Bank Use of Corporate Social Responsibility and Sustainability Information in Lending Decisions

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This chapter uses a survey of personnel in Libyan commercial banks, including general managers and credit managers, to investigate how banks perceive and process social responsibility and sustainability information declared by potential borrowers in their credit applications and other documentation. In particular, the chapter considers how the backgrounds and experiences of key bank staff in lending decisions may bias toward or against lending with the disclosure of potential borrower information on social responsibility and sustainability. We also consider the impact of institutional features, particularly the stance of government, in shaping these perceptions and links with action via regulation and the possible influence of business ethics through industry associations.

1. Introduction

In 2003, a number of commercial banks and the International Finance Corporation developed the so-called Equator Principles (EPs) as a voluntary code to ensure consideration of social (and environmental) concerns in the finance industry. These principles provide financers with guidance to prevent or minimise the possible negative social impacts of their projects. Subsequently revised in 2006 and 2013, banks accepting this initiative commit themselves to categorizing projects in relation to social impact and risks, the conduct of proper social compliance and
compliance with relevant host-country laws, regulations, and permits. They also commit to requiring from borrowers a project plan and evidence of consultation with affected persons, ongoing consultation, disclosure, and community engagement throughout construction and operations, the incorporation of social and environmental covenants linked to compliance, the retention of external experts to verify monitoring information, and public reporting on implementation.

One of the main ways banks demonstrate their social responsibility and sustainability credentials is through their lending decisions. Banks are capable of influencing the environment by providing or withdrawing loans to companies with activities that have positive or negative environmental consequences [Cowton and Thompson, 2000; Gray and Bebbington, 2001; Neu and Gomez, 2006; Campbell and Slack, 2011; Walid et al. 2011]. It is in the spirit of these developments that we empirically examine using a detailed survey a single micro-level dimension by examining how personnel in commercial banks, including general and credit managers, perceive and process social responsibility and sustainability information declared by potential borrowers in their credit applications and other documentation.

In particular, we consider how the backgrounds and experiences of key bank staff in lending decisions, may bias toward or against lending with the disclosure of potential borrower information on social responsibility and sustainability. Moreover, we consider the impact of institutional features, particularly the stance of the national government, in shaping these perceptions and links with action via regulation and the possible influence of business ethics through industry associations. In so doing, we establish a clear link between corporate social practices and sustainability, financial decisions, and financial markets. The findings then help motivate and empower both bank lenders and borrowers to integrate socially ethical behaviour and rules in making financing decisions, and identify where there may be impediments to this process from the perspective of corporate financing.

The remainder of the chapter is structured as follows. Section 2 details the gathering of our data. Section 3 considers environmental information in lending decisions relating to this information. Sections 4 and 5 examine the external and internal factors determining lending decisions, respectively. Section 5 concludes the chapter with a brief summary.
2. Sample and Data

For the primary data in the analysis, we use face-to-face, semi-structured interviews. Credit managers are mainly chosen for the interviews as they are responsible for preparing, following and finalizing the process of granting loans. Furthermore, due to their positions, they have sufficient knowledge about the dominant culture in their bank and the sector as a whole, which would be expected to affect lending activity. We conducted 17 interviews with credit managers in all 15 commercial banks and two of the four specialized banks operating in Libya.

We select Libya because only a few studies have examined social and environmental issues in relation to economic activity in Libya, and these have generally revealed low levels of disclosure practice by organisations, including banks, in these areas. In addition, many changes have taken place in the Libyan economy and banking sector in recent years, including the establishment of a market exchange; decreased government participation in economic activities; and increased growth of the private sector that results, especially in the banking sector, with the entrance of foreign investors. These changes have placed a new emphasis on bank operations and the participation of banks in the Libyan economy. Thus, studying Libyan banks, in terms of their role in the environment and society, has attracted growing interest.

In addition, interviews in Libya were also conducted with a chairman, a member of the board of directors, a deputy general manager in three different banks, and the director-designate of the environmental impact assessment department in the Environmental General Authority. Thus, in total there were 21 interviews. The interviewees were contacted personally in the managers’ offices throughout 2012. All interviews were recorded and later transcribed. Interviews lasted from 40 minutes to 2 hours.

3. Environmental information in lending decisions

The purpose of this section is devoted to providing answers to the following two questions. First, do Libyan banks use environmental information (as disclosed by companies seeking loans) in their lending decisions? Second, what are the factors affecting the issue of using
environmental information (disclosed by companies seeking loans) in the lending decisions of Libyan banks?

Table 1. Educational qualifications

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<th>Level</th>
<th>No.</th>
<th>ABF</th>
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<tr>
<td>Group #1 (Credit managers)</td>
<td></td>
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</tr>
<tr>
<td>Master degree</td>
<td>3</td>
<td>3</td>
</tr>
<tr>
<td>College diploma degree</td>
<td>1</td>
<td>1</td>
</tr>
<tr>
<td>Bachelor degree</td>
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<td>6</td>
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<tr>
<td>Secondary</td>
<td>4</td>
<td>0</td>
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<tr>
<td>Group #2 (Others)</td>
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<tr>
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<td>2</td>
</tr>
<tr>
<td>Bachelor degree</td>
<td>1</td>
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<td>Higher diploma</td>
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We first provide some basic information on the study participants regarding their qualifications and expertise as their responses are likely to reflect these characteristics. Table 1 details the educational qualifications of the participants and their relationship to their banking work. As shown in the table, more than 76% of respondents possessed a bachelor’s degree or higher, but the percentage of participants who held qualifications related to accounting or banking and finance was about 59%. In the second group, the qualifications were all related, and two (of the four) participants possessed a doctorate, while the third and fourth participants held a bachelor degree and higher diploma, respectively.

Table 2. Years of experience of the study participants

<table>
<thead>
<tr>
<th>Years of experience</th>
<th>Number of Participants</th>
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<tbody>
<tr>
<td>Less than 10 years</td>
<td>4</td>
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<tr>
<td>10–19 years</td>
<td>3</td>
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<tr>
<td>20–29 years</td>
<td>7</td>
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<tr>
<td>30–39 years</td>
<td>4</td>
</tr>
<tr>
<td>40 or more years</td>
<td>1</td>
</tr>
<tr>
<td>No response</td>
<td>2</td>
</tr>
<tr>
<td>Total</td>
<td>21</td>
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</table>

Table 2 shows that more than 71% of the participants spent no less than 10 years in the banking sector and more than half the participants had
banking expertise of at least 20 years. Accordingly, we can be confident that the respondents were very knowledgeable of conditions in the banking sector but that their attitudes were likely affected by their qualifications and experience.

