Equator Principles Reporting: Factors Influencing the Quality of Reports

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Abstract

This study analyses the reporting of Equator Principles Financial Institutions (EPFI). The Equator Principles are a voluntary code of conduct, providing guidelines for assessing, managing, and reporting environmental and social impacts in project finance. The objective of the study is (1) to understand whether EPFIs follow the Equator Principles reporting guidelines, (2) to assess the quality of the mandatory reports of the EPFIs and (3) to analyze causes for differences in reporting. Because the Equator Principles are a voluntary code of conduct, or a so-called soft law, the research has been based on institutional theory. Our results suggest that (1) though EPFIs follow the reporting guidelines, only about 5 percent disclose all the information required by the guidelines and consequently achieve the highest score with respect to their reporting quality. Furthermore, differences in reporting quality are mainly caused by the size of the EPFIs. The larger the EPFI with respect to its total assets the higher is the reporting quality. We conclude that further mechanisms, such as standardization and assurance, are needed to guarantee transparent reporting of environmental and social project risks.

Keywords: Equator principles, reporting, risk, environment, social, governance, project finance, climate change, financial sector
1 Introduction

The direct impact of the financial sector on the environment is relatively small and with respect to social sustainability the financial sector offers attractive workplaces for their employees. The sector and its subgroup project financiers, however, have a strong indirect impact through the sustainability performance of financed projects (Baranes, 2009; Egede & Lee, 2007; Scholtens, 2006). On the one hand, a project financier may influence the sustainability performance of borrowers and project sponsors through the integration of environmental and social risk assessment into financial decision making processes. On the other hand, project financiers increasingly integrate environmental and sustainability risk management procedures into their project financing because environmental and social risks of projects can influence their financial risks significantly (Richardson, 2009).

Though stakeholder pressure influences the reputational risk of financial institutions (Berman, Wicks, Kotha, & Jones, 1999; Matten & Crane, 2005; Meek, Roberts, & Gray, 1995) and may have an impact on the financial performance (Scholtens & Zhou, 2008), non-financial reporting with regard to indirect effects through financed clients does not have a high priority in the financial sector yet (Thien, 2013). However, project financiers addressed this challenge (Jennings & Zandbergen, 1995) through the creation of a voluntary code of conducts, the Equator Principles that provide guidelines for environmental and social project risk assessment and reporting.

The Equator Principles, were introduced in 2003 and revised in 2006 and again in 2013 to the current third version. They are a voluntary framework providing guidelines for assessing, managing, and reporting environmental risks in project finance (The Equator Principles, 2013).
The Equator Principles’ goal is to safeguard that Equator Principles Financial Institutions (EPFIs) exclusively finance projects that apply sound environmental management practices (The Equator Principles, 2013). The increase in membership from 10 founding members in 2003 to 80 members in 2015 that represent 80 percent of the global project finance business, suggests an increasing interest of project financiers in addressing social and environmental risks.

Social and environmental risks in project finance can be divided into three types. First, projects have an impact on the environment and society, known as their inside-out relation (Porter & Kramer, 2006). Although this is typical for many business activities, big projects have greater impacts than smaller business activities. Big hydro dams or mining projects, for instance, can have significant impacts on the regional as well as on the global environment and may have social impacts on local stakeholders because of the necessity to resettle them. Second, projects may be affected by environmental or societal risks. This refers to the outside-in relation (Porter & Kramer, 2006). The income of a project may suffer from environmental risks, such as extreme weather events, workers’ strikes, and NGO or government-initiated blockades or delays of permits because of the reputation of a project sponsor. Third, and often named as most important (Chan, 2012), are reputational risks for financiers that are associated with financed projects. Project related controversies published in the news or on websites may affect not only project sponsors but also project financiers. Many EPFIs, for instance, have been criticized on popular websites such as banktrack.org and news channels for their involvement in controversial projects, be it in the role of the project financier, financial consultant, or in another role. Financial institutions have even been criticized for their role as financial advisors for controversial projects though they did not
finance them. It goes without saying that this type of publicity has a negative impact on the EPFIs’ reputation.

As a voluntary code of conduct, the Equator Principles strive to manage the three types of risks mentioned above (Hardenbrook, 2007) and to increase the competitive advantage of their subscribers (Eisner, 2004).

