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Corporate social responsibility reporting in Hong Kong: Case study of three note-issuing banks (2003-2006)

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Keywords

Environmental reporting, Equator Principles, Legitimation, Hongkong and Shanghai Banking Corporation (HSBC), Standard Chartered Bank, Bank of China

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Abstract

The increasing public concern on the state of the world's environment and the impact of mankind on the ecology of the world has led to the increased scrutiny of the operations and performance of organisations. Organisations are now expected to be able to demonstrate that they are aware and are addressing the impact of their operations, both direct and indirect, on the environment and society in general. Financial institutions due to the nature of their business generally do not contribute directly to the degradation of the environment however they do provide the funds for many organisations' projects which do directly impact on the environment.

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Keywords: Environmental reporting; Equator Principles; Legitimation; Hongkong and Shanghai Banking Corporation (HSBC); Standard Chartered Bank; Bank of China

Corporate social responsibility reporting in Hong Kong: Case study of three note-issuing banks (2003-2006)

Introduction

The state of the world's environment and the impact of mankind on the ecology of the world has led to increased public concern and scrutiny of the operations and performance of organisations. Organisations are now expected to be able to demonstrate that they are aware and addressing the impact of their operations on the environment and society in general. Although private sector financial institutions, such as banks, do not significantly contribute directly to the degradation of the environment, they provide project funding for many organisations whose operations do directly impact on the environment. Despite this there are no mandatory environmental reporting disclosure requirements for private sector financial institutions in Hong Kong rather the banks in Hong Kong have been voluntarily producing individual environmental performance and management reports. The main purpose of this paper is to review the environmental reporting practices of the three note issuing banks in Hong Kong; the Hongkong and Shanghai Banking Corporation (HSBC), the Standard Chartered Bank (SBC) and Bank of China (Hong Kong) Limited (BOCHK) for the period of 2003 to 2006. This paper will also focus on the processes these three banks use to establish a relationship between their actions and their values through the use of environmental performance reports.

The next section of this paper outlines the concern of environmental reporting in the society (Hong Kong). A description of the Equator principles is then provided and is followed by a discussion on how legitimisation theory may apply to environmental reporting. This paper will also examine and review the environmental reporting practices of the three note-issuing banks in Hong Kong. Finally, conclusions will be drawn.

Environmental Reporting

An increasing number of organisations in both the public and private sectors have over the past two decades have been developing and producing reports on their environmental performance and management. This increase in environmental reporting has been linked to a number of drivers such as greater societal concern with the impact of organisations operations on the environment (Ho *et al.*, 1994)

and increased expectations of society of organisational behaviour. However, the majority of environmental reporting by organisations is only a voluntary practice, not required by regulation (Wilmshurst and Frost, 1999, p.10) and this voluntary nature of environmental reporting impacts on the consistency and comparability of the various environmental reports.

Where there is legislation on environmental reporting it is generally based on breaches rather than positive performance. For example in Australia the only regulated environmental reporting required of organisations under the Corporations Act 2001¹ is to report breaches of environmental laws and licences in their annual reports. In Hong Kong, there is no mandatory requirement for listed companies and the enforcement of social and environmental legislation has been negligent (Ng, 2000; Gao *et al.*, 2005; Ho *et al.*, 1994). Only governmental departments, bureaux and government-owned organizations are mandated to publish yearly environmental reports, disclosing their environmental performance from 1998 onwards (The Hong Kong Institute of Chartered Secretaries, 2006; Chiu *et al.*, 2002). The government expected that the mandatory adoption of environmental reporting in the public sector would encourage the private sector to follow suit. However, environmental reporting in Hong Kong is still at a nascent stage. It has been suggested that Hong Kong companies have traditionally faced little external pressures for disclosing social and environmental information (Lynn, 1992; Ng, 2000; Gao *et al.*, 2005).

Even so, many private sector organisations have been voluntarily providing reports to varying degrees on their environmental performance and management. There is a growing number of private sector organisations outlining quite explicitly, in their annual report, their environmental successes [there is a notable absence of environmental failures]. This voluntary reporting has led to the development and implementation of a number of different reporting mechanisms such as triple bottom-line reporting² which incorporates environmental, financial and social performance.

