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VOLUNTARY SUSTAINABILITY CODES OF CONDUCT IN THE FINANCIAL SECTOR

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Through its research, collaboration and publications, the Global Economy program informs decision makers, fosters dialogue and debate on policy-relevant ideas and strengthens multilateral responses to the most pressing international governance issues.

ABOUT THE AUTHORS

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ACRONYMS

CSR	corporate social responsibility
EP	Equator Principles
EPFIs	Equator Principles Financial Institutions
ESG	environmental, social and governance
GABV	Global Alliance on Banking Values
GIIN	Global Impact Investing Network
IFC	International Finance Corporation
IM&R	independent monitoring and reporting
IRIS	Impact Reporting and Investment Standards
NGOs	non-governmental organizations
UNEP FI	United Nations Environment Programme Financial Initiative
UNPRI	United Nations Principles for Responsible Investment

EXECUTIVE SUMMARY

Financial institutions are pivotal in addressing arguably the biggest challenge the world faces today — sustainable development. Several pioneering financial institutions, some with the collaboration of non-governmental organizations (NGOs), have developed key initiatives to act as a road map toward ensuring intra- and intergenerational equity. These initiatives are referred to as codes of conduct, and take on the name "voluntary," because organizations are not mandated to adopt them. Nonetheless, these self-regulatory codes sometimes act as "soft" laws that are quasi-legal documents, but without any binding force other than benefits for the signatory. Codes that fall within the purview of this research include the United Nations Environment Programme Financial Initiative (UNEP FI), the Equator Principles (EP), the United Nations Principles for Responsible Investment (UNPRI), the Global Alliance on Banking Values (GABV) and the Impact Reporting and Investment Standards (IRIS). Despite being formulated as tools to combat sustainability challenges, research suggests that adoption of these codes can be largely attributed to financial risk management and enhancing reputation.

This paper discusses the strengths and weaknesses of the financial sector voluntary sustainability codes of conduct. It concludes that enforcement of the codes of conduct is a major issue, that they mainly focus on the business case of sustainability, rather than the impact on sustainable development, and that the codes of conduct are compromises that each financial institution can agree to without changing their business to move in a more sustainable direction.

INTRODUCTION

Sustainability finds its roots in the concept of sustainable development defined by the Brundtland Commission in 1987 as the "ability to make development sustainable — to ensure that it meets the needs of the present without compromising the ability of future generations to meet their own needs" (Brundtland 1987, 16). This definition has been operationalized for businesses through the triple-bottom-line approach stating that environmental, societal and economic issues should be equally taken into account (Elkington 1998). Thus, sustainability in the sense of Gro Harlem Brundtland and John Elkington is more broadly defined than in a purely economic sense that sees sustainability as stable and merely economic growth (European Commission 2011). However, this paper will use the broader definition of the concept when talking about voluntary sustainability codes of conduct or voluntary sustainability guidelines.

"Voluntary sustainability guidelines" is often used interchangeably with "voluntary codes" or "voluntary codes of conduct." Voluntary sustainability guidelines are guidelines adopted by corporations on their own in order to address issues around corporate sustainability. Many scholars argue that voluntary codes of conduct are often implemented to avoid regulations that could have an impact on businesses. Thus, voluntary codes of conduct are a kind of self-regulation — also called soft laws (Watchman, Delfino and Addison 2007). These soft laws can have two general functions. First, they can help businesses to operate beyond compliance, for instance, for risk management purposes. Second, they could be a means to delay or prevent upcoming regulations and laws, by signalling industry activities. The particular reasons why these codes are developed and adopted, however, are manifold. Among others, the reasons are:

- signalling commitment to address societal issues such as the environment in order to show good corporate citizenship;
- demonstrating over-compliance in order to prevent hard laws and regulations (ibid.);
- development of a level playing field with regard to sustainability issues;
- protecting the organization's reputation;
- application of "standardized" approaches to sustainability issues;
- absence of regulations, in particular for multinational corporations (Kolk, Van Tulder and Welters 1999);
- sustainability risk management; and
- stakeholder pressure on businesses to manage sustainability issues (O'Sullivan and O'Dwyer 2009).

