

**The benefits and challenges of implementing the Equator Principles: The Case of Four
Large Banks in South Africa, through the eyes of Project Finance Teams**

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Declaration

I, Glenda Baloyi, do hereby declare that this dissertation is the result of my investigation and research that this has not been submitted in part or full for any degree or for any other degree to any other University.



G. Baloyi

16 October 2019

Date

Dedication

This dissertation is dedicated to my mother Mrs M.D Mavodze and to my precious daughter T.V. Baloyi.

Acknowledgements

Many thanks to the Lord Almighty for bringing me this far. Your grace carried me through this journey of my studies. I want to thank my supervisor Ms Leticia Greyling for your support and guidance during this research process. Thanks to my colleagues (you know yourselves) who were encouraging me not to give up on this journey. Many thanks to my family for understanding my absence from family gatherings. To my Mom M.D Mavodze and Daughter T.V. Baloyi, you mean the world to me and thank you for being you. "I Love You All"

Abstract

The purpose of this research was to investigate the benefits and challenges of implementing the Equator Principles (EPs) by the four large banks in South Africa who are signatories to the framework. This was investigated through the eyes of the project finance teams. The research focused on the perceptions of the project finance team. The EPs are voluntary standards, to date they have been adopted by 94 financial institutions. Financial institutions that have adopted the EPs, benefit by having a competitive advantage of getting involved with high risk projects / developments. The Equator Principles resulted in having environmental and social risk policies and structures to manage these risks. This research was conducted using mixed methods and followed the post-positivist paradigm. The research found that the project finance teams were aware of the environmental, social and governance risks associated with project finance transactions. Furthermore, they understood the need to have the Environmental, Social and Governance (ESG) risk assessment during the credit process.

This research found out that the benefits of the EPs outweigh the challenges, as they promote responsible investment, thus promoting the reputation of the investor. The EPs requires the client / borrower to conduct an environmental and social impact assessment and commit to covenants that are binding in the financial legal agreements. By having processes and strategies that promote responsible investment in the financed projects / development, this gives the Equator Principles Financial Institution (EPFI) the advantage of competing in the international market. EPs may indirectly influence the financial institutions that have not adopted the EPs, to promote responsible investment by applying ESG risk assessment processes as required by the banks that have adopted the EPs.

EPs lack of capacity such as human resources, policies, funds and structures is the reason why companies do not adopt responsible investment is their operation and not incorporating them in the decision-making process. Some EPFI are not committed the EPs and become free riders. Other EPFI are not complying with the EPs and this causes uncertainties with regards to the legitimacy of the ES standards. EPs are ambiguous, subjective and voluntarism can make it difficult to be achieved by the EPFI. EPs increases the approval process for the financial institution to conclude the transaction, thus delaying the start of a needed project / development. And that EPFI may be forced to have fewer clients as a result of the funding requirements required by EPs.

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List of abbreviations

EHS – Environmental, Health and Safety

EPFI – Equator Principles Financial Institution

EPs – Equator Principles

ESG – Environmental, Social, Governance

ESMP – Environmental and Social Management Plan

ESRM – Environmental and Social Risk Management

GIIP – Good International Industry Practice

IFC – International Finance Corporation

UN – United Nations

UNEP – United Nations for Environmental Programme

UNEP FI – United Nations Environmental Programme Financial Initiative

Chapter 1: Introduction

1.1. Background

The Equator Principles (EPs) can be defined as a risk management framework, adopted by financial institutions, for determining, assessing and managing environmental and social risk in projects / developments. EPs are primarily intended to provide a minimum standard for due diligence and monitoring to support responsible risk decision-making (Equator Principles Association, 2018).

According to Chonco (2009, p.ii) 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” (Chonco,2009).

Project finance is an instrument that financial institutions use to finance large projects / developments, among these South African banks also use this tool to fund projects / developments. The banking industry in South Africa spans for more than century. Its establishment is influenced by the British and Dutch origins. The first banks were opened in the 1860s being Standard Bank and Barclays Bank. Followed by Nedbank (Nedcor) in the early 1900s. These developments became the blue prints of the financial sector of South Africa, allowing more banks to establish in South Africa, including ABSA and First National Banks, who are the focus point of this study and are referred to as the “Big 4 Banks”. These banks have a major market share of South Africa and offer a wide variety of products to their clients from private to commercial banking and the other banks hold a small portion of the market share (Madza and Ikhide, 2013; Ncube, 2009; Singh, 2004; Verhoef, 2009).

Banks are facilitators in growing the economy of a country and they fund activities and individuals (Jeucken and Bouma, 1999). These are achieved through their involvement between people who have wealth and the people who do not have wealth, businesses that have capital and those who do not have capital, and the government (Jeucken and Bouma, 1999). They are involved in funding activities and people, including saving money (Allen and Santomero, 1998). Traditionally the flow of money is from individual to individual, individual to company, company to company, company to government. This movement of money is a

fundamental system for economy and society, like blood circulation. This system is called money flow (Vivian and Spearman, 2015). There two principles sources of income: return on investment and operation profit (Jeucken and Bouma, 1999). This is an essential function of the country's economy. Economic activities require money, these require the bank to be sustainable. The flow of money integrates the social function represented by individuals and where the developments occur, which is the environmental sphere (Jeucken and Bouma, 1999).

According to Biel and Jansson (2011), financial institutions with their investment arms, use the funds that are in hand to generate income. These funds are invested in ventures that can generate income for the investors (Biel and Jansson, 2011). It is through this platform that financial institutions activities are exposed to the environmental, social and governance (ESG) issues, and the concept of responsible investment arose (Biel and Jansson, 2011).

The purpose of this research is to investigate the benefits and challenges of implementing the Equator Principles (EPs) by the four large banks in South Africa who are signatories to the framework. This was investigated through the eyes of the project finance teams. The research focused on the perceptions of the project finance team.

1.2. Problem Statement

In the last few decades, the world started to observe business operations that integrate ethical practices to achieve their goals of remaining relevant and gaining profits, through promoting sustainability at all levels (Wright and Rhabizambuga, 2006). The growth of an economy of the world or a country requires infrastructure developments. These developments require massive capital injection, hence the financial institutions involvement in this sphere as they have the funds needed achieve this goal. These developments result in both negative and positive impacts on the environment and socially. However, the negative environmental and social impacts may have long-term effect destroying the welfare of the future generation (Lawrence, 2009; Prakash and Potoski, 2007; Conley and Williams, 2011).

The World Bank is an international financial institution which offers loans to developing countries for capital programs to combat and eradicate poverty (IFC, 2018). The World Bank has an Environmental, Health and Safety (EHS) guidelines which ensure that projects / developments that they fund are environmentally and socially friendly. These guidelines promote Good International Industry Practice (GIIP) (IFC, 2018). The EHS Guidelines are

regarded as the best standards and are to be implemented to all projects / developments that are funded by the World Bank, they are industry specific. EHS guidelines specify the applicable level/limit of exposure that a particular element can coexist in the ESG spheres without being detrimental in a specific sector (IFC, 2018).

Related studies widely discuss whether the EPs are effective as voluntary standards or whether more mandatory codes are required. They examine the effectiveness of the EPs in requiring the EPFIs' compliance with their commitments and conclude that the EPFIs often fail to fully comply with the EPs requirements (Durbin, et al., 2006; Hardenbrook, 2007; Hunter, 2007; Lawrence and Thomas, 2004; Marco, 2011; Mathiason, 2010; Wright, 2009). It is however prudent that an investigation of EPs implementation within the South African four large banks context be undertaken, to consider what challenges and benefits they have encountered in applying the EPs. This can assist in the understanding of what kind of challenges are experienced locally, how these can be improved and then also created a resource for future improvements and considerations to institutions wanting to adopt and implement EPs.

1.3. Research objectives

The main objective of this study was to investigating the benefits and challenges that South Africa's large banks have in adopting the Equator Principles.

The main objective of the study was achieved through the following sub-objectives:

- Investigate how the Equator Principles has changed the lender's view of project finance transactions risks.
- Determine how the Equator Principles has fulfilled large banks' expectations.
- Make recommendations to the large banks on addressing the challenges faced by project finance teams.

Chapter 2: Literature Review

2.1. Introduction

This chapter outlines the literature of responsibility investment to provide a basis for this research and the history leading to responsible investment by the financial institution. It also highlights the banking sector of South Africa and discusses the importance of the EPs and the International Financial Corporation) in managing the ES risk in project / development finance. The EPs development is the centre of the Financial Institutions' mandate to assess, mitigate and manage ESG risks. This promotes sustainability of financial institutions activities. In addition, this chapter will indicate how the banks have integrated ESG risks assessment, mitigation and management in their decision making of funding large projects / development.

2.2. Project Finance

Weybrecht (2014, p.201) adopts the definition of Project Finance by the Equator Principles as “a method of funding in which the lender looks primarily to the revenues generated by a single project both as the source of repayment and as security for the exposure”. While Hoffman (2001, p.4) defines it as “a non-recourse or limited recourse financing structure in which debt, equity and credit enhancement are combined for the construction and operation, or the refinancing, of a particular facility in a capital – intensive industry, in which lenders base credit appraisals on the projected revenues from the operation of the facility, rather than the general assets or the credit of the sponsor of the facility, and rely on the assets of the facility, including any revenue-producing contracts and other cash flow generated by the facility, as collateral for the debt” (Weybrecht, 2014; Hoffman, 2001). These two definitions stresses that the lender should finance a project / development which, when operational, it will generate revenue and pay off the loan.

According to Lawrence and Thomas (2004) financial institutions play a major role in projects / developments of a county using project finance as a tool. Project finance comes with a both positive and negative impacts on the environment and socially. They also indicated that project finance has undermined the promotion of sustainability in developments.

Public outcries on the impact on the environment and the community resulting from project finance transactions for example, the construction of the three Gorges Dam project in China in

1994, which displaced more than 1 million people and caused negative environmental and social impacts and the Sakhalin project oil and gas project in Russia which caused negative environmental and social impacts (Weber and Acheta, 2014; Wright and Rhabizambuga, 2006). Developments such as these, contributed the concept of responsible investments for financiers to the project / development through the Corporate Social Responsibility. Responsible investment is defined as the investment that is made with the consideration of the current generation and the future generation (Richardson, 2005).

Although large projects / developments require huge financial injection and the financial institutions are able to meet this need. Regrettably, large projects / developments of this magnitude are not without risks as they are associated with high environmental, social and governance (ESG) risks (Detons, 2013; Watchman, Delfino and Addison. 2007). In order to manage these ESG risks, the financial institutions developed common approaches to mitigate and manage these risks which are intended to be incorporated in their credit approval process (Wright, 2012, Wright and Rhabizambuga, 2006; Conley and Williams, 2011). Coulson and Dixon (2011) confirms this approach, hence the development of the EPs framework to assess, mitigate and manage ESG risks (Meyerstein, 2013; Weber and Acheta, 2014).

Sustainability in the financial sector is not a new concept, in the 1980s, the United States of America observed that there have been resultant impacts such as contamination in the industrial sector. As such, the government addressed these impacts by introducing the Comprehensive Environmental Response Compensation and Liability Act of 1980 known as the “Super Fund”. This Act required owners of the sites that have been contaminated to be held liable for clean-up (Coulson and Monks, 1999). This is another form of implementing responsible investment, which is defined as the investment that is made with the consideration of the current generation and the future generation (Richardson, 2005).

2.3. Environmental and Social Risks and the Banking Sector

For the banks to remain relevant in the community, successful and sustainable, they need to be concerned and aware of the consequences of their activities. Financial institutions need to realise that they need natural resources and do not operate in a vacuum or in silos and they operate within a system (Jeucken and Bouma, 1999). The banking sector is of the view that the bank operates in an environmentally friendly manner and that they do not produce any goods

that impact on the environment and community. This is however not the case, as they are indirectly contributing substantially to the businesses that are not fully environmentally friendly through their client / borrower activities such as mining, construction, agriculture and power plants (Jeucken and Bouma, 1999).

The banks are now aware that they can be personally liable and pay fines as a result of their client's activities and their obligation under "Duty of Care" (Stevens, 2017). These developments have led the banks to develop environmentally friendly practices, products and create departments and units that look into the banks funding activities. They adopt practices by the multilateral development financial institution such as the World Bank and the IFC. As conventional financial institutions, they are encouraged to report on their ESG performance through their listed indexes platform such as the Dow Jones Sustainability Group Index and the Johannesburg Stock Exchange (Jeucken and Bouma, 1999).

According to Thompson (1998), ESG risks affect the financial institution's investment decisions. These ESG risks have dire financial implication for financial institutions as the main driver of the financial institution is return on investment, thus affecting their profits (Thompson, 1998).