So why do an increasing number of organisations develop and produce voluntary environmental performance and management reports? It has been suggested (Adams, 2004; Deegan, 2002; O'Donovan, 2002) that organisations are motivated by an implied social contract between the organisation and

¹ The Corporations Act 2001 is the principal legislation regulating companies in Australia. It regulates matters such as the formation and operation of companies, duties of officers, takeovers and fundraising (Australian Plaintiff Lawyer Association (2007) Corporation Law. [cited 10 February 2008], available from http://www.appla.com.au/law/corporation_law.php.)

² Triple Bottom Line report is defined as "a publicly released document that provides information about the social, environmental and economic performance of the reporting organisation".(Deegan, Cooper and Shelly 2005, p. 2)

members of society [stakeholders] to legitimise various activities of their respective organisations. Deegan (2002) explains this motivation for voluntary environmental reporting seems to be in contrast to the perceived [accepted] reason for external reporting, that is managers accept they are required, to give an account of [disclose] the organisation's total performance, financial as well as environmental (Adams 2004, p.732). To be accountable, the environmental reports should be "transparent and represent a genuine attempt to provide an account which covers negative as well as positive aspects of all material impacts" (Adams 2004, 732). Deegan (2002) also suggests that there are a number of other possible motivations why an organisation may decide to disclose their environmental performance and management such as: to comply with legal requirements; economic rationality considerations; comply with borrowing requirements; community expectations; manage particular stakeholder groups; comply with industry requirements or particular codes of conduct; to forestall efforts to introduce more onerous disclosure regulations; and to win particular reporting awards (Deegan 2002, pp.290 – 291).

Due to the nature of voluntary reporting organisations will not always disclose all relevant information from a stakeholder perspective. Besides the option for including or excluding negative information in environmental reports there is also

"A lack of consensus on key issues such as the objectives of reporting, the qualitative characteristics the information should possess; the audience of the reports; the "best" presentation formats, and so forth" (Deegan 2002, p. 286)

One of the possible motivations identified by Deegan (2002) why organisations may decide to disclose environmental performance and management - to comply with industry requirements or particular codes of conduct (p. 291) may address the issue of environmental report consistency. The following section of this paper will discuss the one group of voluntary reporting industry requirements, Equator Principles, which were developed and implemented by the international financial industry.

Equator Principles

In 2003 leading global lending institutions developed a set of principles, the Equator Principles, as a way to encourage private lenders to consider social and environmental issues when providing funding for infrastructure projects (Dillard *et al.*, 2004, p.508, Deegan, 2006, p.275). The Equator Principles [refer to

appendix 1] which are based on the International Finance Corporation's³ (IFC) environmental and policy framework (Wright 2007, p. 2) are voluntary guidelines of which the primary focus is on project financing issues in developing countries (Andrew 2007, p. 41). In 2006 the Equator Principles were revised to address a number of concerns [limitations] of the earlier principles such as reducing the threshold of projects when the principles are applicable. Andrew (2007) explains the most significant change was the inclusion of Principle 10 which outlines that each funding organisation which adopts the Equator Principles is to "report publicly at least annually about its Equator Principles implementation processes and experience, taking into account appropriate confidentiality considerations" (www.equator-principles.com).

Initially only ten banks adopted the Equator Principles (Missbach, 2004, p.78) however by the end of January 2008 approximately 60 private lending institutions had 'signed' on to adopt the principles (www.equator-principles.com). That is, these institutions have "promised that they will take *some* [emphasis added] responsibility for the environment and social impact of the projects they finance" (Missbach 2004, p. 79).