1.1 Project Finance

Let us describe the particular features of project finance as a way to finance large, complex and expensive infrastructure and industrial projects, such as power plants, chemical processing plants, mines, and infrastructure (Esty & Sesia, 2011). Project finance is a way to finance the construction of a new capital installation or to refinance an existing installation. Usually non-recourse debt is used for capital investments. In such transactions, the lender is paid solely or almost exclusively by the income generated by contracts for the project output, such as the electricity sold by a power plant. Because of the dependence on project income, project financiers are motivated to assess all potential project risks including social and environmental risks that may influence the project’s ability to create financial returns.

The main players in project finance are lenders providing loan funds in return for debt and interest repayment or investors providing equity funds for returns on their equity. Both can act either as the sole financier or in a conglomerate of financiers. Project sponsors approve and organise the allocation of the financial resources, such as loans or equity funds.
1.2 The Equator Principles

The Equator Principles are a voluntary code of conduct that provides guidelines for the assessment and the disclosure of social and environmental risks of projects. The assessment guidelines are based on the International Finance Corporation’s (IFC) Performance Standards on Environmental and Social Sustainability (International Finance Corporation, 2012). In recognition of a decade-long experience, application outcomes and stakeholder input, the Equator Principles have undergone changes based on lessons learned through engagement with evolving issues, and stakeholders’ inputs. Three main types of changes have been made since the founding of the Equator Principles (Weber & Acheta, 2014):

1. Strategic changes, such as the integration of climate change and greenhouse gas emissions and changes with respect to the Equator Principles’ scope and reporting;
2. Changes that followed modifications of IFC’s policies and guidelines that are the basis for the Equator Principles;
3. Changes that address the consistency of the principles and support the implementation of the Equator Principles - specifically, information sharing, country designation and language clarification.

Even against the reservations identified in the literature, such as ineffectiveness and window-dressing (Hadfield-Hill, 2007; Missbach, 2004; O'Sullivan & O'Dwyer, 2009), missed opportunities (Mikadze, 2012), and doubts about environmental or social impacts (Macve & Chen, 2010), the Equator Principles have contributed to social and environmental sustainability in project finance by standardizing risk assessment processes, by establishing mutual learning processes...
among EPFIs, and by providing guidelines for disclosure and reporting (Weber, Acheta, & Adeniyi, 2016).

Because this study focuses on the influence of the Equator Principles on their members’ reporting, the following sections will concentrate on the 10th Equator Principles guideline that addresses reporting:

Each EPFI adopting the Equator Principles commits to report publicly at least annually about its Equator Principles implementation processes and experience, taking into account appropriate confidentiality considerations.

(The Equator Principles, 2006)

Furthermore, the annex of the guidelines specifies that the reporting should include, as a minimum standard, the number of transactions screened by each EPFI, including the categorisation accorded to transactions, sectors and regions, and information with respect to implementation (The Equator Principles, 2006).

The newest version, Equator Principles III, contains a more detailed guideline for reporting stating that:

The EPFI will report publicly, at least annually, on transactions that have reached Financial Close and on its Equator Principles implementation processes and experience, taking into account appropriate confidentiality considerations. The EPFI will report according to the minimum reporting requirements detailed in Annex B.

(The Equator Principles, 2013, p. 12)
In addition the Annex B states that for Category A and B projects a summary of the environmental and social impact assessment should be accessible online. According to the Equator Principles guidelines project categories are defined as following:

- Category A – Projects with potential significant adverse social or environmental impacts that are diverse, irreversible or unprecedented;
- Category B – Projects with potential limited adverse social or environmental impacts that are few in number, generally site-specific, largely reversible and readily addressed through mitigation measures; and
- Category C – Projects with minimal or no social or environmental impacts.

(The Equator Principles, 2006, p. 7)

Hence, impact assessment results should be reported for projects with potential significant or limited adverse social or environmental impacts. Only for projects with minimal or no social environmental, reporting about the assessment is not required.

For project finance advisory services the total number of mandated services broken down by sector and region has to be disclosed. The total number of project finance transactions and project related corporate loans have to be reported for businesses related to project finance and project-related loans. The data must be broken down by project category (A, B, C) and by sector, region, country designation and whether an independent review has been conducted. Designated countries are those with environmental and social regulations being accepted as a sufficient standard by the Equator Principles. Businesses related to bridge loans are not subject to specific reporting requirements.
In addition to disclosing project data both, Equator Principles II and Equator Principles III, ask for reporting on the implementation of the principles. Implementation includes the mandate of Equator Principles reviewers, their role, business lines and participation of senior management in the implementation process. Additionally, the integration of the guidelines into the respective credit and risk management policies and procedures needs to be disclosed. New EPFIs are required to report on internal staffing and training. After having been an EPFI for at least a year, ongoing staff training should be reported. Project name data has to be delivered to the Equator Principles secretariat for publication on their website. Subject to client consent and regulation, data on closed transactions has to be reported.

