EQUATOR PRINCIPLES REPORTING:
DO FINANCIAL INSTITUTIONS MEET THEIR GOALS?

OLAF WEBER
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EXECUTIVE SUMMARY

The Equator Principles (EP) are a voluntary code of conduct for assessing, managing and reporting environmental and social impacts in project finance. This paper analyses the compliance of the 79 Equator Principles Financial Institutions (EPFI) with the seven mandatory requirements: annual reporting, disclosure of the number of transactions, assessment, risk categories, sector, region and implementation. The three findings from this study are that while all EPFIs required to disclose information do so, at least partially, only about five percent disclose all the information required by the EP guidelines. In addition, the larger the EPFI, with respect to its total assets and membership duration, the higher the reporting quality. In conclusion, further mechanisms are needed to guarantee transparent reporting of environmental and social project finance impacts.

INTRODUCTION

The relation between the financial sector and sustainable development can be characterized by four aspects. First, the sector influences environmental and sustainability impacts of financed projects or borrowers (Baranes 2009; Egede and Lee 2007; Scholtens 2006), for instance, through assessing sustainability risks of lenders and through pricing sustainability risks. Despite the significant influence of these indirect impacts, assessing and reporting them is not given high priority in the financial sector (Thien 2013). Second, the financial sector must respond to the risks and opportunities connected with sustainability and related regulations that arise (Richardson 2009; Labatt and White 2007). In Canada, for instance, the sector has to manage climate change risks of their borrowers through establishing shadow prices for carbon dioxide emissions. Third, stakeholder pressure influences the reputational risk of financial institutions (Berman et al. 1999; Meek, Roberts and Gray 1995; Matten and Crane 2005) and may have an impact on financial performance (Scholtens and Zhou 2008). Some financiers, for example, were criticised by non-governmental organizations (NGOs) because of their involvement in controversial projects. The following media coverage influenced their share price. Fourth, the financial sector rather plays a reactive and passive role with respect to sustainable development and focuses on the business case instead of acting proactively in order to create a positive sustainability impact (Wiek and Weber 2014). As an example, banks focus rather on the risks of climate change on their financial portfolio instead of creating investment portfolios that address climate change. These characterizations may explain adaptation processes of organizations (Jennings and Zandbergen, 1995) that lead, among other elements, to the creation of voluntary codes of conduct such as the EP for project finance.

The EPs, which were first introduced in 2003, revised in 2006 (version II) and again in 2013 (version III), provide...
a voluntary framework for assessing and managing environmental risks in project financing (The Equator Principles [EP] 2013). They are a financial industry benchmark for managing environmental and social risks. The goal of the EPs is to ensure that projects financed and advised on by the EPFI are developed in a way that is socially responsible and reflects sound environmental management practices (The EP 2013). The number of financial institutions that have signed the EP, the EPFIs, has increased from the original 10 founding members in 2003 to 79 members at the beginning of 2014, demonstrating that environmental and social assessment of projects is increasing in global adoption and scope.

Sustainability risks, as assessed by the EPs and associated with project finance, take three forms. The first is the risk to the environment, society and particularly the communities in which the projects are situated. These indirect impacts of the financial sector are often managed in a reactive way that is connected with financial risks for the financier, instead of focusing on the external environmental and social impacts (Wiek and Weber 2014), for example, the financial consequences of a project on the local environment. Second are the environmental, social and sustainability risks that impact the financial performance of projects. These may be strikes and blockades because of weak labour conditions or because of negative impacts on local communities. Third, and often named as most important (Chan 2012), are reputational risks for the financiers that are associated with financed projects controversially discussed by NGOs and media. These risks drive and dominate the discussion agenda of EPFIs, NGOs and other stakeholders (Hardenbrook 2007). In addition to the management of risks, competitive advantage is mentioned in the literature as a motivation to adapt voluntary codes such as the EPs (Eisner 2004).