On the surface this appears to be a positive development, financial institutions voluntarily agreeing to place a greater amount of emphasis on the environment and acknowledging the possible impact on the environment of the infrastructure projects for which they provide funding. However scratch away at the surface and there are a number of concerns which are glossed over by the adoption of the Equator Principles. Missbach (2004) explains that only a "very small fraction of a bank's activities" are actually covered by the Equator Principles (p. 79). So when a bank promotes the fact they have adopted the Equator Principles it is entirely possible they may be performing a number of activities associated with funding an infrastructure project and not be required to abide by the Equator Principles. For example, they may be performing a financial advisory role for an infrastructure project, rather than providing funding, and therefore they are not required to approach this role under the guidance of the Equator Principles (Missbach 2004). Another concern is there is no independent monitoring process where projects, which are funded by a Equator Principle Financial Institution (EPFI), can be assessed as being completed as per the Equator Principles (Wright 2007, p. 9). This concern is compounded by the fact that there is no overseeing body (Missbach 2004; Wright 2007) and all

³ International Finance Corporation is the private sector lending arm of the World Bank Group (Wright 2007, p. 2)

communication with stakeholders is through the Equator Principles website which is "hosted by one of the adopting banks on a rotating basis" (Wright 2007, p. 9).

Whilst one of the key aspects of the Equator Principles is that they are voluntary there is also, surprisingly, a very explicit disclaimer at the end of the principles

DISCLAIMER: The adopting EPFIs view these Principles as a financial industry benchmark for developing individual, internal social and environmental policies, procedures and practices. As with all internal policies, these Principles do not create any rights in, or liability to, any person, public or private. Institutions are adopting and implementing these Principles voluntarily and independently, without reliance on or recourse to IFC or the World Bank. (www.equator-principles.com)

This raises the question why would a private lending institution adopt the Equator Principles if they are voluntary, not-monitored and covered by a explicit disclaimer. Wright and Rwabizambuga (Wilmshurst and Frost, 1999, , O'Donovan, 2002) suggest all EPFIs will benefit from membership irrespective of their actual practices as there are no processes to "monitor the corporate practices of members" (p. 91). There are also benefits for organisations to adopt voluntary ethical codes of conduct, such as the Equator Principles, as these organisations will be seen as operating within best practices (Wright and Rwabizambuga 2006, 95). The Equator Principles also offer the financial sector an opportunity to jump on the band-wagon of environmental reporting in an explicit way which inturn will increase the legitimacy of their institutions (Andrew 2007, p. 44).

The following section will discuss the theoretical framework of this paper, legitimation.

Legitimation

The theoretical framework which has been in favour for a number of years in attempting to explain why organisations implement voluntary environmental reporting is legitimacy theory (Deegan, 2006, p.275, Dillard *et al.*, 2004, p.508). Legitimacy theory asserts that organisations, private and public sector, continually work to ensure their activities are perceived externally as being 'legitimate' (1989) due to the notion there is a social contract between society and the organisation (Deegan, 2006 p. 276). Guthrie & Parker (1977, p.340) suggest that organisations disclose their environmental performance [at least the favourable component] so they may be conceived as reacting positively to the environment and inturn legitimise their corporate actions (p. 344).

This paper however is going to review the three banks environmental reporting for the period 2003 to 2006 through legitimation theory which focuses more on the processes rather than on the result [legitimacy]. Deegan cities

Lindblom's (1994) clarification of the difference between legitimation, "the process that leads an organisation being adjudged legitimate", and legitimacy as "a status or condition" (Deegan 2007, p.275). Richardson defines legitimation as the processes "which create and validate the normative order of society" (1987, p. 343) whereas Wisman (1980, p.90) and Dirsmith (1986, p. 358) suggested that legitimation is the process where social knowledge and expectations explain and justify social behaviour and the changes of social institutions [organisations]. Berger and Luckmann (1966) suggest that the process of legitimation is a societal necessity of "keeping chaos at bay" (p. 121) while Hopwood (1987) suggests legitimation is a "process of creating rationales which give order to a chaotic array of actions arising out of the pragmatic problems facing society (Richardson 1987, p. 347).