2.4. Indirect Environmental and Social Risks to banks

These are the risks that the bank exposes themselves through the activities of the client / borrower. This risk is inherited by the financial institution as a result of the security held by the financial institution as leverage for the fund disbursed to the client / borrower (Hoffman, 2001; Thompson, 1998). Should the client/borrower fail to meet their debt obligation this security is used to recover the outstanding debt. When the financial institution is still in possession of the security they are exposed to the environmental and social risks encountered by this security held from the client / borrower (Hoffman, 2001; Thompson, 1998). Therefore, should there be contamination caused by the client's / borrower's operation. The bank is held liable to clean up the contamination under the "polluter pays" principle, of which the costs may be more than the loan disbursed to the client / borrower (Thompson, 1998). Thus the bank exposes its self from being associated with the client / borrower from their existing portfolio (Hoffman, 2001; Thompson, 1998). Additionally, these risk may incur fines and lean-up by the client / borrower which may affect their repayment of the bank's loan. The bank's credit exposure increases and

the value of the client's/borrower assets decreases from degradation caused by contamination (Thompson, 1998).

2.5. Direct Environmental and Social Risks

These are the risks that the bank exposes themselves through the activities of their operation for example pollution caused by failure to comply with waste management as required by law. This may result in fines from the authorities (Hoffman, 2001; Thompson, 1998).

2.6. Risk Management at Banks

Risk is defined as “anything that can create hindrances in the way of achievement of certain objectives” (Shafiq and Nasr, 2005, p. 308). While Kupper (2000) defines risk as “the volatility of a corporation's market value”. Risk can be caused by either inside or outside forces (Shafiq and Nasr, 2010). Risk is well managed by firstly identifying the risk that might likely arise and how can it be managed, as this may result in a company making losses (Shafiq and Nasr, 2010).

Risk management in companies is crucial, if the risks are not identified and managed properly, the company may face loss of business or profit (Al-Tamimi and Al-Mazrooei, 2007). Risk management is a process that has been developed to minimise and mitigate the negative impacts that may arise and create possible financial loss (Schmit and Roth, 1990). For a company to survive, income needs to be generated (Schmit and Roth, 1990). The financial institution is not exempted from risk management (Al-Tamimi and Al-Mazrooei, 2007).

Financial institutions who fund projects / developments and who have adopted the EPs namely Equator Principles Financial Institutions (EPFI) are vigilant in their observations and monitoring of project finance transactions (Cotula, 2008; Equator Principles Association, 2018). Especially project / development related issues that might affect the loan repayment from the client / borrower due to environmental and social issues on the development. These environmental and social issues may also include non-compliances to the local regulations (Cotula, 2008).

Project finance is often connected with sustainability risks. There are three types of sustainability risks that are typically linked to project finance transactions include projects that have an impact on the environment, society and communities affected by projects. Second,

environmental, societal and sustainability risks may have an impact on the financial performance of projects. Third, projects are subject to reputation risks” (Weber and Acheta, 2014, p.13).

2.6.1. Credit Risk

Credit risk management within a financial institution involves managing the borrower/client risks, and is conducted within the five stages. This credit risk management process deals with accessing the client’s / borrower’s to manage the burden of repaying the loan provided. One of the credit risk that is considered is the ESG risks. This risk can affect the client’s / borrower’s to repay the loan due to penalties, non-compliances and closure of the facility by the government. They can also expose the financial institution to the liability risk as holders of security of the associated facility (Adeusi, Akeke, Adebisi, and Oladunjoye, 2014; Biswas, 2011; Coulson and Monks, 1999; Weber, Fenchel and Scholz, 2008). Adeusi, et al. (2014) further argues that credit risk evaluation includes the determination of whether a client / borrower is able to raise capital when the need arises (Adeusi, et al., 2014 and Kupper, 2000).

2.6.2. Operational Risk

Operational risk arises when there is a likelihood of financial loss resulting from operational failure (mostly internally) to comply with the processes, people, policies, laws and regulations, systems and corruption (Kupper, 2000). This can result from lack of adequate risk management plans, monitoring systems or procedures and risk reporting framework (Kupper, 2000).

2.6.3. Legal Risk

Legal risk is defined as the misinterpretation of the regulatory framework or law of the country or international platform where the financial institution operates (Levine, 1998; Ntim, Lindop and Thomas, 2013). These misinterpretations can arise due to non- compliance or violation of the set rule or license of operation (Levine, 1998; Ntim, Lindop and Thomas, 2013).

2.6.4. Reputation Risk

Reputational is defined as the “risk arising from negative perception on the part of customers, counterparties, shareholders, investors, debt holders, market analysts, other relevant parties or regulators that can adversely affect a bank’s ability to maintain existing, or establish new, business relationships and continued access to sources of funding” (Basel Committee on Banking Supervision, 2009, p.19). Reputational risk can result in negative reports attached to

a financial institution (Fordelisi, Soana and schwizer, 2013; Sturm, 2013; Gillet, Hübner and Plunus, 2010). Reputational risk can lead to financial loss and future income. Reputation of the financial institution or other companies is usually published in the media (Fordelisi, Soana and schwizer, 2013; Sturm, 2013; Gillet, Hübner and Plunus, 2010).

The project finance team is the first line of contact with the client / borrower and they outline the funding requirements by the bank. This process also involves the need to also apply the Equator Principles (EPs) on project / development finance transactions to the financial institution's clients. A financial institution can either be the developer, the sponsor and/or an ordinary person (Hoffman, 2001). Therefore, this process is initiated by the project finance teams and highlighted throughout the decision-making process. It is in this context that the research is conducted.

2.7. Sustainable Development

The concept of sustainable development was established in the 1980s during the World Commission on Economic Development (WCED) meeting. This report is referred to as the "Brundtland Report" (Bansal, 2005; WCED, 1987). The Brundtland Report defines sustainable development as "development that meets the needs of the present without compromising the ability of future generations to meet their own needs. It contains within it two key concepts: the concept of 'needs', in particular the essential needs of the world's poor, to which the overriding priority should be given. And the second the idea of limitations, imposed by the state of technology and social organisation on the environment's ability to meet present and future needs" (WCED, 1987, p.27).

This shift resulted in businesses considering and incorporating sustainability in their strategy, mainly through the concept of Corporate Social Responsibility (Bansal, 2005). According to Hopwood, Mellor and O'Brien (2005), sustainable development is a concept that has been adopted to promote a holistic approach when doing business. They further argue that sustainable development should be incorporated in the decision-making of an organisation (Hopwood, Mello and O'Brien, 2005).

This sustainable development concept, gave rise to the concepts such as corporate social responsibility, socially responsible investment, corporate social responsible investment and

sustainable investment. These are used interchangeably and they all promote responsible investment (Carroll, 1991; Smith, 2003).

2.8. Socially Responsible Investment (SRI) and Corporate Social Responsibility (CSR)

Socially responsible investment (SRI) is also referred to as corporate social responsibility (CSR) (Sparkes and Cowton, 2004). SRI is formerly known as ethical investment and is the investment that is made with consideration to the ethical behaviour of the company. The SRI practices are embedded into the company's decision-making process for making investments. The funds that are mostly used are the pension funds (Sparkes and Cowton, 2004). CSR adoption by businesses is driven by their need to manage ESG issues which are linked to the environmental and reputational risks (Friedman and Miles, 2001; Porter and Kramer, 2006). The environmental issues considered pollution, environmental degradation and human rights issues and they have the prospect of damaging the company's reputation which can affect the shareholder's financial return (Friedman and Miles, 2001; Porter and Kramer, 2006). The challenges with regards to CSR are that companies who are viewed as being ethical, are not ethical in their practices. They use the CSR system to greenwash their business practices (Friedman and Miles, 2001; Porter and Kramer, 2006).

Carroll (1991) indicated that CSR is practiced by companies with the recognition that they will also get a buy-in from society and have an advantage of being seen to be having high ethical standards in the business arena and they will be believed to be ethically responsible. According to Moir (2001), CSR covers a wide range of issues such as employees, customers and suppliers, environment, community, ethics and human rights (Moir, 2001). Carroll (1999) further argues that companies through this practice are encouraged to also develop policies, procedures and structures to implement CSR in their operation (Carroll, 1999).

2.9. Standards of promoting responsible investment

2.9.1. United Nations Principles for Responsible Investment (UNPRI) and United Nations Environment Programme Finance Initiative (UNEP FI).

The UN in addition developed the United Nations Environment Programme Finance Initiative (UNEP FI) for financial institutions in 1992. Their purpose is to encourage the financial institutions to practice sustainable lending incorporating ESG aspects into their decision-making process, which includes their credit approval process (United Nations, 2018). The main drivers of all these frameworks is to internalise the ESG issues into the decision-making

process of the institution that has adopted this standards. Companies and businesses are encouraged to report on their performance and implementation of these standards (United Nations, 2018).

The UNPRI and UNEP FI are international voluntary frameworks that work to tackle environment, social and governance (ESG) issues. The intention is to have businesses integrate ESG considerations in their decision-making processes and their operations (United Nations, 2018). The UNEP FI was established in 1991, in order to engage and get the commercial banks on board with regards to promoting responsible investment in their activities. This arose from observations in the business world, where the commercial banks were not fully seen to be committed to promoting and implementing responsible investment in their decision-making process, as they deemed their operations as being different from normal business operations (United Nations, 2018).

The United Nations through its environmental arm, the United Nations for Environmental Programme (UNEP), developed the universally acceptable responsible investment framework for businesses - referred to as the United Nations Principles for Responsible Investment (UNPRI). This has more than 1000 signatories, who are being funded by the United Nations (UN) (Majoch et al, 2017; Thompson, 1998). The UNPRI was developed in 2006, and these principles' adoption is voluntary, although reporting and adherence to them is essential once they have been adopted. Pressure from external and internal stakeholders has contributed to the adoption of the UNPRI by the financial institutions. In signing these principles, they have enabled the financial institutions to be more competitive compared to their peers (Majoch, Hoepner and Hebb, 2017; Thompson, 1998). Numerous businesses have voluntarily signed to the principles such as Victoria University of Wellington Foundation, Hadron Capital LLP, Temporis Capital Ltd, Allan Gray Australia and Zenith Group (Majoch, Hoepner and Hebb, 2017). The UNPRI consist of six principles, outlined below.

Table 1: United Nations Principles of Responsible Investment

Principle 1: We will incorporate ESG issues into investment analysis and decision-making processes.

Principle 2: We will be active owners and incorporate ESG issues into our ownership policies and practices.

Principle 3: We will seek appropriate disclosure on ESG issues by the entities in which we invest.

Principle 4: We will promote acceptance and implementation of the Principles within the investment industry.

Principle 5: We will work together to enhance our effectiveness in implementing the Principles.

Principle 6: We will each report on our activities and progress towards implementing the Principles

The UNPRI assist in guiding the businesses on how to incorporate Environmental, Social and Governance (ESG) aspects into their decision-making process. That they will formulate policies and strategies that guides their operation, including being transparent, disclose and report on their ESG performance. There are penalties for non-compliance to the principles for the businesses (UNPRI, 2018; Brown, 1966 cited in Bassett, 1986, p.142).

2.9.2. Equator Principles

Equator Principles are used as an environmental and social risk management tool for project / developmental transactions. The EPs promote responsible investment for project finance transactions, in order to identify, minimise and manage ESG risks (Watchman, et al., 2007). The World Bank through its arm of investment banking - the International Financial Corporation (IFC) - together with ten other Financial Institutions in 2003, developed the EPs to address how to assess, mitigate and manage Environmental and Social risk through a process called Environmental and Social Risk Management in these large projects / developments (Watchman et al., 2007; Wright, 2012). The EPs have since been seen as the main framework for managing ESG risks in project finance transactions (Watchman, et al., 2007; Macve and Chen, 2010).

This development emphasised the need to have industry standards and/or guidelines that are required to assess, identify, mitigate and manage the ESG risks associated with their lending activities (Wright, 2012). Equator Principles financial institutions (EPFIs) (institutions that have adopted the EPs) are guided by these principles in promoting sustainable lending. The EPs are voluntary and applicable to all sectors and internationally. These principles are applicable to large projects / developments such as dams, power plant and mining to name a few that cost more than US\$ 10 million to finance. They are used to assess the ESG risks and proposing their mitigation and management measures thereof (Equator Principles Association, 2018).

The EPs are used together with the International Financial Corporations (IFC) sustainability framework. They are used to assess the ESG risks of the project / development and categorise the risks allocated to the project / development base on their extent of possible ESG risks (Equator Principles Association, 2018). To date there are 94 financial institutions globally who have adopted the Equator Principles, among them are the four large banks of South Africa – i.e. Absa Group Limited, Nedbank Limited, First National – FirstRand Limited (through its investment are Rand Merchant Bank) and Standard Bank of South Africa Limited (Equator Principles Association 2018).

The first bank to adopt the EPs in South Africa was Nedbank Limited on the 10th October 2005, followed by Standard Bank of South Africa Limited on the 2nd of February 2009, First National Bank (FirstRand) Limited and Absa Limited on the 13th July 2009 and 22nd October 2009 respectively (Equator Principles Association, 2018). The adoption of these EPs the financial institutions is motivated by the need to “ensure that the Projects we finance and advise on are developed in a manner that is socially responsible and reflects sound environmental management practices” (from the preamble of the Equator Principles III, p.1) (Equator Principles Association, 2018).