1.3 The Role of Reporting

Reporting is a way to communicate the performance of a business to its stakeholders (Ziek, 2009) and therefore it supports transparency and accountability (Gray, Adams, & Owen, 2014). Often, the goal of voluntary reporting, however, is to communicate a positive image of the reporting institution (Spence, 2009). Consequently, the reliability, validity, consistence, and relevance of voluntary reports are uncertain (Kolk, 1999) and often reports contain more positive than negative environmental and social information (Niskanen & Nieminen, 2001).

Though financial sector organizations tend to disclose less environmental and social information than other sectors (Kolk, 2003), corporate social responsibility (CSR) and the respective reporting has developed rapidly in the financial sector. A study published in 2008 (Scholtens, 2008) found that nearly all financial institutions publish a CSR, environmental, or sustainability report while this was true for only a third of the financial institutions in 2003. With respect to the Equator Principles, however, studies suggest that EPFIs perform better with respect to CSR than those that
are not members of the principles (Scholtens & Dam, 2007). Based on the latter argument and the finding that higher CSR performance correlates with a higher level of reporting (Clarkson, Li, Richardson, & Vasvari, 2008) a high quality of EPFI reporting should be expected.

### 1.4 Institutional Impact of the Equator Principles on Reporting

This section will introduce institutional theory (DiMaggio & Powell, 1983) as an underlying theory to analyze Equator Principles reporting. As a voluntary code of conduct, the Equator Principles have a normative institutional impact on the reporting behaviour of the EPFIs. They create isomorphism, meaning that EPFIs adopt similar structures, strategies, and processes (Deephouse, 1996) because they try to achieve legitimacy (DiMaggio & Powell, 1983) inside and outside of the Equator Principles. EPFIs’ reporting is based on a particular structure that is described in the principles’ guidelines, such as Guideline 10 and in the Annex (see above). Only, if EPFIs follow the guidelines they are accepted as members by other EPFIs and by stakeholders outside of the Equator Principles. Since many studies found an institutional impact on CSR reporting and CSR performance (Cheung, Welford, & Hills, 2009; Dobers & Halme, 2009; Dutta, Lawson, & Marcinko, 2012), this study conceptualizes isomorphism as the similarity of Equator Principles reports.

Furthermore, findings based on institutional theory found that organizations respond to institutional pressures toward CSR (Oliver, 1991; Shrivastava, 1995) using self-regulation mechanisms (Christmann & Taylor, 2001). As a voluntary code of conduct, the Equator Principles are a self-regulating mechanism that has established reporting requirements. Therefore, we expect that EPFI reports follow the guidelines and are isomorphic.
1.5 The Impact of Firm Size on Reporting

The size of a firm is an important factor for social, environmental, and sustainability reporting (Gallo & Christensen, 2011; Gamerschlag, Möller, & Verbeeten, 2011; Patten, 1991; Tagesson, Blank, Broberg, & Collin, 2009). Because of stronger external pressure bigger firms disclose more information to demonstrate good corporate citizenship (Meek et al., 1995). Furthermore, they use formal channels, such as reports to publish information (Brammer & Pavelin, 2006), and the quality of environmental, social, and sustainability reports of bigger firms is higher than for their smaller counterparts because of slack resources (Brammer & Pavelin, 2008). Scholtens and Dam (2007) found that EPFIs are bigger than financial institutions that did not sign the Equator Principles and also explained this fact with stronger external pressure on bigger businesses.

Generally, CSR reporting is seen as an important tool to improve corporate social performance (Sumiani, Haslinda, & Lehman, 2007), and in our case the projects’ sustainability performance. Furthermore, studies suggest a positive correlation between environmental performance and the level of environmental disclosures (Clarkson et al., 2008). But corporate social performance and reporting often does not come free of costs and require significant financial resources and expertise (Orlitzky, Siegel, & Waldman, 2011) that are better available in bigger organizations.

Based on the literature about the connection between firm size and reporting, we expect that the reporting quality of bigger EPFIs is better than the reporting quality of smaller EPFIs though their reporting is similar with regard to their structure because of the institutional impact of the Equator Principles.