First, managers were asked whether they had credit policies implemented in their workplace, for which 76% of respondents answered in the affirmative, and 23% responded that these policies were put in place one or two years previously. This was encouraging, as the existence of credit policies is assumed to mean that there are clear rules regarding lending issues, the activities and industries targeted by finance activity, and the information required for undertaking lending decisions. Thus, the following question was related to the documents that banks required from their clients in order to consider their requests for loans. The managers mentioned that their customers should provide many documents, such as articles of association of the company, licences for commercial activity, economic feasibility studies, collateral, and financial reports such as balance sheets and income statements.

The interesting point is that annual reports were not even mentioned; instead, banks typically requested the financial statements of loan seekers. This meant, from the beginning, that any environmental information expressed in descriptive or qualitative terms in the annual reports of the clients was not considered, or even required, by the banks. Elsakit [2015] revealed that Libyan banks preferred to present their environmental disclosure in monetary terms. The same thing would happen if clients disclosed their CSED in the manner implemented by their counterparts internationally. Othman and Ameer [2009, p. 302] stated that:

Accounting researchers have investigated the amount and content of social and environmental disclosure from the perspective of social accounting. Most of these studies find that firms tend to disclose social and environmental issues in narrative (non-monetary) terms.

Another observation is that information required in the documents was either legal or financial. Thus, a question that might be asked is whether there was another form of information banks were interested in and, if so, how it was collected. Some managers indicated that they took different kinds of information into consideration. One manager stated,
...(additionally) we analyse the information regarding the reputation of the firm (which asks for a loan), its share in the market, its product, its owners, how long it has been operating in the market, and whether there is a foreign partner. This information helps in taking the decision of granting a loan or refusing the customer request.

Another manager emphasized the importance of reputation. He said:

We ask about the reputation of the customer (who made a request for a loan). If the transaction is related to, for example, food industry, we already have some special customers in this market, so we ask for their information about this firm which asks for a loan. We do that in personal and secret way.

This means that banks, in addition to the information provided by the customer seeking a loan, did their own research and collected further information from other sources. This confirms the argument of Thompson and Cowton [2004, p. 215] who stated that banks “…can obtain the information they desire through private provision”.

Regardless of whether the information required is obtained from the customer itself or other sources, an explicit question was directed to the managers—whether they asked their clients to present information about the impact of their activities on the environment. Some 82% of the managers stated that environmental information was not included in their official requirements or policies. This includes those whose bank did not have a written credit policy. One manager said,

We hear this talk (considering environmental information in lending decisions) only abroad, but I am telling you that we do not ask for such thing.

Another manager who spent more than 35 years in the banking sector confirmed that

...honestly, our bank has not look[ed] at the issue of environment, and (has not consider[ed]) the damage which might be caused to it.

One manager went so far as to say:

Let us assume for example that … a cement factory (which has a bad reputation in Libya for its negative impact on environment and
people) asked for a loan. To be honest with you I cannot refuse it. This factory was established by the state, and if we refuse to grant it a loan, other banks will do. This is a successful factory, and you know, there is a demand for cement in the market. We have mentality of the trader. The bank finances the profitable projects.

This position was implemented by all Libyan banks. The annual reports showed that in each year over the period 2005–10, the five largest Libyan commercial banks, which represent more than 90% of the banking sector, financed some polluting companies, including those in the cement and steel industries. In an earlier study, Otman and Karlberg [2007] observed that

Atmospheric concentrations of lead and particulates in Northern African cities often exceed WHO guidelines by a multiple of two, with cement and steel industries, both present in a large scale in Libya, producing as much as 50 per cent of the total particulate emissions.

Even so, the annual report of the Central Bank of Libya in 2007 mentioned an increase in the credits granted to economic activities. It also stated that the five biggest commercial banks together granted long-term loans to steel and iron companies [Central Bank of Libya, 2007]. This lies in contrast with that found in many studies conducted in developed countries, including those by Thompson [1998], Thompson and Cowton [2004] and Weber [2010]. These studies demonstrated that environmental information had become an important factor in the process of lending decisions.

However, there were two Libyan credit managers who claimed that they officially asked customers to provide a certificate (proving that the project would not be harmful to the environment) from the Environmental General Authority, a governmental body responsible for environmental issues. One manager claimed that an economic feasibility study, which the customer should provide to the bank, already included information on environmental implications. Another manager claimed that there was an indication of an environmental issue in the lending policy of the bank, but

...non-availability of adequate (environmental) information makes this indication just configurable rather than something real. The one
who is supposed to conduct the study has no set of rules to rely on (in determining whether the project has negative implications on environment or not).

As such, the blame for not considering environmental issues in lending decisions seemed to be directed at another party. Another manager stated that the lending policy of his bank did not address environmental issues, but stipulated that the bank was not allowed to finance those projects that violated the culture of the country. It may be more accurate to say the culture that was emphasized by the law, since Libyan culture depends essentially on Islamic teaching, which prohibits earning usury from lending activities. These two managers directed the discussion to the role of the state and its laws on the issue.

However, an observation can be made about the answers of all who expressed, in one way or another, their environmental concerns, and that is their definition of environment. In contrast to law No. 7 of 1982, which defines environment as “the surrounding in which man and all organisms live, including air, soil, and food”, they confined their meaning to residents who lived around the location of polluting companies. Their concern was solely about the people and not about the environment as a whole, which includes land, air, water, all organisms, etc. This is clear in the comment of one manager, for example, who claimed that his bank took environmental factors into account in its lending decisions. He said,

God willing, we try as much as we can, especially in regard to industrial projects, to ensure that these projects will be established far from populated areas, so negative implications will not impact on citizens.

It seems as if it was just a matter of people, not the environment itself. He did not mention in his confirmation that these projects would undergo scrutiny, such as outlining the necessary processes to monitor and control the industrial processes, using filters to control the emission of gases, or treating chemical waste. This reflected more caring about, or being afraid of, people, rather than genuine care of the environment.

In concluding this point (whether environmental information is considered in the lending decisions), more explanation is needed about the claims of a few managers that they did take environmental issues into consideration in the process of lending decisions. They argued that they
either asked their clients to provide a certificate from the Environmental General Authority (proving that the project would not be harmful to the environment), or to provide an economic feasibility study which should include assurances on the environmental aspects.

The interview conducted with the Director-designate of the Environment Impact Assessment Department (in the Environmental General Authority) revealed that the Department issued certificates regarding the environmental impact of some industries such as cement and soap. However, the Director-designate acknowledged:

To put you in the picture, it is not as you might expect. Sometimes just one or two cases a year came to our department. Actually most of our work is with oil companies.

In regard to the economic feasibility study, the chairman of a bank commented:

Banks require their customers (who seek loans) to provide an economic feasibility study (for their proposed projects for which they ask loans), but as a matter of fact, it is not an economic feasibility study. It is merely another complementary document for the other documents. It is just another document, but the spirit (real meaning) of the study is not there. When the demand for such information is not good, and when decision makers do not need it, then, in reality such information does not mean anything”.

A deputy general manager also revealed that:

In the economic feasibility studies provided to the bank, there is some information missing. For example, in some industries, you will not find any indication to the effect of the dust (on the surrounding environment) in the economic feasibility study. This side is hidden.