After presenting reasons for the adoption of voluntary codes of conduct, assuming that there could be other reasons and a combination of reasons, this paper discusses whether and how these codes of conduct may have an effect on positive change. Studies found that companies that have adopted sustainability or corporate social responsibility (CSR) codes of conduct perform better on CSR rankings than their counterparts (Erwin 2011) and that investors at least do not react negatively to the adoption of a code of conduct, such as the EP (Scholtens and Dam 2007). Some other benefits discussed in the literature include: the process of learning to identify how environmental and social risks can be assessed, analyzed and quantified; the standardization of assessment processes; and reducing compliance costs by introducing procedures for assessing environmental and social risks (Watchman, Delfino and Addison 2007). Furthermore, as the example of 3M and its role in eco-efficiency approaches demonstrated, the adoption of voluntary codes of conduct by a major competitor may put pressure on other players in the sector to adopt the same practices (Lubin and Esty 2010). As mentioned above, however, there are often no established mechanisms to guarantee compliance with voluntary codes of conduct and there is the risk that the codes are used for greenwashing without creating any significant change in the adopters' business practices (Missbach 2004).

Therefore, a sustainability guideline is a blueprint that, when followed, should ensure the aforementioned objectives are achieved. It takes on the label voluntary when corporations, which are not forced to adopt them, do, even in cases where they develop and adopt them in response to stakeholder pressure or institutional pressure, as in, for instance, the case of the EP (Wright and Rwabizambuga 2006). However, a rigorous search of the literature would fail to produce a concrete, generally accepted definition for a voluntary sustainability guideline or code. Although even the clearest definitions are somewhat vague, Macve and Chen (2010, 1) define the EP as "a set of guidelines which banks [corporations] can sign up to voluntarily, but which then prescribe certain requirements to be followed with regard to consideration of environmental and social issues."

The following section describes the main voluntary codes of conduct in the financial sector: the UNEP FI, the UNPRI, the GABV and the IRIS.

Table 1 presents an overview of the financial sector sustainability codes of conduct and their main strengths and weaknesses, which will be discussed in detail in the following sections.

UNEP FI

One of the earliest financial sustainability guidelines, which coincidentally happened to be a voluntary one, is the UNEP FI (Weber 2012). Based in Geneva, Switzerland, the UNEP FI was established as a platform associating the United Nations and the financial sector globally. The need for this public-private partnership arose from the growing recognition of the links between finance and environmental, social and governance (ESG) challenges, and the role financial institutions could play for a more sustainable world.[1] The main mission of the UNEP FI is to identify, promote and realize the adoption of best environmental and sustainability practices at all levels of financial institution operations (UNEP FI 2012).

The idea for the initiative was conceived in 1991 when a small group of commercial banks, including Deutsche Bank, HSBC Holdings, Natwest, Royal Bank of Canada and Westpac joined forces with the UNEP to catalyze the banking industry's awareness of the environmental agenda. The UNEP had been established following the United Nations Conference on the Human Environment held in Stockholm in 1972, to act as the environmental conscience of the UN system.[2] In the run-up to the Earth Summit in Rio de Janeiro in 1992, the UNEP Statement by Banks on the Environment and Sustainable Development was launched in New York, and the Banking Initiative was formed in May 1992.

The goal of the initiative was to engage a broad range of financial institutions — commercial banks, investment banks, venture capitalists, asset managers and multilateral development banks and agencies — in a dialogue about the relationship between economic development, environmental protection and sustainable development. In summary, the objectives of the initiative at creation were:

- the promotion of integration of environmental considerations into all aspects of the financial sector's operations and services; and
- to foster private sector investment in environmentally sound technologies and services.

Since its launch in 1992, the UNEP FI has evolved in its quest to ensure we enjoy a more sustainable future. The significant milestones in this evolution process are shown in Table 2.