These four large banks are called large banks because they have a large market share in the South African community and they have numerous product offerings to the consumers and the ability to influence the market trends given their existence which spans decades (Chigamba, 2011).

The EPs have been reviewed twice since their development in 2003 EPs I, 2006 EPs II and 2012 EPs III. When the EPs were initially developed, the IFC's ESG Safeguard Policies, Pollution Prevention and Abatement Guidelines were used to indicate the level/threshold of risks associated with the development and proposed methods of managing the risks (Wörsdörfer, 2013). Continual feedback from the stakeholders with regards to the implementation of the EPs, triggered the EPs revision in 2006 and the development of the IFC Performance Standards (PS), which were introduced to project lending approaches. Additionally to the development of the performance standards, was the necessity to categorise the project risks during the screening process of the credit approval process, from initiation with the client / borrower to the workout phase, resulting in EPs II (Wörsdörfer, 2013).

EPs III prompted the revision of the Performance Standards (1-8), the disclosure policy and Environmental, Health, and Safety Guidelines (EHS Guidelines) were revised (Equator Principles Association 2018; Lawrence, 2009). The Performance Standards 1-8 are viewed as the ideal tool for promoting Good International Industry Practice (GIIP), as they are regarded as the best guidelines in identifying, mitigating and managing environmental and social issues. Performance Standards are regarded as being more stringent than the local laws and better promote sustainable development (Torrance, 2012).

Performance Standards 1 – 8 are used to assist developments screening and categorisation, conducting enhanced consultation, disclosure of project / development information and the development of grievance mechanism (both internally and externally). They further enhanced the need to have the project / development affected communities to have been consulted in a manner that is not coercive and the advisory mandate has been reduced from US\$ 50 million threshold to US\$ 10 million (Kamijyo, 2004, Scholtens and Dam, 2007 and Watchman et al, 2007). Project finance is still the main driver for the EPs development and implementation (Wörsdörfer, 2013). EPs III and the associated Performance Standards 1 – 8 as updated is used for this research.

There are 10 elements of the Equator Principles and their summary is provided below:

Table 2: Ten elements of Equator Principles

<i>Principle 1: Review and Categorization</i>
<i>Principle 2: Social and Environmental Assessment</i>
<i>Principle 3: Applicable Social and Environmental Standards</i>
<i>Principle 4: Action Plan and Management System</i>
<i>Principle 5: Consultation and Disclosure</i>
<i>Principle 6: Grievance Mechanism</i>
<i>Principle 7: Independent Review</i>
<i>Principle 8: Covenants</i>
<i>Principle 9: Independent Monitoring and Reporting</i>
<i>Principle 10: Equator Principles Financial Institutions reporting</i>

Principle 1: involves the allocation of a category based on the ESG risks for the project/development as per initial screening. Categories that are used are:

Category A – these are projects / developments that result in ESG impacts that are potentially widespread, adverse, varied and are not reversible.

Category B – these are projects / developments that result in ESG impacts that are potential limited, less adverse and mostly site specific. These impacts are mostly reversible and may be addressed through mitigation and management plans.

Category C – these are projects / developments that result in ESG impacts that are minimal or non-existent (Equator Principles Association 2018)

Principle 2: involves the ESG assessment (ESA) of the projects/developments in order to identify the risks and associated impacts. This ESG assessment scope depends on the category identified (Equator Principles Association 2018).

Principle 3: involves the identification of the applicable standards depending on the projects / developments location. There are applicable standards and guidelines per sector. For projects / developments that are allocated in “Designated” countries for example North America, England and Australia, they can conduct their ESG assessment and develop management plans based on their local regulations, laws and requirements (Equator Principles Association, 2018).

However, for projects / developments located in “Non-Designated” countries, they are required to conduct ESG assessment based on the IFC Performance Standards and the World Bank Environmental, Health and Safety Guidelines (EHS Guidelines). These are considered best standards for good international application. They can be used together with the host country’s regulations and laws. “Designated” referred “High Income” and “Non-Designated” referred “Low Income” as defined by the World Bank Development Indicators Database (Equator Principles Association, 2018).

Principle 4: involves the development of an ESG Management System (ESGMS) and Management Plan (ESMP) to address risks identified in the ESG assessment and propose actions (Action Plan) (Equator Principles Association, 2018).

Principle 5: is used in cases of Category A and Category B (as applicable) projects / development, an effective and ongoing stakeholder engagement with affected communities, Non-Governmental Organisations consideration of the disadvantaged, Indigenous People and vulnerable groups. This includes disclosure of an ESG assessment and ESG management (Equator Principles Association, 2018)

Principle 6: involves the development of a grievance mechanism for the staff and community for Category A and B projects / developments (Equator Principles Association, 2018)

Principle 7: involves the appointment of an independent ESG consultant for Category A and (and where applicable) Category B projects / developments. This is to review the environmental assessment, ESMP and related documents and develop an Action Plan where appropriate (Equator Principles Association, 2018).

Principle 8: involves the development of the covenants / undertakings that are included in the loan/legal agreement which are enforceable.

Principle 9: involves monitoring and reporting (compliance) of ESG management plans and related arising issues of the projects / developments for Category A and (and where applicable) Category B projects / development by an Independent ESG Consultant

Principle 10: involves the reporting on the ESG aspects of the projects/developments as required.

The EPs are used together with the International Financial Corporations (IFC) sustainability framework. They are used to assess the ESG risks of the project/development and categorise the risks allocated base on their extent (Equator Principles Association, 2018).

2.9.3. IFC Performance Standards

The International Finance Corporation (IFC) is the custodian of the IFC Performance Standards that are used to guide the developer, client / borrower and the EPFI in addressing the ESG risk management (Equator Principles Association 2018). The IFC Performance Standards are used together with the disclosure policy and Environmental, Health, and Safety Guidelines (EHS Guidelines) (Word Bank Group, 2018).

Table 3: Brief outline of the IFC Performance Standards on Environmental and Social Sustainability

<i>Performance Standard 1: Assessment and Management of Environmental and Social Risks and Impacts</i>
<i>Performance Standard 2: Labour and Working Conditions</i>
<i>Performance Standard 3: Resource Efficiency and Pollution Prevention</i>
<i>Performance Standard 4: Community Health, Safety, and Security</i>
<i>Performance Standard 5: Land Acquisition and Involuntary Resettlement</i>
<i>Performance Standard 6: Biodiversity Conservation and Sustainable Management of Living Natural Resources</i>
<i>Performance Standard 7: Indigenous Peoples</i>
<i>Performance Standard 8: Cultural Heritage</i>

These performance standards are further defined below:

Performance Standard 1: involves the environmental and social impact assessment and the management plans of the project / development. Through this process the client / borrower also develops environmental, social management systems of the project/development.

Performance Standard 2: looks at the labour and working conditions of the project/development.

Performance Standard 3: involves identifying sources that may cause pollution or use too much resource and find a better way to mitigate the impacts.

Performance Standard 4: involves security, health and safety of both employees and community are addressed through this performance standard.

Performance Standard 5: it deals with relocations and resettlement of the community and economic displacement is dealt with through this performance standards.

Performance Standard 6: involves the protection of natural resource management and use.

Performance Standard 7: vulnerable groups and indigenous people are addressed through this performance standards for inclusion and consent for the project/development.

Performance Standard 8: all protected artefacts and resources are addressed through this performance standards (World Bank Group, 2018).

Performance Standards 1 and 2, deal with the governance aspects of the EPs. These are considered when identifying the technical viability of the client / borrower in implementing the project/development where governance issues will be dealt with (World Bank Group, 2018). These performance standards are used to guide the financial institution in how to assess, mitigate and manage the ESG (Equator Principles Association, 2017).

2.10 Responsible investment

2.10.1 Responsible investment and adoption

Szekely and Knirsch (2005) indicated that organizations adopt responsible investment for their image enhancement, as the stakeholders are more inclined to engage more in their business activities. They further argue that responsible investment practices and strategies require long-term plans rather than short to medium plans, this requires more resources which is a barrier (Szekely and Knirsch, 2005).

2.10.2. Responsible Investment and the Equator Principles

Financial institutions finance large projects / developments that result in huge impacts both positive and negative on the environment and (Wright, 2012). These positive and negative impacts impose a risk to the financial institutions and require to be managed. The financial institution use the Equator Principles (EPs) to manage the positive and negative impacts of the projects / developments they fund. These EPs are the risk management tool for promoting responsible investment for the financial institutions (Wright, 2012).

PWC (2012) in their report on responsible investment define responsible investment as “an investment approach founded on the view that the effective management of environmental, social and governance (ESG) issues is not only the right thing to do, but is also fundamental to creating value. Responsible investors believe that companies which are successful in avoiding ESG risks whilst capturing ESG opportunities will outperform over the longer term” PWC, 2012, p.1). The ESGs are outlined below:

- a. Environmental issues: involves the pollution of the land, air and water. Furthermore, environmental issues may comprise the environmental regulatory aspects as it spills over to compliance issues (PWC, 2012).
- b. Social issues: relates to the working conditions, health and safety, supply chain, human rights and community safety and fair treatment of all (PWC, 2012).

Governance: this encompasses the ethical behaviour with regards to environmental and social issues and their management (PWC, 2012; Smith, 2003). It indicates that the concept of responsible investment is the main driver of how an organization is operating or their activities are promoting responsible investment (Smith, 2003). According to Smith (2003), responsible investment is built on the idea of promoting good investment decision-making on the said investment portfolio, which can give rise to positive return (Smith, 2003). Smith argues that the integration of the ESG principles in decision-making process and the policies, mitigates the negative environmental and social impacts on the investment portfolio “that business corporations have an obligation to work for the social betterment” (Smith, 2003, p.52).

Equator Principles Association (2003, p.1-3), indicate that the main purpose of the EPs is “that adoption of and adherence to these principles offers significant benefits to ourselves, our customers and other stakeholders. These principles will foster our ability to document and manage our risk exposures to environmental and social matters associated with the projects we finance, thereby allowing us to engage proactively with our stakeholders on environmental and social policy issues. Adherence to these principles will allow us to work with our customers in their management of environmental and social policy issues relating to their investments in the emerging markets. These principles are intended to serve as a common baseline and framework for the implementation of our individual, internal environmental and social procedures and standards for our project financing activities across all industry sectors globally.

In adopting these principles, we undertake to review carefully all proposals for which our customers request project financing. We will not provide loans directly to projects where the borrower will not or is unable to comply with our environmental and social policies and processes.”

From above quote, it seems that the EPs are a tool/guideline to promote responsible investment in project finance transactions for EPFIs, and are used to reduce and manage the ESG risks associated with the project / development (Equator Principles Association, 2018). It is essential that the EPFI is able to develop their own internal environmental and social systems, framework and policies. They should take a leading role in the promotion of sound and acceptable environmental and social stewardship (Equator Principles Association, 2018).

The EPFI is expected to require the client / borrower to conduct an environmental and social impact assessment and commit to covenants that are binding in the financial legal agreements (Lawrence and Thompson, 2004). These financial legal agreements include commitment by the client/borrower to identify the environmental and social impacts and propose environmental and social management plans of the project/development being financed (Lawrence and Thompson, 2004). This process fulfils the requirement by the EPs which requires the EPFI to develop their own internal processes to assess and manage environmental and social risks that the EPFI is exposed to when financing a project / development.

The Absa Group Limited, Nedbank Limited, First National – FirstRand Limited (through its investment are Rand Merchant Bank) and Standard Bank of South Africa Limited all reported and disclosed the EPs supported transactions and that the bank has processes in-place for environmental and social risk assessment (Absa Africa Integrated Report, 2017; Nedbank Sustainability Report, 2017; Standard Bank Group Environmental, Social and Governance Report, 2017). This reporting and disclosure it is conducted according to the requirements of the EPs adoption (Equator Principles Association, 2018).

Environmental and social risks are defined as the threat that is unpredictable and might cause serious damage to the environment, social and governance of a firm (Thompson, 1998). Financial institutions mostly face liability issues when dealing with ESG issues. Aintablian, McGraw and Roberts (2007) quote Thompson and Cowton (2004), arguing that the financial institution can face ESG risks directly when there is liability issues as a result of the financial

institution's ownership of an asset that is polluted as they will have to pay for the rehabilitation of the asset as required by law. These liability issues are as a result of the financial institution taking security / collateral of the loan through possible ownership of the asset that the client/borrower owns. The polluter pays concept is then applied to the financial institution as they are lenders on record, and the asset is viewed as being owned by them lender (Thompson, 1998).

Financial institutions can also face indirect risk when the client / borrower is linked to the ESG issues and the client / borrower is unable to service the loan disbursed due to operational risk and reputational risk by being linked to the company that is perceived as being unethical (Thompson, 1998). The ability of the client / borrower to meet its debt obligation can be as a result of new regulatory requirements or laws that affect the client's / borrower's operation. These may be issues of new permits required for operation or new requirements for the operation of the asset / facility and causes the client / borrower to inject capital into the asset / facility to meet these requirements in order to be in operational (Thompson, 1998).