In addition to this, it is worth mentioning that these studies were normally prepared by external auditors. They were professional in respect to financial aspects of the study, but on the other hand had no qualifications, expertise, or reasonable knowledge to gauge or evaluate environmental impacts of the production activities. As such, relying on economic feasibility studies as a guarantee for the safety of the projects from an environmental perspective seems to have been a wrong choice.
What confirms such a conclusion is that banks re-checked the validity of financial statements of their clients, although these statements were audited by external auditors. A typical comment was,

Sometimes we visit the site of the company (which requests a loan) to check its site, its accounting cycle, and its assets, to ensure that the financial position of the company is strong.

However, some banks accepted economic feasibility studies as proof regarding environmental issues, although these studies had been prepared by external auditors who had scant knowledge of the subject.

Based on the above, in answering the question “Do Libyan banks use environmental information (as disclosed by companies seeking loans) in their lending decisions?” it is obvious that the majority of Libyan banks did not take environmental information into account in their lending decisions. Although there was some personal interest by a few managers in environmental information, the subject generally represented a narrow concept, where the environmental implications were seen only from the angle of their impact on residents. This is not to question the way they relied on this information to ensure that the project was not harmful to the environment.

4. Use of Environmental Information: Internal Factors

The discussion now focuses on factors affecting credit manager attitudes. It aims to report on that part of the investigation which dealt with why environmental issues and the related information were not considered in lending decisions. As such, this part seeks to answer the question: “What are the factors affecting the issue of using environmental information (disclosed by companies seeking loans) in lending decisions of Libyan banks?”

These factors can be divided into two groups. The first group includes factors that are more related to the bank itself, while the second focuses on external factors that influence management’s attitude to using environmental information provided by clients in lending decisions. These factors include the following:
I. Managers’ perceptions of (and attitudes to) the relationship between banks activities and environmental issues

II. The need for training programs regarding the use of environmental information in lending decisions.

4.1 Managers’ perceptions and attitudes

Personal attitudes appeared to play a role (albeit limited) in how managers considered environmental issues when making lending decisions. Two managers indicated that they took some steps in supporting the environment. One of them mentioned that his bank (a specialised bank) stopped financing some projects due to their harmful impact on food and humans, and commented that

Although there is no official care, there is a relationship at the personal level by those who conduct the studies, or as a general culture, which starts to prevail (among us) and encourage us to consider the environment.

The content analysis of the annual reports of Libyan banks, conducted in the study of Elsakit [2015], revealed that this bank was the only bank that disclosed environmental information (in two of its annual reports), and the information disclosed was about a decision taken by the bank to refuse to finance projects because of their harmful environmental impacts. The other manager, from a public bank, indicated that,

...on one occasion, there was a lending request for establishing a factory. After checking the documents I refused to process the transaction for three reasons. The suggested location for the factory was outside the industrial schemes, on an agricultural land, and there was a possibility to harm the residents...this attitude was a result of a personal conviction.

This confirmed the argument of Branco and Rodrigues [2008, p. 177] that

...some companies engage in social responsibility activities and disclosure because their managers’ personal values are aligned with CSR values. Social issues may merit moral consideration apart from their interest to stakeholders and lead managers to consider the social impacts of corporate activities in their decision making.
To investigate further the managers’ perceptions and attitude to environment issues, managers were asked whether they would consider the action of financing transactions, such as purchasing filters used for reducing emissions from production operations, as an indication from the banks of their role in protecting the environment. There was unanimity among all managers that this kind of transaction did represent participation by banks in protecting the environment. One manager said, “We welcome this kind of transaction”. Another manager stated that

…it is right that lending policy of our bank did not prevent the bank from financing polluting projects (as long as it does not violate the law), but we support any project which support the environment. We will be enthusiastic for such projects, and we will publish this in the journals.

Another three managers indicated that this participation should be profitable. One of them stated: “If I found that the repayment period is reasonable, and this project will generate revenues, there is no problem (in financing it)”. Another manager stressed,

When such project is presented to me, the first thing comes to my mind is whether this project capable of repaying the loan and generating interests for me. This is the first thing crosses my mind.

One of the managers made it very clear in regard to environmental issues. He emphasized the interest of his bank, which should be the motivation of any decision. He said,

Honestly, I am just the financier of that project. What is my benefit in this story (taking environment issue in the lending decisions)? What is the advantage that I will get from that?

When the question was posed in a different way, the managers’ opinions were divided. The question was whether banks should be deemed to be partners in polluting the environment if they financed projects that had negative impacts on the environment. Although some managers did not accept the idea that banks are partners in polluting environment (by granting loans to polluting firms), and put the responsibility on parties other than their own banks, and provided different reasons to defend banks’ attitudes in acting in an irresponsible manner in terms of the
environment, 53% of the managers agreed that such finance represented a participation in polluting the environment. However, this did not mean necessarily that recognizing the connection would lead them to revise their policies. In fact, some of the managers admitted that they sometimes made decisions that were contrary to their opinions. One manager said,

Yes, sure. When the bank grants loans to polluting companies, it participates in polluting environment. However, we do not follow such reasoning.

Another manager confirmed this attitude and explained it further by stating:

Let me detail this matter to you. Personally, as a manager of credit department of this bank, if I left this chair (chair of the manager) and sat on that chair, the picture in my mind would change. I would criticize the polluting projects, and I would say that banks should not grant loans to such projects, but when I come back to set on chair of the credit manager, this talk means nothing to me. This kind of convictions has no relationship with my work. As a banker, all what I wish is to make profit (regardless of environmental issues). If you sit on this chair (the manager chair) you will say the same thing. If you leave this chair, you will say the bank should not grant loans to polluting companies.

In contrast with the attitudes of managers whose personal beliefs overcame the banking culture, this comment shows how the profit culture in the banking sector overrides the personal convictions of some credit managers. This is congruent with the argument of Buhr [2001, p. 416] that the behaviour of the managers was very likely to be influenced (and therefore changed) to suit the culture of their companies. He stated that

In actuality, the manager…will come under a corporate sphere of influence that determines what conduct counts and to whom one is accountable”.

In addition to that, he pointed to the argument of DiMaggio and Powell [1983] that managers influenced by such a sphere were likely to behave in a homogeneous way.
The difference between bankers’ attitudes and perceptions on one side, and their decision-making behaviour on the other side has been shown in earlier results. Milne and Chan [1999, p. 443] stated:

The possibility that people’s perceptions and attitudes might not correlate with decision-making behaviour is something that has long been recognized in the psychology literature.

What might be interesting to note in all opinions and comments is that no one expressed the idea of the role of banks in encouraging companies to behave in an environmentally responsible manner and to disclose more environmental information publically. For the most part, bankers were disregarding environmental information, or in the few cases where some benefits of this information were perceived, the banks' interests were the ultimate goal behind such perceptions.