In recognition of a decade-long experience, application outcomes and stakeholder input, the EPs have undergone changes meant to share lessons learned, but also to proactively engage with evolving contemporary issues, concerns and stakeholders. Three changes have occurred in the EP’s evolution: first, strategic changes, such as integrating evidence of climate change and greenhouse gas emissions into the EP scope and reporting; second, changes that followed modifications of the International Finance Corporation’s policies and guidelines as the basis for the EPs; and the third change addressed the consistency of the principles and support with the implementation of the EPs, specifically, information sharing, country designation and language clarification (Weber and Acheta 2014).

Despite the reservations identified in the literature, such as the EP’s ineffectiveness, that they are no more than window-dressing (Hadfield-Hill 2007; Missbach 2004; O’Sullivan and O’Dwyer 2009), missed opportunities (Mikadze 2012) and doubts about environmental or social impacts (Macve and Chen 2010), the EPs hold the promise and potential to contribute to social and environmental sustainability in project finance. For this to come to fruition, the present gaps in the EPs will need to be filled. Of particular importance are outstanding issues regarding how EPFIs address the implementation of the guidelines in a project’s finance decision making, the practical elements in implementation and whether the implementation will have a positive effect on project sustainability.

One of the main gaps addressed in the newest version of the EPs is reporting. The EP II “Guideline 10: EPFI Reporting” states, “Each EPFI adopting the Equator Principles commits to report publicly at least annually about its Equator Principles implementation processes and experience, taking into account appropriate confidentiality considerations” (The EP 2006, 6). Further, it is specified that the reporting should include, as a minimum standard, the number of transactions screened by each EPFI, including the categorization accorded to transactions, sectors, regions and information with respect to implementation (The EP 2006).

The newest version of the EP, EP III, contains a more detailed guideline for reporting. Similar to EP II, the new version states that, “The EPFI will report publicly, at least annually, on transactions that have reached Financial Close and on its Equator Principles’ implementation processes and experience, taking into account appropriate confidentiality considerations. The EPFI will report according to the minimum reporting requirements detailed in Annex B” (The EP 2013, 12).

In addition, the guidelines state that for Category A and B projects — these are projects with significant environmental or social impacts — the minimum reporting requirement is a summary of the environmental and social impact assessment accessible online. Furthermore, it focuses on disclosing greenhouse gas emissions. Projects emitting over 100,000 tonnes of carbon dioxide are obliged to disclose their emissions. The above-mentioned Annex B contains a detailed guideline on reporting. EPFIs should specify the time period for both data and implementation reporting. As a next step, the guideline specifies the type of reporting for different projects and services introduced with EP III.

For project finance advisory services, the total number of mandated services broken down by sector and region has to be disclosed. Specifically, the total number of project finance transactions and project-related corporate loans has to be reported for businesses related to project finance and project-related loans. The data must be broken down by project category (A, B or C) and by sector, region, country designation and whether an independent review

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1 The International Finance Corporation guidelines, for instance, changed stakeholder consultation to stakeholder consent.
has been conducted. Designated countries are those whose environmental and social regulations are accepted as having sufficient standards by the EPs. Businesses related to bridge loans are not subject to specific reporting requirements.

In addition to disclosing project data, both EP II and EP III ask for reporting on the implementation of the EPs. It includes the mandate of EP reviewers, their role, business lines and participation of senior management. Additionally, the integration of the EP in the respective credit and risk management policies and procedures needs to be disclosed. New EPFs are required to report on internal staffing and training. After a year of employment at an EPFI, staff training should be reported. Project name data has to be delivered to the EP secretariat for publication on their website. Subject to client consent and regulation, data on closed transactions will be reported.

The following sections focus on EP reporting. First, the second version of the EPs has been in place since 2006, therefore, the EPFs should have sufficient experience to follow the reporting guidelines. Second, EP III has more detailed guidelines on reporting and, consequently, EPFs have to fulfill more robust requirements. The analysis of the current state of reporting provides insight about how the EPFs have met the reporting demands so far.

