UNIVERSITEIT VAN PRETORIA
UNIVERSITY OF PRETORIA
YUNIBESITHI YA PRETORIA

GORDON INSTITUTE
OF BUSINESS SCIENCE
University of Pretoria

Assessing the adoption of the Equator Principles by financial institutions in South Africa

Muziwandile Chonco
27527418

A research project submitted to the Gordon Institute of Business Science, University of Pretoria, in partial fulfilment of the requirements for the degree of
Master of Business Administration.

11 November 2009

UNIVERSITEIT VAN PRETORIA
UNIVERSITY OF PRETORIA
YUNIBESITHI YA PRETORIA

Abstract

The financial sector has been identified as playing a crucial role in the advancement of sustainable development, as it provides capital that drives industrial activities and economic growth. In recognition of this role and the need to manage environmental and social risks, ten private, international lending institutions developed and adopted a set of voluntary guidelines in 2003, which became known as the Equator Principles.

This study aims to assess the factors that influence the adoption of the Equator Principles by South African Financial Institutions. To achieve this, a qualitative research in the form of semi-structured interviews with industry specialists and representatives of four large banks - was undertaken.

South African Financial Institutions cited the following as the main driving factors in deciding to adopt the Equator Principles: improvement in risk management and in chances of partaking in syndication loans with other Equator Principles Finance Institutions; and acquiring funding from Development Finance Institutions. Concerns over potential loss of business, as well as increased scrutiny by civil society were raised as constraining factors to the adoption of the Equator Principles. Further research needs to be undertaken in order to determine the actual costs and benefits of adopting the Equator Principles, since South African Finance Institutions have only recently adopted them.

UNIVERSITEIT VAN PRETORIA
UNIVERSITY OF PRETORIA
YUNIBESITHI YA PRETORIA

Declaration

I declare that this research project is my own work. It is submitted in partial fulfilment of the requirement for the degree of Master of Business administration at the Gordon Institute of Business Science, University of Pretoria. It has not been submitted before for any degree or examination in any other University. I further declare that I have obtained the necessary authorisation and consent to carry out this research.

Muziwandile Msizi Chonco

……………………………......

11 November 2009

Acknowledgements

The completion of this report would not have been possible without the support and encouragement of a number of people to whom I am very grateful:

- I would like to express my sincere gratitude to my supervisor, Mr Donald Gibson for always being available whenever I needed to meet and discuss.
- To my parents, Mr & Mrs Chonco: Thank you for your unconditional support, love and for always reminding me that anything is possible through hard work.
- To Bheki, Magambushe, Zandile, Zama, Phumzile and Lindela – thank you for always believing in me. Indeed through your encouragement, I will rise to become a great “family made man”.
- I would also like extend my appreciation to all the individuals who made themselves available to be interviewed and from whom I gained tremendous insights.
- To my MBA classmates: like true warriors - we are battered; bruised and scarred; but still standing - Congratulations
- To my unborn daughter, I dedicate this to you “my little angel”.

Table of Contents

ABSTRACT .... **II**

DECLARATION .... **III**

ACKNOWLEDGEMENTS .... **IV**

LIST OF FIGURES .... **VIII**

LIST OF TABLES .... **IX**

LIST OF ABBREVIATIONS .... **X**

1. CHAPTER 1: INTRODUCTION TO RESEARCH PROBLEM **1**

1.1 DESCRIPTION OF PROBLEM AND BACKGROUND **1**
1.1.1 Overview of South African banking industry ***1***
1.1.2 Environmental and social risk ***2***
1.1.3 Global financial sector response ***3***
1.1.4 Sustainable banking in South Africa ***6***
1.1.4.1 Defining sustainable banking 6
1.1.4.2 Legislative and regulatory framework 6
1.2 PURPOSE OF THE STUDY **8**
1.3 RESEARCH SCOPE **9**

2. CHAPTER 2: LITERATURE REVIEW **11**

2.1 DEFINITION AND ADOPTION OF EQUATOR PRINCIPLES **12**
2.2 PROJECT FINANCE **18**
2.3 FACTORS INFLUENCING THE ADOPTION OF EQUATOR PRINCIPLES **19**
2.3.1 Introduction ***19***
2.3.2 Driving factors ***21***
2.3.3 Constraining factors ***23***
2.3.4 Costs associated with adoption of Equator Principles ***25***
2.3.5 Benefits associated with adoption of Equator Principles ***27***
2.3.6 Conclusion ***29***

3. CHAPTER 3: RESEARCH QUESTIONS **31**

4. CHAPTER 4: RESEARCH METHODOLOGY **32**

4.1 RATIONALE FOR RESEARCH METHOD **32**
4.2 RESEARCH DESIGN **33**
4.3 SAMPLE DESIGN **36**
4.3.1 Population definition ***36***
4.3.2 Unit of Analysis ***36***
4.3.3 Sampling method and size ***36***
4.3.4 Data collection ***37***
4.3.5 Data analysis ***37***
4.3.6 Data validity and reliability ***39***
4.3.7 Research limitations ***40***

5. CHAPTER 5: RESULTS 42

5.1 NEDBANK 43
5.1.1 Background 43
5.1.2 Driving factors 44
5.1.3 Constraining factors 46
5.2 STANDARD BANK 50
5.2.1 Background 50
5.2.2 Driving factors 51
5.2.3 Constraining factors 52
5.3 FIRSRAND BANK 57
5.3.1 Background 57
5.3.2 Driving factors 58
5.3.3 Constraining factors 59
5.4 ABSA 63
5.4.1 Background 63
5.4.2 Driving factors 64
5.4.3 Constraining factors 65

6. CHAPTER 6: DISCUSSION OF RESULTS 68

6.1 INTRODUCTION 68
6.2 DRIVING FACTORS THAT INFLUENCE THE ADOPTION OF EQUATOR PRINCIPLES BY SAFIS 68
6.2.1 NGO pressure 68
6.2.2 State of legislation in project host countries and risk management 70
6.2.3 Environmental and social responsibility 71
6.2.4 Peer pressure 72
6.3 RESTRAINING FACTORS THAT INFLUENCE THE ADOPTION OF EQUATOR PRINCIPLES BY SAFIS 72
6.3.1 Free riding 72
6.3.2 Compromises economic development 74
6.3.3 Difficulty in demonstrating the business case 75
6.4 PERCEIVED COST AND BENEFITS OF ADOPTING OR NOT ADOPTING THE EQUATOR PRINCIPLES 75
6.4.1 Improved financial and reputation risk management 75
6.4.2 Cost of implementation 76
6.4.3 Opportunity costs of loosing business to competitors that are not EPFIs. 77
6.4.4 Improved reputation 79
6.4.5 Improved chances of participating in syndication loans with other EPFIs and acquiring funding from DFIs 79
6.4.6 Increased NGO scrutiny and public pressure 80
6.5 FORCE-FIELD ANALYSIS 81
6.5.1 Nedbank 82
6.5.2 Standard Bank 83
6.5.3 FirstRand Bank 84

6.5.4 Absa *85*
6.6 CONCLUSION 86
7. CHAPTER 7 : CONCLUSION AND RECOMMENDATIONS 88
7.1 KEY RESEARCH FINDINGS 88
7.1.1 State of legislation in project host countries and risk management *88*
7.1.2 Difficulty of demonstrating a business case *89*
7.1.3 Peer pressure *89*
7.1.4 Cost and Benefits of adopting EPs *90*
7.2 RECOMMENDATIONS FOR STAKEHOLDERS 91
7.3 RECOMMENDATIONS FOR FUTURE RESEARCH 92
8. REFERENCE LIST 94
9. APPENDICES 99
APPENDIX 1: INTERVIEW GUIDE - PART 1 INTERVIEWS 99
APPENDIX 2:INTERVIEW GUIDE - PART 2 INTERVIEWS 101

List of Figures

FIGURE 1 NEDBANK FORCE-FIELD DIAGRAM 82

FIGURE 2: STANDARD BANK FORCE-FIELD DIAGRAM.. 83

FIGURE 3: FIRSTRAND FORCE-FIELD DIAGRAM 84

FIGURE 4: ABSA FORCE-FIELD DIAGRAM.. 85

FIGURE 5: RATING OF KEY FACTORS CONSIDERED BY SAFIS IN ADOPTION OF EPS 87

UNIVERSITEIT VAN PRETORIA
UNIVERSITY OF PRETORIA
YUNIBESITHI YA PRETORIA

List of Tables

TABLE 1: SUMMARY OF THE EQUATOR PRINCIPLES (SOURCE: MODIFIED FROM ANDREW, 2008)........16

TABLE 2: SUMMARY OF THE LITERATURE REVIEW FINDINGS 19

TABLE 3: LIST OF INTERVIEWED SPECIALISTS 34

TABLE 4: LIST OF INTERVIEWED SAFIS REPRESENTATIVES........35

TABLE 5: SUMMARY OF THE COSTS AND BENEFITS CONSIDERED BY NEDBANK 47

TABLE 6: KEY FACTORS THAT INFLUENCED NEDBANK IN THE ADOPTION OF EQUATOR PRINCIPLES........49

TABLE 7 SUMMARY OF THE COSTS AND BENEFITS CONSIDERED BY STANDARD BANK .54

TABLE 8: KEY FACTORS THAT INFLUENCED STANDARD BANK IN THE ADOPTION OF EQUATOR PRINCIPLES........56

TABLE 9: SUMMARY OF COSTS AND BENEFITS CONSIDERER BY FIRSTRAND 60

TABLE 10: KEY FACTORS THAT INFLUENCED FIRSTRAND IN THE ADOPTION OF EQUATOR PRINCIPLES........62

TABLE 11: SUMMARY OF THE COSTS AND BENEFITS CONSIDERED ABSA........66

TABLE 12: KEY FACTORS THAT INFLUENCED ABSA IN THE ADOPTION OF EQUATOR PRINCIPLES........67

TABLE 13: SUMMARY OF FACTORS THAT INFLUENCED SAFIS IN ADOPTION OF EQUATOR PRINCIPLES........86

List of Abbreviations

DFI	Development Finance Institutions
EPFI	Equator Principles Finance Institution
EPs	Equator Principles
GRI	Global Reporting Index
IFC	International Finance Corporation
JSE	Johannesburg Stock Exchange
NGO	Non Governmental Organisation
SAFIs	South African Financial Institutions
SRI	Social Responsibility Index
UN	United Nations
UNEP	United Nations Environmental Programme
UNEP FI	United Nations Environmental Programme Finance Initiative

1. Chapter 1: Introduction to Research Problem

1.1Description of problem and background

1.1.1 Overview of South African banking industry

South Africa has the largest economy in Africa, as well as the most advanced banking system on the continent (SARB, 2008). It is the economic powerhouse of Africa, with a gross domestic product (GDP) comprising around 25% of that of the entire continent (SARB, 2008). South Africa is also host to the five biggest banks in Africa (The Banker, 2008). As at the end of December 2008, there were 33 banking institutions reporting data to the office of the Registrar of Banks. In addition, 43 international banks have authorised representative offices in South Africa (SARB, 2008). The sector is highly consolidated, with the top four banks − which include ABSA, Standard Bank, First Rand and Nedbank − accounting for 84.4% of the banking sector assets at the end of December 2008 (SARB, 2008).

Within South Africa, the Financial Services Board oversees the regulation of financial markets and institutions, including insurers, fund managers and broking operations, but excluding banks, which fall under the South African Reserve Bank. The Banks Act (No 94 of 1990) is primarily based on legislation similar to that of the United Kingdom, Australia and Canada. The United Nations Environmental Programme Finance Initiative (UNEP FI) African Task

Force report (2007) suggests that the South African banking sector compares favorably with industrialised countries in terms of the strength of its banking systems, legislation, central bank and the overall structure of the sector. Investment and merchant banking remains the most competitive front in the industry, with many major South African banks competing for business throughout Africa. While not a direct driver the relative size and sophistication of the South African banking sector implies that it has a critical leadership role to play in forwarding the sustainability agenda in the banking industry across Africa (UNEP FI, 2007).

1.1.2 Environmental and social risk

Environmental and social risks are playing an increasing role in the investment decisions of financing institutions (Groth, 1994). The need for lending institutions to understand and manage this risk is heightened by growing reputation pressures for sustainable investment and by lender's liability for environmental impacts. (Watchman, Delfino & Addison, 2007; Hansel, 2006) Thomson (1998) suggests that banks define environmental and social risk in terms of the financial risks that may affect the present value of their loan portfolio. For Project Financing, environmental and social issues may have far-reaching consequences, since the repayment depends primarily on the project's cash flow and on the collateral value of the project's assets (Papadopoulos, 2009). Thus any delays in project delivery due to environmental and social issues will have a direct impact on the project financier's return on investment.

Emerging in the 1990s, sustainable development was initially seen as a move away from a traditional view that states that there is just one bottom line – financial. In today's view, sustainable development is positioned higher up on the corporate agenda, with environmental and social concerns viewed as relevant to business performance (Beloff, Tanzil & Clarke-Whistler, 2007). Although the financial sector has been sees to be lagging behind, increasing attention is been paid to the growing importance of its role in the advancement of sustainable development, seeing as they provide capital that drives industrial activities and economic growth (O'Sullivan and O'Dwyer, 2009). Banks may not have a significant influence on environmental and social impact through their own operations. They will however, have a banking relationship with some companies or investment projects that are pollute or could be in the future (Sahoo and Nayak, 2007)

1.1.3 Global financial sector response

In 2003, ten international private lending institutions developed and adopted a set of voluntary guidelines as a way of encouraging private lenders to consider social and environmental issues before funding projects, thus managing the associated risks (Andrew, 2008). These voluntary guidelines - which became to be known as the Equator Principles (EPs) - were developed under the auspices of the World Bank's International Finance Corporation (IFC), and are directed primarily to private, commercial lending in developing countries and emerging economies where borrowers rely more heavily on external project finance than is the case for businesses and governments in Organisation for Economic Cooperation and Development (OECD) countries, and (Richardson, 2005).

Nguyen (2007) suggests that environmental and social issues expose private lending institutions to both financial and reputation risk. However, Watchman *et al* (2007) adds that some banks adopt the EPs as compliance to good corporate governance, based on the following: need for sustainable banking underpinned by sustainable development; and a desire to address social and environmental issues in a thorough and detailed manner which would be acceptable to the project host country.

According to Scholtens and Dam (2007), most of these financial institutions agree that the benefits of adopting EPs outweigh the associated costs. However, Hansen (2006) points out that as much as EPs are portrayed as a responsible and profitable tool for managing project risk rather than a source of risk, lenders that implement the Principles may actually increase their risk of liability. He suggest that this increase in risk emanates from the expansion of environmental covenants as default triggers, as well as the heightened public pressure that EPFIs will face to pull them upon occurrence of even the slightest of breach.