4.2 The need for training programs

Recognizing the importance of environmental information in taking lending decisions is the first step towards using such information in these decisions. The next step is to have the necessary knowledge to evaluate and interpret this information in order to estimate the risks that might result from financing some projects. Thus, managers were asked whether there was a need for training the staff in their departments who dealt with and used environmental information in the lending process. Just 12% denied a need for such training. This was because they believed that environmental information should be certified by a trustworthy third party whose credibility the bank could trust. One manager said, “When the study (including environmental information) is certified by related parties, then [there is] no need for training programs”. A member of a board of directors and the deputy general manager agreed with this opinion.

Other managers agreed on the need for training programs that included the use of environmental information in lending decisions. One manager stated,

Any new development in the banking sector which changes banking thinking creates a need for related training programs. For example, we have done intensive training programs on money laundering when such problem emerged. By the same token, there should be local and
abroad training programs regarding environment and its relationship with banking activities.

Another manager went further to suggest that “the credit department should have a qualified employee in this topic (environment)”. This suggestion, if implemented, would reflect a real interest and seriousness of the bank about this issue.

However, some managers pointed to certain obstacles, such as cost, which needed to be addressed or at least taken into account. One manager argued, “This will cost the bank”. Another manager said, “Our bank is small. Maybe big banks, as they grant more credit facilities, are more interested and capable of doing so”.

Lastly, it is worth mentioning that the case regarding the importance of training programs, in the issue of using environmental information in lending decisions, lends support to the institutional theory (normative isomorphism) as an explanatory theory for absence of such use. Amran and Devi [2008] mentioned training centres as a part of many major factors in creating normative pressure, which influences organisations’ attitudes and behaviour.

5. Use of Environmental Information: External Factors

These factors include those that affect bank managements’ attitudes and desire to use environmental information in the process of making lending decisions. These factors can be broken down into the following:

I. The state’s attitude to environmental issues
II. The attitudes of other banks
III. Legislation and risks associated with environmental issues
IV. Effectiveness of the mechanism for implementing legislation
V. Public awareness and pressure of civil society organisations
VI. Credibility issues in the information provided
VII. Demand for using CSED in lending decisions.
5.1 **The attitude of the state to environmental issues**

In discussing the managers’ perceptions of the relationship between their banks’ activities and environmental issues, some managers did not accept the idea that banks are partners in polluting the environment by granting loans to polluting firms. They put the responsibility on parties other than their own banks, and provided different reasons to defend the banks’ attitudes in acting in an irresponsible manner in terms of the environment. The state was the first to be blamed for not taking environmental concerns into account in lending decisions.

The first issue raised was that all polluting companies had been granted a license from government authorities. As such, managers who defended the attitude of their banks in financing polluting projects argued that banks dealt with companies whose activities were licensed by the state. For those bankers, having licenses somehow legitimised the process of granting loans to the holders of these licenses, regardless of the impact of their activities on the environment. A typical comment was: “It is the responsibility of those who evaluated the activities of those firms and gave them licenses to carry on these activities”. One manager explained:

> If the authorities, which give licenses, considered activities of these firms (which are criticized for being pollutant) harmful to the citizens, they would not issue licenses to these firms (so, they should be safe as long as they were licensed). This is first. Second, everything licensed is legally permissible. Thus, this issue (considering environmental side in the economic activities) should be addressed beforehand, prior to seeking banks' loans. This dilemma should be already resolved by then. Do not put banks in the corner.

Although this comment confirmed that some banks do not care about the negative implications of financing economic activities as long as these activities are legal, it leads to an important point. The issue of taking the matter of environment into account should not be raised just when the polluting companies seek loans from banks. It should be raised, discussed, stressed and addressed at the level of the state and community, before reaching the point of granting loans. Ignoring this point raises a question regarding those polluting firms which do not need bank finance. How can they be stopped? Protecting the environment, thus, seems to be much greater than banks’ capacity. It requires that this protection start from the
state and its citizens, then the role of banks would subsequently complement these efforts. A deputy general manager held the same opinion. He said, “When you come to address this issue, we should focus on the root of the problem, not jumping to the role of the bank, which represents the pre-final stage”.

Some managers did not want banks to be seen as policemen, or another governmental body that tries to monitor others and prevent certain actions. One manager stated, “This is the perspective we implement. The state should fulfil its role, and we will fulfil ours”. One chairman of a bank was clearer in his viewpoint. Even though he agreed that financing polluting companies represented a participation of the bank in polluting the environment, he said,

I do not care. It is not my responsibility. If there is a smoke… pollution, then it is responsibility of the state 100%. I am responsible for people's money. I am responsible for investing this money and making as much return as possible for them. Do not say to me think about the public interest. There are those who are responsible for public interest. It is not my responsibility”.

Playing the police role is likely to increase the burden on banks in terms of (a) the financial and time costs incurred by checking on environmental issues and (b) the possibility of losing profitable opportunities, etc. However, other managers held different opinions. One manager said, “Our bank (a specialised bank) is a part of the state. It cannot grant loans, which lead to harming the state”. This comment revealed a sense of a loyalty to the relationship, which linked the bank to the state. This made the bank behave in a way similar to that of the state. Thus, it refrained from acting in an irresponsible manner, depending on the government’s definition of what things were considered to be irresponsible. What might underpin this idea is the absence of profit pressure on this type of bank. The credit manager of the other specialised bank offered another reason for considering the environmental side, even for licensed projects. He argued:

This (ignoring the environmental issue) might create a problem to the customer and causes its project to fail…there are some projects did fail due to their obvious harm to the regions where they operate, the
matter which led the residents to act against these projects, and eventually close them down.

This manager, in addition to supporting the interests of the state, did not ignore the interests of the bank itself. He was considering the risks that the bank itself might incur when customers became unable to repay loans.

The second issue raised about the attitude of the state to the environment was that government companies and projects were themselves participating in polluting the environment. In fact, Otman and Karlberg [2007, p. 373] stated that “most polluters (are) owned by the public sector”. Managers gave many examples and named many government factories and companies that negatively affected the environment. One manager commented that “petrochemical plants, factories of steel and cement were established by the state”. Another manager stated,

There is a cement plant near to the city of Benghazi. People of the city and the land surrounding the plant have negatively been affected. Yet, this factory is still operating as if the damage it caused to the environment and people is something insignificant. No one suggested resolving this problem. The same situation is in the city of Derna.

Such problems began with the implementation of economic and social plans in the 1970s. Concentration by the government on developing the economy resulted in massive pollution. Otman and Karlberg [2007, p. 372] mentioned a 1995 World Bank report:

Since much of Libya’s industrial base was developed in the 1970s, the equipment of most plants and industries is old and highly polluting. The situation is further complicated by the dominance of the public sector in industry, which provides little incentive for adopting more efficient and cleaner industrial technologies. Few enterprises have air emission controls, and a lack of maintenance and spare parts often impairs the performance of the existing systems.