**THE ROLE OF REPORTING**

Reporting is a means to communicate the performance of a business to its stakeholders (Ziek 2009). The goal of voluntary reporting, however, is mainly to communicate a positive image of the reporting institution (Spence 2009). Consequently, the reliability, validity, consistency and relevance of corporate social responsibility (CSR) reports are uncertain (Kolk 1999) and usually these reports contain more positive than negative environmental and social information (Niskanen and Nieminen 2001). Although financial sector organizations tend to disclose less environmental and social information than other sectors (Kolk 2003), CSR and CSR reporting in the financial sector has developed rapidly. Scholtens (2008) found that currently nearly all financial institutions publish a CSR, environment or sustainability report; however, only a third of the financial institutions did so in 2003. According to Scholtens, the same is true for the introduction of financial sector sustainability policies as well as for conducting environmental risk analyses.

Studies suggest that EPFs have a greater CSR than financial institutions that are not a member of the EP (Scholtens and Dam 2007). Based on the latter arguments and the finding that higher CSR performance correlates with a higher level of reporting (Clarkson et al. 2008), the quality of EPFI reporting is assumed to be high. Generally, different rationales for explaining corporate environmental, social and governance (ESG) reporting were found. Among them is institutional theory, which emphasizes the influence of impacts outside an organization (DiMaggio and Powell 1983). This theory argues that rules, laws, regulations, norms or cultures determine the behaviour of firms more than other influences such as competitive factors (Zhilong, Hafsi and Wei 2009). Many scholars emphasise the benefit of regulations and the influence of the government on ESG reporting and performance (Cheung, Welford and Hills 2009; Dobers and Halme 2009; Dutta, Lawson and Marcinko 2012; Xun 2012). This goes hand-in-hand with findings based on institutional theory suggesting that organizations respond to institutional pressures toward CSR (Oliver 1991; Shrivastava 1995) using self-regulation mechanisms (Christmann and Taylor 2001) such as the EP and its reporting guidelines.

Accountability, a major driver of corporate sustainability reporting (Schwartz and Carroll 2008), is defined as “being responsible to an audience with reward or sanction power” (Beu and Buckley 2001, 58). Because firms are accountable to their stakeholders, such as government, employees, shareholders and, in this case, the EPs, reports are a way to express compliance. Only if practices, policies and operations and their consequences are transparent, can accountability be achieved. Consequently, transparent reporting is an important first step to demonstrate compliance with the EPs.

A third explanation for publishing ESG reports is stakeholder management. This is defined as achieving outcomes that are beneficial to stakeholders of corporations (Epstein 1987). Stakeholders can be defined as groups or individuals who can affect or can be affected by any activities of corporations (Freeman 1984). EPFs may publish project information to meet the needs of their stakeholders, such as NGOs, providing information about their compliance with the EP.

The fourth rationale, the size of a firm, is an important factor for ESG reporting (Gamerschlag, Möller and Verbeeten 2011; Patten 1991; Tagesson et al. 2009; Gallo and Christensen 2011). Because of stronger external pressure, bigger firms disclose more information to demonstrate good corporate citizenship (Meek, Roberts and Gray 1995), and use formal channels, such as reports, to publish information (Brammer and Pavelin 2006). Scholtens and Dam (2007) found that EPFs are bigger than financial institutions that did not sign the EPs, and connected this fact with the stronger external pressure on bigger businesses. Furthermore, ESG of bigger firms have a higher quality than those of their smaller counterparts (Brammer and Pavelin 2008).
Generally, CSR reporting is seen as an important tool to improve ESG or corporate social performance (CSP) (Sumiani, Haslinda and Lehman 2007) and the projects’ sustainability performance. In addition, studies suggest a positive correlation between environmental performance and the level of environmental disclosures (Clarkson et al. 2008). But CSP or ESG performance and reporting often does not come free of costs and requires significant resources (Orlitzky, Siegel and Waldman 2011) that are better available in bigger organizations.