Companies in developing countries rely more on project financing than those in developed countries which often own the necessary capital. Thus, the adoption of these principles by the formers' investment banks is important for the protection of the environment and social rights of the people in the developing countries (Papadopoulos, 2009). Project Financiers in the developing world had not adopted the Equator Principles with the same enthusiasm as their counterparts in the developed countries. As of June 2009, 68 financial institutions had adopted the EPs, including 16 from emerging markets. It is estimated that over 70% of project finance activity in emerging markets is now carried out in accordance with the EPs (IFC, 2009).

In 2006 it was reported that only 3% (one bank) of South African banks - in form of Nedbank, had adopted the EPs (Wright and Rwabizambuga, 2006). This number has since changed, with another three South African banks becoming signatories to the EPs in 2009. These include Standard Bank, FirstRand Bank and Absa who announced their adoption on 2 February 2009, 13 July 2009 and 22 October 2009, respectively.(Equator Principles, 2009)

1.1.4 Sustainable banking in South Africa

1.1.4.1 Defining sustainable banking

A number of authors and practitioners have defined sustainable banking in different ways. However for the purpose of this research, the United Nations Environmental Programme Finance Initiative (UNEP FI) definition has been used. UNEP FI (2007) suggests that “sustainable banking can be interpreted to mean the process whereby banks consider the impacts of their operations, products and services on the ability of current or future generation to meet their needs”.

The report goes on to state that when viewed this way banks can be deemed to have direct and indirect impacts. Direct impacts are those related to the banks’ operations and would include issues such as: energy efficiency; waste recycling; ecological footprint and employment conditions. Indirect impacts are those that follow from the banks’ products and services, typically these impacts are associated with the finance and investment activities of banks.

1.1.4.2 Legislative and regulatory framework

According to the 2007 UNEP-FI African Task Force report (2007), the following elements govern the South African banking sector in terms of sustainability:

- The Johannesburg Stock exchange (JSE) requires listed companies to comply with the latest King Report on Corporate Governance, which necessitates adherence to Global Reporting Initiative (GRI) guidelines for integrated sustainability reporting. In May 2004 the JSE launched the Socially Responsible Investment (SRI) Index, which aims to assess the extent to which companies comply with a series of triple bottom line performance criteria. The index was the first of its kind in an emerging market, as well as the first of its kind in Africa.

- The Bill of Rights under South Africa's Constitution, entitles all South Africans to the right to an environment that is not harmful to human health or well-being and to have the environment protected for the benefit of present and future generations. As a result, the legal tools now exist for the public to enforce environmental laws through class actions. The following four major Acts presently account for the bulk of environmental regulation in South Africa: Environmental Conservation Act, 1989 (the ECA), National Environmental Management Act, 1998 (NEMA), National Water Act, 1998

- The Basel II Accord proposes that banks disclose their operational risk in order to accurately determine their capital adequacy requirements. The Accord considers the management of environmental, social and governance risks as an integral part of operational risk management.

- A growing awareness amongst the local banks of voluntary industry agreements, such as:
    - The UNEP Statement by Financial Institutions on the Environment and Sustainable Development.
    - The UN Global Compact's Financial Institutions Initiative
    - The Equator Principles
    - The Collevecchio Declaration on Financial Institutions and Sustainability
    - The United Nations Principles for Responsible Investment.

1.2Purpose of the study

The aim of this research is therefore to assess the factors that influence the adoption of Equator Principles (EPs) by South African Financing Institutions (SAFIs) and to achieve this aim - the following tasks would be undertaken:

- Identify the factors and associated costs and benefits that are considered by the SAFIs in the adoption of EPs
- Evaluate the influence of each factor on the decision to adopt or not adopt the EPs
- Compare the research findings to those that were established during the review of the literature.

Although the subjects of Project Financing and Sustainable Development are beginning to capture the attention of both academic and business practitioners, there is still little academic research within the corporate social accountability literature that examines issues surrounding the social and environmental responsibilities of financial institutions and their accountability for these responsibilities (O'Sullivan and O'Dwyer, 2007). This study seeks to contribute towards addressing this gap.

1.3Research scope

The scope of this research was limited to understanding the factors, as well as the associated costs and benefits, which influence the South African private banks in their willingness to adopt the EPs. Nguyen (2007) observes that despite the reputation-enhancing opportunity, some banks are still indifferent to EPs because the difference between perceived benefits and costs of adoption are trivial. Since EPs are only applicable to private banks, the study therefore excludes the development finance institutions - such as the Development Bank of South Africa (DBSA) and Industrial Development Corporation (IDC), and focuses on South African private banks that have a dedicated project finance unit. However, Investec declined to participate in the interview process; as a result the sample consisted of the following banks: Standard Bank, FirstRand, ABSA and Nedbank.

The literature has revealed that the decision to adopt EPs is multidimensional and thus collectively depends on a number of factors, which can either be driving or constraining. An initial comparison was undertaken between the findings from different SAFIs. This comparison assisted the researcher in determining if there is any uniformity in the way in which SAFIs view the EPs, in other words, do SAFIs consider similar factors when deciding to adopt or not adopt the EPs? The second comparison was between the finding from each SAFI and the findings obtained from the literature review and specialists' opinions. This particular comparison allowed the researcher to be able to establish if the same factors identified in the literature and by the specialists are also regarded by the SAFI as being material when considering the decision to adopt or not to adopt the EPs. The influence of each of the identified factors - depending on whether it was restraining or driving the decision of the individual bank to adopt or not adopt the EPs was then presented using a force-field analysis approach.

This study was exploratory in nature and involved face-to-face interviews with industry specialists as well as with the relevant personnel of the identified banks. Each bank was then asked to rate the influence of each identified factor on their decision to adopt or not adopt the EPs.

2. Chapter 2: Literature Review

This section aims to examine the state of current knowledge in the research field by reviewing the academic outputs of authorities and experts whose work has been recognised as valuable. This research seeks to assess the factors that influence the decision of South African Financial Institutions to adopt or not to adopt the Equator Principles (EPs). Therefore, insights drawn from the review of the literature will be used as a basis for comparison with the results of the research.

In order to contextualise and understand the research problem, the review of the previous literature relevant to this research will begin with the overview of the Equator Principles and their purpose. This will then be followed by a brief description of project finance as a funding mechanism.

According to the theory behind force-field analysis, in any decision-making situation, opposing forces are at work. The first step is to identify the key driving forces promoting the shift to a new, desired situation and those restraining forces inhibiting such a change (Lan and Lee, 1997). Thus the literature review will further seek to examine the driving and restraining forces that influence the adoption of EPs, and the associated costs and benefits of the decision as presented by leading authors and practitioners in the research area.

2.1Definition and adoption of Equator Principles

The Equator Principles (EPs) are a code of conduct that was drawn up under the auspices of the World Bank Group (through the International Finance Corporation – IFC) and which is adopted voluntarily by banks. Their intention is to ensure that the projects that they finance are developed in a socially responsible manner that reflects sound environmental management practices (Papadopoulos, 2009). EPs are directed primarily towards private, commercial lending in developing countries and emerging economies where borrowers rely more heavily on external project finance than is the case for businesses and governments in OECD countries (Richardson, 2005).

The EPs are largely based on the policies and guidelines of the International Finance Corporation (IFC) (Scholter and Dam, 2006). Previous IFC safeguard policies were adopted as the basis for the Equator Principles (EPs) in 2003. Since 2006, the latest IFC Performance Standards on social and environmental sustainability have formed the basis of a revised set of the EPs (IFC, 2009)

In 2009 the IFC reported on the first three years of application of its Policy and Performance Standards on Social and Environmental Sustainability and Policy on Disclosure of Information. For the period covered in this report, approximately 560 projects had been presented to the Board for approval, amounting to more than US$25 billion in investments. Performance Standards projects now represent 25% of IFC's portfolio in terms of number of projects. The report revealed the following:

- IFC considers the framework to be sound and effective. It does not hinder IFC's business and also helps with risk management
- The Performance Standards framework is adaptable even in the face of the financial and economic crisis,as well as to different financial instruments as well.
- Recent annual client survey results show continued satisfaction with IFC on environmental and social matters. Clients did not find implementation to be excessively costly. These conclusions are based on client survey results from over 140 existing clients that apply the Performance Standards.
- With regards to IFC's investments and advisory services projects, implementation of the disclosure requirements has begun to improve transparency and increased awareness among stakeholders.

The report also identifies a number of implementation lessons and challenges from policy and operational perspectives. International Finance Corporation's own experience, independent views from Independent Evaluation Group and Compliance Advisor Ombudsman, and ongoing feedback from external stakeholders (such as the financial institutions that apply the Performance

Standards and civil society organizations) have identified challenges, including, which include:

- Management of cross-sectoral global environmental issues such as climate change and biodiversity protection.
- Social development issues such as consultation with affected communities, broad community support, project level disclosure, resettlement, labor issues and retrenchment policies, and human rights.
- Process challenges such as managing financial intermediary risks and differing stakeholder views on how IFC categorizes projects.
- Management of supply chain issues, especially in the agribusiness sector where environmental and social risks continue to grow in complexity; and
- Project categorisation, especially for new financial products.

Most banks in developed countries have adopted the principles, as they find the EPs useful in helping them document and manage their own risk exposure (Papadopoulos, 2009). On 4 June, 2003, 10 international banks announced that they had adopted the Equator Principles. As of June 2009, 68 financial institutions have adopted the EPs, including 16 from emerging markets. It is estimated that over 70% of project finance activity in emerging markets is now carried out in accordance with the EPs. (IFC, 2009) These signatory institutions have come to be known as Equator Principles Financial Institutions (EPFIs) (www.equator-principles.com)

However, as previously mentioned, project financiers in the developing world have not adopted the Equator Principles with the same enthusiasm as their counterparts in developed countries (Wright and Rwabizambuga, 2006).

Andrew (2008) provides a useful summary (Table 1.) of the ten Principles to which all projects will need to conform to before loans can be approved by the EPFIs.

Table 1: Summary of the Equator Principles (Source: modified from Andrew, 2008)

Equator Principle	Description
1.	**Review and Categorisation:** Conduct a social and environmental review of a proposed project and categorise it in terms of its impact. **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; **Category C**: Projects with minimal or no social or environmental impacts.
2	**Social and Environmental Assessment:** This does not have to be done by an independent expert unless it is a Category A project; social impacts assessed under the International Covenant of Civil and Political Rights, the International Covenant on Economic, Social and Cultural Rights ICESCR and the UN Convention on Human Rights.
3	**Applicable Social and Environmental Standards** must be followed (this includes host country laws, IFC Performance Standards)
4	**Action Plan and Management System:** This must address any finding in the assessment; it will describe any actions needed to implement mitigation measures, corrective actions and monitoring measures necessary to manage the impacts and risks. Borrowers must design a Social and Environmental Management System that addresses the management of these impacts, risks and corrective regulations.
5	**Consultation and Disclosure:** Consult with communities affected by the project.
6	**Grievance Mechanism:** Communities will have the right to have their grievances heard and addressed by the borrower (this is not independent of the lender and does not make provisions for an independent third party to oversee the process).
7	**Independent Review:** A social or environmental - expert not directly associated with the borrower will review the assessment, action plan and consultation process.

Equator Principle	Description
8	**Covenants:** Allows for enforcement of Equator Principles conditions (category A and B) through covenants in the loan agreement.
9	**Independent Monitoring and Reporting:** Independent environmental or social expert monitors and reports on compliance over the course of the loan.
10	***EPFI Reporting:*** Each EPFI adopting the Equator Principles commits to report publicly and at a minimum, annually, about its Equator Principles implementation processes and experience, taking into account appropriate confidentiality considerations.

The original scope of EPs was limited to projects that were worth over US$50 million in value. This monetary threshold exempted some projects that had lower overall cost, but that could still have a substantial social and environmental impact. Thus, in 2006 the EP were revised and the applicability of the principles was expanded to include projects with capital in excess of US$10 million (Hardenbrook, 2007).

2.2Project finance

Project finance is defined broadly as a method of funding in which the lender primarily looks at the revenues generated by a single project, both as the source of repayment and as security for the exposure (Papadopoulos, 2009). This type of financing is usually for earmarked for large, complex and expensive installations that might include, for instance: power plants; chemical processing plants; mines; transportation infrastructure; the environment, and telecommunications infrastructure (Papadopoulos, 2009).

Project finance may take the form of financing the construction of a new capital installation − or refinancing 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 (Hansen, 2006).

The borrower is usually a Special Purpose Entity (SPE) 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 (Andrew, 2008). Through syndication, debt finance is normally provided by more than one bank. This allows banks to reduce their project risk exposure by allocating an amount that is lower than what they may have allocated if they had financed the project individually and completely (Nguyen, 2007).

2.3 Factors influencing the adoption of Equator Principles

2.3.1 Introduction

This section presents the findings of the literature review, regarding factors that influence the adoption of the EPs. It will follow a structure that is consistent with the themes that emerged during the literature review process. As previously mentioned, the decision to adopt or not to adopt the EPs is multi-dimensional in its nature. Table 2 below provides a summary of the factors that are considered in the adoption of the EPs, as established in the review of literature.

Table 2: Summary of the literature review findings

Literature	Driving Factors & Benefits	Constraining Factors & Costs
Thompson (1998); Watchman et al (2007); Wright & Rwabizambuga (2006),	Improved reputation	
Nguyen (2007)	Adopting EPs without bearing the compliance costs "free-riding"	
Hardenbrook (2007); Coulson & Dixon (1995).	Risk Management (Financial and Reputation)	
Hansen (2006)	Flexible nature of EPs, allowing banks to implement EPs according to its own internal arrangements	
Watchman *et al* (2007),	Developing close relationship with other EPFIs for loan syndication etc.	

Literature	Driving Factors & Benefits	Constraining Factors & Costs
Missbach (2004); Nguyen (2007); Thompson, (1998).	Stakeholder (NGO & Clients) pressure	
Watchman et al (2007)	“Doing a responsible thing” as part of good corporate governance	
Rwabizambuga (2006);	Peer pressure	
Amasric (2005); Wright & Rwabizambuga (2006),		Additional Project screening and investigation cost.
Amasric (2005),		Opportunity cost of rejecting non compliance projects.
(Watchman *et al*, 2007); Ngunyen (2007)		Operating cost such as hiring new staff, training existing staff and amending the credit policies.
Hansen (2006); Nguyen (2007)		Increased NGO scrutiny and public pressure may increase reputation risk in case of non-compliance
Scholters and Dam (2006); Watchman *et al* (2007)		The lack of formal control and oversight governing the adoption of and compliance to EP, gives rise to the negative aspect referred to as “free-riding”
Hardenbrook (2007),		Failure to provide banks with specific procedures for implementation.
Watchman et al (2007)		Stifling bureaucracy of being an EPFI and the EPs red tape
Wilson (2007)		Hindrance to economic growth in developing countries

2.3.2 Driving factors

According to Hansen (2006), the flexible nature of the EPs - which basically allows the EPFIs to retain the discretion to develop policies and procedures that are tailored to their organizations and to the particular project under review (including whether or not to deviate from the IFC or World Bank standards) - has helped accelerate the adoption of the Principles.