Such attitudes taken by the state are likely to discourage banks from behaving in different ways. One manager stated, “If the state does not care about environment, as banks we have no solution for such case”. Another
manager argued, “If there was a concern for the country from the beginning, we would not reach that point”.

Another manager went further, and blamed everyone for polluting the environment. He complained:

Sewage is flowing into the sea... petroleum factories release (gases)... All these are polluters... ships empty oils of their engines in the sea... even you when you drive your car, in front of patrolman, while it is not environmentally fit to be used.

This comment can be interpreted in the following question: Why me? If everyone has participated in polluting the environment, why blame the banks? This kind of thinking gives support to institutional theory as an explanatory theory for such behaviour. Banks’ culture cannot escape the general culture of the country in which they operate. Banks seem to consider the morality, knowledge or behaviour of employees, managers and citizens in general as a source of normative pressure.

To sum up this point, it can be seen that laws and governmental policies might not help in regard to fulfilling social and environmental responsibilities. This is simply because they were designed based on a narrow perception of maintaining public money, as well as the absence of environmental issue on the priority list of the state.

5.2 The attitudes of other banks

It is reasonable to assume that the attitude of a bank to banking issues is a result of many factors, including the attitudes of its counterparts to the same issues. Thus, managers were asked whether their attitude to using environmental information in their lending decisions was affected by the attitudes of the banking sector to this issue generally. Only two managers claimed independence in their attitude. A credit manager of a specialised bank presented one reason for not being affected by the attitudes of other banks. He said,

For commercial banks, their main concern is how to achieve profit. In contrary, we focus on providing services. When we do so we aim to help and protect both our customer and environment.

The other manager (public bank) said,
It is right that we do not ignore the matter of competition, and we aim at having the biggest share in the banking sector, but at the same time, we should have a big interest in environmental side of the projects that we are considering in our lending decisions, regardless the attitude of other banks towards the same issue.

Apart from the fact that the word *should* does not have the same meaning as the word *do*, being a big public bank may mitigate the pressure of making a profit, and make the matter of missing some transactions for any reason, including an environmental one, insignificant to the continuation of the bank.

In contrast, the importance of other banks’ attitudes in determining the individual attitude of each bank was highlighted by many managers. It was found at the beginning of the interviews that banks generally did not use environmental information in their lending decisions; it was assumed that individual attitudes of banks were in line with this reality. One manager stated,

This is what we face currently. If I ask my customer (who seeks a loan) to provide some specific information, such as environmental information, he will turn to other banks. They will grant him what he wants, and my bank will lose this opportunity. The competition pushed some banks to grant loans with minimum conditions, in order to increase their shares in the banking market.

As a result, another manager underestimated the ability of any bank to make a difference if it chose to act in a responsible way. He affirmed:

For the sake of argument, let us say that we refused granting a loan to that (polluting) company. This will not prevent its project from being established and financed. Other banks will finance the (polluting) project of this company.

He drew attention to the idea that not exploiting the opportunity to make a profit did not make sense, as it would not benefit either the environment or the bank. As such, it was not wise to take such a stand. Refusing to grant a customer a loan due to an environmental issue was “not the right decision from [an] economic perspective” another manager argued.
The root of this position can be found in the annual reports of the Central Bank of Libya [Central Bank of Libya, 2005, 2006, 2007, 2008, 2009, 2010]. Table 3 shows how the total excess cash within commercial banks increased each year.

Table 3. Total excess cash in commercial banks

<table>
<thead>
<tr>
<th>Year</th>
<th>Total excess cash (in millions)</th>
<th>Percentage of the increase</th>
<th>Page numbers in the annual reports</th>
</tr>
</thead>
<tbody>
<tr>
<td>2005</td>
<td>6935.1</td>
<td>48.1%</td>
<td>P. 103</td>
</tr>
<tr>
<td>2006</td>
<td>8684.3</td>
<td>25.2%</td>
<td>P. 76</td>
</tr>
<tr>
<td>2007</td>
<td>14915.6</td>
<td>71.8%</td>
<td>P. 79</td>
</tr>
<tr>
<td>2008</td>
<td>24915.8</td>
<td>67.8%</td>
<td>P. 99</td>
</tr>
<tr>
<td>2009</td>
<td>27226.1</td>
<td>8.6%</td>
<td>PP. 83-84</td>
</tr>
<tr>
<td>2010</td>
<td>31126.7</td>
<td>14.3%</td>
<td>PP. 86-87</td>
</tr>
</tbody>
</table>

One of the reasons for the increasing excess cash held by commercial banks (mentioned repeatedly in all the above-mentioned annual reports) was the limited investment opportunities available for these banks. This situation shows the enormous pressure Libyan commercial banks have faced in their business. As such, it is hard to expect that attitudes of banks would differ in regard to exploiting opportunities to finance a legally permissible project, even if it was not environmentally friendly.

Additionally, in line with institutional theory, the issue of considering environmental information in lending decisions is something new for the banking sector. Thus, it is understood that banks would prefer to stick with what is known in their traditional work rather than become involved in new practices that are not required and are not economically profitable from a banking perspective.

5.3 Legislation and risks associated with environmental and social issues

One manager, who holds foreign citizenship, stated:

In Libyan market, no [We cannot be considered as a partner in polluting environment, because]. There is nothing prevents banks from financing polluting industries. As a bank, if I refrain from financing a polluting project then it is something ethical, but there is no commitment [to do so]. Sometimes, business mentality of the decision maker overcomes the social side.
He was actually highlighting the deficiency in legislation, which does not hold banks accountable for financing polluting projects. Elsakit and Worthington [2013] mentioned the risks associated with the environmental issue, namely; indirect risk, direct risk and reputational risk. The first two result from the existence and implementation of environmental legislation. Indirect risk emerges when a borrower causes damage to the environment and, as a result of the law, he pays fines, the cost of cleaning up contaminated sites, or losing revenues because of bad reputation, etc. These costs impair the ability of the borrower company to repay loans, and may end with the bank losing its loans.

The second and direct kind of risk occurs when banks incur the liability of cleaning up the contaminated sites owing to insolvency of the borrower. The cost of remediation can exceed the amount of the original loan, and in this case the bank will lose its loan and pay additional costs. These two risks, in addition to reputation risk, have caused banks to change their credit policies and, as a result, refuse some loan applications for environmental reasons, and exclude some industries from future transactions due to their negative impact on the environment [Coulson and Monks, 1999]. Banks therefore started to take environmental risks into consideration in their loan assessments [Gray and Bebbington, 2001]. Based on this, credit managers of Libyan banks were asked whether there was any legislation that would introduce such risks to their activities. There was a consensus that such legislation was non-existent. In regard to Libyan environmental legislation, Otman and Karlberg [2007, p. 354] stated that

In Libya, since 1958, there have been a series of Laws and Decrees concerning environmental protection, which have dealt with the treatment of effects and risks of environmental pollution, with, in theory, the imposition of severe penalties on violation of the provisions of such laws. In this respect Libya can be said, on paper at least, to be a leading country in this field among the developing countries.

