the Equator Principles II [2006], plus a footnote leading to the [reporting] guidance [document in 2007], us commenting on the limited use of the guidance, and them now putting up that page on their website which is more explicit regarding which banks are reporting on that. But then came the surprise at the meeting - the other thing we always said is, ‘it’s nice that you have banks coming in but you need also a way to get banks out, to get rid of the free-riders’ - and now they’ve come up with something that’s very imperfect. They’ve announced that reporting becomes *the* requirement to be an Equator Principles bank or not. So if you fail on the reporting and you can’t deliver on what they have set, then at some point they will not consider you an Equator bank any more.” (BankTrack Coordinator)

To NGOs, the final decision for reporting to act as the only condition by which FIs could remain EPFIs was a highly inadequate approach to addressing the “free-rider” problem. This was especially the case given that criteria for EP adoption still did not exist, a one year “grace period” for reporting was being offered to new EP adoptees, and the minimal EP reporting requirements themselves were still not as stringent as the NGOs would have liked.

“So now it’s a very minimal change. The only change is that once you have become an Equator bank...and there’s still nothing arranged about how you can become one it’s still just that you issue a press release and that’s it. But once you’re in then the only condition they have now imposed on banks is not about implementation, it’s not about capacity; the only thing is that you need to report according to their guidance, within a year or within two years. Because the other thing that happened, what’s sneaked in, is a bit of a *softening* of the requirements with this *grace* period. That’s now two years [in total], it means that you can come up with a press release in 2008, and by 2010 you need to come up with a report. So there’s two years when people don’t know what you’re doing....Our discussion went on about that, that if this is the criteria then it needs to become a lot more stringent than it is now, and the guidance is really insufficient as a way to weed out the free-riders.” (BankTrack Coordinator)

This was particularly pertinent considering the findings of a BankTrack assessment of EPFI reporting, benchmarked against Equator Principle 10 reporting requirements and EPFI reporting guidance, also produced in December 2007. The findings of the report showed that of the EPFIs that adopted the EP before 2007 “40% did not meet the minimum requirements, 19% met them and 40% exceeded them” (BankTrack, 2007a, p.1). Furthermore, BankTrack continued to endorse the use of the Global Reporting Initiatives (GRI) Financial Services Sector Supplement (FSSS), as an effective means of improving bank transparency and disclosure in general (see Chapter Nine for some further discussion).

In addition, NGOs had since 2007⁸² requested EPFIs to produce a list of “Rosy Deals”, highlighting projects that had “worked” due to the EP, on their websites. The aim being to balance out the “Dodgy Deals” section on the BankTrack website. The NGO logic behind this was that if EPFI statements about the EP changing the nature of project finance deals, allowing projects to progress in a more E&S friendly manner could be believed, then there should be no problem being transparent about this.

⁸² First proposed at the Ethical Corporation Sustainable Finance Event, September 2007, London, in which this researcher was present.

“The whole thing [EP] is supposed to solve our problems, so they shouldn’t be worried about it if it’s all solved, because the Equator Principles are being applied. So ideally there is nothing to worry about because it’s all going well. And if they believe in the strength of their own ideas then there’s no good reason why you wouldn’t be open about it. I know why they are not open about it but the logic doesn’t hold. We also had a funny discussion: the fifth anniversary of the Equator Principles is coming in June [2008], and they were not aware of that. So I told them; ‘Why don’t you start on your website a section called Rosy Deals?’ And someone who was in the room that had been in London [at the Ethical Corporation event in September 2007] came back to that. So we talked a bit about that idea of the Rosy Deals and said ‘if you think things are all going great then put it up’ and then they said ‘if we are going to put something on our website calling it the Rosy Deals, then we’ll get criticism from you!’” (BankTrack Coordinator)

However, EPFIs for their part, reiterated the challenges they faced in addressing EPFI accountability and governance, that was reinforced by a presentation given by a lawyer in attendance at the meeting, which focused on the legal constraints of increased EP transparency. Yet, EPFIs outlined how the inclusion of a list of EPFIs on their website which highlighted whether they had reported on EP implementation or not, was their first practical step in addressing some of these issues. Furthermore, EPFIs concentrated on the introduction of their planned new EPFI governance/management structure to meeting participants. They outlined how the new structure would consist of: (1) a Steering Committee, made up of many of the original “group of ten” EPFIs; (2) a set of 7 Working Groups on Adoption, Best Practice, Governance, Outreach, Scope Review, Stakeholders and Climate Change⁸³; and (3) an EPFI Chair to oversee Steering Committee and Working Group activities as well as engagement with the IFC.

Despite NGO grievances about the reporting and broader accountability issues, they did welcome EPFI efforts towards a more effective governance structure, and appeared quite happy with the outcome of this meeting overall. As the BankTrack Coordinator outlined, NGOs had prepared their own list of requirements that they had wanted EPFIs to address in the meeting and in the end they were relatively content that these had been met. Had this not been the case, as this interviewee outlined, NGOs agreed that they would not have continued discussions with the EPFIs.

⁸³ Another Working Group on “Social Risks” i.e. specifically related to the social risk management of projects would be created in 2010.

“Yes, absolutely, we were happily surprised about that meeting... We had been very cynical, we thought give it one more day, and we had a preparatory meeting here [in BankTrack headquarters before the EPFI meeting]. For each of the [EPFI meeting] items we tried to define for ourselves what would exceed our expectations, what would meet our expectations, and what would absolutely not meet our expectations. And if the score would be, at the end of the day, that it never met any of our expectations on all these things, that would be it, we would completely give up talking to them at all about it [EP]. So we had a very structured approach to it; a benchmark. But it [the meeting] exceeded our expectations so we keep talking. But they weren’t aware of us having that [plan]. But I think everybody felt like the best thing we can get out of it is to really talk, and that was a very good feeling.”
(BankTrack Coordinator)

This interviewee continued by stating that he did feel that the EPFIs were taking EP responsibilities more seriously. However, he also highlighted how there might be a difference between those people at the meeting and their internal “front office”/project finance colleagues whose “commitment” to EP application may be more difficult due to the practical realities of finalising deals with clients. Yet, in general, he highlighted how NGOs did understand that EP implementation per se was not an easy task for EPFIs; which is another indication of the deepening levels of understanding amongst these parties in the EP organisational field.

“The people there, yes, but the people in the front office, I don’t know. Of course the people that come show a decision to take it seriously by coming to these meetings...[but] there are still some [EPFIs] that don’t come, and I don’t know for what reason. So there’s already a sub-set of people coming there. And that’s people mostly one level up who are trying to implement that in the organisation. And yes I think most of them want the Equator Principles to be properly applied. But the dilemmas of the individual project officer, who’s struggling with [EP] requirements on the one hand, and the need for signing the deal on the other; is a difficulty... [So] it was very much the effort of the banks to make us more aware of their everyday problems, and I always like to hear that, as it refines your thinking. But yes, some people were very honest about their problems, in making this happen. And we’re not naïve, we’re not dogmatic people and we don’t say: ‘we couldn’t care less, make it happen.’ We see that there are problems and you need to improve it. And they made a commitment as well, they went into this, and they need to make it happen.” (BankTrack Coordinator)

EPFIs interviewees appeared to be just as mindful of the EP commitments they had made and EPFI responsibilities to address them.

“I’m also leading the Working Group on membership [Adoption] and we’re dealing with both how to become a member, what level you need to adopt, but also can we delete your name from the list [on the EP website] when you’re not reporting. And

that's, of course, also a sensitive issue. But it is needed if you look at certain banks who just don't respond, then the group is getting bigger and bigger and bigger. So you just need to have a certain mechanism. It's again not on quality of reporting, you just can't ask that as we are still a group of competitors; we can't judge each other. [But at the same time] you should measure if EPFIs do something.... [so] we now introduced the concept of cessation so that if you do not report you'll be removed from the list and you can't be called an EPFI." (Dutch EPFI 2)

The new EPFI Management Structure "officially" came into operation in early 2008, when an overview of the proposed structure and the names of EPFIs that would be active in each role and Working Group was made available on the EP website⁸⁴ (see Appendix 5).

8.5 Chapter Summary

This chapter critically assessed the evolution of the EP institutionalisation process towards better governance of the EP at organisational field level, as influenced by EP activities at organisational level and perceptions of the same at societal level. The chapter highlighted how accountability issues associated with EP institutionalisation formed the basis of this progression towards EP governance, largely between 2007 and 2008. Here, the need to "manage" the ever increasing number of EPFI adoptees, the possible "decoupling" between organisational field level EP criteria and organisational level practice, as well as the occurrence of "legitimacy gaps" between EPFI disclosures of EP implementation and NGO acknowledgement of the same, were critically discussed.

This analysis evidenced how active, reflexive and knowledgeable EPFI actors' experiences with EP implementation at organisational level and awareness of EP governance "challenges" at organisational field level since 2003, led to the establishment of EP reporting as "the" compliance measure for EP adoption, as well as a new EP management structure, by 2008. In doing so, the "maturing" of the EP organisational field was also discussed, highlighting more "constructive" interaction between NGOs and EPFIs surrounding these EP governance developments.

⁸⁴ However, more *detailed* information is currently not available on the EP website about: 1) whether the EPFI Chair is nominated or volunteers, what their duties are, and how they are conducted and reviewed; 2) whether Steering Group members are nominated or volunteer and what their specific role is; 3) how the seven Working Groups operate, what their expected "output" is and how it is monitored and/or evaluated; and 4) whether non-reporting EPFIs will actually be removed from the EPFI network. This researcher was informed, by some EPFI interviewees and the (then) EPFI Chair at the UNEP FI conference in Cape Town in October 2009, that EPFIs are in the process of finalising a Governance Document that *may* address some of these issues. However, this has not been made available on the EP website to date (April, 2010).

While Chapters Six to Eight have provided a detailed account of the EP institutionalisation process over societal, organisational field and broad organisational levels, the following chapter focuses on the intra-organisational level, and conducts an in-depth analysis of the institutionalisation of the EP within the project financing process.

CHAPTER 9: EP INSTITUTIONALISATION: THE PROJECT FINANCE PROCESS

“While robust policies are important, our organisations measure the effectiveness of the EPs by how they are applied to projects and day-to-day operations, including whether the lives of project affected communities are improved as a result.” (BankTrack, 2006a, p.3)

“You go into any Equator bank and every one will be different because they’ve each got different structures and different litigation authorities and different all sorts of things.” (Dutch EPFI 1, Interviewee 1)

9.1 Introduction

While it is beyond the scope of this PhD to investigate the impacts of the EP at grassroots level amongst project affected communities, a more in-depth examination of the implications of the EP for daily project finance activities can be undertaken. As previous chapters have focused on the institutionalisation of the EP at broad societal, organisational field and organisational levels, the aim of this chapter is to provide a more detailed insight into the institutionalisation of the EP at *intra-organisational* level i.e. within the *actual* project financing process, as led by front office/project financers in consultation with (E&S) risk managers. The objective is to evidence the EP as a fully “accepted” or institutionalised facet of the project financing process for EPFIs. In doing so, this analysis also attempts to extend the Dillard et al. framework to intra-organisational level, and to reveal how the interplay between EP criteria and practice at this level affects, and is affected by, EP institutionalisation at organisational, organisational field and societal-project levels.

The chapter is structured around the various stages of a project financing process and how EP criteria are being incorporated into this in practice. This is undertaken while being mindful of the fact that project finance deals are complex and “non-linear” in nature and influenced by a myriad of factors, for example, their type, size and location. In addition, as commercial banks can be structured differently,⁸⁵ their approach to project financing can also differ. Hence, any attempt to “generalise” the project finance process is quite difficult,

⁸⁵ This can influence where project finance is positioned in a bank, e.g. whether it is a department in itself, whether it is part of a “Structured Finance” department or whether it is incorporated into different business lines e.g. investment banking activities and managed by specific sector teams (e.g. mining and metals).

making any generalised study of EP implementation within EPFIs equally difficult. However, an attempt is made here to capture a *certain* generic pattern to project financing that emerged from interviewee material. While the specific execution of project finance deals, and the application of the EP therein, may not always follow the *exact* pattern outlined in this chapter, the approach taken here may not be “inaccurate” in itself, as one EPFI interviewee commented:

“You are trying to describe a very loose process that can vary widely from deal to deal depending on the FI, sponsor, project location and project technicalities, in a very precise way. A lot of the ratios, structuring, who is involved etc. depends on not only which FI but also which *individuals* are involved! There’s not a set process and a set way of doing things, I know you think it will be very well set out and organised but even different individuals do things slightly differently...I mean the end product is obviously generally quite similar but there’s just different ways of going through it and different relationships and who drives the process, things like that... *It is all case and institutional-specific.* So I wouldn’t be too concerned if you’re a little bit vague in areas because there probably isn’t a more precise answer...and being vague wouldn’t actually be inaccurate.” (UK EPFI 1, Interviewee 2, emphasis added)

This chapter enlists the perspectives of not only EPFI interviewees, but also that of an EP consultant, EP lawyer and two EPFI clients from the mining industry, to critically discuss this EP-project financing process. In doing so, it emphasises how EP practice at intra-organisational level is highly case-specific and dependent on human agency, irrespective of any existing EP criteria (e.g. policies, guidelines, manuals) at organisational or organisational field levels.

9.2 The “Green Light”/Marketing Stage

It is often the “relationship managers” (i.e. those with a direct relationship with clients), involved in project financing within commercial banks that learn of a potential project/installation through clients⁸⁶ and/or the project finance market. If interested in the project, small FIs may become the financial advisor for the project while large FIs, especially those heavily involved in the project finance market, normally prefer to become lead arrangers. In some cases these large banks may seek to become the financial advisor for the project with the view to eventually becoming the lead arranger at a later stage (UK EPFI 1, Interviewee 2).

⁸⁶ The terms “client”, “project sponsor” and “borrower” will be used interchangeably in this chapter.

When considering becoming a financial advisor and/or as part of their initial role as advisor, FIs may undertake a “preliminary check” of the client and proposed project in order to assess the potential risks, including E&S risks, of involvement:

“We have to commercially and reputationally decide do we want to be associated with a project. So we have to go through background checks. You’ve got to know who the company is you’re dealing with, what their background is, how they’ve acquired the operation. This is a stage we would also do environmental checks as well. We wouldn’t go into a huge amount of detail … it’s not a kind of formal due diligence, it’s more a preliminary check…Because obviously you don’t want it to come out that they’ve [project sponsors] been associated with something that was unsavoury or you know…previously polluted a river and things like that. Obviously as I said, there’s not actually a risk that we’re going to lose money because we’re only advising them but it’s more of a reputational thing, which ties in with the environmental side.” (UK EPFI 1, Interviewee 2)

The extension of the EP to project finance advisory services, as opposed to just direct financing, was one of the new requirements of EP II introduced in 2006. This means that the potential E&S risks associated with the project and host country etc., as well as specific EP requirements, should be discussed and/or incorporated into the ‘information memorandum’⁸⁷ prepared by the advisor for project sponsors at this stage. Hence, the significance of E&S issues, and the associated threat of reputational risks, appears to “legitimise” their consideration by financiers in the early evaluation stages of a project. This also influences subsequent stages of project financing practice at intra-organisational level as the following sections will illustrate.

9.3 The Due Diligence Stage (Equator Principles 1, 2 & 3)

If a bank becomes a financial advisor and/or “mandated” lead arranger,⁸⁸ project finance staff may consult with the E&S risk management personnel, during this “due diligence” phase of the project to, as requested in Equator Principle 1:

⁸⁷ The information memorandum includes “a detailed summary of project technical and economic feasibility; the proposed financing structure and proposed terms; a description of the experience of participants; a summary of the underlying project risks; and a description of each of the project contracts and credit support” (Hoffman, 2008, p.74).

⁸⁸ A bank may be referred to as a “mandated” lead arranger until such time as full due diligence has been completed and credit risk approval has been granted, then allowing the bank to be the “lead arranger” for the project.

- 1) Categorise the project as A (high risk), B (minimal risk) or C (low risk), in accordance with International Finance Corporation (IFC) E&S screening criteria (Appendix 4/Exhibit I); and
- 2) Provide advice on the types of E&S impacts and risks potentially associated with the project (in reference to Appendix 4/Exhibit II and/or IFC Performance Standards and EHS Guidelines⁸⁹).

The level of consultation between project financiers and E&S risk managers can depend on a number of factors. These include: the type of project, the severity of its E&S risks, the client's experience with E&S issues and the autonomy of the project financiers to review the project. In addition, EPFIs' integration of EP requirements into credit and/or E&S risk policies, lending guidelines/manuals, as well as staff training, have assisted project financiers to take more responsibility when dealing with E&S issues in project financing.

“Well for each transaction, first there is a check on whether the principles apply. If they apply, what is the initial categorisation, is it an A, B or C? If it's the C, you [Front office/project financier] only need to inform risk management on the deal statistics also to be able to report on it, but the assessment you can do yourself. Then we have a scheme regarding how you can check the different principles. If it's any project in a high income OECD country, it's the same, so the front office [project finance] can just do the due diligence. If it's an A or a B, not in a high income OECD country, then it requires our [Sustainability Risk] involvement. For A's, and also for B's, that usually happens in an early stage to just get the initial go ahead, and also to discuss how we are going to tackle all the risks involved in this project to eventually get it done.” (Dutch EPFI 2)

EPFI interviewees claimed that the earlier the EP are applied, through their project financiers/relationship managers' contact with clients, the better. As one interviewee outlines below, this is beneficial for both bank and borrower alike, especially regarding the potential credit risks associated with the E&S impacts of the proposed project.

“These front office bankers [/project financiers] are driven by making deals and they want to satisfy their clients' demands and be able to sign off on deals and get them implemented. They have learned very quickly over the years that it is easier for them to get to the final sign off internally as well as with a client if they have things arranged from early on. It was a learning curve in the sense that they came to us [E&S Risk Managers] at the beginning as part of the [credit] risk process, which was too late. And we always communicate that the earlier they come the

⁸⁹ Are technical guidance documents providing general and industry specific information on environmental, health and safety (EHS) issues and examples of good international industry practice (GIIP) (IFC 2008; EP II, 2006, p. 9).

better it is ... If you have to change things on a project [early on], then quite often the smaller capital outlay upfront [to do that], and I speak now in the hundreds or thousands or few million dollars for a large project, can make a huge difference as opposed to trying to rectify things technically further down the track, which can easily go into tens of millions of dollars."(Dutch EPFI 1, Interviewee 4)

During this "due diligence" stage, the financial advisor/mandated lead arranger requests the project sponsor of all Category A and B projects to produce a feasibility study. The feasibility study entails a detailed overview of the proposed project (including technical/engineering and financial projections) and should also include details of the potential E&S impacts and risks associated with the project. The inclusion of such E&S data in the feasibility study is normally informed by the parallel production of a more detailed environmental and social impact assessment (ESIA) of the project (as stipulated by Equator Principle 2; see below).

Yet as one interviewee explained, some agency issues may arise during this due diligence phase. This could be regarding for example, individual relationship managers' awareness and understanding of the EP and willingness to inform their prospective clients of what might be required of them:

"I found it always that the debate internally is harder than the debate externally. The debate between a relationship banker and the internal risk management function to get a relationship banker to put things to a client is harder than speaking to the client. Relationship bankers are very protective and very concerned with their clients and sometimes they act a bit like over-concerned parents, being over-protective of their children, whereas actually things are not that difficult always. I found in the meetings I had with clients in the [mining] sector, and that was CFOs and CEOs as well as environmental practitioners on the ground in Australia, they were quite open to these discussions, and they were also very much aware of the standards." (Dutch EPFI 1, Interviewee 4)

From a clients' perspective, the reluctance to inform them about the need to apply the EP can also pose problems. For example, the South African mining company interviewee outlined how the local branch of a leading UK EPFI (and one of the EPFI interviewees in this research), was not forthcoming about EP requirements in their initial negotiations about a project finance loan:

“They didn’t [inform them about the EP initially]. It’s always who you deal with, you know. It’s the *individual* that you deal with normally. It was one of their [UK EPFI] mining project finance guys here in South Africa [and] no, he wasn’t upfront about it.” (South African Platinum Mining Company, emphasis added)

This section highlights how the varying “significance” of the EP criteria to different EPFI actors, and their interpretation of them, may have an impact upon the level of EP practice within a particular EPFI. It also provides some insight into the ongoing need to “legitimate” the integration of the EP into daily project finance activities amongst some more “challenging” staff, as well as the relative “dominance” or persuasive power of the E&S risk/EP managers to enforce this. Similar agency factors will be a reoccurring theme throughout the following sections.

9.3a “The Assessment” (Equator Principle 2) and Applicable Social and Environmental Standards (Equator Principle 3)

For all Category A and B projects, Equator Principle 2 requires the borrower to produce an ESIA, or “the Assessment” as referred to in the Principles. The objective of the Assessment is to identify the relevant E&S impacts and risks of proposed projects and to recommend mitigation and management measures to address these (Equator Principles II, 2006). The ESIA firstly, highlights the applicable E&S standards or host country laws that the client has to abide by, dependent on whether the project is in a non-high income OECD country or not. Equator Principle 3 states that if the project is located in a non-High Income OECD country⁹⁰ the borrower is obligated to meet all relevant IFC Performance Standards and Industry Specific EHS Guidelines. However, in High Income OECD countries, relevant E&S laws and standards are deemed to meet or exceed these Performance Standards and Guidelines, and the borrower is to produce an ESIA that meets relevant host country E&S laws, regulations and permits (Equator Principles II, 2006). Secondly, the ESIA forms the basis for the Action Plans (AP) and Management Systems (Equator Principle 4), that borrowers are covenanted to produce should financial approval for the project be granted later (see sections 9.4 and 9.7 below).

The completion of an ESIA is the sole responsibility of the borrower and normally undertaken by specialist consultants hired by them. The project financiers review the ESIA

⁹⁰ As designated by the World Bank Development Indicators Database.

and feasibility study as part of their overall due diligence of the project. In doing so they may consult with the E&S risk managers about the E&S details of the studies. In addition, independent consultants/experts, often referred to as the Independent Technical Engineers (ITE), are normally employed by the FIs to review both the technical aspects of the project as well as the borrowers' ESIA and feasibility study. This acts as a "third party" audit of the project. In certain cases where the social impact of a project is very high for example, if a resettlement programme has been proposed, then a separate consultant with more specific social expertise may also be employed to evaluate the project (UK EPFI 1, Interviewee 2) (see also section 9.7a-9.7c).

"Oh we don't do any technical consultancy ourselves because we're not really qualified to do that... but we do talk to our clients about the risks. And if the risks are high enough then we'll commission some consultants who are experts in that area to go and do an initial study really, that's the way it works." (UK EPFI 2)

"The first line of responsibility is each transactor on a particular project but we need to make sure they're following the correct process. They often come through to me directly at that stage and then if they've got the social and environmental management assessment from the client or from the independent consultant - they often you know, ask me just to review and check whether that complies with Equator Principles standards." (South African EPFI)

Within the bank, there may be a number of different departments/personnel involved in what is known as a "Deal Team" which assist in the management of the project from this due diligence stage onwards.⁹¹ Ultimately, however, it is the project financiers that manage the deal moving forward should final credit approval be granted for the project (UK EPFI 1, Interviewee 2).

This section introduces how EP practice at intra-organisational level affects and is affected by EP criteria and practice at organisational field level, through interaction with EP clients and consultants; as well as broader societal/project level through the E&S impacts associated with project finance. Such dynamics are continuous throughout the entire project financing process as will be illustrated in the following sections.

⁹¹ For example a deal team could be made up of: senior and junior project financiers/relationship managers; internal and external legal advisors; credit risk department representatives and commodity traders.