1 See www.unepfi.org/.

2 Ibid.

Table 1: Financial Sector Sustainability Codes of Conduct and Their Main Strengths and Weaknesses

UNEP FI	
Number of signatories	230
Part of financial sector being addressed	Commercial banks, investment banks, venture capitalists, asset managers, multilateral developments banks and agencies.
Main focus	Integration of environmental considerations into all aspects of the financial sector's operations and services.
Strengths	• Reputed as a leading light in ensuring the financial sector is contributing to a more sustainable future. • Initiated and has sustained the dialogue of the financial sector integrating sustainability concerns into the world of finance. • Large network of members spanning over eight continents. • Frequent knowledge dissemination sessions, the most renowned being the biannual global round table summit.
Weaknesses	• No proper monitoring mechanism for membership. • Members who sign up tend to do it for reputation management, to create the impression they are environment conscious.
EP	
Number of signatories	80
Part of financial sector being addressed	Commercial banks, with special interest in project finance.
Main focus	Risk management in determining, assessing and managing environmental and social risk in projects.
Strengths	• Widely perceived as successful with 70 percent of international project finance debt in emerging markets. • EPs are believed to have spurred the development of other responsible environmental and social management practices in the financial sector and banking industry such as Carbon Principles in the United States and Climate Principles worldwide.
Weaknesses	• Lack of integrity in Equator Principles Financial Institutions (EPFIs). Some projects financed by EPFIs were found to be in breach of some of the covenants of the EP themselves. • Lack of proper monitoring mechanism.

UNPRI	
Number of signatories	1,325
Part of financial sector being addressed	Asset managers, investment managers and service providers.
Main focus	Understand the implications of sustainability for investors and support signatories to incorporate these issues into their investment decision-making and ownership practices.
Strengths	• Raises awareness about responsible investment among the global investment community. • Increases the level of transparency around the activities and capabilities of its signatories. • Fosters collaboration and knowledge sharing among signatories about socially responsible investing.
Weaknesses	• Perceived to be too easy to adopt and lack the robustness to address sustainability challenges.
GABV	
Number of signatories	28
Part of financial sector being addressed	Commercial banks, credit unions, microfinance and community banks.
Main focus	Using finance to deliver sustainable economic, social and environmental development.
Strengths	• GABV member banks have thrived more than traditional banks, in particular during the economic recession. • Good monitoring mechanism of member institutions.
Weaknesses	• Small network of mid-size financial institutions.
IRIS	
Number of signatories	215
Part of financial sector being addressed	Impact investors.
Main focus	Increasing the scale and effectiveness of impact investing.
Strengths	• Largest community of impact investors and service providers in impact investing. • Provides a well-defined catalogue of generally accepted performance metrics for measuring impact investing.
Weaknesses	• Only seven of its members are banks.

Source: Author.

Table 2: Evolution of the UNEP FI

Year	Milestone
1994	The UNEP FI created a platform to engage governments in sustainable finance thinking by establishing biennial high-level summits. The first biennial Global Roundtable was held in Geneva, Switzerland. The most recent was held in Beijing in 2013.
1995	Similar to what happened in the banking industry, the UNEP joined forces with a group of leading insurance and reinsurance companies to launch the UNEP Statement of Environmental Commitment by the Insurance Industry.
2002	The UNEP FI suggests a possible role for private finance in dealing with the publication of the acclaimed CEO briefing on climate change. The report paved the way for a new kind of dialogue on climate change mitigation and adaptation.
2003	At its 2003 Annual General Meeting held in Geneva, the UNEP Statement by Banks on the Environment and Sustainable Development and the UNEP Statement of Environmental Commitment by the Insurance Industry were merged together.
2005	The UNEP FI released *A Legal Framework for the Integration of Environmental, Social and Governance Issues into Institutional Investment*, known as the Freshfields report, which affirmed the rights of pension funds to feature in ESG factors.
2006	In coalition with the United Nations Global Compact, the UNEP FI launched the UNPRI, which is regarded as the world's largest gathering of institutional investors committed to sustainable action.
2012	In a bid to align the insurance industry with sustainability guidelines, the UNEP FI launched the Principles for Sustainable Insurance.