They mentioned a list of the main environmental laws, which included (a) The Libyan Maritime Law, issued on 28 November 1958; (b) Law No. 81 of 1971 regarding seaports; (c) Law No. 8 of 1973 with respect to the prevention of oil pollution to sea waters; (d) Health Law No. 106 of 1973
and its Executive Regulations regarding all aspects of the environment and environmental protection; (e) Law No. 25 of 1976, amending certain provisions of the Maritime Law; (f) Law No. 7 of 1982 with regard to environmental safety and its accompanying Executive Regulations, issued by the Resolution of the General People Committee No. 386 of 1998 and considered to be Libya’s most important law on environmental protection; and (g) other laws issued in 1982, 1984, 1989, 1992, 1996. Otman and Karlberg [2007, p. 360] concluded that

All these laws make special provisions and stipulations for environmental protection, defining principles, rules, and controls for its protection. In these laws, deterrent penalties are set for violators in accordance with the magnitude and type of violation.

One might argue, therefore, that there is a contradiction between the opinion of credit managers and reality. In fact, there is no real contradiction. The managers were talking from their own experience. These laws had not had an impact on their banking work, either directly or indirectly. No Libyan bank customers were unable to repay loans due to environmental issues, and banks had not become liable for environmental problems caused by their clients. As such, banks were not exposed to the two risks (indirect risk and direct risk) mentioned above which relate to the environmental issue. One of the credit managers said, after mentioning a cement company and its polluting factories operating in some cities,

There are no (environmental) legislations, and the proof of this is that the cement company has not been held accountable even once (for the damage is caused to people and surrounding environment)...and the same is happening with other factories...this is what exists in reality. This is a proof that there are not legislations regarding the environment.

Another manager said, “Even if these (environmental) legislations exist, then they are in drawers (not implemented)”. The implication of this can be seen in the following comment of the credit manager of a bank:

I do not think that we have such (environmental) legislations. Thus, if a customer comes to our bank seeking a loan for its project, and this project has some negative impact upon the residents, I will
finance this project as long as the project is profitable and the customer provides me with securities and an economic feasibility study. No one can prevent me from doing so.

It is obvious that the absence of environmental legislation that would influence banking operations and revenues was a prime reason why banks continued to ignore environmental issues. One manager said, “We are ready for adjusting our policies immediately if such legislations emerge”. Another manager confirmed this:

This is the main reason. If there is a specific law regarding this issue, I will care, because there is a financial fine. Banks will consider the environment issue prior to even looking at the securities (provided by the customers).

In regard to the interest of banks operating in developed countries and the consideration of environmental issues in their lending decisions, the manager commented, “Of course, this interest is not in environment, but in preventing losses”. This confirmed the argument of Thompson and Cowton [2004, p. 215] who stated that “banks are not so much interested in the impact of bank lending upon the environment as in the impact of the environment (as filtered by regulators, etc.) upon bank lending”.

Based on the above, banks have not been exposed to the two risks (indirect risk and direct risk) and, thus, ignoring environmental information in lending decisions will not lead to legal and financial problems. This means that banks will not change their credit policy for the benefit of the environment as long as there is an absence of a legislative framework for such issue.

5.4 Effectiveness of the mechanism for implementing legislation

Managers were asked if they believed that there was a weakness in the mechanism of implementing legislation. Their answers were in agreement that the problem exists. One manager said, “This is what in reality. If you come to legislations in any field you will find them strict, but implementing these legislations?” Otman and Karlberg [2007, p. 354] stated that in Libya, in regard to environmental protection, “Libya can be said, on paper at least, to be a leading country in this field among the developing countries”. However, the reality, as they found in their
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Another manager went further regarding the environmental issue, saying:

There is a problem in implementing laws. This problem is not confined to environment. Legislations and laws do exist, but who will implement them? This problem affects also the work of banks themselves.

Another manager said,

We, banks, suffer from this problem. We have some non-performing loans. According to the law, I have the right to force the borrowers to repay in any way (even taking over the property), but we could not.

Managers offered some explanation for this case. One manager stated that “social relationships (such as blood relationships; friendship relationships) cause the failure of legislations implementation”. Another manager was more specific regarding the case of public companies. He said,

Sometimes laws exist, and courts issue adjudications, but there is no implementation... In that period (before 2011) all those big projects which negatively impacted on the environment belong to the state, thus, whom do you want to sue?

This point was clearly affirmed by Otman and Karlberg [2007, p. 373] who stated,

In the current situation, it is incumbent on the Libyan authorities to introduce clean air legislation based, as in Europe, on the ‘polluter pays’ principle, although in view of the fact that most polluters owned by the public sector may lead to difficulty in its enforcement.

Concluding this point, the absence of an effective mechanism for implementing legislation makes the idea of introducing strict environmental legislation unrealistic. Without an effective mechanism, legislation is no more than documents in an archive collection.

5.5 Public awareness and pressure of civil society organisations

In light of the absence of legislative pressure, it seemed logical, in pursuing this study, to investigate other possible mechanisms for forcing
banks to take environmental issues seriously in their activities, particularly in their lending activity. Society is claimed to be a very powerful force in shaping the attitudes of organisations whose activities are highly dependent on individuals and entities alike. Therefore, managers were asked whether there was awareness about environmental matters in Libyan society. There was unanimity that there was no such awareness. One manager asked, “If the citizen is still throwing household rubbish on the floor instead of putting it in rubbish bins, how he would be interested in environment?” Another one stressed, “There is no interest in environment by people”. Some managers mentioned the education system, the media, and families as parties to blame for such a situation. One manager said,

I see that Libyan citizen is completely ignoring environmental issue. I emphasise the role of media, especially the TV and journals. They should give this issue (environment) great attention.

Another manager suggested that “taking care of [the] environmental should start from the house. Children should grow up on such values, and then schools should continue this trend”.

The absence of society’s awareness of environmental issues generally, leaves no room to expect that society might consider the impact of banks’ activities on the environment. This leads to the conclusion that reputational risk that results from financing polluting projects did not exist in the case of Libyan banks. That is, people did not consider banks as partners in polluting the environment, even though they might have financed firms whose activities caused pollution. One manager indicated that the possibility of deeming banks as partners in polluting the environment was “far…very far”. Another one said,

People will focus on the direct party (the polluting company)...they have not reached that stage (of becoming aware of the connection between loans and polluting environment) yet.

The deputy general manager added:

The other side is that normal people do not know that Cement Company, for example, was granted a loan from this or that bank. They do not even know that the company was granted a loan. In addition to that, financial information is not detailed to the extent of
mentioning the names of banks, which granted loans. It is just written as credit facilities. Such financial information is merged.