One of the legitimation processes an organisation will use to increase legitimacy within the environment and society is to modify its structure based on isomorphic mechanisms. DiMaggio and Powell explain that organisations "model themselves after similar organisations [mimetic isomorphism] in their field that they perceive to be more legitimate or successful" (1983, p. 152). Scott builds on this notion, initially discussed by Meyer and Rowan (1987), by concluding that organisations conform to institutional beliefs because they are rewarded for doing so through increased legitimacy (1987, p. 498). Organisations will use different legitimating processes depending on whether the organisation wants to build, regain or extend its legitimacy (O'Donovan 2002, p. 349).

Richardson (1980) suggests there are three different perspectives of legitimation: structural functionalist; social constructionist; and hegemonic (p. 342). The structural functionalist perspective "presumes that both values and actions are defined by the functions which must be performed for a social system to survive (Richardson 1987, p. 343), whereas the social constructionist perspective "regards values as emerging from interaction among members of society" (Richardson 1987, p. 343). The hegemonic, dominance through non-coercive means, perspective "regards values as an aspect of elite ideologies" (Richardson 1987, p. 343) and therefore should remain unquestioned (Rahaman *et al.*, 2004, p.40).

These three perspectives reflect different ontological, "the nature of being or reality" (Dillard, 1991, p.11), assumptions. Morgan and Smircich (1979) suggest there is a continuum of ontological assumptions ranging from reality as a concrete structure [structural functionalist perspective] to reality as a social construction [social constructionist] to reality as a projection of human

imagination (completely internal to the researcher). This range is represented in table 1 below.

Insert Table 1

Burrell and Morgan's (1979) more simplistic model (refer Table 2 below) suggests ontological assumptions can either be founded on reality which exists independently of the individual [realism - structural functionalist perspective] or reality which is created based on artificial creations for describing and making sense of the external world [nominalism - social construction] (Burrell and Morgan 1979, p. 4). This simplistic model is also reflected in Gaffikin who uses the terms Realist and Constructionist (2006, p. 8)

Insert Table 2

Reality as a social construction assumes reality is a continuous process created through the medium of language, labels, actions and routines (Morgan and Smircich 1980, p. 494). The following section of this paper will focus on the social constructionalist perspective of legitimation.

Social constructionist perspective

Richardson (1987) explains that the "social constructionalist perspective regards values as emerging from interaction among members of society. These values are usually directed [determined] by certain groups in society who are seen to be experts, such as professionals [for example accountants] (p. 343). These professionals contribute to the knowledge which society is able to construct its social reality (Richardson 1987, p. 348). Reality as a social construction assumes reality [social world external to the individual] is a continuous process created through the medium of language, labels, actions and routines (Burrell and Morgan 1979, p. 4; Morgan and Smircich 1980, p. 494). Under this assumption of reality Morgan and Smircich (1980) suggest that

"human beings create their realities in the most fundamental ways, in an attempt to make their world intelligible to themselves and to others" (p. 494).

This is consistent with Boland and Pondy's (1983) discussion of groups of people [management] who, as being responsible for others, construct their social reality through symbolical interaction and in turn "give meaning to their ongoing stream of experience" (p. 223).

The social constructionalist perspective sees the social world as an emergent social process which is created by the individuals concerned. Social reality, insofar as it is recognised to have any existence outside the consciousness of any single individual, is regarded as being little more than a network of assumptions and intersubjectively⁴ shared meanings. (Burrell and Morgan 1979, p. 29).

The following section of this paper will examine and review the environmental reporting practices of the three note issuing banks in Hong Kong; the Hongkong and Shanghai Banking Corporation (HSBC), the Standard Chartered Bank (SBC) and Bank of China (Hong Kong) Limited (BOCHK) for the period of 2003 to 2006.

Hongkong and Shanghai Banking Corporation (HSBC)

The HSBC is one of the world's largest banking groups. It was founded in Hong Kong in 1865, the same year when it started issuing bank notes, when the position of the western powers in China was strengthened by the Treaty of Nanking which opened an immense expansion of trade with the west. HSBC became a local Hong Kong organisation financing trade for the Treaty Ports of China and which was owned by the local mercantile community (Benton, 1983; Chiu, 1973; Tsai, 1993).