9.4 Credit Risk Approval

Following the due diligence phase the project financiers will make a decision, based upon the acceptability of the client's feasibility study, to submit a formal application to the Credit Risk Department, or special Credit Review Committees, for approval to bid to become the lead arranger, for the project.

"[The approval committee is made up of] The Risk Department, the front office and [representatives] from the Executive Board [but] the final decision lies with Risk." (Dutch EPFI 2)

A review of E&S risks is integrated into the main credit risk approval process of a project. One interviewee outlined how irrespective of project/loan size and location, that, *in his organisation*, the E&S risk review would in all cases have to be done in consultation with their Environmental Risk Department at Head Office. However, the majority of interviewees mentioned that it was Category A (and in some cases Category B) projects, that would require consultation with E&S risk managers and final sign off by Credit Risk (Committees), at Head Office.

"I get involved in signing off the transactions that have the highest risks, and generally we try to make sure that the lower risks are signed off at a local level...[but] we do give guidance on what can be signed off at a local level...So if it's a Category A it would have to come here [Sustainability Risk Management at Head Office] for sign-off because we'd want to make sure that was being done correctly. I also have a sort of network of what we call Sustainability Risk Managers around the world, so we've got about 25/26, based in different countries. And these are fantastic in helping us to manage the issues because we feel that we can't and don't want to manage everything from Head Office as we don't really know what's going on in some of these countries half as well as the local people...And if they need to they'll refer up to us for more advice or send the transaction up to us for clearance." (UK EPFI 2)

In the case of Category A, and sometimes Category B, projects the E&S risk manager's advice about the project has an influential role to play in the final approval of a project. If the project is also a controversial or high profile project, then the Communications Department or a special Reputational Committee may also be involved to advise on the potential reputational risks associated with it (UK EPFI 1, Interviewee 2). However, projects seem to be seldom rejected on the basis of E&S grounds alone, as there are a

myriad of risks⁹² associated with projects that determine the final approval by the Credit Risk Department/Committees.

“We [interviewee organisation] don’t reject projects generally just on environmental grounds and social grounds; there’s usually a whole raft of project grounds [and] we [E&S risk managers] provide advice, and opinion, when a project’s going to go to credit [Risk Department]. So there’s liaison, yes, between us, the account managers and credit as well so that there’s three or four parties involved.... I think if we raise questions and objections they [Credit Risk] take them very seriously. There’s always a follow-up process, further investigation or further information, further documentation, further permitting, whatever it happens to be, but if we raise questions then things tend to cascade from there. So they do tend to take it quite seriously.” (Dutch/Belgian EPFI, Interviewee 2)

This does not necessarily mean that E&S issues are not taken seriously in the credit approval process. Rather, the general attitude is that rejecting a project is the very last thing that the bank would like to do. Instead they prefer to engage with the client to bring the project up to the best, accepted standards possible – including E&S (thereby meeting all of the EP) – to ensure that the potential impacts and risks associated with the project are mitigated/minimised or avoided outright. Yet, one interviewee also stated that E&S risks that were not surmountable would mean the end of their organisation’s consideration of the project.

“For us it is not the desired outcome to say ‘no’ to a transaction, for us the desired outcome is to make complex transactions in difficult countries possible: safer for the bank and safer for the stakeholders...If you say no nothing is helped, not the environment, not the client, not the people on the ground, not the economy on the ground. The financing will still come from somewhere but probably on a different level of involvement, so for us it is most important to make it doable. And if it is really a case where E&S Risk Management believes it is absolutely not doable, no matter what you have tried – look I’m not speaking for the Bank’s Senior Credit Committee – but it’s basically the end point of the project.” (Dutch EPFI 1, Interviewee 4)

If the project *is* approved by the credit risk committee, having taken the E&S risks into consideration, the bank may then bid to become the lead arranger of the project.

This section highlights the intra-organisational dynamics between E&S risk managers and project financiers, as well as E&S risk managers and credit risk managers, within the EP-

⁹² For example: 1) project type, location, size, proposed capital expenditure verses revenues; 2) client creditworthiness and availability of necessary equity; 3) project sponsor partnerships to develop the special purpose entity (SPE); 4) project permits/licence, ESIA approval in host country; and 5) political risk.

project financing process. In doing so, it outlines how EP criteria is being incorporated into credit risk approval procedures and how, in the majority of cases, economic rationale dominates this process.

9.5 Term Sheet and Loan Documentation Stage

It is the lead arranger(s)' responsibility to set the final "terms"/structure of the loan. Client requirements to comply with the EP are integrated into the proposed loan covenants for the project in what is known as the "Term Sheet". These "terms" are then negotiated with the borrower and when agreement is reached, the lead arranger(s) move to final documentation of the legal and credit requirements of the loan in the "Terms Agreement Documentation/Common Facility Agreements". The specific requirements of Equator Principles 2-8/9 (see Appendix 4) should be outlined in this loan documentation, with most emphasis placed on the EP covenants (Principle 8). Therefore, EP criteria become a formal part of a project financing through the loan documentation. The EP loan covenants will be discussed in more detail in section 9.7.

9.6 Bank Syndication

The lead arranger(s) agree(s) with the borrower to underwrite the loan, and then go to the syndication market for extra financing for the project. Today, due to the large uptake of the EP, most of the big project finance banks (lead arrangers) and smaller banks in a project finance syndicate are EPFIs. Should some syndicate banks be non-EPFIs, then it is the lead arranger's role to articulate the accepted loan standards to other syndicate members. As one EPFI interviewee, whose bank normally acts as a lead arranger, stated:

"If we are syndicating a project then it will be EP compliant and meet our requirements. It does not matter to us if a syndicate bank is not an EPFI, as this makes no difference to the project – they are accepting a standard above their minimum. The lead arrangers dictate the nature of the deal to the syndicate for all aspects." (UK EPFI 1, Interviewee 2)

A lead arranger acts as a Technical Agent and/or Documentation Agent for projects, depending on, for example, the number of lead arrangers involved. The Technical Agent is normally responsible for monitoring borrower EP compliance over the life of the loan i.e. from construction to "steady state"/operation when the bank receives remuneration from the project. However, it is the Documentation Agent that normally informs other syndicate

members of for example, any client “breaches” of their EP covenants, and follows-up with them accordingly (see also section 9.7):

“If it [project] went out of Equator Principle compliance, then a Technical Agent would inform the Documentation Agent/ the Facility Agent and they would then sort of distribute it [the information] to the lenders or take the necessary action as documented.” (UK EPFI 1, Interviewee 2)

However, the “quality” of the relationship between, for example, two or more lead arrangers in a syndicate may have some impact on the consistent application of the EP, since having multiple lead arrangers can be a potential source of tension alone:

“The problem is of course that it can become more cumbersome if there’s three lead arrangers because they’ve got to kind of argue it all out amongst themselvesfor example, we have a deal where we’ve got two lead arrangers. We’re the Technical Agent and the other one’s the Documentation Agent, so that splits the responsibility...There can be [issues] but we usually sort them out... it can just become a bit more cumbersome because...if there’s more than one lead arranger, you’ve got to negotiate between yourselves to come to a common approach to take to negotiate with the sponsor. So we can take a bit more time but communication is usually fine [between banks].”

(UK EPFI 1, Interviewee 2)

Yet, as one mining company interviewee outlined, communication between lead arrangers on a particular deal may not always be so positive and can make loan negotiations more difficult, and in some cases “frustrating”, for a client:

“[Name of South African bank] and [Name of UK EPFI] are joint lead arrangers ... I mean it’s a pity they don’t actually talk a lot together, which is quite frustrating. You know, it’s really frustrating because we have to almost have a conversation twice you know...banks are funny, they never really want to sit round the same table with each other, even if they’re in a consortium, it’s quite funny...But we find it rather frustrating because they’re always making telephone calls one at a time and asking you questions and you answer the same question to each one.” (South African Platinum Mining Company)⁹³

This is of course one particular clients’ impression of *one* specific situation, and cannot be taken as representative of the relationship between all lead arrangers. Nevertheless, it does prompt this researcher to question the possible impact of the lead arranger relationships on the EP process.

⁹³ However, one EPFI interviewee commented, when he saw this quote while reviewing this research; that banks may deliberately adopt this approach to ensure that the information that the mining company is giving them is “correct”.

In addition, in terms of the possible impact of broader syndicate members on the EP process, when questioned whether interviewees may have experienced any tension between EPFIs and non-EPFIs, or, active and “less-active” EPFIs within a syndicate, EPFI interviewees outlined how this had not been the case (to date).

“No, no, we never had any tensions [with other members in a syndicate] (Dutch-Belgian EPFI, Interviewee 1). We know a lot about each other; the EPFIs. We know a lot about how it has been rolled out, who is responsible, who is behind the implementation [in the other EPFIs] and that maybe sometimes gives [us] an idea about how a bank is dealing with it. But I think you can very well identify the issues and the more active EPFIs there, and the other parties, which are maybe a little more passive. So we indeed look at which EPFI banks are behind the deal [before getting involved]. (Dutch-Belgian EPFI, Interviewee 2)

This section (9.6) illustrates how EP practice at intra-organisational level can influence, and be influenced by, EP criteria and practice at organisational field level, through the syndication process.

9.7 Loan Covenants (Equator Principle 8)

Equator Principles 8 states that for all Category A and Category B projects the borrower is covenanted to:

- a) Comply with all relevant host country E&S laws, regulations and permits;
- b) Comply with the Action Plan (AP), where applicable, during the construction and operation of the project;
- c) Provide periodic reports⁹⁴ (no less than annually), documenting AP compliance and evidencing compliance with E&S laws, regulations and permits; and
- d) Decommission the facilities, where appropriate, in accordance with an agreed decommissioning plan (Equator Principles II, 2006).

If a borrower is not in compliance with the EP covenants, the EPFI is to work to bring them back into compliance within an agreed grace period, and if this is not successful EPFIs “reserve the right to exercise remedies, as they consider appropriate” (EP II, 2006, p.4).

The loan covenants essentially “lock-in” borrower EP commitments into the loan documentation and any failure to meet these covenants could place them in default of the loan, with the risk of it being “drawn in” by the lead arranger/Technical Agent. However, as

⁹⁴ Prepared by in-house staff or third party experts.

the below EPFI interviewee suggests, project sponsor EP compliance can be very case specific requiring variant levels of attention from deal-to-deal.

“This isn’t a factory function and you have to look at individual projects on a case-by-case basis; where are the sensitivities, where are there perhaps lingering concerns with regard to the capacity and the commitment of the client to see these things through? How many of them do think that Equator is just a bit of a rubber stamp and let’s move on? And on those, where there are real sensitivities that can come back and potentially haunt the bank, then obviously we’ll put more attention there in securing interim monitoring reports, chasing them up when they’re not present and not being forthcoming. And there’s one transaction at the moment where technically there’s a default because we’re not seeing the [client] reports. And so the Agent bank chase it up, and now the client is aware that some of their lenders actually take these things quite seriously.” (UK EPFI 1, Interviewee 1)

The significance of legal covenants and the importance of a “case specific” approach to their compliance was echoed by the EP lawyer interviewee. However, she also mentioned that she felt that some EPFIs may not fully appreciate the myriad of factors influencing a project sponsor’s ability to meet their EP covenant requirements, and suggested this needed some further consideration by EPFIs.

“There is a difficulty with the covenants and it’s a difficulty that the lending community has not properly grappled with. That is that if you have very significant projects in countries where the infrastructure is weak and where the workforce is not accustomed to best practice, health and safety and environmental systems, you inevitably have breaches.... The issue that you have is even if you have an ESIA that identifies mitigation actions; actually getting those mitigation actions to be accepted and adopted by the local regulator and by the workforce who are implementing the construction is a very big ask. [This is] partly because of a big expectation gap between the banks and the project sponsors, as to what is appropriate and best practice as well as the skills gap that often exists.... [So] I think the issue is less a question of understanding what is needed; it’s more how you deliver that in quite difficult terrain... [And] it seems to me that the emphasis should not be on the breach as the trigger of an event of default, but on the adequacy of the project sponsor’s response to the breach..I think Equator needs to address [this] in future.” (EP Lawyer)

Similarly, one of the mining company interviewees highlighted how there was an equal need for international EPFIs to take more experienced project sponsors’, as well as consultants’, *local* expertise, into account during loan negotiations:

“It irritates me a little bit that you’ve got somebody sitting in Europe coming into Africa for the first time and trying to tell me how I should run my business. I’m five steps ahead of them...They’ve [UK EPFI] come out with a list of things that we must do and one of the examples to me is a bit bizarre. I mean they all came out

on site and we took them round and showed them the project...but now they say ‘okay, so what impact is your project going to have on AIDs in South Africa?’ So I tell them exactly what it’s going to be because I’ve been working in this industry for 28 years and part of my job has always been to manage the AIDs side of the business. But then they said ‘but that’s not good enough, you need to go and find a third party to do a study for you.’ And I’ve just gone out and found out how much that’s going to cost and it’s going to cost me \$63,000 to do that exercise...and it’s a UK company that has to come in here with expenses and it will take them six months to do it... Why not get a local consultant and let them do it and then just peer review the information? There are plenty of good companies here [that] they [UK EPFI] need to take a little bit more cognisance of.” (South African Platinum Mining Company)

This section (9.7) highlights some of the complexities of the project finance process, especially regarding an EPFI’s need to “know” their clients and their ability to meet EP covenant requirements. It once more draws attention to the case specific nature of the project finance-EP process at intra-organisational and organisational field level, and with it the inherent heterogeneity of the EP institutionalisation process across different EPFIs. This is a process, which, as continuously outlined throughout this chapter, is highly dependent on the various actors tasked with EP implementation and their interpretation (signification), rationalisation (legitimation) and control (domination) of EP criteria.

The specific requirements of Equator Principles 4-6, which contribute to client compliance with the afore-mentioned covenants, will be outlined in the following sections. These requirements are often considered the most complex and controversial aspects of the EP.

9.7a Action Plan and Management System (Equator Principle 4)

For all Category A and B projects, borrowers are obliged to produce an Action Plan. If located in a non-High-Income OECD country the demands on borrowers are more stringent than those located in High-Income OECD countries. In the case of the latter, EPFIs may require the development of an AP based on relevant permitting and regulatory requirements, and as defined by host-country law. In contrast, if the project is to be located in a non-High-Income OECD country, further procedures have to be undertaken. Here, an additional aspect of the AP is the establishment, maintenance or improvement of an E&S management system that outlines measures to mitigate or avoid the impacts and risks associated with the projects. The proposed measures are also required to comply with both

host country E&S laws and also applicable IFC performance standards and EHS Guidelines as identified in the AP.

9.7b Consultation and Disclosure (Equator Principle 5)

In addition to the AP, for Category A, and as appropriate, B projects in a non-High-Income OECD country, the client, government or third party expert is required to consult with project affected communities in a structured and “culturally appropriate manner” (Equator Principles II, 2006, p.3). The process is aimed at ensuring the “free prior and informed consultation”⁹⁵ (Ibid) of affected communities’. This is to allow the EPFI to determine whether the local communities have been adequately engaged with in the project planning and construction phases, and on an ongoing basis thereafter over the life of the loan. To assist this process, the ESIA and/or AP documentation (or their non-technical summaries) are to be made available to the public for a certain period of time, in relevant local languages (EP II, 2006)⁹⁶. The borrower then has to document this process and its results for independent review (Equator Principle 7).

“There are two stages; one is the consultation before the project gets approved and the go ahead to build it and then there’s obviously an ongoing programme of consultation. Again, it’s not kind of clearly defined, neither by the Principles or by the ESIA, but usually, there’ll be a set of consultations that they [project sponsors] have to go through before they could present it as part of the ESIA or with the feasibility study and say ‘these are the consultations we’ve done and we’ve taken into account these views’. And obviously once you start building, that sort of consultation should carry on...So, what we always say to companies is you know, the earlier you start that the better because you get bigger buy-in and we can manage local expectations.” (UK EPFI 1, Interviewee 2)

One mining company interviewee outlined the importance of the public consultation process to their operations:

“Mining companies can only operate with the support and assistance of the local communities and they’re not going to get that if they don’t show that they’re willing and they’re concerned about both the environment and the local community

⁹⁵ It should be noted however that this is different to “free prior and informed *consent*” recognised in international laws and standards. It also does not stipulate the need to follow the “broad support” (of affected communities) approach taken by the World Bank and IFC (Herz et al., 2007). This has been heavily criticised by NGOs.

⁹⁶ In certain cases, a specific Public Consultation and Disclosure Plan (PCDP) may be developed as part of the project sponsor Action Plan and/or Management System.

and social issues. [So] consultation and disclosure is an ongoing activity [for us].”
(Australian Gold Mining Company)

However, as the EP do not provide *specific* guidance on how a consultation process should or could take place, the public consultations that are undertaken, and their relative complexity and success, are thus highly context specific.

“You know, I don’t think there’s any way you could say that it’s [public consultation] ever been done perfectly. And that would include well developed Western democracies as well as countries who don’t have that experience...There are fundamental principles that we [interviewee’s organisation] follow which come from the [IFC] Performance Standards, but beyond that, we would look at the context of the country, the project, the client and also obviously the impacts. It [also] depends on the length of the project. You know, there are a whole range of variables that we have to take on board to be adapted to the consultation process.”
(EP Consultant)

“There’s certainly been projects where it [public consultation problems] hasn’t really been an issue. There have also been projects where the project sponsor’s been absolutely bound by the local regulator from doing any form of consultation. Which makes it quite difficult for everybody.” (EP Lawyer)

The lack of EP guidance on how consultation processes could be designed and undertaken is largely reflective of the case-specific nature of most project finance deals. Subsequently the *variant* nature, efficiency and transparency surrounding these processes are often regarded as one of the most controversial aspects of the EP.

“It’s [public consultation] often the most controversial aspect of the Equator Principles and the one that the clients fear most in terms of the cost, in terms of the unpredictability, particularly when you want to consult people who usually don’t have a voice, who aren’t particularly empowered and therefore have nothing to lose but have real concerns about the project...[And] unfortunately a lot of clients and also some consultants think of the old fashioned way of public consultation where you just have two meetings, one at the beginning and one at the end of the process, very often with officials and then it’s done and dusted. But I think if you have the time and the right approach it [free prior and informed consultation] does mean something; where you give people appropriate information in appropriate form and you make the information accessible to them so they can enquire and register concerns as well.” (EP Consultant)

9.7c Grievance Mechanism (Equator Principle 6)

An equally important and controversial procedure for Category A and, as appropriate, Category B projects (located in non-High-Income OECD countries), is the establishment of

a grievance mechanism. Grievance mechanisms are to allow project sponsors to receive community concerns about the E&S performance of the project and to address them promptly. Project-affected communities are to be informed that a grievance mechanism exists during the community engagement process, and these mechanisms are to form part of the project management system moving forward. The aim is to ensure that community engagement, consultation and disclosure continue throughout project construction *and* operation phases.

One of the mining company interviewees provided some insights into the type of grievance mechanism they have in place for project-affected communities in the vicinity of one of their gold mining projects in South-East Asia; a project that was subject to EP-project finance.

“We have to have a grievance mechanism in place because we have to get local feedback. If there’s anything that we’re doing which they object to, and we don’t take it into account, then we’re liable not to get [mining] licences issued. It can take many [forms]. In [name of project], they did a full survey...they had community feedback sessions, they gave the local community the facility and ability to put in grievances anonymously. Somebody physically went round every residence in the area that was going to be affected and I think that was several thousand ... and sat down and went through a little survey/questionnaire with each of them ... And from that, we drew up a programme ... we’ve put in fresh water systems, assisted with school buildings, clinics, ambulances and all sorts of things. So it’s that sort of activity.” (Australian Gold Mining Company)

However, similar to Equator Principle 5 (consultation and disclosure), specific guidance on what a grievance mechanism constitutes, what form(s) it can take and how it can operate and be managed in practice, are currently not outlined in the EP. In turn, grievance procedures are also very case specific and, as some interviewees outlined, “seem to be incredibly hard to run effectively” (EP lawyer), with the continuous need to “make it clear to the stakeholders what it is and how they can go about triggering it.” (UK EPFI 1, Interviewee 2)

When some interviewees were asked if the EP in their current form would allow for adequate avenues of redress for affected communities - an ongoing bone of contention for NGOs - there was a mixed response, with one interviewee suggesting that extant legal frameworks were sufficient in this regard:

“[That’s a] difficult question, there cannot be a perfect system but they [EP] are a step in the right direction.” (UK EPFI 1, Interviewee 2)

“I mean first of all the Equator Principles are voluntary, secondly all these organisations work in countries that have their own legal framework which people have redress to. The majority of countries also ...are signatories to the Declaration on Human Rights and other human rights treaties. So people also have that redress. And I’m not quite sure what an additional sort of Equator Principles Ombudsman function would be, given that you have a national legal framework and an international legal framework. And of course you can always appeal to the headquarters of the organisation that you’re complaining against.” (EP Consultant)

In general, sections 9.7b and 9.7c suggest that despite the existence of certain EP criteria on project consultation, disclosure and grievance mechanisms, at EP organisational field and intra-organisational level, what occurs in practice is very much dependent on a raft of project-specific variables, as well as numerous EP actors’ interpretation, rationalisation and control of the Principles.

9.8 Client Compliance (Equator Principles 7 & 9)

For all Category A and, as appropriate, Category B projects, borrowers are required to have an independent E&S expert - not directly associated with them - conduct a review of their ESIA, AP and consultation documentation (Equator Principles 7). In addition, Equator Principle 9 stipulates that EPFIs are to appoint, or have project sponsors retain, an independent environmental and/or social expert to review and verify their EP monitoring and reporting over the life of the loan. EPFIs therefore rely heavily on external E&S consultants to assist in their initial *and* ongoing assessment of borrower EP compliance.

“The actual monitoring process itself [over the life of the loan] depends very heavily on external consultants which is part of the Equator Principles. So you have A and certain B Category projects and you have to appoint some sort of independent, monitoring organisation/consultants ...and they provide a periodic report which contributes to the annual review undertaken by risk managers in consultation with other banks. So in terms of gathering information and checking against Action Plans and goals achieved, or things which are not compliant, that’s a process that relies very heavily on the external consultant which is appointed [by the client] in agreement with the lender.” (Dutch/Belgian EPFI, Interviewee 2)

In terms of the initial independent review (Equator Principle 7), some interviewee evidence suggests that the “independence” of the consultant (from the project sponsor) carrying out the review may be questionable at times. For example, the EP consultant highlighted how

the consultants employed to prepare the ESIA were not supposed to conduct the independent review of it, despite the fact that the client would in some cases prefer this.

“No you can’t be involved in the initial [E&S assessment] and the independent review, it has to be one or the other. And sometimes our clients don’t understand that....so essentially you can’t obviously review your own work.” (EP Consultant)

Such issues prompted NGOs to request some form of guarantee of the independence and validity of the “expert” information EPFIs were using to assess project sponsor EP compliance:

“Given that EPFIs rely on outside expertise for objective information and assessment, we recommend that the EPFIs require the independent expert – the [for example] preparer of the SEA [social and environmental assessment]- to sign an agreement attesting to its validity and factually based information. In order to make informed choices and minimize risks...it is necessary for the EPFIs to build in measures such as these that guarantee that the information they receive is objective and accurate.” (BankTrack, 2006a, p.8)

To the best of this researcher’s knowledge, no formal provision for such expert “guarantee” has been developed, short of any possible private EPFI arrangements with the consultants they employ. However, interviewees did explain that EPFIs’ reliance on external consultants, for both the initial review and ongoing client monitoring, was quite simply based on their own lack of in-house E&S expertise. In addition, addressing the social dimension of projects, and finding suitable consultants to assist with this, appeared to be most challenging for EPFIs.