2.11. Benefits and Challenges of the Equator Principles

Literature indicates that responsible investment's adoption by organisations is driven by the organisation's need to promote good ESG practices in their activities and manage reputational risks and to be more competitive in the international markets. However, the adoption does not influence the market share performances (Scholtens, 2005).

The financial institutions that are EPFI are encouraged to incorporate these Equator Principles in their decision making process and develop strategies and policies in the activities they fund. The Financial Institutions are required to report on their ESG performances in projects / developments they fund for EPs project related transaction (Equator Principles Association, 2018; Hunter, 2008).

Literature further indicates that financial institutions that have adopted the EPs, benefit by having a competitive advantage of getting involved with high risk projects / developments. This is a result of having ESG risk policies and structures to manage these risks (Almalric, 2005; Biswas, 2011). The EPs promote the responsible investment by considering all aspects

of the project/development that is the natural environment and the community (Equator Principles Association, 2017).

According to Reveli (2016), responsible investment is based on moral values of an individual who becomes an advocate on ethical investment, this is then adopted by the financial institution. Oh, Park and Ghauri (2013) suggest that for financial institutions to remain relevant and competitive, they need to adopt responsible investment in their decision making process. Sweeney (2007) argues that lack of capacity such as human resources, policies, funds and structures is the reason why companies do not adopt responsible investment in their operation, which also includes incorporating them in the decision making process.

Scholtens and Dam (2007) argue that for firms to be relevant they need to be ethical and invest in ventures that consider the ESG risks in their decision making process. Companies need to have drivers that make them invest in ethical behaviour such as making the cost to raise capital for the non-ethical expensive, while the cost to raise capital for the companies that invest ethically less expensive (Scholtens and Dam, 2007). They further argue that financial institutions who adopt the EPs are able to withdraw from a project / development should there be non-compliances to the EPs requirements.

According to Schepers (2011) the EPs does not come without challenges and benefits. Such challenges may include lack of capacity to implement, monitor and report on the compliance to the EPs. The adoption of EPs benefits the financial institutions by mitigating and managing the environmental, social and governance risk, thus promoting responsible investment. Schepers (2011) also argues that the benefits that are guiding the adoption of the EPs mitigate and manage environmental, social and governance risk, thus promoting responsible investment.

Although Schepers (2011), states that there are two challenges with regards to the EPs adoption, which is free riders and adverse selection. Free riders are the banks that are not EPFI, as they benefit from the EPFIs that are implementing the EPs on the project / development while they are not committed to the cause (Schepers, 2011). The adverse selection are the banks that join the EPFIs and are not committed to the EPs compliance aspects. These EPFIs therefore, still practice poor ESG and this negatively affects the reputation of the ESG standards and commitment by the EPFI to the cause. Macve and Chen (2010) further indicate that there

are EPFI that are not complying with the EPs and this causes uncertainties with regards to the legitimacy of the ESG standards. Andrew (2008); Watchman, et al. (2007) points out that the EPs adoption is based on reputational, financial, customer and non-governmental pressures, to reduce political risks, and to improve information sharing and working together for banks that are not EPFI and banks that are EPFI (Andrew,2008; Watchman et al,2007).

Andrew (2008), further argue that ESG issues should be considered before funding a project. It was also affirmed that as per EPs requirement, the financial institution must conduct an ESG categorisation of the project / development based on the potential impact. The ESG assessment and proposed management plans should be conducted independently (Andrew, 2008). There should be consideration of the standards applicable to the project/development, including consultation with the affected communities.

Andrew (2008) continuously argues that EPs are voluntary codes of practice and reporting on their implementation in the annual report is to maintain the customer buy in on the perceived ESG practices by the financial institution (Andrew, 2008). The drivers for the adoption of the EPs for financial institution is their need to mitigate and manage reputational risks, financial risks, credit risks, customer and non-governmental pressures, reduction of political risks, and to improve information sharing and working together banks that are not EPFI and banks that are EPFI (Jeucken and Bouma, 1999; Watchman et al., 2007). The banks that have not adopted the EPs can be forced to promote responsible investment by applying ESG risk assessment processes as required by the banks that have adopted the EPs (Watchman et al., 2007).

A bank that is not an EPFI can be forced to practice ESG risk assessment as per EPs or learn from the Equator Principles banks and build capacity if possible. This will also enable information sharing amongst financial institutions, whether EPFI or not an EPFI (Watchman et al., 2007). Lawrence and Thompson (2004) states that EPs places a burden and operational costs to the client / borrower, which places economic burden. They further argue that EPs are ambiguous, subjective and voluntarism can make it difficult to be achieve (Lawrence and Thompson, 2004).

Wilson (2007) posits that EPs increases the approval process for the financial institution to conclude the transaction, thus delaying the start of a needed project and possible employment by the community members where the project is based. Wilson (2007), further indicate that

EPs lays more responsibilities to the financial institution by requiring developments of grievance mechanisms between the client and borrower. This makes the financial institution act as a coordinator in the project being developed and that financial institution end up replicating the responsibilities of the host government (Wilson, 2007).

Biswas (2011), suggests that the EPs adoption has an implication of acquiring fewer customers for the financial institution as a result of the funding requirements. That the adopters of the EPs are mainly large banks and old banks with a long history to carry the financial risk (Biswas, 2011). According to Biswas (2011); Heim, et al. (2005), it is only commercial financial institutions with an investment arm that support project finance transactions. The capacity to implement EPs systems to manage ESG risks are scarce and consultants are expensive. That banks consider the reputational risk of working with a client / borrower who is has negative impacts on their investment is considered too high to consider (Heim, et al., 2005; Biswas, 2011).

Wilson (2007) further argues that EPs foist ESG standards to the host government, which the government elected not to enact as they pose a hindrance to country's economic growth. That the EPs have been developed to indulge the non-profit organisations and prescribe which projects should be supported by using the exclusion list. Wright (2012), believes that EPs assists distinguishing the roles and responsibilities in the project finance structure as this makes it easy to understand the financial institution's ESG impacts of their operation (Wright, 2012). Research indicates that the EPs does not enforce accountability nor transparency and that they still give the financial institution the leeway to report on what they deem to be acceptable by their clients / borrowers, thus not disclosing all project related information (Business and the Environment with ISO 14000 Updates, 2004; Henke, 2014; Wright, 2012). Schepers (2011), indicates that as there is no accountability stance and no transparency by the EPFI, the non-Governmental Organisations believe that the EPs are just another ESG standards and that they have been weakened the continuous revisions.

For financial institutions to voluntarily adopt and promote good environmental and risk management practices, financial institutions need to club up and encourage each other to be environmental and sharing information (Business and the Environment with ISO 14000 Updates, 2004; Pakash and Potoski, 2007). It is indicated that joint conferences and meetings

amongst financial institutions is beneficial as this gives an opportunity to share information (Business and the Environment with ISO 14000 Updates, 2004; Pakash and Potoski, 2007).

Almalric (2005) further expanded that EPs requirement and implementation by projects / developments will result in increased costs to both the client / borrower. These costs are associated with capacity building for assessment and management of ESG risk identification, appointing external consultants to conduct the relevant assessment. This also includes the EPs being an obstacle to financial institutions involvement in transactions that are not EPs compliant or participating with other lenders that are not EPFI. That EPs are not regulated and therefore, compliance is not enforced (Almalric, 2005).

According to Williams (2008) the EPs have been developed with the goal of mitigating and manage the ESG risks in project / development finance transaction. However, it has been noted that financial institutions impose the EPs as law that governs developments in the world, although, EPs are voluntary and not enforced (Williams (2008). According to Wörsdörfer (2013); Lozinski (2013) lack of accountability is problematic as the lender impose the identification and management of the ESG risk to the client / borrower, thus reducing their liability risk until all avenues have been exhausted to mitigate financial loss.

Sarro (2013) asserts that EPs are not regulated and are voluntary, therefore the lenders have managed to mitigate the ESG risks of the client / borrower through the processes they are implementing and that there are undesirable outcomes of implementing EPs Sarro (2013). Watchman (2007), further argues that EPs are regarded as being the highest principles for promoting ESG. That commitment shown by the Chief Executive Officers and the Board on the adoption of the EPs, is an indication of responsible investment and practices, thus preserving the their customer base and potential loss of clients (Watchman, 2007). EPs also creates a fair playing field to allow other financial institutions to participate in the project finance transactions. EPs mitigates political risks from the host country for the financial institutions, as this indicates their level of commitment to manage and mitigate ESG issues in project finance transactions (Watchman, 2007). Macve and Chen (2010) indicated that EPs improves the EPFI corporate social responsibility image.

According to Wright (2012), EPs policies are vague and hardly express any commitment and usually lack clear criteria and objectives for EPs implementation. Further argues that EPs should be applied early when the project / development it still in the planning phase, as EPs requirements after all plans have been finalised makes any inputs void (Wright, 2012).

Chapter 3: Research Method

3.1. Introduction

This chapter explains the research design and the stages taken to conduct it. How data was collected, the sample and population of the participants and their roles within the organisations. It further provides a description of the mixed method used to collect data and the approach used. What tests were used to analyse data and confidentiality and ethical issues were also dealt with.

The main objective of this study was to investigating the benefits and challenges that South Africa's large banks have in adopting the Equator Principles.

The main objective of the study was achieved through the following sub-objectives:

- Investigate how the Equator Principles has changed the lender's view of project finance transactions risks.
- Determine how the Equator Principles has fulfilled large banks' expectations.
- Make recommendations to the large banks on addressing the challenges faced by project finance teams.

3.2. Research Design

The four large SA banks were selected for this study, as they have adopted the Equator Principles in their approach to environmental and social risk management of their lending activities in the development of a project.

The project finance teams who use the Equator Principles to manage ESG risk for their respective financial institution were sampled using a questionnaire (see Annexure A for this). This was followed by interviewing the senior manager or head of the department who this team report to them. This research was conducted using mixed methods (De Vos et al, 2011) and follows the post-positivist approach that seeks to understand the patterns of behaviour from the study subjects and allows for further contact with the study subjects when collecting supporting data and can be validated and is reliable. This approach is ideal to determine the trends of the study subjects (Cooper, 1997).

The population of the combined (i.e. all banks) project finance teams was 57, with 24 responses received. The response rate varied between 14% and 100% in the four large banks. Four interviews were conducted with the four heads of the departments and the supervisor's representatives of the four large banks. Data from the project finance team was collected via questionnaires (see Annexure A) and interview questions were conducted with the four interviewees (see Annexure B) which includes the senior manager or a head of the department representatives from each bank. The interview questions were emailed prior to the interview date to indicate that the research questions is non-competitive or general in nature which will give the participants ease to participate. The interviews were recorded and notes were collected for further ease of reference and interview flow. These are not included in this research paper and have transcribed and available on request.

Petitmengn (2006) indicated that the interview approach is a good tool to bring forth responses that are subjective, based on the experience of the research subject. This is agreement with the focus of this being the Project Finance who do not have formal training on ESG risk assessment. This research is of the opinion that this team will give better understanding of the research undertaken, than responses from the ESG specialist of the bank. Which informs the deductive approach of this research.

3.3 Data analysis

To analyse the data two data analysis techniques were utilized. The first technique which was used to analyse the quantitative data is descriptive statistics, the purpose of using descriptive statistics is to summarize the data by describing the basic features of the data in the study and to provide simple summaries of the variables and measures.

For the second technique this research used the interpretivism paradigm to analyse the qualitative type of data, interpretivism paradigm is inductive in nature, where perceptions of the study population will be based on the understanding of the concept and observations from their practices. This approach is not objective, but subjective in nature as it is based on the experiences and views from the project team members (Rossman and Rallis, 2003). The paradigm is more about understanding the experience from the people who have used the tools, in this case the EPs. The project finance teams are the team that engages and interacts with the client. Further, they prescribe the requirements of the bank' to extend funding in the form of loan term agreements which also incorporate clauses related to the EPs.

3.4 Ethical Considerations

Ethical clearance and considerations from the Rhodes University Ethical Committee for the interview questions and the questionnaires were sought before the study commenced. Permission was sought from each of the large banks representatives and each bank for disclosure of the information. The banks representatives were given the opportunity to withdraw from the study and the option to remain anonymous. As a result of the competitive nature of the banks within the banking sector, the banks were allocated pseudonyms as Bank A, Bank B, Bank C and Bank D. Furthermore, the interviewees were not identified by their names to preserve anonymity of the participants and the banks that participated in this study

Permission was sought from each of the large banks' representatives for data collection. The banks representatives were given the opportunity to withdraw from the study and the option to remain anonymous.

Ethical clearance was applied for and obtained from the Rhodes University Ethics Committee, for conducting the study prior to data collection.