According to Watchman *et al* (2007), another reason for adopting EPs, which is not often mentioned, is to develop close relationships with other EPFIs. He provides the example of Nedbank's assertion that they adopted the EPs in order to become the partner bank of choice to the other Equator Banks in African deals.

The survey conducted by de Jongh et al (2007) found that more stringent legislation was ranked a potentially important driver of responsible investment (which includes management of environmental, social and governance issues) for the South African investment community. If a certain behavior was legally required, compliance would not be optional.

The pressure from NGOs has also been cited as an influential factor that drives the adoption of EPs. Since most developing countries lack the strong political and legal institutions necessary for effective social and environmental protections and enforcement, many NGO groups, such as BankTrack and

Friends of Earth (FoE), believe that it is their responsibility to ensure that unsustainable projects are prevented from getting off the ground (Missbach, 2004; O'Sulivan and O'dwyer, 2009). Accordingly, they have found that one way to do this is by attacking the lenders who finance the projects, as a project of the associated scope would not be possible without financing (Missbach, 2004).

As private lending institutions increase their funding for the financing of projects in the developing world, these institutions are becoming the targets of NGOs with greater frequency (Thompson, 1998). Nguyen (2007) believes that many banks adopt the EPs with hope that the resultant stronger reputation would decrease the likelihood that they will be targeted by a public NGO campaign against them.

The influence of NGOs on the decision to adopt EPs can be further demonstrated by Missbach (2004) when he notes that all the banks that drafted the original EPs have been subjected to the response of NGO advocates to socially and environmentally damaging projects. An example of such an advocacy attack is the Rainforest Action Network's four year protest (which began in 2000) against Citigroup's funding and support for the destructive extractive and fossil-based industries globally (O'Sulivan and O'dwyer, 2009). Similary, in 2000 – 2001 FoE Netherlands led a highly visible NGO campaign against Dutch bank (including ABM AMRO) involved in destructive palm oil plantations in Indonesia in the 1990s (O'Sulivan and O'dwyer, 2009)

.

In addition to the above listed factors − which are mostly beneficial to the EPFI − some banks have been driven ti adopt the EPs because they genuinely believe it is the responsible thing to do. This is further supported by Watchman et al (2007) who suggest that some banks adopt the EPs as a compliance to good corporate governance, based upon the need for sustainable banking underpinned by sustainable development, as well as a desire to address social and environmental issues, in a thorough and detailed manner, which would be acceptable to the project host country.

Lastly, Wright and Rwabizambuga (2006), also suggest that wide adoption of the EPs will increase the pressure on local banks to raise their environmental and social standards when financing projects.

2.3.3 Constraining factors

Wood (2009, *pers. comm.*) acknowledged that the EPs' requirements may be viewed as compromising the rate of economic growth in the project host countries, which could present a constraining factor for the adoption of the EPs. In support of this statement, Wilson (2007) points out that − while the EPs might serve as a tool to enable developed country investors to demonstrate good conscience − when considered from an economic perspective, the EPs are, in reality, bad news for the world's poor. He argues that poor countries cannot raise living standards or improve management of the environment without growth; therefore, promoting economic growth should be the first priority of policy in the developing world. He concludes that EPs act as a tax on economic growth as they attach strings to project financing, which add additional costs and delays before the benefits of investment can be reaped.

The next constraining factor emanates from the lack of formal control and oversight governing the adoption of and compliance to EPs, gives rise to the negative aspect referred to as “free-riding” (Scholters and Dam, 2006). Guningham and Sinclair (2002) identify two types of free-riding involved with codes of conduct and self-regulation. In the first instance, while all parties involved may agree to the terms and conditions of self-regulation, some do not comply. Thus, those that do comply become responsible for upholding the high standards, and this allows for the non-compliers to reap the reputation benefits of adopting the codes, without incurring the compliance costs. The second type of free-riding occurs when some firms in the industry do not adopt the self-regulation, resulting in a competitive disadvantage for the adopters, which eventually jeopardises the effectiveness of the initiative.

Watchman *et al* (2007), goes on to suggest that some of the banks that do not adopt the EPs feel that there is a certain level of hypocrisy regarding at least some of the EPFIs that adopt the EPs, given their track record outside the OECD as the project finance lenders.

The failure of EPs to provide banks with specific procedures on how to evaluate a project's environmental and social risks also represents a constraining factor to their adoption. Currently, the EPs only mandate that the borrower meet its requirement to the EPFI's satisfaction. Without clearly specified standards, there is no definitive way to establish whether or not the EPFI"s decision to fund a project complies with the EP's (Hardenbrook, 2007).

Lastly, Watchman *et al* (2007) also noted that some banks do not adopt EPs because of the banks' view that they can increase market share by holding themselves out as being free of the stifling bureaucracy of the EPFI, as well as the red tape involved in implementing the EPs.

2.3.4 Costs associated with adoption of Equator Principles

Wright and Rwabizambuga (2006) suggest that the screening and monitoring of the social and environmental issues, as prescribed by the EPs, is a difficult and costly task. They argue that not many bankers are accustomed to these tasks, which are not part of standard banking procedures. Amalric (2005) identifies due diligence, categorisation of projects, monitoring compliance, and client engagement as additional costs arising from bank compliance with the EPs.

Amalric (2005) also points out that the cost of complying with EPs may be significantly higher if one considers the opportunity cost of rejecting projects that do not meet the EPs' criteria.

Operational costs would further escalate since the EPFI will also need to review internal processes and procedures, in order to align them with the EPs (Watchman *et al*, 2007). Ngunyen (2007) indicates that the bank will also incur addition operational costs in the form of hiring new staff, training existing staff and amending the credit policies.

Hansen (2006) suggests that lenders who implement the Principles may actually increase their risk of social and environmental liability. He further explains that this increase in risk emanates from the expansion of environmental covenants, as default triggers and the heightened public pressure EPFIs will face to pull them upon occurrence of even the slightest of breach. If the borrower is declared to be in default, the EPFI risks owner or operator liability; this may be extended to a liability for knowingly permitting or failing to prevent environmental damage. Nguyen (2007) also supports the notion that by adopting the EPs, the lender is opening itself up to further NGO scrutiny, as well as public criticism.

2.3.5 Benefits associated with adoption of Equator Principles

Scholters and Dam (2006) used variables − including stock risk and return; size and composition of balance sheet, and company performance − to find out whether or not the adopters of EPs are any different from non-adopters. The study established that most adopters of the principles tended to be bigger firms. This makes it difficult to directly relate their overall financial performance to the adoption of the principles, since project financing accounts for a very small part of their total business. Nevertheless, the study concluded that the adoption of EPs does improve the adopters' reputation and, as such, positively impacts the risk profile of the adopter.

Thompson (1998), states that reputation is the single most important intangible asset possessed by banks. Therefore, adoption of EPs may be motivated by the desire for differentiation (or green marketing) from the malpractices of competing firms or clients, in addition to boosting credibility in the eyes of critics, thus gaining a competitive advantage. Watchman *et al* (2007) also provide evidence in support of this notion when he quotes a statement by Jon Williams, Head Of Group Sustainable Development at HSBC, who emphasises the importance of the reputation of the Bank in that it is linked to the reputation of its client.

Wright and Rwabizambuga (2006) also support Thomson's view, in reporting that adopting a particular voluntary code of conduct − and thereby signalling an intention to conform to industry norms − reflects a strategic desire amongst firms to maintain or acquire a positive reputation within their institutional environment. They add that improved reputation can add value to the firm's brand and increase competitiveness by allowing firms to: sell products at a higher price; enjoy greater access to capital markets; and be exposed to less public scrutiny in consultation hearings and approval processes, which could significantly reduce the firm's project cost overruns and interest litigation expenses.

As stated in section 2.1, the EPs are voluntarily adopted by the banks and are, therefore, not enforced by any legislation or regulation. As such, they do not create any requirement on the part of right in, or liability to, any person, public or private institution, especially if environmental provisions are not included in the financial covenants. Nguyen (2007) suggests that some banks would adopt the EPs because they can 'free-ride' on the benefits of being an EPFI without actually contributing to the cost necessary for actually compliance.

Hardenbrook (2007) observes that some EPFIs adopt EPs as part of a risk management strategy. Banks have a large incentive to carefully manage the risks associated with their investment in order to ensure repayment of loans. A project that results in environmental degradation may expose the borrower to liability expenses, thus impacting on the ability to repay the loan. Coulson and Dixon (1995) support this observation by noting that with the movement towards strict liability for pollution instances, banks could be judged to have exercised some form of management or control over the borrowers' activities and can, thus, be deemed active participants in civil or criminal liability. Therefore, by adopting the EPs, banks can gain a competitive advantage through an improved ability to ensure that a project is a more secure investment and a safer loan (Hardenbrook, 2007).

2.3.6 Conclusion

A survey of literature has revealed a number of driving and constraining factors that are attributed to influencing the bank's decision to adopt or not to adopt the EPs. The pressure from NGOs has been identified as a major driving factor, as it encourages the banks to adopt the EPs as a way of protecting their reputation, followed closely by the need to manage project risk. Some banks have adopted the EPs because they genuinely believe it is the responsible thing to do.

Constraining factors in the bank's decision include: the EPs being a hindrance to economic growth in developing countries; adoption of the EPs being counter-competitive due to the stifling bureaucracy of the EPFIs, as well as the red tape associated with the EPs, and the "free riding" behaviour of some EPFIs..

Watchman *et al* (2007) believes that the reasons given by the majority of the EPFIs for adopting the EPs were genuine and based on banking, financial or business rationale, rather than zeal or fervour for corporate social responsibility reasons. However, the NGOs have − to a certain extent − perceived the EPs as a “ceremonial conformity” due to what they refer to as lack of proof and accountability for the implementation of EPs (O’Sullivan and O’Dwyer, 2007).

Furthermore, literature also points to a number of costs and benefits that arise from adopting the EPs. Improved reputation and the financial risk profile of the adopter has been identified as a major benefit, while additional operational costs associated with compliance to EPs, as well as the opportunity costs of rejecting non-complying projects, were seen to represent major costs of adopting EPs. A contradiction between costs and benefits of adopting the EPs was also observed where as much as EPs are portrayed as a responsible and profitable tool for managing project risk on one side, the resulting increase in scrutiny by NGOs may present increase in reputation risks even in case of slightest of non compliance. According to Scholtens and Dam (2007), most of the financial institutions agree that the benefits of adopting EPs outweigh the associated costs.

3. Chapter 3: Research Questions

The research will endeavour to explore the factors that influence the adoption of the Equator Principles (EPs) by South African Financial Institutions (SAFIs). The review of the literature revealed several themes that were identified as potentially influential in the decision to adopt the EPs. The first theme relates to the driving factors that influence the adoption of EPs. The second theme concerns the restraining factors that influence the adoption of EPs. The final theme looks into some of the perceived costs and benefits of EPs that may influence the adoption decision.

As such, the research will specifically seek to explore answers to following research questions, within the context of each organisation studied:

Research Question 1

What are the driving factors that influence the adoption of the Equator Principles by South African Financial Institutions?

Research Question 2

What are the restraining factors that influence the adoption of the Equator principles by South African Financial Institutions?

Research Question 3

What are the costs and benefits of adopting or not adopting the Equator Principles?

4. Chapter 4: Research Methodology

4.1Rationale for research method

This study is aimed at exploring the factors that drive financing institutions to adopt the Equator Principles. Leedy and Ormrod (2001) have recommended qualitative research as a preferred approach when a researcher is attempting to interpret a certain phenomenon. They maintain that this approach enables a researcher to gain particular insights into the nature of a particular phenomenon and, subsequently, develop new concepts or theoretical perspectives about the phenomenon.

Leedy and Ormrod (2001) further state that the qualitative approach involves studying the phenomenon in all of its complexity. This statement is relevant to this study as Andrew (2008) has observed that the decision to adopt a voluntary code of conduct, such as the Equator Principles, is multidimensional.

The data collection technique took the form of semi-structured interviews with the identified individuals. This technique was selected as it allows for flexibility for information to be added, at the discretion of the interviewee and specific to that individual (Leedy and Ormrod, 2001). It also allows the interviewer to probe the interviewee in an attempt to clairfy vague responses or to ask for elaboration of incomplete answers (Welman and Kruger, 2001). The semi-structured nature of the interview ensured that the discussion remains within the scope of the research.

Due to the difficulty of knowing all the relevant personnel in each organisation before initial contact with each bank, a snowball sampling technique was utilised. In order to ensure that the selected organisations are equally represented, the researcher conducted interviews with the Head of the Project Finance Unit and the Sustainability Manager of each bank, who would, in some cases, then refer the researcher to other personnel within the respective organisations, who were deemed relevant to the research. The selection of these two individuals was based on the assumption that the incumbents of such positions should be able to articulate their organisation's position regarding project financing activities, and environmental and social issues, respectively. It is, however, acknowledged that not all banks have a Sustainability Manager; in those cases, the researcher would rely on the Head of Project Finance to suggest other relevant persons.

4.2Research design

The Experience Survey consisted of informal discussions with specialists on the topic of Equator Principles and the project financing industry. Zikmund (2003) states that experience surveys normally consist of interviews with a small number of carefully-selected people. He further emphasises that the selection of interviewees should be based on their ability to provide insight into a particular industry, and that the researcher is not trying to establish a representative probability sample. This part of the research study is normally aimed at helping the researcher formulate the problem and clarify concepts, rather than developing conclusive evidence. However, due to the limited academic research that has been conducted in this particular field in South Africa, the views expressed by these selected individuals were used to augment the literature review. While the selection of these individuals was primarily based on their experience and knowledge of EPs and related fields, it was also based on their willingness and availability to participate in the study. Table 3 represents a list of people who have been identified as specialists to partake in this initial survey.