2 Methods

The objectives of the study are to understand, whether EPFIs follow EPs reporting guidelines, to assess the quality of the mandatory Equator Principles reports and to analyze causes for differences in reporting. This section will present the methods that have been used to address the objectives.

Based on Equator Principles II and Equator Principles III requirements we developed a set of criteria to analyze the quality of the reports. The criteria are based on the Equator Principles II guidelines and on Annex B: Minimum Reporting Requirements of the Equator Principles III (The Equator Principles, 2012). The criteria used to analyze the reports and the respective part of the guidelines they have been extracted from are presented in Table 1. All the criteria have a clear link to the requirements of the EP guidelines, and therefore can be seen as valid to measure the reporting quality.

About here Table 1

The study analyzed the reporting of all 79 Equator Principles Financial Institutions (EPFIs) as of June 2013. Though, for instance, Macve and Chen (2010) conducted a case study that included two EPFIs, an analysis of the reports of all signatories is still missing.

Equator Principles reports, annual reports, sustainability, environmental, and corporate social responsibility (CSR) reports, and public websites of the EPFIs were used as data sources. The Equator Principles website (http://www.equator-principles.com/) that lists its member institutions including a link to their Equator Principles reporting has been used as a starting point. If there was no direct link the Equator Principles Reports, annual reports as well as CSR, environmental, and sustainability reports have been analyzed. Reporting from earlier years depending on the duration
of the Equator Principles membership was included in the analysis as well. Recently, the Equator Principles changed the reporting. In 2016 a direct link to the main data of the reports has been established. In order to analyze the data we used descriptive statistics as well as test statistics such as t-tests, Kruskal-Wallis tests, and Chi² tests.

The content analysis has been conducted scanning the electronic files of the Equator Principles reports. If an Equator Principles report was not available, other corporate reports, and the website of the EPFIs have been analyzed using the criteria presented in Table 1. As mentioned above the criteria are based on the requirements of the EP guidelines that demand annual reporting.

To analyze whether an EPFI reports annually we checked all reports that have been published during the time of membership. If an EPFI published an EP reports each year of their Equator Principles membership, they were coded with 1. Otherwise they were coded with 0.

The criteria have been analyzed on the basis of the newest available EP report at any one time. Because EPFIs are required to publish an Equator Principles report, these reports can be seen as the most reliable source of information about the compliance of an EPFI with the Equator Principles. The reports have been analyzed with regard to the following criteria (see also Table 1). If the report addresses a criterion it was coded with 1. If it did not address a criterion the report was coded with 0 for the respective criterion. The following list presents the criteria and the coding:

- Number of screened transactions reported (yes = 1, no = 0);
- Projects categorized with regard to stage of assessment (yes = 1, no = 0);
- Project categorized with regard to risk categories A, B, and C (yes = 1, no = 0);
- Project categorized by sector (yes = 1, no = 0);
• Projects categorized by region (yes = 1, no = 0);
• Information about the implementation experience disclosed (yes = 1, no = 0).

The point values for the six categories and for the question whether the EPFI published an annual report were added to create the variable ‘reporting quality’. The highest possible value was 7 and the lowest possible value was 0. The analysis of the reports was conducted by two researchers to guarantee the quality of the assessment.

3 Results

We will start with a descriptive analysis of the sample. As a next step the quality of the reports will be explored, followed by tests for analyzing reasons for differences in reporting.

3.1 Descriptive analysis

In 2013 the Equator Principles had 79 members. One of them was an associated member that neither conducts project finance nor reports. Seven EPFIs have been members for less than a year and consequently did not have to report on the same level than other members. The average membership duration was 7.7 years with a median of 6 years and a standard deviation of 3.13 years. A non-significant value for the Shapiro-Wilk W test suggests that the membership duration was normally distributed (p = .748).

Nearly half of all members (N = 32) were headquartered Europe (see Figure 1). They were followed by North- and South-American, and African members. The number of members from Asia-Oceania was relatively small compared to their involvement in project finance given that five of the biggest ten project financiers globally come from Asia (Esty and Sesia 2011).
Regarding the country distribution of EPFIs, Canada with seven members and the Netherlands with 6 members were leading, followed by Brazil, Spain, the UK, and US with five members respectively.