“Banks can only use the best advice and guidance they can get, we’re not human rights experts, we’re not environmental experts etc. So we have to use advice as best we can.” (UK EPFI 3)

“On the social side, once you have lost the trust of people and you have the reputational damage it is extremely hard. So it is important to get it right from the beginning: to do the right consultation, to get the information to the people [as] they need to make an assessment for themselves. That is extremely important, even more so than the environmental side I believe. But it is also harder because it is the newer discipline... [And] it is harder to find good advisors on the social side than on the environmental side.” (Dutch EPFI 1, Interviewee 4)

There was also some evidence of interviewees questioning the “quality” of consultants more generally, with, for example, one interviewee remarking: “we sometimes feel that we might have perhaps a better consultant to be frank” (Dutch/Belgian EPFI, Interviewee 1).

While this may raise questions about the extent to which consultants influence the “quality” of EP evaluations, interview material in general shows that specialised E&S consultants are considered invaluable to EPFIs’ ongoing monitoring of borrower compliance. This is especially the case in the review of the borrowers’ periodic reports on EP compliance. While the EP lawyer commented that these reports usually “tend to be quarterly during construction and then once a year post-construction”, an EPFI interviewee stated that reports from for example, the mining sector, could be produced on a monthly basis and outlined that process below.

“Technical reports are usually monthly and these contain environmental and social issues referring to the environmental management plans. These are reviewed by the consultant, and us, during the life of the loan. As a guide, the consultants would also visit the site quarterly through completion [steady state production] and thereafter annually, usually until the end of the loan life... That might be; say it’s a ten-year project it might be for seven years or something... Unless there is a specific event or change we would not expect the client to specifically report on EP compliance outside these reports.” (UK EPFI 1, Interviewee 2)

Within the majority of EPFI interviewee organisations it is the project financiers that are encouraged to take “ownership” of this project monitoring process, in association with the external consultants and/or relevant E&S risk managers within the bank.

“The Commercial guys, the Product guys, who do the transaction and who structure the deal...those people, they have to manage EP, it’s part of their package. It’s not in the ivory tower, it’s their daily business.”(Dutch EPFI 1, Interviewee 3)

“We just need actual accountability in the business unit that’s dealing with it [EP] on a daily basis. I think there’s still sometimes a perception that you know, it’s my department’s [Governance and Sustainability] issue... [So] as much as possible, I’m trying to make sure that they now take accountability for it themselves...Just with the proviso that there needs to be a very strict process around how they deal with it.” (South African EPFI)

Yet interviewee material also suggests that it is quite rare for an issued loan to be “drawn-in” in the event of an EP covenant breach, such as borrower failure to produce these reports. Rather, EPFIs prefer to issue “warnings” to the borrower and/or work with them, in association with the various external experts, to bring their operations back into compliance. It appears that the threat of a loan “withdrawal” alone is enough to ensure EP compliance.

“The Equator Principles requirements are part of the documentation on the credit side, so the client is very much aware what his obligation is technically or legally.

If they would not follow through their obligations they would be risking the event of default on their credit. ...Frankly, that is not something which is envisaged to be used to really tip a project into the situation of default, but it can be used as a leverage to say to the client, ‘Well we need to sit around the table, you are not in compliance with your credit requirement’ and that is something which every client understands very well. When you have that capacity to say you are not formally complying with your credit requirements, that financing might be pulled from them; that is a very powerful position. It has never come to that situation, but that’s the strong part of the Principles, as you have it as part of the [loan] documentation.”(Dutch EPFI 1, Interviewee 4)

This section highlights a “chain of accountability” in the EP compliance process, running from an EPFIs’ responsibility to ensure borrower compliance, to borrower obligations to produce periodic reports of compliance, to consultants’ responsibilities to provide accurate and impartial accounts of the adequacy of borrower compliance. The success of EP monitoring and compliance is hence highly dependent on the “accountability relationships” between these actors at intra-organisational, organisational, organisational field and societal-project levels. EPFI compliance will be discussed further in the next section.

9.9 EPFI Compliance and Reporting

The implementation of the EP into EPFI project finance processes should be incorporated into their internal reviews and independent audit functions. One interviewee explained that this should occur because, if the EP become a requirement for project financing under a bank’s credit guidelines, then they become part of the permanent credit documentation for the projects. The bank then has a fiduciary responsibility to review every general credit line/project at least once a year to ensure that the default rate of their project portfolio is as low going forward as it was in the approval and development of the project. Hence, these credit lines/projects will undergo internal credit risk reviews (by, for example, a group from Risk Management) and annual audit (by an internal independent audit function) as part of the bank’s credit risk processes. As the EP are a key aspect of the credit requirements, documentation and approval for project finance deals, they should therefore form part of these reviews/audits. In addition, internal staff competence regarding EP implementation should technically also be included in these reviews.

“Every project, every credit is reviewed once a year by the bank as a fiduciary requirement. And projects quite often on a ratings scale, internally within [name of interviewee organisation] actually have a requirement to be reviewed more frequently; so half yearly. So as the Equator Principles are a key part of the credit

documentation, and part of our approval process, they [front office/project financiers] have to report back on the status towards the Principles with every credit review. And that review is usually coming to the specialist teams, so to the E&S Risk Management team, to see how the project has progressed against its commitment...So within Credit Risk Management there is a group which is called Risk Review which goes out and checks what the countries or the product areas are doing on the credit risk process...And on top of that is an independent audit function which every bank has and ... it does checks on all the processes in place. So the bank has processes which are basically the law of the bank...and as the Equator Principles is a requirement for any project financing under our credit guidelines, it is [also] checked as part of that." (Dutch EPFI 1, Interviewee 4)

However, the monitoring of project financier's application of the EP took a more "informal" role in another EPFI, where emphasis was placed on the level of interaction between them and the E&S risk managers as opposed to an "audit" of their procedures. This interviewee felt that this was mainly reflective of the small number of teams working on project finance within this EPFI:

"On the environmental side, all those aspects will go through Group Environmental Risk and then you know, they might ask for the last report and just have a meeting with us [Mining & Metals Team] or just you know, monitor us... but there's not an *audit* of what we're doing, there's kind of ongoing involvement...To be honest, there's not a lot of teams here that actually do project finance, it's only really us I would guess and the Infrastructure people... So that's how it works." (UK EPFI 1, Interviewee 2)

Despite the fact that some interviewees stated that their internal EP-project finance activities were subject to internal credit risk reviews and/or independent audit, this is something that needs further transparency across EPFIs; especially within EPFI reports of their EP implementation and compliance procedures. This will be discussed further in the next section.

9.9a EPFI Reporting (Equator Principle 10)

Equator Principle 10 requires EPFIs to produce a report, at least annually, about their EP implementation processes and experience.

Over the course of this research (2005-2009) the level and quality of EPFI transparency and disclosure regarding EP implementation has in general greatly increased. The majority of EPFIs are now, as an EPFI "membership" condition, meeting the basic EP reporting

requirements of Principle 10⁹⁷. Those EPFIs not doing so are listed as in the “first year grace period” on the “Reporting” page of the EP website (<http://www.equator-principles.com/reporting.shtml>). As of April 2010, out of 68 EPFIs, there was only one EPFI, Wells Fargo, listed with “No information made available” next to its name on this website.⁹⁸

In addition, many EPFIs, and certainly those interviewed in this research, have gone beyond the basic minimum reporting requirements to include, *varying* levels, of information on aspects of their EP implementation procedures, who is responsible for this within their organisations, brief case studies on “dilemmas” regarding challenging or high profile projects and the stakeholder/NGO engagements associated with these. This information is dispersed amongst EPFI interviewee sustainability/CSR Reports or summaries, and/or relevant sustainability/E&S risk management pages on their websites. EPFI “leader” organisations have been, and continue to be, at the forefront of such EP disclosure. This forms part of what appears to be a *certain* movement towards more “exposure” of internal E&S policies and risk management approaches amongst EPFI leaders. An example is the very recent trend, amongst some leaders, to provide a more detailed overview of how the EP are applied throughout the project financing process in their 2008 reports⁹⁹ or relevant web links. In the case of one EPFI interviewee organisation, this is a six-page document structured around the ten Principles. For another, a table of the key stages of the project financing process and where the EP are applied (similar to that laid out in this chapter), is included in their corporate citizenship report.

While these are welcome developments, this researcher still questions the level of assurance associated with EP reporting. One EPFI interviewee organisation’s pioneering move to provide an assurance statement for their EP implementation procedures alone, *in addition to* the standard assurance of their sustainability report, from 2006 onwards,¹⁰⁰ does not seem to have become a general trend for other EPFIs thus far. The broad approach remains to be

⁹⁷ This includes a breakdown of EP projects screened or approved by category, region and sector (as per the EP Reporting Guidance Document, 2007).

⁹⁸ Yet, it *appears* that this EPFI has not been asked to “leave” the EPFI network thus far as a result.

⁹⁹ That is, the reporting of information for 2008, in sustainability/CSR reports produced in 2009.

¹⁰⁰ This interviewee organisation has, in their 2008 report, limited the scope of their overall assurance to their EP implementation and their carbon neutrality. However, this now also raises questions about the assurance of the additional reported information falling outside this limited scope.

the provision of an assurance statement for the sustainability/CSR reports, in which EP reporting forms part. Yet in doing so, unless it is *explicitly* mentioned in the EP section of these reports (or in the “scope” of assurance) that EP implementation has been subject to internal and/or external audit, external observers are left to *presume* that EP implementation has been audited and included in the general assurance approach.

It should be noted however, that another EPFI interviewee organisation has indicated under their EP tables,¹⁰¹ in their report for 2008, that the quoted figures have been audited by an international auditing firm. Yet, this is currently not the norm throughout the majority of interviewee reports.

Therefore, this researcher suggests that there is the need for greater transparency by EPFIs about the auditing of their *internal* EP implementation; as well as the need to develop the external assurance process of EP reporting in general. Perhaps one immediate way to *begin* to address this is through greater use of the Global Reporting Initiative (GRI) Financial Services Sector Supplement (FSSS). Here, indicator FS9: “*Coverage and frequency of audits to assess implementation of environmental and social policies and risk assessment procedures*” (GRI, 2008 p.2) could assist. While the majority of EPFI interviewees are now using the GRI Financial Supplement as part of their application of the GRI G3 Guidelines in their sustainability reports, in many cases their use of it could be improved. For example, in the GRI Index at the back of interviewee reports - outlining which GRI indicators are being used and where related information can be found in the report/online - readers are, in the majority of cases, being referred to the assurance statement of the *sustainability reports* for information on indicator “FS9”. Yet this assurance statement does not always make explicit *which* “environmental and social policies and risk assessment procedures” have actually been audited. Only one EPFI leader interviewee organisation (one of the aforementioned interviewees in this section) explicitly stated in the body of their 2008 report that independent compliance audits of their E&S risk management policy, and hence their EP procedures as part of this, were conducted on a regular basis. In turn readers are referred to this information, as well as the assurance statement, when it comes to reporting against FS9 at the back of their report. Therefore, there is the need, and opportunity, for other EPFIs to be equally, if not more, transparent about the internal audits of their EP implementation

¹⁰¹ Which disclose the number of deals covered by category, region and sector.

procedures; as well as the external assurance of this. This would provide some *reassurance* that EPFIs are taking their EP procedures seriously internally, especially for those external observers that are not fortunate enough to conduct interviews with EPFIs about their experiences with EP implementation.

Sections 9.9 and 9.9a have illustrated how EPFIs' compliance with EP criteria at intra-organisational level has affected their organisational level reporting on EP implementation, as well as EPFI accountability trends at organisational field level and perceptions of the same at societal level. The next section will now consider how these trends may develop in the future.

9.10 The Future of EP Institutionalisation

This section *briefly* considers some of the outcomes of EP institutionalisation at intra-organisational level and how this may affect the projection of EP institutionalisation at organisational, organisational field and societal-project level in coming years.

This chapter has evidenced how the EP are being implemented within the project finance process and thus how they have and are continuing to be institutionalised at intra-organisational level. Some EPFI interviewees summarised how this had affected change within their daily project finance operations as follows:

“They [EP] are making differences in which decisions [are made]... [Name of interviewee organisation] turn down transactions for non-Equator compliance, I know other banks that have done the same thing. The Equator Principles allow banks to get into discussions with clients to try and change things.” (Dutch EPFI 1, Interviewee 1)

“I think we can probably say that the Equator Principles have stopped us getting involved in two or three basically bad projects ...[so] you can say it has demonstrated the feasibility of environmental and social risk management as a practical, applicable, useful tool, which has shown that it can be done quite well. (Dutch/Belgian EPFI, Interviewee 2)... And *it doesn't hurt*. It's [created] more awareness within the business of these kinds of things, so it's really increased ...[their] acceptance. I mean, you almost cannot afford not to do it the right way [now].” (Dutch/Belgian EPFI, Interviewee 1)

This practice also influenced, and was influenced by, EP institutionalisation at organisational, organisational field and societal level over 2003 to 2008. For example, one

interviewee outlined how the EP have created a “community” of broad stakeholders, in which the EP criteria allow for common recognition and communication (significance) of E&S issues within project finance practice:

“There are all sorts of benefits surrounding Equator. Benefits to the bank and benefits to the client, and Equator is now just part of the terminology, it’s part of the lexicon surrounding project finance. The biggest success to me is not about the 54¹⁰² banks that have adopted it, it’s actually the fact that lawyers talk about the Equator Principles and environmental consultants talk about Equator Principles, and the banks. And now it’s...created a community and it’s made it more efficient in terms of communication. As soon as you say ‘Equator’ you should know what environmental management standards we’re talking about.” (UK EPFI 1, Interviewee 1)

With regard to future developments, some EPFI interviewees felt that the accountability trends established by the EP II criteria and EPFI governance work at organisational field level were set to continue, despite the legal and commercial constraints EPFIs faced at organisational level:

“I think that in the coming years probably we’ll have to go a little further and allow more information to be made public. And the debate now is about who will make it public. We’re finding we can encourage the sponsors to make it public or to give us the right to speak with the NGOs, to discuss the projects and so on. But it’s still very difficult because it’s true that it’s not at all in the culture or the tradition of the bank [to do this].”(French EPFI, Interviewee 1)

There also appeared to be a growing consensus amongst EPFIs that there was a need for them to be “consistent” with regard to their E&S responsibilities across all of their activities at organisational and intra-organisational level, and to explore how *aspects* of the EP might be extended to enable this.

“Banks need to be consistent, and what I mean by that is if you don’t want to do project financing for a client for a certain asset, you shouldn’t be doing any other financing for that asset. You shouldn’t be underwriting the equity...or have an equity hold in the client.” (Dutch EPFI 1, Interviewee 1)

“I think that you’ll see over the next few years probably environmental advocates and stakeholders requesting that maybe Equator be broadened. Which you know, that’s I think something that we’ll just have to take a look at and have a discussion on because there’s a great deal of development out there that’s been financed

¹⁰² As of September 2007 when interviewed.

through the capital markets and through equity and all of that and I think it's a big challenge." (US EPFI)

Yet, interviewees also cautioned against expecting the EP to be capable of addressing *all* financial sector E&S responsibilities, when they were, and would continue to be, explicitly designed for project finance. One EPFI leader stressed how there was a need to distinguish between the EP criteria for project financing and other forms of E&S risk assessment criteria for other financial practices:

"The frustrating thing is when people are starting to use Equator as some sort of *euphemism* for any environmental credit risk assessment...That's almost because Equator has been a victim of its own success ... It has gone from you know, an idea through the embryonic phase to launch and now something like 54 banks¹⁰³ [adopting] in less than four and a half years ... Now because of that success people then think 'okay, well why don't we hitch this onto it and let's hitch that onto it'...that's the sort of thing that will bring it down because then it's doomed for failure because people see Equator and say well it's not fulfilling its expectations. And actually, if it's applied properly for the purpose for which it's intended, then it does its stuff. But people almost see it as being some sort of 'cure-all'...So what's important to me is to decouple Equator and project finance due diligence, from other environmental credit risk assessments." (UK EPFI 1, Interviewee 1)

Nevertheless, as previous chapters have also outlined, the application of the "spirit" of Equator, to other financial activities has and is occurring. In fact another EPFI leader outlined how he felt the success of the EP lay in the E&S awareness it had managed to stimulate at organisational field level, allowing EPFIs to transfer this experience to the development of different sustainability initiatives "beyond" project finance at organisational level. He therefore felt that the EP's legacy would be more significant in what it had catalysed or enabled outside project finance per se.

"I mean I think if you want to analyse the value of Equator, I actually think it's done more as a catalyst to create sustainability thinking across banks than it probably will ever do in the area of project finance alone, which is an increasingly small part of our business...And it's interesting, I mean working on other initiatives outside of Equator, I mean I think the Equator experience is causing people to do things slightly differently. I mean I think we're currently working on some climate principles which may or may not happen¹⁰⁴, this is outside of Equator, and the banks involved, I mean some of them are Equator banks and you know, they were saying '*well look, if we're going to do this we do need to establish upfront what disclosure we have to undertake, how we report on what we're doing*'.

¹⁰³ As of September 2007 when interviewed.

¹⁰⁴ The *Climate Principles* were launched by a group of international banks and insurance companies in December, 2008, while a group of US banks launched the *Carbon Principles* earlier that year in February.

And I mean they're addressing that upfront. [So] I think that's very definitely based on previous experience...[So] I think Equator has been a catalyst for more things outside of project finance than people actually give it credit for. I mean I think that's its biggest legacy." (Dutch EPFI 1, Interviewee 2, emphasis added)

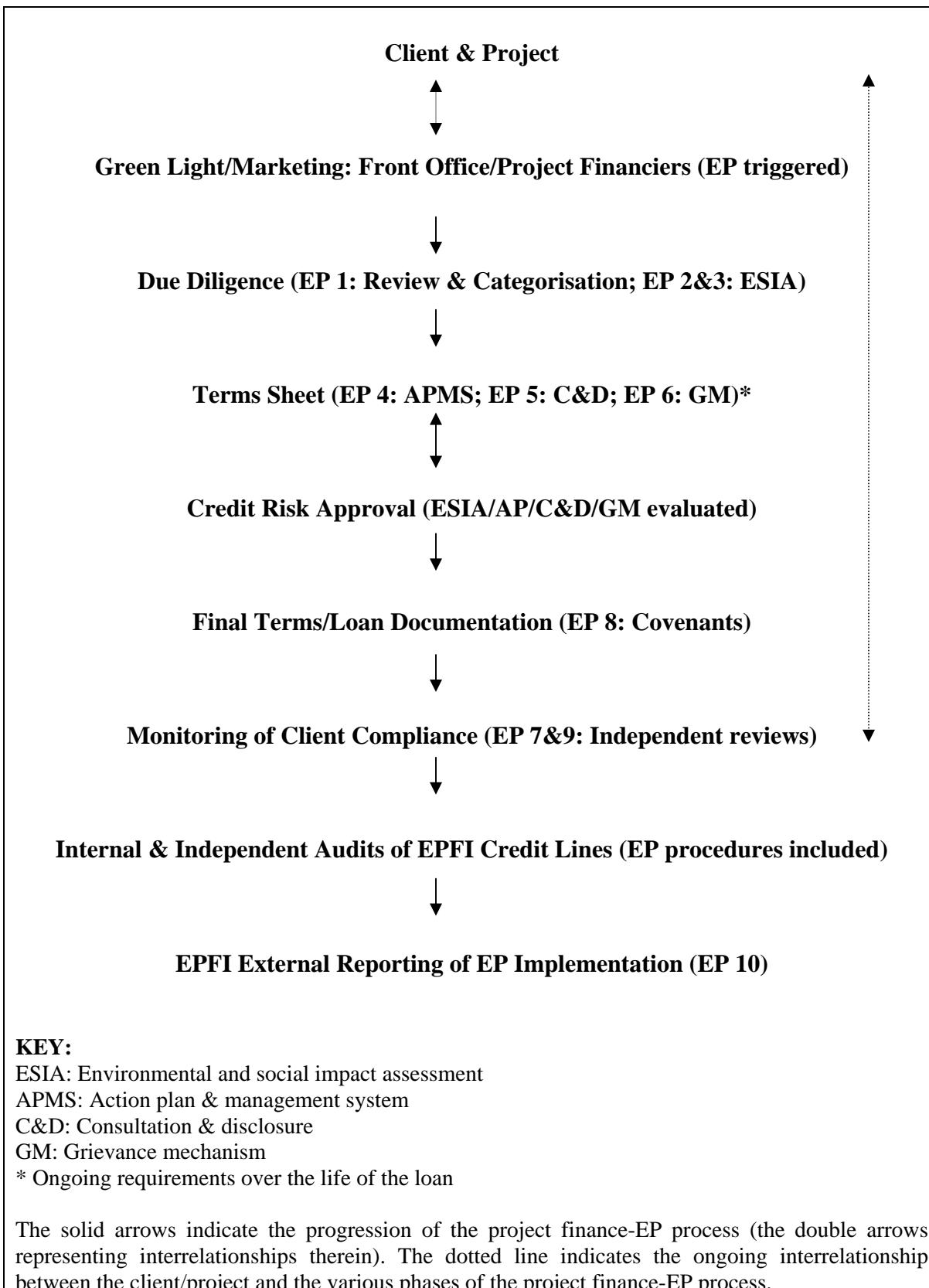
In summary, interviewee material suggests that ongoing implementation of EP criteria within project finance practice at intra-organisational level had, and would continue to, influence the projection of EP institutionalisation over organisational, organisational field and societal levels, as well as the general institutionalisation of E&S issues within broader financial services activities in future.

9.11 Chapter Summary

This chapter has provided more detailed evidence of the EP as an accepted or institutionalised facet of project financing processes at EPFI *intra*-organisational level i.e. within the *actual* project financing process, as led by front office/project financers in consultation with (E&S) risk managers. A summary of this EP-project financing process is captured in diagrammatic form in Figure 9 (below).

This chapter has extended the Dillard et al. framework to intra-organisational level through the analysis of the interplay between EP "criteria" and "practice" within project financing and how this influenced, and was influenced by, EP institutionalisation at organisational, organisational field and societal-project levels. Here, interviewee material has illuminated the complex and extremely case specific nature of the project finance process. This, plus the fact that EP implementation is highly dependent on a variety of actors' interpretation (meaning), rationalisation (legitimation) and control (domination) of the Principles, once more emphasises the inherent heterogeneity associated with the EP institutionalisation process. As a result, the reciprocal and iterative relationship between EP structures and agency as the basis of the *ongoing* EP institutionalisation process is reinforced. The chapter ended with the consideration of how EP institutionalisation at intra-organisational level had, and would continue to, influence the EP institutionalisation process in general moving forward.

Figure 9: The Project Financing - Equator Principles (EP) Process



CHAPTER 10: SUMMARY AND DISCUSSION

“The EPs are now considered the financial industry ‘gold standard’ for sustainable project finance [...] and have transformed the funding of major projects globally.” (EP Press Release, 2008b)

“The EPFIs [...] claimed to have created a ‘gold standard’ in project finance that has ‘transformed’ the finance industry, leading to a ‘positive environmental impact’ and ‘improved business practices’. Yet, the banks provided no concrete evidence for all these goodies [...] We want the EPs to work and deliver. But at five years old it is up to the EPFIs to prove that they are ready to do what it takes.” (BankTrack Coordinator in Ethical Corporation, 2008)

10.1 Introduction

By their fifth anniversary in June 2008, there were 60¹⁰⁵ adopting EPFIs and the Principles were widely recognised as *the* standard for sustainable project finance internationally. According to *Infrastructure Journal*, it was estimated that in 2007 “of the US\$74.6 billion total debt tracked in emerging markets, US\$52.9 billion was subject to the EPs, representing about 71 per cent of total project finance debt in emerging market economies” (EP Press Release, 2008b). The main purpose of this chapter is to summarise and discuss why and how the EP emerged and evolved into this project finance institution, and what effects EP institutionalisation had on EPFI social accountability over 2003 to 2008.