Taking into consideration this background, one can assume that EPFIs disclose project finance-related information in reports because of the institutional pressure that membership in the EP Association entails. Furthermore, this paper hypothesises that firm size, measured in total assets, influences the reporting quality.

Although Macve and Chen (2010) conducted a case study that included two EPFIs, a systematic analysis of the reports of all EPFIs is still missing. Consequently, this study closes a gap in the research with respect to EP reporting.

METHODS

Information for all 79 EPFIs in June 2013 was analyzed. Sustainability, environmental, CSR and annual reports and the EPFI public websites were used as data sources. Data was also obtained from the EP website (www.equator-principles.com), which lists member institutions, including a link to EP reporting. The duration of the EP membership was obtained from the EPFI reporting website. The data was analyzed using descriptive statistics and test statistics such as t-tests, Kruskal-Wallis tests, Shapiro-Wilk W tests and Chi² tests in case of not normally distributed and categorical data.

RESULTS

The quality of the reports will be explored using descriptive statistics, followed by test statistics to analyze differences in the reporting quality and quantity.

DESCRIPTIVE ANALYSIS

Overall, 79 EPFIs were listed. One of them was an associated member that does not conduct project finance. Seven EPFIs were members for less than a year and consequently do not report on the same level as other members. The average membership duration is 7.7 years with a median of six years and a standard deviation of 3.1 years. A non-significant value for the Shapiro-Wilk W test suggests that the membership duration is normally distributed (p = .748).

Nearly half of all members (n=32) are European (see Figure 1), followed by Latin American² and African members. The number of members from Asia is relatively small compared to their involvement in project finance, given that five of the biggest 10 project financiers globally come from this continent (Esty and Sesia 2011).

Regarding the country distribution of EPFIs, Canada with seven members and the Netherlands with six members lead the group, followed by Brazil, Spain, the United Kingdom and the United States all with five members respectively. The EPFIs vary in size. Descriptive statistics were calculated for the net loans of the 79 participants in 2012. The mean net loan for each EPFI was $286,340 million,³ while the median was lower at $175,737 million.

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² The category Latin America comprises Central and South America.

³ All currency figures in US dollars.
The net loans were not normally distributed (Shapiro-Wilk test: p < .00001). The mean of the EPFI’s total assets was $513,532.4 million. The total assets were not normally distributed (Shapiro-Wilk W test: p < .00001).

Overall, the EPFIs reported to have assessed 2,049 projects and financed 1,560 of these. The median of reported financed projects per EPFI is 15, meaning 50 percent of the EPFIs have reported about 15 or fewer projects. As a consequence, it seems that only some of the EPFIs conduct project finance as a significant part of their business given that the median of total loans is higher than $175 million.

REPORTING QUALITY
Based on the EP II and EP III requirements, the following categories were developed for the analysis of the EPFI reporting and its quality. The quality of the EP reporting of each of the 79 EPFIs was evaluated according to the following criteria:

- Does the EPFI report annually?
- Is the number of screened transactions shown?
- Are projects categorized depending on stage of assessment or status shown in reports, for example concluded, rejected or under consideration?
- Are projects categorized using risk profiles such as Category A, Category B or Category C?
- Are projects categorized by sector, for example mining, agriculture, etc.?
- Are projects categorized by region?
- Does the annual EP reporting provide information regarding the EP implementation experience (challenges and opportunities)?

The following sections will present the results for these seven reporting criteria.

ANNUAL REPORTING, NUMBER OF TRANSACTIONS AND ASSESSMENT STATUS
In regards to the first three categories, only 44 percent of the EPFIs reported annually as proposed in the EP II guidelines, while 92 percent disclosed the number of screened transactions, and only 14 percent reported about the assessment status of the projects.