Table 3: List of interviewed specialists

Name of Specialist	Designation
Allison Burger	Environmental and Social Specialist : SRK Consulting
Christina Wood	Specialist: Sustainable Finance
Justin Pooley	Environment & Social Development Specialist: International Finance Corporation, a Division of the World Bank
Henry Camp	Partner: Environmental Recourses Management (ERM)
Ross Liston	Manager: Environmental Recourses Management (ERM)

Part 2:

The Expert Interviews represent the main study, which took the form of semi-structured interviews with Heads of Project Finance, Sustainability Managers or their representatives and any other relevant personnel within the identified SAFI (Table 4). Zikmund (2003) suggests that open-ended questions are most appropriate when conducting exploratory research, especially when the research needs to be flexible enough to accommodate a range of responses.

Table 4: List of interviewed SAFIs representatives

Organization	Name of Participant	Designation
Nedbank	Vicky Beukes	Sustainability Manager
	Leigh Hoekstra	Head of Compliance: Nedbank Capital
Standard Bank	Nigel Beck	Environmental Manager: Project Finance
	Karin Ireton	Director: Group Sustainability Management
	Celiwe Ntuli	Project Financier
First Rand	Madeleine Ronquest	Group Environmental Health & Safety
	Hugh Hawarden	Project Financier: Rand Merchant Bank
ABSA	Paulo Branco	Head: Environmental Risk
	Colin White	Environmental Consultant

4.3 Sample design

4.3.1 Population definition

The population of relevance consisted of all South African financing institutions that have a project financing division.

4.3.2 Unit of Analysis

The factors and associated costs and benefits that influence the decision to adopt or not adopt the Equator Principles will represent the unit of analysis.

4.3.3 Sampling method and size

Zikmund (2003) recommends snowball sampling as a technique best used to locate members of a rare population by referrals. Due to limited resources and uncertainty over the availability of the identified interviewees, this technique was deemed most suitable for this study. The research sample consists of 14 individuals, which is made up of representatives from each SAFI and five specialists that were interviewed during the experience survey in part 1 of the research.

4.3.4 Data collection

Data were collected through semi-structured, face-to-face interviews with the identified specialists (Table 1) for the first part of the research, and with the representatives of Project Finance divisions, Sustainability Managers and any other relevant personnel of the identified SAFI, for the second part. The discussion followed the structure of the interview guides (Appendices 1 and 2) in order to ensure consistency, and that the discussion remains within the scope of the research. All responses were captured as handwritten notes; in addition, a tape recorder was utilised, provided that the participant gave consent. The interviews were approximately an hour in duration. The bank's representatives were also asked to rate − as low, medium or high − the influence of each of the identified factors on the decision to adopt or not to adopt the EPs.

4.3.5 Data analysis

The preparation of field notes and transcripts was undertaken before any data analysis commenced. According to Welman *et al* (2005) this involves converting field notes into easy-to-read write-ups that can be edited for accuracy, commented on by participants and analysed.

Zikmund (2003) acknowledges that analysis and interpretation of data gained through an interview process is highly subjective, as the process relies mainly on the judgement and creativity of the researcher. For the purpose of this research, a theme identification method was utilised in order to analyse the collected data. This method involves identification of major themes within the context of a particular research study. Welman *et al* (2005) describe themes as 'umbrella constructs that are usually identified by researcher before, after and during the data collection'.

The review of the literature revealed several factors that were identified as potentially influential in the decision to adopt or not to adopt the EPs. These factors can be categorised under the following themes: (i) driving and restraining factors that influence the adoption of EPs, and (ii) costs and benefits involved in the decision to adopt or not to adopt EPs. The responses from the participants, as presented in the transcripts for each SAFI, were then categorised according to these themes, so as to allow for comparison amongst the various SAFIs, in addition to the literature findings and the views of specialists.

Furthermore, the ratings of the influence of each factor on the decision to adopt or not to adopt the EPs was then plotted on the force-field diagram in order to demonstrate how the consideration of both restraining and driving factors led to a final decision to either adopt or not to adopt. This approach is informed by Lan and Lee (1997) in their description of the theory of force-field analysis, where they observe that in any decision making situation, opposing forces are at work. The first step is to identify the key driving forces promoting the shift to a new, desired situation, as well as those restraining forces inhibiting such a change. The second step is to estimate the strength or importance of each force and represent it via the length of its arrow. When the diagram is completed, logic dictates that a change from the status quo to a new situation can be achieved only when the driving forces are greater than the restraining forces.

4.3.6 Data validity and reliability

In an attempt to maintain the integrity of the data, the following actions were undertaken:

- A common interviewer error occurs when the interviewer is not able to write fast enough to record the answers verbatim, resulting in exclusion of important information. In order to address this potential source of error, the researcher utilised a tape recorder, which allowed the researcher to later replay the interview and transcribe the content at his own pace.
- In order to ensure that the transcripts represent the true reflection of the interviews, once the information from the field notes was transcribed, the resulting write-ups were provided to the participants for verification and approval.

- In order to minimise bias that may arise from asking leading questions, the participants were first asked to discuss what they consider to be factors that influence the adoption of EPs, before the researcher could ask specific questions pertaining to each factor, as well as costs and benefits of adopting EPs, as per interview guide.

4.3.7 Research limitations

The following limitations of the research have been identified:

- The research only considered the banks that are of South African origin and, thus, may overlook some useful insights from the experience of international banks that undertake project finance operations from a South African location.
- The qualitative and exploratory nature of the research determines that the findings are representative of the parties and the divisions interviewed, and may not be representative of the whole organisation.
- Although the researcher actively attempted to obtain non-verbal cues that may reveal information that the participant was deliberately trying to withhold, the research still faces a challenge in that the participant might feel obliged to only provide information that is publicly desirable and, therefore, not provide the real reasons for adopting or not adopting the EPs.

- Some of the Banks that participated in this study have only adopted the EPs recently; thus, costs and benefits of adoption are more perceptual than actual.
- One of the banks could not agree to a face-to-face interview and rather opted for providing a written response to articulate their position regarding the adoption of EPs. The response was not structured in accordance with the 'interview guide' (Appendix 2) questions that were made available to them on their request. Instead, they presented their reasons why they have not adopted the EPs. This situation introduces inconsistency to the research methodology, thus a decision was taken to exclude this particular bank from the research sample.

5. Chapter 5: Results

This chapter presents the research findings from the interviews with each of the selected financial institutions. The results of the research are arranged per financial institution and according to themes that emerged from the review of literature, and are responsive to the research questions raised in Chapter 3. The correspondences from the each of the banks representatives were combined to represent the banks' position on the issues discussed during the interviews. The participants were also asked to rate the influence of each key factor in their decision to adopt or not adopt the EPs as either low, medium or high.

As previously mentioned in Chapter 4, the research sample consisted of four SAFIs, namely: Absa, FistRand, Nedbank and Standard Bank. Data was gathered through the process of conducting semi-structured interviews with respondents − consisting of two individuals from each bank − who represented their Sustainability and Project Finance Departments, respectively. However, an additional respondent was interviewed at Standard Bank, as she had conducted similar research on this subject for her Masters of Business Administration (MBA) studies, using the bank as a case study.

Investec was excluded from the research sample, since they were not able to participate in the interview process, and instead opted to provide a written response explaining their reasons for not adopting the EPs. However, the information that they provided (which is publicly available in their "Our Business Responsibility" Report, 2009) would be incorporated into the next chapter, where the results of the research would be discussed.

5.1Nedbank

5.1.1 Background

Nedbank Group (Nedbank) is a holding company that operates as one of the four largest banking groups in South Africa. Nedbank offers a wide range of wholesale and retail banking services through three main business clusters, namely Nedbank Corporate, Nedbank Business, Nedbank Capital and Nedbank Retail. All of Nedbank's project finance activities are carried out through Nedbank Capital. Nedbank focuses on the Southern Africa region. (Nedbank, 2008)

Nedbank generally regards itself as South Africa's 'green bank' and has an enviable reputation for consistently demonstrating a commitment to sustainability principles across its various operations. To this effect, Nedbank has been included in a number of indices and is represented at various forums, which include (Nedbank, 2008):

- Dow Jones World Sustainability Index for 2008/2009 (Score: 77%)

- 2008 South African Carbon Disclosure Leadership Index - Overall winner.
- Co-chair of the UNEP-FI African Task Force and the Water and Finance Work-stream and also involved in other UNEP initiatives, including Climate Change and Biodiversity
- Founding signatory of Climate Neutral Network
- 2008 Financial Times Sustainable Bank of the year.
- Signatory to the UN Global Compact
- Africa Investor: Award for the Best Carbon Finance Initiative of the Year and African Business Leader of the Year
- ACCA Sustainability Report of the Year: Financial Sector, 2009.

On the 10th November 2005, Nedbank Group became the first African bank to adopt the Equator Principles.

5.1.2 Driving factors

- Nedbank has been involved in green initiatives for the past 20 years and these include the green affinity products, green trust, Conservation Partnership with the WWF and member of UN global compact since 2005. Hence the EP's were another addition to the "green values" and are part of Nedbanks environmental policy and systems that are in line with their deep green aspirations

- Some countries in the developing markets have weak environmental and social legislative framework and the EPs become a useful risk management tool to assist with risk management as they ensure that projects that are financed by Nedbank meet the generally acceptable conditions. Nedbank is of the view that the standard and enforcement of environmental and social legislation in developing countries will soon catch up to those of developed countries and the EPs assist the banks to proactively put in place processes and systems before they are required by the national authorities.
- Nedbanks agrees that NGO pressure can play a role in driving a bank to adopt EPs. However, Nedbank's relationship with the NGO goes beyond that of critic and 'watchdog' elements: they see it as a collaborative relationship, where the NGO would also offer advice and support. Nedbank called attention to the engagement that they have with the World Wildlife Fund (WWF) on various issues relating to water and carbon neutrality, as well as the appropriate systems of implementation. NGOs could also assist the bank in monitoring compliance with conditions and legislative requirements on loan agreements. Nedbank also considers the media to be a significant stakeholder in building and maintaining its reputation and communicating its successes and challenges.
- The flexibility nature of the EPs promotes the adoption, since it allows the EPFI to implement the EPs in line with its own internal processes

and systems. Nedbank actually combined EPs, national legislation and other international standards to produce a more comprehensive policy that transactors and compliance officers are able to apply.

5.1.3 Constraining factors

- Nedbank has identified the lack of understanding of social and environmental risks by stakeholders (internal and external), as a potential deterrent to the adoption of EPs. This is mainly due to the fact that these risks are difficult to quantify and may have an indirect impact on the business. Therefore before a bank can adopt the EPs, they face challenges of convincing staff (transactors) and the client that it is important to take this precautionary approach.
- Nedbank did not consider "free riding" as a deterrent when they decided to adopt the EPs. They argue that those banks that adopt the EPs without a commitment to comply are exposing themselves to even greater reputational and financial risk when they eventually get caught out or are found to be non-compliant

Table 5 provides a summary of the costs and benefits that were considered by Nedbank. Table 6 represents the key factors that were identified as having played a significant role in influencing Nedbank's decision to adopt the EPs. The participants also provided a rating relating to the extent of influence of each factor.

Table 5: Summary of the costs and benefits considered by Nedbank

BENEFITS	COSTS
EPs have also allowed the bank to be able to source funding from the IFC and other multilateral development banks (MDB), as well as development finance institutions (DFI), who imposes strict environmental and social conditions as part of their loan agreements.	Due to lack of understanding and appreciation for environmental and social issues by potential clients, Nedbank recognizes that by adopting the EPs, they might stand to loose business to other banks that may provide less stringent requirements.
Nedbank considers its green initiatives as a market differentiator and adopting EPs helps to enhance their compliance processes and reputation as a responsible 'green' bank, which in turn provides effective risk management and a competitive edge.	The cost of implementing the environmental management system (environmental/ social) and incorporating EPs as part of the system. However most of the systems and processes were already in place as part of compliance to UN Global Compact.
EPs assist Nedbank in becoming the partner (syndication) bank of choice for the other Equator Banks in international deals.	Nedbank does not feel that adopting the EPs had any impact on the extent to which they are scrutinized by the NGOs and public, since they have long declared to be a green bank and EPs was just an extension of their green aspirations.
EPs help to reduce financial and reputational risks as they allow the bank to identify and proactively establish the necessary systems to manage the risks.	The EPs do bring about a higher level of stringency when compared to national environmental and social legislation of some developing countries, but South African legislation matches that of the EPs, if not even more stringent.

Nedbank feels that there is little argument not to adopt the Equator Principles since from their experience the benefits of adopting outweigh the costs of compliance.

Table 6: Key factors that influenced Nedbank in the adoption of Equator Principles

Factors	Rating of Influence		
	Low	Medium	high
1. Improved financial and reputational risk management.			X
2. Cost of implementation.	X		
3. Doing a responsible thing as a "green bank"			X
4. Opportunity costs of losing business to competitors that are not equator banks.		X	
5. Weak environmental legislative framework in developing countries.		X	
6. Potential threat to bank's reputation due to increased scrutiny by civil society			X
7. EPs improve the bank's chances of participating in syndication loans with other equator banks and acquiring funding from DFI's			X
8. EPs bring about a higher level of stringency when compared to national environmental and social legislation.		X	

5.2Standard Bank

5.2.1 Background

The Standard Bank Group is the largest South African bank by assets and earnings. The group is represented in 33 countries, 17 of which are in Africa and 16 are on the other five continents. The Group's main business pillars include Personal and Business Banking; Corporate and Investment Banking, and Wealth (which includes investment and insurance offerings) (Standard Bank, 2008).

In March 2008, the Industrial and Commercial Bank of China (ICBC) purchased a 20% stake in Standard Bank, valued at R36.7 billion. This was interpreted my most industry analysts as ICBC's window to the African market. Standard Banks's sustainability initiatives and participation in indices include (Standard Bank, 2008):

- In 2008 Standard Bank again participated in the Carbon Disclosure Project (CDP),
- Inclusion in the JSE's Socially Responsible Investment (SRI) Index in 2008.
- Standard Bank achieved an overall score of 63% on the Dow Jones Sustainability Index.
- Standard Bank formally adopted the Equator Principles in February 2009

Standard bank uses the Sustainability Reporting Guidelines of the Global Reporting Initiative (GRI – G3) for guidance on reporting criteria.

5.2.2 Driving factors

- Weak environmental and social legislation, or lack of implementation thereof, drive banks like Standard Bank to adopt the EPs, so as to ensure that the projects that they finance comply with acceptable international standards. They also provide a level playing-field with regard to standards that need to be adhered to by the financial institutions that finance projects in emerging countries.
- Standard Bank saw the EPs as an environmental and social risk management measure, that is, they act as a screening process for project that they would not like to get involve in.
- Although potential pressure from the NGOs was a factor in adopting the EPs, Standard Bank viewed it as both a business opportunity – to position itself with other banks – and a risk mitigation strategy. Standard bank works with NGOs in a number of positive ways and also acknowledges that by committing the EPs it may increase project visibility and scrutiny
- Standard Bank regards itself as a bank that is deeply committed to Africa and its development, and thus sees a value in EPs as a set of

principles that enhances the potential for long net positive benefit for the continent from an environmental and social perspective.