As an indicator for the size of the EPFIs we used the total assets of the 79 participants in 2012. The mean of the total assets was $513,532.4 million, and they were not normally distributed (Shapiro-Wilk W test: p < .00001). To analyze the involvement in project finance we analyzed the net loans of the project financiers. The mean was $286,340 million, while the median was $175,737 million. Also the net loans were not normally distributed (Shapiro-Wilk W test: p < .00001).

Figure 2 presents the number of projects financed per EPFI and their regional split. Overall, the EPFIs reported 1560 projects. Nearly half of the EPFIs reported about having financed 10 or less projects. The number of those institutions reporting about having financed more than 30 projects was relatively small. Consequently, the median of reported projects per EPFI was 15, meaning 50 percent of the EPFIs reported about 15 or less projects. As a consequence, it seems that only some of the EPFIs conducted project finance as a significant part of their business given that the median of total loans was higher than $175 million.
3.2 Reporting Quality

The quality of the Equator Principles reporting of each of the 79 EPFIs was evaluated using the six criteria presented above and the criterion whether the EPFI has published an Equator Principles report annually during their membership. The following sections will present the results for the seven reporting criteria.

3.2.1 Annual Reporting, Number of Transactions and Assessment Status

Annual reporting, as proposed in the Equator Principles II guidelines, was conducted by 44 percent of the EPFIs. 92 percent disclosed the number of screened transactions, while only 14 percent reported about the assessment status of the projects.

3.2.2 Project Categories

Many EPFIs disclosed the project categories. 87 percent of the signatories presented the classification of the projects as A, B, or C. 14 percent of all categorized projects have been categorized as Category A, meaning that the projects have potential significant adverse environmental and social risks and/or impacts that are diverse, irreversible or unprecedented (The Equator Principles 2012). Category B was used for 23 percent of the projects, and 29 percent were projects with minimal or no adverse environmental and social risks and/or impacts (Category C). The project sectors were presented by 75 percent of the EPFIs. The risk category per sector, however, was disclosed only by 44 percent of the EPFIs.

3.2.3 Project Sectors

Project sectors were reported by 62.2 percent of the EPFIs, while 27.8 percent of the EPFIs did not present any sector information. As Table 2 demonstrates, more than a quarter of the EPFIs did
not report the sectors of their projects. Consequently, they were not compliant with the Equator Principles guidelines.

About here Table 2

The analysis of the projects’ sector distribution suggests that 36 percent (N = 728) of the classified projects were in the energy sector followed by others with 22 percent, infrastructure with 18 percent, oil & gas with 14 percent, and mining with 10 percent of the projects. Only 1 percent of the projects were in the telecommunication sector. Both, sector and risk categorization was applied for 44 percent of the projects.

Oil & gas sector projects represented 10 percent of the Category A projects, followed by mining with 4 percent. However, 97 percent of the oil & gas project as well as 95 percent of the mining projects were classified either Category A or B. Hence, projects in these two sectors had significant or limited adverse environmental and societal impacts.

3.2.4 Project Regions

The Equator Principles are mainly applied for projects in non-OECD countries and for those located in OECD countries not designated as high-income (The Equator Principles, 2006). Therefore, the study analyzed the regional distribution of the projects. The total number of projects and their regional splits are presented in Table 3.

About here Table 3

Table 3 suggests that not all EPFIs reported the regional split of their projects. Only 43 out of 79 EPFIs reported the regions of their projects. Most of the projects (51 percent) were conducted in
Europe, North-America, and Oceania. Located in these regions are high-income OECD countries with strong environmental and social regulations. As Figure 2 in conjunction with the difference between the average and the median of financed projects per EPFI demonstrates, project finance in non-OECD low-income countries is a marginal business for many EPFIs though the Equator Principles focus on these countries. Furthermore, though 61 percent of the EPFIs report the projects’ regions, a categorization by both, sector and region and by risk category and region at the same time, is only disclosed by a few EPFIs.

3.2.5 Implementation Reporting

Only 7 percent of the EPFIs reported about the experience with the implementation of the principles though it is a mandatory part of Equator Principles reporting. Disclosure about whether project appraisal is conducted at the marketing or appraisal stage was disclosed even less frequent. Only 3 percent of the EPFIs reported about the stage of project assessment. Implementation reporting is explicitly mentioned in the EP reporting guidelines. However, only 5 of 79 EPFIs reported about the implementation experience including opportunities and challenges (6.3 percent).