PROJECT CATEGORIES
Classification of the projects as A, B or C occurred in 78 percent of the signatories. Of these categorized projects, 14 percent were categorized as a Category A project, meaning that there are potential significant adverse environmental and social risks or impacts that are diverse, irreversible or unprecedented (The EP 2012). Category B accounted for 23 percent of those projects classified, and 29 percent of these were projects with minimal or no adverse environmental and social risks or impacts (Category C).

PROJECT SECTORS
Sixty-seven percent of companies presented information on project sector. However, only in 44 percent is the reporting conducted in a way that discloses the risk category per sector. Sector distribution of projects, both assessed and financed, was reported by 72.2 percent of the EPFIs while 27.8 percent of the EPFIs did not present any sector information. As Table 1 demonstrates, many EPFIs do not report the sectors of their projects although they should according to the EP II guidelines.

**TABLE 1: INDUSTRY DISTRIBUTION CATEGORIZED BY RISK CATEGORY A, B AND C**

<table>
<thead>
<tr>
<th>Sector / Impact</th>
<th>Frequency</th>
</tr>
</thead>
<tbody>
<tr>
<td>Infrastructure A</td>
<td>7</td>
</tr>
<tr>
<td>Infrastructure B</td>
<td>96</td>
</tr>
<tr>
<td>Infrastructure C</td>
<td>44</td>
</tr>
<tr>
<td>Infrastructure N</td>
<td>215</td>
</tr>
<tr>
<td>Mining A</td>
<td>16</td>
</tr>
<tr>
<td>Mining B</td>
<td>21</td>
</tr>
<tr>
<td>Mining C</td>
<td>2</td>
</tr>
<tr>
<td>Mining N</td>
<td>158</td>
</tr>
<tr>
<td>Oil / Gas A</td>
<td>27</td>
</tr>
<tr>
<td>Oil / Gas B</td>
<td>40</td>
</tr>
<tr>
<td>Oil / Gas C</td>
<td>2</td>
</tr>
<tr>
<td>Oil / Gas N</td>
<td>210</td>
</tr>
<tr>
<td>Energy A</td>
<td>31</td>
</tr>
<tr>
<td>Energy B</td>
<td>195</td>
</tr>
<tr>
<td>Energy C</td>
<td>80</td>
</tr>
<tr>
<td>Energy N</td>
<td>422</td>
</tr>
<tr>
<td>Telecom A</td>
<td>0</td>
</tr>
<tr>
<td>Telecom B</td>
<td>10</td>
</tr>
<tr>
<td>Telecom C</td>
<td>3</td>
</tr>
<tr>
<td>Telecom N</td>
<td>13</td>
</tr>
<tr>
<td>Others A</td>
<td>14</td>
</tr>
<tr>
<td>Others B</td>
<td>30</td>
</tr>
<tr>
<td>Others C</td>
<td>65</td>
</tr>
<tr>
<td>Others N</td>
<td>348</td>
</tr>
</tbody>
</table>

*Source: Author’s own analysis of EPFI reporting.*

*Notes:* N means category is not indicated. Both assessed and financed projects are listed.
The energy sector contains 36 percent (n=728) of the classified projects followed by others with 22 percent, infrastructure with 18 percent, oil and gas with 14 percent and mining with 10 percent of the projects. Telecom projects are financed in only one percent of the cases. The highest amount of category A projects are within the oil and gas sector with 10 percent of total oil and gas projects, followed by mining with four percent. If category A and category B projects were added as those with a significant impact and calculated the ratio of A and B projects versus all categorized projects per sector, oil and gas projects have the highest impact with 97 percent of their projects rated category A and B, before mining with 95 percent.

PROJECT REGIONS
Regional distribution of projects is important because the EPs are used to assess projects in countries outside the Organisation for Economic Co-operation and Development (OECD) and those located in OECD countries not designated as high income, according to the World Bank Development Indicators Database (The EP 2006). The total number of financed projects and their regional splits are presented in Table 2.