5.2.3 Constraining factors

- There is some fear within the financial community in general, that such an initiative would limit the flow of deals, which would compromise competitiveness.
- Standard bank does not consider "free riding" as a factor that would have a negative effect on the decision to adopt EPs. They argue that "free riders" would be exposed at some point.
- During the interview, a point was also raised that when EPs were first developed there was a concern over the breach of client confidentiality due to the prescribed requirement to report on the relevant transactions. However, this fear has since disappeared due to increased level of transparency across industries.
- There is a notion that the EPs might compromise the level of economic development in the emerging markets, in other words, developing countries should be allowed to develop before going green. In response to this, Standard Bank believes that the impact of unchecked development might not be reversible and the cost of fixing mistakes at a later stage will be extensive.

Table 7 provides a summary of the costs and benefits that were considered by Standard Bank. Table 8 represents the key factors that were identified as having played a significant role in influencing Standard Bank's decision to adopt the EPs. The participants also provided a rating relating to the extent of influence of each factor.

Table 7 Summary of the costs and benefits considered by Standard Bank

BENEFITS	COSTS
EPs help to reduce financial and reputational risks as they allow the bank to identify and proactively put in place the necessary risk mitigation measures.	Standard Bank incurred adoption (operational) costs before they even officially signed up to EPs. They appointed two in depended consultants, first to develop the business case and then put in place the necessary supporting systems. This represents a unique case where supporting systems, processes and personnel (recruitment and training) preceded the adoption,so as to ensure immediate compliance upon adoption.
By adopting EPs Standard Bank has earned the positive publicity associated with doing the responsible thing, which in turn enhances the banks reputation. The EPs help to drive up good practice in terms of the outcome of the projects.	Standard bank also recognises that adopting EPs may present an opportunity cost, where they may lose business to competitors who may be willing to fund projects that are not EP compliant. However, turning away projects that are non-compliance would be the last resort; the bank would rather exhaust all options in helping the client to institute measures that would get the project up to standard.
Being an EPFI make it easier to syndicate loans with other EPFIs.	Standard Bank also suggests that adopting EPs may actually increase the level at which the bank is scrutinised by the NGOs and the public, since EPs create an expectation to achieve certain standards. However this increase is not that

	significant because by the virtue of financing projects in the resources (mining) sector, the bank has already received elevated levels of scrutiny.
On the question of EPs being a source of differentiation advantage, Standard Bank feels that being “green” has become part of being a good business and on its own no longer provides a competitive advantage.	
It is still early for Standard Bank to quantify the costs and benefits, as they have only recently adopted the EPs. However, they believe that future gains will definitely offset the costs.	

Table 8: Key factors that influenced Standard Bank in the adoption of Equator Principles

Factors	**Rating of Influence**		
	Low	Medium	high
1. Improved financial and reputational risk management.			**X**
2. Cost of implementation.		**X**	
3. Improved chances of acquiring funding from investors			**X**
4. Opportunity costs of losing business to competitors that are not equator banks.		**X**	
5. Weak environmental legislative framework in developing countries.		**X**	
6. EPs might compromise the level of economic development in the emerging markets.		**X**	
7. EPs improve the bank's chances to participate in syndication loans with other equator banks.			**X**
8. Potential threat to bank's reputation due to increases scrutiny by civil society.	**X**		

5.3FirsRand Bank

5.3.1 Background

FirstRand Group Ltd. is also one of the big-four South African retail, commercial and investment banking groups. FirstRand Group was created in April 1998 through the merger of the financial service interests of Anglo American Corporation of South Africa Limited (AAC) and RMB Holdings Limited (RMBH). The major companies involved at the time were the following listed entities, First National Bank Holdings of Southern Africa Limited (FNBH) and the Southern Life Association Limited (Southern Life), which were controlled by AAC and Momentum Life Assurers Limited (Momentum); and the holding company of Discovery Health Limited and Rand Merchant Bank Limited, which was controlled by RMBH (FirstRand, 2009)

Through its ownership of First National Bank, Momentum, Rand Merchant Bank (RMB) and WesBank the Group can operate in almost every area of the financial services arena. Project financing activities are housed within RMB, which is the investment banking arm of the group. FirtRand's sustainability involvement includes(FirstRand, 2009):

- Signatory to the UN Global Compact.
- This year, for the second time, FirstRand had their carbon footprint calculated.
- FirstRand formally adopted the Equator Principles in July 2009

FirstRand's sustainability reporting complies with Sustainability Reporting Guidelines of the Global Reporting Initiative (GRI – G3)

5.3.2 Driving factors

- Developing countries function at different levels of environmental and social legislation; therefore the EPs provide an international benchmark that also allows for consideration of the countries' specific legislation and regulation. This is inline with FirstRand's medium and long term business strategy to move into African and Indian markets.
- It also provides the bank with a strategic risk management tool to ensure that they responsibly finance the projects that could have an environmental and social impact.
- Pressure from the NGOs did not play any role in influencing FirstRand's decision to adopt EPs. The relationship with the NGOs has rather been of a collaborative nature, where they would advise and suggest certain initiative such as the carbon disclosure project.
- Although not a main driver, the fact that other South African banks were already signatories to the EPs influenced FirstRand Banking Group's decision to adopt.

5.3.3 Constraining factors

- There is a world view that the priority for emerging countries should be economic growth and environmental and social standards like the EPs may present a hindrance to this.
- There is difficulty in demonstrating a business case for EPs, since environmental costs and benefits might be difficult to quantify in monetary terms. It was challenging to prove to merchant bankers whether or not the bank is losing business by not being an EPFI, or if more business would be obtained if the EPs are adopted.

Table 9 provides a summary of the costs and benefits that were considered by FIrstRand Table 10 represents the key factors that were identified as having played a significant role in influencing FirstRand's decision to adopt the EPs. The participants also provided a rating relating to the extent of influence of each factor.

Table 9: Summary of costs and benefits considerer by FirstRand

BENEFITS	COSTS
EPs help to reduce financial and reputational risks as they allow the bank to identify and proactively put in place the necessary risk mitigation measures.	FirstRand Banking Group only recently adopted the EPs and they envisage incurring costs when they begin with the implementation, which will include: Training and awareness building, refining the due diligence process and monitoring of compliance.
A code of good practice, such as the EPs assist FirstRand to demonstrate to those financial providers from the highly regulated communities (like Europe) who want to do business with banks in the developing countries, that their funds would be utilized in an environmentally and socially responsible manner. EPs may favourably position the bank in a position to acquire these funds.	EPs were also viewed as being onerous and bringing an undue level of stringency on the bank, above the required national legislation. This would then translate to additional costs of compliance.
FirstRand does not consider the adoption of EPs on its own as an opportunity for green marketing that would provide them with a competitive advantage. They view the adoption of the EPs as part of good corporate governance.	There was a concern that by adopting the EPs, the bank put itself on the NGO's watch list, which might present an increased reputation threat to the bank, even at the slightest indication of non-compliance.
	A concern was raised regarding the possibility that some business might be lost to competitors (opportunity cost) because of the additional requirements that the EPs place on

	the clients. The counter argument to this concern was that management of environmental and social risk is becoming an industry norm, which means that eventually even the competitors would be asking for similar requirements.
FirstRand believes that adopting EPs does produce more benefits that costs.	

Table 10: Key factors that influenced FirstRand in the adoption of Equator Principles

Factors	Rating of Influence		
	Low	Medium	high
1. Improved financial and reputational risk management.		X	
2. Cost of implementation.	X		
3. Peer pressure as other South African banks are already signatories to the EPs.			X
4. Opportunity costs of losing business to competitors that are not equator banks.		X	
5. Weak environmental legislative framework in developing countries.	X		
6. Potential threat to bank's reputation due to increases scrutiny by civil society			X
7. EPs improve the bank's chances of participating in syndication loans with other equator banks and acquiring funding from DFI's		X	
8. Difficulty of demonstrating a business case for adopting EPs, i.e. quantifying the cost and benefits.		X	

5.4Absa

5.4.1 Background

Absa Group Limited (Absa), listed on the JSE Limited, is one of the four South Africa's largest financial services groups offering a complete range of banking, assurance and wealth management products and services (Absa, 2008).

In 2005 Barclays acquired a majority stake in Absa as part of its drive to expand its global product; its international retail and commercial banking businesses in markets outside the UK- Absa would provide a platform into the African market. Barclays is one of the founding signatories of the Equator Principles. Absa's sustainability involvements and milestones include (Absa, 2008):

:

- In 2008, Absa submitted data to measure its carbon footprint, for the first time. This was part of the Barclays global initiative to report on the Barclays Group's total carbon footprint.
- Inclusion in JSE SRI Index
- Absa officially adopted the Equator Principles in October 2009

Absa Group is a subsidiary of Barclays Bank PLC, and has been applying the EPs in all their project finance activities since 2006. This claim is supported by the reporting on project finance transactions assessed in terms of the Equator

Principles in their 2008 sustainability report. Absa has adopted the Global Reporting Initiative (GRI) guidelines on economic, environmental and social performance (collectively referred to as the triple bottom line) as a benchmark for the Group's sustainability reporting.

5.4.2 Driving factors

- Absa regards the pressure from the NGOs and other lobby groups as being, generally' influential to adopting EPs. However, they do point out that South African banks have not been subjected to the wrath of the NGOs, and they believe that this will change soon.
- Absa also feels that the EP's helps to improve their credit risk management process from an environmental and social context.
- The EPs also assist in providing the minimum required level of addressing environmental and social issue in countries where the relevant legislation is lacking. However, Absa will always comply with a higher standard if it is prescribed by the national legislation. .
- Peer pressure was also identified as a driver to officially adopt the EPs, since most of the competitors are signatories to the EPs.

5.4.3 Constraining factors

- Lack of understanding of the usefulness of the EPs by the staff may result in resistance because of the additional steps EPs introduce into the transaction process which increases transaction lead times.
- Absa does not consider “free-riding” as something that wouls discourage a bank from adopting EPs, because at some stage the ‘free-riders will be exposed. They go on to explain that through corporate governance tools like King 3’ there will be increasing attention on the legitimacy of what companies report on.

Table 11 provides a summary of the costs and benefits that were considered by Absa. Table 12 represents the key factors that were identified as having played a significant role in influencing Absa’s decision to adopt the EPs. The participants also provided a rating relating to the extent of influence for each factor.

Table 11: Summary of the costs and benefits considered Absa

BENEFITS	COSTS
EPs help to reduce financial and reputational risks as t allows the bank to identify and proactively put in place the necessary risk mitigation measures. They assist Absa in ensuring that their lending practices are sustainable from an economic, social and environmental view.	Absa does not foresee the application of EPs resulting in loss of business. They feel that the role of EPs is to support the bank's business. Their preferred approach will involve assisting the client in addressing the identified social and environmental issues, instead of turning business away.
Absa suggest that all things being equal, adopting the EPs does provide the bank with an advantage to acquire cheaper funding from investors.	The implementation and operational costs associated with EPs has not been significant for Absa as they have been receiving a lot of support from Barclays.
Being an EPFI makes it easier to syndicate loans with other EPFIs.	The client will bear most of the costs, which would be related to the projects as part of normal business e.g. Environmental Impacts Assessments (EIA's).
Absa do believe that adopting the EPs and sound environmental practices provide an opportunity for 'green marketing', which could be a differentiator, especially for environmentally conscious clients.	
Absa strongly agree that the benefits of adopting the Equator Principle are greater that the costs.	

Table 12: Key factors that influenced Absa in the adoption of Equator Principles

Factors	**Rating of Influence**		
	Low	Medium	High
1. Improved financial and reputational risk management.			**X**
2. Cost of implementation.	**X**		
3. Peer pressure as other South African banks are already signatories to the EPs.		**X**	
4. Opportunity costs of losing business to competitors that are not equator banks.	**X**		
5. Weak environmental legislative framework in developing countries.	**X**		
6. Potential threat to bank's reputation due to increased scrutiny by civil society.		**X**	
7. EPs improve the bank's chances of participating in syndication loans with other equator banks and acquiring funding from DFI's.			**X**
8. Lack of understanding of the usefulness of the EPs, resulting in resistance to adoption.	**X**		

6. Chapter 6: Discussion of Results

6.1Introduction

This chapter is aimed at providing an interpretation of the results as presented in chapter 5. In chapter 4 it was suggested that a theme identification technique should be utilized to analyze the collected data. Hence the discussion of results in this chapter would be structured according to the themes that emerged during data collection in context of the literature and such that the research questions will represent the major headings of the chapter.

6.2Driving factors that influence the adoption of Equator Principles by SAFIs

6.2.1 NGO pressure

The review of literature revealed that pressure from NGOs was one of the strong driving factors that influence banks to adopt the EPs. This is based on the observation that the banks are becoming the target of NGOs, since they provide the capital resources to developers of projects that may have a negative environmental and social impact (Thompson, 1998).

However, for the SAFIs, this was not, necessarily, found to be the case. Two of the participating banks indicated that their relationships with the NGOs go beyond the critic and 'watchdog' elements: they see it as a collaborative relationship, and thus suggest that the NGOs play more of a supportive and advisory role, rather than exert pressure on them. This view is further supported by another bank, by pointing out that like any other banks with strategic focus in the resources sector, they have always had a close relationship with the NGOs; if there was any pressure, they could have adopted the EPs a while back.

An interesting point was raised, in that South African banks have, generally, not been a target of NGO activities − most of the NGO pressure has been channelled towards the project developers, which probably explains the collaborative relationship mentioned by other banks.

The banks further suggest that if some form of stakeholder pressures does exist, it would also include media and the general public opinion. The discussions with the aforementioned banks suggest that the pressure from NGOs played a very limited role − if any − in their decision to adopt the EPs. However, they are also mindful of the prospect of this changing in the near future. One of the banks goes so far as to suggest that NGOs, through their inconsistent support of the EPs, represent a restraining factor (Invetec, 2009). This will be discussed further in section 6.2 below.

6.2.2 State of legislation in project host countries and risk management

According to Missbach (2004), most developing countries lack the strong political and legal institutions necessary for developing social and environmental legislation, as well as the effective enforcement thereafter. While SAFIs agree with this notion, one of the banks has, however, observed that developing countries, in general − and Africa in particular − have put in place sound legislation, but they lack the capacity to enforce it. This is an insightful observation as it explains why banks would then adopt the EPs as a way of managing the associated financial and reputational risk. If a bank funds a project in accordance with the countries legislative requirements, no matter how weak they may be, it faces no risks that may arise due to non-compliance. However, if the legislation is in place and not enforced, the bank may be tempted to fund non-compliance projects with a hope that it never gets caught out, thus exposing itself to direct and indirect risks, since some form of law on which the bank could be held liable is in place.