Source: www.unepfi.org/about/background/.

It is apparent that the UNEP FI has grown significantly since it was launched. This incremental growth has not only been in its content, comprehensiveness and robustness, but also in its membership. From the five banks that began the initiative, the UNEP FI currently has 230 members from 54 countries spanning eight continents.[3]

In addition to the UNEP FI growing in size, relevance and application, there has been the development of several other voluntary sustainability codes that focus on particular businesses in the financial sector such as project finance and institutional investing.

THE EP

The EP were developed by project financiers including banks and export financing institutions, with the support of the International Finance Corporation (IFC) and the World Bank as a voluntary code: "The Equator Principles is a risk management framework, adopted by financial institutions, for determining, assessing and managing environmental and social risk in projects and is primarily intended to provide a minimum standard for due diligence to support responsible risk decision-making."[4]

Ten leading banks coalesced together to launch the equator principles on June 4, 2003. The banks — ABN AMRO Bank, Barclays Plc, Citi, Crédit Lyonnais, Credit Suisse First Boston, HVB Group, Rabobank Group, The Royal Bank of Scotland, WestLB AG and Westpac Banking Corporation — did not record any incident, but bowed to increasing pressure from NGOs that banks should take legal and moral responsibility for the environmental and social impacts of projects they were financing all over the world (Macve and Chen 2010). The 10 EP principles are:

1. Review and categorization: The EP describes three risk categories according to the project's social and environmental impacts based on the IFC's social and environmental screening criteria.

2. Environmental and social assessment: A mandatory prerequisite for the project sponsor seeking financing.

3. Applicable environmental and social standards: The social and environmental assessment should be conducted in tune with the socio-environmental standards obtaining in the country or jurisdiction of the project.

4. Environmental and social management system and EP action plan: Clients must prepare action plans describing and prioritizing between mitigation measures, monitoring and corrective actions for anticipated risks.

3 See www.unepfi.org.

4 See www.equator-principles.com/.

5. Stakeholder engagement: EP requires the client, host country or third party expert to engage with affected communities in a culturally appropriate manner, seeking their free, informed and prior consent about the project for projects categorized A (high environmental and social impacts) and B (medium environmental and social impacts).

6. Grievance mechanism: The EP requires that the client establish a grievance mechanism appropriate to the level of risks and adverse impacts of the projects and whose existence should be brought to the attention of the affected communities.

7. Independent review: The EP requires an independent expert (independent of the borrower) to review documents on social and environmental assessment, environmental and social management systems, and environmental performance assessment procedures to inform on the due diligence process.

8. Covenants: The principle refers to covenants with the host country, compliance with the assessment procedure, periodic reports and, where applicable and necessary, a decommissioning plan.

9. Independent monitoring and reporting (IM&R): A client will retain an IM&R expert for category A and B projects where "appropriate."

10. Reporting and transparency: The EPFIs will report on an annual basis about their implementation outcomes and the severity of potential risks (EP 2013).

Project finance focuses on large projects, such as mining, energy and infrastructure projects. Often, an on-recourse debt is applied for capital investing, meaning that the lender is exclusively paid from the income of the project (Weber and Acheta 2014). These projects are stratified into three risk categories (A, B or C) using IFC screening criteria depending on the level of environmental and social risk. Nonetheless, the minimum capital cost for an EP project today is US$10 million (EP 2013).

The EP has undergone significant changes as well to cope with ever-changing perceptions of what sustainable development entails. The EP was substantially revised in 2006 to produce EP II. The most significant changes made to EP II are:

- reduction of the capital cost threshold from US$50 million to US$10 million;
- inclusion of Project Finance Advisory Services in EP scope; and
- inclusion of better social standards in line with IFC's performance standards.