3.2.6 Reporting Quality

To analyze the reporting quality, we calculated a Reporting Quality Score (RQS) (see above). If an EPFI reported on a reporting criterion mentioned in Table 1, the EPFI achieved one point. If it did not report, it achieved 0 points. Furthermore, an EPFI achieved one point if it had been reporting for all membership years. The points for the different categories were summed up to the RQS. The more points an EPFI achieved the higher was the reporting quality. The maximum was 7 points, the minimum was 0 points. Figure 3 presents the RQS for the EPFIs. The numbers of
transactions were reported by 65 EPFIs, followed by 62 EPFIs reporting the risk categories of their projects. The project sectors were disclosed by 53 EPFIs, while 54 EPFIs reported about the region of their projects. The other criteria were addressed by less than half of the EPFIs. Annual Equator Principles reporting was conducted by 31 signatories, while the stage of assessment was reported by 10 EPFIs. Finally, 5 signatories reported about their implementation experience.

The distribution of the RQS is presented in Figure 4. The data suggests that many EPFIs reported at least four of seven criteria and that 85 percent of the EPFIs achieved a score of four and higher. Only 5 percent, however, reported all seven aspects that are mentioned as mandatory in the Equator Principles guidelines.

3.3 Reporting differences

The following sections present results of statistical tests for differences between groups of EPFIs with respect to their reporting. First, the study explored whether longer time Equator Principles members have different reporting patterns than more recent EPFIs. Because the duration of membership was not normally distributed, we used a Kruskal-Wallis test to analyze group differences. The result was significant ($\chi^2 = 15.36$, df = 1, $p < .0001$). Long-term members did less often report annually than short term members. While the average membership of non-annual reporters was 7.38 years, the membership duration for annual reporters was 4.8 years. The results suggest that annual reporting became more popular in more recent years.
A Chi² test for differences between regions did not suggest significant differences in annual reporting. However, while European and American institutions had a lower ratio of annual reporting, EPFIs from Asia and Oceania as well as from Africa and Middle East reported more frequently on an annual basis (see Figure 5).

Annual reporting could have been influenced by the duration of membership. To report annually is more likely for newer members than for older members as we demonstrated above. Therefore, we tested the duration of memberships between EPFIs from different regions.

A Kruskal-Wallis test resulted in significant differences in the membership duration between EPFIs of different regions (Chi² = 11.35, df = 3, p < .01). The membership median for institutions from Asia and Oceania, Europe, and America was six years while the median of African and Middle Eastern institutions was 4 years. These results suggest that differences in annual reporting were rather an effect of the membership duration than of the region in which the EPFI was located.

### 3.3.1 Number of projects

We did not find significant differences between annual and non-annual reporters with respect to the number of financed and assessed projects globally. A t-test that analyzed the reporting on the basis of the number of projects per dollar net loans did not suggest significant differences either.

### 3.3.2 Reporting Quality

In order to test the impacts of regions, number of projects, membership duration, and size of the EPFI on the reporting quality we split the reporting quality into two groups using median split. The result is a group with a RQS value of 4 and higher and another group with a RQS lower than
4. The results of t-tests did not suggest significant impacts of the number of projects and total loans on the reporting quality. We found, however, significant effects of total assets ($p = .045$, $df = 70$, $t = -2.04$) and the duration of membership in the Equator Principles Association ($p = .010$, $df = 77$, $t = -2.64$). Members with higher total assets as well as EPFIs that were members for a longer time had a higher RQS and consequently a higher reporting quality. A Chi$^2$ test conducted to test the influence of the region on the reporting quality did not suggest significant differences between regions. Consequently, we conclude that the reporting quality mainly depends on the size of an EPFI and on membership duration.

4 Discussion

This paper presented insights about Equator Principles reporting. The principles include a guideline on how often their members should report, how they should report, and what content should be disclosed. Because the Equator Principles are a voluntary code of conduct and therefore isomorphism in reporting can be expected, we used institutional theory (DiMaggio & Powell, 1983) as our theoretical framework for the analysis. With respect to the quality of reporting, we followed Meek et al.’s (1995), and Brammer’s and Pavelin’s (2006) approach who argue that bigger companies disclose more and higher quality information than their smaller counterparts.

To test whether EPFIs report according to the Equator Principles guidelines we used seven criteria that were taken from the Equator Principle Guideline 10 and from the Annex of the principles. The guidelines demand annual reporting, disclosure of screened transactions, the categorization of projects with respect to their assessment status, risk category, sector, and regions as well as reporting on implementation experiences. The link to the report provided on the EP website was
the starting point for the research. In addition other reports, publications, and website information of the perspective EPFI’s were analyzed.