In order to manage this inherent risk of financing projects in developing countries, SAFIs have adopted the EPs. They suggest that EPs would allow them to proactively put in place the necessary systems and processes for screening projects, so as to ensure that they comply with generally-accepted environmental and social standards.

When asked to rate the level of influence attributed to the lack of environmental and social legislation in the developing countries on their decision to adopt the EPs, the SAFIs provided a rating of low to medium. This relatively low rating could be attributed to the fact that these institutions are using the level of South African environmental legislation as a benchmark, which is relatively well-developed and on par with the globally-accepted standards.

6.2.3 Environmental and social responsibility

It is also suggested that some banks have adopted the EPs because they genuinely believe it is the responsible thing to do. This claim is supported by Watchman *et al* (2007) who points out that some banks adopt the EPs as compliance to good corporate governance, based upon the need for sustainable banking underpinned by sustainable development, and a desire to address social and environmental issues in a thorough and detailed manner, which would be acceptable to the project host country.

To a certain extent, the SAFIs also seem to want to portray an image of good corporate citizenship. To this effect, one of the participating banks has identified itself as South Africa's truly 'Green Bank', while another has, recently, regarded itself as a bank with a deep commitment to Africa and its development.

6.2.4 Peer pressure

Wright and Rwabizambuga (2006), suggest that wide adoption of the EPs will increase the pressure on local banks to raise their environmental and social standards when financing projects. Although the participating banks were quick to point out that peer pressure was not the main reason driving their decision to adopt the EPs, they do agree that this factor does exert some level of influence. An increase in the adoption rate of EPs has been observed, with three large SAFIs adopting the EPs during the course of this year alone. The sudden attractiveness towards the EPs may be interpreted as "copy cat" behaviour, where other banks are adopting the EPs because their peers have also adopted them. In support of the above observation, two of the banks who recently adopted the EPs have rated the influence of peer pressure on their decision to adopt as medium to high.

6.3 Restraining factors that influence the adoption of Equator Principles by SAFIs

6.3.1 Free riding

Scholters and Dam (2006) suggest that the lack of formal control and oversight governing the adoption of and compliance to the EPs, gives rise to the negative behavioural aspect referred to as "free-riding". This behaviour could be described as a situation where banks would declare the adoption of the EPs, but would not follow through with the necessary investments in systems and processes necessary for compliance. As a result, these banks would reap the reputation benefits of being EPFI without incurring any of the associated implementation costs. Free-riding has been identified as posing a potential deterrent to banks that are considering adopting the EPs. Those SAFIs that have adopted the EPs suggest that 'free-riding' should not be a significant consideration in the decision to adopt or not to adopt EPs. They argue that, in the long run, the free-riders will be caught out and they will suffer even greater reputational damage.

However, in explaining the reasons for not adopting the EPs, one of the banks presented a different view, pointing out that EPs are used as a "fig leaf" to cover the avoidance of exercising fundamental moral judgment. They go further to sight that NGOs, for example, are not universally supportive of the EPs and there have been accusations of tokenism or "free-riding" (Investec, 2009). This view is also supported by Watchman *et al* (2007), who suggest that some of the banks that do not adopt the EPs feel that there is a certain level of hypocrisy regarding at least some of the EPFIs that adopt the EPs, given their track record outside the OECD as the project finance lenders.

6.3.2 Compromises economic development

Wilson (2007) argues that poor countries cannot raise living standards or improve management of the environment without economic growth, therefore, promoting economic growth has to be the first priority of policy in the developing world. He concludes that EPs act as a tax on economic growth as they attach strings to project financing that add additional costs and delays before the benefits of investment can be reaped.

This view is further supported by one of the banks, who points out that in most large infrastructure and energy projects, there is inevitable conflict between larger, nationwide developmental imperatives on the one side, and the local social and environmental well being, on the other (Investec, 2009).. These trade-offs are a matter for local parties and their representatives - it should not be the banks responsibility to make the call on such trade-offs (Investec, 2009).

A different view to the discussion was also raised, by pointing out that the impact of unchecked development might not be reversible and the cost of fixing mistakes at a later stage is extensive.

The arguments presented above demonstrate the complexity of a broader debate regarding the trade offs between economic development, on the one side, and the preservation of environmental and social integrity, on the other.

6.3.3 Difficulty in demonstrating the business case

Lack of understanding of the usefulness of EPs by the some staff members − especially the project transactors − has been identified as a potential constraint to adopting EPs. The lack of understanding has been attributed to the difficulty of demonstrating a business case for EPs, since environmental costs and benefits are mainly indirect, intangible and may occur further down the value chain. Therefore, it becomes difficult to quantify in monetary terms.

6.4Perceived cost and benefits of adopting or not adopting the Equator Principles

6.4.1 Improved financial and reputation risk management

All the banks who participated in this study, and who have also adopted the EPs, rate improved financial and reputation risk management as the one of the most significant benefits of adopting the EPs. This makes sense, since most of these banks had to undergo a rigorous process of demonstrating a business case before they could adopt the EPs. These banks recognise that their primary business is to increase return on investment in projects, and prudent risk management is central to achieving this objective. This supports the suggestion by Hardenbrook (2007) that EPFIs adopt EPs as part of a risk management strategy, since banks have a large incentive to manage the risks associated with their investment carefully in order to ensure repayment of loans and avoid any potential liability expenses.

O'Sullivan and O'Dwyer (2007) state that the importance of the role played by the financial sector in championing environmental and social justice − as providers of capital that drives industrial activities and economic growth − has grown over the years. However, given the discussion above, one is led to believing that this momentum could only be sustained as long as there is a business case for improving the banks risk exposure.

6.4.2 Cost of implementation

The majority of the participating banks do acknowledge that adopting the EPs does bring about additional operational costs to the bank, which may include: development of internal policies and systems; staff recruitment and training; project investigation and categorisation; and compliance monitoring and reporting. However, they also indicate that these costs were insignificant in value: this was evident when they rated the cost of implementation as having a low to medium influence on their decision to adopt the EPs. In order to explain the low initial implementation costs, banks cited a number of reasons, which include the following:

- The banks already had systems and processes in place to screen the projects for environmental and social impacts; therefore, they only had to undertake a realignment process to accommodate the EPs. The banks originally established these systems and processes to comply with the strict South African environmental legislative requirements and other international sustainability initiatives, such as the UN Global impact.

- One of the banks indicated that their low implementation costs were rather due to a windfall, resulting from being acquired by an international bank which was already an EPFI and, thus, provided the necessary implementation support.

The supposed low implementation cost needs to be viewed with caution, since some of the participating SAFIs have only recently adopted the EPs and, therefore, the costs are more perceptual than actual.

6.4.3 Opportunity costs of loosing business to competitors that are not EPFIs.

Amalric (2005) points out that in addition to implementation costs, banks also face an opportunity cost of rejecting projects that do not meet the EPs' criteria. When this prospective loss of business was raised with the participating banks, they acknowledge this as a concern. However, they are quick to point out that rejection of projects that do not comply with the requirement of EPs would e a last resort. Their preferred approach will involve assisting the client in addressing the identified social and environmental issues. The banks went on to support this approach by pointing to the fact that rejecting a non-compliant project goes against their sustainability commitment because the developer would probably go on to find a more willing financier, and the project would go ahead regardless of the negative environmental and social impacts. This sustainability stance demonstrated by the SAFIs supports the point made by Watchman *et al* (2007) that some banks adopt the EPs because they genuinely believe that it is a responsible thing to do.

However, one bank presented a different view: they believe that EPs do bring about undue bureaucratic requirements, which may compromise the banks competitiveness (Investec, 2009). This suggestion was also raised by Watchman *et al* (2007) who noted that some banks do not adopt EPs because of their view that they can increase market share by holding themselves out as being free of the stifling bureaucracy of the EPFI and of the red tape involved with adopting the EPs.

6.4.4 Improved reputation

Thompson (1998) states that reputation is the single most important intangible asset that banks possesses. Therefore, adoption of the EPs may be motivated by the desire for differentiation (or green marketing) from the malpractices of competing firms or clients, and to boost credibility in the eyes of critics, thus gaining a competitive advantage. SAFIs generally accept that the adoption of EPs − which signals an intention to undertake socially and environmentally responsible lending − helps to improve the banks reputation. One of the banks suggests that this could even translate to a competitive advantage, especially when considering the growing number of environmentally and socially conscious clients. However, another bank pointed out that being environmentally and socially responsible is becoming part of being a good business, making it an order qualifier rather than an order winner.

6.4.5 Improved chances of participating in syndication loans with other EPFIs and acquiring funding from DFIs

According to Watchman *et al* (2007), another reason not often put forward for adopting EPs is to develop a close relationship with other EPFIs. He provides an example of Nedbank's assertion that they adopted the EPs to become the partner bank of choice for the other Equator Banks in African deals. Other SAFIs also agree that adopting the EPs make it easier to syndicate loans with other equator banks.

Another bank pointed out that some investors from highly-regulated environments (such as Europe) need assurance that their funds would be utilised in an environmentally and socially-responsible manner. Therefore, adopting the EPs may position the bank in a favorable position to acquire these funds. This view was, however, qualified by a suggestion that EPs are just one of the many standards that need to be adhered to in order to partake in a syndicate loan. Thus, adoption of the EPs alone does not guarantee participation.

6.4.6 Increased NGO scrutiny and public pressure

Nguyen (2007) suggests that by adopting the EPs, the lender may open itself up to further NGO scrutiny and public criticism, since EPs demonstrate a certain level of commitment to environmental and social stewardship. In support of this view, one of the banks raised a concern that by adopting the EPs, the bank put itself on the NGO's watch list, which might present an increased reputation threat to the bank, even at the slightest indication of non-compliance. Another bank also suggested that the EPs provide the measure on which the banks can hold the bank accountable and liable.

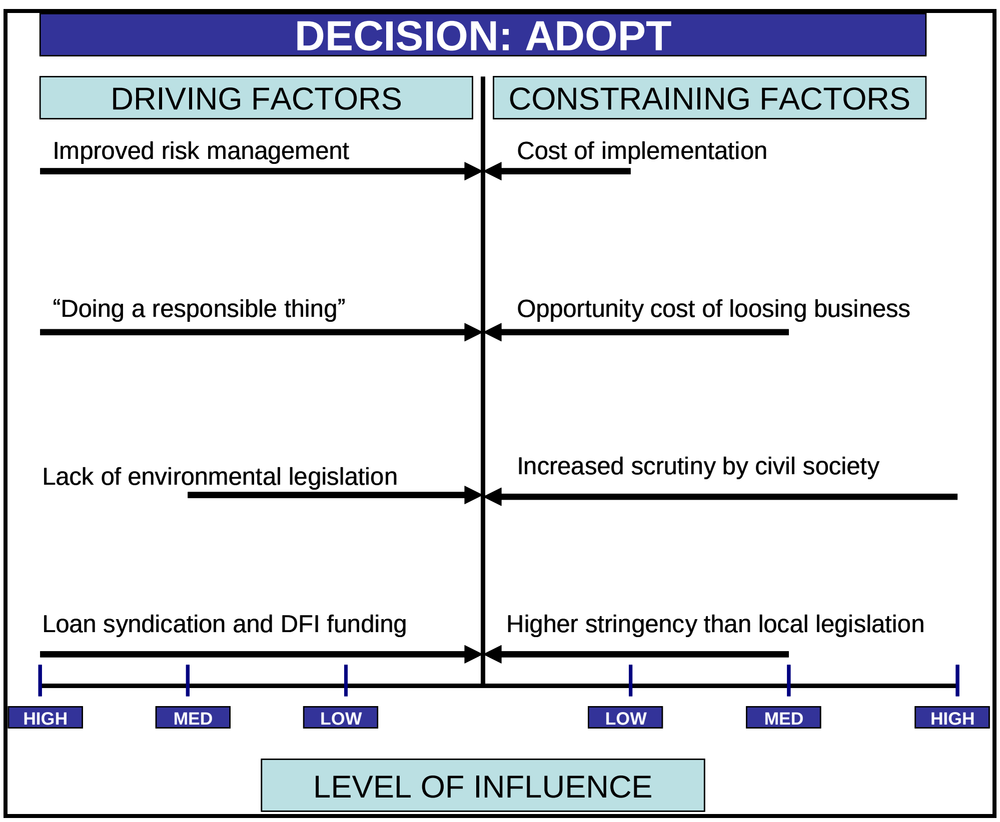
6.5Force-field analysis

The participants from each organisation were asked to rate the influence of each of the key factors in their decision to adopt or not adopt the EPs as either low, medium or high (Tables 5 – 8). The ratings were then plotted onto the force-field diagrams to provide a schematic representation of the aggregate influence of the key factors in each of the banks' decision on adopting the EPs, which is discussed in the following sections.

6.5.1 Nedbank

True to their deep green aspiration, the force-field analysis in figure 1 shows that the adoption of EPs was a natural progression for Nedbank, with driving factors clearly outweighing the constraining factors. Nedbank rated the influence of all the driving factors as high, with the exception of the factor relating to the state of the environmental and socials legislation being allocated a rating of medium. This could be attributed to the fact that Nedbank has a relatively small project finance activities in areas beyond the Southern African region, where the state of legislation might be of greater concern.