The HSBC adopted the Equator Principles in 2003 when they were first released. Since adopting the Equator Principles HSBC chaired the Equator Principles working group in 2005 as well as playing a major role in the redrafting of the Equator Principles in 2006 (HSBC, 2006a). Over the period 2003 – 2006 HSBC has produced annually separate [from the Annual Report] Corporate Responsibility reports. These reports have all discussed in general terms the organisation's adoption of the Equator Principles but, except for the 2006 report, provided little detailed environmental performance or management information [based on the Equator Principles] (Andrew 2007, 45). In HSBC's 2006 Corporate Responsibility report the first information provided [in large red numbers] is the Financial highlights of the group, including Profit before tax (in \$US); Asset value; Dividends per share; market capitalisation; and Capital

⁴ Intersubjectivity: The world is experienced from the outset not as the private world of a single individual but as an intersubjective world common to us all. We interpret events in a manner which is identical for all practical purposes and assume that we all would have broadly the same experience if we were to change places. In this way, we routinely make sense of the other's talk and action and bring off our own "acceptable" activities. (Silverman 1975, p. 277)

strength (HSBC, 2006a). This information is specific. Further down the page HSBC outlines [in much smaller font]:

In 2006, HSBC played a major role ... in relaunching the Equator Principles (EPs) – global environment and social guidelines for project finance. These new guidelines improve the social standards that apply to financing projects and require greater transparency of reporting on implementation (HSBC, 2006a, p.1).

In 2005, the Head of HSBC Group Sustainable Development, Jon Williams claimed that the Equator Principles are a cornerstone of the bank's approach to how they finance projects and contribute to sustainable development. He also claimed that they have provided 30 per cent more project loans and declined fewer deals due to the bank's training to their staff and the internal and external requirements for compliance with the Principles (HSBC, 2006b). However, the bank did not provide any details of how they achieve an increase of project loans, the nature of these projects, and how they could help improve the social and environment.

It appears that even though HSBC is using the report in the process of legitimization they are still unsure enough of the importance of their corporate responsibility reporting to preface the information with a 'brag' of their financial performance. Indeed details of HSBC's performance in line with the Equator Principles are not shown in the report until page 18.

Standard chartered Bank (SCB)

Standard Chartered Bank (SCB) formally known as the Chartered Bank of India, Australian and China, was established in London, England, in 1853. The SCB which is the oldest foreign bank in Hong Kong opened its first branch in Hong Kong was opened in 1859. It was also the first commercial bank, in 1862, among the three note-issuing banks in Hong Kong, to issue banknotes. In 2001 SCB published its first sustainability review. This environmental report was a review of all their UK activities where they tried to set measures to reduce the environmental impact from their operations and the delivery of their services.

As discussed earlier the Equator Principles don't cover of much of a bank's activities

The principles apply only to a very small fraction of a banks activities ... they are weakened by not being applied to project finance deals where a bank may be a financial advisor, underwriter, arranger or lead manager (Missbach 2004, p. 79)

So it is interesting that the SCB explicitly outlines "we also apply the Equator Principles to project advisory work" (Standard Chartered Bank, 2005, p.4). This

statement indicates the bank is aware of one of the main criticisms of the Equator Principles and has decided to directly address the criticism. Same as HSBC, the SCB see the Equator Principles as a tool to increase its reputation [legitimacy] in public. SCB also claimed that their Project and Export Finance Group were “developing appropriate procedures to embed the requirements of the Equator Principles into day-to-day operation” and “included Environmental and Social considerations into the criteria used for identifying relationship that require close monitoring” (Standard Chartered Bank, 2003, p.19). However, they did not provide any details of those procedures. These statements are examples of SCB identifying a possible area which may improve its legitimation processes and the use of the voluntary Equator Principles as legitimation tool.