Chapter 4: Findings and Results

4.1 Introduction

This chapter presents the results based on the survey that was conducted of the financial institutions focusing on the four major banks as discussed in chapter 3 to determine the benefits and challenges of implementing the Equator Principles. The results presented in this chapter are from both the questionnaires and interviews for all the four major banks in South Africa, with a sample size of 24 from all the banks. The following sections will outline the findings of the relevant questions from the questionnaire and interviews.

4.2 Results

4.2.1 Equator Principles as a way of promoting responsible lending for the bank

There is a dispute within the project finance team with regards to the implementation of the EPs, as to whether it has been easy or not for the bank. Responses from question two (2) from the questionnaire, indicates that majority (63%) of the respondents agrees that adopting EPs can be a way of promoting responsible lending for the bank as summarised in figure 1. Approximately 33% (strongly agree) of the respondents also perceive EPs as a way of promoting responsible lending for the bank. The remaining (4%) disagreed that they perceive EPs as a way of promoting responsible lending for the bank. Figure 1 shows the perception of all the banks regarding Equator Principles as a way of promoting responsible lending for the banks.

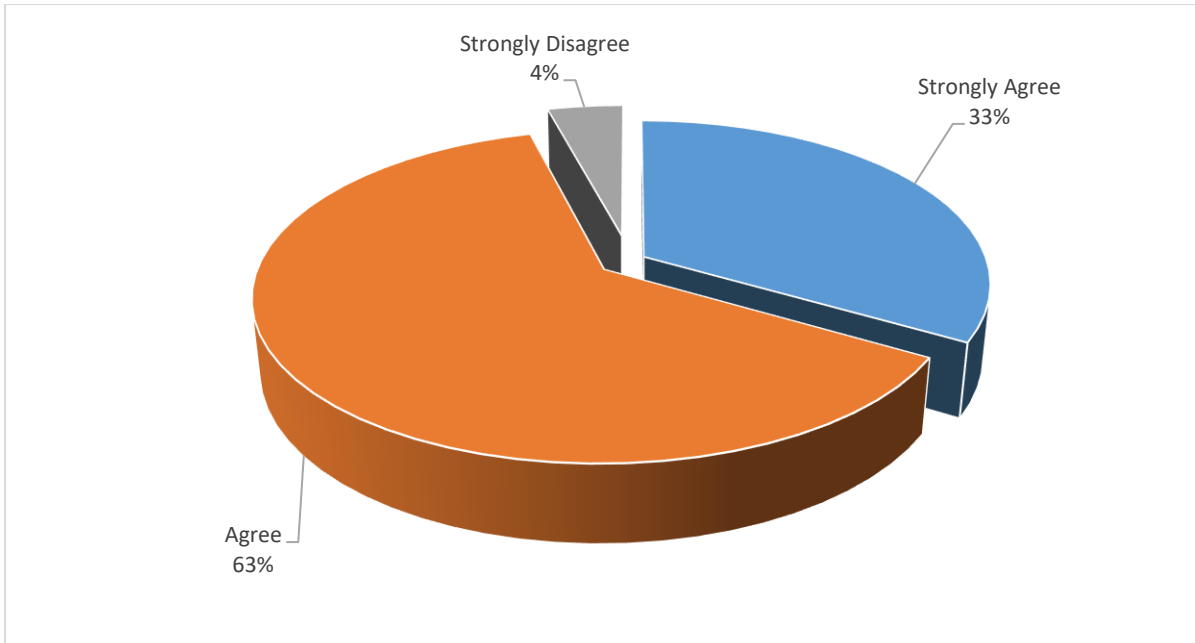


Figure 1: Equator Principles as a way of promoting responsible lending

4.2.2 Equator Principles as a way of promoting responsible lending in the bank

This sub-section answers question three (3) of the questionnaire and interviews. Figure 2 presents the results of EPs as a way of promoting responsible lending in the banks. Approximately 59% of the respondents from all the banks agreed that EPs can be a way or promoting responsible lending in the bank, while 29% of the respondents strongly agreed with the statement. The remaining respondents strongly agreed and disagreed, 8% and 4% respectively, that EPs can be a way of promoting responsible lending in the bank.

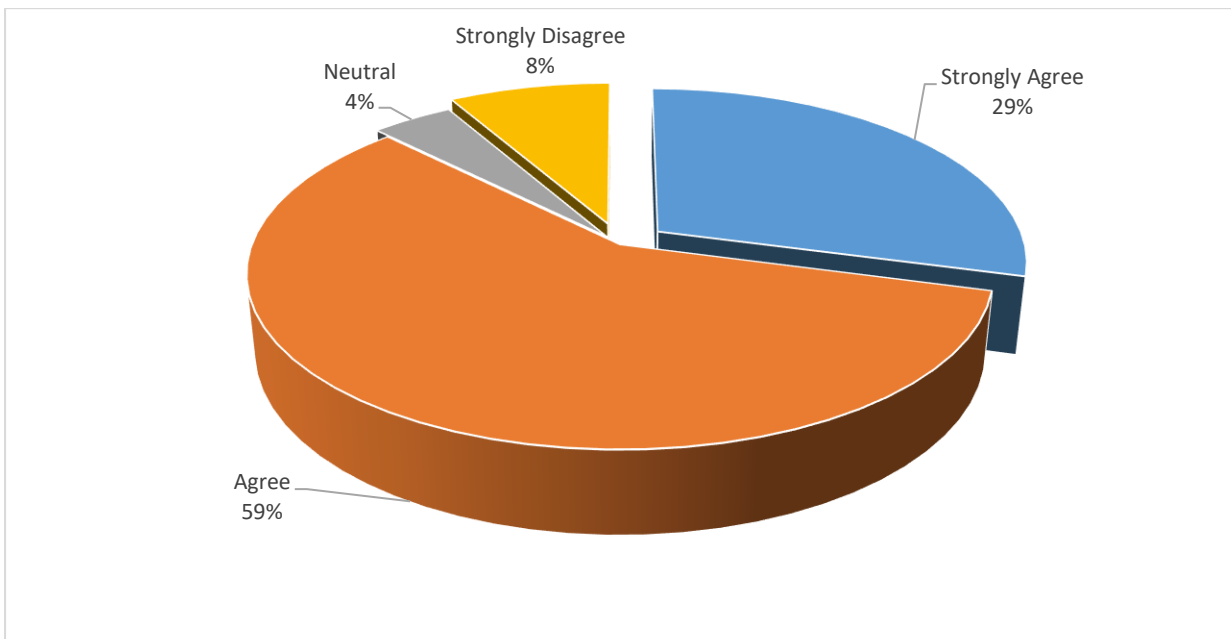


Figure 2: Equator Principles as a way of promoting responsible lending in the bank

4.2.3 Implementation of the Equator Principles

This section of the result answers question four (4) of the questionnaire and interviews by determining the perceptions of the four major banks regarding the implementation of the EPs. As shown in figure 3 below, the banks agree (11 respondents) that the implementation of the EPs increased their view with regards to responsible investment. About 25% of the respondents were from Bank D and the other 21% from the other banks. Approximately 42% (10 respondents) strongly agree that the implementation of the EPs increased their view with regards to responsible investment. Only four (4) per cent of the respondents from Bank D disagreed and eight (8) per cent of the respondents were neutral about the implementation of the Equator Principles increasing their view with regarding to responsible investment.

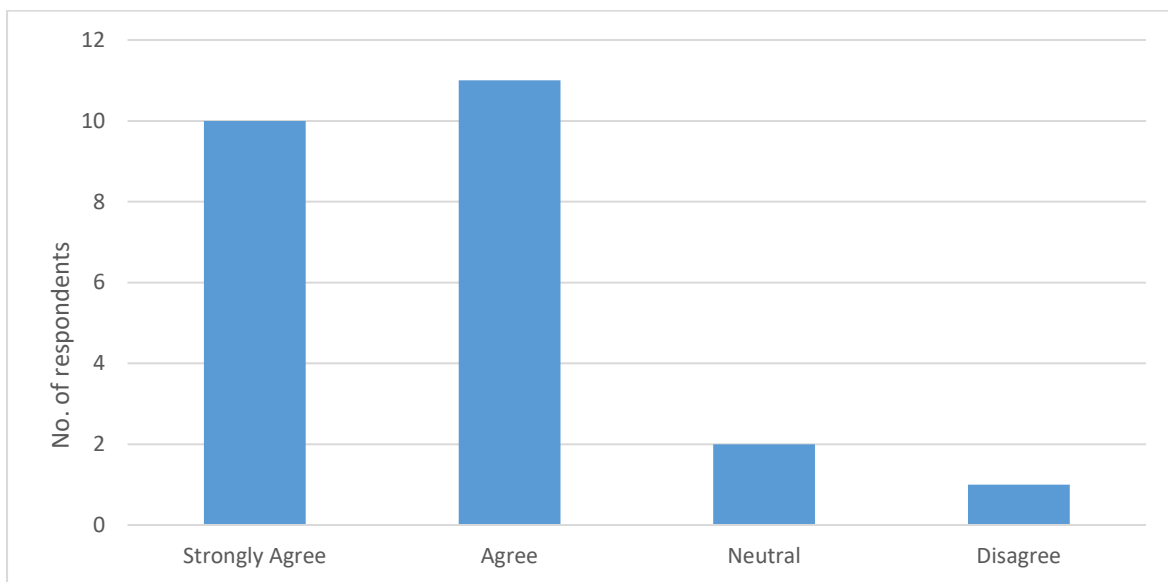


Figure 3: Implementation of the Equator Principles

4.2.4 The ideal stage of applying the Equator Principles in the credit application process

This sub-section answers question five (5) of the questionnaire and interviews. Figure 4 presents the ideal stage of applying the EPs by the bank. The ideal stage of applying the EPs in the credit application process is during the Pre-Credit committee, as indicated by majority (54%) of the respondents from Bank A, Bank C and Bank D as depicted in figure 4 below. According to the senior manager of Bank C, if EPs are applied during the pre-credit process everything can be highlighted from the beginning to the Client / Borrower. During Credit committee (25%) and On-boarding (21%) are the other options available for applying the EPs. None of the respondents from all the four banks have indicated that EPs should be applied during the Legal Documents or Monitoring stage.

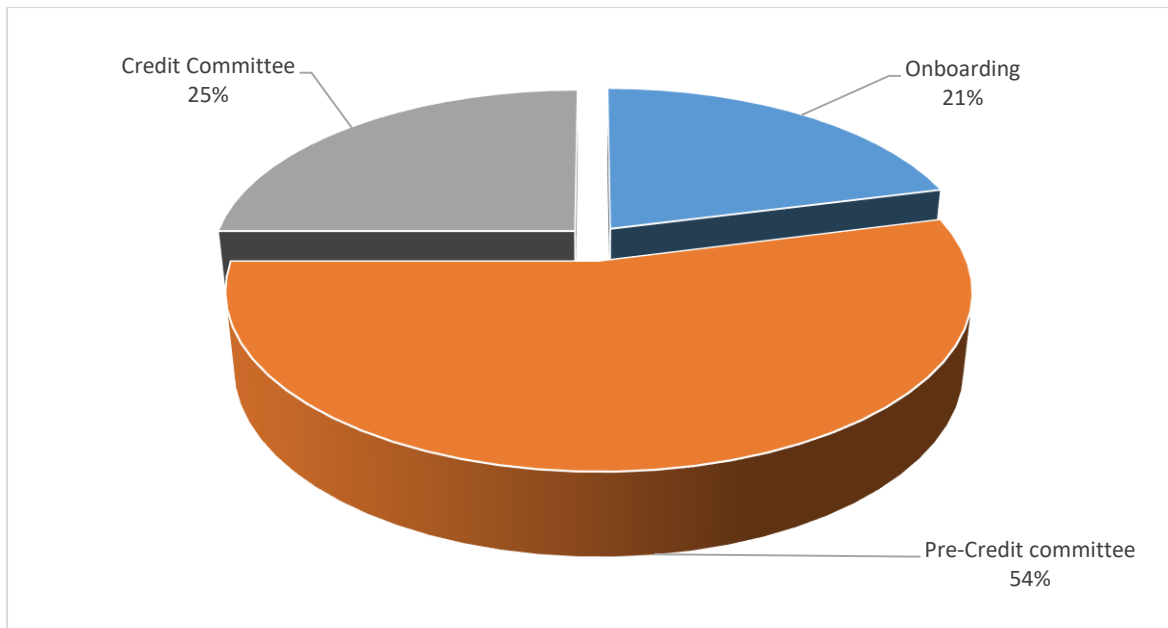


Figure 4: Ideal stage of applying the Equator Principles

4.2.5 Environmental and social risk that have the most impact on the bank and mitigation of the risk

This section of the result answers question 6 of the interviews and 16 of the questionnaires. The section will start by answering question 16. As shown in figure 5 below, half of the population which is 12 respondents of the questionnaire from the four major banks indicated that all the risk (reputational, financial, credit, operational and legal risk) are associated with the environmental and social risk that have the most impact on the bank. These respondents were from Bank D which had the largest number of populations participating in the interviews (questionnaire). About 25% from all the banks indicated that reputational risk has major impact on the bank. The remaining believed that combination of reputational and financial (13%), financial and legal risk (four (4) per cent) and financial, credit, operational and legal risk (eight (8) per cent) have the most impact on the bank. The implementation of the EPs has assisted in mitigating environmental and social impacts in higher risk projects. This was according to 92% of the respondents that participated in the study.