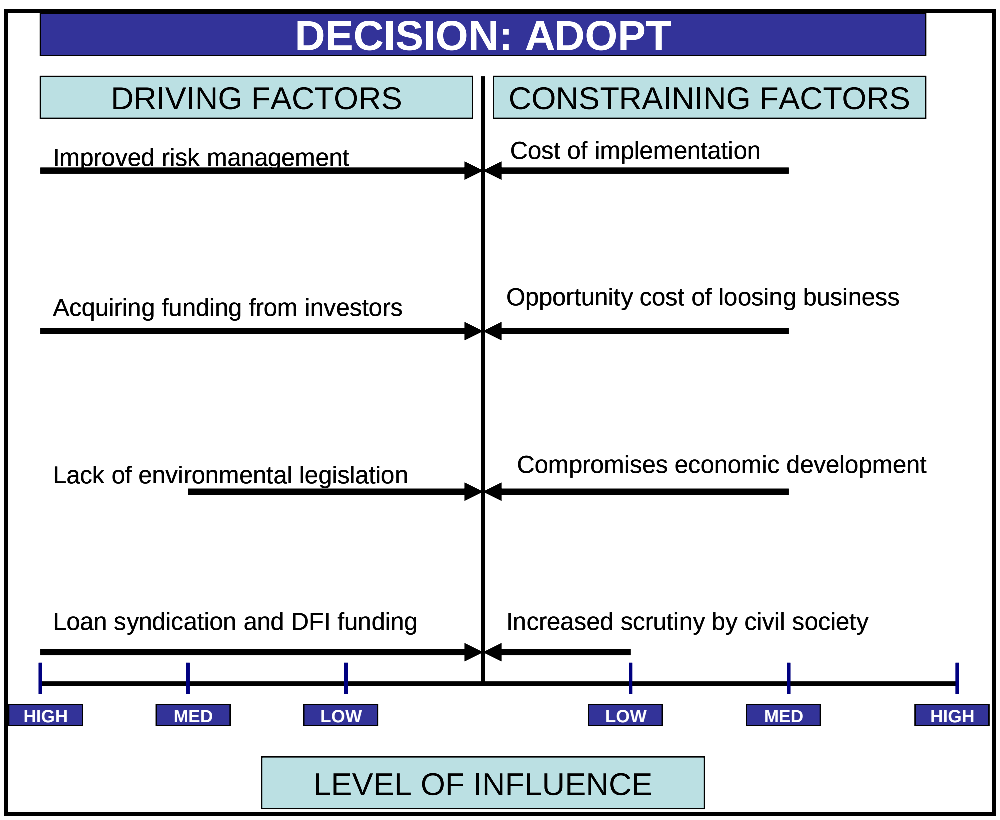
Figure 1 Nedbank force-field diagram



6.5.2 Standard Bank

Standard Bank's force-field analysis (Figure 2) also reveals that the influence of driving factors was significantly superior when compared to the restraining factors, which indicates that a clear business case was established before the EPs were instituted. This supports the point made by Standard Bank that they spent three years and invested in the services of an external service provider to assist them in ascertaining a business rationale for adopting the EPs.

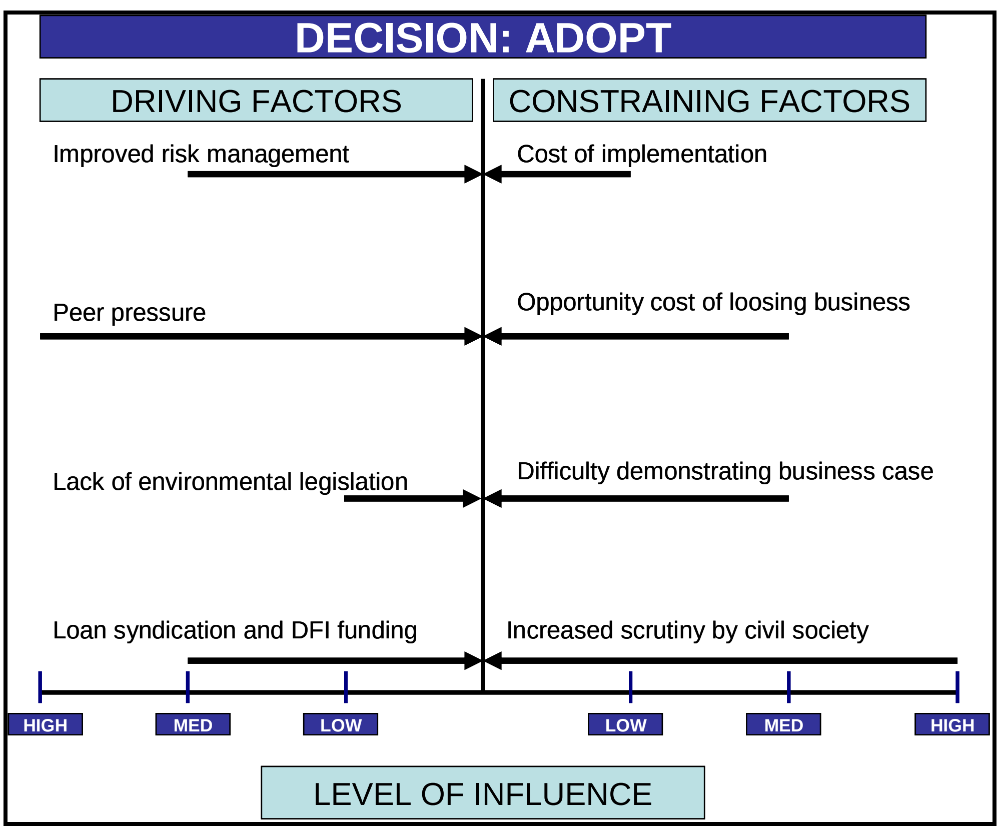
Figure 2: Standard Bank force-field diagram



6.5.3 FirstRand Bank

During the interview, FirstRand indicated that they have been considering the adoption of EPs for some time before finally becoming a signatory on the 13 July 2009. The reason stated for the delay in the decision to adopt the EPS was that they needed to develop a business case first. The illustration below (Figure 3) shows that the influence of driving factors exactly matches that of constraining factors. Based on the force field analysis theory, FirstRand could have maintained the status quo of non adoption. However, FirstRand did go on to adopt the EPs, which perhaps indicates the effects of peer pressure as discussed in section 6.1.4.

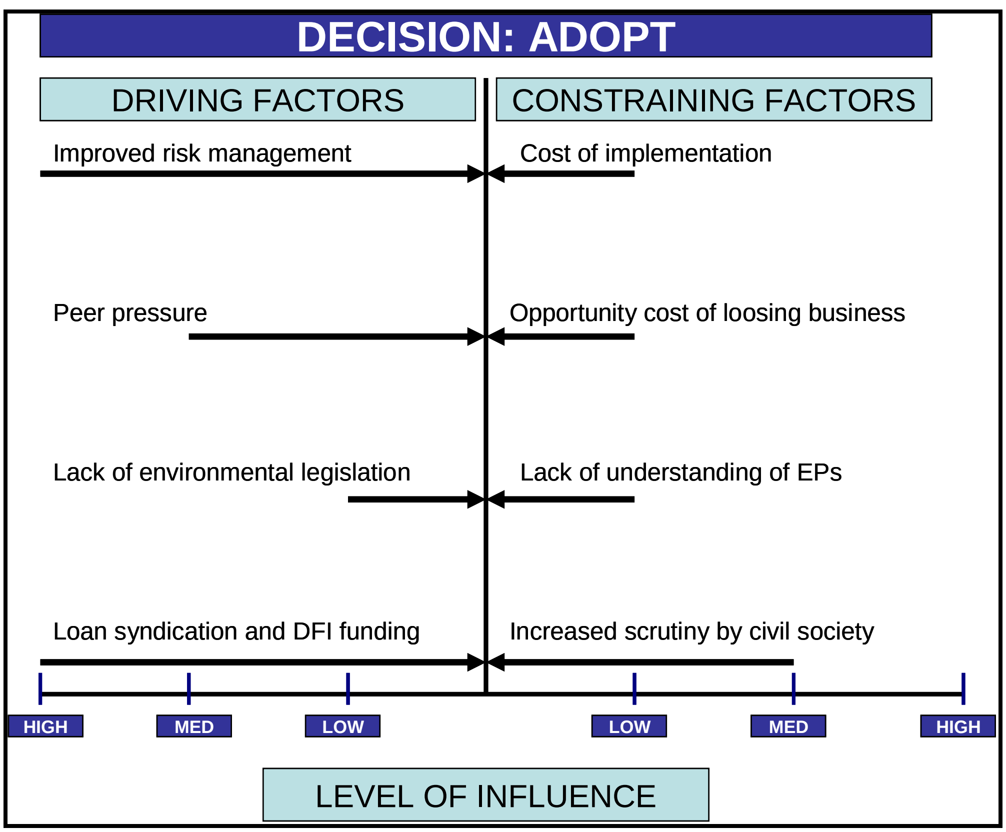
Figure 3: FirstRand force-field diagram



6.5.4 Absa

Absa has been operating within the Barclays ambit of the Equator Principles for the last 2 years, but having further enhanced its internal environmental risk management resource, it decided to formalise its commitment by independently adopting the EPs on 22 October 2009. Therefore the business rationale of adopting the EPs has already been established. It was, thus, unsurprising to see the influence of the driving factors rating higher than the constraining factors, as represented in figure 4.

Figure 4: Absa force-field diagram



6.6Conclusion

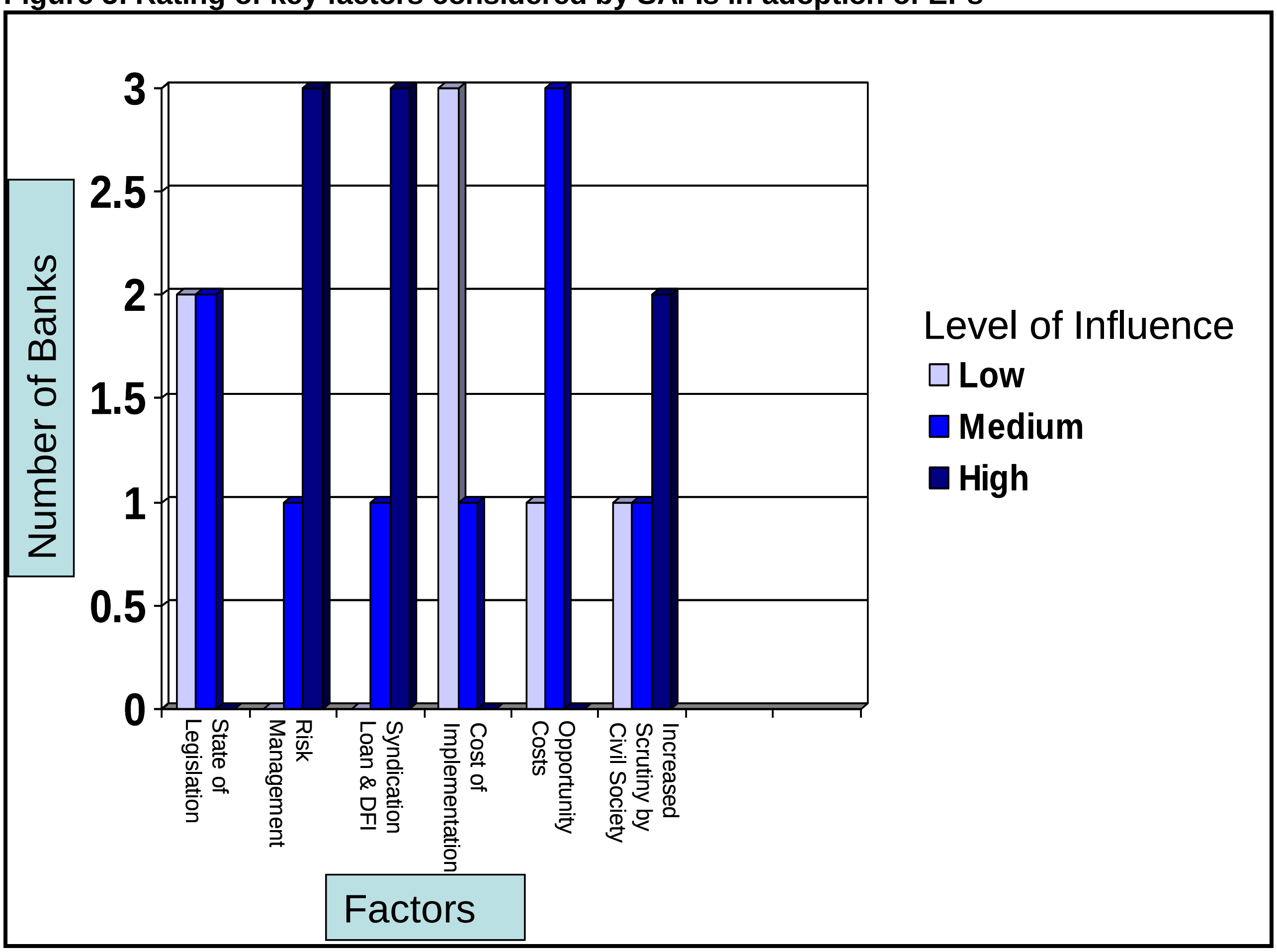
Generally, all SAFIs agreed that the need to manage the environmental and social risk associated with their project finance activities was a key driver in the adoption of the EPs. Some have acknowledged that they have taken longer to reach a decision, as they first wished to establish a sound business rationale. However, the increasing peer pressure seems to have convinced some SAFIs to finally adopt. Although the SAFIs seem to have good relationships with civil society, some indicated that adopting the EPs may result in increased scrutiny by civil society, which may expose the banks to reputation risk, in case of non-compliance. Table 13 provides a summary of the key factors that were considered by SAFIs in their decision to adopt the EPs.

Table 13: Summary of factors that influenced SAFIs in adoption of Equator Principles

Driving Factors & Benefits	Constraining Factors & Costs
State of legislation in project host countries and risk management	Difficult in demonstrating a business case
Environmental and social responsibility	Cost of implementation
Peer pressure	Increased NGO scrutiny and public pressure.
Improve financial and reputation risk management	Opportunity cost of loosing business to competitors that are not EPFIs
Improved reputation	
Participating in syndication loans acquiring funds from DFIs	

Figure 5 shows that the representatives of the SAFIs see improved risk management, as well as the improved chances to participate in syndicated loans and acquiring funding from DFIs, as the key driving factors that had the greatest influence on their decision to adopt the EPs. On the other hand, the increased scrutiny by civil society and concern over potential loss of business to non-adopting banks were identified as the key constraining factors. The constraining factors are shown to have a relatively lower influence when compared to the driving factors, which would explain why SAFIs ultimately decided to adopt the EPs.

Figure 5: Rating of key factors considered by SAFIs in adoption of EPs



7. Chapter 7: Conclusion and Recommendations

7.1Key research findings

The research was initiated with the aim of assessing the factors that influence the adoption of the Equator Principles (EPs) by South African Financial Institutions (SAFIs). In order to achieve this, face-to-face interviews were conducted with industry specialists and the suitable representatives of the selected SAFIs. In general, the factors raised by the SAFIs (Table13) related to those identified during the literature review (Table 2), except for a few instances where SAFIs alluded to factors that were not identified in the literature review.

7.1.1 State of legislation in project host countries and risk management

Research shows that the SAFIs also considered the state of environmental and social legislation in developing and the need to manage the inherent risk as a driving factor in the adoption of EPs. However, the SAFIs suggest that it is the incapability to enforce legislation, rather than the absence of it, that is a source of risk. When asked to rate the influence of this particular factor in their decision to adopt the EPs, the SAFIs allocated a low to medium rating. This can be attributed to the possibility that the SAFIs are using the South African environmental legislation as a reference (which is considered to be amongst the best in the world) and, thus, compliance is regarded as adequate to mitigate risks that may be associated with the projects.