Table 2 suggests that not all EPFs report the regional split of their projects despite the EP guidelines. Only 43 out of 79 (54.4 percent) EPFs report on the regions of their projects. In addition, it was found that 25 percent of the EPFs did not report on any regional splits at all. In addition, 51 percent of all reported projects were conducted in Europe, North America and Oceania. These regions contain many high income OECD countries with strong environmental and social regulation in which the EPs are not applied.

Further, although 54 percent of the EPFs report the projects’ region, categorization by sector and region or risk and region is available in only some cases.

IMPLEMENTATION REPORTING
Implementation reporting is explicitly mentioned in the EP reporting guidelines. However, only five of 79 (6.3 percent) EPFs report about the implementation experience including opportunities and challenges. Disclosure about whether project appraisal is conducted at the marketing or appraisal stage is even less frequent. Only three percent of the EPFs report on the stage during which they conduct the project assessment.

Overall, the distribution of the seven criteria that the EPFs report on is shown in Figure 2. The numbers of transactions as well as the risk categories are reported by 65 and 62 EPFs respectively. They are followed by the sector (53 EPFs), region (43 EPFs). Only 10 EPFs report about assessment categories and 5 EPFs report about the implementation of the EPs in their organization.

### TABLE 2: FINANCED PROJECTS PER EPFI GLOBALLY AND SPLIT BY WORLD REGIONS

<table>
<thead>
<tr>
<th></th>
<th>Globally</th>
<th>Africa</th>
<th>Asia</th>
<th>Europe</th>
<th>Middle East</th>
<th>North America</th>
<th>Oceania</th>
<th>Latin America</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Total Number</strong></td>
<td>1560</td>
<td>78</td>
<td>165</td>
<td>192</td>
<td>5</td>
<td>95</td>
<td>12</td>
<td>37</td>
</tr>
<tr>
<td><strong>Average</strong></td>
<td>23.64</td>
<td>3.12</td>
<td>6.11</td>
<td>7.38</td>
<td>0.21</td>
<td>3.92</td>
<td>0.57</td>
<td>1.68</td>
</tr>
<tr>
<td><strong>Median</strong></td>
<td>15</td>
<td>0</td>
<td>0</td>
<td>1</td>
<td>0</td>
<td>0</td>
<td>0</td>
<td>0.5</td>
</tr>
<tr>
<td><strong>Maximum</strong></td>
<td>116</td>
<td>18</td>
<td>94</td>
<td>60</td>
<td>2</td>
<td>31</td>
<td>9</td>
<td>8</td>
</tr>
<tr>
<td><strong>Minimum</strong></td>
<td>0</td>
<td>0</td>
<td>0</td>
<td>0</td>
<td>0</td>
<td>0</td>
<td>0</td>
<td>0</td>
</tr>
<tr>
<td><strong>Kurtosis</strong></td>
<td>6.60</td>
<td>4.66</td>
<td>20.06</td>
<td>10.24</td>
<td>7.97</td>
<td>10.06</td>
<td>16.94</td>
<td>4.14</td>
</tr>
<tr>
<td><strong>Skewness</strong></td>
<td>1.97</td>
<td>1.77</td>
<td>4.20</td>
<td>2.66</td>
<td>2.58</td>
<td>2.57</td>
<td>3.89</td>
<td>1.50</td>
</tr>
<tr>
<td><strong>SD</strong></td>
<td>26.30</td>
<td>5.53</td>
<td>18.59</td>
<td>13.50</td>
<td>0.59</td>
<td>7.06</td>
<td>1.99</td>
<td>2.42</td>
</tr>
</tbody>
</table>

*Source: Author’s own analysis of EPFI reporting.*
FIGURE 2: REPORTING ON THE SEVEN REPORTING CRITERIA

Source: Author’s own analysis, based on EPFI reporting.