In addition, the launch of the revised EP resulted in increased transparency of EPFIs as it mandated each one to report publicly on its implementation of the EP on an annual basis. This increased disclosure was coined "Principle 10."

Following a major revision of the IFC Performance Standards on Environmental and Social Sustainability in 2012, there was yet another review of the EP. This culminated in the production of a third iteration of the EP, EP III, which was released in 2013. The transition period for EP III ended on December 31, 2013. Thus, from January 1, 2014, all new project finance transactions of EPFIs are required to comply with EP III postulates. Significant changes in EP III include:

- extended scope of what qualifies as a project finance project;
- public disclosure of environmental and social impact assessment;
- greenhouse gases alternatives analysis and reporting;
- increased scope of labour and working condition requirements;
- human rights due diligence; and
- free prior and informed consent.

Currently, there are 81 EPFIs from 36 countries, covering over 70 percent of international project finance debt in emerging markets.[5]

THE UNPRI

As mentioned above, the UNPRI initiative is an offshoot of the UNEP FI. It is an international network of investors working together to put the six principles for responsible investment into practice. These principles are:

- 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.

5 See www.equator-principles.com.

- 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.[6]

The goal of the UNPRI is to understand the implications of sustainability for investors and support signatories to embed these issues into their investment decision-making and ownership practices.[7] It is expected that by adhering to the principles, signatories contribute to the development of a more sustainable global financial system.

The UNPRI were launched in April of 2006 at the New York Stock Exchange. The process leading up to this launch began, however, in 2005 when then UN Secretary-General Kofi Annan convened a dialogue between a 20-person investor group drawn from institutions in 12 countries. This group was supported by another 70-person group of experts from the investment industry, intergovernmental organizations and civil society.

The principles are voluntary. They are also flexible enough to fit different organizations' investment strategy, approach and resources, without deviating from its original objective. The UNPRI has rapidly grown to become the leading global network for investors to show their commitment to responsible investment. It currently has 1,325 signatories including asset owners, investment managers and service providers, with about US$45 trillion worth of assets under management.[8] The UNPRI's widespread adoption has been interpreted by some to mean the global financial system is becoming more sustainable. Some scholars believe that these guidelines are too easy to adopt and lack the robustness to address sustainability challenges (Richardson and Cragg 2010).

THE GABV

The GABV is an independent network of banks using finance to deliver sustainable development for unserved people, communities and the environment founded in 2009. It is made up of the world's leading sustainable banks, from Asia, Africa, Australia and Latin America to North America and Europe. The 27 members in 2015 include microfinance banks, credit unions, community banks and sustainable banks financing social, environmental and cultural enterprise (Niven 2014). According to its website, the focus of its member organizations is to use finance for delivering sustainable development for unserved people, communities and the environment with a focus on community-based initiatives, sustainable and environmentally sound enterprises, poverty alleviation and a triple-bottom-line approach (GABV 2014).

In addition to the above, there are other minimum requirements members must meet: independent and licensed banks with a focus on retail customers and a minimum balance sheet of US$50 million.

Similar to the UNPRI, the GABV requires member banks to comply with six principles, which are based on what they consider to be the six pillars of sustainable banking: triple bottom line, client centred, long-term resiliency, culture, transparent and real economy. The GABV (2014) provides the following summary of its principles:

1. *Triple bottom line approach [is] at the heart of the business model*
2. *Grounded in communities, serving the real economy and enabling new business models to meet the needs of both*
3. *Long-term relationships with clients and a direct understanding of their economic activities and the risks involved*
4. *Long-term, self-sustaining, and resilient to outside disruptions*
5. *Transparent and inclusive governance*
6. *All of these principles embedded in the culture of the bank*

In contrast to the initiatives described above, members have to fulfill certain criteria to join the voluntary code of conduct and have to conduct their core business in line with the GABV's principles. Although most of the members do not focus on profit maximizations, the GABV banks demonstrated a significant growth in recent years (Weber 2015b).