7.1.2 Difficulty of demonstrating a business case

Most of the SAFIs indicated that they have considered the EPs for quite some time before making a final decision to adopt. The reasons granted for the delay decision was that they needed to first demonstrate a business rationale for adopting the EPs. This turned out to be a difficult and lengthy process for the following two reasons: firstly, there was poor understanding of the purpose of the EPs; and secondly, it is very difficult to quantify the costs and benefits of EPs in monetary terms, since they are sometimes indirect and non-tangible.

7.1.3 Peer pressure

While some of the SAFIs suggested that while they delayed their decisions to adopt the EPs so as to establish a business rationale first, peer pressure also seems to have compelled them to finally adopt. This is supported by an observation showing that during 2009 alone, three of the participating SAFIs adopted the EPs.

7.1.4 Cost and Benefits of adopting EPs

In general, the SAFIs agree that the benefits of adopting the EPs outweigh the associated costs. However, this conclusion should be accepted with caution, since most of the banks that participated in this study have only adopted the EPs recently, thus costs and benefits of adoption are more perceptual than actual.

Equator Principles Preamble (2006) suggests that by adopting the EPs, the EPFIs commit that they will not provide loans to projects where the borrower will not, or is unable to comply with the respective social and environmental policies and procedures that implement the EPs. Such a commitment raises a concern relating to a potential loss of business by EPFIs, and which has been identified by the SAFIs as one of the deterrents to adopting EPs.

In order to limit this unintended consequence of adopting the EPs, the SAFIs have adopted an approach similar to the one taken by the IFC when applying their environmental and social Performance Standards. In explaining the IFC's stance, Pooley (pers. comm., 2009) − pointed out that "the IFC works with companies to bring them into compliance with its policies, over time'. The IFC seeks business partners who want to improve their management of environmental and social issues, and will finance new business activities as long as the client can be "expected to meet the Performance Standards over a reasonable period of time.' This approach will allow SAFIs to be able to progressively introduce the additional EP requirements to the clients without risking potential loss of business.

The research also shows that SAFIs believe that by adopting the EPs, they stand a better chance of participating in the syndication loans with other EPFIs, or acquiring funding from DFIs or international investors.

Lastly, the research also reveals that SAFIs have incurred additional costs associated with the adoption of EPs. These costs include: appointment of service provider to help with development of business case; recruitment and training of staff; and realignment of systems and processes to incorporate the EPs.

7.2Recommendations for stakeholders

The EPs are only applicable to projects' financing with total project capital costs of US$10 million or more. During the interviews, some industry specialists suggested that projects amounting to less than US$10m might actually have more detrimental environmental and social impacts, as those projects are normally undertaken by developers who might not have the financial resources required to undertake the necessary mitigation measures. It is, therefore, recommended that the SAFIs consider putting in place an integrated system that would also allow for screening of projects below the EPs' minimum threshold.

The research has revealed that the lack of understanding of the purpose and the usefulness of the EPs − by both the internal and external stakeholders − results in them resisting the adoption of the EPs. In an attempt to improve this situation, the SAFIs should invest more effort and resources towards capacity building and awareness. This will assist in empowering the stakeholders so that they are able to make a meaningful contribution on how best to internalise the EPs, instead of resisting them.

7.3Recommendations for future research

Research revealed that the lack of formal control and oversight governing the adoption of and compliance to EPs gives rise to a situation where banks would declare the adoption of the EPs, but would not follow through with the investments in systems and processes that are necessary for compliance. A follow-up study, focusing on the compliance and reporting by the South African EPFIs, would be able to confirm the existence of such behaviour and if it does occur, suggest ways in which the EPFIs could be held accountable for their commitments to EPs.

Furthermore, the research established that the difficultly of demonstrating the business case for the EPs could be, partly, attributed to the difficulty of quantifying the costs and benefits of environmental and social initiatives. This creates an opportunity for further research to determine practical techniques that would allow for the quantification of costs and benefits in monetary terms.

Finally, since this research was undertaken as an exploration study to assess the factors that influence the adoption of EPs by the SAFI, future research study in the form of a quantitative research methodology could be used to validate the findings of this study.

8. Reference List

Absa Group Limited (2008) Annual Report. Available from http://www.absa.co.za/absacoza/content.jsp?/Home/All-About-Absa/All-About-Absa/Financial-Information/Annual-Reports (accessed 10/9/09)

Amalric, F. (2005)The Equator Principles: *A step towards sustainability*. Working Paper No. 01/05, Center for Corporate Responsibility and Sustainability, University of Zurich

Andrew, J. (2008) Responsible financing? The equator principle and bank disclosures. *Accounting and Finance working paper. 08/01,* School of Accounting and Finance, University of Wollongong. Available from http://ro.uow.edu.au/cgi/viewcontent.cgi?article=1142&context=accfinwp (accessed 04/02/09)

Beloff, B., Tanzil, D. & Clarke-Whistler, K. (2007) Sustainable development: A competitive factor. *Industrial Management, 49 (4) 8 - 10*

Coulson, A. B., & Dixon, R. (1995) Environmental risk and management strategy: the implication for financial institutions. *International Journal of Bank Marketing,* 13(2) 22 - 29

de Jongh, D., Ndlovu, R., Coovadia, C. & Smith, J. (2007) The state of responsible investment in South Africa report. Available from http//www.unepfi.org /fileadmin/documents (accessed 20/2/09)

FirstRand Group Limited (2009) Annual Report. Available at http://www.firstrand.co.za/default.asp?action=AnnualReport09 (accessed 12/09/09)

Gunningham, N. & Sinclair, D. (2002). *Leaders & Laggards, Next Generation Environmental Regulation.* Sheffield: Greenleaf Publishing.

Groth, J. C. (1994) Environmental risk: Implications of rational lender behaviour. *Journal of Property Finance*. 5 (3) 19 - 32

Hardenbrook, A. (2007) The equator principle: the private financial sector's attempt at environmental responsibility. *Vandebilt Journal of Transactional Law*, 40 (1) 197 – 233.

Hansen, R. (2006) The impact of Equator Principles on lender liability: Risk of Responsible lending. LL.M dissertation, London School of Economics.

International Finance Corporation (IFC) (2009) IFC's Policy and Performance Standards on Social and Environmental Sustainability and Policy on Disclosure of Information: Report on the First Three Years of Application. Available from www.ifc.org/ifcext/.../Disclosure+Policy+Overview+of+Consultation+and+Engagement_English.pdf (accessed 23/09/09)

Lan, L. L, & Lee, J. (1997) Force-field analysis on policies affecting working women in Singapore. *Journal of Management Development*, 16 (1) 43 – 52

Leedy, P. D. & Ormrod, J. E. (2001) *Practical Research: Planning and Design*. New Jersey: Prentice-Hall

Missbach, A. (2004) The equator principles: Drawing the line for socially responsible banks? An interim review from the NGO perspective. *Development*, 47(3), 78 – 84.

Nedbank Group (2008) Sustainability and transformation report. Available at http://www.nedbankgroup.co.za/financials/2008Sustainability/index.asp (accessed 10/07/09)

Nguyen, L. A. (2007) Investigating the compliance/non-compliance with the Equator Principles. University of California. Case 07-06

O'Sullivan, N. & O'Dwyer, B. (2009) Stakeholder perspective on a financial sector legitimation process: The case for NGOs and Equator Principles. Accounting, Auditing and Accountability Journal, 22 (4) 553 - 587

Papadopoulos, T. (2009) The 'greening' of project finance: Is this a viable 'project'? *The Icfai University Journal of Banking Law*, 7(1), 8-19.

Pooley, J. (2009) Personal Communication. Interview with specialist conducted on 18 September 2009, Illovo: South Africa

Richardson, B. J. (2005) The Equator Principles: The voluntary approach to environmentally sustainable Finance. *European Environmental Law Review*. 14 (11) 280 – 290.

Sahoo, P. & Nayak, B. P. (2008) *Green banking in India*. Discussion Paper No. 125/2008, Institute of Economic Growth, University of Delhi Enclave
O'Sullivan, N. & O'Dwyer, B. (2007) Stakeholder perspectives on a financial sector legitimating process: The case for NGOs and the Equator Principles. *Accounting, Auditing & Accountability Journal*. 22(4) 553 – 588.

Scholtens, B and Dam, L. (2007) Banking on the equator: Are banks that adopted equator principles different from non-adopters? *World development*, 35(8), 1307-1328.

South African Reserve Bank (SARB) (2008) Annual Report 2008. Bank Supervision Department. Available from http://www.reservebank.co.za/internet/Publication.pdf (assessed 24/09/09)

Standard Bank (2008) Sustainability report. Available from https://sustainability.standardbank.com/standardbank_sdr_2008/ (accessed 25/07/09)

The Banker, (2008) The Banker Awards 2008. London: Financial Times Limited. 158 (994)

The equator principles (2006). Available from http://www.equator-principles.com/documents/Equator_Principles.pdf (assessed 15/12/2008)

Thompson, P. (1998) Bank lending and the environment: policies and opportunities. *International Journal of Bank Marketing*. 16(6) 243-252.

United Nations Environmental Programme Finance Initiative (UNEP FI) (2007) African task force report on banking on value: a new approach to credit risk in Africa. Available from http://www.unepfi.org/publications/africa/ (accessed 19/09/09)

Watchman, P. Q., Delfino, A. & Addison, J. (2007) EP:2 the revised Equator Principle: why hard-nosed bankers are embracing soft law principles. *Law and Financial Markets Review.* 1(2) 85 – 110

Welman, J. C. & Kruger, S. J. (2001) *Research Methodology.* 2nd ed. Cape Town: Oxford University Press

Welman, C., Kruger, F. & Mitchell, B. *Research Methodology.* 3rd ed. Cape Town: Oxford University Press

William, T. (2006) The need to be sustainable. *International Finance Law Review.* 25 (9) 62-65.

Wilson, T. (2005) No, really – what are the 'Equator Principles'. *Institute of Public Affairs Review*, 59 (2) 7 - 8

Wood, C. (2009) Personal Communication. Interview with specialist conducted on 6 October 2009, Johannesburgh: South Africa

Wright, C. & Rwabizambuga, A. (2006) Institutional pressures, corporate reputation, and voluntary code of conduct: an examination of the equator principles. *Business and Society Review*. 111(1) 89 – 117.

Zikmund, G.W. (2003) *Business Research Methods*. Ohio: Thomsons

9. Appendices

Appendix 1: Interview guide - Part 1 interviews

Background

- Do you have any objections to us revealing your identity in the final report?
- Briefly describe your experience of EPs and Project finance
- What is your understanding of the purpose of the EPs?

Factors influencing the decision to adopt or not adopt the Equator Principles

- How does the country's state of environmental legislation, governance capacity and implementation influence the bank's decision to adopt or not adopt the EPs?
- How does the "free riding" behaviour of some banks impact on the decision to adopt or not to adopt the EPs?
- What impact, would you say, NGO pressure has on the decision to adopt or not to adopt the EPs?
- What are your thoughts regarding the sentiments that EPs should be enforced by means of legislation or regulation and can, thus, result in punishment for non-compliance?
- What would you say is the impact of EPs on local economic development?

Costs and benefits of adopting or not adopting Equator Principles

- To what extent does the adoption of EPs influence the level to which the bank is scrutinised by the NGOs and the public?
- What effect does the rejection of non-compliant projects have on the bank's financial performance (opportunity cost)?
- How significant are the project investigation and operational costs (DD, monitoring compliance, client engagement, and policy and system development) associated with adopting EPs?
- What costs and benefits do the EPs present to the surrounding environment and to communities?
- To what extent would you attribute EPs in reducing the bank's financial and (reputation) risk?
- How does the bank's EP status affect its chances of partaking in a syndicate loan arrangement, especially as an arranger?
- To what extent does adopting the EPs provide the bank with a differentiation advantage (green marketing)?
- To what extent, would you say, are the EPs helpful in transferring project screening cost to the project sponsors?

How does the overall cost of adopting EPs compare to the associated benefits?

Appendix 2: Interview guide - Part 2 interviews

Background

- Do you have any objections to us revealing the identity of your organisation in the final report?
- Please provide a brief overview of your role within your organisation.
- How long have you been with the organisation?
- How would you describe your organisational approach to environmental (social) sustainability?
- What is your understanding of the purpose of the EPs?
- Is your organisation a signatory to the EPs? If yes, what have you done to implement the EPs?
- Provide an overview of your organisation's project financing activities, in terms of:
  - Location of projects
  - Project types
  - Sectors
  - Project value

Driving factors influencing the adoption of Equator Principles

What would you consider to be the driving factors that influence the adoption of EPs?

- What is the state of environmental legislation, governance capacity and implementation in countries where your organisation undertakes project financing activities?
- What impact would you say NGO pressure had on the decision to adopt or not to adopt the EPs?

Restraining factors influencing the adoption of Equator Principles

What would you consider to be the restraining factors that influence the adoption of EPs?

- Did the “free-riding” behaviour of some of banks have an influence on the banks’ decision to adopt or not to adopt EPs?
- What are your thoughts regarding the sentiments that EPs should be enforced by means of legislation or regulation and can, thus, result in punishment for non-compliance?
- What would you say is the impact of EPs on local economic development?

Costs of adopting the Equator Principles

What would you consider to be the costs of adopting EPs to your organisation?

- To what extent does the adoption of EPs influence the level to which the bank is scrutinised by the NGOs and the public?
- If your bank is a signatory, has your bank rejected any projects based on the environmental and social risks identified in the EP review process?
- What effect does the rejection of non-compliant projects have on banks financial performance (opportunity cost)?
- Do you believe that implementing the EPs brings an undue level of stringency above that required by national legislation?
- How significant are the project investigation and operational costs (DD, monitoring compliance, client engagement, and policy and system development) associated with adopting EPs?
- Do you believe that applying the Equator Principles results in costs to surrounding communities and to the environment?

UNIVERSITEIT VAN PRETORIA
UNIVERSITY OF PRETORIA
YUNIBESITHI YA PRETORIA

Benefits of adopting the Equator Principles

What would you consider to be the benefits of adopting EPs to your organisation?

- To what extent would you attribute EPs in reducing financial (reputation) risk?
- How does the bank's EP status affect its chances of partaking in a syndicate loan arrangement, especially as an arranger?
- To what extent does adopting the EPs provide the bank with a differentiation advantage (green marketing)?
- To what extent, would you say, are the EPs helpful in transferring project screening cost to the project sponsors?
- Do you believe that applying the Equator Principles results in benefits to the surrounding communities and to the environment?

How does the cost of adopting EPs compare to the associated benefits?