Another credit manager argued that society’s awareness was not what it was expected to be. He stated that regarding bank reputation, actually it is on the contrary, the bank which grants loans, and is not strict in its conditions is considered a good bank (in eyes of people), and the bank, which works accordance with the regulations is considered otherwise”.

In view of this, it can be concluded that the reputation of banks is safe, despite the differences in awareness. At this point, one might consider the role of civil society organisations in raising the awareness of society in regard to environmental issues. However, the interviews revealed the absence of such a role. Managers denied that they were exposed to any kind of pressure from any civil society organisation about environmental issues.

The deputy general manager admitted that reputation risk might occur if civil society organisations started to raise awareness among people, but he was convinced that “this will take long time”.

This situation may add additional explanation why Libyan banks did not adopt initiatives such as Equator Principles. The importance of non-governmental organizations (NGOs) in this issue cannot be omitted. These organizations have actively engaged, through their criticisms, commentaries and pressure, in drafting the different versions of the Equator principles [Liu and Zheng, 2013; Mulder, 2010]. For example, Mulder [2010, p. 208] pointed out that NGOs criticized the EPs for “vagueness; absence of enforcement mechanisms; limited coordination among the banks; indirect (or no) coverage of project bonds; consultation only (not consensus) with affected communities; and the implicit, indirect reference to human rights (just “socially responsible”).” This reflects the reality that NGOs function, in this matter, as watchdogs by “monitoring, comparing and contrasting individual Equator Principles financial institution efforts”.

Confirming this, Conley and Williams [2011] found that one of the major themes, emerged from their study, and was the related role of NGOs pressure and risk management in motivating the financial institutions, which implement EPs, to form this initiative. They stated that banks
participate in the EPs “in response to NGOs pressure, real or threatened” Conley and Williams [2011, p. 567]. Based on this, it seems obvious how the absence of these organizations contributed in not applying initiatives such as the EPs in lending activities.

As a conclusion to this point, it is obvious that the case of societal awareness regarding the possible connection between loans granted by banks and the impact of their customers’ activities on environmental issues was no better than the case of legislation and its implementation mechanism discussed previously in this chapter. Civil society organisations as an engine for this awareness played no role in improving the situation.

5.6 Credibility of information

Banks, as credit managers stated at the beginning of their interviews, use sources other than annual reports to collect necessary information on their customers to evaluate their creditworthiness. This raises the issue of credibility, since trust in credibility of information is an essential condition when using it in the decision making process. Therefore, in order to clarify whether information provided by banks’ customers suffered from credibility issues, managers were asked whether they thought that this problem existed. Their answers revealed that it did.

The absence of environmental audit was deemed “a reasonable reason for banks to not require environmental information,” one manager stated. In fact, there was a credibility problem even with the certified financial information. One manager stated, “Some customers provide us with financial statements, which are different to those provided to tax authorities”. This led banks to recheck the validity of this information in different ways, including personal visits to project sites to ensure the existence of assets, as well as focusing extensively on investigating the reputation of those firms that ask for loans. One manager advised: “Ignore 50% of the information which you have been provided with, because it is not credible”. Another manager added, “That is why we look first at the reputation of the customer”.

The issue of credibility was one of the root causes of the increasing accumulation of excess cash by Libyan commercial banks over the period 2005–10. In all annual reports of the Central Bank of Libya during this period, it was stated that among the reasons for such phenomena was “the lack of sufficient collaterals that encourage banks to grant more credits”.

This sentence appeared six times in the six annual reports, reflecting the ongoing issue of credibility.

One manager suggested that

...there should be specialist centres or offices for certifying environmental information, similar to those offices responsible for property valuation, and they should be supported by the Central Bank of Libya and a related ministry (to environment issue).

Another manager added, “In light of absence of such party, environmental information has no credibility. Its existence is similar to its absence”.

Another manager confirmed this view and went as far as to say:

Providing me with a statement that the project has no negative impact on environment, without certifying this statement from international organisation or local organisation (which has credibility abroad), means nothing to me. It is just words. It is not going to work with me.

However, interestingly, one manager provided an opinion different from those of other managers. He found no problem with credibility of environmental information. He stated:

Foreign banks, which established special departments in their organizational structures, they do that because by the law they are responsible for environmental damages resulted from their loans. They have to take environment in their account. In contrast, to us as banks in the developing world we are not responsible by the law for such things. So, I would consider environmental information, which is provided by our customers, as truthful information.

This comment illustrates that the credibility issue was relatively insignificant to some banks because provided that no legal responsibility resulted from relying on this information, there was no perceived risk to the bank. That is, the bank remained unconcerned about the indirect risk because it (a) held securities as guarantee, (b) was undaunted about the direct risk, because no laws hold banks accountable for financing polluting projects and (c) was not concerned about reputation risk because of the absence of public awareness regarding environmental issues in the developing world. Consequently, it seems that there was no necessity to be concerned about the credibility of environmental information. This
should reflect a direct relationship between credibility and the existence and effectiveness of laws. That is, credibility increases with the existence and implementation of effective laws, and vice versa.

5.7 Demand for CSED in lending decisions

It is fair to expect that the attitudes of managers in banks to any issue are influenced by the attitudes of three powerful players: shareholders, board of directors, and the Central Bank. Therefore, it is interesting to examine whether the attitudes of credit managers of Libyan banks were also influenced by these three parties.

In view of this, managers were asked whether there was an example of shareholders raising the issue of using environmental information in lending decisions. The answers were negative. That is, there was no such case in any bank. One manager said, “There is no such culture”. Another manager stated, “Shareholders are interested only in the return on their shares. No more no less”. Thus, when this powerful party ignores the impact of the environment on bank lending, management is expected to do the same. This is supported by the statement of one manager who said, “We, the management, are employees of the shareholders”.

There was only one manager who provided an excuse for shareholders’ lack of interest. He stated that

...the culture of banks’ shareholders plays a major role in this issue.

The majority of our shareholders are simple people. They have no clue about the banking work. Especially in our bank, buying banks’ shares in some cases was not an optional act. As such, percentage of the attendance of ordinary shareholders meeting was low.

He was alluding to the case of a monthly compulsory contribution by Libyan employees (1.5% of their monthly salaries) to the National Investment Company. These contributions were invested in many Libyan companies, including banks and, as such, the contributions of many employees were transferred to Libyan banks [Elsakit, 2015]. Apart from the interesting observation that this is an unusual method of owning shares in companies and banks, there is another implication: this might direct the attention of the boards of directors to their wider responsibilities to their shareholders.
The directors of these boards are chosen by shareholders. Thus, they should reflect the attitude of shareholders to environmental issues; but in addition to that, their educational levels and expertise might improve the general attitude to the issue of using environmental information in lending decisions. In view of this, managers were asked whether they were directed by boards of directors to consider this issue. The answers revealed that there was no difference between the attitudes of shareholders and boards of directors. A credit manager said,

As a banker, I am required to focus on achieving the profitability. If I insist to take environment into account in lending decisions, those who supervise me will say to me: sorry. We respect your concern for the national interest, but want one plus one equals two. You can continue your work as a consultant (not as a manager), and if you refuse we will find someone else… let the business continue.