IRIS

A relatively new initiative, IRIS was developed by the Global Impact Investing Network (GIIN), a not-for-profit organization dedicated to increasing the scale and effectiveness of impact investing. Impact investing is defined as investments that are able to create financial returns "while also intentionally addressing social and environmental challenges" (Bugg-Levine and Emerson 2011, 5).

Impact investors chase these goals by making debt or equity investments in social enterprises — companies and groups that use market-based solutions to address social and environmental issues. This is in tandem with what the GIIN hopes to achieve. The idea was conceived in 2007 by The Rockefeller Foundation. More meetings and consultations resulted in the network eventually being launched in 2009 at the Clinton Global Initiative

6 See www.unpri.org/about-pri/the-six-principles/.

7 See www.unpri.org/about-pri/about-pri/.

8 See www.unpri.org/signatories/signatories/.

Annual Meeting. IRIS is championing initiatives such as developing a standardized framework for assessing social and environmental impact of investments.

It is believed that members of the GIIN represent the largest community of impact investors and service providers engaged in impact investing. Currently, that membership stands at 215.[9]

IRIS offers a collection of indicators that measure the impact of investments and therefore set a kind of impact investment standard or code of conduct, and increase the credibility and transparency of the industry. Furthermore, IRIS decreases reporting efforts by guaranteeing compatibility to main reporting standards. Its focus is on the product and services that it is invested in, in measuring impact on beneficiaries and on financial operations using an investment lens. The standard measures the following types of performance:

- financial performance: standard financial reporting metrics such as current assets and financial liabilities;
- operational performance: governance policies, employment practices, and social and environmental impact of day-to-day business activities;
- product performance: social and environmental benefits of the products, services and unique processes offered by investees;
- sector performance: impact in particular social and environmental sectors, including agriculture, financial services and healthcare; and
- social and environmental objective performance: progress toward specific impact objectives.[10]

Because of the effort of IRIS, a number of impact investors report on their businesses and investments in a transparent and reliable way. Consequently, environmental and social returns can be tracked along with financial returns. Asset managers have the opportunity to use IRIS to report about the impacts of their investments in such a way that stakeholders, including investors, have the information they need to make their decisions. Furthermore, the standard helps investors to direct their investment toward particular social and environmental objectives, and to measure the efficiency of their investments.

STRENGTHS AND WEAKNESSES OF THE VOLUNTARY CODES OF CONDUCT

The voluntary codes of conduct listed above constitute the more prevalent codes in effect in the financial sector. That is not to say they are the only ones available; however, this paper has focused on the more popular codes. The question remains: what advantages and drawbacks do these codes have and what are their inherent strengths and weaknesses?

The issue of compliance and enforcement is generally inherent to all of the codes. Because they are voluntary mechanisms, usually non-compliance does not have any consequences other than reputation risks. This paper, however, does not discuss the general problems of voluntary codes of conduct, but will report about particular advantages and drawbacks.

The UNEP FI

As the first sustainability guideline to be instituted in the financial sector, the UNEP FI is regarded as a leading light in ensuring the financial sector plays a vital role in transiting to a more sustainable future. Gathering the backing of the United Nations through the World Bank and large commercial banks, the UNEP FI has succeeded in integrating sustainability concerns into the world of finance integrating sustainability concerns into the world of finance. It has maintained this dialogue through the organization of periodic knowledge-sharing sessions, the most notable being the biennial global round table summits. These summits enable members and stakeholders to discuss sustainability-related issues and contribute to capacity building about sustainable finance. The reach of the outcome of these sessions is far and wide, as the UNEP FI member networks currently span all continents.