REPORTING QUALITY

In order to analyze the reporting quality, a reporting quality factor (RQF) was calculated using a point score. If an EPFI reports on the criteria mentioned above, the EPFI gains one point. If it does not report, it receives zero points. The points for the different categories were totalled to the RQF. The more points an EPFI achieved, the higher was the reporting quality. The maximum that can be attained was seven points. The distribution of the RQF is presented in Figure 3. This figure shows that many EPFIs report at least four out of the seven criteria and that 70 percent have a score of four and higher. Only 2.5 percent, however, report all seven aspects that are mentioned as mandatory in the EP II guidelines.

In order to test the impacts of regions, number of projects, membership duration and size of the EPFI on the reporting quality, two groups were formed on the basis of reporting quality using the median split. The result is a group with a RQF with four and higher and another group with a RQF lower than four. The results of t-tests suggest no significant impacts of the number of projects and total loans on the reporting quality. There are, however, significant effects of the number of projects and total loans on the reporting quality. There are, however, significant effects of total assets (p = .045, df = 70, t = -2.04) and the duration of membership in the EP Association (p = .010, df = 77, t = -2.64). Members with higher total assets as well as EPFIs that are members for a longer time have a higher RQF and, consequently, a higher reporting quality. A Chi² test conducted to test the influence of the region on the reporting quality did not suggest significant differences between regions.

Consequently, the reporting quality mainly depends on the size of an EPFI and their duration of membership.

REPORTING DIFFERENCES

To analyze differences between groups of EPFIs with respect to their reporting, first the duration of membership was examined. Because the duration of membership was not normally distributed, a Kruskal-Wallis test to analyze group differences was used. The result was significant (Chi² = 15.36, df = 1, p = .0001). Annual reporters have a shorter membership duration (4.8 years) than non-annual reporters (7.4 years).

A Chi² test for differences between regions did not suggest significant differences in annual reporting. It seems, however, that while European and American institutions have a lower ratio of annual reporting, EPFIs from Asia and Oceania as well as from Africa and Middle East report more frequently on an annual basis (see Figure 4). This effect may also be caused by the duration of the membership since there is a higher likelihood that longer-term members will not report annually, as compared to newer members as demonstrated above. The duration of memberships between EPFIs from different regions was tested.
A Kruskal-Wallis test suggests significant differences in the membership duration between EPFIs of different regions ($\chi^2 = 11.35$, df $= 3$, $p = .01$). Institutions from Asia and Oceania, Europe and the Americas have a median membership duration of six years while the median membership of African and Middle East institutions is four years. These results suggest that differences in annual reporting are an effect of the membership duration rather than of the region in which the EPFI is located.

NUMBER OF PROJECTS

No differences between annual and non-annual reporters with respect to the number of financed and assessed projects globally were found. A t-test that analyzed the reporting on the basis of the number of projects per dollar net loans did not suggest significant differences either.

CONCLUSIONS

This paper presents research on how EPFIs report on environmental and social issues of projects. The EPs, a voluntary code of conduct, include guidelines on how often their members should report, how they should report and what content should be disclosed. Because of the nature of the EPs, institutional theory (DiMaggio and Powell 1983) was used as the theoretical framework for the analysis. Since the EPs are seen as a kind of soft law originating from stakeholder pressure of NGOs, the EPs can influence the corporate behaviour of their members, including the reporting. With respect to the quality of reporting, Meek et al.’s (1995) and Brammer’s and Pavelin’s (2008) approach were followed, both of whom argue that because of their size, bigger companies disclose more and with higher quality information than their smaller counterparts.

Seven criteria were used to test whether EPFIs report according to the EP’s guidelines. The guidelines demand annual reporting, disclosure of screened transactions, the categorization of projects with respect to their assessment status, risk category, sector, region and implementation experience.

All EP reports of the 79 EPFIs were analyzed for reporting compliance during their time of membership. The average membership duration was 7.7 years. The data presented here was obtained in the reports provided on the EP website and by the EPFIs.