Focusing solely on the goal of profitability and ignoring other issues such as the environment was a common attitude from both shareholders and members of boards of directors. Even in banks that included foreign shareholders and had foreigners on boards of directors, the attitude was the same on both sides.

Some managers argued that the board of directors of any bank was not in a position to take a different stand as long as the issue of taking the environment into account in lending decisions had not been raised by the Central Bank of Libya. In this regard, there was a consensus among managers that there were no directives from the Central Bank regarding this matter. One manager said,

It has not happened in any day that Central Bank of Libya asked Libyan banks to consider environment issue in their lending decisions. In fact it directs them to finance all economic sectors.

Another manager said,

We are operating under the supervision of the Central Bank of Libya, and if there were directives in this regard we would implement them.

In the absence of such directives, one manager added,
If the board of directors decided to direct executive management to consider environment in lending decisions, the bank will be exposed to loss” [and customers will go to other banks].

It is clear how crucial the role of the Central Bank of Libya has been in this issue, since the bank has been the regulator and controller of the banking sector as well as the owner of some big banks. As one manager described it, “the Central Bank is the authority. It is the father of banks”. However, the issue of the environment seems to have been totally absent from the agenda of the Central Bank of Libya. In all its annual reports over the period 2005–2010, there was no indication of the role of environmental information in lending decisions. In each annual report there were details of how lending could be improved, but not even a general comment on its relationship with environmental issues.

It is obvious that intervention by the Central Bank of Libya is essential if the issue of considering the environment in lending decisions is to be taken seriously. However, at the time of this study, the level of interest was very low. One manager drew attention to the importance of cooperation with bodies outside the banking sector. He said,

If the Central Bank requested considering environmental information in lending decisions, and it was easy to ask my customer to provide me with environmental study for his project, and this study is certified by a centre which has a credibility abroad, whereupon I will accept and use such information.

In the case of the two specialised banks affiliated with the agriculture ministry and industry ministry, the case was identical. No directive was issued to these banks to use environmental information in lending decisions.

Based on the foregoing, the absence of demand for considering environmental issues in lending decisions is clear. Neither banks’ shareholders, nor boards of directors, nor the Central Bank of Libya, nor agriculture and industry ministries deem environmental issue as important factor affecting, and being affected by, lending decisions. This should explain, to a large extent, the attitudes of credit managers to these issues, since according to stakeholder theory (managerial branch), managers consider only, and satisfy in return, the attitude and demand of powerful
stakeholders. As these powerful stakeholders ignore environmental issue and focus only on financial goals, management does the same.

6. Conclusion

This chapter investigated whether and how Libyan banks used CSED in their lending decisions, and what factors were assumed to affect their use. The analysis of the interviews conducted mainly with credit managers in Libyan banks and the related documents revealed the following. First, environmental information is yet to be utilised in the lending decisions of Libyan banks. There is an obvious disregard of the impact of banks' loans on the environment. Although there is very little unofficial interest in certain information, this is mainly motivated by personal attitudes, and this lack of interest is based either on a narrow concept or on purely financial interests.

Second, many factors were found to affect the issue of using environmental information in lending decisions, most of which are not related to the banking sector; rather, they can be attributed to the external and wider environment, including political, economic and social settings. The managerial attitudes of Libyan banks seem to be the result of the influence of all these factors. Libyan banks appear not to have the choice of being proactive in this issue. As such, before convincing Libyan banks to use CSED in their lending decisions, many problems first need to be resolved. These include, and not limited to, issues of credibility, society awareness, absence of demand and civil society organisations, weak legislations and the State’s attitude to environmental issues.

In terms of the overall role of corporate social responsibility and sustainability information, some key themes emerge. First, there was a division on the idea whether Libyan banks should be considered as a partner in polluting the environment through their loans to industrial companies, and although more than half the managers admitted that some lending activity has a negative impact on the environment, the possibility of exploiting this activity to protect the environment was very limited. It interesting to note in all opinions and comments is that no one expressed the idea of the role of banks in encouraging companies to behave in an environmentally responsible manner and to disclose more environmental information publically. For the most part, bankers were disregarding environmental information, or in the few cases where some benefits of this
information were perceived, the banks' interests were the ultimate goal behind such perceptions. This attitude can be justified by the argument of Thompson and Cowton [2004].

Thompson and Cowton [2004] discussed the idea of using such power to encourage or urge organisations to behave in an environmentally responsible manner, and to disclose more information on that aspect. In their study, they found that such an idea has two particular problems. First, banks were found to be interested in the possible impact of the environment on their lending, not in the impact of their lending on the environment. Consequently, when considering loans, as long as their interests were not at risk due to legislation or regulations, banks cared nothing about the negative impact of their customers’ activities on the environment. Second, banks were unwilling to put pressure on their clients to disclose more environment information publicly, because banks could obtain this information privately.

This argument is applicable to the case of Libyan banks. They were not interested in the impact of their lending upon the environment, as long as the environment could not impact negatively upon the lending of Libyan banks. As such, they were not interested in putting pressure on their customers to behave in an environmentally responsible manner or to disclose more information on that aspect. Moreover, it seems that Libyan banks were following in the footsteps of the Central Bank of Libya in this matter. The annual reports of the Central Bank of Libya [Central Bank of Libya, 2005, 2006, 2007, 2008, 2009, 2010] did not show any interest in exploiting the power of the Central Bank to encourage or force banks to consider environmental issues in their lending decisions.

The negative impact caused by the passive attitudes of other banks to the issue of using environmental information in lending decisions was mainly due to the continuing increase of excess cash within commercial banks, in each year during the period 2005-2010. All of the published annual reports of Central bank of Libya during this period mentioned that the limited investment opportunities, available for these banks, were one of the reasons for excess cash problem. This situation shows the enormous pressure Libyan commercial banks have faced in their business. As such, it is hard to expect that attitudes of banks would differ in regard to exploiting opportunities to finance a legally permissible project, even if it
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was not environmentally friendly. This matter casts doubt on the validity of the claim made by Gray and Bebbington [2001, p. 208] that

Ultimately, financial institutions have the greatest power over organisations, can greatly influence them in positive ways and profoundly hinder them in negative ways.

In the case of Libyan banks, it seems that the opposite is true. Libyan banks with excess cash and limited investment opportunities available to them seem to have been in a weak position, and they could not influence firms in positive ways; rather, they financed their projects regardless of the harm caused by these projects. This is, Libyan banks seem to be unable to encourage or force companies to behave in a socially and environmentally responsible manner. As a matter of fact, the opposite seems to be true. Banks seem to be forced to disregard the issues of environment and society if they are to survive in such a competitive environment.

References