Our analyses found that the number of EPFIs from Asia-Oceania was relatively small compared to their involvement in project finance, given that five of the biggest ten project financiers globally come from Asia (Esty & Sesia, 2011). Consequently, 51 percent of the reported projects have been located in Europe, North-America and Oceania. Furthermore, nearly half of the EPFIs reported about having financed 10 or less projects suggesting that project finance is a small part of their business.

Nearly half of the EPFIs reported annually as proposed in the EP II guidelines. Consequently, they are compliant with Equator Principles reporting requirements. The majority of the EPFIs disclosed the number of screened transactions and presented the risk categories of their projects, but only 14 percent reported about the assessment status of their projects. Since 37 percent of the projects were classified as Category A or B, the majority of the reported projects does not seem to have significant environmental or social impacts. Consequently they not have to be assessed according to the Equator Principles (The Equator Principles, 2013). However, the question remains how projects can be categorized with regard to their risks without conducting an in-depth environmental and social impact analysis. From both, a project financier’s and a stakeholder’s point of view, it would make sense to assess environmental risks of all projects before categorizing them.

A reason for the relatively small number of Category A and B projects could be the sector distribution. More than a third of the reported projects were from the energy sector, followed by ‘others’, and infrastructure. Oil & gas projects together with mining projects accounted for 24 percent of all reported projects. As our analyses demonstrated, projects in these sectors have higher
environmental and social impacts than other sectors. Around 95 percent of the projects in these two sectors were classified as Category A or B, compared to 70 percent of the reported projects in other sectors.

With regard to the transparency of reporting, the study found that the majority of the EPFIs reported about risk categories, sectors, and regions, but that only a minority discloses the information in a way that enables stakeholders to combine the reported facts and figures and to analyze the risky projects by region and by sector. Because often projects are not disclosed in a way that they are identifiable, the reports do not enable readers to allocate social and environmental impacts to certain projects, sectors, and regions. This insufficient transparency of Equator Principles reporting has already been discussed by other scholars (Conley & Williams, 2011; Hadfield-Hill, 2007). Consequently, the EPFIs should try and increase the transparency of their reporting and to improve the reporting guidelines.

In addition to the results above, our analyses suggest three main results. First, EPFIs are mainly compliant with the reporting guidelines. Second, only two EPFIs, disclose all the information required by the Equator Principles guidelines, though 85 percent meet at least four out of the seven reporting criteria. Third, the larger the EPFI with respect to its total assets and the longer the membership duration, the higher is the reporting quality.

As mentioned above, the first result can be explained by institutional theory. As soon as a financial institution becomes a member of the Equator Principles, it has to be compliant with the voluntary code of conduct. In addition to other obligations connected with project assessment, an EPFI has to disclose information on environmental and social issues of projects they finance, plan to finance, or advice. These obligations create isomorphism in reporting. Furthermore, reporting itself is
influenced by institutional pressure, because non-members do not have an institutional reason to report.

Because the Equator Principles are a voluntary guideline without any enforcement mechanism other than normative pressure, EPFIs react differently to this pressure. Only a few organizations disclosed all information required by the Equator Principles. This result corresponds with Macve and Chen (2010) who also found similar weaknesses in EPFI reporting. This weakness should be addressed by the Equator Principles Association to avoid controversies and the risk of being accused of greenwashing.

Our third result is in-line with earlier research on the influence of firm size on corporate social responsibility and on voluntary reporting (Brammer & Pavelin, 2008; Gamerschlag et al., 2011; Meek et al., 1995; Patten, 1991; Scholtens & Dam, 2007; Tagesson et al., 2009). In our sample, big financial institutions achieved a higher reporting quality than smaller EPFIs. This result confirms the impact of economics of scale on corporate social responsibility reporting (Scholtens and Dam 2007). Particularly, larger financial institutions are more exposed to the public than smaller institutions with smaller financing power and consequently a smaller impact. Since the low transparency of the financial sector has been a major point of criticism, particularly large financial institutions strive for high reporting quality and are also able to afford the additional costs. This seems to be true for Equator Principles reporting as well. Interestingly, factors such as the number of risky Category A projects and the number of projects in general does not have an impact on the reporting quality. It seems that reputation and the necessary financial resources are the main impacts on reporting quality.
5 Conclusions