This chapter is divided into two sections. The first section discusses the findings of this case study on the EP institutionalisation process. It reintroduces the three research questions of this thesis and, through the use of the Dillard et al. (2004) framework as a conceptual guide, explains how the case narrative answered these research questions. The second section discusses some theoretical implications of this thesis and is further divided into two parts. The first part critically discusses the Dillard et al. (2004) framework, offering some further thought and suggestions (to the previous discussion in Chapter Three), as to how this framework might be advanced. The second part briefly discusses the possible need for a

¹⁰⁵ “These 60 financial institutions constitute a broad cross-section of the financial industry including most of the world’s major banks as well as insurance companies, bilateral development agencies, and export credit agencies. They also represent a wide geographic distribution coming from all continents and include banks from Argentina, Brazil, Chile, Uruguay, Togo, South Africa and Oman.” (EP Press Release, 2008b).

deeper consideration and theorisation of the relationship between an institutionalisation process and the *accountability* of the agents involved in that process.

SECTION 10.2 Case Findings Summary and Interpretation

“The qualitative researcher works on the assumption that organisational activity is meaningful in practice. She has done well when she has developed a convincing account of the ways in which meanings and purposes relate to patterns of activity.” (Ahrens and Chapman, 2006, p.834)

The case findings narrative, structured over Chapters Six to Nine, aimed to answer the following research questions:

1. Why and how did the EP institutionalisation process emerge?
2. Why and how did this process evolve between 2003 and 2008?
3. What effect did this process have on EPFI social accountability (i.e. related to their project finance and/or broader activities) over the period 2003 to 2008?

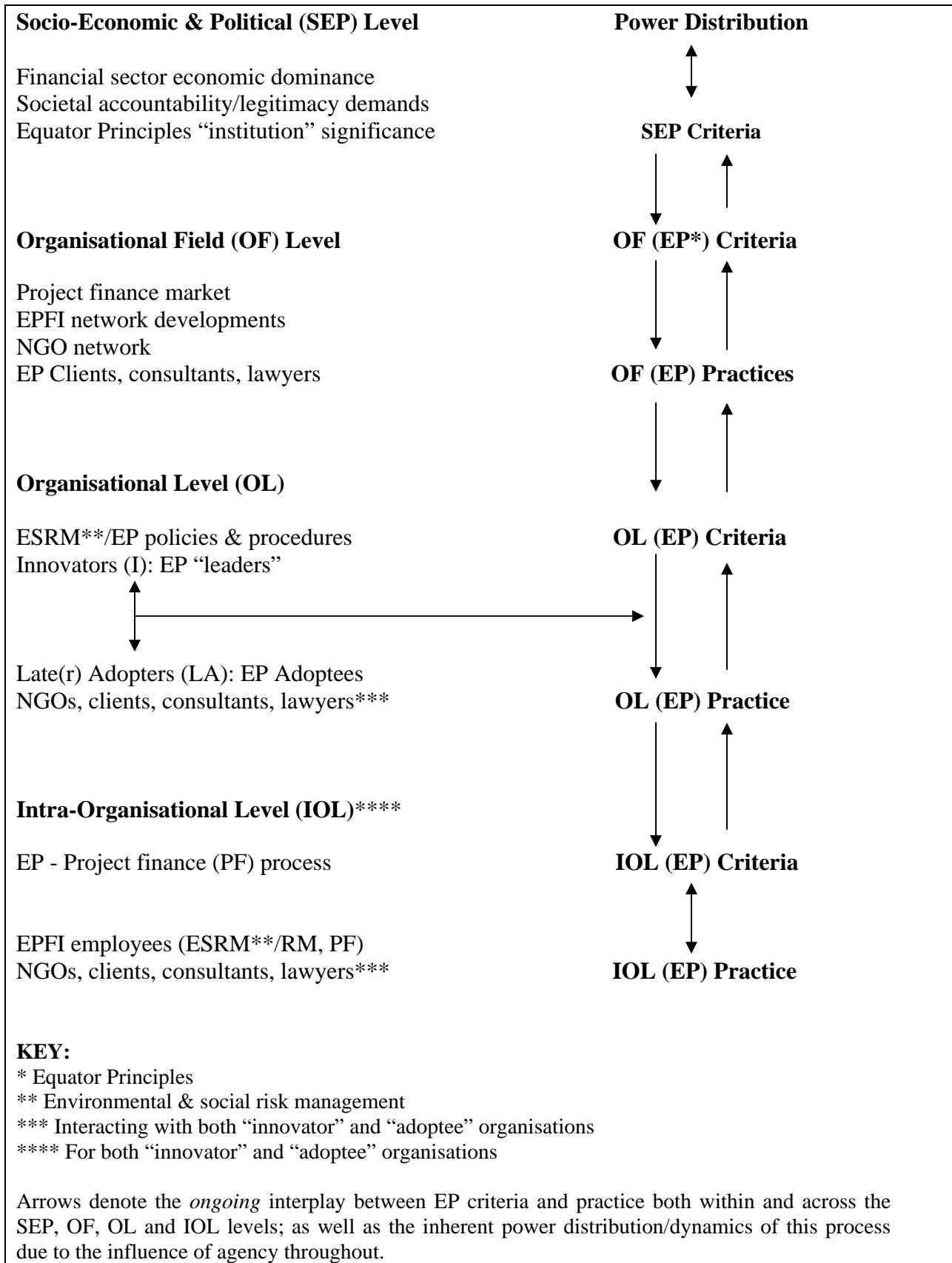
The case narrative traced the incremental EP institutionalisation process through the following sequence of events, as also depicted in Figure 10 below. Firstly, Chapter Six analysed why and how the EP institutionalisation process emerged (research question 1). It discussed how, at socio-economic and political (SEP) level, NGO campaigns for commercial bank accountability and “moral legitimacy” from the late 1990’s onwards challenged the economic dominance of the financial sector and acted to “induce” the EP institutionalisation process. This chapter evidenced commercial bank responses to this perceived “crisis” situation at organisational level (OL), through “embedded” bank agents’ conceptualisation and development of the EP as a common E&S risk management framework at organisational field level (OF). It then explained how, following the launch of the EP in June 2003, there was a “de-institutionalisation” of the existing project finance “criteria” (e.g. rules, policies, guidelines) and “practice” within adopting EP banks, and the beginning of the institutionalisation of EP-related criteria. This occurred through purposeful agents’ interpretation, legitimisation and control of the EP within EPFI “leader” organisations at OL. Throughout this discussion particular attention was paid to the accountability debates surrounding the EP at their launch, focusing on NGO criticism of the lack of provision for EP accountability mechanisms at OL, OF and societal-project level, as well as EPFI

commercial and legal restrictions regarding the same. This laid the foundation for the consideration of how these accountability debates would shape the “contextual environment” (Dillard et al., 2004) of the EP institutionalisation process moving forward.

Chapter Seven focused on the evolution of the EP institutionalisation process between 2003 and 2007 (research question 2). It began with the analysis of the “early adoption” of the EP as influenced by coercive (forceful) and mimetic (imitative) isomorphic pressures within the project finance market (at OF). It then tracked the emergence of the EP organisational field (OF) around the “issue” (Hoffman, 1999) of the EP, acting as a conduit for new EPFI and NGO coalitions’ debate and dialogue about the structure, purpose and expected impact of EP criteria and practice. This was an organisational field that continued to evolve between 2003 and 2008, influenced in part by the presence of additional EP stakeholders such as EP clients, consultants and lawyers. The chapter continued with the discussion of how reflexive EPFI agents’ experiences with EP implementation at OL, recognition of changing OF criteria (i.e. the revision IFC’s Safeguard Policies upon which the EP were based), and awareness of ongoing accountability concerns at SEP level over 2004 and 2006 led to the revision of the EP and the launch of Equator Principles II (EP II) in July 2006. Thus, emphasising the continuous, iterative process between EPFI criteria/structures and EP actors/practice, in “reinforcing [and] revising” (Dillard et al., 2004, p. 514) the emerging EP institution (standard) going forward.

Chapter Seven then proceeded to critically analyse the late(r) adoption of the EP, considering the “active” as opposed to passive adoption of the EP by EPFI “followers” at OL between 2005 and 2007. Here, the movement from coercive and mimetic to *more* normative (expected) isomorphic pressures to adopt the EP, in order to gain “cognitive” (accepted) legitimacy within the project finance market (at OF), was highlighted. In turn, the emergence of the EP as the “institution” (standard) for sustainable project finance, at OL, OF and SEP levels by late 2007 was emphasised. However, this discussion also stressed how later adoptees viewed EP “conformance” at OF as being just as important as their overall risk management “performance” at OL, with the former in fact enabling the latter.

Figure 10: The Interpretation of the EP Institutionalisation Process



In addition, Chapter Seven critically discussed the differences between EPFI “leader” and “follower” interpretation (significance), “rationalisation” (legitimation) and control (domination) of the EP at OL and OF. This highlighted the heterogeneity associated with the EP institutionalisation process over the course of 2003 to 2008. In addition, the complexity of the accountability issues surrounding the EP phenomena were further discussed, evidencing how these debates continued to influence, and be influenced by, the progression of the EP institutionalisation process.

Chapter Eight proceeded with the analysis of the evolution of the EP institutionalisation process between 2007 and 2008 (research question 2). It focused on the movement towards better governance of the EP institution and initiative at OF level, as influenced by EPFI activities at OL, and perceptions of the same at SEP level. The chapter outlined how accountability issues associated with EP institutionalisation, and active EPFIs’ reflexive knowledge of the same, led to this progression towards EP governance. Here, the need to “manage” the ever increasing number of EPFI adoptees, the possible “decoupling” between OF level EP criteria and OL practice, as well as the occurrence of “legitimacy gaps” surrounding EPFI disclosures were critically discussed. This analysis highlighted EPFIs’ ongoing “revising” and “reinforcing” of the EP institution, and the structures that support and are supported by it, through: (1) their decision to make EPFI reporting at OL the condition for EPFI “membership” at OF; and (2) their development of an EPFI Management Structure at OF. Chapter Eight also considered the “maturing” of the EP organisational field, through the emergence of more constructive relationships between EPFIs and NGOs. Yet in doing so, it also highlighted the continued dominance of the EPFI coalition’s “rationale” at OF regarding the manner in which the EP should progress. In general, this chapter once more underlined the iterative and incremental nature of the EP institutionalisation process, through the analysis of the dynamic interplay between EP criteria/structures and EP agents/practice over OL, OF and SEP levels.

Finally, the case narrative moved to Chapter Nine. In contrast to Chapters Six to Eight, which focused on EP institutionalisation over SEP, OF and OL, Chapter Nine concentrated on EP institutionalisation at *intra*-organisational level (IOL) i.e. within the *actual* project financing process. EP institutionalisation at IOL was evidenced through the in-depth discussion of the EP as an *accepted/taken-for-granted*, and routine, facet of EPFI project

financing processes (research question 2). In doing so, this chapter extended the Dillard et al. framework to IOL through the analysis of the interplay between EP criteria and practice within project financing and how this influenced, and was influenced by, EP institutionalisation at OL, OF and societal-project levels. Here, the diversity of actors involved in EP institutionalisation was illuminated further through the incorporation of broader EP stakeholder (i.e. EP clients, an EP lawyer and EP consultant), as well as EPFI and NGO perspectives on the EP-project financing process. This once more emphasised how the implementation of EP criteria in practice is highly dependent on a variety of actors' interpretation (meaning), rationalisation (legitimation) and control (domination) of the Principles. As a result, the reciprocal and iterative relationship between EP structures and agency as the basis of the *ongoing* EP institutionalisation process was reinforced. In addition, this chapter stressed the complex and extremely case specific nature of project financing, thus re-emphasising the heterogeneity associated with the EP institutionalisation process overall. The chapter ended with the consideration of how EP institutionalisation at IOL had, and would continue to influence the EP institutionalisation process in general moving forward. This highlighted the need for increased transparency about EP implementation and the possible expansion of the scope of the EP, as issues that reflexive EPFI agents are currently considering.

In summary, this thesis has interpreted the EP institutionalisation process as occurring over societal, organisational field, organisational and intra-organisational levels over 2003 to 2008, as assisted by the Dillard et al. (2004) framework. Here, EP institutionalisation has been evidenced as a structuration process through an in-depth analysis of the iterative and recursive dynamics between EP related structures (signification, domination and legitimisation) and EP agents; *mobilised* through the interaction between daily EP criteria and practice, and *manifested* in the emergence, evolution and "acceptance" of the EP as the institution/standard for more responsible project finance.

This thesis has also regarded the EP institutionalisation process as influencing, and being influenced by, a parallel EP accountability process over the course of 2003 to 2008. It has thus discussed the effects of EP institutionalisation on EPFI social accountability (research question 3) throughout Chapters Six to Nine. However, it is also necessary to pay more

explicit attention to how this research question has been answered within this thesis. It will therefore be discussed in more detail in the following section.

10.2a Effects of EP Institutionalisation on EPFI Social Accountability 2003-2008

“I mean I think we’ve got to realise that basically, we are in a situation which let’s be honest, it’s going to be pretty bi-partisan. It’s asymmetric also. I mean we have levels of transparency and exposure that are sort of set for us by external stakeholders that they don’t have themselves...I mean this is not going to be an argument that we will ever win as such. All we can do is to do things that we think make sense for us, that we think are responsible, and keep pushing the bar so that we improve what we’re doing...And we have to accept that we’re going to get disproportionately criticised by NGOs for doing that because we will give them the ammunition to use against us. And I think once you’ve accepted that, then you know, I can still go and have a positive chat with some of these people without wanting to strangle them ...which is good.” (Dutch EPFI 1, Interviewee 2)

If to accept that the EP institutionalisation process was “induced” by NGO demands for commercial bank accountability, research-question three was prompted by the desire to investigate how this institutionalisation process actually affected EPFI social accountability over 2003 to 2008. It sought to understand whether the former acted to enable and/or constrain the latter. As a reminder, accountability is recognised in this research as “identifying what one is responsible for and then providing information about that responsibility to those who have rights to that information” (Gray, 2001, p.11). Hence, responsibility is recognised as a fundamental aspect of accountability. In addition, the term “social accountability” has been used to refer collectively to both environmental and social accountability throughout this research.

This researcher would argue that the EP institutionalisation process *enabled* rather than *constrained* EPFI social accountability over the course of 2003 to 2008. Firstly, if to focus on project financing at IOL, EPFI interviewee material has provided evidence to suggest that the EP have allowed E&S concerns to become more *significant* to active, knowledgeable and reflexive FI agents. They can now better identify with the issues and understand their implications for their daily project finance activities. The integration of EP criteria into project finance practice has been *legitimised* by the tangible risk management threats associated with E&S mismanagement as well as the large number of leading FIs that

have become EP adoptees since 2003.¹⁰⁶ Active EPFI efforts to “embed” the Principles into their business has lead to the allocation of resources, both financial and human, to their ongoing implementation, as well as asserted EPFI *dominance* over other EP stakeholders, for example, their clients, and the mitigation of the E&S risks of their projects. In short, the EP institutionalisation process has enabled EPFIs to begin to better address the social accountability of their project finance activities.

Secondly, at broader OL and OF, EP criteria has allowed EPFIs to address their E&S responsibilities in a more structured and, arguably, efficient manner. Here, EP institutionalisation fostered EPFI E&S awareness, policies and procedures not only for project finance, but often “beyond” this into other commercial banking activities. This has led some to refer to the EP as a “Trojan Horse” of sustainable finance (Ethical Corporation, 2008). EP institutionalisation also enabled new avenues for engagement, dialogue and partnership between EPFIs and NGOs. This allowed EPFIs to remain abreast of ongoing societal accountability concerns and to try to address them as they deemed fit over OF and OL, between 2003 and 2008. More broadly, as one EPFI interviewee mentioned, the EP created “a community”, an organisational field consisting of not only EPFIs and NGOs, but bank clients, consultants and lawyers working towards the common goal of more responsible and accountable project finance. This community may never have materialised had the EP not been created.

In general, the case narrative (Chapters Six to Nine) outlined how, over the course of 2003 to 2008, EP institutionalisation enabled the Principles to evolve to a point where accountability “has become obviously a large part of what they [EP] represent and what they’re trying to achieve”(South African EPFI). The narrative traced the progression of the EP from: the lack of provision for EPFI accountability in EP I in 2003; to the emergence of a reporting principle in EP II in 2006; the production of a Reporting Guidance Document in 2007; to the establishment of EPFI reporting as a condition for EP “membership” and the creation of a new EP Management Structure in early 2008. All of these developments are indicative of how EP institutionalisation was enabling, and enabled by, *active* and reflexive EPFIs’ recognition of the need for greater responsibility and accountability surrounding the EP phenomena between 2003 and 2008.

¹⁰⁶ 68 as per April 2010.

However, this does not detract from the fact that the evolution of the EP was also wrought with accountability challenges along the way. Consequently, EP critics may claim that EPFI social accountability has been constrained, rather than enabled, by the failure of EPFIs to adequately address their accountability concerns at OF, OL and most importantly societal-project level since 2003.

While NGOs welcomed the development of the EP there were a number of reasons why they felt that they were constraining what they believed EPFI social accountability could or should be over the course of 2003 to 2008. Firstly, some NGOs felt that the EPFIs' "business-case" approach to the development of the Principles lacked the "moral" conviction they felt should have been applied, and hence would act to constrain their perception of EPFI social accountability and legitimacy over the research period. This perceived "reluctance" to be more accountable was evidenced in NGO frustration with what they viewed as the slow pace of EP implementation and transparency at IOL and OL, EPFI governance at OF level, and EP effectiveness at societal-project level. NGOs found themselves positioned as *the* external EP accountability mechanism, a role that they were unwilling to adopt, believing that the EPFIs themselves should "feel" the need to be responsible for their EP implementation and to evidence this accordingly.

Furthermore, the Collevecchio Declaration, the basis of collective NGO requests for FIs' social licence to operate, was targeted at all financial activities, and not just project finance. While NGOs understood that FIs had to start somewhere and acknowledged that many active EPFIs had moved "beyond project finance" in their effort to address their social accountability between 2003 and 2008, there was also the impression that other EPFIs may have: (1) been using the EP as a convenient "symbolic" standard to pacify NGO criticism; or (2) interpreting the EP as *the* sustainable finance standard and failing to recognise the need to move beyond this. Ultimately, the NGOs hoped that the EP would eventually lead to a change in the banks' portfolio of projects away from E&S sensitive projects and sectors, for example oil and gas. Instead many NGOs viewed the EP as enabling EPFIs to continue with these projects, even if in a more responsible manner. Thus, from an NGO standpoint, EPFI social accountability was being constrained overall.

Yet, “one person’s constraint is another’s enabling” (Giddens, 1984, p. 176), and even the most ardent EP opponent will admit that the EP have been instrumental in the financial sector’s recognition of their E&S impacts and responsibilities, viewing them as a very good *first step* in the sector’s general movement toward better social accountability. Despite the ongoing challenges facing the EP, and the persistence of the accountability “divide” between NGOs and EPFIs, the majority of EPFIs and broader stakeholders will agree that the EP have achieved a lot in the relatively short time frame they have existed, even if their journey is still not complete.

“Well we talked to the NGOs and they actually thought the Equator Principles were a good step forward. You know, they might still say ‘well we’d like a bit more here and a bit more there’ but you know, they were well received... I think they’ve done a good job, the Equator Principles... [they’ve] actually accomplished an awful lot within a short timeframe. [And] a lot of the time there’s a tendency to look forward and say what can we do as a next step. And then again it’s worth looking back and seeing where we were three or four years ago and what has been achieved, and I think Equator has achieved an awful lot. Yeah, we can still achieve more and the EPFIs as a whole will try to do that.” (UK EPFI 2)

If to offer one measure of recommendation for EPFIs to help improve a certain aspect of their EP accountability (beyond the need for more transparency and cohesiveness around governance at OF level),¹⁰⁷ it would be with regard to greater transparency and clarity surrounding the internal auditing of the process by which the EP are applied to project finance deals (i.e. the whole process *within* the EPFI per se), as well as the external assurance of the same. As highlighted in Chapter Nine, the (correct) use of the GRI Financial Services Sector Supplement, and more specifically indicator FS9: “*Coverage and frequency of audits to assess implementation of environmental and social policies and risk assessment procedures*” (GRI, 2008 p.2), could assist this.

In summary, this section has discussed how the research questions in this study have been addressed. It will now discuss some further theoretical implications from this research in the following section.

¹⁰⁷ This regards the need for more detailed information about how the EPFI Management Structure (Chair, Steering Committee and Working Groups) *actually* operates, and whether there are any plans to make EP governance more stringent in future. The “release” of the EP Governance Document, currently being finalised by EPFIs, would assist this.

SECTION 10.3: Theoretical Discussion

10.3.1 Introduction

This Section is divided into two parts. The first part critically discusses the Dillard et al. (2004) framework, offering some further thought and suggestions (to the previous discussion in Chapter Three), as to how this framework might be advanced. The second part briefly discusses the possible need for a deeper consideration and theorisation of the relationship between an institutionalisation process and the *accountability* of the agents involved in that process.

10.3.2 Further Discussion of the Dillard et al. (2004) Framework

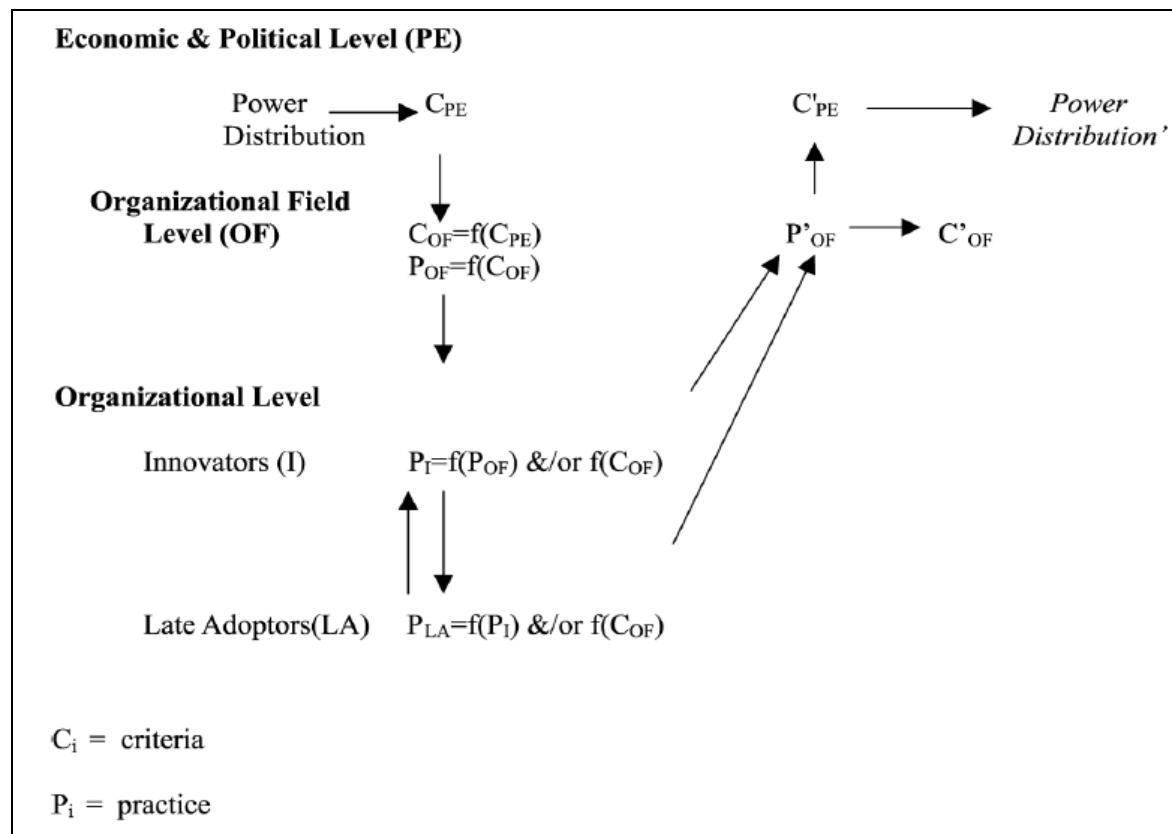
In the course of applying and mobilising the Dillard et al. (2004) framework in this research a number of issues arose which this researcher feels need further consideration, clarification and development if the framework is to be used *empirically* by other researchers in future. The following discussion presents some detailed observations and suggestions in this vein. The Dillard et al. framework is once more included as a reminder, in Figure 11, to assist this discussion.