Despite its large influence, and wide reach, the UNEP FI has some weaknesses. Its major weakness is embedded in its nature. Committing to the UNEP FI requires institutions to become a signatory to the UNEP Statement of Commitment by Financial Institutions on Sustainable Development. Becoming a signatory is relatively easy, and there are no selection criteria of any sort, other than communicating your intent to join and paying membership fees. As such, even institutions that are not environmentally conscious can very easily commit to the UNEP statement. Committing to a statement such as the UNEP FI is good for brand management, reputation and public relations, and comes without real disadvantages. There have been several occurrences of UNEP FI members being accused of acting contrary to the covenants of the statement of commitment. The lack of a proper monitoring mechanism on the part of the UNEP does little to help this practice of creating false impressions. There are also no sanctions and punitive measures to deter institutions from taking that route. This would not be an easy task anyway because the UNEP FI principles do not prescribe any accepted or unaccepted behaviour. Instead, the UNEP FI principles describe policies that are acceptable for all members of the financial industry.

9 See www.thegiin.org/cgi-bin/iowa/network/members/index.html.

10 See https://iris.thegiin.org/metrics.

The EP

Since being established in 2003, the EP has come a long way, gaining wide acceptance in the world of project finance. Currently, it is believed that 70 percent of the projects being financed in emerging markets are subject to the tenets of the EP. Its network currently consists of 80 EPFIs (Weber and Acheta 2014). The apparent success of the EPs within the project finance industry has also spurred on similar initiatives in the banking industry, including the Carbon Principles in the United States and the Climate Principles worldwide.

Another strength of the EP is that, despite being a voluntary code, it impresses on its signatories certain mandatory expectations, inadvertently acting as a soft law. For example, Principles 2 and 3 ("Environmental and Social Impact Assessment" and "Applicable Environmental and Social Impacts") require the applicable legal laws and regulations in the host country to be dutifully followed. To ensure this happens, EPFIs are required to enter contractual agreements with their obligors. Outlined in these agreements are legal covenants that align with the applicable laws of the host country. Thus, the EP indirectly culminates with these laws being followed. In instances where the applicable laws are not robust enough to address environmental concerns, such as in "non-designated countries," the EP requires compliance with applicable IFC Performance Standards and the World Bank Environmental, Health and Safety Guidelines (IFC 2007). The usage of the EP is also relatively easy to follow and well documented because signatories are obliged to report according to the reporting standards of the EP (Weber 2014a).

The lack of a proper monitoring mechanism is a major weakness, as is a lack of integrity in the EPFIs. There have been several projects financed by EPFIs that seem to have breached postulates of the EP. One example is the Baku-Tbilisi-Ceyhan pipeline, which was completed in 2004 by eight EPFIs and the IFC. An NGO's assessment found that there were 127 alleged breaches in the transaction (Waters 2003).[11] This assessment, however, has no legal binding and has not been conducted by an independent body.

Another weakness is the lack of enforcement on the part of the EP head office. Critics have asked for an independent board, which should help to guarantee compliance of EPFIs. But although the EP was founded because of stakeholder pressure, particularly from NGOs, members of the EP are only project financiers.

The UNPRI

In a bid to establish a similar initiative regarding investments as it did in the financial sector with the UNEP FI, the United Nations coalesced with the UN Global Compact and several large institutional investors to create the UNPRI. Its goals are not very different from that of the UNEP FI: to understand the implications of sustainability for investors and support signatories to incorporate these issues into their investment decision-making and ownership practices, with the ultimate objective of contributing to the development of a more sustainable global financial system.

The strengths of the UNPRI are also similar to those of the UNEP FI. The principles are perceived to have gained global acceptance with significant buy-in. Its large network of 1,325 members at the end of 2015, spread over 40 countries, atop US$59 trillion in assets under their control, attest to this. Consequently, the UNPRI became a kind of a governance body in institutional investment (Sievänen et al. 2013). The UNPRI also provides several support channels to its members to ensure they are applying the principles as they should. One such initiative is the PRI in Person, an annual global conference on the responsible investment industry, which provides a platform for PRI signatories and investment professionals to learn, network and collaborate (Gond and Piani 2013). Another initiative is the PRI Academy, an online training module on how ESG issues impact company performance, shareholder value and investment decisions. A third initiative is the PRI Academic network, which conducts research on responsible investment and, for instance, has been involved in publishing *The Routledge Handbook on Responsible Investment* (Hebb et al. 2015).