Moreover, SCB tried to improve its legitimation processes by publishing a nine page specific report on the implementation of the Equator Principles, Sustainable lending and the Equator Principles, in 2005. Over one-third of the report was focusing on the training and describing the workshops. The bank provided an overview of the workshop developed and conducted by an external consultancy who have been approved by the IFC [improve legitimacy with the World Bank?] to their staff on the Equator Principles. Topics such as what is sustainable lending, the need to recognise environmental, social or governance related risks in lending, how to approach customers, and how to assess the risks. However, these workshops were only organized for Asia Pacific area.

SBC on its web site explicitly discusses the Equator Principle and outlines its desire to abide by the principles

In line with the Principles, we will only provide loans to projects that are run in a socially responsible way with sound environmental management practices. Sometimes this means having to turn business away, a risk we also have to manage (Standard Chartered Bank, 2008).

The use of the Equator Principles on the SCB website and the specific reference to the principles in a number of their corporate documents indicates SCB has and continues to use their adoption of the Equator Principles as a legitimation process.

Bank of China Hong Kong (BOCHK)

BOCHK which is part of the second largest banking group in Hong Kong, in terms of assets and deposits, began issuing banknotes in Hong Kong in 1994, three years before the transfer of the sovereignty of Hong Kong back to China from the British. While it is legally separate from its parent Bank of China (BOC) in China it maintains close relations in management and administration, and cooperation in various areas including reselling of BOC’s insurance and securities services. BOC opened its first branch in Hong Kong in 1917, which marked the entry of state-owned Chinese banks into the colony’s banking sector. In 2001 BOCK was

established by combining the businesses of ten of the twelve banks in Hong Kong originally belonging to the Bank of China Group (Bank of China (Hong Kong), 2008a).

While the BOCHK has not adopted the Equator Principles it does provide some information on its website about its environmental performance. The information provided is significantly different to the information provided by HSBC and SCB. BOCHK in 2008 provided the following environmental performance: supported the Green School Award; sponsored the Hong Kong Tree Planting Day 2006; donated refurbished computers and related accessories to the Home-School-Community Computer Donation Campaign; participated in the One Company-One Year-One Environmental Project; and supported the Ocean Park Conservation Foundation and Ecotourism in Long Valley (Bank of China (Hong Kong), 2008b).

So why hasn't BOCHK adopted the Equator Principles? By looking at the market within which the organisation operates and environmental information provided (as outlined above) BOCHK is more focused on its role within its immediate environment and community. BOCHK basically serves the local community and project funding is provided mainly for projects in Hong Kong and Mainland China. That is, rather than outlining grand objectives it focuses on addressing specific local concerns. The Equator Principles would not be a valuable legitimisation tool for BOCHK rather adoption would possibly detract from improving its legitimacy.

Discussion and Conclusion

Voluntary environmental performance and management reporting has been used as means for promoting the social agenda of many private sector organisations and partially addressing the growing concern of the public on the impact of the operations of organisations on the environment. In the finance sector there is a set of globally developed principles, Equator Principles, which a growing number of international financial institutions have been adopting. In Hong Kong of the three note issuing banks HSBC, SCB and BOCHK only the BOCHK has not adopted the Equator Principles. A review of the evidence outlined earlier in this paper suggests that the Equator Principles are a valuable legitimisation tool for the HSBC and SCB to maintain its legitimacy within the global financial market. That is, HSBC "the worlds local bank" (HSBC 2008) and SCB "Leading the way in Asia, Africa and the Middle East" (SCB 2008b) need to be maintain their legitimacy with globally focused stakeholders. Where as the BOCHK does not operate in the same market, rather it concentrates on a local market, it could be suggested that

the adoption of the Equator Principles may not be in the organisation's best interests [legitimacy]. This could be due to the fact that the majority of BOCHK's stakeholders are community members of Hong Kong. If the organisation placed too much focus on the global environment then the stakeholders could form the view their interests are being diluted in favour of minor stakeholder groups. This in turn would reduce the legitimacy the organisation holds to operate as a domestic financial institution.