Firstly, in seeking to understand and apply the socio-economic and political (SEP) level in this research, this researcher questioned Dillard et al.'s need to use Weber's notions of "capitalistic institutions": representation, rationality and power, to *contextualise* the SEP level. This is especially as the authors draw a strong comparison between these concepts and Giddens' notions of signification, legitimisation and domination, and then continue to draw on Giddens in their conceptualisation of institutionalisation as a structuration process over SEP, organisational field (OF) and organisational levels (OL). This is further confounded in one section of their paper ("Structuration and institutional theory", p.519), where Dillard et al. state: "our premise in this section is that structuration theory provides a theoretical representation of the primary *context dimension* but also provides the dynamics for institutional change" (Dillard, et al., 2004, p.519-520, emphasis added).

This researcher acknowledges that DiMaggio and Powell's (1983) seminal paper makes reference to Weber's belief that, under capitalism, the "rationalist order had become an iron

cage in which humanity was imprisoned" (p.147). Hence, she understands how Weber's work may be applicable to any institutionalisation framework which seeks to make explicit the assumption that global market capitalism represents the grounds (rational), and thus the *context*, from which organisational and institutional behaviour emerges. However, in general, this researcher found the use of both Weber and Giddens, as opposed to just Giddens, as overcomplicating the theoretical underpinning of the framework. This researcher thus chose to use Giddens as the basis of her interpretation of the SEP level, as well as the other levels of the framework.

Figure 11: A General Institutional Model of Organisational Change: Institutional Relational Dynamics (Dillard et al., 2004)



(Dillard et al., 2004, p. 512)

Secondly, at OF level, as discussed in Section 3.3.3b, this researcher felt that greater substantiation of who and what Dillard et al. believe an organisational field constitutes is needed. This was especially of concern in the context of this study, which focuses on the

emergence and development of an organisational field over time, and may thus also be relevant for other researchers with a similar empirical context seeking to apply this framework. In calling for this development, this researcher is not naïve to the fact that an organisational field’s “precise definition remains elusive” (Suddaby et al., 2007, p.335), throughout the literature. However, at the same time, the literature also recognises that “the construct [organizational field] is improperly used to analyse changes within a single form or a single population of organisations and ignores questions of *how* new fields and organizational forms emerge and co-evolve and how the boundaries of extant fields shift over time. That is, institutional research has failed to provide coherent accounts of field structuration” (Suddaby et al., 2007, p.335, emphasis added). Therefore, in order for the Dillard et al. framework to more adequately address its potential to meet these theoretical demands, greater consideration of how the authors recognise and may define an organisational field is first needed. This researcher found the Hoffman (1999), conceptualisation of an organisational field as most useful in this regard, specifically *in the context of this study*, however she is not necessarily suggesting that it may be the best for the more *generic* development of the Dillard et al. OF level per se.

Thirdly, at OL, as also mentioned in Section 3.3.3c, there is the need for the Dillard et al. framework to consider the possibility of “criteria” as well as “practice” existing at organisational level, and thus *intra*-organisational as well as inter-organisational dynamics. Firstly however, in terms of the existing depiction of *inter*-organisational relationships at this level, there may also be the need for Dillard et al. to reconsider some aspects of their representation of the differences and dynamics between “innovator” and “late adopter” organisations. For example, as outlined earlier, this particular study favours the term “later” as opposed to “late” adopter, arguing that *late* adopter has somewhat *negative* connotations, almost suggesting “passive” or “symbolic” adoption (and/or “decoupling” from “substantive” organisational activity) as a result. In addition, it might be worthwhile for Dillard et al. to also consider the incorporation of the concept of “loose coupling” (Orton and Weick, 1990; Cruz et al., 2009) into their representation of the *possible* responses of later adopters of innovator criteria or practice, as opposed to just “decoupling”. In general, a “loosely coupled” system is when “its elements are distinct (independent or with some degree of independence) from, yet respond (are connected or linked) to others” (Cruz et al., 2009, p.95). This is distinct from a “tightly coupled” system which have “responsive

components that do not act independently of each other” (Ibid) and “decoupled” systems, which “have elements that are distinct from, and do not respond to other elements” (Ibid). Hence, “loosely coupled” may allow for more flexibility regarding organisations’ responses to innovator practices in the field, and, in the context of this study, is more representative of some EPFI interviewee experiences with EP implementation. This researcher would therefore argue that “coupling” should perhaps be considered by Dillard et al. as a continuum between tight, loose and decoupled forms.

Secondly, in terms of an intra-organisational level, Hopper and Major (2007) have evidenced a need for the extension of the Dillard et al. framework to this level. This researcher recognises the value of Hopper and Major’s extension of the framework to intra-organisational level, but is not necessarily supportive of how they “override” Dillard et al.’s consideration of *inter*-organisational dynamics (e.g. between “innovators” and “followers”) at organisational level when they do so. Therefore, in her extension of the Dillard et al. framework, this researcher favours maintaining the existing “organisational level” and developing an extra intra-organisational level. Here, the same conceptual focus for institutional change used at the other levels of the framework, i.e. the interplay between organisational structures/criteria and human agency/practice, could be maintained. Yet, as noted in Section 3.3.3, this could also be addressed through the more explicit application of, for example, the Burns and Scapens (2000) model of institutional change at organisational level, or Barley and Tolbert’s (1997) consideration of the same.

Either way, what is essential for any such extension of the framework is Dillard et al.’s explicit clarification of what they mean by *criteria* and *practice* and how they interrelate at OL (as well as OF level). Due to the lack of definition of criteria and practice, this researcher could only *assume* what they were aimed to denote and how they related to Giddens’ notions of structure and agency. These assumptions arose from the way “criteria” and “practice” are included in Dillard et al.’s diagrammatic representation of their model, how the authors conceptualised the framework and Dillard et al.’s own *broad* use of criteria and practice in the application of their framework at the end of the paper. In this instance, as already noted, this research has *loosely* interpreted criteria and practice as the “modalities of structure”, or *means* by which structures and agents interact in order to produce, reinforce, eliminate or change institutions over time (as also depicted in Figure 6 in Section 3.3.3).

This also relates to Burns and Scapens' (2000) notion of "rules and routines", or Barley and Tolbert's (1997) notion of "scripts". Hence, this researcher *broadly* interpreted "structures" (and their expectations/rules i.e. "what *should* be done") and "criteria" as *loosely* interrelated, and human "agency" (and daily action/routine i.e. "what *is* done") and "practice" as being likewise.

However, given more recent trends/advances in the literature (since Dillard et al.'s framework was published in 2004), regarding the notions of institutional logic and practice variation (e.g. Lounsbury, 2008; Cruz et al., 2009), one wonders whether Dillard et al.'s notions of criteria and practice may also be (or more) closely aligned with these concepts. For example, according to Lounsbury (2008), logic "refers to broader cultural beliefs and rules that structure cognition and guide decision-making in a field" (p.350). He suggests that at societal level the capitalist market, bureaucratic state and nuclear family could be conceptualised as logics shaping actor "cognition" and practice. While at institutional and organisational level, logics are seen as focusing "the attention of key decision-makers on a delimited set of issues and solutions, and fundamentally shap[ing] decision processes and outcomes" (Lounsbury, 2008, p.354). Lounsbury suggests that by focusing on fields as being more fragmented and contested, and comprised of "multiple logics", then multiple forms of institutionally-based rationality can be identified and in turn provide insights into practice variation (and heterogeneity) and the dynamics of practice (Lounsbury, 2008). Hence, this researcher wonders whether Dillard et al.'s concepts of criteria and practice, as depicted at SEP, OF and OL in their framework, could be indicative of for example Lounsbury's notion of logic and practice variation here.

Yet, the above also raises broader questions with regard to how the literature is currently defining or conceptualising "logic" and how this may be distinct from a definition of an "institution", and/or what the relationship between logic and an institution is *should* they be accepted as distinct. Currently, at least in this researcher's opinion, it is difficult to *clearly* distinguish between the representation of "logic" and "institution" in *some* of the literature, especially when logic is defined as: "the socially constructed, historical pattern of material practices, assumptions, values, beliefs and rules by which individuals produce and reproduce their material subsistence, organize time and space and provide meaning to their

social reality” (Thornton, 2004; Lounsbury, 2008, p. 353). This is, arguably, how institutions have also been conceived of in the literature.

Rather, this researcher *might* imagine institutional logic as a component part of, and/or outcome of, an institution. Implying that it is perhaps akin to what stems from an intersection between, or manifestation of, “symbolic sense-making criteria”/signification and rational/legitimation structures, underpinning an institution. Yet, it is beyond the scope of this research to bring any greater clarity to this discussion. What this analysis can do however is offer (as in the above) suggestions of what *may be* necessary considerations for Dillard et al. regarding any possible re-evaluation or future development of the framework on their part.

More broadly, Dillard et al. may also need to further consider, or make explicit, the ability of different actors to move both within and over the different levels of their model. This was evident in this particular research, and its inclusion in the framework may help denote more “fluidity” between what are essentially three levels of *one* institutionalisation process (see also Hopper and Major, 2007).

In summary, the above discussion outlined how the Dillard et al. (2004) framework could be further enhanced and/or extended at societal, organisational field, organisational and intra-organisational levels. The following section will now discuss some broader theoretical considerations that arose during the course of this research.

10.3.3 Accountability in an Institutionalisation Process

This research has concentrated on the institutionalisation of the EP and its effects on EPFI social accountability. Due to the specific focus on commercial bank social accountability in this study, and the fact that the EP, by default, allow EPFIs to address their E&S responsibilities and accountability, it is not very difficult to make the theoretical link between EP institutionalisation and social accountability processes within this research.

However, in the process of this study, the possible need to consider the relationship between the notions of accountability and institutionalisation more broadly also became obvious. When one considers the critiques of (neo)institutional theory, as discussed in Chapter Two, arguably the most salient issue that emerged was the notion of agency and

how actors play a highly influential role in institutionalisation processes. As discussed, it is largely actors' rational, choice and action/power to enable change that produce and reproduce institutions, and thus act as the basis of an institutionalisation process over time. Yet if actors' norms, beliefs, interpretation, understanding, communication and action have such an influential role in institutionalisation processes, then this researcher argues their responsibility and accountability for these respective thoughts and actions is equally important. Perhaps this "link" may already be implicitly expected or assumed by institutionalists, but this researcher would argue that the relationship between an actors' responsibility and accountability for their actions within an institutionalisation process needs to be made more explicit or "teased out" more in the literature.

This researcher was prompted to think about this broader interconnectivity between accountability and institutionalisation when she considered how important various actors' ability to be responsible and accountable for their "expected" actions (as per EP "criteria" at OF, OL and IOL) was in influencing the shape and progression, and relative "success" or "failure", of EP institutionalisation in this research. She felt that similar "agency-accountability" issues might also occur in other institutionalisation processes and may need some general conceptual/theoretical guide in order to understand and explain these dynamics.

In terms of how this interconnectivity between accountability and institutionalisation may be conceptualised, structuration theory is helpful due to its existing use in the explanation of *how* institutionalisation occurs (Barley and Tolbert, 1997; Burns and Scapens, 2000; Dillard et al., 2004) and its conceptualisation of agents. With regard to the latter, Giddens (1984) views actors as becoming "agents" through their ability to be active, purposeful, knowledgeable and reflexive, where both "awareness of social rules" and "reflexive monitoring" are recognised as core characteristics of agency. This researcher would therefore argue that if actors are perceived as knowledgeable about their social surroundings and "rules", and reflexive about their own actions, that they also have the capacity to be responsible and accountable for those actions. Moreover, Giddens (1984) posits that: "the stocks of knowledge which actors draw upon in the production and reproduction of interaction are the same as those whereby they are able *to make accounts*, offer reasons etc." (p.29, emphasis added), thereby implying that agents have the capacity

to provide accounts of/be accountable for their activities. Therefore as: 1) structuration theory has been used to conceptualise the “hows” of an institutionalisation process (Dillard et al. 2004); 2) agency is a core aspect of this process; and 3) agents have the capacity to be more reflexive about their responsibilities and accountability within an institutionalisation process, the “links” between accountability and institutionalisation can be considered more deeply.

In addition, according to Macintosh and Scapens (1991), structuration theory’s “normative rules” (legitimation structures), result in “morally meaningful action” (p.142) by agents. They suggest that this “moral undercarriage” of social systems incorporates values in agents’ minds to ensure, in Giddens’ (1979) own words: “a fit between the individual and society” (Macintosh and Scapens, 1991, p.142). They continue that Giddens’ feels as a result:

“Agents become *morally accountable* for their actions. And they can, if called upon, *explicate* both the reasons for these values and the normative grounds which justify them. *Agents are accountable, not only to each other, but also to the collectivity.* Thus the reciprocal rights and obligations of participants in a social order are institutionalised.” (Macintosh and Scapens, 1991, p.142, emphasis added)

Hence, the often normative/moral nature of institutions (and/or the legitimisation structures which underpin them), and actors’ efforts to meet the institutions’ demands in an institutionalisation process, offers another avenue to explore the interrelationship between accountability and institutionalisation through the use of structuration theory.

In a similar fashion, Dacin et al. (2002) make a call “to explore the moral dimension of institutions and institutional change” (p.52). The authors suggested that one way of doing this would be to examine the interdependence between institutions and individual identity and roles, and cite Bellah et al. (1991) to explain this possible interconnectivity. Here, as the below quote illustrates, the individuals’ responsibility and accountability is highlighted in the interrelationship between the individual and the institution:

“Institutions are patterns of social activity that give shape to collective and individual experience. An institution is a complex whole that guides and sustains individual identity ...Institutions form individuals by making possible or impossible certain ways of behaving and relating to others. *They*

shape character by assigning responsibility, demanding accountability, and providing the standards in terms of which each person recognises the excellence of his or her achievements (p.40)." (Dacin et al., 2002, p.52, emphasis added)

All of the above thus indicates that there is room for *further* consideration and conceptualisation of the interconnection between the concepts of accountability and institutionalisation.

In summary, this section outlined how this researcher's own conceptualisation of the interplay between EP accountability and institutionalisation processes in this research prompted her to consider the interconnectivity of these concepts more broadly. It illustrated how the interrelationship between accountability and institutionalisation may need further theorisation and explained how structuration theory might assist in this process. While the literature shows evidence of the use of structuration theory to understand and explain institutionalisation processes and, for example, systems of accountability (Roberts and Scapens, 1985), to the best of this researcher's knowledge the relationship between notions of accountability and institutionalisation (with or without the use of structuration theory) have not been considered in any depth in the literature to date.

10.4 Chapter Summary

This chapter was divided into two sections. The first section (10.2) summarised and discussed how the case narrative (Chapters Six to Nine) answered the three research questions framing this thesis. Through the use of the Dillard et al. (2004) framework as a conceptual guide, it discussed why and how the EP emerged and evolved into *the* project finance institution, and what effects EP institutionalisation had on EPFI social accountability over 2003 to 2008.

The second section (10.3) then discussed some theoretical implications of this thesis, and was further divided into two parts. The first part critically discussed the Dillard et al. (2004) framework, offering suggestions as to how this framework might be advanced. Finally, the second part briefly discussed the possible need for a deeper consideration and theorisation of the relationship between an institutionalisation process and the *accountability* of the agents involved in that process.

CHAPTER 11: CONCLUSION

“We are doing our damnedest to do the right thing. And we are seeing these things as business as usual.” (UK EPFI 1, Interviewee 1)

“Ultimately what we haven’t seen is the effects on the real world. We have policies, procedures, standards, personnel, management systems, organisational culture [changes]; all of that is necessary but not sufficient. You can have all of the greatest systems in the world and not ultimately make a difference on the ground. I do think that you need systems...but...that’s no guarantee of anything when it comes to real results on the ground...I think that you’d find almost all NGOs saying that’s the ultimate test.” (FoE US)

11.1 Research Overview

In June 2003, the Equator Principles (EP), were launched by ten international commercial banks. The EP, designed as a set of voluntary environmental and social (E&S) risk management guidelines for project finance, were perceived as a “revolutionary” initiative by the financial sector. However, the Principles were not *as* optimistically received by some non-governmental organisations (NGOs), due to what they perceived as the inability of the EP to adequately address all of their financial sector accountability demands. By June 2008, there were 60 adopting Equator Principles Financial Institutions (EPFIs), and the EP had become a “routine” aspect of *active* EPFI project financing processes. Despite this, NGOs continued to demand more “concrete” evidence of the positive impacts of EP implementation.

This research sought to evidence, understand and explain this EP institutionalisation process between 2003 and 2008, and its effects on EPFI social accountability over this period. It therefore sought to investigate *why and how* the EP emerged and evolved to become a “taken-for-granted” (institutionalised) aspect of EPFI (i.e. commercial bank) project finance activities, and whether this enabled and/or constrained their social accountability between 2003 and 2008.

To answer these questions, this researcher adopted a qualitative methodological approach and conducted a case study of the EP institutionalisation process over 2003 to 2008. This incorporated (participant) observation, extensive documentary analysis and 29 semi-

structured interviews, involving 31 key EP “actors” from ten EPFI, ten NGO and five broader stakeholder organisations.¹⁰⁸ This case material was interpreted through the use of: 1) the concepts of accountability and legitimacy; and 2) the Dillard et al. (2004) framework on institutionalisation, in order to “illuminate” the emergence, evolution, and accountability related effects of the EP institutionalisation process between 2003 and 2008.

Dillard et al. view institutionalisation as a *structuration process* (Giddens, 1984) occurring over societal, organisational field (institutional) and organisational levels. That is, they perceive a reciprocal and recursive (ongoing) relationship to exist between the “structures” that underpin a specific “institution” (i.e. the norm/value/standard being institutionalised), and the knowledgeable and reflexive “agents” that interact with these structures. Here, “structures” refer to the legitimisation (rationale), signification (meaning) and domination (power) properties associated with/underpinning the institution in question. Dillard et al. view this iterative relationship between structures and agency as being *mobilised* through daily interaction between societal, organisational field and organisational “criteria” and “practice”, and *manifested* in the emergence, evolution and “acceptance” of an institution over time.

11.2 Research Findings

The Dillard et al. (2004) model on institutionalisation processes was used as a conceptual guide to frame the findings of this case study. The case narrative therefore traced the progression of EP institutionalisation as a structuration process over socio-economic and political (SEP), organisational field (OF), organisational (OL) *and* intra-organisational (IOL) levels, between 2003 and 2008. This involved the in-depth analysis of the iterative and recursive dynamics between EP related structures (signification, domination and legitimisation) and EP agents; as *mobilised* through the interaction between daily EP criteria and practice, and *manifested* in the emergence, evolution and “acceptance” of the EP as the institution/standard for more responsible project finance over 2003 to 2008.

More specifically, the case narrative firstly illustrated why and how NGO campaigns for financial sector accountability and “moral legitimacy” from the late 1990s (at SEP level), catalysed “embedded agents” in four commercial banks (at OL) to come together with six

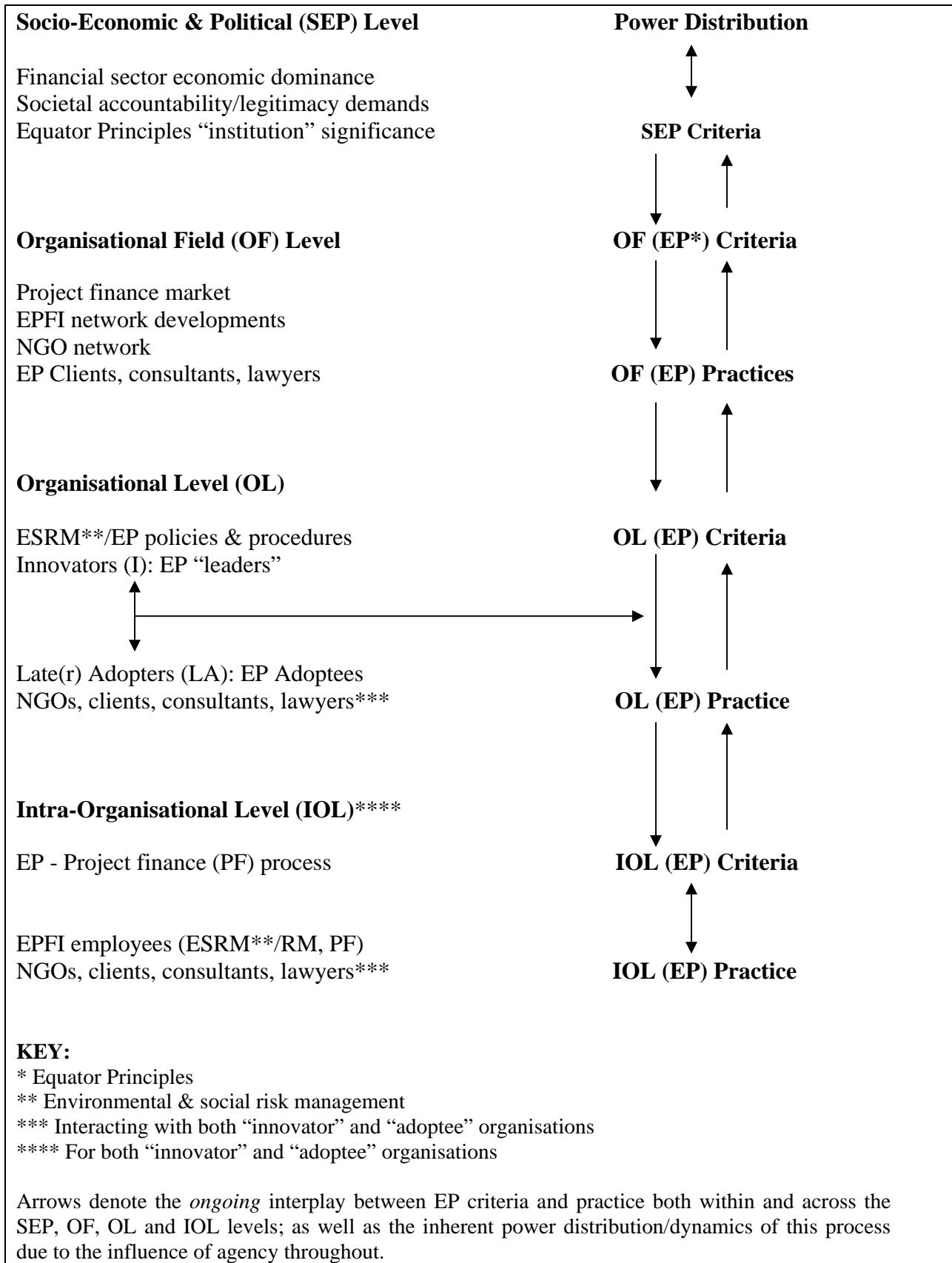
¹⁰⁸ One law firm, one environmental consultancy, two mining clients and one international mining association.

other commercial banks (at OF level) to develop and launch the EP in 2003 (research question 1). Secondly, the narrative proceeded to an in-depth, critical analysis of why and how the EP institutionalisation process evolved between 2003 and 2008 (research question 2). This highlighted how the “issue” (Hoffman, 1999) of the EP, and more responsible project finance, led to the development of an organisational field (OF) of disparate actors (i.e. EPFIs, NGOs, clients, E&S consultants and lawyers) that began to “interact” with one another as they may not have done had the EP not existed (see Figure 12).