According to the senior managers interviewed from Bank C and Bank B (addressing question 6) , a bank can recover from a financial loss, but it would be hard to recover from reputational risk as it will be difficult to convince clients.

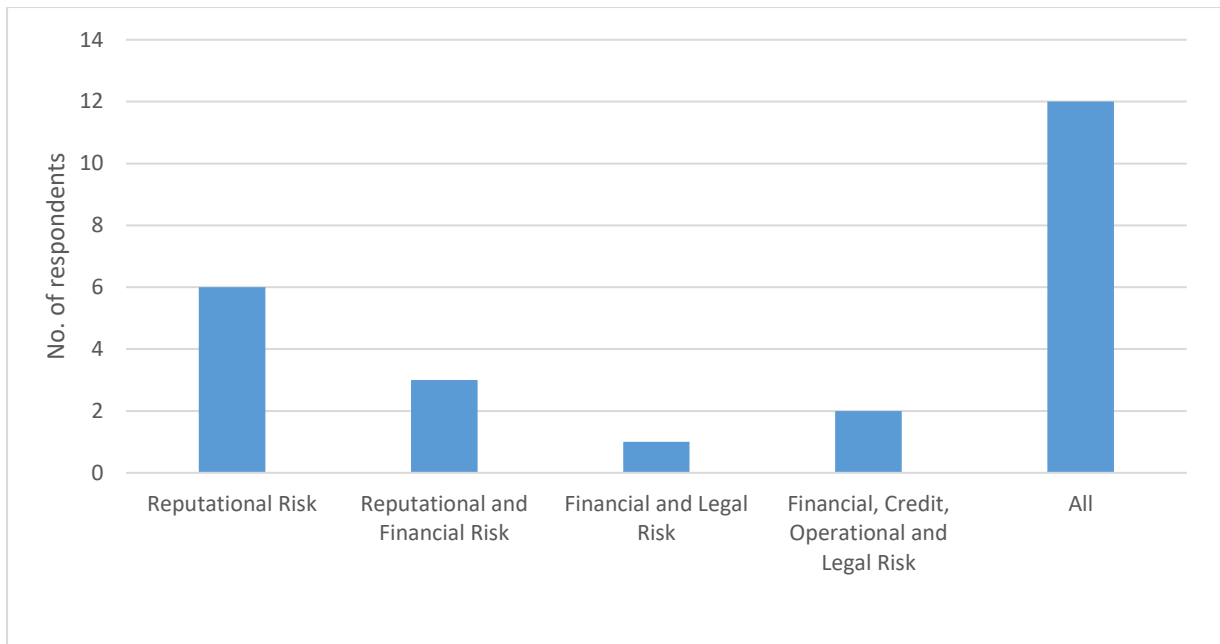


Figure 5: Environmental and social risk

4.2.6 The implementation of Equator Principles has been easy

This sub-section answers question seven (7) of the questionnaires. Figure 6 illustrates the views of respondents in terms of the implementation of the EPs. As shown in figure 6, majority (46%) of the respondents from all the banks feel neutral (easy or hard) of the implementation of the EPs. According to the senior manager interviewed from Bank C, clients are aware of the EPs, some of the clients get the information from their advisors. However, for junior corporates or clients overlook certain things, because they do not have the capacity (for example human skills) to actually implement what is required. About 29% of the respondents have agreed that the implementation of the EPs was easy, this means that these respondents have adjusted and can see the benefits of EPs. The rest of the respondents disagree (21%) and strongly agree (four (4) per cent) to implementation of EPs been easy.

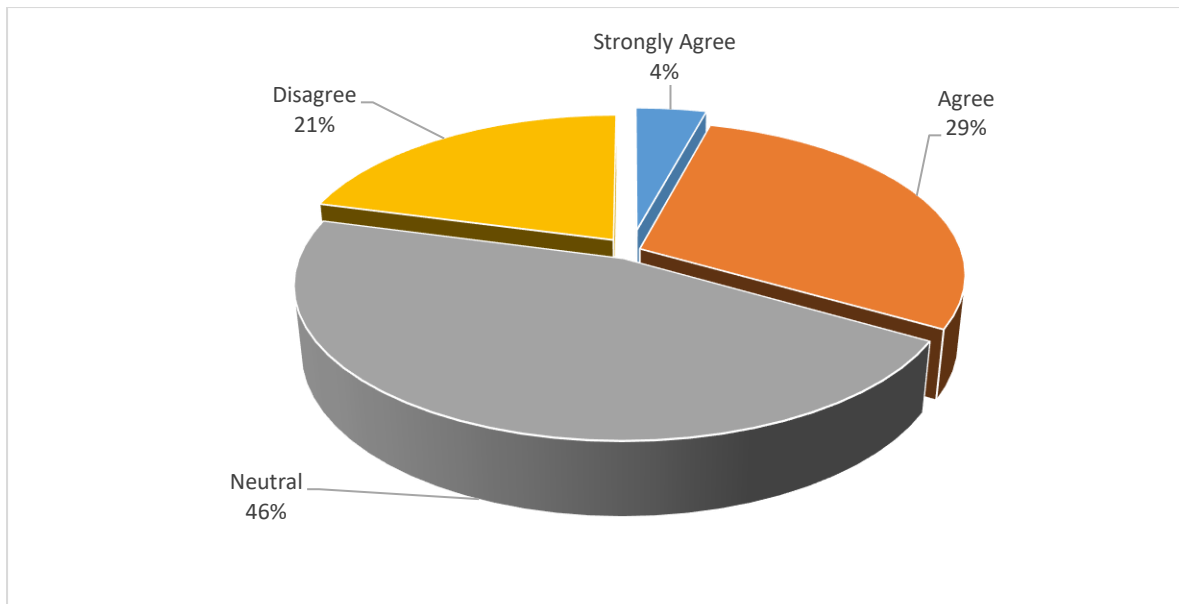


Figure 6: Implementation of Equator Principles as an easy process

4.2.7 Adoption of the Equator Principles, collaborating with non-Equator and Equator Principles banks

Responses from Question eight (8) and nine (9) from the questionnaire indicates the following as summarised in the figure below. Figure 7 shows the results from question 8, which is collaboration of EPs with both financial institutions that have not adopted the EPs and financial institutions that have adopted the EPs. About 42% of the respondents from all the banks have indicated that collaborating with banks that did not adopt EPs is not easy. Approximately eight (8) per cent strongly agreed and 17% agreed that collaborating with financial institutions that have not adopted the EPs is easy. About 42% of the respondents have indicated that they do not see any difference in collaborating with the adopters of the EPs.

About 16% of the respondents strongly disagreed that collaborating with adopters of the EPs has been difficult. The remaining four (4) per cent (agreed) and four (4) per cent (neutral) about this statement. The EPs had made the respondents more aware of the environmental and social risk of project finance transaction.

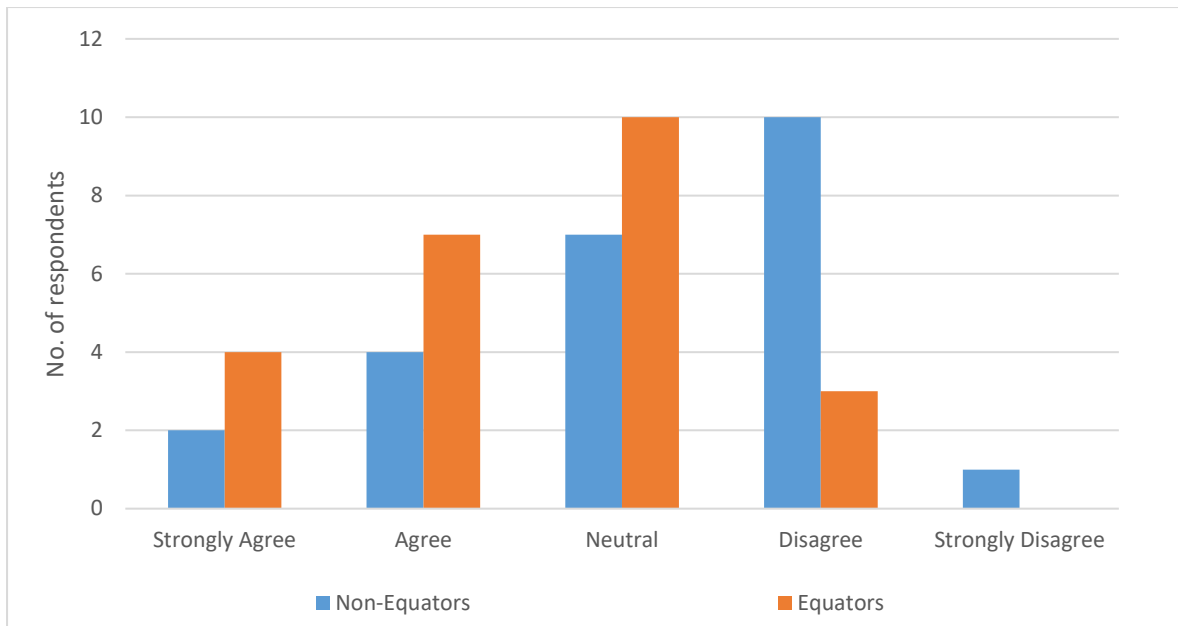


Figure 7: Adoption of the Equator Principles

4.2.8 The Equator Principles as a hindrance for funding projects in developing countries

Responses from Question 13 from the questionnaire indicates the following as summarised in the figure below. Figure 8 illustrates the hindrance in funding projects in developing countries. About nine (9) of the respondents have indicated that EPs are a hindrance in funding projects in developing countries, whereas nine (9) respondents disagreed to this. The results show that 16% of the respondents indicated that they strongly disagree that EPs are a hindrance in funding projects in developing countries. According to 50% of the respondents, EPs does not decrease the funding of project finance transactions in the bank, with 33% of the respondents neutral about this.

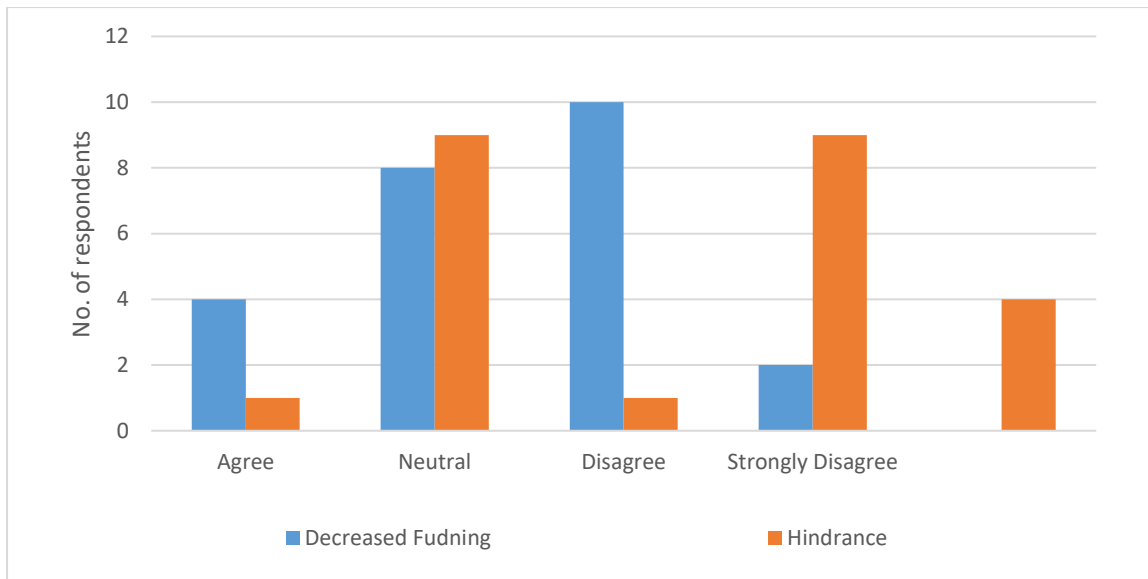


Figure 8: Hindrance for funding projects and decreasing funding

4.2.9 Funding the biggest and smallest portions of the project

Responses from Question 14 and 15 from the questionnaire indicates the following as summarised in the figure below. Majority (79%) of the respondents have indicated that funding the biggest portion in a project gives the bank a leverage to insist on promoting application of international standards such as the EPs, whereas 21% of the respondents started otherwise as shown below in figure 9. Funding the smallest portion in a project does not give the bank leverage to insist on promoting application of international standards such as the EPs, this was according to 63% of the respondents interviewed.