Despite there being adequate support to ensure members are correctly applying the principles, there is unfortunately no proper monitoring mechanism to ascertain that they are. Some scholars opine that members sign up to the principles for aesthetic reasons, knowing that becoming a signatory allows them to publicly demonstrate their commitment to responsible investment and to increase their reputation. Other scholars even question the robustness of the principles, and whether they address the more pressing sustainability challenges the world is facing (Gray 2009).

The GABV

For a relatively recent code of conduct, the GABV has achieved remarkable success. In a study conducted in 2012, it was found that sustainable value-based banks thrived more than traditional mainstream banks, even during the most recent economic recession (Korslund 2013). This, in turn, has made a compelling case for value-based banking, a pillar on which the GABV is founded. The GABV's goal is to use finance as a tool to deliver sustainable economic, social and environmental development. To its credit, there have been numerous testimonials of its member institutions doing just that. Its network is also vibrant, with members learning from one another. The GABV also has

11 See www.baku.org.uk.

predetermined membership criteria, so not just anybody can join the network. This, as well as a good monitoring and feedback mechanism, ensures that members act in line with the dictates of the code of conduct.

The GABV is a small network, comprising only 28 institutions. The weakness is not the number of these institutions, but in the size of them. The total combined assets of the 28 institutions is approximately US$100 billion, suggesting its members range from small to mid-size institutions. It then begs the question of how a value-based banking model would be attractive for larger financial institutions that mainly focus on profit maximization.

IRIS

These standards are the bedrock upon which the largest community of impact investors and service providers in impact investing, the GIIN, operates. The IRIS is a catalogue of generally accepted performance metrics used to increase the scale and effectiveness of impact investing. In other words, IRIS and the GIIN provide a system that can be used to evaluate investments targeted at achieving a particular impact objective. The members of the GIIN get to use this tool for free. The identified metrics are expansive, in addition to being well defined and articulated, allowing for easy usage.

However, what IRIS and the GIIN fail to provide is a blueprint for members to be more sustainable in their investment decisions — it fails to go beyond being just an evaluation system. Furthermore, IRIS is a conglomerate of nearly 500 indicators. The challenge is to pick the right indicators for particular types of investment and beneficiaries.

CONCLUSIONS

This paper analyzed the major financial sector voluntary sustainability codes of conduct. Overall, there is an impressive number of members of these voluntary initiatives, which speaks to their attractiveness in the financial industry. There are, however, some problems inherent to these codes of conduct.

A major issue is the enforcement. As explained above, it is difficult to enforce voluntary agreements. This problem becomes even bigger, because the voluntary codes of conduct in the sample do not have independent bodies overseeing them. Hence, in order to stay or become transparent and credible, the financial sector sustainability codes of conduct may implement at least independent advisory bodies. The Nigerian banking association even asked its central bank to oversee the enforcement of the initially voluntary Nigerian Sustainable Banking Guidelines (Weber 2015a).

A second issue of the discussed codes of conduct is their focus on the business case of sustainability and not on the sustainability case of business (Weber 2014b). Impacts of the codes on sustainable development are not the focus of the codes of conduct. They mainly focus on better managing sustainability risks in lending and investing, and on corporate reputations. Thus, studies on the impact of the codes on corporate sustainability performance and their consequences do not exist, with some exceptions regarding the EP (Missbach 2004).

Finally, it must be stated that the codes of conduct are usually compromises that many financial institutions can agree to. On the one hand, this guarantees a high number of signatories, which creates a greater impact on the industry. On the other hand, many critics think that the codes of conduct are too soft and therefore do not lead to any change in a more sustainable direction. This, however, may be a strength of industry voluntary codes of conducts. They are easy to join and may enable members to increase their performance with regard to sustainable finance and at least create guidelines in case regulations are absent. Hence, although often criticized, voluntary sustainability codes of conduct in the financial sector were able to integrate formerly separated issues such as finance, the environment and sustainable development.

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