Thirdly, this analysis evidenced how EP “criteria” at OF level (i.e. the Principles themselves) were interpreted (signification), rationalised (legitimation), and controlled/allocated resources (domination), by EPFI agents at OL and IOL, to ensure that the EP were implemented in E&S risk management/project finance “criteria” (e.g. policies, manuals), and “practice”. Here, heterogeneity as opposed to homogeneity across EPFIs was emphasised. Fourthly, this analysis illustrated how, due to the nature of the project finance syndication market at OF level, coercive, mimetic and normative isomorphic pressures influenced EP adoption by other financial institutions. Yet, in doing so, it highlighted how the “later adopters” of the EP, *in this research*, were not “passively” conforming to EP “innovator/leader” trends at OF level, but were rather “actively” considering their E&S risk management “performance” at OL in their decision to adopt the EP (see Figure 12).

Fifthly, this analysis critically discussed how active and reflexive EPFI agents’ knowledge of: 1) EPFI experiences with EP implementation at OL and IOL; 2) challenges associated with EP governance at OF level; and 3) awareness of ongoing NGO criticism of the same at SEP level over 2003 to 2008, led to the launch of EP II in 2006 and movement towards EP governance at OF and OL between 2007 and 2008. Furthermore, the case narrative evidenced *how* EP criteria are now an institutionalised facet of EPFI project financing practice at IOL, influencing, and being influenced by, EP institutionalisation at OL, OF and SEP levels (see Figure 12).

Figure 12: The EP Institutionalisation Process



Finally, the case findings narrative illustrated how the EP institutionalisation process affected EPFI social accountability over the course of 2003 to 2008 (research question 3). This evidenced the *complexities* of the accountability issues associated with the EP between 2003 and 2008, and how this influenced, and was influenced by, the EP institutionalisation process over the same period. Despite the ongoing disparities between NGO and EPFI perceptions of what EP social accountability should entail, this researcher argued that EP institutionalisation acted to *enable* rather than constrain better EPFI social accountability over 2003 to 2008. This was not only with regard to EPFI project finance activities, but also the E&S awareness and activities it *catalysed* across a range of commercial bank operations. Which, as one EPFI leader commented, may be the “biggest legacy” of the EP.

11.3 Research Contributions

No prior work *specifically* focused on the EP, the accountability dynamics surrounding them, or, their institutionalisation, has been conducted within the accounting discipline to date. In addition, no specific work on EP institutionalisation has been conducted within the small number of existing studies on the EP in the broader corporate social responsibility (CSR)/sustainable finance literature. Hence, this research makes a number of theoretical and empirical contributions to both of these bodies of literature. Firstly, this research provides unique empirical contributions to this literature, as it privileges qualitative analysis of the EP institutionalisation process from the perspective of key EP actors in the field.

Secondly, this research makes substantial theoretical contributions to the literature. For example, with regard to the social accountability literature, this research mobilises the concepts of accountability and legitimacy in a unique context: an institutionalisation process. In doing so, it considers how parallel processes of accountability and institutionalisation can influence one another. In addition, few studies have focused on NGOs as exerting “institutional pressure” on organisations, or, examined how that pressure may “induce” and influence an institutionalisation process (but see Lounsbury et al., 2003; Den Hond and De Bakker, 2007). Therefore, as this research focuses on why and how NGO accountability/legitimacy demands influenced the emergence and evolution of the EP institutionalisation process, it addresses such gaps in the extant literature.

Furthermore, this research directly addresses some of the recent critiques and calls for the expansion of institutional theory research in the literature (e.g. Lounsbury, 2008; Scott, 2008). This occurs in a number of ways. Firstly, it focuses on institutionalisation as a *process*, as opposed to an outcome, and adopts a qualitative, longitudinal and multi-level approach to analyse this process. Secondly, it recognises the powerful role and influence of agents in institutional processes (Di Maggio 1988; 1991), and how “embedded agents” (Seo and Creed, 2002) can be enabled, as opposed to constrained, by their positions in order to affect organisational and institutional change (Greenwood and Suddaby, 2006; Reay et. al., 2006). Thirdly, it evidences heterogeneity, as opposed to homogeneity, across organisational perceptions of, and reactions to, institutional pressures and norms; and highlights how “followers” in organisational fields do not always engage in “mindless imitation” (Lounsbury, 2008) of “innovators” in the field. In turn, it illustrates that the dichotomy between the pressure to “conform” or “perform” regarding institutional demands does not always exist (Heugens and Lander, 2009), and that the former, can actually enhance the latter. More broadly, this research considers the potential relationship between institutional theory and the notion of accountability in general, and highlights the possible need to theorise the relationship between an institutionalisation process and the *accountability* of the agents involved therein.

Finally, this research provides a unique “contextual” setting for the application of the Dillard et al. (2004) framework and offers useful suggestions for the extension and development of the model. This relates to a more in-depth consideration of the models: (1) notions of criteria and practice; (2) interpretation of an organisational field; and (3) need to conceptualise institutional dynamics at *intra*-organisational level. Therefore, in general, this research prioritises theoretical and empirical concepts, approaches and perspectives that are largely absent from the existing literature.

In addition, some practical implications for a wide range of EP, and broader sustainable finance, stakeholders also arise from this research. Firstly, this study acts as a highly informative “introduction” to the evolution of the EP since 2003, which, to the best of this author’s knowledge, has not been completed to date.¹⁰⁹ Secondly, this research offers two

¹⁰⁹ Freshfields Bruckhaus Deringer (2005) and Watchman et al. (2007) have been used in a similar vein in the past but are not academic texts.

key recommendations to EPFIs in order to help them *further* improve their EP accountability: (1) greater transparency is needed surrounding EP governance at organisational field level i.e. regarding the manner in which the current EP management structure operates; and (2) there is a need for greater transparency and clarity surrounding the internal auditing of the *process* by which the EP are applied to project financing arrangements *within* EPFIs, as well as the external assurance of this.

11.4 Research Limitations and Future Research

Firstly, this research has only focused on the EP institutionalisation process between 2003 and 2008. Future research could therefore investigate how this has progressed post-2008. Secondly, whilst this research conducts an in-depth analysis of the EP institutionalisation process from the perspective of a selection of EPFIs and NGOs, it pays lesser attention to the perspectives of broader EP stakeholders (i.e. the EP consultant, EP lawyer and mining companies incorporated in Chapter Nine). Future research could seek out more EP stakeholder perspectives on EP institutionalisation, especially those of EPFI clients. This would extend the analysis of the EP institutionalisation process to societal-project level and advance our understanding of the impact of the EP “on the ground”. Finally, this research has not incorporated the views of socially responsible investors (SRIs), another important EP stakeholder group, on the EP institutionalisation process. Future research could examine the impact of the EP on SRI investment decision-making processes and likewise how this may be affecting EPFIs/the EP institutionalisation process moving forward. All of these proposals for future research would directly address current gaps in the literature regarding such analysis.

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(The) International Project Finance Association (IPFA): <http://www.ipfa.org>

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(The) Principles for Responsible Investment (PRI): <http://www.unpri.org>

Project Finance International: <http://www.pfie.com>

Project Finance Magazine: <http://www.projectfinancemagazine.com>

(The) Rainforest Action Network (RAN): <http://ran.org>

(The) United Nations Environment Programme Finance Initiative (UNEP FI):
<http://www.unepfi.org>

(The) World Business Council for Sustainable Development (WBCSD):
<http://www.wbcsd.ch>

WWF UK: <http://www.wwf.org.uk>

APPENDICES

Appendix 1: NGO (Master) Interview Guide (2006)

1. Background & Development of EP I:

- What is your position/role with X organisation?
- When did X organisation begin their financial sector campaigns and why?
- When you were involved in the development of the Collevecchio Declaration (if involved at that stage) did you ever think that principles like the EP would be produced?
- Did you view the launch of the EP as an indicator of the success of your campaigns?
 - **PROBE:** Was it indicative of how powerful the role of advocacy in the field of sustainable finance had become/a response to the ‘crisis of legitimacy’ of development/project finance?
- How involved were you in the production of the EP?
- Why do you feel the FIs allowed/wanted NGO involvement from the beginning?
- How influential were the IFC in the development of the EP?
 - **PROBE:** What role and ‘power’ did other stakeholders have in their development?
- What was your reaction to the final version of EP I?
- **If not involved in the Collevecchio Declaration:**
 - Why did your organisation become part of the BankTrack network?
 - What aspects of the EP campaign have you been involved with?
 - What has been the main drive/goal of your campaign?
 - Has becoming involved in the BankTrack network benefited your individual campaigns?
- Did you view the EP as a first step in a new relationship with FIs?
 - **PROBE:** or did they see it as FI ‘capture’ of the sustainable finance debate?
- How did you expect the EP to develop following their launch in 2003?
 - **PROBE:** Beyond project finance, deeper into FI organisational operations and life?

2. Concept of Accountability:

- What does FI accountability mean to you?
 - **PROMPT:** What constitutes ‘accountability’ for them?
- What form(s)/level(s)/type of accountability do you expect of EPFIs?
- In your opinion, what form(s)/level(s) of accountability are currently being practiced?
- What do you think the EPFIs perceive ‘accountability’ to mean?
 - **PROBE:** Does corporate/financial institution accountability really mean shareholder accountability?
- How are you monitoring changes/improvements in EPFI accountability?
 - **PROBE:** What ‘on the ground’ examples of improvements (or lack thereof) are they using as benchmarks/indicators?

- Have your expectations on FI accountability changed from the inception of the EP?
 - **PROBE:** Did they begin with a sole focus on accountability regarding project finance lending activities and then develop demands for accountability of other FI operations, or was their expectations for accountability of all FI operations e.g. advisory, management services, overall risk management procedures etc. from the beginning?
- Do you think EPFIs could/can meet NGO expectations/demands on accountability?
 - **PROMPT:** e.g. their ‘joint accountability mechanism’ proposal and demands for greater disclosure?
 - **PROBE:** Do they think EPFIs are willing and/or able to report on the implementation of the EP to the level they expect of them?
- **Disclosure:**
 - Do you feel FIs are beginning to disclose more due to NGO pressure?
 - **PROBE:** as opposed to a desire to do so from within? Legitimacy V accountability or combination of both?
 - What do you feel is the missing link/main barrier to greater EPFI disclosure (and accountability) at present?
 - **PROBE:** Do they feel ‘commercial confidentiality’ is a ‘protective layer’ for the FIs re the implementation and greater disclosure of the EP?

3. Institutional and Organisational Change:

- Why do you think so many FIs have become involved and why do you feel some of the big banks have stayed out?
 - **PROMPT:** e.g. BNP Paribas, Societe General, Korean Dev. Bank and Duetsche Bank?
 - **PROBE:** reputational issues, ‘jumping on bandwagon’, materiality to bottom-line/market signals or genuine concern/lack of concern?
- Who/what level /position within the FIs have you been dealing with in your negotiations/discussions?
 - **PROBE:** Do they think this has an impact on the level of ‘buy-in’ and relevant levels of implementation and accountability from the organisations?
 - How important is agency in all of this? Who’s driving this from within?
- Do you think there is a connection between (the above &) ‘greater’ accountability and aspects/forms of FI organisational change?
 - **PROMPT:** e.g. changing attitudes, commitments, decision-making, corporate governance and core financial operations (cultural and/or systemic)?
 - **PROBE:** Are the EP & their related demands for greater accountability leading to organisational change?
- Have you witnessed/are you witnessing any such changes within the FIs you have been campaigning/working with?
 - **PROMPT:** How are the changes being manifested if at all?
 - **PROBE:** Do they want more indication of on the ground change?

- Have you witnessed a change in EPFI perceptions of and approach to risk since the development of the EP?
 - **PROMPT:** Socio-environmental risks, risks associated with NGO campaigns etc.
 - **PROBE:** Have EPFI attitudes to risk changed, and thus their governance structures & risk management procedures etc., due to a greater sense of ‘accountability’. Are the EPFIs now focusing more on ‘up-side’ risk/opportunity creation – was this happening previously or have the EP intensified this?

4. Evolution of EP/ EP II: (question link from above – core operations)

- Do you feel EPFIs have expanded the scope of their sustainable lending/investment activities beyond project finance through their implementation of the EP?
 - **PROBE:** Are the bond underwriting and financial advisory services etc. being addressed adequately?
- How influential do you feel you have been in the revision of EP I?
- Do you feel you have achieved some of their goals/strategies as a result?
 - **PROBE:** How has their influence grown/developing?
 - Is this an indicator/measure of their success?
- How influential do you feel you have been in the development of individual EPFI env/social policies as a result of EP implementation?
 - **PROBE:** is the fact that some of the leading banks (and most of the other EP members), have dam and forestry policies a result of e.g. RAN & IRN campaigns?
- Do you feel that the EP have changed the relationship between NGOs and FIs?
 - **PROMPT:** e.g. a convergence of strategies and greater collaboration or a continued ‘power struggle’. If the former could this be considered an indication of org. change and greater accountability?
 - **PROBE:** Who do they feel is currently in control of the sus. finance/EP debate?
 - Link ‘stakeholder’ angle:
 - What do they feel a ‘true’ FI stakeholder is/what constitutes this/what FI actions, behaviour etc.
 - Do they feel like ‘proper’ stakeholders?
- Why do you feel that the IFC changed their safeguard policies?
 - **PROBE:** shift in responsibility from lenders to borrowers? A result of internal reviews and/or NGO campaigns?
- How influential do you feel you were in the revision of the IFC safeguard policies to performance standards?
- Do you feel that the IFC change to performance standards has made the former safeguard policies and thus EP II more robust or not?
 - **PROBE:** What consequences does this have for increased EPFI accountability if any?
- Do you have any grievances with the above at present?
- What’s the current status of discussions with FIs on IFC performance standards and EP II?
- What future action are NGOs demanding?

Additional issues to consider:

1. NGO Role and Identities

- Identity crisis? How to maintain ‘independence’ in the face of ‘collaboration’?
- Differences between old and new sus. finance campaigners in BankTrack?
- Disagreements between NGOs in the BankTrack network re FI campaigns/EP demands?
- Differences between FoE in US, UK, Netherlands, France and Brazil? How do they coordinate their activities?

2. Voluntary V Mandatory divide

Do they feel that as long as the EP remain a voluntary framework that there will be a need for (1) their advocacy positions and (2) to understand the motivations and practices for the FIs to be involved?

Appendix 2: EPFI (Master) Interview Guide (2007)

NOTE: Sub-questions = probes and prompts (some highlighted in bold re importance).

1. ROLE/RESPONSIBILITIES:

- What is your key role and mandate within organisation X?

2. BACKGROUND/EP DEVELOPMENT (Accountability & legitimacy):

2.1 Why do you feel that the EP were first developed and why did X play a leading role in their development OR be one of the adopters OR adopt them OR be a late adopter?

- How did the idea first come about (meeting of project financiers in London '02)?
- Did IFC take a leadership role from the beginning? What was their input?
- How were the EP drafted and developed?
 - How was it managed between the 4-10 FIs and the IFC?
 - Were you involved in the drafting of the principles?
- Did you have top-level/board approval at the time?
- Why did you need to move as a 'group' to launch them? How would you respond to NGO or broader claims that you needed to do this to avoid 'first mover disadvantage' and the threat of losing out to lucrative deals?

2.2 What was the main objective of drafting the EP? What did you and the group want the EP to be/become?

- Was there ever the notion that by developing the EP just for project finance that they could create the impression that all financial operations as a whole were/would be addressed?

2.3 How influential do you feel the NGO campaigns of the late 1990's were in prompting the development of the EP?

- Or was there more pressure on an institutional level or on an internal risk management level? Or a combination of these?
- Was the development of the EP a response to the Collevecchio Declaration? If not explicitly was there any implicit need for the FIs to possibly 'win-back'/'recapture' the sustainable finance debate/their power in the arena?
- What was their reaction to the C.D. when it was launched?

2.4 Do you feel that X suffered significant reputational damage from NGO campaigns and thus needed to *legitimise* their activities in the face of these NGOs and broader stakeholders?

- Did X recognise this need to establish/maintain a '*social licence to operate*'?
- Do they feel that they needed to be more accountable to this 'relevant public'?

2.5 What is your understanding of accountability and what an FI's or X's approach to this should/can be? (incorporation of responsibilities into this)

- Where do they think their responsibilities lie – with the selection of their clients, or, also ensuring their own application of the principles and client compliance and being open to an independent accountability mechanism for community grievances?
- Internal accountability of their risk management systems through audit and monitoring (link in later)?

2.6 Do you equate the EP as being an attempt by X to enhance your social accountability?

- Or were they seen as part of the risk management process?
- How effective do they feel the EP have been re their social accountability – especially considering how no provision was made for any institutional, organisational or project-level accountability mechanisms?
- What is the EPFI response to NGO suggestions that a ‘coordinated approach to accountability’ is still needed by EPFIs? (link in later).
- If one objective of the principles was to gain/maintain ‘stakeholder’ trust, how did the initial drafters and/or adopters think this was going to be possible without some provision for reporting and the inclusion of NGO recommendations at the time?

3. EP STRUCTURE:

3.1 With regard to the original focus/structure of the principles:

- Why did they choose the principles they did with a focus more on client requirements as opposed to a balance with principles for FI compliance/monitoring etc?
- Why was no provision made for any form of governance and accountability procedures (or mechanisms) at an institutional, organisational or project level?
- What is their reaction to the notion that they ‘cherry-picked’ from the IFC safeguard policies at the time especially with regard to the exclusion of the ‘IFC Disclosure Policy’?
- Why was no ‘grievance mechanism’/accountability mechanism akin to those in e.g. the World Bank, IFC, development banks and ECAs included?
- How substantive do they think their ‘consultation’ with NGOs was prior to the launch of the EP?
- How would they respond to the claims that the EP were designed with high-levels of flexibility so as to avoid being held to account either from relevant stakeholders or possible governmental policy?
- Why were NGO recommendations on transparency, disclosure and accountability not taken on-board prior to the launch of the EP? (And not all of their requests in EP II?).
- Why was some mention of human rights included in initial EP drafts and then changed to social responsibility in the launch document?
- Why was the focus solely on project finance and what is their opinion on NGO thoughts that this was the ‘low-hanging fruit’ for FIs?
 - It’s the nature/scale of the impact not the transaction that should determine the appropriate response from FIs, according to NGOs.

- Why did they move as a group to launch the EP but yet fail to adequately work as a group/take responsibility as a group for co-ordinated and consistent implementation (even to minimal standards)?
- How did they feel the EP would develop following their launch? Where they always seen as a baseline for future action or otherwise?
- **When developing and launching the EP, did they not anticipate the**
 - 1) level of scrutiny they received from NGOs about the ‘inherent flaws’ of the EP process/structure or the level of interest from other FIs or broader audiences and;
 - 2) possible emergence of a free-rider problem from their lack of accountability mechanisms at the time?
 - Were they caught off guard a little?

3.2 Who decided that a reporting working group should be developed?

- When did this occur?
- Who were the members?
- How successful has this been?
- Did it have to be revived for the development of the recent (May, 2007) reporting guidance document?

3.3 Regarding the governance/coordination of the EPFIs, when was it decided to establish a rotating Chair, the EP website and ‘floating’ secretariat?

- How influential were the NGOs in these developments?

3.4 How did/are the EPFIs addressing the free-rider problem?

- Also, how often do the EPFIs meet annually and how many of them turn-up? What do/did they discuss at the meetings?
- What was their reaction to the BT suggestions about how to deal with the free-rider problem?

3.5 Do you feel that ‘ongoing’ & recent EPFI involvement in controversial projects e.g. BTC, Sakhalin, Botnia etc. has damaged/raised questions about the credibility of the whole EP process?

4. RISK MANAGEMENT (EP Implementation) – ORGANISATIONAL CHANGE:

4.1 Does the application of the EP change depending on the specific role the bank has in the project finance project or syndicate (advisory, lead arranger and loan provider)?

- How does this work?
- Do any conflicts of interest emerge?

4.2 Does one or more EPFI take the lead on the EP compliance of the project – what’s the norm?

- How influential is an EPFI over EPFI free-riders or non-EP banks in a syndicate?

4.3 How are the EP applied/implemented? (see questions links below)

- How do you operate within risk management and with the project finance department and/or sustainability depart./teams to coordinate EP implementation?
- Is the EP a risk management process in itself or part of the X's '(E&S) risk filter'?
- How did you approach the development of the EP related policies and/or procedures?
- When does a 'guideline' or 'statement' stay that or become a policy?
- At what stage of the project does the EP risk assessment process begin?
- Are there sustainability people in the X project finance department?
- **Who has the final say on whether a project is EP compliant or not? The project finance people or sustainability?**
- How do they deal with EP application outside their head office throughout the 'BUS'?

4.4 Where do the EP fit into E&S risk management 'changes' within the bank?

- Have the EP just been one link in the risk management 'chain' or the fundamental catalyst to E&S risk-management related change?
- Has it been an **efficient risk management tool or a burden?**
- Has the application/implementation of the EP provided some useful lessons for other aspects of FI risk management/portfolio management?

4.5 How well do you feel E&S issues have been integrated into X's mainstream risk management approach as a whole?

- What does it actually mean to say this and how does it work in practice?
- Is it **credit risk or operational risk management** X refer to in these instances?
- What are the remaining issues/challenges?

4.6 What were the first signs of moving beyond the EP & project finance within X for you?

- Did the E&S policies and risk management processes first begin in relation to project finance (or more generally) and then slowly become infiltrated into mainstream risk assessment/management approaches?
- When and how did this start to happen?

4.7 Could you explain the workings of the X's ESE 'risk management' framework/procedures?

4.8 How important is the internal competence of staff regarding the application/implementation/assessment of the EP and other risk management procedures?

- How is this addressed and monitored?
- How reliant are FIs in general on outside consultants to assist with this? If so which ones?

4.9 What are X doing to encourage their employees to comply with E&S risk management procedures

- Are manuals/tools/frameworks needed to monitor/audit staff compliance with those procedures?

- Is this a job for X Group Audit or Compliance groups/committees?
- How many employee ‘personal/value judgements’ are applied as opposed to following such manuals/procedures?

4.10 Similarly, are manuals needed regarding how to assess client compliance with EP SEA, MS, AP and covenants etc?

- **What are X doing to encourage their clients to comply?**
 - Are the legal and AP covenants enough?
 - Is there the need for special credit risk specification and/or interest payment arrangements?
- Is the success of client compliance largely based on ‘delicate client management’ or the fact that the clients are willing to comply to secure future financing?
 - How challenging is EPFI-client management relationships?
 - Are in-depth site visits made etc?