About 21% of the respondents were unsure whether funding the smallest portion in a project does or does not give the bank leverage to insist on promoting application of international standards such as the EPs. The rest (16%), agreed that funding the smallest portion of a project gives the bank leverage to insist on promoting application of international standards such as the EPs. However, this is not in line with the perception of the senior managers of Bank B, Bank C and Bank D (question 8 and 9 from the interviewees), they indicated that it does not matter whether you fund the biggest or smallest portion of the bank, what matters the most is that an organisation is part of the deal, it's a pre-require (compliance) it does not matter whether you are a big portion or small portion. However, the remaining 16% believe that Equator Principles has indeed decreased the funding project finance transactions in the bank.

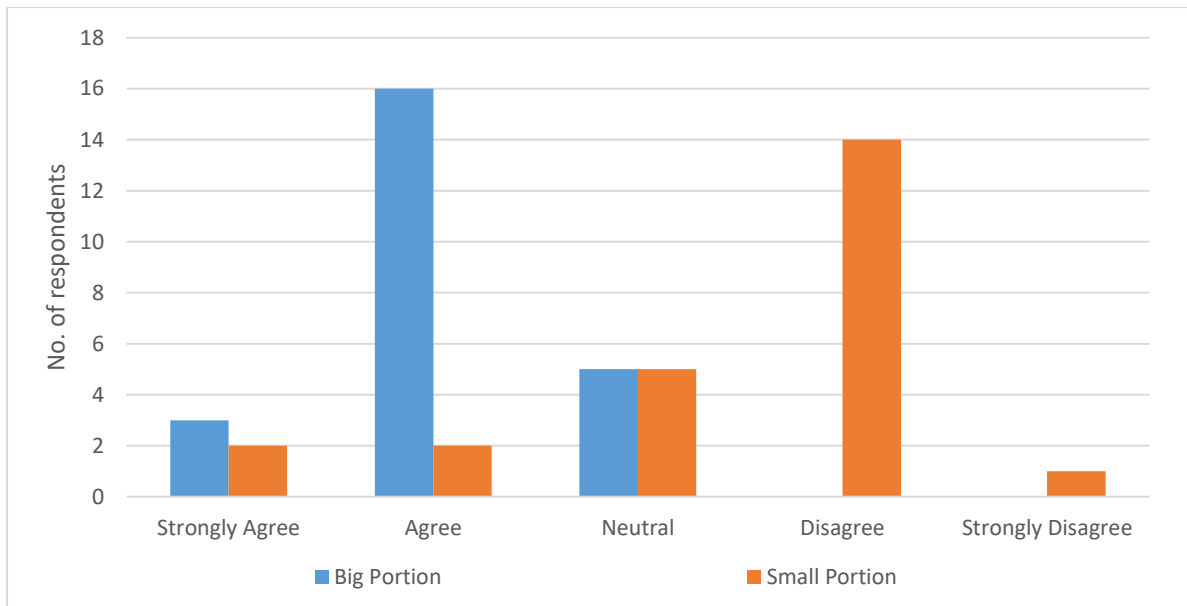


Figure 9: Funding the biggest and smallest portions of the project

4.2.10 The Equator Principles should be compulsory to all project related and non-Equator Principles projects or development

This sub-section answers question 17 of the questionnaire. Figure 10 illustrates whether or not the EPs should be compulsory to all project related and financial institutions that have not adopted the EPs projects or development. About 71% of the respondents have shown that EPs should be compulsory to all project related and financial institutions that have not adopted the EPs projects or development. However, approximately 17% of the respondents interviewed believe that EPs should not to be compulsory to all projects related and financial institutions that have not adopted the EPs projects or development. Moreover, the results show that 13% of the respondents are neutral about EPs being compulsory.

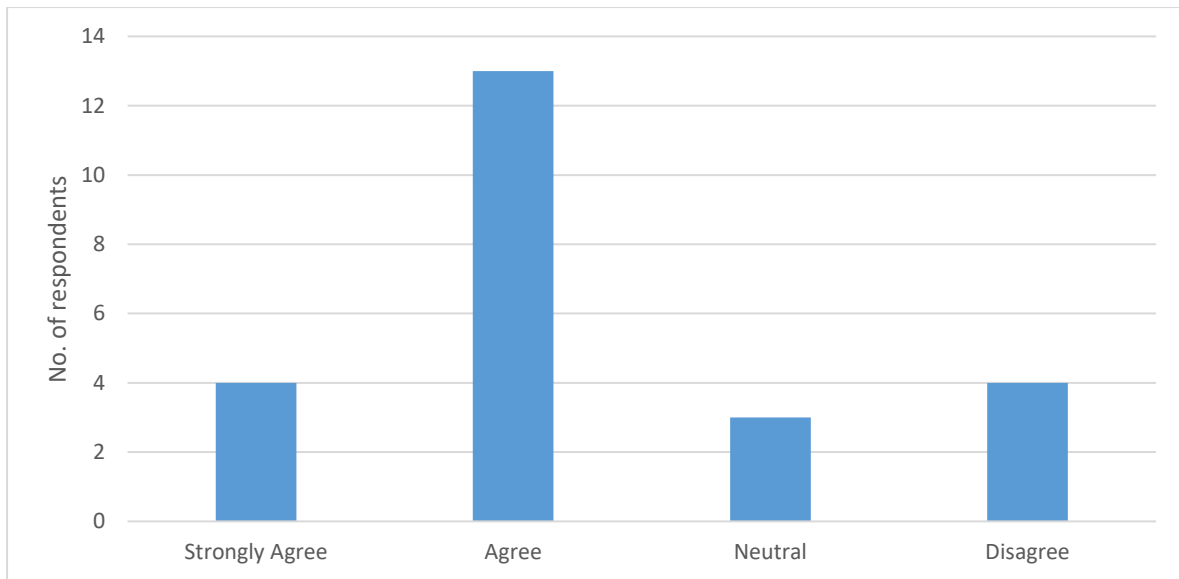


Figure 10: Equator Principles should be compulsory to all projects

4.3. Summary

Promoting EPs is a way of promoting responsible lending for the bank as seen from the findings in figure 1 above. That promoting the EPs to their client's has been easy, although it is difficult to do so the small clients or companies due to lack of capacity and costs to acquire external assistance to actually implement what is required as can be seen from figure 6 above. Thus, not economically viable. The banks that are not EPFI are able to practice responsible lending through the use of EPFI requirements. However, it is not confirmed that this practice is fully adopted by them going forward. The EPs have neither increased nor decreased funding projects or developments funding as the number of the project transactions depends on the market trends as seen in the last sub-section of The Equator Principles as a hindrance for funding projects in developing countries in figure 8.

The perception of all the banks is that the ESG risk assessment and management should be incorporated throughout the credit risk process. All the banks believe that reputational risk is the most risk that they regard as the strongest risk, as that influences the repayment of the loan either by financial loss or operational risk of the client or borrower as indicated in the sub-section the ideal stage of applying the Equator Principles in the credit application process in figure 4. There is an agreement that EPs may be either a hindrance or not in funding project finance transactions as seen from the Equator Principles as a hindrance for funding projects in developing countries in figure 8. That training on the ES risks and the EPs is required and conducted to the project finance team. It is indicated that clubbing and stakeholders influenced

the adoption of the EPs. It is indicated that in banks having the biggest financing portion gives the banks leverage to influence the application of international standards as shown in the sub-section funding the biggest and smallest portions of the project of figure 9. Collaboration with the banks that are not EPFI has promoted responsible funding in the projects or development by way of association with the EPFI as seen in the sub-section adoption of the Equator Principles, collaborating with non-Equator and Equator Principles banks in Figure 7.

Chapter 5: Discussion, Recommendations and Conclusion

The main objective of this research was to investigate the benefits and challenges that South African large banks have in adopting the Equator Principles. A questionnaire was developed, and interviews were conducted to achieve these objectives and data was collected in the form of questionnaire and interviews and SPSS was used to analyse the results. All the sub-sections and figures referred to in this chapter are from the previous chapter.

5.1 Discussion

From the results outlined in Chapter 4, responsible lending has helped the banks to work with universal standards, although the banks have always been responsible when it comes to lending so that they can protect their reputation as indicated in the sub-section Equator Principles as a way of promoting responsible lending for the bank in figure 2. Responsible lending ensures that the project apply and comply with the environmental and social issues (social investment) and has formalized the approach relative to how it was before (clear process and methodology on what is needed to be done) for example what the client's needs to do. This finding is supported by literature of Lawrence and Thompson (2004) which states that financial legal agreements between the client and the EPFI proposes environmental and social management plans, therefore, requiring both parties to develop systems and procedures (Lawrence and Thompson, 2004). EPs can be adopted so that projects that are financed and advised by financial institutions and are developed in a manner that is socially responsible and reflects sound environmental management practices (Lawrence and Thompson, 2004). According to EPs (2013), adoption of and adherence of the EPs offers significant benefits to them, their clients, and local stakeholders through clients' engagement with locally affected communities.

The implementation of the EPs has increased the views of the banks regarding responsible investment as shown in the sub-section implementation of the Equator Principles in figure 3. As a result, it promotes responsible investment. These findings are in line with the findings of Schepers (2011), who found that the benefits that are guiding the adoption of the EPs mitigate and manage environmental, social and governance risk, thus promoting responsible investment. The EPs Association argues that the EPs have been developed to promote responsible investment in and for the bank (Equator Principle, 2013).

The results from the sub-section the ideal stage of applying the Equator Principles in the credit application process figure 4 have shown that the ideal stage of applying the Equator Principles

in the credit application process is during the Pre-Credit committee stage, as indicated by majority of the respondents. Applying EPs during the pre-credit committee stage will allow everything to be highlighted to avoid complications in the later stage. This is in line with the findings by Wright (2012), where the author stated that EPs should be applied early when the project or development is still in the planning phase, as EPs requirements after all plans have been finalised makes any inputs void (Wright, 2012). The best option is to start thinking about the EPs before the projects begins, so that when complications arises they can be resolved quickly.

On a daily basis, to be able to identify, assess and manage the environmental and social risks and impacts in a structured way, financiers and advisors work in partnerships with their clients (Equator Principles, 2013). Reputational, financial, credit, operational and legal risk are associated with the environmental and social risk that have the most impact on the bank as shown in the sub-section Environmental and social risk that have the most impact on the bank and mitigation of the risk in figure 5. However, reputational risk is the main risk that most banks are concerned about as it would be hard to convince clients to trust the bank again once the reputation of the bank is damaged or ruined. According to the EPs Association, the purpose for the EPFI is to develop their own internal environmental and social systems, framework and policies (Equator Principles Association, 2018; Lawrence and Thompson, 2004). The EPFI is required to assess and manage environmental and social risks that the EPFI is exposed to when financing a project/development (Lawrence and Thompson, 2004).

The results showed that so far ever since banks have implemented Equator Principles, they have not yet seen any major changes as seen in the sub-section the implementation of Equator Principles has been easy in figure 6. This finding is in line with the finding by Biswas (2011); Heim, et al (2005), who found that EPs are mostly adopted by the large banks and old banks with a long history to carry the financial risk and commercial banks with an investment arm as they have the resources to implement the EPs (Biswas, 2011; Heim, et al (2005). EPs have been implemented for over ten years now, this means that clients are aware of the EPs. Some of the clients get the information from their advisors. However, for junior corporates or clients overlook at things, because they do not have the capacity (for example human skills) to actually implement what is required. Literature by Sweeney (2007), supports this finding who indicates that lack of capacity such as human resources, policies, funds and structure are the reasons why companies do not adopt responsible investment (Sweeney, 2007), Although the banks have

not yet seen any major changes, banks have adjusted to the adaptation of EPs and can see the benefits of EPs. This supports findings by Oh, Park and Ghauri (2013), who state that for the financial institution to remain relevant and competitive they need to adopt responsible investment practices (Oh, Park and Ghauri, 2013). Some of the respondents have indicated that the implementation of EPs has not been easy. This could be because, not everyone is willing to do things differently (change) and for some respondents it can be hard to adapt.

Collaboration between financial institutions that have not yet adopted EPs and financial institutions that have adopted EPs is not easy according to the respondents as seen from the sub-section adoption of the Equator Principles, collaborating with non-Equator and Equator Principles banks in figure 7. This finding is supported by literature of Schepers (2011) who found that non-Equator Principles banks become free riders and are not committed to the responsible investment concept (Schepers, 2011). Respondents that believe that collaborating banks that have adopted EPs is difficult may be because even though all banks contribute equally, the other can be benefiting more than the other. The EPs has made the respondents more aware of the environmental and social risk of project finance transaction. Literature by Wright (2012), indicates that EPs assists in distinguishing the roles and responsibilities in the project finance structure, including the ESG risks in transactions (Wright, 2012). However, some banks believe that most banks have adopted EPs because during the time banks embarked on EPs, most of the banks in South Africa were joining (to pull themselves to the same standards). Therefore, most of the time they work with each other (banks that are adopters of the Equator Principles).