In Hong Kong there are no mandatory requirements for environment reporting disclosures of the operations of private sector organisations, however many private sector organisations, such as HSBC, SCB and BOCHK do disclose some information. Most of this information disclosed paints the organisation in a favourable view, there is no mention of any environmental failures in their reports. This level of disclosure could be interpreted as an attempt to avoid the implementation of mandatory environmental disclosure requirements. The HSBC and SCB by voluntarily disclosing their environmental performance in relation to project lending by using the Equator Principles is a legitimisation tool used to assist in maintaining legitimacy and therefore reducing the likelihood of the government intervening through the introduction of mandatory environmental reporting requirements. This legitimisation process contributes to the construction of legitimating symbols within society, and reflect that HSBC and SCB could be seen as leaders in environmental reporting so much so that their actions [social construction] ensures that other financial institutions try to conform to their version of "reality". On the other hand, local banks such as BOCHK serve mainly the Chinese society in Hong Kong and their concept of social responsibility is satisfied by the family and community rather than the corporation. This local stakeholder perspective and the focus of BOCHK environmental reporting indicates a different a level of legitimacy which in turn requires different legitimisation processes.

Legitimation is an important process which organisations use to gain, maintain or improve their position in society. Depending on the type of business and the objective of the legitimisation processes, organisations will construct a social reality based on language, labels, actions and routine (Burrell and Morgan 1979, p. 4; Morgan and Smircich 1980, p.494) which is communicated to society via the appropriate environmental reporting and management processes.

Appendix 1

Principle 1: Review and Categorisation

A Equator Principles Financial Institution (EPFI) will categorise each project based on the magnitude of its potential impacts and risks in accordance with the environmental and social screening criteria of the International Finance Corporation (IFC)

Principle 2: Social and Environmental Assessment

The borrower is to conduct a Social and Environmental Assessment process to address the relevant social and environmental impacts and risks of the proposed project.

Principle 3: Applicable Social and Environmental Standards

The Social and Environmental Assessment process should address compliance with relevant host country laws, regulations and permits that pertain to social and environmental matters.

Principle 4: Action Plan and Management System

For projects located in non-OECD countries, or in OECD countries not designated as High-Income, the borrower is to prepare an Action Plan which addresses the relevant findings, and draws on the conclusions of the Assessment.

Principle 5: Consultation and Disclosure

For projects located in non-OECD countries or in OECD countries not designated as High-Income, the government, borrower or third party expert has consulted with project affected communities in a structured and culturally appropriate manner.

Principle 6: Grievance Mechanism

For projects located in non-OECD countries or in OECD countries not designated as High-Income, to ensure that consultation, disclosure and community engagement continues throughout construction and operation of the project, the borrower will, scaled to the risks and adverse impacts of the project, establish a grievance mechanism as part of the management system.

Principle 7: Independent Review

For all projects, an independent social or environmental expert not directly associated with the borrower will review the Assessment, Action Plan and consultation process documentation in order to assist EPFI's due diligence, and assess Equator Principles compliance.

Principle 8: Covenants

An important strength of the Principles is the incorporation of covenants linked to compliance.

Principle 9: Independent Monitoring and Reporting

To ensure ongoing monitoring and reporting over the life of the loan, EPFIs will, require the appointment of an independent environmental and/or social expert, or require that the borrower retain qualified and experienced external experts to verify its monitoring information which would be shared with EPFIs.

Principle 10: EPFI Reporting

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

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Table 1

<p>Subjectivity</p> <p>↑</p> <p>↓</p>	<i>Ontological assumption</i>	
	Reality as a projection of human imagination	Reality is an act of creative imagination
	Reality as a social construction	Reality is constructed through language, actions and routines
	Reality as symbolic discourse	Reality is created through a pattern of symbolic relationships and meanings.
	Reality as a contextual field of information	Reality is created based on the transmission of information.
	Reality as a concrete process	Reality is 'concrete' but changes as everything interacts with everything else
	Reality as a concrete structure	Reality is concrete and affects everything. It does not change.

Table 2

Nominalism	Reality is structured through names, labels and concepts
<p>↑</p> <p>Subjectivity</p> <p>↓</p>	
Realism	Reality is made of hard, tangible and relatively immutable structures