4.11 What sorts of outcomes/results – internally and more importantly on the ground - have X witnessed to date re the EP and risk management procedures?

- Has there been any to date and if so why are EPFIs not reporting on e.g. progress on the ground where the NGOs state they will measure progress the most?

4.12 Do you think there is the need for an E&S risk management system across all bank/EPFI operations to coordinate their efforts?

- Is this possible or are such NGO/BankTrack (revised Collevecchio Declaration) requests naive?

4.13 Have the EP affected other forms of organisational change (apart from risk management procedures per se)?

- Organisational culture: awareness and acceptance of broader responsibilities and reasons for operating?
- **Or do you feel they have essentially been the catalyst to greater risk-management related organisational change and thus social accountability?**
- **What issues and challenges still remain?**

4.13a The interesting thing with regard to the EP and disclosure, is that the EP are made out to be one of the best risk management frameworks for FIs – not just for project finance – and yet some EPFIs do not report on them and others provide minimal accounts of implementation, what is your view on this?

4.14 Has the PRI as a more ‘robust’ approach to institutional/ investor responsibilities and accountability ‘eclipsed’ the EP and drawn attention to the inherent flaws or failures of the EP as an ‘accountability process’

- How do you think the PRI people could include a principle on disclosure etc. (while the EP could not) – was it because they were learning from the EP experience?

5. EP II:

5.1 How would you react to the claims that the EP are still the ‘lowest common denominator’ as opposed to international best practice for FIs?

5.2 What approach/strategy did X take towards the redrafting of the EP?

- What issues were of most importance to them and why?
- Where the changes to the IFC safeguard policies more of an incentive to redraft the principles than NGO concerns about EP I?
- Why did they introduce the changes to EP II e.g. reporting principle, client grievance mechanism, advisory services & 10m threshold etc?
- What was their approach/response to NGO recommendations for EP II prior to their launch e.g.
 - SEA prior to construction,
 - EPFI take lead in syndicate,
 - Agreements between borrower and community to be included in AP and compliance with AP to be covenanted into the loan agreement
 - Transparency, disclosure, governance, joint accountability mechanism
 - What is their opinion on NGO EP II human rights and indigenous peoples demands e.g. for ‘free prior and informed consent’ as opposed to ‘consultation’?
- Were they satisfied with the outcome of EP II?
- Have they seen changes in NGO behaviour/campaigns since?

5.3 How influential were the NGOs in EPFI decisions to include Principle 10 in EP II?

5.4 What influenced the development of the EPFI working groups on reporting, governance and stakeholder engagement?

- Which banks are members of these groups and how active are they?
- What’s their mandate, core objectives and proposed deliverables?
- Does this mean that the ongoing NGO claims/demands for greater accountability at an organisational, institutional and project level have been valid/legitimate in their opinion?

5.5 Was the EPFI reporting working group responsible for the production of the EP reporting guidance document in May 2007?

- Did ongoing NGO criticisms of the levels of transparency and disclosure by EPFIs prompt the development of the reporting guidance document?
- Were any NGOs engaged in the development of the reporting guidance document?
- Are they satisfied with the content of the reporting guidance document?
- Is there the need to revisit the GRI FSSS discussions again? Or to develop a set of EP KPIs if not a Sector Supplement in itself?

5.6 Will there be new governance structure(s) developed for the EP – apart from the reporting guidance produced – as a result of the recent Washington meeting (May, 2007)?

- Has there been EPFI agreement on the need for this?
- What is the latest on the development of a Secretariat

5.7 Is there anyway of practically addressing the commercial confidentiality challenges regarding barriers to disclosure?

- Do they view their own internal legal requirements and culture of ‘secrecy’/aversion to transparency as a hindrance or necessity?
- What would their reaction be to the idea that EPFIs are not disclosing information on their E&S assessments, as sustainability issues are now also a competition aspect of their industry?
- NGOs claim they want information on the projects as opposed to the clients – what is their reaction to that?

5.8 How would you react to the notion that EP II has bought FIs some more time re addressing NGO demands & regulation and allowed them to take ‘control’ of the (at least this) sustainable finance debate once more?

5.9 Do you feel that there continues to be tension/ a certain power struggle between FIs more generally and NGOs or whether this has changed?

5.10 In your opinion what have been the biggest challenges and benefits of the EP to date?

6. NGO RELATIONSHIPS:

6.1 Do you feel that NGO relationships changed as a result of the implementation of the EP?

- Or have those developments been more attributed to a broader risk management drive?
- Which X department(s) took the lead with NGO engagement and how was/is it coordinated across the group?
- Has there been a move from dialogue to negotiation style engagement?
- Are NGOs being engaged on more than policy developments e.g. procedural/systems advice? Is this carried out as part of special partnerships?
- Did/do you see an equal willingness to cooperate/collaborate more from the NGOs?
- Was there a slight relaxation of pressure/vigilance on their part to enter into a period of more dialogue and collaboration with FIs following the EP launch?
- When do they feel NGOs had ‘valid’/‘legitimate’ claims/demands regarding your policy, procedural or financial transactions?
- What relational issues changed and what challenges remain post-EP?

6.2 Did you ever use/reference different NGO publications and recommendations internally?

- E.g. have you read/aware of the new/updated guidance manual for/related to the Collevechio Declaration ‘The Do’s and Don’t of Sustainable Banking’?

- Do you find such documents helpful or too idealistic/prescriptive?
- Have they assisted you in anyway?
- Is there anyway that they could be improved/better tailored to really suit your needs/be more accepted within the FI community?

6.3 Do you feel that there's a need for NGOs to also be accountable/more accountable for their actions, that accountability and trust needs to 'cut both ways'. If so could you expand upon that a little more from your experiences?

7. CLIENTS:

- How have your clients been dealing with EP implementation – has it been a burden for them?
- Have any tangible changes or benefits from EP implementation been experienced yet at project level re your clients env. and social impacts?

8. FUTURE:

8.1 What do you think the future holds for the EP?

- **What benefits do you think the EP have provided?**
- Do EPFIs/FIs feel the burden to disclose more?
- **Are continuous NGO-EP accountability concerns a risk anymore?**
 - Are any of their own shareholders asking questions about this?
- Will there be an EP III?

8.2 What do you think the future holds re S&E risk management?

- Do you think that Basel II or some other 'regulatory' framework (Company Law Review) is the eventual route to be taken to ensure 'embeddedness' of E&S concerns into financial sector operations?
- Could the EP really reduce the % of capital reserves needed/set aside for loans etc?

8.3 Do you feel that there is still a dichotomy between sustainability disclosure and sustainability performance and also financial performance?

- Is this an issue for FIs?
- Has the fact that they are more 'sustainable' reflected in a better value for their shares on stock exchanges etc?

Appendix 3: Interview Analysis Codes

Code Type	Code Name	Explanation
Core codes	ACC	Accountability
	CD	Collevecchio Declaration
	EP I	Equator Principles I
	EP II	Equator Principles II
	EPFI	Equator Principles Financial Institution
	FI-NGO	Financial institution-non governmental organisation
	REL	relationships
	HIS	History/background/interviewee role & responsibilities
	INS	Institutional (theory)
	LEG	Legitimacy
	OC	Organisational change
	PF	Project finance
	RM	Risk management
	STK	Stakeholder (originally referring to NGOs)
	VOL	Voluntary (V regulation)
Sub-codes	(For) ACC	Accountability
	ACC/CC	Commercial confidentiality
	ACC/DEF	Definitions (overlap with ACC/EPFI & ACC/NGO).
	ACC/EPFI	EPFI opinions on (EP) accountability (overlap with EP/ACC).
	ACC/L	Leaders (merged into Inn/L later).
	ACC/NGO	NGO opinions on (EP) accountability (overlap with EP/ACC).
	ACC/MON	Monitor (as opposed to “felt responsibility”).
	ACC/RES	Responsibility
	ACC/TRANS /DIS	Transparency, Disclosure
	(For) PF	Project finance
	BPF	Beyond project finance
	PFM	Project finance market (pressures/influence, overlap with EP/PF & ISO later).
	(For) EP	Equator Principles (I & II)
	EP/ACC	Accountability
	EP/AD	Adoption (objectives etc.).
	EP/BEN	Benefits (some overlap with EP/SIG later).
	EP/CAT	Catalyst (overlap with BPF).
	EP/GOV	Governance (re structural requirements of the Principles & EPFI network/members).

	Code Name	Explanation
Sub-codes (continued)	EP/IMP	Implementation (guidelines, policies, training, “departments”, structural changes, actors, <i>internal</i> implementation audits etc.).
	EP/PF	Project finance market (link PFM) & process (internal EPFI PF stages & EP integration; lawyer & external consultant assistance; client implementation & assessments etc.)
	EP/R	Revision of EP I.
	EP/S	Scope (re design for just project finance etc.).
	EP/STR	Structure (requirements, some overlap with EP/S & EP/ACC).
	EP/SYM	Symbolism (merged into SIG later).
	(For) EPFI	Equator Principles Financial Institutions
	EPFI/C	Clients (interaction/relationships, overlap with AG).
	EPFI/Con	Consultants (interaction/relationships, overlap with AG).
	EPFI/LW	Lawyers (interaction/relationships, overlap with AG)
	(For) OC	Organisational Change
	OC/AG	Agents/champions (merged into AG later).
	OC/CUL	Culture (re EPFIs, merged into INN/L, EA, LA later)
	OC/STR	Structure (re EPFIs, merged into e.g. EP/IMP, EP/BEN, INN/L, EA, LA later).
	OC/BAR	Barriers (overlap with OC/CUL & merged into e.g. ACC/CC later).
	(For) RM	Risk Management
	RM/BUS	Business case (for EPFIs).
	RM/C	Core risk management (i.e. credit, as opposed to just E&S).
	RM/Com	Competition (between EPFIs, overlap with ACC/BAR).
	RM/E&S/EP	E&S risk management & relationship with EP.
	(For) STK	Stakeholders
	STK/AD	Advocacy (NGO campaigns).
	STK/CC	Campaign changes (merged into FI –NGO REL developments).
	STK/E	Engagement (overlap with FI-NGO REL, also relevant re broader stakeholders).
	STK/R/P	Role & power (i.e. NGO originally, merged into DOM later).
	STK/RD	Reputational damage (merged into RM in phase 2).

Appendix 3 Continued: Interview Analysis Codes

Code Type	Code Name	Explanation
Advanced Codes	AG	Agents/actors (& agency).
	DOM	Domination (power, allocation/control of resources: human and financial).
	EA	Early Adopters
	LEG	Legitimation (re FI internal rationalisation of the EP & attempts for acceptance by EPFI/PF market, as well as NGO notions of moral legitimation).
	Sub:	
	LEG MOR	Moral (i.e. NGO demands).
	LEG PRAC	Pragmatic (re some NGO-EPFI relationship developments overtime).
	LEG COG	Cognitive (i.e. “taken-for-granted”; EPFI network/PF market influence).
	LEG GAP	Legitimation gap/accountability “gulf”
	INN/L	Innovators/leaders
	INST	Institutionalisation (process, evidence, effects).
	ISO	Isomorphism
	Sub:	
	ISO C	Coercive (re EP “leaders”/project finance market).
	ISO M	Mimetic (re Inn, EA & IA).
	ISO N	Normative (re project finance market overtime).
		Overlap with EP/PF market & LEG
	LA	Later adopters
	OF	Organisational field (re all EP actors/stakeholder dynamics and especially EPFI network developments & processes).
	OL	Organisational level (re EPFIs, overlap/merged with e.g. EP/IMP, EP/PF, INN/L, EA, LA).
	SIG	Signification (re EP interpretation/meaning for all actors involved; as well as for EPFI social accountability). Overlaps throughout.
	SEP	Socio-economic and political level (re societal accountability demands/NGO campaigns, FI economic dominance, and SIG of EP).

Appendix 4: Equator Principles (EP) II

July 2006

The "Equator Principles"

**A financial industry benchmark for determining,
assessing and managing social & environmental risk in
project financing**

www.equator-principles.com

PREAMBLE

Project financing, a method of funding in which the lender looks primarily to the revenues generated by a single project both as the source of repayment and as security for the exposure, plays an important role in financing development throughout the world.¹¹⁰ Project financiers may encounter social and environmental issues that are both complex and challenging, particularly with respect to projects in the emerging markets.

The Equator Principles Financial Institutions (EPFIs) have consequently adopted these Principles in order to ensure that the projects we finance are developed in a manner that is socially responsible and reflect sound environmental management practices. By doing so, negative impacts on project-affected ecosystems and communities should be avoided where possible, and if these impacts are unavoidable, they should be reduced, mitigated and/or compensated for appropriately. We believe that adoption of and adherence to these Principles offers significant benefits to ourselves, our borrowers and local stakeholders through our borrowers' engagement with locally affected communities. We therefore recognise that our role as financiers affords us opportunities to promote responsible environmental stewardship and socially responsible development. As such, EPFIs will consider reviewing these Principles from time-to-time based on implementation experience, and in order to reflect ongoing learning and emerging good practice.

These Principles are intended to serve as a common baseline and framework for the implementation by each EPFI of its own internal social and environmental policies, procedures and standards related to its project financing activities. We will not provide loans to projects where the borrower will not or is unable to comply with our respective social and environmental policies and procedures that implement the Equator Principles.

1

¹¹⁰ Project finance is “a method of funding in which the lender looks primarily to the revenues generated by a single project, both as the source of repayment and as security for the exposure. This type of financing is usually for large, complex and expensive installations that might include, for example, power plants, chemical processing plants, mines, transportation infrastructure, environment, and telecommunications infrastructure. Project finance may take the form of financing of the construction of a new capital installation, or refinancing of an existing installation, with or without improvements. In such transactions, the lender is usually paid solely or almost exclusively out of the money generated by the contracts for the facility's output, such as the electricity sold by a power plant. The borrower is usually an SPE (Special Purpose Entity) that is not permitted to perform any function other than developing, owning, and operating the installation. The consequence is that repayment depends primarily on the project's cash flow and on the collateral value of the project's assets.” Source: *Basel Committee on Banking Supervision, International Convergence of Capital Measurement and Capital Standards (“Basel II”), November 2005.* <http://www.bis.org/publ/bcbs118.pdf>

SCOPE

The Principles apply to all new project financings globally with total project capital costs of US\$10 million or more, and across all industry sectors. In addition, while the Principles are not intended to be applied retroactively, we will apply them to all project financings covering expansion or upgrade of an existing facility where changes in scale or scope may create significant environmental and/or social impacts, or significantly change the nature or degree of an existing impact.

The Principles also extend to project finance advisory activities. In these cases, EPFIs commit to make the client aware of the content, application and benefits of applying the Principles to the anticipated project, and request that the client communicate to the EPFI its intention to adhere to the requirements of the Principles when subsequently seeking financing.

STATEMENT OF PRINCIPLES

EPFIs will only provide loans to projects that conform to Principles 1-9 below.

Principle 1: Review and Categorisation

When a project is proposed for financing, the EPFI will, as part of its internal social and environmental review and due diligence, categorise such project based on the magnitude of its potential impacts and risks in accordance with the environmental and social screening criteria of the International Finance Corporation (IFC) (Exhibit I).

Principle 2: Social and Environmental Assessment

For each project assessed as being either Category A or Category B, the borrower has conducted a Social and Environmental Assessment ("Assessment") process² to address, as appropriate and to the EPFI's satisfaction, the relevant social and environmental impacts and risks of the proposed project (which may include, if relevant, the illustrative list of issues as found in Exhibit II). The Assessment should also propose mitigation and management measures relevant and appropriate to the nature and scale of the proposed project.

Principle 3: Applicable Social and Environmental Standards

For projects located in non-OECD countries, and those located in OECD countries not designated as High-Income, as defined by the World Bank Development Indicators Database, the Assessment will refer to the then applicable IFC Performance Standards (Exhibit III) and the then applicable Industry Specific EHS Guidelines ("EHS Guidelines") (Exhibit IV). The Assessment will establish to a participating EPFI's satisfaction the project's overall compliance with, or justified deviation from, the respective Performance Standards and EHS Guidelines.

The regulatory, permitting and public comment process requirements in High-Income OECD Countries, as defined by the World Bank Development Indicators Database, generally meet or exceed the requirements of the IFC Performance Standards (Exhibit III) and EHS Guidelines (Exhibit IV). Consequently, to avoid duplication and streamline EPFI's review of

² **Social and Environmental Assessment** is a process that determines the social and environmental impacts and risks (including labour, health, and safety) of a proposed project in its area of influence. For the purposes of Equator Principles compliance, this will be an adequate, accurate and objective evaluation and presentation of the issues, whether prepared by the borrower, consultants or external experts. Depending on the nature and scale of the project, the assessment document may comprise a full-scale social and environmental impact assessment, a limited or focused environmental or social assessment (e.g. audit), or straight-forward application of environmental siting, pollution standards, design criteria, or construction standards. One or more specialised studies may also need to be undertaken.

these projects, successful completion of an Assessment (or its equivalent) process under and in compliance with local or national law in High-Income OECD Countries is considered to be an acceptable substitute for the IFC Performance Standards, EHS Guidelines and further requirements as detailed in Principles 4, 5 and 6 below. For these projects, however, the EPFI still categorises and reviews the project in accordance with Principles 1 and 2 above.

The Assessment process in both cases should address compliance with relevant host country laws, regulations and permits that pertain to social and environmental matters.

Principle 4: Action Plan and Management System

For all Category A and Category B projects located in non-OECD countries, and those located in OECD countries not designated as High-Income, as defined by the World Bank Development Indicators Database, the borrower has prepared an Action Plan (AP)³ which addresses the relevant findings, and draws on the conclusions of the Assessment. The AP will describe and prioritise the actions needed to implement mitigation measures, corrective actions and monitoring measures necessary to manage the impacts and risks identified in the Assessment. Borrowers will build on, maintain or establish a Social and Environmental Management System that addresses the management of these impacts, risks, and corrective actions required to comply with applicable host country social and environmental laws and regulations, and requirements of the applicable Performance Standards and EHS Guidelines, as defined in the AP.

For projects located in High-Income OECD countries, EPFIs may require development of an Action Plan based on relevant permitting and regulatory requirements, and as defined by host-country law.

Principle 5: Consultation and Disclosure

For all Category A and, as appropriate, Category B projects located in non-OECD countries, and those located in OECD countries not designated as High-Income, as defined by the World Bank Development Indicators Database, the government, borrower or third party expert has consulted with project affected communities in a structured and culturally appropriate manner.⁴ For projects with significant adverse impacts on affected communities, the process will ensure their free, prior and informed consultation and facilitate their informed participation as a means to establish, to the satisfaction of the EPFI, whether a project has adequately incorporated affected communities' concerns.⁵

³ The **Action Plan** may range from a brief description of routine mitigation measures to a series of documents (e.g., resettlement action plan, indigenous peoples plan, emergency preparedness and response plan, decommissioning plan, etc). The level of detail and complexity of the Action Plan and the priority of the identified measures and actions will be commensurate with the project's potential impacts and risks. Consistent with Performance Standard 1, the internal **Social and Environmental Management System** will incorporate the following elements: (i) Social and Environmental Assessment; (ii) management program; (iii) organisational capacity; (iv) training; (v) community engagement; (vi) monitoring; and (vii) reporting.

⁴ **Affected communities** are communities of the local population within the project's area of influence who are likely to be adversely affected by the project. Where such consultation needs to be undertaken in a structured manner, EPFIs may require the preparation of a Public Consultation and Disclosure Plan (PCDP).

⁵ **Consultation** should be "free" (free of external manipulation, interference or coercion, and intimidation), "prior" (timely disclosure of information) and "informed" (relevant, understandable and accessible information), and apply to the entire project process and not to the early stages of the project alone. The borrower will tailor its consultation process to the language preferences of the affected communities, their decision-making processes, and the needs of disadvantaged or vulnerable groups. Consultation with Indigenous Peoples must conform to specific and detailed requirements as found in Performance Standard 7. Furthermore, the special rights of Indigenous Peoples as recognised by host-country legislation will need to be addressed.

In order to accomplish this, the Assessment documentation and AP, or non-technical summaries thereof, will be made available to the public by the borrower for a reasonable minimum period in the relevant local language and in a culturally appropriate manner. The borrower will take account of and document the process and results of the consultation, including any actions agreed resulting from the consultation. For projects with adverse social or environmental impacts, disclosure should occur early in the Assessment process and in any event before the project construction commences, and on an ongoing basis.

Principle 6: Grievance Mechanism

For all Category A and, as appropriate, Category B projects located in non-OECD countries, and those located in OECD countries not designated as High-Income, as defined by the World Bank Development Indicators Database, to ensure that consultation, disclosure and community engagement continues throughout construction and operation of the project, the borrower will, scaled to the risks and adverse impacts of the project, establish a grievance mechanism as part of the management system. This will allow the borrower to receive and facilitate resolution of concerns and grievances about the project's social and environmental performance raised by individuals or groups from among project-affected communities. The borrower will inform the affected communities about the mechanism in the course of its community engagement process and ensure that the mechanism addresses concerns promptly and transparently, in a culturally appropriate manner, and is readily accessible to all segments of the affected communities.

Principle 7: Independent Review

For all Category A projects and, as appropriate, for Category B projects, an independent social or environmental expert not directly associated with the borrower will review the Assessment, AP and consultation process documentation in order to assist EPFI's due diligence, and assess Equator Principles compliance.

Principle 8: Covenants

An important strength of the Principles is the incorporation of covenants linked to compliance. For Category A and B projects, the borrower will covenant in financing documentation:

- a) to comply with all relevant host country social and environmental laws, regulations and permits in all material respects;
- b) to comply with the AP (where applicable) during the construction and operation of the project in all material respects;
- c) to provide periodic reports in a format agreed with EPFIs (with the frequency of these reports proportionate to the severity of impacts, or as required by law, but not less than annually), prepared by in-house staff or third party experts, that i) document compliance with the AP (where applicable), and ii) provide representation of compliance with relevant local, state and host country social and environmental laws, regulations and permits; and
- d) to decommission the facilities, where applicable and appropriate, in accordance with an agreed decommissioning plan.

Where a borrower is not in compliance with its social and environmental covenants, EPFIs will work with the borrower to bring it back into compliance to the extent feasible, and if the borrower fails to re-establish compliance within an agreed grace period, EPFIs reserve the right to exercise remedies, as they consider appropriate.

Principle 9: Independent Monitoring and Reporting

To ensure ongoing monitoring and reporting over the life of the loan, EPFIs will, for all Category A projects, and as appropriate, for Category B projects, require appointment of an independent environmental and/or social expert, or require that the borrower retain qualified and experienced external experts to verify its monitoring information which would be shared with EPFIs.

Principle 10: EPFI Reporting

Each EPFI adopting the Equator Principles commits to report publicly at least annually about its Equator Principles implementation processes and experience, taking into account appropriate confidentiality considerations.⁶

DISCLAIMER

The adopting EPFIs view these Principles as a financial industry benchmark for developing individual, internal social and environmental policies, procedures and practices. As with all internal policies, these Principles do not create any rights in, or liability to, any person, public or private. Institutions are adopting and implementing these Principles voluntarily and independently, without reliance on or recourse to IFC or the World Bank.

⁶ 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.

Exhibit I: Categorisation of projects

As part of their review of a project's expected social and environmental impacts, EPFIs use a system of social and environmental categorisation, based on IFC's environmental and social screening criteria, to reflect the magnitude of impacts understood as a result of assessment. These categories are:

Category A – Projects with potential significant adverse social or environmental impacts that are diverse, irreversible or unprecedented;

Category B – Projects with potential limited adverse social or environmental impacts that are few in number, generally site-specific, largely reversible and readily addressed through mitigation measures; and

Category C – Projects with minimal or no social or environmental impacts.