Respondents have shown to agree and disagree to the statement implementation of EPs is a hindrance in funding projects in developing countries as seen in the sub-section the Equator Principles as a hindrance for funding projects in developing countries in figure 8. This finding disagrees with the findings by Wilson (2007), who indicates that EPs imposes developing countries who have not adopted responsible investment practices, thus hindering economic growth (Wilson, 2007). Respondent that disagree believe that Equator Principles do not decrease the funding of project finance transactions in the bank. Application of EPs occurred at the same time in South Africa. Therefore, the funding remained the same (no impact). This statement is true according to Wilson (2007), as it is indicated that EPs foist ES standards to the host government, which the government elected not to enact as they pose a hindrance to country's economic growth. That the EPs have been developed to indulge the non-profit

organisations and prescribe which projects should be supported by using the exclusion list. However, contrary to Almaric (2005), with the view that EPs is not a contributing factor for less or more project finance transactions at the bank and that they have not been a hindrance in participating in project finance transactions.

Funding the biggest portion in a project gives the bank a leverage to insist on promoting application of international standards such as the EPs, whereas funding the smallest portion in a project does not give the bank leverage to insist on promoting application of international standards as seen in sub-section funding the biggest and smallest portions of the project in figure 9. According senior managers of Bank B, Bank C and Bank D, it does not matter whether you a biggest or smallest portion, what matters the most is that an organisation is part of the deal, it's a pre-requite (compliance) it does not matter whether you funding a big portion or small portion.

Most respondents have indicated that Equator Principle should be made compulsory as shown in the sub-section the Equator Principles should be compulsory to all project related and non-Equator Principles projects or development in figure 10. This confirms early research, which states that in order promote voluntary adoptions of environmental and risk management, financial institutions need to club up and encourage each other to be environmental and socially responsible and share information (Business & the Environment with ISO 14000 Updates, 2004; Pakash and Potoski, 2007). It is further confirmed that joint conferences and meetings amongst financial institutions is beneficial as this gives an opportunity to share information (Business & the Environment with ISO 14000 Updates 2004; Pakash and Potoski, 2007). Watchman et al. (2007) and Pakash and Postoki (2007), further confirm that collaboration promotes responsible investment to the bank that is not EPFI, in order to build capacity Pakash and Postoki (2007); Watchman et al (2007).

Furthermore, the following benefits and challenges were identified from the study: The EPs promotes responsible investments by considering all aspects of the project/development, which is the natural environment and the community (Equator Principles Association, 2018). The project finance teams are aware of the environmental, social and governance risks associated with project finance transactions, which is used as an ESG risk assessment tool during the credit process.

The benefits of the EPs are that EPs requires the client or borrower to conduct an environmental and social impact assessment and commit to covenants that are binding in the financial legal agreements (Lawrence and Thompson, 2004). These financial legal agreements includes commitment by the client / borrower to identify the environmental and social impacts and propose environmental and social management plans of the project / development being financed (Lawrence and Thompson, 2004). The EPs assist the financial institution to develop processes and strategies promoting responsible investment in the financed projects / developments (Equator Principles Association, 2018 and Hunter, 2008). This gives the EPFI the advantage of competing in the international market (Almalric, 2005 and Biswas, 2011). The EPFI can withdraw from a project /development should there be non-compliances to the EPs requirements (Scoltens and Dam, 2007). EPs assures the EPFI that their reputational risks have been minimised and managed (Andrew (2008) and Watchman et al, (2007). EPs may indirectly influence the FI that have not adopted the EPs to promote responsible investment by applying ESG risk assessment processes as required by the banks that have adopted the EPs (Watchman et al, 2007). Collaboration with the financial institutions and the EPFI enables the participants to share project/development information, which assist in to identify and manage potential ES risks for similar projects/developments (Watchman et al, 2007).

Lack of capacity such as human resources, policies, funds and structures are the challenges that results in companies and financial institution not to adopt responsible investment is their operation, which also includes incorporating them in the decision-making process (Sweeney, 2007). Some EPFI are not committed to the EPs and become Free riders (Schepers, 2011) and cause uncertainties with regards to the legitimacy of the ES standards (Macve and Chen, 2010). The EPs place a burden and operational costs to the client / borrower, resulting in financial burden (Lawrence and Thompson, 2004). EPs are ambiguous, subjective and voluntarism can make it difficult to be achieve (Lawrence and Thompson, 2004). EPs increases the approval process for the financial institution to conclude the transaction, which delays the start of a needed project / development and possible employment by the community members where the project / development is based (Wilson, 2007). EPFI may be forced to have fewer clients as a result of the funding requirements by EPs (Biswas, 2011).

However, these challenges are outweighed by the benefits they bring. They recognised that there are benefits for being an Equator Principles Financial Institution (EPFI), where they can influence the adoption of international standards to the banks that are not EPFI.

5.2 Recommendations

This study investigated the benefits and challenges of implementing the Equator Principles for the four major banks in South Africa. It was found that these four major banks adopted to Equator Principles when it was introduced in South Africa. The following must be put in place so that the Equator Principles can improve and the Financial Institutions that have not yet adopted to Equator Principles can adopt: the banks should have incentives or programs that support capacity building for their clients or borrowers. According to (Watchman et al, 2007), a bank that is not an EPFI can benefit by building its capacity through collaboration with EPFI (Watchman et al, 2007). Furthermore, Schepers (2011) indicates that the EPs does not inforce accountability, therefore, accountability should be enforced to show commitment by the financial institutions (Schepers, 2011). : the banks need to have structured systems to guide on when to apply EPs in the credit process as there are differing opinions on the requirements for examples the Equator Principles must be applied onboarding during the credit application process, the banks that are not EPFI need to adopt the practices of the EPs, even when they do not adopt the EPs (Should be compulsory) and all the staff that works with projects or developments whether EPs or not EPs need to practice Responsible Investment and incorporate them in their decision- making process.

The objectives and findings are as follows: 1) Investigate how the Equator Principles has changed the lender's view of project finance transactions risks (results showed that EPs has not changed the lender's view of project finance transactions risks, because the banks have not yet seen any changes and they had always been careful even before the implementation of EPs), 2) Determine how the Equator Principles has fulfilled large banks' expectations (the results showed that the EPs has fulfilled the banks expectations as EP has promoted responsible investment, thus mitigating and managing environmental, social and governance risk) and 3) Make recommendations to the large banks on addressing the challenges faced by project finance teams (the following should be taken into consideration to address the challenges faced by the project finance teams: the banks should have incentives or programs that support capacity building for their clients or borrowers, the banks need to have structured systems to guide on when to apply EPs in the credit process as there are differing opinions on the requirements for examples the EPs must be applied onboarding during the credit application process, the banks that are not EPFI need to adopt the practices of the EPs, even when they do

not adopt the EPs (Should be compulsory) and all the staff that works with projects or developments whether EPs or not EPs need to practice Responsible Investment and incorporate them in their decision-making process). In conclusion, the study contributed by identifying the benefits and challenges of adopting Equator Principles in South Africa.

5.3 Conclusion

The findings in this research suggests that the perceptions on the implementation of the EPs from the project finance point of view is positive. It is evident that they are aware of the challenges and benefits of implementing the EP. The benefit of Equator Principles are as follows: promotes responsible lending for the bank and in the bank, implementation of Equator Principles increases responsible investment and Equator Principles assist in mitigating environmental and social impacts in higher projects. While the challenge of the EPs is that banks are not benefiting equally in the project /s (one bank benefiting more than the other bank), whereas the contribution is equal. It is observed that EP are seen as ESRM tool to mitigate and manage ESG risks in project finance transactions. The project finance teams perceive EPs as a tool or framework that promotes responsibility in and for the bank. That collaborations with both banks that are not EPFI and EPFI is not an issue with the Bank.

The bank representatives believe that the EPs promote responsible lending in and for the bank. That and that they are aware of the ESG issues and contributing in mitigating ESG impacts in high risk projects/developments funding. It is observed that the implementation of the Equator Principles has been easy. The project finance teams believe that the EPs has not increased nor decreased project finance transactions. The project finance teams have been trained and that exposure to the EPs makes identification and implementing ESRM processes in projects or developments transactions comfortable. This makes credit support appraisals for high ES risks projects or developments attainable. EPs implementation is somewhat easy for all the banks.

The objectives and findings are as follows:

- 1) Investigate how the Equator Principles has changed the lender's view of project finance transactions risks. Results showed that Equator Principles has not changed the lender's view of project finance transactions risks, because the banks have not yet seen any changes and they had always been careful even before the implementation of EPs;

2) Determine how the Equator Principles has fulfilled large banks' expectations. The results showed that the EPs has fulfilled the banks expectations as EP has promoted responsible investment, thus mitigating and managing environmental, social and governance risk; and

3) Make recommendations to the large banks on addressing the challenges faced by project finance teams. The following should be taken into consideration to address the challenges faced by the project finance teams: the banks should have incentives or programs that support capacity building for their clients or borrowers; the banks need to have structured systems to guide on when to apply EPs in the credit process as there are differing opinions on the requirements - for example the Equator Principles must be applied in onboarding during the credit application process; the banks that are not EPFI need to adopt the practices of the EPs, even if they do not formally adopt the EPs (should be compulsory); and all the staff that works with projects or developments whether EPs or not EPs need to practice Responsible Investment and incorporate them in their decision-making process.

In conclusion, the study contributed by identifying the benefits and challenges of adopting Equator Principles in South Africa.

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Annexure A: Questionnaire

1. Indicate years of experience in the application of the Equator Principles?

- 3 years	1 – 5 years	1 - 7 years	10 years	>10 years

- 2 Do you perceive that the “Equator Principles” promote responsible lending for the bank?

Strongly Agree	Agree	Neutral	Disagree	Strongly Disagree

- 3 Do you perceive that the “Equator Principles” promote responsible lending in the bank?

Strongly Agree	Agree	Neutral	Disagree	Strongly Disagree

- 4 The implementation of the Equator Principles increased your view with regards to “responsible investment”?

Strongly Agree	Agree	Neutral	Disagree	Strongly Disagree

- 5 Practically, when do you think is the ideal stage of applying the Equator Principles in the credit application process?

Onboarding	Pre-Credit Committee	Credit Committee	Legal Documents	Monitoring

6 Which environmental and social risk do you consider as having the most impact for the bank?

- a. Reputational Risk
- b. Financial Risk
- c. Credit Risk
- d. Operational Risk
- e. Legal Risk

	and b.	c. and e.	a., b., c. and d.	All Above

7 The implementation of Equator Principles has been easy?

Strongly Agree	Agree	Neutral	Disagree	Strongly Disagree

8 The adoption of the Equator Principles made collaboration with non-Equator Principles banks easy?

Strongly Agree	Agree	Neutral	Disagree	Strongly Disagree

9 The adoption of Equator Principles made collaboration with Equator Principles banks difficult?

Strongly Agree	Agree	Neutral	Disagree	Strongly Disagree

10 The Equator Principles has increased investments in high risk projects and countries funding?

Strongly Agree	Agree	Neutral	Disagree	Strongly Disagree

11 Has the Equator Principles decreased funding project finance transactions in the bank?

Strongly Agree	Agree	Neutral	Disagree	Strongly Disagree

12 The implementation of the Equator Principles has assisted in mitigating environmental and social impacts in high risk projects?

Strongly Agree	Agree	Neutral	Disagree	Strongly Disagree

13 The Equator Principles are a hindrance in funding projects in developing countries?

Strongly Agree	Agree	Neutral	Disagree	Strongly Disagree

14 Funding the biggest portion in a project gives the bank leverage to insist on promoting application of international standards such as the Equator Principles?

Strongly Agree	Agree	Neutral	Disagree	Strongly Disagree

15 Funding the smallest portion in a project gives the bank leverage to insist on promoting application of international standards such as the Equator Principles?

Strongly Agree	Agree	Neutral	Disagree	Strongly Disagree

16 Has the Equator Principles made you more aware of the environmental and social risk of project finance transaction?

Strongly Agree	Agree	Neutral	Disagree	Strongly Disagree

17 The Equator Principles should be compulsory to all project related and non-Equator Principles projects/development?

Strongly Agree	Agree	Neutral	Disagree	Strongly Disagree

18 Additional comments?

Annexure B: Interview Questions

1. How long have you been using the Equator Principles?

1 - 3 years	1 – 5 years	-7 years	10 years	<10 years

2. In your view, how has the Equator Principles promoted responsible lending in the bank?
3. In your view has collaboration with the non-Equator Principles banks improved their environmental and social risk management?
4. Has the implementation of the Equator Principles been easy to promote to the clients?
5. At which credit application stage do you think its practical consider the application of the Equator Principles?
6. In your view, have the Equator Principles managed to mitigate environmental and social risks in project or development funding?
7. Do you perceive that the Equator Principles have decreased or increased funding project finance transactions for the bank?
8. Do you think funding the biggest portion in a project gives the bank leverage to insist on promoting application of international standards such as the Equator Principles?
9. Do you think funding the smallest portion in a project gives the bank leverage to insist on promoting application of international standards such as the Equator Principles?
10. Any additional comments?