Based on the results mentioned above, we conclude that additional mechanisms are needed to guarantee that the EPFIs follow the Equator Principles’ demands. Currently, there are no mechanisms in place that audit and verify the results of the reports. Generally, however, independent assurance of voluntary reporting is an increasing trend. In-line with the Global Reporting Initiative, EPFIs could follow a similar route and establish stricter reporting standards that are assured by independent bodies. This could also include the introduction of consequences if EPFIs are not compliant with the Equator Principles reporting standards. As long as not meeting the demands of the Equator Principles reporting guidelines does not have any consequences, the likelihood of full disclosure of project related information is relatively low. To increase the motivation for full disclosure, mechanisms, such as standardization of reporting, more detailed reporting guidelines, and third party validation, could help to increase the credibility and the transparency of Equator Principles reporting (Fonseca, 2010; Kolk & Perego, 2010; Lober, Bynum, Campbell, & Jacques, 1997) and generally increase the accountability of EPFIs.

Hence, a practical implication of the study is to address the issues of standardization and assurance of Equator Principles reporting. EPFIs should establish a working group that develops reporting standards in cooperation with stakeholder groups and prepares proposals for independent organizations that assure and validate the reports. An assurance process would be able to solve the problem of disclosing project names that is often used as an argument against full disclosure. The respective assurance organization could validate the project data internally, but would not be obligated to publish project names. In addition, more detailed reporting standards would be able
to guarantee that different stakeholder groups have access to the information they need to assess the environmental and social performance of projects and of projects financiers.

Further research is needed in both, reporting standards and the connection between reporting and sustainability performance of projects. The current study focuses exclusively on the quality of reporting. The connection between reporting quality and the sustainability performance of EPFIs, however, is still unclear. EPFIs that finance projects with high environmental and social risks can be excellent reporters and vice versa. More research is needed to understand the connection between reporting quality and the sustainability of financed projects.

With regard to reporting standards, research is needed to understand the needs of different stakeholders, such as projects sponsors, affected communities, environmental and social NGOs. Most of these stakeholder are interested in the performance of financed projects. Therefore, research could help to understand these needs and to integrate them into more detailed reporting standards.
6 References


Figure 1: Regional distribution of EPFIs
Figure 2: Number of projects financed by EPFIs
Figure 3: Reporting on the seven reporting criteria (N per category = 79)
Figure 4: Distribution of Reporting Quality (N = 79, RQS + Reporting Quality Score)
Figure 5: Annual reporting of EPFIs
Table 1: Reporting criteria and their connection to EP II and EP III

<table>
<thead>
<tr>
<th>Criterion</th>
<th>Connection to EP II guideline and EP III Annex B</th>
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<tbody>
<tr>
<td>Annual reporting</td>
<td>Principle 8: reporting should not be less than annually</td>
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<tr>
<td>Number of screened transactions</td>
<td>Principle 10: reporting should include at least the number of screened transactions</td>
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<td>Annex B: Reporting the total number of project transactions</td>
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<td>Project categorization with regard to stage of assessment / status</td>
<td>Principle 2: Social and environmental assessment has to be conducted for all category A and B projects.</td>
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<td>Annex B: Reporting whether an independent review has been carried out.</td>
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<td>Project categorized in A, B, and C</td>
<td>Exhibit 1 - Categorization of projects: EPFIs use a system based on IFC’s social and environmental screening criteria to categorize projects with regard to their social and environmental risk</td>
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<td>Annex B: Project are broken down with regard to their category</td>
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<td>Projects categorized by sector</td>
<td>Principle 10: Breakdown by sector</td>
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<td>Annex B: Projects have to be broken down by sector</td>
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<td>Projects categorized by region</td>
<td>Principle 10: Breakdown by region</td>
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<td></td>
<td>Annex B: Projects broken down by region (Region (i.e. Americas, Europe Middle East and Africa, Asia Pacific)</td>
</tr>
<tr>
<td>Disclosure of implementation experience</td>
<td>Principle 10: EPFIs report about its Equator Principles implementation processes and experience</td>
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<td></td>
<td>Annex B: Data and implementation reporting is the responsibility of the EPFI. EPFIs report about reviewers, their role, business lines and participation of senior management in the implementation process, the integration of the guidelines into the respective credit and risk management policies and procedures, staff training. For new EPFIs: Reporting about internal staffing and training</td>
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Table 2: Project sectors categorized by risk category A, B, and C. N indicates risk category is not indicated

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Table 3: Financed projects per EPFI globally and split by world regions

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