The analyses found that the number of EPFIs from Asia is relatively small compared to their involvement in project finance, given that five of the biggest 10 project financiers globally come from Asia (Esty and Sesia 2011). Only 54 percent of all EPFIs report the region of the projects. For these 583 projects, 51 percent were located in Europe, North America and Oceania. Furthermore, nearly half of the EPFIs report had financed 15 or fewer projects, suggesting that project finance is only a small part of their business.

Almost half of the EPFIs reported annually as proposed in the EP II guidelines. Nearly all EPFIs disclosed the number of screened transactions and presented a risk classification of their projects, but only 14 percent reported on the assessment status of the projects. With only 37 percent of projects classified as category A or B, the majority of the reported projects do not seem to have a significant environmental or social impact and consequently do not have to be assessed according to the EP guidelines (The EP 2013). The strength of the classification on its own, with respect to the social and environmental impact, and without conducting an in-depth environmental and social impact analysis, remains questionable.

One reason for the relatively small number of A and B projects could be the sector distribution. More than a third of the projects are from the energy sector, followed by other and infrastructure. Together the oil and gas and mining projects account for 24 percent of the projects. Usually, the latter have higher environmental and social impacts than other sectors as this analysis demonstrates. Around 95 percent of the projects in these two sectors were classified as A or B. Unfortunately, although the majority of the EPFIs report about risk categories, sectors and regions, only a minority reports them in a way that enables readers to combine the figures and to analyze how risk occurs in certain regions and sectors. Because projects are not usually listed in a way that they are identifiable, the reports are non-transparent, making it impossible to allocate social

Source: Author’s own analysis based on EPFI reports.
and environmental impacts to certain projects, sectors and regions. This non-transparency has been previously noted by other scholars (Conley and Williams 2011; Hadfield-Hill 2007).

In addition to the results above, these analyses suggest three main results. First, all EPFIs that are required to disclose information are compliant. Second, only two (about five percent) EPFIs, disclose all the information required by the EP guidelines, although 85 percent meet at least four out of the seven reporting criteria. Third, the larger the EPFI, with respect to its total assets, and the longer the membership duration, the higher is the reporting quality.

As mentioned above, the first result can be explained by institutional theory. As soon as a financial institution becomes a member of the EPs, it has to be compliant with the voluntary code of conduct. In addition to other obligations connected with project assessment, an EPFI has to disclose information on environmental and social issues of projects they finance, plan to finance, advice or lend to. Nevertheless, because the EPs are a voluntary guideline without any enforcement mechanism other than stakeholder pressure, only a few organizations disclose all information required by the EPs. This result corresponds with Macve and Chen (2010), who also found some weaknesses in EPFI reporting.

The third result is in line with earlier research (Gamerschlag, Möller and Verbeeten 2011; Patten 1991; Meek, Roberts and Gray 1995; Brammer and Pavelin 2006, 2008; Scholtens and Dam 2007; Tagesson et al. 2009), which found larger firms had a higher level of reporting than smaller firms. This finding seems to be valid for the financial institutions in this sample as well and demonstrates the impact of economics of scale on sustainability performance (Scholtens and Dam 2007). Larger financial institutions are much more exposed as EPFIs than are smaller institutions, which have smaller financing power and, consequently, have a smaller impact. Because the low transparency of the financial sector is a major point of criticism, large financial institutions, which are able to afford the additional cost, strive for a high reporting quality. Interestingly, factors such as the number of risky category A projects and the number of projects in general does not have an impact on the reporting quality. It seems that reputation is the main reason for a high reporting quality.

Based on the results mentioned above, additional mechanisms are needed to guarantee that the EPFIs follow the EP’s demands. As long as not meeting the demands does not lead to any consequences from the EP Association, the likelihood of full disclosure of project-related information is relatively low, although institutional pressure influence EPFIs to publish some kind of report even if it is not in full agreement with the EP guidelines. However, other mechanisms such as standardization reporting or third-party validation could help to increase the credibility and the transparency of the EP reporting (Kolk and Perego 2010; Lober et al. 1997; Fonseca 2010).

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