Exhibit II:**Illustrative list of potential social and environmental issues to be addressed in the Social and Environmental Assessment documentation**

In the context of the business of the project, the Assessment documentation will address, where applicable, the following issues:

- a) assessment of the baseline social and environmental conditions
- b) consideration of feasible environmentally and socially preferable alternatives
- c) requirements under host country laws and regulations, applicable international treaties and agreements
- d) protection of human rights and community health, safety and security (including risks, impacts and management of project's use of security personnel)
- e) protection of cultural property and heritage
- f) protection and conservation of biodiversity, including endangered species and sensitive ecosystems in modified, natural and critical habitats, and identification of legally protected areas
- g) sustainable management and use of renewable natural resources (including sustainable resource management through appropriate independent certification systems)
- h) use and management of dangerous substances
- i) major hazards assessment and management
- j) labour issues (including the four core labour standards), and occupational health and safety
- k) fire prevention and life safety
- l) socio-economic impacts
- m) land acquisition and involuntary resettlement
- n) impacts on affected communities, and disadvantaged or vulnerable groups
- o) impacts on indigenous peoples, and their unique cultural systems and values
- p) cumulative impacts of existing projects, the proposed project, and anticipated future projects
- q) consultation and participation of affected parties in the design, review and implementation of the project
- r) efficient production, delivery and use of energy
- s) pollution prevention and waste minimisation, pollution controls (liquid effluents and air emissions) and solid and chemical waste management

Note: The above list is for illustrative purposes only. The Social and Environmental Assessment process of each project may or may not identify all issues noted above, or be relevant to every project.

Exhibit III: IFC Performance Standards on Social and Environmental Sustainability

As of April 30, 2006, the following list of IFC Performance Standards were applicable:

- Performance Standard 1: Social & Environmental Assessment & Management System
- Performance Standard 2: Labor and Working Conditions
- Performance Standard 3: Pollution Prevention and Abatement
- Performance Standard 4: Community Health, Safety and Security
- Performance Standard 5: Land Acquisition and Involuntary Resettlement
- Performance Standard 6: Biodiversity Conservation and Sustainable Natural Resource Management
- Performance Standard 7: Indigenous Peoples
- Performance Standard 8: Cultural Heritage

Note: The IFC has developed a set of **Guidance Notes** to accompany each Performance Standard. While not formally adopting the Guidance Notes, EPFIs or borrowers may use the Guidance Notes as useful points of reference when seeking further guidance on or interpretation of the Performance Standards. The IFC Performance Standards, Guidance Notes and Industry Sector EHS Guidelines can be found at www.ifc.org/enviro

Exhibit IV: Industry-Specific Environmental, Health and Safety (EHS) Guidelines

EPFIs will utilise the appropriate environmental, health and safety (EHS) guidelines used by IFC which are now in place, and as may be amended from time-to-time.

IFC is using two complementary sets of EHS Guidelines available at the IFC website (www.ifc.org/enviro). These sets consist of all the environmental guidelines contained in Part III of the World Bank's Pollution Prevention and Abatement Handbook (PPAH) which went into official use on July 1, 1998 and a series of environmental, health and safety guidelines published on the IFC website between 1991 and 2003. Ultimately new guidelines, incorporating the concepts of cleaner production and environmental management systems, will be written to replace this series of industry sector, PPAH and IFC guidelines.

Where no sector specific guideline exists for a particular project then the PPAH's General Environmental Guidelines and the IFC Occupational Health and Safety Guidelines (2003) are applied, with modifications as necessary to suit the project.*

The table below lists both the World Bank Guidelines and the IFC Guidelines as of March 1, 2006.

Industry Specific EHS Guidelines:

World Bank Guidelines (PPAH)	IFC Guidelines
1. Aluminum Manufacturing	1. Airports
2. Base Metal and Iron Ore Mining	2. Ceramic Tile Manufacturing
3. Breweries	3. Construction Materials Plants
4. Cement Manufacturing	4. Electric Power Transmission and Distribution
5. Chlor-Alkali Plants	5. Fish Processing
6. Coal Mining and Production	6. Food and Beverage Processing
7. Coke Manufacturing	7. Forestry Operations: Logging
8. Copper Smelting	8. Gas Terminal Systems
9. Dairy Industry	9. Geothermal Projects
10. Dye Manufacturing	10. Hazardous Materials Management
11. Electronics Manufacturing	11. Health Care
12. Electroplating Industry	12. Life & Fire Safety
13. Foundries	13. Occupational Health and Safety
14. Fruit and Vegetable Processing	14. Office Buildings
15. General Environmental Guidelines	15. Offshore Oil & Gas
16. Glass Manufacturing	16. Polychlorinated Biphenyls (PCBs)
17. Industrial Estates	17. Pesticide Handling and Application
18. Iron and Steel Manufacturing	18. Plantations
19. Lead and Zinc Smelting	19. Port and Harbor Facilities
20. Meat Processing and Rendering	20. Rail Transit Systems
21. Mini Steel Mills	21. Roads and Highways
22. Mixed Fertilizer Plants	22. Telecommunications
23. Monitoring	23. Tourism and Hospitality Development
24. Nickel Smelting and Refining	24. Waste Management Facilities
25. Nitrogenous Fertilizer Plants	25. Wastewater Reuse
26. Oil and Gas Development (Onshore)	26. Wildland Management
27. Pesticides Formulation	27. Wind Energy Conversion Systems
28. Pesticides Manufacturing	28. Wood Products Industries

29. Petrochemicals Manufacturing	
30. Petroleum Refining	
31. Pharmaceutical Manufacturing	
32. Phosphate Fertilizer Plants	
33. Printing Industry	
34. Pulp and Paper Mills	
35. Sugar Manufacturing	
36. Tanning and Leather Finishing	
37. Textiles Industry	
38. Thermal Power Guidelines for New Plants	
39. Thermal Power Rehabilitation of Existing Plants	
40. Vegetable Oil Processing	
41. Wood Preserving Industry	

* Exception (the following are World Bank Guidelines not contained in the PPAH and currently in use)

Mining and Milling - Underground
 Mining and Milling - Open Pit

Appendix 5: EPFI Management Structure 2010

EPFI CHAIR Shawn Miller, Citi	
EPFI STEERING COMMITTEE	
Barclays, BNP Paribas, Credit Agricole Corporate & Investment Bank, Credit Suisse, Citi, HSBC, ING, Itau Unibanco S/A, Mizuho, RBS, Societe Generale, Standard Bank Group, The Bank of Tokyo-Mitsubishi UFJ, UniCredit Bank AG, WestLB	
EPFI WORKING GROUPS	
ADOPTION Leonie Schreve, ING	Credit Agricole Corporate & Investment Bank, Itau Unibanco S/A, RBC
BEST PRACTICE Courtney Lowrance, Citi	Barclays, Banco Bradesco, Credit Agricole Corporate & Investment Bank, Dexia, EDC, EFIC, FMO, Itau Unibanco S/A, JP Morgan, RBS, Wachovia, WestLB
CLIMATE CHANGE Chris Bray, Barclays	Bank of Tokyo-Mitsubishi UFJ, BNP Paribas, Citi, Dexia, FMO, HSBC, UniCredit Bank AG, ING, Itau Unibanco S/A, Mizuho, RBS, Standard Bank Group, Standard Chartered, WestLB
GOVERNANCE John Laidlow, HSBC	Barclays, BNP Paribas, RBS, Societe Generale, TD Bank Financial Group
OUTREACH Karen Wendt, UniCredit Bank AG	Various EPFIs involved in the Outreach Groups for: ECAs, Asia, China, India, Middle East & Africa and South America.
SCOPE REVIEW - IPO Karen Wendt, UniCredit Bank AG	FMO, Credit Suisse, Itau Unibanco S/A, JP Morgan
SCOPE REVIEW - CORPORATE LOANS Shawn Miller, Citi	Bank of Tokyo-Mitsubishi UFJ, Banco Bradesco, BNP Paribas, Dexia, EDC, HSBC, ING, KBC, JP Morgan, Mizuho, Rabobank, SMBC, Standard Chartered
SCOPE REVIEW - EXPORT FINANCE Eric Cochard, Credit Agricole Corporate & Investment Bank	Bank of Tokyo-Mitsubishi UFJ, BNP Paribas, Citi, EFIC, EKF, UniCredit Bank AG, Rabobank, RBS, Societe Generale, SMBC, Standard Bank Group
SOCIAL RISKS Claire Wallace-Jones, Barclays	ANZ, Citi, Credit Agricole Corporate & Investment Bank, Dexia, EFIC, EKF, HSBC, ING, Itau Unibanco S/A, JP Morgan, Mizuho, RBS, TD Bank Financial Group, UniCredit Bank AG, WestLB
STAKEHOLDERS - NGOs Jens Kubusch, UniCredit Bank AG	Barclays, BNP Paribas, Dexia, Credit Agricole Corporate & Investment Bank, Citi, Credit Suisse, ING, Nedbank, Societe Generale, WestLB
STAKEHOLDERS - SRIs Eric Cochard, Credit Agricole Corporate & Investment Bank	Citi, UniCredit Bank AG, ING, Nedbank, Societe Generale, WestLB
STAKEHOLDERS - INDUSTRY OUTREACH Shawn Miller, Citi	Credit Agricole Corporate & Investment Bank, UniCredit Bank AG, Scotiabank

(Source: <http://www.equator-principles.com/mgmt.shtml>)

Appendix 6: List of EPFIs (as per April, 2010)

Argentina	Banco Galicia
Australia	ANZ EFIC National Australia Bank Westpac Banking Corporation
Belgium	Dexia Group Fortis Bank NV/SA KBC Bank N.V.
Brazil	Banco Bradesco Banco do Brasil Caixa Econômica Federal Itau Unibanco S/A
Canada	BMO Financial Group Canadian Imperial Bank of Commerce Export Development Canada Manulife Royal Bank of Canada Scotiabank TD Bank Financial Group
Chile	CORPBANCA
China	Industrial Bank Co., Ltd
Colombia	Bancolombia S.A.
Costa Rica	CIFI
Egypt	Arab African International Bank
France	BNP Paribas Credit Agricole Corporate and Investment Bank* Societe Generale
Denmark	Eksport Kredit Fonden
Germany	HypoVereinsbank** KfW IPEX-Bank WestLB AG
Italy	Intesa Sanpaolo
Japan	Mizuho Corporate Bank, Ltd. SMBC The Bank of Tokyo-Mitsubishi UFJ,Ltd
The Netherlands***	ASN Bank NV FMO Fortis Bank Nederland*** ING Group Rabobank Group

Nigeria	Access Bank Plc
Norway	DnB Nor
Oman	BankMuscat
Portugal	Banco Espírito Santo Group Millennium bcp
South Africa	Absa Bank Limited FirstRand Bank Ltd Nedbank Group Standard Bank Group
Spain	Banco Santander BBVA S.A. Caja Navarra la Caixa
Sweden	Nordea SEB
Switzerland	Credit Suisse Group
United Kingdom	Barclays plc HBOS**** HSBC Group Lloyds TSB Standard Chartered Bank The Royal Bank of Scotland
United States	Bank of America Citigroup Inc. E+Co***** JPMorgan Chase Wells Fargo & Company
Uruguay	Banco de la República Oriental del Uruguay

(Source: www.equator-principles.com/join.shtml)

* Formerly Calyon.

** Now merged with and known as UniCreditBank AG.

*** Dutch bank ABN Amro, one of the “founding fathers” of the EP, were removed from this list following their take over by the Royal Bank of Scotland, Fortis and Banco Santander consortium in 2007. Post July 2010, due to the merger of ABN Amro and Fortis Nederland (which became known collectively as ABN Amro), they were reintroduced in name onto the list of EPFIs.

**** Now integrated into Lloyds TSB.

***** Di-listed themselves in May, 2010 due to no involvement in project finance activities.

NEDERLANDSTALIGE SAMENVATTING (Dutch Summary)

Onderzoeksoverzicht

De “Equator Principles” (EP) werden in juni 2003 geïntroduceerd door tien internationale banken. De EP bevatten richtlijnen met betrekking tot het risicomanagement van milieu- en sociale effecten van projectfinanciering waar de deelnemende banken zich op vrijwillige basis aan houden. De EP werden door de financiële sector als een “revolutionair” initiatief gezien. Belangengroepen (niet-gouvernementele organisaties of NGOs) die zich richten op projectfinanciering waren niet allemaal positief over de EP, omdat deze in hun ogen onvoldoende tegemoet kwamen aan de verantwoordingseisen die ze aan de financiële sector stellen. In juni 2008 waren de EP door 60 financiële instellingen aangenomen, en een vast onderdeel geworden van hun projectfinancieringsactiviteiten. Desondanks bleven NGOs vragen om meer concreet bewijs van de positieve effecten van EP implementatie.

Het doel van dit onderzoek is het beschrijven, begrijpen en verklaren van het proces van institutionalisering van de EP in de periode van 2003 tot 2008 en de invloed die dit proces heeft gehad op de sociale verantwoordelijkheid (*accountability*) van de betrokken financiële instellingen (de EPFI): *waarom en hoe* zijn de EP een gangbaar.

Het onderzoek betreft een kwalitatieve gevalstudie van het EP institutionaliseringssproces in de periode van 2003 tot 2008. De data zijn afkomstig uit observatie, documenten en interviews. De interviews zijn gehouden met 31 belangrijke EP actoren, van tien EPFIs, tien NGOs en 5 bredere stakeholderorganisaties.¹¹¹ Dit casusmateriaal is geïnterpreteerd door gebruik te maken van: 1) de concepten van accountability en legitimiteit en 2) het institutionaliseringssraamwerk van Dillard et al. (2004), om zodoende de opkomst en de evolutie van het EP institutionaleringsproces tussen 2003 en 2008 te belichten, alsmede de effecten op de verantwoordelijkheid van de EPFI.

Dillard et al. beschouwen institutionalisering als een *structureringsproces* (Giddens, 1984) dat zich voordoet op maatschappelijk, sector- en organisatorisch niveau. Dat wil zeggen, zij gaan er vanuit dat er een wederkerige, voortdurende relatie

¹¹¹ Een advocatenkantoor, een milieu-advieskantoor, twee afnemers van de mijnbouwindustrie, en een internationale belangengroep van de mijnbouwindustrie.

bestaat tussen de “structuren” die een specifieke institutie (dat wil zeggen een norm, waarde of standaard die algemeen geaccepteerd is) ondersteunen en de geïnformeerde en reflexieve partijen (“agents”) die met deze structuren in aanraking komen. Onder “structuren” worden hier de legitimerende, betekenisgevende, en dominerende (machts-) eigenschappen verstaan, die geassocieerd worden met het betreffende instituut. Dillard et al. stellen dat deze iteratieve relatie tussen structuren en agenten wordt *gemobiliseerd* door dagelijkse interactie tussen maatschappelijke, institutionele en organisatorische “criteria” en “praktijk”, en zich *manifesteert* in de opkomst, evolutie, en “acceptatie” van een institutie na verloop van tijd. In dit onderzoek worden de EP als een institutie (standaard) beschouwd, en is het kader van Dillard et al. gebruikt om te doorgronden en uit te leggen hoe de EP’s in 2003 opkwamen en zich ontwikkelden tot *de* geaccepteerde (geïnstitutionaliseerde) standaard voor duurzame projectfinanciering in 2008.

Onderzoeksresultaten

Op basis van het kader van Dillard et al. (2004) beschrijven de casebevindingen de ontwikkeling van de EP institutionalisering op sociaal-economisch en politiek niveau (SEP), sectorniveau (“organisational field”, OF), organisatienniveau (“organisational level”, OL) *en* intra-organisatienniveau (“intra-organisational level”, IOL) tussen 2003 en 2008 (zie figuur 12, p.243).

Meer specifiek wordt met de case eerst geïllustreerd waarom en hoe NGO campagnes voor accountability en “morele legitimiteit” van de financiële sector eind jaren negentig (SEP niveau) de aanzet gaven tot EP-ontwikkeling. Hierbij was een belangrijke rol weggelegd voor zogeheten “embedded agents” binnen vier banken (OL niveau), die samen met zes andere banken (OF niveau) de EP ontwikkelden en introduceerden in 2003 (onderzoeksvergroot 1).

Ten tweede wordt geanalyseerd hoe en waarom het institutionaliseringproces van de EP zich voltrok tussen 2003 en 2008 (onderzoeksvergroot 2). Deze analyse benadrukt hoe de “kwestie” (Hoffman, 1999) van de EP, en van meer verantwoordelijke projectfinanciering, heeft geleid tot de ontwikkeling van een speelveld (OF niveau) van ongelijksoortige actoren (zoals EPFIs, NGOs, klanten, consultants en advocaten) die met elkaar in aanraking kwamen, hetgeen zonder de EP wellicht niet gebeurd zou zijn (zie Figuur 12, p.243).

Ten derde laat deze analyse zien hoe de EP “criteria” op OF niveau (dat wil zeggen de Principes zelf) werden geïnterpreteerd (betekenisgeving), gerationaliseerd (legitimatie) en beheerst (dominantie) door EPFI agenten op organisatieniveau (OL) en intra-organisatieniveau (IOL), om te verzekeren dat de EP geïmplementeerd werden in “criteria” (beleid, handleidingen) en “praktijk” van risicomanagement en projectfinanciering. Hier worden de verschillen tussen EPFIs benadrukt. Ten vierde illustreert deze analyse hoe verschillende isomorfe invloeden op de EP-adoptie door andere financiële instellingen is uitgeoefend door de aard van de markt voor projectfinanciering op OF niveau. Hiermee laat dit onderzoek zien dat de instellingen die de EP pas later adopteerden *in dit onderzoek* zich niet “passief” aansloten bij de trend van EP-adoptie op OF niveau, maar dat deze “actief” hebben meegewogen wat hun risicomanagement “performance” op OL niveau was in hun beslissing om de EP te adopteren (zie Figuur 12, p.243).

Ten vijfde, wordt in deze analyse kritisch bediscussieerd hoe actieve en reflexieve kennis van EPFI agenten van 1) ervaringen van EPFIs met EP implementatie op OL en IOL niveau; 2) uitdagingen op het gebied van EP governance op OF niveau; en 3) bewustzijn van voortdurende NGO kritiek van hetzelfde SEP niveau in de periode van 2003 tot 2008, hebben geleid tot de introductie van EP II in 2006 en ontwikkelingen richting EP governance op OF en OL niveau tussen 2007 and 2008. Verder blijkt uit de case *hoe* EP criteria een geïnstitutionaliseerd facet van de EPFI projectfinancieringpraktijk op IOL niveau zijn, en *hoe* zij invloed uitoefenen op, en beïnvloed worden door EP institutionalisering op OL, OF en SEP niveau's (zie Figuur 12, p.243).

Tot slot illustreren de bevindingen uit de case *hoe* het proces van institutionalisering van EP de sociale verantwoordelijkheid heeft beïnvloed in de periode van 2003 tot 2008 (onderzoeksvraag 3). Dit toont de *complexiteit* aan van de verantwoordingskwesties die met de EP verbonden waren tussen 2003 en 2008, en hoe deze in dezelfde periode invloed uitoefenden, en beïnvloed zijn door het EP institutionaliseringsproces. Ondanks de voordurende ongelijkheden tussen de percepties van NGOs en EPFIs met betrekking tot wat sociale verantwoordelijkheid met betrekking to de EP in zou moeten houden, is de stelling van dit onderzoek dat EP institutionalisering de sociale verantwoordelijkheid van EPFIs over 2003 to 2008

eerder *gestimuleerd* heeft dan beperkt. Dit betrof niet alleen EPFI projectfinancieringsactiviteiten, maar ook de bewustwording van en activiteiten rond milieu en maatschappelijke effecten, die in meerdere bancaire activiteiten een impuls kregen. Hetgeen, zoals een hoge manager van een EPFI opmerkte, wellicht de “grootste nalatenschap” van de EP is.

Bijdragen en beperkingen van het onderzoek

Er is niet eerder een onderzoek uitgevoerd binnen de accountingdiscipline dat zich *specifiek* heeft gericht op de EP en de daarmee verbonden accountabilitydynamiek, of op de institutionalisering van de EP. Daarnaast is er geen specifiek onderzoek over EP institutionalisering onder het beperkte aantal onderzoeken dat is uitgevoerd met betrekking tot de EP in de bredere context van de “corporate social responsibility”(CSR) en de duurzame financieringliteratuur. Dit onderzoek heeft een aantal substantiële theoretische bijdragen geleverd aan de bestaande literatuur in beide gebieden. Daarnaast levert dit onderzoek nieuwe empirische bijdragen aan de bestaande literatuur, omdat het een kwalitatieve analyse van het EP institutionaliseringproces geeft vanuit het perspectief van de belangrijkste EP actoren in het veld. Daarnaast levert dit onderzoek een aantal praktische gevolgtrekkingen voor meerdere EP stakeholders: het is een zeer informatieve “introduction” met betrekking tot de evolutie van de EP sinds 2003 en biedt aanbevelingen aan EPFIs ter ondersteuning van *toekomstige* verbeteringen van hun EP accountability.

Aangezien dit onderzoek zich heeft gericht op de EP institutionaliseringprocessen tussen 2003 en 2008, zou toekomstig onderzoek de periode na 2008 nader kunnen belichten. Daarnaast heeft dit onderzoek de perspectieven van een beperkt aantal EPFIs en NGOs vooropgesteld, en toekomstig onderzoek kan derhalve andere EP stakeholderperspectieven op EP institutionalisering belichten. In het bijzonder kan hierbij gedacht worden aan EPFI klanten en “Socially Responsible Investors” (SRIs). Dit zou direct bestaande hiaten in de literatuur met betrekking tot dit soort analyses dichten.

ABOUT THE AUTHOR

Niamh O’Sullivan was born in Cork City, Ireland in 1977. She completed a BA degree in geography and archaeology and an MA degree in geography in University College Cork (UCC), between 1995 and 2000. She then spent four and a half years with the United Nations Environment Programme Finance Initiative (UNEP FI), in Geneva, Switzerland between 2001 and 2005. Here she became founder and project manager for the UNEP FI African Task Force (ATF), as well as joint project manager for the UNEP FI – GRI (Global Reporting Initiative) Financial Services Sector Supplement Working Group. She also organised a number of UNEP FI conferences and events internationally, including one at the World Summit for Sustainable Development (WSSD), in Johannesburg, South Africa in 2002.

Niamh began her PhD in the accounting section of the University of Amsterdam Business School (UvABS) in September 2005. Throughout her PhD she presented her research at a number of international conferences, including the Asia Pacific Interdisciplinary Research in Accounting (APIRA) event in Auckland, New Zealand in 2007; and the Centre for Social and Environmental Accounting Research (CSEAR) summer school in St. Andrews University, Scotland in 2008. Her research has also gained both international and national recognition. This includes being shortlisted as one of six international finalists in the Aspen Institute Business and Society Programme Dissertation Proposal Awards in 2007 and becoming a recipient of the KPMG Netherlands PhD research awards since 2007. In addition, Niamh’s first (co-authored) article from her research was published in the *Accounting, Auditing & Accountability Journal* (AAAJ) in 2009. This article won the French SIF (Social Investment Forum) “Best Published Article Award”, and also received a High Commendation in the AAAJ Mary-Parker Follett Outstanding Paper Award for 2009, in 2010.

Niamh now looks forward to writing more articles from her PhD thesis with Prof. Brendan O’Dwyer and to continuing her research into social accountability and the finance sector at post-doctorate level at UvABS.